"Indiabulls Housing Finance Limited
Q4 FY2022 Results Update Call

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Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q4 FY2022 Results Update Call hosted by Barclays. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhanu Chauhan from Barclays. Thank you and over to you Sir!

Bhanu Chauhan: Thank you operator. Good afternoon and good evening everyone. Thanks for taking out the time and attending this call. As has been done by the management of Indiabulls housing consistently over last couple of years, the company recently announced their most recent financial results for Q4 FY2022 as well as for the full year financial year 2022. We have the senior management from the company led by Mr. Gagan Banga, Vice Chairman and Managing Director for the company. From our perspective, the company management will provide the most recent update in terms of both financial performance as well as the business update and post that, we will have a Q&A session as highlighted by the operator. Over to you, Mr. Banga.

Gagan Banga: Thank you, Bhanu. A very good day to all of you and welcome to the Q4 and full year fiscal 2021-2022 earnings call. As you may have read on our website, we also did a similar call yesterday, pre-market hours India, but given the fact that we realized that time may have not been convenient for several of our stakeholders, especially in the western geography of Europe and the US, the management thought it would be appropriate for us to make ourselves available for our stakeholders in these geographies and here we are with the second call.

I hope all of you and your families are doing well.

The year fiscal 2022 was to serve as a litmus test for Indiabulls Housing's new asset-light business model. And I am happy to inform you all that we have made tremendous progress on this front, beyond what we had anticipated.

We have laid it on slides four to eight of the earnings update.

We began fiscal 2022 with the aim of establishing strategic co-lending partnerships with a set of banks and other financial institutions, implementing the technological integration, which is a lengthy and onerous process and to begin disbursals under the model from Q2 fiscal 2022. We were hopeful of scaling up the disbursals to achieving the quarterly disbursal run rate of Rs. 1,000 Crores by Q3 fiscal 2022 under the asset-light business model. Against this, in the second half of fiscal 2022, we disbursed retail loans of Rs.2,962 Crores through just the co-lending and sell down model, which was almost 1.5x of our targeted disbursal run rate and at an ROA of well above 3%. This ROA has to be kept in perspective of the company's current ROA, which is running at 1.3% so this is clearly a business model which is significantly superior to the asset mix that we have. Our historical ROA has been in the range of 4% to 4.5%, but this 3% against the past, we are generating purely on retail and granular assets. Therefore the new book has a significantly high quality and as it becomes equal to the size of the legacy book, you will see profits, ROE and ROA significantly going up.

Litmus test was around the scalability of this model, which is also now been established and in the wider market we also see banks tying up to establish co-lending relationships with multiple NBFCs and banks are also interested in implementing technology platforms for co-lending, which we are leading. We have committed demand for disbursing Rs.15,000 Crores of retail loans through co-lending with our partner banks in fiscal 2023. We have also scaled up our capacity and have added around 1,200 employees in fiscal 2022 to scale up retail disbursals. We are currently capacitized to do over Rs.1,000 Crores of gross retail loans per month. As employees get trained and productivity improves with the current employee base, we are on track to disburse around Rs.1,500 Crores of monthly disbursals by September 2022 and adding a few more people, which we will in the first half, we will be capacitized to get to Rs.2,000 Crores of monthly disbursals by March 2023. We have also successfully fully integrated the co-lending technology platform with two of our partner banks and are on track to complete tech integration with all of our co-lending partners in the first half of fiscal 2023. Overall, we aim to disburse around Rs.15,000 Crores of retail loans in fiscal 2023, which would increase to Rs.20,000 Crores of retail loans in fiscal 2024 through co-lending and sell down. Of this only about 30% would stay back on our balance sheet as it needs to be sold down or is the 20% stake that we are supposed to retain. The incremental retail loans can actually turn out to be on AUM basis three to four times of what we carry on our books.

We have also progressed meaningfully on our track of establishing partnerships with global funds for setting up AIF platforms to recommence the wholesale loan business, which historically has been a very, very profitable business, but given the cyclicality of the underlying real estate industry, it is the realization that this business is better housed in a AIF platform versus the NBFC platform and it has been our endeavor to be able to start doing this business again in the AIF model. We were first prioritizing the retail business to get past the litmus test, which we successfully did in fiscal 2022 and in fiscal 2023 as the retail business scales up, management will devote some bandwidth to also taking the wholesale business in the AIF structure through litmus test. As part of this, we have already got an approval for one AIF structure by the capital markets regulator of Rs.2,000 Crores. We have applied for another one with another global fund for Rs.5,000 Crores of which we expect over the course of the next two weeks, the approval to come through and within the current quarter, we expect to file for one more fund of Rs.5,000 Crores. Altogether, we have created a capacity to disburse at least Rs.10,000 Crores in fiscal 2023, which can increase to Rs.15,000 Crores in fiscal 2024. This platform will generate an ROA of 5%. That said, fiscal 2023 will be a litmus test for this wholesale model, much like fiscal 2022 was the litmus test for the retail model, but one is fairly confident given our rich track record of lending to the wholesale real estate segment that we should be able to do very successful scale up of this business.

