"Indiabulls Housing Finance Limited Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Indiabulls Housing Finance Limited's Q2 FY22 Conference Call hosted by Investec Capital Services. We have with us from the management, Mr. Gagan Banga - Vice Chairman, MD and CEO; Mr. Ashwini Hooda - Deputy Managing Director; Mr. Sachin Chaudhary - Chief Operating Officer; Mr. Mukesh Garg - Chief Financial Officer; Mr. Ashwin Mallick - Head, Treasury; Mr. Ramnath Shenoy - Head, IR and Analytics; Mr. Veekesh Gandhi - Head, Markets and Mr. Hemal Zaveri - Head, Banking.

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. Gagan Banga - Vice Chairman, MD and CEO. Thank you and over to you, sir.

Gagan Banga: Thank you, Aman. A very good day to all of you and welcome to the earnings call of quarter 2 fiscal 21-22. I hope all of you and your families are doing well and are safe.

As we enter into the 20th month of the COVID era, the worst public health crisis of our generation, it is heartening to hear from various health experts that India has reached the endemic stage of COVID-19 pandemic. As vaccination has gathered pace and all of us have adapted to the new normal and learned to live with the virus, the threat of third wave seems to be receding.

The rebound in the country's economic activity has gained traction in the last couple of months facilitated by the ebbing of infections and near total lifting of restrictions with the sharp pickup in the pace of vaccination. Various domestic as well as international rating agencies have indicated that they expect India to post strong economic growth in the coming quarters, supported by favorable economic policies of the Reserve Bank of India, as inflation is expected to remain within RBI's comfort zone.

The resurgence in the real estate sector continued its momentum with residential projects across major cities achieving record sales during the quarter. Housing sales in quarter 3 CY21 recorded whooping 92% year-on-year increase in the top 8 Indian property markets with strong sales being recorded across price segments. Property registrations in Mumbai, India's costliest property market recorded 10-year highs in September and October 21. Overall, residential sales in top 8 Indian cities exceeded the pre-pandemic 2019 average quarterly sales by 4%. As per the Knight Frank report, unsold residential inventory has come down sharply. Markets such as Chennai, Hyderabad and Calcutta have even seen prices increasing marginally during the quarter. Real estate developers too have regained confidence with residential project launches in quarter 3 calendar 21 recording 90% Y-o-Y increase with micromarkets of Hyderabad, Ahmedabad and the National Capital Region showing year-on-year growth in units launched of 650%, 193% and 119% respectively. Overall, residential unit launches in top Indian cities in quarter 3 calendar 21 exceeded the pre-pandemic 2019 quarterly average by 6%. This coupled with just 11% mortgaged to GDP penetration in India presents a beautiful opportunity for the company to grow from here.

Even the commercial office market which had been in doldrums ever since the beginning of the pandemic on account of work from home practice adopted by most companies has started to see a gradual recovery in this quarter. Quarter 3 calendar 21 has been the strongest quarter of the year with 12.5 million square feet of office space transacted which is 168% growth on Y-o-Y terms and which is 83% of the average quarterly volume transacted during 2019, the pre-pandemic year which incidentally was a record year for office transactions in India. Among the larger markets, transacted volumes in quarter 3 calendar 21 in Bangalore and Chennai have even exceeded their 2019 quarterly average. Thus one can now say with full confidence, and this is being echoed in commentaries of various industry experts, that recovery in the country's real estate market is strongly underway. I firmly believe that the next decade will be extremely good for the real estate sector in the country.

I will now cover the headline numbers for the quarter. I request you all to refer to the earnings update that has been sent across.

