



“Indiabulls Housing Finance Limited
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Indiabulls Housing Finance Limited hosted by Investec Capital Services. From the management we have with us Mr. Gagan Banga - Vice Chairman, MD, and CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Mukesh Garg - Chief Financial Officer; Mr. Sachin Chaudhary - Chief Operating Officer; Mr. Ashwin Mallick - Head, Treasury; Mr. Ramnath Shenoy - Head, IR, and Analytics; Mr. Veekesh Gandhi - Head, Markets; 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 from Indiabulls Housing Finance Limited. Thank you and over to you, sir.

Gagan Banga: Thank you. A very good day to all of you and welcome to the earnings call of quarter 3 of fiscal 2021-2022. I hope all of you and your families are doing well and are safe.

At the beginning of the New Year, I was reflecting on the year gone by – the wins, the misses, accomplishments, and the progress Indiabulls Housing made in 2021.

As we started 2021, I was cautiously optimistic and despite the adversities believed that ‘all will be well’. Now that we are in 2022, I am actually pleasantly surprised with the progress Indiabulls Housing made in 2021.

Some of the key accomplishments of 2021 include:

- 1) Transformation from a design stage to now a maturing asset light retail focused business model,
- 2) operationalization of the AIF platform for our wholesale loans within the current quarter,
- 3) the continuing institutionalization of the company; and
- 4) continuing to maintain a fortress balance sheet despite all the adversities around COVID and everything else that fiscal 2021 stood for.

I would request you now to please refer to slide 4 to 8 of the earnings update.

The company has spent the last three years in realigning its business model to the changed realities for NBFCs in India. We came to a realization that a successful housing finance business will have to go through a cyclical shift wherein asset heavy balance sheets and high leverage levels will have to transform into leaner balance sheets by following an asset

light model of business. As we made this entire design there were more skeptics, there were also several critics, but we kept our focus over the last three years very tight towards consolidation of our balance sheet, and as a result strategic derisking of our balance sheet.

Since September 2018, on a gross basis, Indiabulls has successfully repaid roughly Rs.88,000 Crores of monies to the system. As we did this, we have successfully de-levered from a net gearing of over 7x in FY2018 to below three times now. With the real estate sector showing strong upward trajectory, we are firmly on track to reduce our wholesale book by a third by the end of this financial year vis-à-vis fiscal 2021 and by 50% by the end of calendar 2022. Hereon this will be achieved through internal accruals i.e. sales and collections at the various projects and we will not need to resort to any of the expensive structure deals that we have done in the past. In fact, I am very happy to inform that the structured deals that we had concluded one year ago, which should have had a very nominal runoff in one year have seen a rundown of as much as 45% with the buoyancy being witnessed in the real estate market. This is a very good reflection of the quality of our wholesale assets and also the liquidity of these assets.

During this phase, we have shifted our focus to transforming Indiabulls Housing to an origination and servicing machine by building a technology enabled cost efficient asset light business model, which operates on low leverage yet provides a strong base for mid-to-high teen ROE. I am happy to inform that within months of starting and transforming this business and taking it to some scale, we are already back to being the third largest mortgage originators within housing finance companies in India. Under this model, our net gearing will stabilize around 2.5 times, as the new book starts adding in and will remain stable at these levels as incremental business will be done in an asset light model.

We also over the course of the last three years enhanced the process of institutionalization of the company. Now as we execute a strategy of Indiabulls 3.0, we have a three-track roadmap ahead of us for fiscal 2023 and beyond.

The first track is to continue to mature our retail-focused tech-enabled low-cost distribution model through co-lending and securitization in partnership with banks and other financial institutions. We have been very careful in selecting our partners and have only gone with such partners where there is a strategic fit and we bring something which is extremely valuable for our partners. We will revert back to pursuing growth, but in an asset light model and we expect a 15% AUM growth in fiscal 2023. Our focus through our asset light model is to regain our position as a large originator of loans and grow total loan assets under management rather than balance sheet growth. As I mentioned, we are already back to being the third largest originator amongst HFC and we can continue to grow this scale.