Overall in fiscal 2023, the company will be focused on resuming AUM compounding, so we are getting back to growth on the back of retail co-lending and sell down and wholesale lending through the AIF platform which will help compound the AUM by at least 10% for fiscal 2023 and 15% for fiscal 2024. We will be breaking this consolidation process, which we began 3.5 years ago and from the first quarter of fiscal 2023 itself, you will see that there will be no de-growth which will be happening in the AUM and for the full year, as I said earlier, we are looking at a growth in AUM of around 10%. While we pursue both the tracks, we shall continue with the exercise of de-risking the balance sheet through reduction of the legacy book. We are on track to reduce the legacy book by 20% by the end of the calendar year 2022 from March 2022 levels. The AUM growth of 10% which I have mentioned is despite the reduction of 20% in the legacy book.

The third track that we have been working on for past two years is the institutionalization of the company. Towards this end, Mr. Gehlaut, the founder of the company, had relinquished the chairmanship of the board in August 2020 and later in December 2021 had reduced his stake from roughly 21.5% to around 9.5% levels. As a further step towards this direction, in March 2022, he also resigned from his Non-Executive Director post on the board of the company, thus making it a fully board governed professionally managed company with 60% of the board being independent directors. The board and the shareholder subsequently have approved the de-promotorization of Mr. Sameer Gehlaut and his group companies subject to requisite approvals. We will conclude the process of the de-promoterization in calendar year 2022 subject to requisite approvals by various regulators, lenders etc., and it is only after that there would be a technical change in control.

As another step towards institutionalization of the company in April 2022, we have inducted Mr. Patnaik, who is the Managing Director of Life Insurance Corporation of India onto our Board as a nominee director of the LIC, which is the largest institutional shareholder holding around 9% of the company and also the largest bondholder with an investment of around $1.5 billion of rupee equivalent domestic bonds. With the induction of Mr. Patnaik, 60% of Indiabulls Housing board now comprises of independent directors. We are continuing our talks with other significant institutional investors who are on board, who came on board during the time that Mr. Gehlaut sold his 21% to bring down his stake to around 9.5% and to have institutional representation to have some of these funds who came in to have their nominee directors also onto the board such that direct institutional oversight into the operations of the company continues to increase.

Together the three tracks will govern the way we operate going forward. We look to regain our position as one of the largest originator of retail loans within fiscal 2023 and again to re-establish ourselves as one of the largest originator of wholesale loans in the next 12 to 18 months, while at a cultural level we transform ourselves to become an even stronger and deeply ingrained board driven professionally managed company.

I will now cover some of the headline numbers for the quarter.

As at the end of March 2022, our assets under management stood at Rs.72,211 Crores and our loan book stood at Rs.59,333 Crores. Our AUM has been on a decline as we have looked to consolidate our wholesale and high ticket assets in order to de-risk the balance sheet. The AUM consolidation or reduction has now ended and I have said from Q1 itself you will witness no further reduction and for full year you will witness an increase of 10% in the AUM.

Since September 2018, on a gross basis, and this is one of the most significant achievements of the management team at Indiabulls Housing, we have successfully repaid roughly Rs.94,000 Crores to the system. As we did this, we have successfully de-levered from a net gearing of 7x in fiscal 2018 to 2.6x now, but more importantly we have demonstrated the ability of the management team to do the appropriate credit selection and how the portfolio has performed in a very, very stellar manner, in what have been otherwise very challenging macroeconomic conditions.

Our capital adequacy at the consolidated level stands comfortably at 32.6%, of which tier one capital is 27.2%. PAT for the quarter came in at Rs.307 Crores up 11% Y-o-Y. More importantly, over the course of the last two years, we formed a solid base of around Rs.1,200 Crores from which as the increase starts, we can now start looking at achieving a double digit ROE very shortly.

It is pertinent to note that the company's profitability has been showing a quarter-on-quarter growth continuously for the last five quarters now, thus leading to the strong base which I mentioned. Our strong capital adequacy, low gearing, high liquidity and robust provisioning, provide a strong base which will give us direction for various important measurement criteria such as ROA and ROE for fiscal 2023 and fiscal 2024.

I would like you to kindly refer to slide #9 please for an update on asset quality.

As on the end of March 2022, our gross NPA stood at Rs.2,318 Crores down from Rs.2,350 Crores. Due to the reduction in the denominator which is the loan book, on percentage terms, it has marginally gone up. Our stage three provision cover has stayed more or less steady increasing from 40% to 41% and our net NPA stand at 1.89%. The company has been witnessing strong recoveries over the last three quarters and has been using its provision buffers as well as these recoveries to proactively tackle any asset which it considers as stressed, classifying it as NPA, working either with the developer or with the legal system to ensure that our money has come back and that is a proactive approach which we will continue to take through fiscal 2023.