Please firstly refer to slide 3;

As at the end of September 21, our loan book stood at Rs. 64,062 crores with assets under management at just over Rs. 77,000 crores. We now, from second half of fiscal 22 expect the AUM to stop degrowing which it has been and to stabilize and eventual growth of AUM to begin from fiscal 23 in line with the guidance given earlier. Our capital adequacy at the consolidated level stands at a comfortable 31.2% of which Tier-1 capital is nearly 25%. Our net debt to equity has further moderated to just 3 times. Profit before tax for the quarter was Rs. 390 crores registering 5.5% quarter-on-quarter growth over Rs. 369 crores of profit before tax in the last quarter. Profit after tax came in at Rs. 286 crores which is 1.7% quarter-on-quarter growth. The company's profitability has not stabilized for the last 6 quarters and is showing a trend of growth quarter-on-quarter.

Post the change in our rating outlook to AA with stable outlook by CRISIL as well as with ICRA, our incremental cost of funds have also started declining and in the quarters to come should start supporting profitability. Our cost of funds stands at 8.3% with book yields at 10.8%, enabling us to earn a spread on book of 2.5%.

Moving onto now slide 4 please;

Here, we have detailed our performance on various important financial metrics. The management's unwavering focus continues to maintain a fortress balance sheet through capital adequacy, liquidity and asset quality. In terms of capital adequacy, we are one of the best capitalized housing finance companies within our peer set with capital adequacy of 31.2%. We are also amongst the least geared. The strength of our balance sheet has resulted in the revision in our credit rating outlook. The company is now focused on getting an upgrade to AA+ and is taking all strategic and operational steps to try and ensure the upgrade in the coming quarters.

Our asset quality has shown great resilience despite a period of acute macroeconomic stress brought about by the COVID-19 pandemic and the resultant lockdowns. Our gross NPAs stand at 2.69% down from 2.86% in the previous quarter. We had strengthened the balance sheet to effectively tackle all potential future contingencies by shoring up our provisions on balance sheet to Rs. 3,153 crores, which is almost 4 times of the regulatory requirement and equivalent to healthy 5% of our loan book and 152% of our gross NPAs. We have provided 4 times of regulatory requirements, 5% of our loan book and 152% of gross NPAs. This high provision cushion places our portfolio in a strong position to negotiate any macroeconomic uncertainty stemming from the second wave or a possible third wave.

Our stage 3 provision coverage, which is specific provisions towards stage 3, stand at 43%. Net NPAs are down to Rs. 1,179 crores from 1487 crores same quarter last year. Amongst the various regulatory forbearances given by the Reserve Bank of India and the government of India, we were allowed to restructure loans, we have had to restructure loans of a paltry Rs. 96.7 crores, equivalent to only 0.15% of our loan book, under the restructuring framework 1.0 and 2.0 combined. Under the ECLGS framework, we have disbursed top-up loans of Rs. 176 crores till the end of September 21. Our collection efficiency has also normalized to nearly the pre-COVID levels. Thus our strong provisioning pool, seasoned retail portfolio, practically no restructuring, strong demonstrated recovery capabilities will ensure the asset quality and gross NPAs should remain in a range of 2.5% to 3.5% and credit cost should come in a range of 100 to 125 basis points for the full year, as has been guided earlier.

Moving onto slide 5;

Here, we have given an update on the elements which are at the core of our retail asset light model. Over the past 2.5 years, we have been on a path of consolidating our wholesale loan book, largely through loan sell down transactions and structured transactions. However, as was highlighted in the last investor call, with the uptake in the real estate cycle, we are witnessing strong sales traction in residential real estate projects of our wholesale borrowers and hence are witnessing strong collections in escrow accounts of these projects. Having spent over a billion dollars, on a gross basis, on construction to ensure that the projects of our wholesale borrowers get completed, now we are at a situation where most of these projects will get completed over the next 6 to 18 months, which from a consumer perspective is a sweet spot, since consumers are looking to buy completed or near completion projects. Thus, going ahead, we expect in line with what we have seen in quarter 2, wholesale book reduction will be more via the normal self-liquidation route, that is through sales and collections.

Over the past 3 quarters, we have continued to expand our branch network in Tier-3 and 4 towns and we have already in this year opened around 18 technology enabled smart branches which puts us well on track to add around 50 branches in Tier-3 and 4 cities by the end of fiscal 22.