There is a large opportunity in the mortgage industry and the macro for housing has changed after eight to nine years. Over the past one year we have been working hard to establish and operationalize our co-lending relationships with partner banks and financial institutions. In line with the revised guidelines around transfer of assets as well as co-lending, I am happy to inform that in quarter three we did business with each of our seven lending partners and did as much as Rs. 1,573 Crores of retail co-lending at an impressive return on asset of 3%. For fiscal 2023, we already have a contracted demand for Rs.20,000 Crores of co-lending assets from our partners. This establishes without doubt the scalability of the co-lending model.

We achieved total retail disbursements of roughly Rs.2,800 Crores in quarter three fiscal 2022 on a run rate of a little over Rs. 900 Crores per month. We are scaling up our branches and sales people and we are on track to disburse retail loans of roughly Rs. 18,000 Crores in fiscal 2023 which should further scale up to Rs. 24,000 Crores in fiscal 2024. These disbursements will be done in a ratio of 70:30 between home loans and LAP. Of the total loans disbursed, only about 15% of the loans, on a longer-term basis, will stay on our balance sheet fulfilling our asset light growth objectives.

We continue to focus on our physical distribution which is riding on evolving India with its backbone on simple yet scalable tech-enabled space for our employees and customers to go deep into Bharat. Over the past four quarters, we have continued to expand our reach by increasing our branch network in tier 3 and 4 towns through opening 29 technology-enabled smart branches. We are now in a position and are tracking to add 50 such technology enabled smart branches by the end of fiscal 2022. We have also successfully over the last two years completed a test phase for two new products: Smart City Home Loans and Smart City LAP Loans which cater to the home loan and LAP requirements in smart cities and tier 2, 3 and 4 towns of the country. These are smaller ticket loans, for example home loans will be in the ballpark of Rs.10 lakh and would be operating at a yield of 12% to 13%. Indiabulls housing will launch these products at a full scale in fiscal 2023 and we aim to disburse Rs. 2,000 Crores in the next financial year around the Smart City Products.

Having operationalized our retail co-lending model, the second track for us is to now focus on operationalizing our wholesale co-lending through an AIF platform in partnership with three global real estate focused funds, one of which is also a global institutional stakeholder who bought a part of our promoter stake. The AIF platform will be filed with the SEBI in quarter four fiscal 2022 and will be launched in quarter one fiscal 2023 subject to receipt of necessary regulatory approval.

The platform will focus on lending to commercial real estate to tap the LRD opportunity, construction finance for residential and commercial projects, investing in the stressed asset

opportunity and providing mezzanine finance wherever the opportunity presents itself. Year one goal is to do Rs. 15,000 Crores, year two Rs. 20,000 Crores. Of this, 10% of the capital will be provided by Indiabulls Housing and the balance will come from our partner bank. This platform, on our capital invested, will generate an ROA of over 5% for the company.

We have undoubtedly been in the 'repair and transition' mode over the last three years, which may have perhaps, especially to our skeptics, given the impression that we do not know what we are doing. Over the course of the last three years, we have been focusing on ensuring that we continue to maintain a robust and fortress balance sheet and at the same point in time create a base not only around capital, provisioning etc. but around a business model which does not remain vulnerable to interest rate and liquidity cycles and does not wobble every five years which has been the case with NBFCs in general in India. We have turned the corner, and from fiscal 2023 we will be in the 'transition and growth' mode. In fiscal 2023, we will be focused on resuming profit compounding which we did extremely well for 10 years between 2009 and 2019 and we believe we can get back to a decade of 15% plus annualized profit compounding, maintaining an ROA of 3% plus across all of our products. This 3% ROA is not something which is based on an excel sheet model, this is something that we are actually achieving on a flow basis through our retail disbursements today. The retail disbursements are for real, the disbursement around co-lending is for real, the contracted demand is for real, and this gives me confidence that the growth plan of 15% for fiscal 2023 should also in reality work out.

Just to make sure that all our stakeholders are aligned with the way that our board and the management team are working, we will measure our success by our retail disbursement growth, our ability to generate an ROA of 3% plus and value of our franchise by adding around 250,000 customers over the next two to three years, and in the process build a highly sustainable customer service focused low-cost platform. While we pursue both the facts, we will continue with the exercise of de-risking the balance sheet through a reduction of the legacy wholesale book. The wholesale platforms that we are setting up in the AIF structure will facilitate that process. The macro momentum on the real estate side would also further facilitate that process and we should be able to complete a 33% reduction by the end of this fiscal over where we were last year.