We have not resorted to restructuring or government guarantee provision, which we believe was just ‘kicking the can down the road’. So, our total restructuring under restructuring frameworks 1.0 and 2.0 is all of the 0.26% and under the government guarantees schemes, we only disbursed Rs.214 Crores or 0.36% of our portfolio. Given the fact that there is minimal restructuring and government guarantees resort and also the fact that we have been reasonably proactive in tackling the stressed loans, we expect gross NPAs to remain in the range of 3% to 3.5%. We will continue to use the buoyant real estate market to tackle whatever little stress is there on the balance sheet and therefore we expect fiscal 2023 to have a credit cost of 100 to 150 bps so that we can continue to proactively provide for certain loans and solve them while the markets are solid. Fiscal 2024 onwards we expect most of the residual stress to have also gone and the credit costs to then come down to more normal levels, which is 60 to 70 basis points on an annualized basis.

Now, moving on to one of the most important pillars of our operations and a great strength, it is liquidity and ALM management. On slide #11, we have given the details of the money we have raised in fiscal 2022.

We have raised total of Rs.24,497 Crores, of which Rs.5,600 Crores is over three year' term loans, 10,000 Crores is between one and three years. A very important step taken by the company was a couple of public issues through which we have raised around Rs.1,345 Crores, which should enable greater granularization and retalization of our liability franchise. In fiscal 2023, we intend to do nine more such issues to cumulatively raise around Rs.2,000 Crores through this funding channel. Through securitization and loan sell down, which are the foundation of our asset light business model, we raised Rs.5,214 Crores, resulting in loan sell down/securitization/co-lending contributing now 29% of our funding mix, which is the highest ever number and this number will soon inch to about 50% over the course of the next two years. As we scale the asset-light business model, funding through this route will contribute to higher and higher percentages and as I said, we should get to about 50% over the course of the next two years. We have raised Rs.1,517 Crores of equity/ quasi equity capital through an FCCB issuance and sale of our remaining stake in Oak North Bank.

Over the past one year, on the back of all of these initiatives, CRISIL, ICRA and Brickworks, domestic rating agencies have revised the company's rating outlook to stable. Very recently, even Moody's revised the outlook to stable, citing strong capital levels, high liquidity levels and stabilization in access to funding as rationale behind the outlook revision.

Our cost of funds on book is now 8.1%, book yields are at 10.5%, earning us a spread of 2.4%. Now, if this 2.4% is to be put in perspective, as I mentioned earlier, the ROA that we are generating on the new business that we are doing is north of 3%, so we are actually on a daily basis adding to our spread and we are very, very confident that the ROA because of severe steps of consolidation that we have taken, which had declined to 1.3% will start inching back and over the course of the next two years on quarter by quarter basis, we should get to greater than 2% sort of ROA, the traction of which will be visible every quarter hereon. We have also increased our reference rates by 40 basis points which will be effective from June 1, 2022. This will also help us maintain margins going ahead.

During the last earning call, we have spoken about ESG. In association with ESG rating from Sustainalytics, the company has developed a sustainable financing framework for issuing sustainable bonds. Our goal is to raise around Rs. 3,000 Crores of bonds through this year which would include around Rs.2,000 Crores through public issues. Large part of this Rs.3,000 Crores would be done under the sustainable financing framework that the company has made for itself.

We continue to enjoy a robust liquidity buffer of over Rs.9,000 Crores and this is a principle that we have held through for the last 15 years and this is one of the most fundamental principles which we will continue to follow.

Coming to the topic of ALM management, I wanted to begin here by thanking our bond investors. I know that USD bondholders in particular have been on a rollercoaster ride with the price fluctuations on the bond over the last few years. From our end, we have always provided reassurance to all our debt investors that the company has a conservative approach to ALM management and we plan well ahead of due payments. We do not plan or assume refinance. Now, as the term of the USD bonds draws to a close, I am happy that we were in a situation of being able to prefund dollar bond obligations after having voluntarily created a reserve fund for repayment and even though we had committed that we will put into the reserve fund 75% of the maturity proceeds, we proactively put in 100% of the maturity proceeds and via the prefunding which was intimated to all of our stakeholders. We have told the repayment trustee, in an irrevocable manner, that on due date or on prior to the due date, to fund the trustees. Through this irrevocable instruction and provision of liquidity, the company has in some way fully discharged its repayment obligation towards the dollar bond and the money will hit your account as when the trustee is funded, which should happen on or before the due date.

The company has also made an offer to its domestic bondholders to buy back bonds at par maturing up to June 30, 2022, of up to Rs.800 Crores, which is the approximate maturity in this period. The company is resolved to continue to take similar proactive steps to manage our ALM and continue to tackle any large repayment obligation in a proactive manner. I would like to restate here that the company's ALM management and liquidity planning never assumed refinance of any of our domestic or international bonds or term loans. We will continue to maintain a strong capital and liquidity position to provide comfort and confidence to our bondholders and other stakeholders. The proof of that pudding has been that we have been able to repay on a gross basis a sum as large as Rs.94,000 Crores, which is unprecedented in corporate India.

As per RBI master directions for HFCs introduced in February 2021, we are supposed to maintain a LCR of 50%, in what they define as high quality liquid assets. We maintained a liquidity against this 50% of 241%. This is just liquidity that we maintain in high quality liquid asset as defined by the RBI, the actual liquidity where we invest in money market funds etc., is actually significantly higher and will be to the tune around Rs.9,000 Crores.

