"Indiabulls Housing Finance Limited

Q3 FY 2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Indiabulls Housing Finance Q3 FY'23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

To discuss the financial performance of Indiabulls Housing Finance and to address your queries, we have with us Mr. Gagan Banga; Vice Chairman, MD and CEO, Mr. Ramnath Shenoy; Head IR and Analytics; Mr. Sachin Chaudhary; Chief Operating Officer; Mr. Mukesh Garg; Chief Financial Officer; Mr. Ashwin Mallick; Head Treasury, Mr. Hemal Zaveri; Head Banking, Mr. Veekesh Gandhi; Head Markets.

I now hand the conference over to Mr. Gagan Banga. Thank you, and over to you, sir.

Gagan Banga: Thank you. A very good day to all of you, and welcome to the quarter 3 fiscal '23 Earnings Call.

Our overreaching theme and the takeaways we want to leave with you all are as following.

1) Our asset-light model is working and firing on all cylinders
2) Balance sheet is a fortress balance sheet with strong capital levels. We continue to de-risk the wholesale book. We have created very, very deep provision pools, so the net worth and the book value per share is extremely well fortified.
3) There is demonstrated progress on institutionalization of the company through the quarter and the year.
4) There is demonstrated prudent ALM management over the years and shall continue.

While we drive the company on the above aspect, we are, of course, also focused on delivering the numbers and maintaining asset quality. I will quickly run through the 9 months and quarter 3 numbers, before I get into the above company's strategic trust areas and progress against them.

Please now open the earnings update and refer to Slide 3#

- Our net interest income came in at ₹ 2,354 crores for 9 months and ₹950 crores for the quarter compared to ₹ 1,104 crores for 9 months last year and ₹ 688 crores for quarter 3 fiscal '22.
- Profit after tax was ₹ 867 crores for the 9 months and ₹ 291 crores for quarter 3 versus ₹ 871 crores for 9 months and ₹ 303 for quarter 3. So despite the reduction in the book and the AUM and the gearing and all of that, we've been able to maintain our profitability.
- Retail disbursals under the asset-light model had risen 3.3 times in the 9 months fiscal '23 to now coming at about ₹ 6,261 crores versus only ₹ 1,900 crores for the 9 months of fiscal '22.
- With this, our number of retail disbursals, we are firmly back to being the third largest mortgage lender in the NBFC/HFC category.
- The annualized net interest margin has come in at a very, very healthy 4.1%.
- The ROA has been rising for the last 3 quarters and has now expanded to 1.5% at the end of December '22.
- Gross NPAs are stable at 3.3%, and net NPAs are at 2.18%.

- The safety that we have been able to trying to build in has resulted in the net debt to equity, which has now declined to only 2.3 times.
- Our capital levels continue to be very high, and the capital adequacy stands at almost 34%, of which Tier 1 capital is 28.5%.

Now please refer to slide 4# of our earnings presentation which lays out our strategic focus areas and the action points within each

As I said, **Retail lending would continue to be our growth engine.** Along with our banking partners, we continue to grow the retail AUM in an asset-light model by originating on the co-lending arrangements and selling down loans. Co-lending and loans sold down used to be only 10% of our liability mix at the start of the NBFC crisis in India, which was quarter 3 fiscal '18. Today, that number has increased to 33% of our AUM. And this increase makes this part of the balance sheet as granular as it gets. The repayments are co-terminus to the loan, and it signifies the transformation of the company from an asset-heavy model where a lot of capital was put to work to a smart origination machine, which is focusing on low-cost high-tech origination versus looking around for more and more capital.

We will sustain the present 3% plus ROA on this business, while ensuring high-quality assets. We are also using this time to continue to strengthen our strategic sourcing relationships with our partner banks. We have already achieved tech integration with most. The balance would be achieved by the end of the fiscal. And over the course of the next 3 to 4 months, our 7 partner banking relationships will also expand to 10 banking relationships.

In the background, we are also expanding our reach in terms of physical distribution and have increased our branch network by almost 60 branches, and we are continuing to grow our manpower as our disbursals continue to grow with a 6-month lag. So if we hire today, 6 months later, we start getting the benefits from a productive same employee.