The third track is to continue with the institutionalization of the company to transform it into a board-led professionally managed company with best-in-class corporate governance. The institutionalization process began around three years ago when the wider Indiabulls Group decided to move out of the real estate development business. As a step two, the founder relinquished the Chairmanship of the Board which is now assumed by Mr. Mundra, the Former Deputy Governor. As a step three, the board was strengthened through the induction of new independent directors from various walks of life who are all extremely

distinguished and experienced. As the next step, all of our various board subcommittees were chaired by independent directors and are dominated by independent directors - be it the audit, the risk management, the ESG committee – they are all chaired by independent directors with relevant experience. As a further step, Mr. Gehlaut also reduced his stake in December 2021, which was bought by a group of marquee global institutions such as Blackstone, ADIA, etc. As a next step, such significant institutional investors will be offered board seats, thus bringing direct institutional oversight into the operations of the company. Subject to receipt of requisite approvals, we will conclude the process of de-promotionalization of Mr. Gehlaut in calendar 2022, and through calendar 2022 we will continue to engage with strategic investors to bolster capital and enhance credit ratings.

Indiabulls Housing has a bias for action and we all know that preferential transactions etc. have had their own regulatory issues especially for companies trading below book value. So rather than stay in the realm of theory we decided to move ahead and make a very, very concrete, and perhaps the most important step towards the institutionalization of the company. We are in a very clear and comfortable position as far as capital is concerned, yet we remain engaged with strategic investors and I am highly confident that with the new ownership structure we are in a very, very good position to be able to figure out a new structure, which should bolster the capital and as a result enhance our credit ratings within calendar 2022. Our partnerships with various global funds will only help us in facilitating this process. In order to get third-party validation, we are also voluntarily applying to be part of NSE Prime, which sets the norms that describes corporate governance standards stricter than the extant requirements for NSE listed companies. The same has been approved by the Board of Directors in today's meeting. Our ESG committee is now engaging with both S&P and Sustainalytics. Our board has also approved that through the course of calendar 2022 we will be issuing Rs. 5,000 Crores of sustainable bonds, which will have second party confirmation from Sustainalytics and one of the big four.

The existing management team will continue to run the company. It has been beefed up with new talent around IT and IT security, besides compliance and together we will continue to drive the new asset-light business model. The three tracks will govern the way we operate from fiscal 2023 and beyond and I am quite sure that we will continue to build on our position as the third largest originator to become one of the largest originators in the mortgage industry in general.

Now just to go over the headline numbers for the quarter before we conclude, if you can refer to slide #3.

As at the end of December 2021, our loan book stands at just under Rs. 61,000 Crores. Our assets under management stand at just under Rs. 74,000 Crores. Our AUM has been on a

decline as we have looked to consolidate our wholesale and high-ticket assets in order to derisk the balance sheet and to that end quarter 3 was a phenomenal success. This initiative gained traction on account of favorable macros and resultant cash flows from projects of our borrowers, which has helped us in reduction of these assets through self-liquidation rather than having to resort to any meaningful structured transactions, especially in the last two months. We are firmly on track, as I mentioned, to continue to reduce the wholesale book, but in the same breath I would say that we are now at the fag-end of our AUM consolidation process and from fiscal 2023 quarter one itself this should start growing at an annualized rate of around 15%. Our capital adequacy at 31.2% with tier one capital of 25.7% provides us with a great base to achieve this growth. The net debt to equity of 2.8 times makes us fundamentally very, very strong and the profit after tax stability that we have achieved over the last four quarters has made a very good way for earnings to also start compounding from fiscal 2023 onwards.

If we can move on to slide #9 now, please. The company has aligned its definition of default from EMI outstanding to days past due approach as per the RBI's guideline. This has had a marginal impact on the financial results of the company. The increase as I mentioned at the start is technical in nature and will get rolled back over the next two to three quarters.

Our total provisions continue to be extremely comfortable at 4.5% of loan book, which is over three times of the regulatory requirements and almost a 120% of our gross NPAs. Besides low gearing and high capital, high provision cushion places the portfolio in a strong position to negotiate any macroeconomic uncertainty and at the same time provides a strong base for growth from fiscal 2023 onwards.