Our ALM at the end of March 2022 is also published on slide #10, which has a positive net cash of Rs.8,587 at the end of the first year.

Moving onto slide #13.

We have laid down the objective targets of the company over the next 10 years to improve upon its operations such that we adhere to ESG best practices. We engaged Center for Environmental Research and Education (CERE) to assess our current environmental footprint. We have also partnered with ESG rating from Sustainalytics to develop a sustainable financing program and a large part of our Rs.3,000 Core bond borrowing program would be guided by this framework, which is monitored by a board ESG subcommittee comprising of five board of directors, with former Supreme Court Justice, Justice Gyan Sudha Misra as the Chairman. This board subcommittee will govern the process related to the use of proceeds and would evaluate and monitor everything as far as the sustainable bond framework of the company is concerned.

The past three years have been testing one for the company and the management. We have been at the receiving end of various blackmailing attempts by extortionists. The company appreciates that it operates in a vibrant democracy and it would need to deal with and emerge successfully out of such conflicts. Our detractors will try and repeatedly pull us down, but we have to make sure that as they knock the door of a different regulator or a legal authority to pulls us down, we have to come clean. We have stuck to our resolve and refused to give in to any blackmailing tactics, whatsoever. We have opened up our books to all agencies wanting to inspect us and have come out very successfully through each of these several audits and inspections aside of some minor operational aspect which are good points of feedback, nothing incriminating with respect to any of the allegations which have been made on the company, which has been rehash of the same things which have been floating for the last 3-3.5 years, none of those allegations have so far been found to be true.

We have a litigation famously known in our case as a public interest ligation or a PIL pending in the Honorable Delhi High Court where the prayer of the petitioners was that the regulators should look into our books. Happy to inform that all regulators starting from the Government of India, Ministry of Corporate Affairs to various financial regulators, the National Housing Bank, the Reserve Bank of India, SEBI etc., have conducted these inspections. Some operations lapses have certainly been found, but there has nothing been found as far as the allegations made by these blackmailers is concerned. The case is now scheduled for August 23, 2022 and I hope given the fact that the prayer of the petitioner stands satisfied, given the fact that all these regulators have looked in and Supreme Court has already said that since the prayer is satisfied the matter is now infructuous, the Delhi High Court would also take that on record and close this matter once and for all. We have decided that we will have to have holistic legal strategy and get these matter shut in various courts.

There was another FIR filed against the company in April 2021, the Bombay High Court after having stayed investigations in April 2021 itself, on May 4, 2022 quashed the FIR stating ‘we are of the opinion that the largement of the complaint against the petitioners and continuity of the proceedings is an abuse of the processes of law’. This order thus marks the end of the road for the patently false and malicious complaints that the blackmailers have been circulating for the last three years. We hope that other enforcement agencies also take note of the courts action on this and as has been described by the Supreme Court to close all such matters otherwise anyways the courts 'suo moto close' all such matters. Otherwise, we are anyways petitioning in the Delhi High Court and we hope given the recent Supreme Court judgment the various enforcement agencies will have to anyways close this matters since the court has quashed it. It has been the company management's unequivocal stand that we will not give in to the malicious attempts of our detractors and we will fight it out with all of our legal might. As I mentioned earlier, in a democracy such attacks are inevitable, but we have faith in the countries legal system and we believe that is the one and only way of being able to holistically close these matters once and all though it may take a little bit of time.

At this stage I would want to specifically take the opportunity to acknowledge and appreciate our shareholders who have shown the confidence in the company and have stayed with us through thick and thin. We are cognizant of the beating our stock prices taken, and that we are now trading at only 0.4x of book value. As you invested in the company, you invested in one of the fastest growing economies with one of the lowest mortgage penetration and in one of the largest mortgage originators and one of the largest mortgage balance sheet. Unfortunately, we had a significant depreciation in our stock value, on top of that we have also not proposed any dividend on the backdrop of the RBI circular which came in earlier this year dis-allowing dividend distribution if the company dips into reserves which we have done so fo,r creating the provisions which are coming in very handy, we had also disclosed the same along with our Q1 earnings.

Despite the pain that our shareholders have gone through, I would like to assure all shareholders, that I am very, very mindful of the pain that they have suffered. Along with my team, we are taking all the necessarily operational steps to put the business back on track of a very steady growth trajectory which we delivered for 10 years. In my view, it takes five years for large financial companies to transform business models. If we learn from the experience of some of the large private banks, they took about five years to transform the business model, a large part of these five years are over. Indiabulls also had to go through one period of transformation in year 2009 to 2014 and through that period we traded at similar 0.4 to 0.6 times book but by 2014, once the transformation was over and the company could present a steady growth path, we started trading at even up to 4x of book. I am sure large part of this transformation is over as is evident in the fact that we came through the litmus test for fiscal 2022 around our retail asset like business model, we have created capacity for our whole AIF based business model to come through and scale up in fiscal 2023. One is quite hopeful that the new book will become larger than the legacy book very, very shortly and would be generating ROA of close to 3% as it is right now thus generating for the business an ROA blended business of the legacy and the old book of greater than 2%.