The second very important area, and this is something that I would like to spend some time on today is the **continuous derisking that we are achieving by running down our wholesale book**. And in some ways, quarter 3 was an extremely important quarter just by the virtue of very specific progress that we could achieve in quarter 3. We have, in the past and continue to on an ongoing basis, we have been entering into structured deals to make sure that all the projects, which are funded by us, continue to achieve last mile financing. Banks are hesitant to extend financing for project completion, so we continue to get funding for project completion through structured finance. And as a result, several of our projects, which have been detailed in the slide, have already achieved occupancy certificate. As is well known, the real estate cycle has bounced back, but it is occupancy certificate, received buildings, which are seeing all the sales traction. So we are clearly benefiting from that.

Wherever projects are stuck, we continue to onboard joint development partners to make sure that the projects get completed. The steps that we have taken over the last 4 years are now bearing fruit as inventory is now getting completed. Our projects are receiving OCs, which is occupancy certificate. Cash flow has started getting generated, which is repaying the loans. And over the course of the next 2 years, by virtue of loan repayments, I expect material rundown in the wholesale book to continue.

Most importantly, through quarter 3, we've also been able to achieve breakthrough in several of the high-risk projects running into several hundreds of crores, which were performing part of our Stage 2 assets. And we have completely received monies from 2 large exposures that we had in the National Capital Region (NCR), which were Stage 2 assets for the last 2 to 3 years. After receiving our monies completely, we have been able to generate an annualized return of 12% on one and over 14% on the other. So that is the depth of the assets that we hold and the security that backs the asset. And this area of focus will, in the short-term impact that the AUMs will rapidly run down on the wholesale side. As I've been mentioning in the past few calls, retail is scaling up. It's up 3.3 times in terms of disbursals year-on-year, but it can't possibly scale up at a level where this rundown is offset. Therefore, it is my request that please evaluate us today as a strong capital company, where the capital is as real as it can get with adequate provisions to take care of any exigency and a very, very large retail originator, generating a 3% ROA on the assets that it is originating on the retail side on an incremental basis.

The third area of focus is **continuous proactive ALM management**. We do this by maintaining adequate liquidity between what's on balance sheet and undrawn lines. The payment of lumpy repayments is a practice, and where regulations do not permit prepayment, which is largely overseas borrowings. We have been creating trustee managed to earmarked pools of money to meet repayment dues. All of these we have demonstrably been doing for the last many quarters now, and we will continue with that practice as has been detailed on the ALM slides in the earnings update.

Lastly, we continue to focus on the **institutionalization of the company** and moving it away from an entrepreneurial setup to a completely institutionalized setup. We have been taking definitive steps to transform the company into a board-run professionally managed institution. A step in this is de-promoterization. I'm happy to inform that now we have received all requisite approvals from shareholders, bankers, regulators, etc., And before 31st March 2023, this process will be completed. We are in the process of communicating all the approvals to the stock exchanges, and they should be doing this reclassification of the founder-promoter to a public shareholder very, very shortly, certainly before the end of the fiscal.

As we move forward on de-promoterization, and this is now a certainty, the management team and the Board is also working out on the simplification of the company's structure, which is the parent HoldCo and OpCo, and the few subsidiaries that we have. We are doing a reorganization such that the structure reflects the fact that we only want to do 2 types of business, which is retail origination business and via our AIF, wholesale origination business. Before the end of the fiscal, we will announce the reorganization to this effect also. And the marketing team has undertaken a rebranding exercise for the company, which will reflect our institutionalized character as well as our retail focus towards doing mortgage lending. All 3 of these initiatives, which is de-promoterization, reorganization such that we are a larger, more capital-efficient structure as well as a rebranded structure.

Now I would request you to turn to slide 5.

In the 9 months of this financial year, we have disbursed a total of ₹ 6,261 crores of retail loans. We are sourcing now about ₹ 700 crores to ₹ 800 crores of retail disburses a month under the asset-light model. This makes us firmly the third largest originator after HDFC and LIC Housing in the retail mortgage origination space amongst NBFCs and HFCs. This has come to be the mainstay of our retail business. 33% of our AUM is supported by CLM and loan sell-downs, which is up from 10% 5 years ago at the end of quarter 3 fiscal '18.