Moving onto the most important aspect of our strategy in which we have also made the most considerable progress, which is the asset light model. While we have been speaking about the asset light model over the last 18 months and we had a lot of naysayers,we were focusing on ensuring that each relationship that we enter into has a strategic objective being fulfilled by Indiabulls Housing for our partner and we are confident that fulfilling the strategic objective while presenting a portfolio with sustained asset quality will make the model highly self sustainable. This has enabled us to enter into certain key relationships with specific banks and financial institutions. I am happy to update that just in the month of September, which is in one month, i.e 30 days, we were able to under the co-lending model disburse retail loans of Rs. 325 crores with various partners. Since then, disbursals have continued to gain further momentum month on month and the uptake being witnessed in the residential market should allow us to grow this to about Rs.500 crores by December and Rs. 800 crores, this is just co-lending and not the overall lending, by March 22. All of our co-lending relationships are now in place with 7 banks and financial institutions namely HDFC Limited, Central Bank, Yes Bank, Punjab and Sind Bank, Indian Bank for sourcing home loans; RBL Bank, Central Bank, Canara Bank and Punjab and Sind Bank for sourcing secured MSME loans. These partnerships enable us to cater to a wide spectrum of customers across geographies, ticket sizes and yields and thus go behind the entire market which was not a scenario even when we were AAA rated. So, this is the widest product spectrum that we have ever had in our history. We are thus firmly on track to disburse over Rs. 1,000 crores of retail loans through co-lending in the current quarter, which is quarter 3 fiscal 22, which will represent roughly one-third of our retail disbursals.

I will now cover the third pillar of liquidity and ALM management in some details;

On slide 8, we have given the details of the monies we have raised since H1 fiscal 22. We have raised a total of Rs. 12,186 crores through various institutions, across instruments and tenures. This includes Rs. 2,800 crores of 5-year term loans, around Rs. 4,400 crores of loans between 1 and 3 years. We also did a public issue of bonds for the first time after 5 years raising, around Rs. 800 crores, which amounted to almost 4x of the base issue. Further, through securitization and loan sell down, we have raised around Rs. 2,700 crores. In addition to this, we raised Rs. 1,500 crores of equity and quasi equity capital through FCCB issues and sales of our remaining stake in OakNorth Bank, where we exited completely earning an IRR of 48%

over our investment period of 6 years. Our funding program, as is evident from the data I just shared with you, is on track and is going strong and is in line with our plan of stabilizing AUM in the second half of fiscal 22 and AUM growth from fiscal 23 onwards.

As at end of September, Indiabulls Housing had a liquidity buffer of over Rs. 10,000 crores, which split between unencumbered bank balances of over Rs. 8,000 crores, bank deposits of around Rs. 1,500 crores, government securities of Rs. 500 crores and other liquid bonds, mutual funds, etc., of Rs. 760 crores. We continued to run a liquidity buffer north of 15% of our loan book which is our stated goal.

Moving onto the topic of ALM management;

We had so to say a hump in September 21 which had caused a lot of naysayers in the market to practically write us off with a large bond repayment of around Rs. 7,000 odd crores plus regular bank loan repayments. Not only have we successfully repaid these moneys through proactive management of the ALM, we in advance repurchased around Rs. 4,500 crores of bonds by May itself. We have moved ahead and as we shared last quarter, we have continued with the voluntary creation of the reserved fund for the next so to say large repayment of $350 million equivalent in May 22. We have already contributed 50% into this reserve fund and we will contribute another 25% next quarter, thereby in advance putting in 75% via the lenders repayment trust. Whatever we are doing, we are doing in accordance with the extant RBI guidelines. We have fully hedged the principle portion of these bonds, that is Rs. 2,730 crores of the total liability which is going to due, we will have Rs. 2,047 crores of reserve fund created by January. This proactive management of ALM underlines the strong capital position and comfortable level of liquidity as well as the management mindset of prioritizing balance sheet strength and liquidity along with ALM management over everything else. I am sure it will provide comfort and confidence to all stakeholders and further strengthen the company's credentials. Our ALM is published on slide 7 and we have provided quarter wise detailed ALM on slides 23,22,to 27.