The company has seen strong recovery in the last two quarters and on the back of the pickup in the real estate sector the company expects this trend to continue through quarter four fiscal 2022. Overall our portfolio performance has been fairly stable, we have not had to do much of restructuring and only 0.25% of our loan book is under the restructuring framework of 1.0 and 2.0. Under the ECLGS scheme, we have disbursed loans of only Rs. 204 Crores till the end of December 2021, which is equivalent to only 0.33% of our loan book.

We believe our strong provisioning pool, the seasoned retail portfolio and our strong demonstrated recovery capabilities will ensure that the asset quality will be maintained in a fairly tight range from where it is right now.

Moving on to the next important pillar of our operations, especially given our focus on maintaining a fortress balance sheet, is, liquidity and ALM management.

On slide #11, we have given the details of the monies we have raised in the nine months of fiscal 2022. We have raised a total of Rs. 18,500 Crores through various institutions. These include over Rs. 4,000 Crores of long-term loans, Rs. 7,500 Crores of loans between one and three years. Most importantly through the course of this fiscal year, we have started or restarted the process of retailization of our liability franchise, we have successfully done public issues totaling to Rs. 1,345 Crores thus far this year and we will look to do at least one more issue in the current financial year. This should be a steady source of public sort of funds of around Rs. 2,000 Crores every year. Through securitization and loan sell downs we have raised around Rs. 4,600 Crores. We have also raised equity and quasi equity through FCCB transactions and our stake sale in Oak North Bank which earned us an IRR of over 48% in six years.

Our funding program is coming back on track – the public sector banking piece had already come back on track. I am happy to inform that three private banks also joined the consortium last quarter and on the back of the various capital raise initiatives – equity, quasi equity and debt, the rating agencies were kind to change the outlook of the company to stable, which has resulted in our lead bank reducing our rates by 100 basis points. Given our proportion of bank term loans and working capital facilities, we expect other banks to follow suit and over the next 90 to 120 days this should result in our overall cost of funds dropping by 50 basis points. This is a great hedge to have in an otherwise perhaps an unfavorable rate cycle.

Along with the ERG ratings from Sustainalytics, the company has also developed a sustainable financing framework and as I had mentioned earlier, through this year in calendar 2023 we look to issue around Rs.5,000 Crores of sustainable bonds in domestic and perhaps guidelines permitting even in the international markets. As at the end of December, IBH had a liquidity buffer of almost Rs. 9,000 Crores or roughly 15% of our loan book.

We have also voluntarily created a reserve fund for the dollar bond maturing in May 2022. We have already transferred Rs. 2,048 Crores totaling to 75% of the total maturity proceeds and we are extremely comfortable as far as this particular repayment is concerned. The company has in the past done bond buyback, in this particular case, it has created a dollar reserve fund and we will continue to undertake such proactive management of ALM to utilize a strong capital position, comfortable level of liquidity and to provide comfort and confidence to our bondholders and the wider capital markets to further strengthen our credentials.

As per RBI's master directions for housing finance companies, we were supposed to start maintaining a 50% liquidity coverage ratio based on tightly defined high quality liquid

assets. Against the 50% required by the regulation, we stand at 393%. Mind you, these are just high-quality liquid assets. The actual liquidity available to us is Rs. 9,000 Crores and even stuff which is invested in overnight funds etc. is excluded out of high-quality liquid assets.

Our ALM as at the end of December 2021 is published on slide #10. Our detailed 10-year quarterly ALM is also in the appendix slides and we have a positive net cash of Rs. 10,464 Crores at the end of first year.

Moving on to slides #12 and #13. During the last quarter, we have laid down objective targets for the company over the next 10 years for our ESG best practices. We have engaged with center for environmental research and education [CERE] to assess our current environmental footprint. We have also partnered with ESG rating from Sustainalytics to develop a sustainable financing framework and this is a way forward for that and a huge area of focus for the company for which our ESG subcommittee is regularly monitoring us and on a quarterly basis updating the board.