The asset-light model is both ROA as well as ROE accretive since, through the cycle, only 20% of the loans are retained on our books, while we continue to earn on the entire 100%. We have access to vast coterminous resource pools of the banks, and that's the constraint of having to raise monies on our balance sheet and fund loan growth is something we are now free of without having any ALM risk. Of the ₹ 9,400 crores of disbursals we have done through this model since fiscal '22, we are already realizing an ROA of well upwards of 3%.

As you can also see on the slide, the average credit bureau, which is CIBIL score, and average ticket size, the sourcing is happening in the prime segment. We are not in the mysterious affordable housing segment as it's called, which is low-ticket size lending. We do prime lending. We do it with high-quality banks, and this is high-quality loans, which is reflected in the delinquency, which is all of 10 basis points for these loans that we have sourced since fiscal '22, which are generating us a 3% ROA, but the 90% delinquency is all of 10 basis points. We are strategic partners contributing meaningful and sizable disbursal to the banks that we have tied up with for co-lending.

The tech integration has also meaningfully progressed. The documentation is the standardized documentation for the industry and is now our documentation is becoming more the norm for the industry. This is, in itself, a very unique franchise that we have been able to create. And now we have passed the hump of getting the process, the documentation, the technology set up across our partner banks. We are now focusing on systematically increasing our branch count and our employee count so that we can double this number in the next 12 months, and realize this 3% ROA on a much bigger and bigger pool on a monthly basis.

If you can now please turn to Slide 6#

As we continue to expand the retail AUM, we continue to run down and derisk our wholesale book. The current up cycle on the residential real estate side is something that we want to completely capture, and we also want to benefit from the last mile financing that we have provided to the various projects. As these projects achieve occupancy certificate, which as has been detailed a marquee project, which is the highest tower in India, has achieved occupancy certificate already for 60% of the units. 100% of the civil structure is complete. As a result, the sales offtake is very strong and is happening at a price point, which is 15% higher than what we had budgeted for a high IRR generation for the company.

Another super premium project, which is a residential project in Prabhadevi, has now become the highest selling project or tower in the country. There, again, we have done a last-mile financing transaction with a fund, which over the next 2 years, we expect that the funds facility, the first one already stands fully repaid, the second one will also get fully repaid, and our loans should also get repaid in the course of the next 1.5 years.

Our super premium project in Worli in Bombay again has 90% of the civil structure complete, has received part OC. And this will result in a massive write back for us over the course of the next 2 financial years. Wherever the projects are still slow or stuck, we started entering into joint developments. Just in quarter 3, we've entered into 4 joint developments where we expect our loans to come back again over the course of the next 3 financial years.

Through the last few years, and this is a simple amount of math that I would request you to focus on, in order to create large provision pools, we had bumped up our Stage 2, and we had also prudently written off on a technical basis loans, so as to have high effective provision coverage. As we now recover these loans, we have willingly landed up building up a write-off and NPA pool of over ₹ 10,000 crores over the last 4 to 5 years. Over the course of the next 2 to 3 years, we expect at least 50% recovery to come through in terms of cash collections. Even if we are to conservatively keep it at 40% recovery, this would mean about 8% of our loan book would come back in terms of these provisions. If we add to this the provisions that we otherwise also carry, then in total, we have a total provision and implied provision pool adding up to 11.6%.

Now on the other side, if you look at our Stage 2 loans, at the end of December '21, our Stage 2 loans were nearly ₹ 22,000 crores. At the end of December '22, the Stage 2 loans have declined by ₹ 17,400 crores and now stands at all of ₹ 4,520 crores. So if I was to add my Stage 2 assets, which is roughly 6%, to my NPAs, it would come around to about 9.5%, against which I have implied provisions of 11.6%. We have no restructured loans.

So the big point that one is trying to make here is, which I am every time repeatedly asked as to why you trade at 0.25x, book is the net worth real? The net worth is as real as it gets, and the provisions more than effectively cover the risk. The sharp reduction in Stage 2 loans in a period of 1 year, while adopting, and this is most, most important, while adopting the daily days past due recognition practice of the Reserve Bank of India, which was introduced last year, implies the asset quality that we have.