Moving onto slides, now 13 and 14;

During the last quarter, we had laid down objective targets for the company over the next 10 years to improve upon its operations such that we adhere to ESG best practices. I am happy to report that we have started taking operational steps within the organization as well as partnership with external parties towards achieving these goals. To enable all stakeholders to do an independent review of the company's sustainability initiatives, we have enabled a link on the company's website which details all the steps being taken by the company towards achieving its ESG objective. We will continue to update this on a quarterly basis and also provide to you a third party opinion on the exact status of where do we exactly stand on our various ESG objectives.

That concludes the update for the quarter.

On the whole, we feel that these are exciting times to be operating in the real estate sector which is now at the cusp of a decade long upcycle. The Indian economy is on the path of resurgence and the real estate industry with its links to about 250 ancillary industries and being the second largest employment generator has a huge role to play in India's growth story. As an important cog of the financial system and with its ability to reach out to a vast cross section of the population and diverse geographies, NBFCs assume a very important role in ensuring an efficient financial intermediation system which facilitates adequate credit flow, especially at the last mile to each and every segment of the society. The regulator has recognized the role of the NBFCs and as a measure to effectively regulate NBFCs, RBI over the last 18 months has overhauled the regulatory framework for NBFCs. As per our understanding, the regulatory overhaul is largely finalized now. Prima facie, we don't expect the regulations, as we read them, to have any onerous effect on the operations of the company and believe that the newly introduced regulations are several steps in the right direction. We are in the process of adopting and adapting our operations, for example, we are appointing joint auditors, moving on from a single auditor, we are also, along with Grant Thornton, who would be the internal auditor, building a new internal risk-based framework. On the technology side, we have started the process of migrating to a core banking solution, which we will continue to run as a parallel initiative to the various user interface initiatives we have been taking over the last 5 years. We have already started a process where there is a direct transfer of data happening on a monthly basis to the regulator in line with banks. All of these changes which have been brought about by the regulators are welcome changes and in the long term, we will strengthen all NBFCs and specifically Indiabulls Housing's operations.

At this juncture, I would like to reemphasize our clear strategic goals, while remaining focused on continuing to maintain a fortress balance sheet and strong liquidity, our strategic goals would remain to continue to grow the co-lending arrangements at our banks to reach Rs. 1,000 crore a quarter co-lending led disbursal in quarter 3. We have already achieved a balance of two third of disbursals of assets on our balance sheet which subsequently get securitized and the balance one third directly as co-lending. The recent RBI regulations around securitization have clearly helped into this end and this would continue to remain number one area of strategic relevance to the company. The second area would remain a focus on now stabilizing the AUM in the second half of fiscal 22, so that we can start growing the AUM from fiscal 23 onwards. That would result in us reaching our targeted ROE of 15% by fiscal 24 while maintaining a spread of 2.5%. We are not a mass home loan player; we would continue to remain focused on our niche segments in both home loans and retail LAP/MSME loans. Now that the tech enabled retail lending platform has stabilized, select members of the senior management team can spare time to use the second half of fiscal 22 to operationalize the AIF for builder and real estate financing in partnership with the global fund. I am quite hopeful that by the end of the second half this will be operationalized such that fiscal 23 onwards, this will contribute as an additional revenue stream which will meaningfully contribute to our return on equity of 15% by fiscal 24. And most importantly, I want to continue with the evolution on the governance front that both Indiabulls group and Indiabulls Housing had started around 2.5 to 3 years ago. You may be aware that the group's exit from the real estate development business is at the very last leg, the founder stake has declined to an insignificant portion percentage now, we have already completed the migration at the board level and now we are taking steps which will further institutionalize the company from a control and management perspectives which will effectively result in a movement where we can say this changes everything as far as Indiabulls Housing is concerned.

