Indiabulls Housing Finance Limited Q2-FY20 Earnings Conference Call

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MANAGEMENT: **MR. GAGAN BANGA - VICE-CHAIRMAN, MD & CEO, INDIABULLS HOUSING FINANCE LIMITED**

Moderator: Good Day, Ladies and Gentlemen Day and a very warm welcome to the Indiabulls Housing Finance Limited Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Gagan Banga – Vice Chairman, Managing Director and CEO of Indiabulls Housing Finance Limited. Thank you and over to you, sir.

Gagan Banga: A very good day to all of you and I welcome you to the Quarter 2 FY20 Earnings Call. Before we get into the numbers for the quarter, I want to speak briefly about the business model going ahead which was also shared with you in our previous call on the 11th of October. We will now be largely exclusively a retail focus business and with an asset-light model. We would look to keep only one-third of what we source on our books and the rest will pretty much equally be split between co-origination and loan sell downs. Our franchise is in capacity to source over ₹ 40,000 crores of retail loans a year through around 5,000 retail loan sourcing team, a robust online home-loan, loan origination and ample capital. However, we are mindful of the constraints from higher cost of capital.

As our developer book runs down both in its normal course and through refinance. It will generate liquidity which can be deployed to extent retail loans. As we complete a year since the onset of the liquidity squeeze in September 2018, I am very proud of the way the business has held up through what can only be described as a hyper stress test. Through everything that the sector has gone through and all the challenges that Indiabulls Housing has had to face the objective; measurable facts are that:

1. We have the highest capital adequacy amongst all NBFC/HFC peers.
2. Our capital adequacy at the end of September stood at 28.93% compared with an average of 18.3% for the top five NBFCs excluding us.
3. Our Tier-1 ratio at north of 22% is also higher than what is the total capital adequacy for our peers amongst the larger NBFCs.
4. We have the highest level of on balance sheet liquidity at 19.3% of balance sheet in cash and liquid investment compared with 5.2% for the top five NBFCs.

We thus, have 4x the liquidity our peers carry. Maintaining liquidity at 15% to 20% of the balance sheet in cash and liquid investments is a strict and self-imposed discipline we have followed for over 10 years now since 2008. Our liquidity coverage ratio over the next 30 days of stressed net outflows is 783% which is nearly 16x the 50% number that RBI has stipulated for NBFCs which has to be followed by NBFCs from December 2020 onwards. So we are at 16x currently of what RBI requires NBFCs to follow from one year from now.

Despite the book running down, the business continues to deliver ROA in excess of 2.5% and has consistently delivered ROEs of over 20%. The annualized ROE for H1 Fiscal 20, in a mode where we are not really growing, is also north of 16%. We are one of the least levered in the NBFC/ HFC sector with a net leverage of only 3.6x compared with an average of 6.1x for the top five NBFCs and HFCs.

Despite a tough credit and business environment across the board, our asset quality has held up. Our gross NPAs at the end of September 19 are at 1.51% and net NPAs are at 1.07% compared with this the average gross NPA of the top four housing finance companies is at 1.67%. The net NPAs have declined due to proactive provisioning and our long-standing policy of using all one-off income to create provisions. Please note that all manner of scrutiny be it in form of our regulators, statutory auditors and government agencies has got much tighter in the last 12 months especially in the last 6 months, the period from April 2019. So these NPA levels are tightly scrubbed and are therefore doubly verified numbers. In this background the asset quality numbers this quarter are extremely important. What is also to be appreciated is that the book has de-grown materially over the last one year by about 32% and despite that de-growth what one has seen is that we have continued to maintain NPA levels at about 1.51%.

So despite a significantly smaller denominator about 28% reduced book this NPA has stood up and the net NPA has actually, on a quarter-on-quarter basis, declined. Even the gross NPA on a quarter-on-quarter basis has declined in absolute value. Our Tier-1 capital adequacy is 22.5% in absolute terms, our net worth of ₹18,700 crores is 23% of our on- balance sheet loan book of ₹ 82,135 crores. Through the last 12 months we faced all manners of allegation culminating in the P.I.L. in the Delhi High Court. Compared with fighting wild allegation circulated on social media, this is something concrete that the court and authorities can objectively look at. We actually welcome this as once and for all, for respective agencies such as MCA or any other statutory body or regulator to scrutinize the business and we can firmly put this behind us.

In the last 12 months, all sort of allegation have been made and we have been also subjected to thorough scrutiny. There are hundreds of unfounded rumors that additional checks from a variety of government agencies will follow. We are open to all of this as the company is confident of the business it has built. Further, to demonstrate our confidence we have also done the following to fight the rumor mongering.

1. We have addressed all allegations through public disclosures in leading newspaper
2. Blackmailers have been arrested and they have also subsequently issued a public apology, yet they continue to be in jail.
3. We filed a case of perjury against the unfounded allegations made in the courts and the court has admitted our case against the alleged whistleblowers.

I will now go through the quarterly numbers. Please refer to the earnings update that we sent across to you which is also uploaded on the website. Firstly, please refer to slide 3 our loan book decline by 28.5% to stand at ₹ 82,135 crores in line with the decrease in our loan book, our profits have also decline by 28% to ₹ 1,511 crores. Our profits for Quarter 2 Fiscal 20 are ₹ 710 crores compared with ₹ 802 crores in the sequential previous quarter. The NII declined by 19.5% to ₹ 2,776 crores. Our spread on book is at 308 basis points which is well within our guided range of 300 to 325 basis points. I am pleased to announce that the board has recommended ₹ 7 per share of interim dividend for the quarter which is in line with our long standing dividend payout policy corresponding to 50% of profits. In the last 10 years we paid over ₹ 10, 800 crores of dividends to shareholders and a dividend payout policy of paying 50% of profits is dividend will continue to be in place. Our balance sheet at the end of Quarter 2 Fiscal 20 stood at ₹ 1,11,618 crores our loan AUM at the end of Quarter 2 was at ₹ 1,6,330 crores compared with ₹ 1,13,189 crores at the end of Quarter 1 Fiscal 20. Our on-balance sheet loan book stood at ₹ 82,135 crores compared with ₹ 86,389 crores at the end of Quarter 1 Fiscal 20.