The other risk, which was highlighted in the past, which of late, at least one has not heard much in terms of a concern, but I would still like to speak about it is the ALM management. As of December '22, we had about ₹ 4,000 crores of cash. This excludes sanctioned but undrawn line. As access to funding has eased, we have rationalized our on-balance sheet liquidity levels to minimize negative carry. The ALM is shown on a cumulative basis up to each bucket. We are positive across all buckets, and we have positive net cash of almost ₹ 8,000 crores at the end of first year. Our detailed 10-year quarterly ALM is in the appendix slides from 19 to 23.

As per RBI Master Directions introduced in Feb '21, we are supposed to maintain an LCR of 60%. Against this, we have an LCR of 246%, which is only on the basis of high-quality liquid assets as defined by RBI. We continue to demonstrate proactive ALM management. Last quarter, we prepaid ₹ 1,000 crores of bonds. We continue to prepare for lumpy repayments. We've already started creating a reserve pool for our ECB borrowings, which will mature later in fiscal '23. And as discussed in the past from quarter 4, we will also start creating a reserve pool for our

FCCBs. While the management believes that the FCCBs will eventually get converted to equity, we cannot assume so. And therefore, we will start to create a reserve pool for 25% each, starting from quarter 4 of this year.

I would like to also highlight that the company has repaid over ₹ 1 lakh crore on gross basis, over ₹ 80,000 crores on a net basis. This is the largest repayment by any corporate in India to lenders, be it in the financial or the nonfinancial world on a net basis. And this, I would believe, is one of the biggest achievements of the company and is also a reflection of the asset quality of the company.

Moving on to Slide 8.

We've been taking definitive steps to convert the company from a promoter-driven entity to a financial institution, which is Board-driven and professionally managed. Mr. Gehlaut, the founder and promoter, had stepped down from the Board and paired stake. As I shared earlier, by the subsequent to all the approvals now being received, we shall complete the de-promoterization process over the next few weeks. We are reorganizing the company such that we have only 1 or 2 subsidiaries. And the entire organizational structure is focused on only 2 things, retail origination via the NBFC and wholesale origination via the AIF. Similarly, the rebranding exercise of Indiabulls Housing would ensure that the new name reflects a brand-new image, which is aligned to our focus on home buyers and is also reflecting the institutionalized character of the company.

Now moving on to Slide 9, which is reflecting of the earnings update on the asset quality.

As at the end of December '22, Our gross NPA stood at ₹ 2,302 crores, which translates to 3.3% and net NPAs at 2.18%. We are fully compliant with the RBI circular or NPA recognition based on daily days past due, and these NPAs will not be regularized unless all overdues are repaid. At the end of December '22, our Stage 2 loans were only 6% of our AUM compared to 30% of our AUM at the end of quarter 3 fiscal '22, which is 1 year ago. Reduction in Stage 2 loans are due to strong repayment traction on the back of pickup in the real estate sector.

Due to this and stronger recoveries, our loss given default has been empirically validated at lower levels than Stage 3 provisions we used to carry, following which Stage 3 provision levels have now being rationalized. Between the provisions we already carry are conservatively estimated recoveries over the next 3 years and some other releases such as the positive order that we have received on the YES Bank AT-1 bonds, which hopefully the Supreme Court will also confirm, we carry imputed provisions of about 11.6% of loans. This more than covers our Stage 2 and 3 loans, which are at about 10%. So we are effectively 100% provided on not only NPAs, but also Stage 2 loans.

To summarize, our retail asset-light engine, as I said at the start, is firing on all cylinders. We're up 3.3 times year-on-year and are firmly back as the third largest non-bank originator. The wholesale book continues to trend down, and that's the direction in which we would want it to continue to trend down, which will result in AUM contraction. This quarter, the AUM contraction was larger because of the resolution of 2 stuck Stage 2 NCR developer exposures.

Not only did we resolve them, but made a very healthy IRR of 12% and 14% on the 2, and we will continue to have this focus to wind up this line of business as soon as possible.

Between rundown in wholesale loans and growth in retail AUM and our strategic imperatives, it is appropriate and we humbly request you that 1) we are on track on our retail disbursals, 2) on the proportion of the co-lending/sell-down and overall liability mix, which as mentioned earlier is up 3.3 times to 33% from 10% at the end of quarter 3 fiscal '18.