To conclude I would like to reemphasize that the management team has embraced the following operating metrics to be the key areas through which we will measure our success and hopefully the market would also value and measure the success of our franchise:

- 1) We believe our enterprise value on a longer-term basis will be driven by the quantum of retail disbursements that we do, the ROA that we generate out of that and the expansion of customer franchise, I have detailed numbers and targets around each of these three.
- 2) The other important thing in order to make sure that we sustain our 3% plus ROA target very comfortably is to buffer it with a 5% ROA product which comes in via an AIF platform. We are fairly confident that this platform will be operational within a quarter.
- 3) institutionalization of the company and the transformation that journey that we had begun three years ago is continuous and through calendar 2022 be it the de-promoterization process or the bolstering of capital through a strategic transaction would continue to remain areas of emphasis for the senior management; and
- 4) we will continue our focus on maintaining a fortress balance sheet that can't be compromised or laid less emphasis on at any point in time. And for that, we would continue to rely on the pillars of strong capital adequacy, high provisions and high liquidity.

This brings us to the end of this presentation. The IBH management team is now open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Craig Elliot from NWI Management. Please go ahead.

Craig Elliot: Good evening, congratulations thank you for your time and the great results and great progress over the last quarter and the past few years. I really like the crystallization of the solid three track road map. As you know, we at NWI are long-term supporters and we count ourselves among your biggest fans. One of the things we want just wanted to bring up for a brief discussion. Credit agencies thanks to your efforts have finally I think started to understand the value and the great progress that you have made across a number of areas. Just wanted to bring up a few areas and get your thoughts on how to help other things that you have been doing to be understood by the broader financial markets especially the stock markets. The three-track road map is one which is very powerful we understand it as your long-term investors. Number two the de-promoterization we have always taken as a positive but perhaps the market is balancing that against having a more diversified shareholder base is as maybe not as positive. Number three the asset light model understood well I think again by us but does the market especially the local market need some education there. I am sorry for all of that and number four is that it seems generally that sell side research is not following you as closely especially on the equities research side as we think you deserve. So those are some diverse comments and questions I turn over to you for your quick thoughts on those four things, please.

Gagan Banga: So firstly, thank you for your continuing support, the guidance that you provide to the management team and your encouraging comments. We strongly believe that what we are doing in terms of institutionalization or the asset light model is the right way for the company to go forward, that said, since we operate in a regulated environment there is only so much that we can communicate especially in a silent period. So I believe that soon after the stake sale, we quickly came into a period where December 31st happened and we could not really engage with stakeholders and explain the way forward and there was confusion as to whether there is going to be a strategic investor or not, what would the top management look like, what would be the role of some of the investors who have come in. I would like to just use this opportunity to give a small example from how relationships grow from my own personal experience, dealing with one of the largest private equity funds which acquired a material portion of the assets of our associate company Indiabulls Real Estate. That engagement began back in 2017-2018 and they acquired a partial stake of a few commercial assets. Six months later they acquired a partial stake of some more assets, subsequently they acquired all the commercial assets and eventually as is common knowledge they came in and were sort of the catalyst for the eventual merger which is undergoing between Indiabulls Real Estate and Embassy in which they would also be material shareholders. As I had mentioned in my comments, at Indiabulls, we have a bias for action – we can continue to wait for the ideal scenario to emerge or the ideal product/

solution or regulation to emerge which solves all of our problems at one go. What our experience tells us, especially, learning from the challenges some of our peers have also faced, there is no doubt that the NBFC industry has been in a hard place for the last three to four years. A few of us have tried to transform ourselves and have done so successfully and I give compliments to each of my peers who have been able to transform their businesses successfully some others use this as an opportunity and were in a privileged position given their background and have actually meaningfully grown. The sector in general has presented to all stakeholders a very clear case that even though it was back in the day loosely regulated or it had what was called a light touch regulation on a broader basis aside of one or two bad apples it has been a good sector it has not given pain to any stakeholder. In our specific case we have been able to repay to the financial system something close to about \$12 to \$13 billion which is a phenomenal sum of money by any standards. All of this has set us up in a ownership structure today where any partner is engaging directly with the board, the free float of the company is such that if anyone is seeking control it is available without much of resistance coming from anyone. The business model is maturing from a stage where it was in design phase and there were skeptics to today where a lot of my peers and other stakeholders are reaching out to us to understand what is the technology deployment that we are doing and how are we managing to do this scale with a multiple number of banks so all in all I think as the franchise value improves as the enterprise value improves the probability of the company finding the right sort of direction and the right sort of home also improves. Some participants in the market would look to start engaging with the company on a more continuing basis once they see a clear track record of growth as you rightly said while the asset light model is as well recognized and established model for mortgage financing in the western world it is not so here. In the US I was with a large very well-known fund manager managing billions of dollars of assets but focused on India and he did not understand the rocket mortgage model very well and which I believe is now the largest mortgage originator in the US doing larger mortgage origination than most of the large banks like Wells Fargo etc. That is the goal that is where we have to go that is the opportunity. Fortunately for us we have all the financial buffers in place so we do not have to worry about a transaction necessarily happening for us to be able to grow because we do not have the equity capital the debt providers are hugely supportive the company understood on the longer-term basis for stability it needs to adopt the best governance practices and it is trying to move ahead on very, very sound and robust governance practices to the best of our understanding and we are forever open to any sort of a suggestion which is why we are also getting some of our institutional shareholders on the board of directors such that shareholders such as yourself feel that your peers are there to protect your interest. As we move forward on all of this there would be a time where at a much larger enterprise value we will do some sort of a strategic transaction till that time the senior management team the top 30 people who have stuck together over the course of the