If you refer to Slide #4, we have shown how we have scale up on RBI LCR framework. Our cash and liquid investments at the end of Quarter 2 Fiscal 20 stood at ₹ 21,583 crores. Our cash and liquid investments comfortably cover our next 12 month of debt repayments of approximately ₹ 20,000 crores. If you refer to Slide #4 which has a liquidity coverage ratio considering our cash and liquid investments, we have 783% of LCR which is 16x of what RBI has stipulated. Over and above this, on an average for the last 12 months, we have received ₹ 6,000 crores of repayments on our balance sheet loan book which we will keep augmenting the cash levels thus ensuring that we are significantly cash positive at the end of each day, month or quarter for a long term. Our detailed 10 year quarterly ALM is in the appendix slides of the earnings update.

Moving on to Slide #5 in absolute numbers our gross NPAs have remained stable and have marginally declined to ₹ 1,611 crores at the end of Quarter 2 compared to ₹ 1,662 crores at the end of Quarter 1 Fiscal 20. Our NPA numbers have held up and our strong demonstrated recovery capabilities will ensure that asset quality is maintained. In the last five years we have recovered nearly ₹ 2,000 crores which correspond to over 70% of the incremental slippages in this period. For any unforeseen losses from the developer loan book, we have ₹ 3,500 crores of buffer from an investments in OakNorth Bank. Besides, this pre-provisioning operating profit for the first half of this year is at ₹ 2,238 crores, which is also available for provisioning. Eventually developer loan book will not leave us with losses as all our projects funded are metro-centric. There are no slums or SRA projects financed. Last quarter we have recovered as much as ₹ 700 crores from a NPA developer loan, this was in Quarter 1 Fiscal 20.

If you now go to Slide #6 our borrowing now stand at ₹ 89,565 crores net of cash and liquid investments our net gearing is only 3.6x. As mentioned earlier our net gearing is the lowest amongst our large NBFC/HFC peers, our CPs are down to just ₹ 500 crores and we have been very successful in elongating the tenure of the liabilities through the course of the last one year. Our primary sources of capital through the next few months and quarters of consolidation will be from refinance of our developer loan book and loan sell downs.

I request you all now to please turn to Slide #7. We now move to spreads in the business. Our spread on loan book for Quarter 2 Fiscal 20 stood at 3.08%. The spread continues to remain within our guided range of 300 to 325 basis points for book yields. Going ahead we are confident of maintaining our spreads in this range. Increased securitization has meant that AUM growth has outpaced our own-book growth thus facilitating ROE expansion. This is an update on a performance during the last quarter. Now let us move on our business strategy for the future.

As I mentioned in my call on 11th October our business model would now be completely retailed focused going forward with, incremental disbursements would be split at 60:40 between home loans and MSME loan i.e. loans against properties. New origination would be done in the proportion of 40:40:20 between co-origination with banks, securitizations and smart city loans respectively. Of all the incremental business that we generate, only about a third will stay on our balance sheet while the rest will be off balance sheet. Thus it will be asset-light which is ROE-accretive. For co-origination, we have now entered into co-origination arrangements with a number of public sector banks. The idea is to tie up with different banks with varied risk appetite so as to cover the entire spectrum of loans from the super prime customer who gets loan at the best possible rate up to a slightly higher risk category customer operating in a Tier-3/ Tier-4 location who gets loan at the best rate plus 300 basis points.

We can thus cater to needs and requirements of all types of home loan customers, as well as the risk adjusted return requirements of all banks. Thus, maximizing our platform to become the most efficient through-put platform. We expect this business to build up scale over the course of the next few months. Apart from co-origination, the other 60% is something that the company has been doing for years and has already displayed scale running into thousands of crores per quarter. So lastly this will be our business model going forward. The business is on an extremely strong footing and this P.I.L. will help us put all of these allegations behind us once and for all. As we build up scale over the next six months, I am quite confident that we will be able to pursue the growth strategy. As the third largest housing finance company, we have helped over a million families achieve their aspirations of owning a home of their own. We have a nationwide presence of over 200 branches and this franchise can generate over ₹40,000 crores of retail loans per year which is the goal for the next 12 months for us.

As we look forward to grow our disbursements to about ₹ 40,000 crores of retail home loans and LAP over the next 12 months. We will achieve this partially through financing of roughly about ₹ 14,000 to ₹ 15,000 crores through co-origination, another about ₹ 15,000 crores through loan sell downs and our dependence on incremental borrowing will be restricted to less than ₹10,000 crores. Our co-origination agreements are in place, the requirements from loan sell down is a small number compared with the ₹ 26,000 crores of loans we sold down last year and the balance funding which we expect to get on balance sheet is extremely moderate given the scale that the company has historically operated at even through the course of the last 13 months we have generated resources in excess of ₹ 70,000 crores.

Now refer to Slide #58. IBH has been on the road of trials. Several of our stakeholders have wondered through the last one year if all is lost and IBH is defeated. Our sadist naysayers have made awful things happen to us - blackmailing in June, P.I.L related inspections, stock and bond price volatility, dent and perception and a massive trust deficit. While often things did happen which is what makes this road to redemption that much more powerful. What one has come around to understand also is that it is only through struggle that we learn who we are and what we are made of and much like we prove through 2009 to 2013, we will prove again that while naysayers focus on our weakness and mistakes made by management we believe we have to learn from these and move on.

In 2013-2014 as we reverse-merged and consolidated from being an NBFC into IBH, our market capitalization was pretty much where it is today at around ₹ 9,000 crores. In just three years this has trebled to over ₹ 28,000 crores in fiscal 16. We are aiming again for the pinnacle to reclaim our domain within housing finance. This phoenix shall definitely rise and fly by leveraging on our strength of distribution, underwriting capital, efforts of thousands of our employees and with the good wishes of our over million customers who have fulfilled their dream of owning a house and lakhs of shareholders who have received over ₹ 10,000 crores of dividend since our listing. I am very confident that we will definitely reclaim the pinnacle. On this note, the IBH management is now open for questions.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Kamlesh Agrawal from Citi Bank Hong Kong. Please go ahead.