At the end, I would like to put in context a few numbers, which have played out over the last 5 years. Our balance sheet at the end of fiscal '18 was ₹ 132,000 crores. This has run down by 44% to now ₹ 74,000 crores. Loan AUM is down in these 4 years and 9 months by over ₹ 52,000 crores, again about 43%. Despite this rundown, despite COVID, we actually see that our net worth is up 21% or by ₹ 3,000 crores from ₹ 14,000 crores odd to ₹ 17,269 crores at the end of quarter 3 fiscal '23.

So we've done all of this rundown, which included classifying loans as NPAs, write-offs, whatnot, yet we have not eaten into our net worth and our net worth has actually gone up by about 21% or by roughly ₹ 3,200 crores. While our balance sheet is down by ₹ 8,000 crores. And by last year is relevant is because in the last 1 year, the new RBI circular has kicked in, and it was expected that there would be a large bump up in NPAs. Our net worth has again gone up by ₹ 800 crores. And our NPAs have gone down from ₹ 2,350 crores to ₹ 2,302 crores as we speak.

Most importantly, our Stage 2 plus 3 loans are down from 32.8% to 9.7% at the end of quarter 3. These Stage 2 plus 3 loans of 9.7% are fully covered by implied provisions of 11.6%. And to just put this period since March 2018 in context, we have, in this period, undergone over 15 inspections by regulators and other statutory bodies, fully adopted much stricter NPA recognition, gone through a raging COVID pandemic, transformed the company, given the unprecedented liquidity squeeze for nonbanks, achieved the highest-ever repayment done by a corporate in India of close to ₹ 1 lakh crores. We've gone through a perfect storm. And this has been far tougher than the most stringent stress tests that we could have possibly gone through in the good times.

So while I appreciate there are questions around growth, and we would like to highlight that the growth that the company will pursue would be around the retail disbursal side. On a net basis, the AUM may contract for a quarter or 2 more, and it is only good if it is happening on the back of wholesale loans, especially loans which are on overdue and are giving stress to management or can potentially give stress to capital or earnings. We are often asked question about how real is the net worth, and thus is the book value per share real? By all the numbers that I have run you through, I hope the implication in this question, which is that we will have to pay significant write-downs from the wholesale book is today, once and for all, completely closed out.

The real estate sector is supporting us, and the book value is as real can be and only can go up from these levels. Our ratings have all been revalidated over the course of the last 3 to 4 months. The overarching theme that we would like to continue to highlight is that we are fully focusing on growing our retail engine by maintaining the discipline of a fortress balance sheet.

That was the update for the quarter. With this, we are open now for questions.

Moderator: The first question is from the line of Craig Elliot from NWI Management.

Craig Elliot: Congratulations on the spectacular results. I do think that although one could take a view that shrinking the old business a little faster than expected makes the headline smaller than you would have projected maybe a year ago. In the end, it's sort of like taking your medicine faster and transforming into the new business more quickly. So congratulations on that. And my question is particularly on the proactive ALM management. For the upcoming convertible bonds, the FCCBs presumably, in terms of granularity, you're just looking at putting aside 25% per quarter as you have done in the past for the other liabilities.

Gagan Banga: Craig, thanks for the kind words and the support. As I mentioned in my comments, and we've also detailed in the earnings deck, we would continue with that practice. So the second tranche for the ECB as well as the first tranche for the FCCB would get created by the time that the full year results are announced. So effectively, in quarter 4, we will land up creating both of these -- the second tranche for the ECB and the first tranche for the FCCB and shall communicate to the trustee of each of those instruments after having created that.

As management, we still expect that given all the transformation that the company is doing, in due course, by the time that the actual maturity of the FCCB comes, it would get converted into equity, but that can't be a presumption since it is not, so we will take these results.

Moderator: The next question is from the line of Gautam Prasad from Deutsche Bank.

Gautam Prasad: Actually, the questions were already answered. Once again, congratulations on strong set of results.

Gagan Banga: I'm sorry, I did not get the question.

Moderator: Just a moment. He mentioned that his questions were answered. The next question is from the line of Vikram Damani from Damani Securities.

Vikram Damani: So a couple of questions. First is, recently there were a couple of news articles suggesting resolution of Ambience small loans, one was ₹ 1,500 crores and one was ₹ 450 crores, respectively. So are these accurate and were these assets, NPA or standard, if you could just throw some light on that, when can we expect upon if it's true that sort of thing?