To conclude, the management is fully focused to take advantage of these exciting times, the macro is in our favor after a long time. The hard work done by the team makes us extremely ready to take full advantage of this opportunity and I am quite sure that fiscal 23 onwards the growth will come, fiscal 24 we will get to an ROE of 24%. As we pursue these goals, philosophically speaking, as Sadhguru says, 'A day is but a piece of time that lets us live and die, this day let us live and live total' and continuing with this we are fully focused on today, but we are preparing the organization for tomorrow.

Thank you and we are 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 Abhiram Iyer from Deutsche CIB Center. Please go ahead.

Abhiram Iyer: I had a couple of questions if you don't mind, the first one was on, your strategy on running down the CRE book, basically if we look at, say the proportion of the AUM over the last two quarters and this quarter as well, it hardly remains same in terms of breakup between CRE, SME and the retail book, so do you have any guidelines or plans that you have set in terms of goals that this proportion will be reduced on in the future?

Gagan Banga: Yes, at this point in time, you will appreciate that while we have been running down our CRE book, we have also been disbursing a lot of money into that book to get it into the sweet spot where consumers will buy. At the same point in time, we had scaled down our retail disbursals through fiscal 20 and 21 and we started growing them and we have now reached the level where retail disbursals are growing faster than the retail rundown, so these percentages will remain sticky for a little bit, but on an absolute value basis we are looking to reduce the wholesale book by 33%. I think the evident change in these percentages that you are looking out for should be visible from quarter 4 onwards.

Abhiram Iyer: And this 33%, what is the targeted sort of timeline for this?

Gagan Banga: Within this year, so March 21 to March 22 on an absolute basis, we will look to run down the wholesale book by about 33%.

Abhiram Iyer: Sir, second question I had was on the liquidity that you mentioned, you gave a breakdown between cash investments on your book and other bank balances, just wanted to sort of understand the difference between the Rs. 10,000 crores as mentioned here and close to around Rs. 17,000 crores as on the balance sheet, if I look at?

Gagan Banga: That would include investments which are not liquid, so it would basically include investments which we cannot liquidate on a T+1 basis, so whatever we can liquidate such as G-Secs, mutual funds, etc., we count as liquidity buffers, but if we have invested in an AIF or ARC or in Junior NCDs and all of that, that we cannot as liquidity and therefore those are excluded.

Abhiram Iyer: And the difference in cash and you mentioned it to be around Rs. 8,000 crore available for liquidity, it goes to Rs. 9,700 crore on the balance sheet, but different specifically for cash, could you let us know what is driven by?

Gagan Banga: I will have to check that with my colleagues, Ramnath, could you please?

Ramnath Shenoy: Yes, I can, so the number you mentioned would be about Rs. 10,900 crore Gagan, but when we put in the ALM, both from borrowings and from cash and investments, we have deducted what we have put in the reserve fund, so effectively that is it. So, the Rs. 1,362 crore we have put in the reserve fund already, so in the ALM, we have adjusted that already.

Moderator: Thank you. Our next question is from the line of Craig Elliot from NWI Management. Please go ahead.

Craig Elliot: Especially the quarter's balance sheet aspect, there has been tremendous progress over the last year and year and a half. Looking forward, could you please provide a little bit of more color on this new tech enabled mini branches what it seems like there have been areas that are unreserved, underbanked**,** some of the advantageable experiences that you are seeing so far with that aspect of the strategy?