At this stage, I think it is appropriate to give out guidance for fiscal 2023 and 2024. In fiscal 2023, we are projecting an AUM growth of 10% and in fiscal 2024 of 15% and this will be evident from the first quarter itself where the reduction in AUM will stop. The ROA will go back as I mentioned, as the new book becomes equal to the legacy book over the next two years or grows larger than that and it will go back greater than 2%. ROE should climb back to 11% to 12% and we will resume our dividend distribution where our dividend distribution policy, subject to obviously regulatory approvals and with board approvals, would remain at about 40% of PAT. We are confident that these steps and if we achieve these numbers, which we are fairly confident of achieving, along with the strong capital adequacy, high provision and high liquidity will have a corresponding positive effect on the share price in the coming few months.

To conclude, I would like to quote Winston Churchill "Success is not final, failure is not fatal, it is courage to continue that counts." My management team and I continue to work towards uplifting the company and would request your patience and belief to support the company during this rebuilding. With this, the team is now open for questions. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question from the line of Hari Hariharan from NWI Management. Kindly proceed.

Hari Hariharan: Good morning, Gagan. Thank you for excellent presentation. For what the company has gone through the last three years, it is pretty remarkable that you held course and the story you have paint it is very interesting but I want to start off on not so interesting element and that is what you were talking about the price to book and price to book at least according to Bloomberg right now it is 0.33, so I just it is map, the market cap of the company now is $700 million roughly, so if I gross up the price to book of one, it says the book value is roughly about 2.1 billion. What I find fascinating is that the market is treating your current wholesale loan book as worth minus $400 million, effectively assuming a lot of discount in the price-to-book is because of concerns about the wholesale book and if I remember correctly from previous presentation since you have made, the residual wholesale loan book itself is only about a billion dollars so clearly there is lack of appreciation in the market that essentially there are three important development in terms of AUM, one is the growth from your co-lending retail and other is the growth potentially from the wholesale loan AIF, offset potentially by a decline in the legacy wholesale loan book. But like I said, the market is treating legacy whole loan book a negative 400 million. What part of this story is management not able to convince the investor base to say that this stock is absolutely absurdly undervalued.

Gagan Banga: Thanks Hari. You have always been highly supportive and also been a advisor, amongst the best in sound advisors, so I would like to place that appreciation from the entire team on record. To be honest, sometimes this valuation also baffles me, but as management I am focused on basically three things, one; I went through similarly frustrating period in 2009 to 2014 where despite the fact that we had significantly degrown between 2008 and 2009 and then started regrowing, the market took its own time to appreciate that. Having gone through that experience, what I do know is that till the time that we are shrinking, it will be very difficult for the market to appreciate or to model anything because the market does not appreciate till what stage we would continue to shrink, is the shrinking strategic or is the shrinkage due to lack of capital availability.

As Moody's has very rightly pointed out that the financing has finally stabilized, in our mind it has stabilized a long time back, now, it has visibly stabilized. In our mind, we were looking to unwind the risk, minimize the risk and use the real estate opportunity, the real estate tailwinds which had come to India after almost a gap of 7 years, use those tailwinds to unwind the legacy book. Understanding fully well that the legacy book is not bad book but it was in good years generating a return on asset of over 4.5% even if we the adjust for provisions and write off that we have done over the last three years. My sense is that it would still be generating on average over a period of five years an ROA of round 3% and 3% ROA through the cycle is a fairly competitive ROA. Our historical gearing has been at least 5x, so we are talking of mid to high teen of ROEs which the businesses has generated.

The issue of the wholesale book which we do not want to repeat is that it is highly pro-cyclical book, there are various other elements: bond borrowings, credit ratings etc., on which we are inherently dependent and we do not want both the asset and the liability side of the balance sheet to be completely pro-cyclical ever again, so we decided to take deep corrective action.

The good news is that the deep corrective action at the headline level is now over. Starting Q1, I should be able to go back to equity ended analysts with a growth model and once I start doing that, I am fairly confident that the way that our AUM is playing out and when I look at it versus some of the smaller originators in the country, our monthly origination is perhaps larger than or quarterly origination is perhaps larger than their total loan book or total AUM. In a couple of quarters at the rate that we are adding assets under management right now, we would not only by flow but on stock basis, have a new book which can be very independently viewed and analyzed and therefore modeled and that is the time I am fairly confident that this absurd pricing which is more an outcome of a few sellers and no buyers being in the market and no analyst really tracking the stock, as that situation changes to even a few buyers and some analysts, you will suddenly find this price to book very big abruptly changing, once for that between 2014 and 2015. I am fairly sure that 2022 to 2023 is that year of transformation for us, not on the basis of some future pipe dream or something that we will achieve in due course but on the basis of what we have been doing on the retail side over the last nine months and what we can certainly potentially do over the course of the next nine to 10 months on the wholesale side. So I believe we are at that stage where as we pivot towards growth, Hari, I am very, very sure that this absurd discount would go away and we should be appropriately valued.