Kamlesh Agrawal: I have three questions. My first question is can you please update us on what is the cash sitting on the book right now; I am not talking about the second quarter but the cash right now. Second there was some rumor about bonds trading at 65 on onshore market I would want to know more about that and do we have excess to bond markets as of now and third do you plan to raise any more capital in the future through warrants because there was news about that?

Gagan Banga: The cash position of the company will be very similar to what we held as of September 30th. We have conducted some buybacks of our bonds which are maturing between October and December. We have also made disbursements and have continued to receive repayments as well as done a few drawdowns from facilities from bank, net of all of this the cash position will be very similar to the position that we held as of end of September. As far as the bond trading is concerned, I believe there was one bond trade which was reported to us as to have been erroneously entered and it was subsequently not settled, that trade was around ₹ 200 odd crores. There would be odd bond trade which could happen at rates which are not normal.

As I have indicated we are not really currently looking at tapping the bond market. I do not think that we would want to walk the path of going back and issuing bonds of two to three years and then suffering from the shallowness of the Indian bond market. We wish to build a business which is more reliant on long term sources and currently what is very important to understand is that we have continued to focus on refinance of our developer loans. While on a net basis we still do have to make some release of loans to our developers where construction is going on. On a net basis there is a reduction in that portfolio and that itself is generating a lot of money for the company to pursue its retail strategy. So between the monies that we are generating through refinance of our developer loan portfolio, securitization and loans that we are receiving for onward lending from banks, RBI had made a very interesting policy or a comeback of a very interesting policy a few months ago where banks continue to give monies for onward lending. So between these three sources we have adequate capital and which is why I have said, as we are slowly scaling our retailed disbursements back up and over the course of the next 12 months we will look to get to around ₹ 40,000 crores of disbursements on the retail side.

As far as warrants are concerned, it is an enabling provision that we have taken for both NCDs and NCD-cum-warrants. It is merely an enabling provision and we will exercise it at an appropriate time. We need to go back to shareholders, so anyways it is a time consuming process. The board was approving the limits for NCDs and one of the board members said that this may also be an interesting instrument. This instrument has been used by the company in the past and has done well for the company, so it is an option that we have built there is nothing on the table as we speak.

Moderator: Thank you. The next question is from the line of Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My first question on the disbursement during the first half of FY20 how much we have done and secondly what is the average ticket size?

Gagan Banga: So we would have disbursed a little over ₹ 14,000 crores. The average ticket size for the home loans will be in the handle of ₹ 20 lakh and for LAP will be in the handle of ₹ 60 lakh.

Manish Oswal: The second question on the slide number 9 or 10 which you articulated new asset-light business model I mean when we compare some of our peers, it looks like we would now just originate and then sell down that portfolio to the banks. So I mean do you believe the current environment is given the structural reason to change our business model or what is your thought on the same sir?

Gagan Banga: So we have shared in the past that if you look at the global trend on mortgage financing you know very rarely our long term mortgages held on balance sheets of originators. So what is clearly realized to be wholesale financed and to have any sort of wholesale assets on the balance sheet is something which is over the cycle not something which is really appreciated.

So that is clearly a reason why we are changing track and saying that over the course of the next two to three years this will become a very dominant retail play only. Whatever marginal wholesale loans we had, those will also go away over the next two to three years and with a one clear directional shift that we have is that incrementally apart from the small disbursements that we have to do for construction loans, we will largely stay away from wholesale loans.

The other constraints that we have to appreciate is the constraint around cost of capital as well as the nature of capital available and you know I cannot possibly have a business which is trying to solve for every stakeholder requirement. So the primary stakeholder, who is our lender in the short term, it is very clear they deserve an element of stability around the company and from that perspective what is very clear is that we will not use volatile wholesale bond funds to underwrite mortgages. From a shareholder perspective, as a stakeholder the shareholder desires a comparative return on equity which we estimate to be in the ballpark of 20% to 25% .That kind of return on equity can be very effectively achieved through the business model that we have spoken about. So if both lenders as well as equity shareholder are getting stability as well as competitive return on equity and this model also ensures that there is no volatility, then I am being able to solve for a lot of what stakeholders require.

There are definitely a set of stakeholders cutting across all constituents who would also like to see the balance sheet increasing. I would also like to see the balance sheet increasing. In the Indian mindset, large balance sheet is also related to power and respect and so on, but this is not the time in the Indian context where our bond markets are just so immature there is no CDS market, there is therefore no balancing out which happens, a free trade triggers everything. In other markets, credit-markets tend to lead the equity- markets; in India equity markets tend to lead credit-markets. Equity markets can be extremely volatile in the short term for reasons much beyond the company's control. We are a very high free float company by stock. So given all of this I think it is the time that the bond markets in India mature till the time that we have proper market making, CDS comes in as a proper instrument, which will definitely happen over the next few years. This is the business model that we will choose to follow. This business model will ensure a return-on-equity between 20% and 25%. It will ensure a net interest income growth. We have already discussed and shared with you the plan of retail disbursements which is a very large number at ₹ 40,000 odd crores. So in this context I think within the given constraints this is the business model the management to its understanding feels is the better model to follow.

Manish Oswal: And sir what is the update on the buyback status?