Gagan Banga: The basic genesis of our thought process is that while India is going to grow, India is going to grow at least in the near term, it is going to be more of consumption led growth and private CAPEX is missing, private CAPEX is not coming back in a hurry, the government is quite focused on ensuring GDP growth and starting calendar 22 onwards, there are several crucial state elections which will then, after a couple of years, culminate into the national election, so the next 2 to 2.5 years there is going to be heavy emphasis on GDP growth. Given that we strongly believe that the government will have no option, but to continue to spend on infrastructure and as it does continue to spend on infrastructure, we believe that the pace of growth of smaller cities will be far greater than the pace of growth of Mumbai or Delhi. Seeing that the historical issue as far as smaller cities is concerned is that if you run high cost operation, despite the pace of growth, just the number of loans that you can do in those cities does not make economic sense unless you run very low cost operations. So, we have been able to over the past few years digitized the entire journey for our employee as well as for the customer from a loan processing perspective. We have been able to reduce the running cost of these branches to a mere Rs. 100,000 a month, so these are small 150 square foot branches with 2 people and nothing, we basically source and the entire processing happens elsewhere, thus we ensure that there is no risk of fraud, there is no credit dilution, but at the same point in time, our cost to income remains within control and we are able to penetrate into territories which otherwise would not be making economic sense to be catering to, but given the fact that a lot of money today is being spent on roads, on power, on electrifying more and more locations, on making sure that manufacturing is coming to India, a lot of these locations are seeing much heightened economic activity as compared to the past and we are trying to basically make the most of it. That is broadly the framework with which these cities or the small towns are being targeted and branches are being opened and businesses happening here. I hope I clarified you.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Sir, in co-lending model, if I understand it correctly, you have a certain interest rate and the co-lender that is HDFC, has a certain rate of interest rate and the borrower gets the blended interest rate, is that understanding right?

Gagan Banga: That is correct.

Pranav Tendulkar: So, if our interest rate and HDFC Limited or other co-lender interest rate is same or are we charging more interest rate?

Gagan Banga: So, our revenue streams are the following. We will charge a higher interest rate such that our rate will be higher than the blended rate and significantly higher than the rate of our partner, that is one revenue stream. So, the spread that we make on our rate versus our cost of funds, that is one revenue stream. We will typically get the processing fees. For around 92-93% of our borrowers, we will be able to sell to them at least 1 insurance policy and in due course of time, we will be able to sell them at least one more insurance policy to about third within a 2 year cycle, we are able to sell three policies, so insurance, fee income and the spread that we earn plus the 80% which is on our partner bank or partner financial institution,we will be earning a management fee which will range from anywhere between 70 to 200 basis points per year for the residual life of the loan.

Pranav Tendulkar: So, that will take care of cost of operations, collection and everything?

Gagan Banga: Yes, our cost of collections and operations fortunately in a product where bounce rates are in the handle of 5%, 6%, 7% is not that significant, so a large part of that is profit.

Pranav Tendulkar: No, I was thinking that the management fee that will take cost of operations throughout the life because it will be 7-8 years?

Gagan Banga: No, that 70 basis points we get every year, 70 basis points, we don't spend 70 basis points every year or 200 basis points every year.

Pranav Tendulkar: Can you think in the regulation it will stop us from securitizing our 20%?

Gagan Banga: No, we cannot securitize our 20%. That 20% has to remain on our book.

Pranav Tendulkar: So, sir, if I do very rough maths, the ROE of this model will be very high, right on this case sir?

Gagan Banga: The ROE of this model will be high; it has to scale up. The ROE of the securitization model is even higher because we are able to do loans to segments that we understand with our specific exposure to self-employed etc., which may not be acceptable to our partner banks without any seasoning and now as you may have realized which is what I alluded to that the recent RBI regulatory changes as far as securitization is concerned has basically done 2 things, one, it has bought Indian securitization guidelines to be at the same level as the most developed market, it has covered each and every type of securitization situation. It has also brought in an element where you can reduce the minimum holding period, you can reduce the minimum retention of risks basis credit rating etc. All in all, for a player like us, the minimum holding period is 6 months, so if we hold a loan for 6 months and then securitize that is the highest ROE and the next highest ROE is to co-lend, so which is why I said of our gross disbursals, we will do that or continue to do that in a ratio of two third and one third. Two thirds that we originate hold it for a minimum holding period and then subsequently securitize. The balance one third we co-lend which is from this current quarter expected to be at a run rate of Rs. 1,000 crores growing steadily and then on a blended basis between these two products with a little bit of help from the real estate platform that we are setting up, we should be able to get to 15% ROE by fiscal 24.