Gagan Banga: So it's very difficult, as per guidelines, we can't be commenting on specific exposures, but we've already stated that it was a stubborn Stage 2 NCR real estate asset, which has been completely taken care of and has generated us an IRR of a little over 12%. So I hope the question is answered.

Vikram Damani: Just -- is that in Q2 -- sorry, the last quarter or this quarter? If you can just clarify that.

Gagan Banga: Last quarter.

Vikram Damani: Last quarter. Okay. What was your outstanding wholesale book on 31 December?

Gagan Banga: It could be about 30% of loan book and about 20% of AUM.

Vikram Damani: Okay. And last question. Just a bookkeeping question. This net gain on the de-recognition of financial instruments, the number that has spiked quarter-on-quarter. Could you throw some more light on this? Like what is this? And is this a sustainable number or something?

Gagan Banga: We securitized assets and as per the IndAS or IFRS guidelines, this is a model that is created. So IFRS is actually very liberal in that, that if we do a 30-year loan, and we're expected to earn over 30 years, we should be upfronting that income. We have a more conservative model. So as we do more and more CLM and as we do more and more securitization, this number will keep going steadily up. As and when the company is going to do a reference rate change, the entire back book will also get repriced. So there would be an occasional quarter in which it would be a larger number than just the flow number coming from new business. But because one is very comfortable that year-on-year from last year to this year, we have grown at 330% in terms of disbursals. As the base becomes bigger over the next 12 months, we will grow at least 200% to 250%. So quarter 3, we will disburse at least 2 to 2.5x of what we disbursed in quarter 3 this year. As we do that, we should be able to ensure that whatever is a marginal one-off this time because we did a repricing of our loans in line with the repo rate increase. We should even without a rate increase, we should be able to manage that just on a flow basis.

Vikram Damani: Great. So can I look at it this way, that we are running down the existing book, but this income, which are compensated since you are considering most of the loans to third parties in the subsequent quarters?

Gagan Banga: That is correct. So as long as the company keeps disbursing, this will be steady state.

Moderator: The next question is from the line of Saurabh Sharma from ASK Capital.

Saurabh Sharma: There are a few queries. In the last 14 months since Sameer has exited his stake, in first few presentations, you talked about NSE Prime. From last 2 quarters, we don't see any update on NSE Prime. Are you going for it or not? Or you have dropped the plan?

Gagan Banga: No, we are completely going for it. We have already applied. We believe we are more than qualifying for each of the criteria laid down. I think NSE itself has not progressed on NSE Prime to the best of my knowledge, which is why I have not been updated on what is going on. Whatever we could do, we have done as far as NSC Prime is concerned. And I believe if there is to be an NSE prime index, then we will be there.

Saurabh Sharma: Fair. Second question, you talked about the AIF in the last the presentation, you mentioned that one approval you have got fund house and another you applied. Can you please mention the fund house, at least we should know with whom you're dealing as a shareholder? I think we should know which are the fund houses you're actually going ahead with you.

Gagan Banga: So we have to do NDAs till the time that we don't start drawing capital just by on the basis of getting a SEBI approval does not mean that we are doing business together. We have to start drawing capital. The management team has been focusing more on the retail engine. And I had also, so to say, confessed last time that there is a bandwidth constraint. This is a higher priority.

And between quarter 3 and quarter 4, we will continue to focus on growing the retail base. And quarter 1 onwards, we will start working on the AIF. In the meantime, we are trying to create an internal system. Our AIF is already about ₹ 7,000 crores, which is creating a track record and all of that. So we focus on that. Once we start doing drawdowns, then we will be happy to share the name of the partner. You can only be assured that it is one of the largest international funds operating out of Southeast Asia, focusing on this marketplace. And we have done business with them in the past, in the process of having raised around ₹ 14,000 crores of money through structured transactions, they have been one of our most vital partners and some of the last-mile financing that they have done has also been recently reported in the press as project that was successfully closed. So it is that confidence, which gives them and us the hope that this will become in the long term very good business, especially as the wholesale financing space completely gets vacated with the HDFC & HDFC Bank merger, perhaps also going through next fiscal. So next fiscal is some time that we will start focusing on this, and I'll be happy to share the details at that time.