Gagan Banga: We have referred it in our board note and our stock exchange filling we had shared. We have referred to SEBI for their feedback as to what is the applicable ratio for a company like ours, is the carve out which has been given for NBF/ HFC also applicable to us as an NBF/HFC holdco. So once SEBI advises us as to what the applicable ratio is, we will accordingly go back to the board and take their view. So right now we are awaiting feedback from SEBI as to what is the applicable ratio. Now the funny thing is that on a slightly lighter note even before we had formerly written to SEBI, the rumor mongering had started that SEBI has rejected our buyback. The SEBI is not in the business of approving or rejecting buybacks and we have not sought any permission from SEBI. All we are sort from SEBI is their advice given their recent circular as to what is the applicable ratio given the fact that they have done a carve out for NBFC/HFC. So in this sort of a volatile environment it is better that the company plays on its strength of capital reserves, liquidity reserves, balance sheet strength and continues to leverage on its other strength of distribution technology etc and follows the business model that we have chosen to follow.

Manish Oswal: I understand what you are saying is but the point is sir, if we are doing buyback is it not better to have a liquidity in this kind of environment and repay the high cost debt rather than doing the buyback?

Gagan Banga: Our debt is not high cost; our debt is moderately priced and the cost of funds much in line with the overall system has started declining from Quarter 1 to Quarter 2. The board felt that given the confidence that it has in the management team and it is best placed to understand what is the truth behind all of these allegations which is led to the price of the stock being where it is, the board felt that if there is a regulatory window which allows buyback it will be an appropriate usage of capital and it will also be a statement of confidence. So given that, I appreciate that we should be preserving liquidity etcetera, but we are having a liquidity position which is covering 12 months of our liabilities and we continue to receive in excess of ₹ 25,000 to ₹ 30,000 crores back from our customers in normal course and now with our accelerated efforts to refinance these developer loans, that ₹ 25,000 to ₹ 30,000 crores is only going to increase. So from a liquidity perspective we are playing to our strength, this buyback will be a small loss of liquidity, but from a confidence perspective it is an investment which can reap very significant returns for our stakeholders.

Manish Oswal: Lastly, very quickly is there any timeline for this buyback, when can we hear the last word?

Gagan Banga: I would not want to second guess the regulator; they will have to refer back to their circular and the workings of that circular. I cannot really comment on how long or how short will the regulatory feedback take, and I would not want to second guess the regulator for when can we get their feedback.

Moderator: Thank you. The next question is from the line of Divyesh Mehta from Investec Capital. Please go ahead.

Divyesh Mehta: I want to know the trend of the gross Stage-II loans for the last four quarters?

Gagan Banga: So gross Stage-II is largely stable between March to September on a days past due basis. On a risk perception basis, we continue to add and delete loans, but on a days past due basis our

Stage-II has remained largely stable and as I shared with you our Stage-III assets have marginally declined by about ₹ 50 odd crores between Quarter 1 and Quarter 2.

Divyesh Mehta: Can you give Stage-II in percentage terms at least for this quarter?

Gagan Banga: I can come back to you give me five minutes.

Divyesh Mehta: The next question would be if you can give me the slippage and recovery numbers for the last two or three quarters or even this quarter?

Gagan Banga: The total NPA was ₹1,662 crores which is now standing at ₹ 1,611 crores.

Divyesh Mehta: There is one last question if you can give me the breakup of non-housing loans what is in there?

Gagan Banga: Non-housing loans will be a combination of LAP loans and the developer loans.

Divyesh Mehta: Any percentage if you can share in that?

Gagan Banga: It is roughly split equally.

Divyesh Mehta: Can you share the number of developers in that book if possible?

Gagan Banga: The number of developers will be close to about 100 developers.

Moderator: Thank you. We move to the next question is from the line of Gurpreet Arora from Aviva India Please go ahead.

Gurpreet Arora: My first question is could you quantify the bond buyback which you have done in the last quarter?

Gagan Banga: In the last quarter we would have done about ₹ 1,500 crores of bond buyback.

Gurpreet Arora: And what is the path for the remainder of this year, what plans are there?

Gagan Banga: So we will continue to buyback every quarter. At the start of every quarter, whatever is due is for the rest of the quarter. So we have already offered to buyback everything which is due up until December. In Q2 the total buyback that we did was ₹ 3,677 crores and we had also made repayments in normal course of about ₹ 1,321 crores so we did a total bond repayment of roughly ₹ 5,000 odd crores.

Gurpreet Arora: So till December would you have any ballpark figures available?

Gagan Banga: So whatever is due for December is I think already been bought back. Some ₹25-₹ 50 crores maybe remaining, but everything else has been bought back.

Gurpreet Arora: My second question is if we can qualify, I mean any exposure to group and related parties if you can state that?

Gagan Banga: Another very big silver lining of this crisis of the last 12-13 months is that be it for our initiatives of the proposed merger with the bank or the overall deleveraging exercise that Indiabulls Real Estate had already started. If some of you may have followed the stock exchange filings made by Indiabulls Real Estate, from a net debt position of approximately ₹ 10,000 crores, it is now sitting on a net debt which is close to zero and it has repaid a lot of its lenders and the residual lenders will also be repaid through the course of the next 60 days as it receives the balance fund from what it has sold to Blackstone and another sale transaction. So from a group exposure perspective if they have no borrowings, they cannot have borrowings from us. Similarly Indiabulls Ventures and its subsidiary Indiabulls Consumer Finance is sitting on debt-to-equity which is not even 1:1 and it has access to quite a bit of bank borrowings, securitization program, etc., Its entire securitization program is already running with seven different banks. So both these companies on a standalone basis are quite strong. Indiabulls Real Estate with a net worth of just under ₹ 5,000 crores is practically a zero net debt company and Indiabulls c Consumer Finance with a net worth of again around ₹ 5,000 crores is not geared even 1:1. Even at the promoter level, the promoter was completely debt free earlier in the calendar year, the promoter had also released pledge for all the shares and as we speak the promoter is completely debt free. In order to support Indiabulls Real Estate, the promoter has even bought out an asset which is based in London and the filing for the same was made late week. So I hope that answers your question.

Gurpreet Arora: Next question I wanted to understand where we are in terms of OakNorth Last call you mentioned I mean this is a fairly liquid investment they are private equity investors who can take the stake anytime, but considering that I am assuming we are more focused on the India business and OakNorth has always been investment for us, so why are we not I mean monetizing or what are our plans over there?