As management team decides the operational aspects, there has been to be first a realization that shareholders are important, shareholders can take some pain but they are ultimately the foundation on which the company gets all of its strength. We are extremely mindful of that and we will continue with this very regular engagement and we will hopefully now have a growth story to come back to for shareholders. Fortunately, the macro of the country is very favorable, the macro has become even more favorable with tectonic shifts as far as the NBFC industry is concerned, with several of the NBFC which were competing with us not being there. A large player on the wholesale side merging itself or potentially merging itself with the bank and for all stakeholders, especially shareholders, the risk or existential risk which NBFCs posed in the past practically disappearing with bank regulations and NBFC regulations being bought at par with RBI and not only regulation, even supervision been practically bought at par. So I think the right base has been created.

I would just request from you as well as all the other shareholders, give us a quarter or two to stand true to our word that we are back on growth and I am very sure, that we will see the very sharp difference that may emerge in the stock price, 'finger crossed' that should happen and we will relentlessly continue to try to achieve that.

Hari Hariharan: Thank you Gagan. Appreciate it.

Moderator: Thank you. The next question is from the line of Guatam Prashad from DB. Kindly proceed.

Guatam Prashad: Just on a follow-up to what you covered in the last quarter, is there any plans to may be like securitize or separate the existing wholesale book. From what we understand, I guess the AIF platforms, the three AIF platforms that we are in discussion, that will be for new originations, but apart from 20% reduction in the existing wholesale book, is there any other plans I guess to securitize or separate that legacy wholesale book from the balance sheet or existing business?

Gagan Banga: So my goal in the fiscal 2024 is that the new book should be like bigger than the legacy book. We will continue to work on it on a quarterly basis. If the rundown in normal course, which is happening, is naturally achieving that, we will follow the path of natural run down which is from a return perspective and cost perspective the best thing for the company to have. But in case we are not, then the company will take poison pill and will resort to a slightly more expensive structure, but will ensure that the new book is bigger than the legacy book over the course of the next two years, that is essentially something I will be able to provide you on quarterly basis on an update as to how we are trending on that potential achievement. But one goal is that Rs.50,000 Crores of legacy assets should drop to around Rs.25,000 Crores and we should add at least Rs.25,000 Crores of new assets on net basis over the next two years in normal course. If that has to happen, very well, otherwise we have built a unique strength amongst our peers, we actually went ahead and implemented almost $2 billon of structured transactions. The good news is, of that $2 billion of the special situation funds, which provided us a liquidity of a billion dollar, has already come back, so they are appreciative of our assets and are standing with us to do more and more transactions. So there is headroom available if one wants to resort to that. Mathematically, I do not think we need to but if it so required that option always exists. The more important resolve is to make sure that we achieve 1:1 and we are also in the process achieving a size and scale of new book, which is fairly compulsive, is of a net size of $3 to 4 billion over the course of the next two years, which then should be able to demand its own valuation of both franchise as well as earning potential.

Guatam Prashad: Understood. Just a follow-up on one of the thing you again captured in the last call in terms of, I guess, getting more analysts to cover the stock from an Indian equity investors perspective, just would like to hear what steps the company is practically taking on that front?

Gagan Banga: So there could be few analysts on this call, there were few on the last call. So, while I am 47, I have been CEO for 16 years and through the course of 16 years, I have gone through period where there was practically NIL analyst coverage to time there were about 15 analysts and practically all global brokerages covering us. That again increased to an all time high, we had practically all brokerages in the country and today again less than handful which are covering. It is cycle, through this cycle what analysts would confirm to you is that as management team, we have remained available not only to stakeholders but also to each of these analysts and I have proactively kept them updated on a quarterly or six monthly basis as to where we are going. That engagement is going to become even more regular now since as management we have greater predictability on what our assets under management can trend to or what our earnings can trend to, given the fact that the consolidation is getting over. Once I am in position of being able to confidently communicate that this is the trend line for AUM, NII, spreads, profits, and loan mix etc., and given the institutionalized character of the company, I am sure analyst will come in quickly. There is always, with the independence that the analysts have today, there is always an additional so to say pressure on them that the market kind of demands coverage from them so my suggestion and request to all bond holders and institutional stakeholders is to demand coverage. From our side, I can assure you that the management is more than available and management is today ready with all the numbers and is willing to get evaluated on a quarterly basis on the commitment that it has made. I would also use this opportunity to remind the broader market that this company went through a cycle on credit ratings from AA minus in 2009 to a AAA in 2017 and we could do that because every year, every six months, every quarter we would share projections with our rating agencies and I remember through that eight year period, there was not one quarter on which we failed on any of those projections. So we take our time as a management team to come across and come through projections. But when we do, we stand by them. After a gap of 3-3.5 years, for the first time I am saying, I am sticking my neck out and I am saying I am ready with those projections and I can project that on a quarterly basis and me and my team will make sure that we deliver on that it. So this is the right time, we will be engaging even more deeply with these analysts. Hopefully over the course of the next quarter or two, maybe three quarters, you will see greater analyst coverage, especially as we move forward on all three aspects; The asset-light retail model scales up, the asset-light wholesale model starts delivering and the institutionalization process crosses the last hurdle of the depromotization process getting completed. As we achieve all of these three things, I am sure there would be a greater analyst coverage in due course.