Pranav Tendulkar: And our target is Rs. 2,000 crores per month eventually that is the least?

Gagan Banga: Yes.

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

Rishikesh Oza: Sir, my first question is, how should disbursement numbers look like in H2 of FY22 and going ahead in FY23?

Gagan Banga: We should be looking at doing about Rs. 4,000 crores of retail disbursals in quarter 3 and around Rs. 5,000 crores of retail disbursals in quarter 4, so about Rs. 9,000 odd crores is what we will look to do on a gross basis, split two thirds, one thirds between what we will originate to subsequently securitize and one third that we will do upfront securitization.

Rishikesh Oza: And going ahead in FY23, how this will pan out?

Gagan Banga: This should grow by about 30%.

Rishikesh Oza: And also sir, you indicated that the credit cost for FY22 to around 100 to 125 basis points, so if you could indicate what it can be for FY23? Will it be lower than that or?

Gagan Banga: We expect that to be sub 100 basis points.

Moderator: Thank you. The next question is from the line of Mahendra Kanakiya from MK Capital. Please go ahead.

Mahendra Kanakiya: In Q1 concall, Mr. Prashanth Sridhar of SBI MF asked that the Stage-2 plus Stage-3 is almost 35%, seems to be high for HFC and Mr. Banga had answered clearly without any doubt indicated that in order to keep high provisions it is necessary to keep borrower in stage 2 plus 3. Also answering to another caller, Mr. Banga said that we have through this provision paved a very good base for very steady compounding over 8 to 10 years, a provision of Rs. 3,153 crores is four times of regulatory requirement, all this indicate that the management and board have created very high provision which is not factual and truthful, booking of earning is not right and not fair to the current shareholders, company has understated earnings by Rs. 2,364 crores, overstated provisions and understated shareholder equity by that amount, company must restate its financial in factual and truthful earnings?

Gagan Banga: Sir, I appreciate your suggestion, but you will also appreciate that it is the management's responsibility to manage all stakeholders. Shareholders are extremely valuable stakeholders, but we have other stakeholders to also manage which includes rating agencies, lenders, etc., and when management takes decisions and consultations with the board, it is usually done keeping all stakeholders in mind. I would strongly disagree with some of the words that you have used, we are strictly compliant with all of the applicable guidelines and keeping in perspective the fact that we are going through very uncertain times, management strongly believes that having management overlay provisions is the necessary thing to do and therefore we would continue with the practice of having high provisions at least for this period of high uncertainty and which is why we are clearly communicating to shareholders as to what the expected gross NPA range is to be hopefully and we are also guiding as to what the credit costs would be. I am sorry if you felt otherwise, but this is the collective decision of the management and the board in consultation with our auditors.

Moderator: Thank you. We have the next question from the line of Manu Agarwal from HCL Tech. Please go ahead.

Manu Agarwal: Sir, first of all I think the numbers are really good and I really appreciate you guys are creating a road map of 5 or 10 years, that is really appreciable, but I have very specific two questions, one is regarding the court case which Mr. Bhushan has put up against us and why is Indiabulls basically not going for thrashing it and we investors are feeling little bit uninformed about the case? The second is about dividend policy going forward? And third one, higher levels of provisions would never come back to profit columns or what is the policy on that?