Gagan Banga: It is also an investment which is done exceedingly well for us. So it is an investment where we had put in a $ 100 million and that investment has already delivered us returns which are about six times in a span of four years. So in four years it is an investment has done 6x and the underlying bank is the fastest growing bank in all of Europe. The expectation is that investment continues to do well so we are not a desperate seller there is nothing in our India business which requires those monies as of yesterday. We have always spoken about our OakNorth investment as being a buffer and that buffer is estimated on the basis of where GIC and SoftBank had made their investment. So it is that kind of buffer which is available, should we need that buffer we will definitely use up that buffer, but buffers are supposed to be kept as buffers. So there is no desperate transaction happening. We do keep getting reverse inquiries from both sovereign funds and private equity funds for that transactions. So on the basis of these inquiries; we are pretty confident that a transaction can happen pretty quickly. Some of our existing shareholders are also shareholders of OakNorth Bank and they are also interested in an up in their stake there. So through all of this, one is confident that it is a reasonably liquid investment. We will take that call as and when we feel there is a requirement otherwise which has made you six times and is continuing to grow, it does not have the headwinds that Indian finance businesses have. We should allow it to continue to grow and ride along with that.

Gurpreet Arora: I take your point fully Gagan my only thought here was that whenever we undertake any such transactions I mean regulatory approvals and others and cash coming in might take a lot of time. I mean would we want to wait for the necessity, or would we want to strengthen the balance sheet that was my only thought here?

Gagan Banga: From a regulatory perspective in terms of Bank of England, PRA and all of that those approvals are in place. So we do not have to wait for regulatory approvals for being able to undertake any such transactions. Those approvals are in place. That said, we will continue to be watchful of what does our business require and when is the appropriate time to liquidate, much like you know you give us, as a stakeholder, the flexibility of making this investment in the first place. All we require is that the Board and the Management be also given the flexibility of when to liquidate it. At this point in time we feel that the investment is doing extremely well and our business here is also not requiring that buffer which is evident from the NPA track. Now on the NPA track, leave aside whatever is going on in the real estate industry, from a noise point of view, what has to be appreciated and should be appreciated by any financial analyst is that balance sheet which has gone down by 28% is doing well and this is despite the fact that in our developer loans, we have continued to recognize stress proactively. I was looking at a note where someone was talking about developer loan of another housing finance company being at 2%- 3%, you know our developer loan NPAs are much higher than that and despite that because of the provisions that we have been creating over years, the overall net NPA are all of 1%. So we have been proactively recognizing NPAs, we are extremely mindful of the stress in the real estate industry. We will continue to make provision. At this point in time we would want to keep buffers ready and handy. I do not think there is any extreme sort of situations which requires us to dip into buffers. Our portfolio is very seasoned, these four projects are extremely seasoned, and we have not really grown the developer book for a long time. So the portfolio has the underlying projects have seasoned which is why despite a credit market where if there is a worse name or a worse industry than NBFC, it is real estate. Despite that we have been able to get so much of our portfolio refinanced because of the underlying quality of the projects. So given all of this I think we will as management continue to be proactive in recognizing developer loan losses, I continue to provide for them and our earning people our PPOP power is strong enough right now to be able to continue to provide for this there is no immediate risk that our earnings will go for a toss or we need to supplement this through extra provisions.

Gurpreet Arora: My last question as you were answering to my previous questions also now since the promoter stands pretty deleverage across businesses and I think promoters long back had made the FSI or lending business as its prime business, is there any discussion or thought of promoter raising stakes in the company?

Gagan Banga: So I think the promoter has to calibrate his choices between what he needs to do for his individual businesses and their stability. In the immediate term the promoter has just pumped in money into the real estate business and it is a significant investment to kind of protect the real estate business from any outcome that may come from Brexit or anything of that sort and he has made an investment of about ₹ 1,800 crores into that business let him digest that once the real estate business is completely debt free it will require no further support. The other business is already received large amount of capital from the promoter over the course of the last two years. So at some level it is now the turns of Indiabulls Housing to also get that maybe not through a primary issuance, but more from a secondary market support. The promoter in the past has always routed back all the dividend that he has received from all the companies into group companies and that practice will just continue.

Moderator: Thank you. The next question is from the line of Ashwinder Bakhshi from Bearing. Please go ahead.

Ashwinder Bakhshi: Just a couple of questions one have you had recent discussions with the credit rating agencies in terms of your negative outlook I mean what are they looking for in terms of resolving it potentially positively?

Gagan Banga: So I think what the rating agencies are looking for is an overall stability in the NBFC environment. As far as Indiabulls Housing is concerned the more specific besides the overall concern around NBFC is clearly because of this P.I.L. there is a concern and they would like to see that going one way or the other and the third thing about the negative outlook would be the nature of our business and how we are so to say rebuilding the business. On the rebuild mode, I think we are well on our way and our presence on the ground from November if you guys will do channel checks has increased tremendously and with every passing day you will find us on many more sides and by the end of November-mid December. I expect us to be back physically on the same number of sides by numbers as it used to be perhaps one and half years ago and what we are very clearly communicated to our rating agencies is that if we are getting so much of money from our commercial real estate portfolio that would continue to be option number one as far as liquidity raise is concerned so that book will continue to run down, retail book will continue to increase. So our ability or our desire to grow the balance sheet in the short term is just not there. It is more measurable financial matrix or operating matrix to be followed is what kind of month-on-month growth do we have in our retail portfolio. Some rating agencies appreciate it, some others may not appreciate it that much those who appreciate that will probably resolve the negative outlook earlier than others. There is a desire as a I said a short while earlier by a bunch of stakeholders that we liquid to raise the balance sheet level management feels that at this point in time the more immediate priority is to become more and more retail and to run down the wholesale book and that will be the area of focus and that is how we are conducting our business. Back in the day one perhaps error in judgment that one made was to run this business this is what a lot of stakeholders would desire in terms of you know this is the more desirable outcome or the market will appreciate this more. I think the better way of running the business is to appreciate what is once constraint and live with that constraint and that constraint could be micro or macro. The micro constraint is the nature of capital available and the cost of capital. The macro constraint is that our bonds markets are not vibrant or deep. So within this the business model that we have chosen is the business model and I live it to all stakeholders to then decide as to how they wish to react to this business model.