Guatam Prashad: Thanks a lot.

Moderator: Thank you. The next question is from the line of Craig Elliott from NWI Management. Kindly proceed.

Craig Elliot: Congratulations on the excellent results and progress not just in the last year, but over a few years and we as bond investors, we have invested in bonds and in your equities, but as bond investor I really wanted to go on the record expressing our appreciation for diligence and focus and care you take with respect to the May bond repayments and those that was really exceptional efforts. So, thank you. And then I have one follow-up question. Of course on the Moody's upgrade, you also mentioned a little bit about activating stock analysts. Would you share a little bit about your ongoing discussions which make you and us confident that will continue the earnings or the earnings credit rating upgrade momentum please?

Ganga Banga: Yes Craig. On credit ratings, we are back to where we were, perhaps in the period 2014, where I remember one of the leading domestic rating agencies which was rating us at AA exactly where we are rated today. They were asked why we are not at AAA in one of the forums and they said that this AA balance sheet is actually superior to some of the AAAs. It is just the size of their balance sheet, their track record etc., which needs to increase. Their track record needs to be over a slightly longer period of time and then we will certainly upgrade them first to AA plus and then to AAA, which we witnessed in the years to follow. But I also strongly believe, Craig, that some of the dumbest decisions that management took was that it made rating agencies, ratings and upgrades an end game rather than be outcome of several right steps being taken. I do not want to make that mistake again where a certain credit rating is an end game.

I am committed to making sure that we build our business in which we float around 2.5x to 3x sort of gearing. Build at first and AUM where the securitized or co-lending assets which are currently at 29%, increase to 50% and then they become a multiple of the book on balance sheet. As we do that, I am quite sure that given the inherent strong capital adequacy, the very, very strong ROA and ROE as well as the highly granular nature of this business, the new business is adding practically 3 customers per every Crore of disbursal that we do, so every 10 million of disbursals gets us three new customers which is as granular as it gets.

The new customers that we are acquiring are families with an annualized income of about $10,000 to $15,000, which is fairly comfortable, is four times our per capita and would qualify to be the top 10% of India. With that kind of a granular base, the credit rating agencies are bound to appreciate that. And the track record of our ability of being able to handle stressful situations and the silver lining of the last three and a half years is that while we have been subjected to all of these allegations and blackmail attempts, the various regulators and enforcement agencies continue to look into our books have so far found nothing wrong and six or seven have not found anything wrong, even if one more come want to come and look, they are more than welcome. We will support anyone who comes, wants to come and take a look. We have gone through a concurrent audit for the last nine quarters by our lenders and the lenders which is the bank lenders continue to support us, several of them now even started increasing their exposures and are not only refinancing but are adding fresh lines to us. If we gross that up for the co-lending exposures that they are taking, then practically each one of them is adding their exposure to the company, which obviously they would not have done if they would have found even the risk of some sort or malice in our lending practices, which would have certainly come through since the concurrent lenders have not only gone through every rupee that we have lent over the last nine quarters, but have gone through over 81% of the wholesale book and have found nothing wrong so far. So with all of these strengths, I think ratings are just an outcome. We are deeply engaged with our rating agencies, the rating agencies in India have also matured given the events of last 4 to 5 years, that engagement is positive. They are actually one of our strongest, I would say supporters, and the right kind of advisors to have by our side. That is how I would like to approach it. I would not want to approach rating as an end game and actually driving business because I want to become AAA, so I must become a certain size. I am hopeful that the rating as an outcome will be because of all the progress that we are making on our AUM and ROA and ROE.

Craig Elliot: Thank you very much.

Moderator: Thank you. The next question is on the line of Mahendra Kanakiya from MK Capital. Kindly proceed.

Mahendra Kanakiya: Thank you for the opportunity and congratulations for the good result, but you have not declared dividend due to mistake made by the management and the board. Because most of the top five HFCs declared the dividend in last fiscal. Company could have been eligible to pay 50% of earning, which is around Rs.13 dividend per share. Management people got paid, employees got their salary and perks, management team including everyone on the call got paid salary and perk, board of directors got paid salary and perks, bond holders and the bank got paid interest, audit consultant were paid, so all the stakeholder got paid but the owner, who gave the money remain in the backholder due to mistake. Why not mistake for the other people, other stakeholders?. Company came into existence because shareholder gave their money first, without shareholder company would not even have existence. If the company do not have existence, all the employees and directors would have no job. Mr. Banga, you have mentioned in con-call and interview proudly saying that the company paid one of the highest dividend, so request you to pay the dividend to the shareholder. My request is to put the company on the sale to unlock the value.