Gagan Banga: As far as the public interest litigation is concerned, the public interest litigation as we have informed via the various exchange updates, a combination of several litigations which were attempted against us. Fortunately, the Supreme Court of India has already in a very similar case stated that the matter now stands infructuous since the prayer of the applicants was that our book should get looked into and multiple regulators and other relevant agencies of the government of India have looked into our books including our lenders and have found our books to be satisfactory and prepared according to whatever are the applicable accounting standards and legal provisions. That said, unfortunately, because of the breakout of COVID, the courts for the last 20 months have been only taking up urgent matters and this matter has not come up for hearing. In those 20 months, all of these inspections and audits are over and it would be the endeavor of the management to as and when this matter comes up for hearing to pray to the court to quash the matter since whatever was the prayer of the applicant has already been taken care of. Ultimately, it would be the decision of the court, but given the ruling of the Supreme Court and the fact that whatever there was in prayer has already been without the court having ordered anything, the government departments having taken up these inspections voluntarily and having concluded them, we believe that the matter stands infructuous and that would be the stand that we will have in the court. Moving to your second point, as far as dividend is concerned, you may be aware that as part of the overall regulatory overhaul that the Central Bank has done, it has also now come up with the dividend payout policy for dividend payout regulation for NBFC, so we would be pretty much following that and be in compliance with the regulation. On your third point, as far as provisions are concerned, provisions are obviously there for stability. If at a point in time, the company feels that we are in a situation where we are adequately provided or overprovided and in the near term the risk in the environment has abated, it would be our endeavor to return back to shareholders. We have a 10-year record of having distributed over Rs. 11,000 crores of dividends to shareholders, so it has been the endeavor of management to give back to shareholders as much as we can. So, it would be our endeavor, but at this point in time, it would be very premature and naïve on my part to indicate anything of that sort to happen in the near future given the uncertainties around

COVID, around inflation, around tapering of liquidity and whatever macroeconomic volatility it may cause, these are all big events and for that we have to be prepared with strong fortress balance sheet. That is how we would like to approach the near to medium term. I hope I have answered your question.

Manu Agarwal: Yes, Gagan, quite nicely, just one thing, actually in future if management could really be a little bit more cognizant of the fact that investors are kept in dark about the court hearings and all and if you could let us know what is happening a little bit upfront that would be really helpful.

Gagan Banga: It would be my endeavor sir to do so. I will just take one last question.

Moderator: That is from the line of Kayur Asher from PNB MetLife. Please go ahead.

Kayur Asher: So, I just wanted to understand some qualitative commentary on what has helped us outperform peers on the asset quality front, so incremental stress accretion if you see that has been quite measured, be it via restructuring or ECLGS, so our outperformance have been quite stark so some qualitative commentary around that?

Gagan Banga: Before I comment specifically on that point, the two things that I would shy away from or be very reserved from is one, to think that we used to mistakenly think that banks are our competitors and they are not our collaborators and the other is to continue to compare ourselves to peers, to say that we are stronger or we are better. Every organization goes through its own life cycle on various fronts and therefore what we are doing, we are probably benefiting from certain things that we have done in the past and certain investments that we have done in the past. At this point in time I think what has helped us is that through the entire liquidity crisis, we started with a strong liquidity buffer and that enabled us to continue to pump in liquidity into various assets which were under construction and thus when the sale cycle picked up these projects are nearly ready or are seeing progress and therefore the collections are efficient and therefore the developers are not seeking restructuring. That is perhaps something which is helping us, but I am in no position to comment on peers. I believe that NBFCs have done a stellar job in an environment where everybody had written off most NBFCs especially the NBFCs with no parentage and for the kind of performance, some of our peers have turned out. I believe the industry has done exceedingly credible job, much beyond even my expectations. The regulator has supported again which was again much beyond our expectations and all in all I think all NBFCs today which have survived the onslaught are in a good position, somebody may have 50 basis points of higher delinquency or lower delinquency. I strongly continue to believe that the fortunes of organizations like NBFCs are always led on the liability side. All companies which are focused on the liability side over a cycle will thrive with capital adequacy levels of north of 20% which most NBFCs or the asset side can cause some short-term volatility, but it cannot take away from the fact that the last mile credit delivery that NBFCs do is second to none and therefore if we operate in a collaborative format, it is a win-win for NBFCs, it is a win-win for banks and it is a win-win for India. So, on that note, I think we are in a good position, the sector is in a good position and the country is in a good position. I hope I have answered your question and thank you all for sparing time. Our one hour is over and I look forward to speaking to you again in next quarter. Thank you and have a good day.

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