Ashwinder Bakhshi: I appreciate that, but can I ask you put the things which are not in your hand which is just a lack of confidence within the NBFC space as a whole. There have been talks about potentially what can the regulator of the government do to improve this confidence. There has been talk about the stress test for example there was also for example the securitization program that was announced in budget, but it peers did not really take off, but can you just give us some color on what measures you are seeing that are already been announced that could come into effect in coming months or quarters or potentially new measures that could help improve confidence in the sector per say?

Gagan Banga: We are in the school which believes that this battle has to be really fought individually and back in October, November 2018 there was a great opportunity for the regulators and everybody else to have perhaps solve this problem for a variety of reason, including that, at that point in time some political opposition that came along that how can you be allowed, a private company like IL&FS and so on. We are where we are and the NBFC crisis so to say persists. In the meantime Indiabulls Housing has gone through a hyper stress test of its own. We applied for this bank merger that required us to go through a lot of regulatory inspections. We were criticized, allegations were made so on and so forth which required a lot of government agencies to come to look and all kinds of inspections are underway, some more inspections may happen. So given all of this, I think on a micro level you know Indiabulls has gone through a hyper stress test. What has to be understood and accepted is that there is a huge trust deficit, firstly for NBFC and secondly for Indiabulls Housing, but where is the trust deficit coming from. I have already explained and detailed and it is in public domain and there have been 12-13 exchange fillings as to what is the nature of cash. Today mutual funds have roughly ₹4,800 crores of investments, in bonds and CP and I will have ₹ 7,000- ₹ 8,000 crores of investment with the same mutual funds, yet they will still sell a bond and tell me that we do not want to sell a bond. We know that we hold more money of yours and we have invested in you, but it is some investors. So in this trust deficit what we have understood is that, this is a trust deficit around our liquidity, this is not a trust deficit around our solvency at 28%-29% capital adequacy. This is the trust deficit around the book and the best way to solve that trust deficit is to continue to de-grow this book as we have in the past. If the book was of poor quality in a scenario where there is no financing available for real estate, the book could not have de-grown to 28% without the NPAs going through the roof and with the greatest confidence here, in front of hundreds of people, I am saying that will be the preferred strategy. So I obviously have the best insight into what is the quality of the book and how I see that getting refinanced. Obviously the book has to be pristine to get refinanced, for someone to pick up my credit. Now that is the best way to solve this trust deficit in my view. This trust deficit will not get solved by looking at Delhi to solve any problem and that is how I am approaching it. We as an industry individually, have made several suggestions and there is still a lot that the government can do if it chooses to and there is always this conflict that the government has between, are we bailing out a private business to my taxpayers money etcetera that is what the government has to take a call. From our perspective, we are very clear that the two operating principles that we have to follow are- grow our disbursements on the retail side and de-grow our commercial real estate book. On both we are making very good progress. On the first, we were holding back all these months, we are not holding back anymore. On the second which is de-growing commercial real estate book within the constraints of the last 12-13 months we have done well and we are only accelerating that process. If we make progress on that I am sure that like I have highlighted and if you review Slide #58 of our earnings update it will be evident that the opportunity is very clear there was a threefold increase in market cap in the period 14 to 17 there will be a similar increase because why will trust not come back if the book is good.

Ashwinder Bakhshi: I am sorry if I missed it but on the PIL you mentioned the opening comments can you share at all? I know the Supreme Court has asked for some follow ups from the government agencies just in terms of timelines is it fair to say this is likely to be a prolonged process or can we expect sort of a quicker resolution to it?

Gagan Banga: So it is not the Supreme Court it is the Delhi High Court. Delhi High Court has done the following. It had originally admitted the PIL. Subsequently we filed a perjury case and what was not appreciated enough was that our perjury application which is usually never admitted was also admitted. So now the High Court is hearing on both the matters together. The next date of hearing which was originally going to be in December has been expedited on our request to the 29th of November. One of the main agencies which has conducted a very detailed inspection on not only Indiabulls Housing, but the entire group has already filed an affidavit on the 24th of October in the court saying that the inspection is nearing its end and they would be filing their observations in the court by the time of the near hearing, that is where the matter is right now. So whoever has been noticed or related agencies will continue to talk to us and continue to take feedbacks. I think that process is largely over but given the fact you know the PIL petitioner had written to so many agencies somebody else may tomorrow decide to get up and ask that question, so be it, and we are very happy. I am quite optimistic that this is not going to be prolonged. This is the matter which in terms of good arguments as I have been advised by my lawyers, can get over into hours and if all agencies either our regulators which have conducted inspections or other agencies have already taken feedback there is no reason why they should not be filing their report. On the facts, we have already put forth our facts loan account which have already been made zero or being added up and totaled up and saying that so many thousand crores of borrowing happened, so many thousand crores of loans were given up. It is quite ridiculous that public records have been ignored just to make 2,000- 5,000 crores kind of numbers. The facts are out there that we have already filed. I am quite hopeful that this should not take very long, but it is eventually the court and I do not wish to second guess the court they will take the time they feel they need to decide.

Moderator: Thank you. The next question is from the line of Eastspring. Please go ahead.

Participant: I noticed that the cash flow projections that you have provided have been revised now, but I would like to find out more about your debt maturity profile, as in how much debt you have maturing in 2020 and how much is maturing in 2021?

Gagan Banga: So that has been pretty well detailed and not only debt which is maturing in 2020 or 2021 a debt maturing over the next 10 years has been detailed. So if you refer to slides 20 onwards, quarterly debt maturity has been given. So in Quarter 3 Fiscal 20, we have 6,400 crores and in Quarter 4 4,000 crores. So for the rest of this year we have roughly 10,000 odd crores of maturities and for the next 12 months we have roughly 20,000 crores of maturity. So just under $3 billion of maturities.