Saurabh Sharma: Okay. Fair. Last question. You committed that 10% AUM growth. You're left with only 45 days for this year. Are we on track of 10% AUM growth for this year?

Gagan Banga: No, we are not. We are running down the wholesale book, so we will continue, which is what I've been saying for the last 2 quarters. We thought that we will grow the AUM. We will not be able to grow the AUM. We will grow the retail AUM by much higher than 10%, but we will degrow the wholesale book very, very meaningfully. And that is strategically for us a far bigger objective than achieving the short-term AUM growth. So AUM growth for fiscal '23 will not happen.

Saurabh Sharma: So we would end up with a flat AUM in terms of growth?

Gagan Banga: No. We will end up with at least a 15% lower AUM.

Moderator: The next question is from the line of Rahul Bari, an individual investor.

Rahul Bari: Sir, Company did not give dividend last year and present year, why not give dividend?

Gagan Banga: So Rahul, you may be aware that over the course of the past 2 years, the Reserve Bank of India has come up with new guidelines, which basically are making NBFCs to be similarly regulated as banks and a variety of aspects, including dividends, are now regulated by the Reserve Bank of India. Late last year, we also classified certain NBFCs on the basis of their size as upper layer NBFCs, which will have bank-like regulation and supervision. In the long term, this is very, very advantageous to the company because in financial services, we are sort of supposed to be entities, which are operating as the epitome of trust. And the tighter the regulation, the higher the supposition, the more trust our counterparties have. The short-term pain in that is that we have to evolve our business models so that we fall in line with whatever are the ongoing policies with Reserve Bank of India.

Last year, we did not qualify to be able to give dividends. This year, at the end, we will see if we are qualifying. We would certainly like to continue with that practice. If not, then we have to respect the regulator's policy. So I'm not in a position to comment on it right away, but the higher priority for the company is to comply with the RBI guidelines. And at the same point in time, if we get a chance, we would certainly like to give a dividend.

Let's take one last question, please.

Moderator: Yes, sir. We'll take the last question from the line of Vikram Damani, Damani Securities.

Vikram Damani: So just following up on a previous question. Now if you had some decent recovery from the NCR loans, I would have thought that we could have possibly had some write-back on the PL, but you also have additional ₹ 266 crores impairment. So have we increased the PCR despite a large chunk?

Gagan Banga: So Vikram, as I mentioned, these are Stage 2 assets and not Stage 3 assets. Our overall Stage 2 has come off quite significantly in the course of the last 1 year. But in order to be remaining adequately provided, we continue to keep provisions. We have to release provisions as Stage 2 comes off, so we have to continue to pile up on write-offs. We also had to reduce our Stage 3 provisions because on the basis of the recoveries that we are doing, the loss given default is not justifying even 15% Stage 3 provisions. So we can't continue to have the 40% that we were holding. We have to have lower. And thankfully, there is a base set by the Reserve Bank. So we've been able to float just marginally above the base. So all in all, we will have only 1 tool, which is accelerated write-offs to be able to create provisions. Any one-off, like this time, we had a one-off in terms of the repricing of our entire book, which resulted in additional income. We will use that as to create provisions and not to bump up profits, which is how we are in a very comfortable position today that against the Stage 2 plus 3 of approximately 10%, our implied provisions are around 11.6%.

So people talk about 100% or 30%, 40%, 50% provisioning coverage ratio on NPA assets or 70%, 80% provisioning coverage ratio on NPA assets. I am today carrying 100% provision on all Stage 3 and Stage 2 assets. So this is a very unique and comfortable position to be in, which is how one is being able to do all of this management of the wholesale book, and at the same point in time, increasing the capital, both on a year-on-year basis and on a 5-year basis. So in this background, there would be no release in provisions in the foreseeable future. We continue to just deal with assets to give financial flexibility to run down the wholesale book on a more accelerated basis.

Thank you. Thank you, everyone. I hope we could bring home the point around the strategy as well as the success that the company has achieved around management of capital. We look forward to speaking to you again with the rebranding and the reorganization strategy more clearly along with our annual results with time lines for both. And hopefully, by then or very confidently by then, the company would be also a de-promoterized entity. So looking forward to all of that and looking forward to speaking with you with the quarter 4 results at the end of April or early May. Thank you.

Moderator: Ladies and gentlemen, on behalf of Investec Capital Services, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.