Gagan Banga: Mr. Kanakiya, firstly, thank you for being a shareholder and I do appreciate that you are pained by the fact that after having a distributed dividend for the last 16-17 years. practically ever since our listing, this is the first year that we have not distributed dividend. For both, a board as well as the management, it was not the happiest decision to take and you are absolutely right at our lenders, both bondholders and other term lenders have received their principal and interest in full. They will continue to receive their principal and interest in full that is one of my biggest responsibilities. The employees which form the core strength of the company, had through the period of COVID, and in years that we had paid dividends, taken deep salary cuts, the management had taken as deeper salary cut, including me personally of 80% or so in order to retain talent and in order to build the franchise and unlock shareholder value. We will have to retain the management talent as well as employee talent and therefore we will have to pay them appropriately.

Now moving on to dividend, the company has to make sure that the company is in a position to tackle short term issues which have emerged out of both the transformation in the business model, which is an outcome of macro developments, as well as an outcome of the pandemic. So, in order to be able to present a very, very stable sort of financial picture, we had to, which is most, most necessary for a financial operation, we had to first create a provision pool which was large and then which gave us flexibility or being able to not kick our problems down the road and hope that they will get sorted out, but we actually proactively solve them and make sure that they remain solved permanently.

If I reflect back on the global credit crisis, then it was the ability which the government actually provided to US based financial institutions by running the top program and so on that the financial institutions were able to do the deep correction and then emerge much, much stronger, which eventually resulted in the shareholder being the largest beneficiary with a little bit of a lag but a multifold beneficiary to let us say a bondholder or an employee. Shareholders have gone through a lot of pain. I am also shareholder, Mr. Kanakiya, and a large shareholder of the company and I have also gone through a lot of pain. I also used to enjoy the dividends, which I have not received this year, yet I continue to work tirelessly to make sure that this absence of one year dividend, which we have essentially not being able to distribute because of recent regulatory changes, we will try and avoid that in the future. And I will say it is one of the goals that I have said that we should be back to distributing our dividends from next year onwards. I said that on the call yesterday and I am repeating that at this point in time, it is important for the company to conserve capital, to use that capital to create provisions such that it can move on, maximize the franchise value and make sure that there is exponential unlocking of value for shareholders.

As far as selling the company or not selling the company, this is a public shareholder led company. It is the decision of the board and the shareholders as to the direction in which the company should be progressing. As the CEO of the company, I can assure you is that my engagement with strategic investors continues. A few strategic investors have come on board recently. They are some of the most marquee, amongst one of the most respected sovereign funds as well as one of the largest private equity fund in the world have become our shareholders and our engagement with several such marquee investors continue.

Our business model continues to go from strength to strength and I see no reason why shareholders should not gain exponentially from here. The management will at least tirelessly continue to do that but what I cannot do is change regulation and I am constrained by that, so I again sincerely apologize but at this point in time, I believe this is the best I can do.

Mahendra Kanakiya: I have one follow-up, the top HFC who are able to declare the dividend even though they have a less CRAR, very high leverage likely seven times and eight times, so it apparently looks like the board and the management made a mistake even though the company is in very good position compared to other HFC which have declared the dividend.

Ganga Banga: Mr. Kanakiya, I am sorry if I am interrupting. It is not a question of CRAR or other such fundamental ratio. I have specifically even replied to you on email. There is a specific RBI regulation. One has to be mindful of that RBI regulation which talks about several factors and the large HFC or some other HFC may be in position today, but I am very sure that the quantum of the dividend which is roughly $1.5 billion or Rs.11,000 odd Crores that we have distributed over the course of the last 15 to 16 years is unparalleled to any HFC and NBFC bank or even most corporates, both as a percentage of profits as well as on an overall basis, the value of the dividends that we have paid. I am quite sure till about two years ago, for the last ten years we were amongst top three or four or five private corporates in the country on the quantum of dividend we have paid out. Companies go through transitions, and my request is bear with us. Every year or two as we transition and we shall be back with our dividend track that is the way that we like to reward our shareholders. Our shareholders are extremely, extremely important to us. You are in my interests, are perfectly aligned. I am also a shareholder so it is not as if we are at cross purposes to each other. All I can say with folded hands and most humbly is please bear with us and understand that the company is going through a period of transition.

Mahendra Kanakiya: Okay thank you for your answer.

Ganga Banga: Thank you everyone and thank you for accommodating us for two different calls. Next time onwards, we will be slightly more mindful. This time, given the summers and the fact that travel had opened up after many years several of our independent directors were traveling to different geographies thus the board meeting had to be convened late in the evening hours and therefore we thought it was appropriate that we at least made ourselves available before market hours on Monday. So on that note and again on a more optimistic note that we record the support of both bondholders and shareholders, we make sure that bondholders are very, very comfortable. The management team is striving tirelessly to make sure that this becomes a rewarding investment for our shareholders also. I seek a little bit more of support and patience and can assure you that we will certainly go back to our valuation that we used to achieve in the period 2016, 2017, 2018, etc. On that note, thank you so much and look forward to speaking with you again next quarter.

Moderator: Thank you. Ladies and gentlemen, on behalf of Indiabulls Housing Finance Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.