Participant: So what explains the fluctuations as in the difference from the last quarterly report that you provided in the repayment?

Gagan Banga: So there would be some disbursals which would have been made, there would be some buybacks that we would have done or some borrowings that we would have done and on the basis of all three, the maturities would go up and down. So if we have done a borrowing or we have done a disbursal, or we bought back all of those, could either inflate or deflate these numbers.

Participant: So if I want to know what is four year warrant debt repayment maturing, so I am supposed to add up the four quarters of numbers together, is that correct?

Gagan Banga: Yes so on slide 20 if you add up the repayments line which is 6,463 for Quarter 3 Fiscal 20, 4,072 for Quarter 4 Fiscal 20, 4,121 for Quarter 1 and 5,494 for Quarter 2 that will get you the number. Now for example if we have to buy-back something, which was maturing in Quarter 4 then that would reduce the repayment number. So last quarter for example we had mentioned that Quarter 4 Fiscal 20 maturities were ₹ 4,251 crores which have now subsequently been reduced to 4072 crores.

Moderator: Thank you. The next question is from the line of Vipul Kanoria from BlackRock Advisors. Please go ahead.

Vipul Kanoria: So you have actually answered one of my questions on the timeline for PIL, so just two more questions like any plans for directly applying for the banking license in next three to five years for the retail bank may be given your focus and any plans on issuing Masala Bond any time soon?

Gagan Banga: No, we would first want to as I mentioned in my closing remarks, we would want to first retain back the pinnacle of housing finance. We had very successfully built a large the third largest it is still the third largest housing finance company in the country. Unfortunately, because of whatever has played out for the sector and specifically for us, despite the size there is a dent in the perception. I would much rather in the near to medium term focus on retaining the pinnacle of housing finance, building back the trust and then only looking at it structurally if there is any change that the company wishes to do or not do. So for right now, we are completely focused and extremely confident about the housing finance business, the opportunity and about this new business model which allows me to offer a loan across the entire spectrum. So I used to have a cost income constraint to go into Tier-3/Tier-4 locations which is a very profitable business to do both for the MSME segments as well as allowing the small homes to be purchased there. You know it is a very large business opportunity. We could not do that earlier with the technology platform that we have built. We can go out there in an efficient manner to do what you will start noticing from next quarter onwards is that management has also invested substantial time over the last two months to rationalize our cost income ratio further. It is already the second lowest cost income ratio in the industry, and it will continue to trend down at a very hasty place. This is a lot of consolidation that we are doing on the back of technology, the senior management is foregoing a lot of benefits given the fact that the business instead of growing has degrown. So in that light I think we are extremely poised to cover one end of the spectrum and through the co-origination model we can also focus on covering the most prime customers who otherwise we could not have catered to given our cost of capital. So since we can cover the entire spectrum, since the core of the business is stronger than what it was or has ever been our capital adequacy is the highest that it has ever been in the last 10 years or so. I think we will first climb back to the pinnacle of housing finance and then see where it goes. Again on a balance sheet growth basis, the management is not really focused on that. What we are fully focused on is making sure that our disbursements get back to ₹ 3,000 odd crores a month and for that whatever resource planning we have to do does not include a Masala Bond issuance right now. It actually does not require any sort of bond issuance right now. So we will focus on securitization onward lending and all of that and repayments to be able to finance our ₹3,000 to ₹3,500 crores of disbursements per month that we are planning to get to in over the course of the next few months. So it is not that in November I am going to do ₹3,000 to ₹3,500 crores of disbursements, but by March I hope to get to that number.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Can you please provide the breakdown of AUM and disbursements by segments that are home loans, loan against property and corporate loans?

Gagan Banga: So we have disbursed roughly about ₹ 7,000 crores last quarter of which close to about ₹ 4,000 crores was between home loans and LAP and ₹ 3,000 crores was for construction finance projects. The loan AUM breakup is available in the deck.

Subramanian Iyer: And how does the retail components split between home loans and LAP both on the AUM as well as disbursements?

Gagan Banga: So it is there on the deck and the AUM on disbursement we had about ₹ 2,000 odd crores of home loans and ₹ 1,800 crores of LAP.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly in terms of since the petition is admitted if you can just highlight the scope of the investigation and how detailed and intensive the investigation has been compared to when we had earlier put ourselves to the voluntary inspection because there have been lot many allegations since May, so is the probe as intensive and detailed as it was earlier?

Gagan Banga: So there has been no specific probe as an outcome of the PIL because we had subjected ourselves to a merger. There was anyways a very detailed inspection being conducted by various departments including RBI, NHB, MCA, etc., all of those agencies have come and inspected. If there was any sort of a concern around asset quality or any impact on our financial numbers, then our numbers today reported for as of September 30th would have looked very different to what we are looking right now. We have actually filed with the stock exchanges that the management has reviewed the entire PIL etcetera and to the stock exchanges we filed that we feel that there is no material impact possible on the financials of the company. So this is not there be an oral statement that I am making on an investor call. This is the actual stock exchange filing which I have signed off and presented to formerly to the stock exchanges. So just bear with me for 30 seconds. So basis the PIL there is no more intense or less intense scrutiny process. What happens generally is that this whistleblower will, starting from the Prime Minister's office to every possible agency under the sun, copy them and then somebody who had perhaps not been party to this our inspections etcetera may now start asking us questions or anything of that sort may happen. It is the same set of questions; we cannot give different answers for the same set of questions. The questions are very simple there are five groups that they have mentioned, three of those group we do not even have any loans outstanding to. The other two groups never made any investments into our promoters company. So the case is an open and shut case. People can continue to go round and round, continue to make fresh allegations. For the last 13 months I have been hearing that there are linkages between us and the private sector banks. Reserve Bank of India has come in, conducted inspections on that private sector bank and not found anything, but the same allegations are racked up again. Our promoter has no borrowings from that private sector banks, yet those allegations are made. So these allegations are pretty easy, in case if one is allowed to present data, annual reports, stock exchange filing etcetera. Unfortunately they have been ignored because it is so easy to prove this. One does not feel any intensity; otherwise one may affect intensity if one was in an uncomfortable position.

Kunal Shah: And just in terms of maybe post the inspection, the outcome in terms of maybe the proceedings of the merger that was adverse in terms of RBI denying it, so in terms of year maybe how to gain the confidence or the comfort that okay, maybe post this inspection the probe definitely we have been quite transparent in terms of call, but what kind of confidence would you want to provide, that okay things might not be so adverse whenever there is the judgment out there in say November or December?

Gagan Banga: No, I am quite confident that what the judgment can be as a worst case, the judgment can be that agency A, B, C to look into it; they have anyways looked at it. One of the agencies has anyways said that we have conducted a detailed inspection and they are on record. It is a public document where they say that they have received several complaints including this P.I.L. and they have looked into it and they are about to conclude their inspections. The court in the worst case in the worst case can tell these agencies to look into it they have already looked into it the facts are there much like I had invited any analyst to come to my office to look at the liquidity position of the company with proofs of de-mat statements and bank statement and invite anyone to come and my team will run you through as to how ridiculous these allegations are. We made a front page ad and bought out the facts of these allegations. So from a concern point of view I do not think that at least from our perspective there is any operating concern and I go back to the point that I was making that organization such as us and stakeholders who are mature appreciate that first generation companies have to go through that. This will pass in 30, if not in 30days it will pass in 60 days. What has to come through for the company is asset quality and on that we are being proactive in making provisions, we are being proactive in taking reposition and making sure that the assets gets sold, we are being proactive in working with wherever we see a project getting a little weak to get a development partner so that a stronger brand comes in and sales happens. We are being proactive in refinancing; we are being proactively in getting equity. The first Chinese investment of all places from China Fosun has been made in India is also on a project which is financed by Indiabulls. The first investment that QIA had made in India was on a project which was mortgaged to Indiabulls which was several years ago. When Brookfield made his first investment that was on a project which was mortgaged to Indiabulls so that is the quality of the portfolio which is there. You know Blackstone made a very material investment that was on something which is mortgaged to us. So that is the work to be done so I go back to the point that I have been making again and again is what management is today seized with is making sure that our developer book gives us liquidity the asset quality which we are extremely mindful of sustains at a certain level and we have to be proactive through several measures to make sure that this happens. If the underlying book is behaving which it is behaving today despite a 28% contraction in the book back in the day people use to tell us that you will be trading at a discount to x, y, z because you have grown at a certain pace and the book is not seasoned. Now the book is more seasoned than anybody else on the street. The liquidity level is higher four times than that of anybody else on the street or size. The capital adequacy is higher by 1,200 basis points than the average of our peers. So all of this on all those numbers .They can be no argument they are balance sheet numbers the portfolio has to behave the management is fully seized and the management would like to give you the statement with all confidence that we are working to make sure that no unforeseen event happens in case of an unforeseen event which management does not expect to happen we have buffers and we will dip into those buffers we are not hungry for reporting profits and getting a pop on the stock tomorrow morning. We have proactively created provisions we will continue to use our buffers to create provisions. The kind of levels that the market is trading us at it seems to believe that, you know, all of our net worth is wiped out which is not the case, and which should be evident after two days earnings. I think today's earnings are in that sense monumental.

Kunal Shah: Generally in terms of the overall on book of ₹ 82,000 crores so what would be the yield on that in order to understand the sustainability of this revenue pool?

Gagan Banga: Yields will be in the handle of 11%. Total yield is 11.93% I do not have a split between on and off balance sheet you know in your interactions with the investor team they will anyways give it to you.

Kunal Shah: And in terms of the breakup of this book would be similar to the AUM 66:17:17, how would that be?

Gagan Banga: No, it cannot be similar it will have obviously more slightly more wholesale loans than the overall AUM and the endeavor is to make it very similar by in the next few months.

Kunal Shah: And lastly in terms of the breakup of this liquid assets which used to give earlier into say fixed deposits and all, so maybe ₹ 21,000 how is it?

Gagan Banga: I will give it to you right now one second. So our current account balance and fixed deposit is ₹ 12,000 crores, mutual fund investments are ₹4,500 crores, sovereign bonds are ₹4,276 crores, corporate bonds are ₹ 455 crores, investments in banks ₹199 crores.

Kunal Shah: And how much would be the overlap between the borrowing and this investments in terms of the players so maybe FD of say ₹ 12,000 crores and against that there would be borrowing from banks as well and so is that the case?

Gagan Banga: It will be an 100% overlap in terms of I will only borrow from banks in mutual funds largely and I will have to invest with banks and mutual funds only that is the interconnecting.

Kunal Shah: So names would also be similar maybe I would have borrowed from say one mutual fund of the investment?

Gagan Banga: So like I have a ₹7,000- ₹8,000.

Kunal Shah: I was just saying overlap in terms of the names so say mutual funds so we have borrowed and we have maybe the investments out there as well, so would there be more or less a similar kind of overlap?

Gagan Banga: We have an investor repayment trust where we put all our monies to pay repayments in advance and then that repayment trust manages that, that has a mandate to invest in the top 5 mutual funds 20% each. So similarly our investment policy would have caps in terms of per mutual funds how much we can keep and so on and so forth. So given that it is a pretty well spread portfolio. Now I will have a very large borrowing from let us say the number two, number three public sector bank, but I do not have fixed deposits there, but I will have fixed deposits with maybe the fifth largest public sector bank where the borrowing will be relatively small. So I have to be opportunistic to minimize the negative carry and whoever is interested in maximizing their term deposit base and give me a better yield is where my term deposits will end up. So we will conclude this call now and I thank you again for joining us and look forward to speaking to you next quarter after quarterly earnings. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Indiabulls Housing Finance Limited that concludes this conference call for today. Thank you for joining us you may now disconnect your lines. Thank you.