last three tough years we have just weaved up that team further with a few additional very valuable resource in the departments that we needed and we are fairly confident that we should be able to do the disbursements of Rs.18,000 Crores and generate an ROA of 3% plus fiscal 2023 onwards. So we thank you for your patience. NWI in specific and other supporters in general and I am very, very confident that with all of these buffers in place and with the team together managed by a very, very professional, and experienced board we should be able to operate and deliver on the operating metrics that I have mentioned. Will we be a classic mortgage lender which is growing its balance sheet I want to make it abundantly clear for me a fortress balance sheet is what is a must I do not believe on a longer-term basis seven times gearing is appropriate. We will continue to run the company at 2.5 to 3 times gearing but in the same breath I can also assure you that we are very focused on ROE, we have a 16 year track record of giving dividends every year to our shareholders since we got listed. ROE, dividend payouts are extremely dear to us. We will through this model which is a mid-teen ROE in the next two years and I am quite hopeful as we deliver this –on-quarter as the credit rating agencies have understood this model in detail as we become more predictable in our earnings the equity analysts would also start engaging more productively we have gone through this cycle earlier, it takes a little bit of a time but I am quite confident that by September 2022 we will have at least three to four of the global banks or brokerages of the global banks writing on us. We will, we are always available to them. It is a matter of records some of them would be here and we will continue to remain available for them. I am sorry I took a long time to answer this question, but it was a very important question for me coming from a very important stakeholder. So thanks for your patience.

Craig Elliot:

Thank you very much for the detailed answer I really appreciate it.

Moderator:

Thank you. The next question is from the line of Felix Berghmans from Treetop. Please go ahead.

Felix Berghmans:

Hi! Gagan, first congratulations on all the progress today I see over the last 12 months now we hope it is going to be reflected in the stock price eventually. Just one of the questions on disbursement, so you are speaking about Rs.18000 Crores for fiscal year 2023 and then you mentioned the AIF platform Rs.15000 Crores does that mean that Rs.15000 crores out of the Rs.18000 crores will be down to this platform that is my first question and the other question it is more like competitively why would a borrower in India go with you versus other banks or other NBFCs today if you could give us a little more details on why you believe you are competitive, while your product is competitive in the market.

Gagan Banga:

Yes, so Felix again you are a very long-term supporter and I would like to take this opportunity to thank you. You have been uniquely supportive to us in the sense that with all

of your concerns around India you have yet continued to have faith in Indiabulls and the management team and thanks for that. You have been involved in our business and you have seen our growth trajectory in the past as well. Up until 2017 till the time that we got upgraded to AAA we were niche players on the asset side we were a niche player focusing on specific segments in the retail mortgage market be it self-employed lending around home loans or retail LAP loans and so on and on the liability side we were unique that we were the largest players in the mortgage securitization market in India. We came to 2017 because of abundant liquidity high credit ratings etc. we perhaps made a colossal mistake of rapidly expanding the balance sheet. We are back to basically our basics where we are focusing on specific segments. Fortunately at this point in time our scale which is just a little over \$100 million of disbursements a month going to perhaps an average of \$200 million of disbursements for next year and then subsequently \$270 to \$280 million in the year after as we look to achieve these numbers in the overall context these are small numbers we used to do roughly \$500 million back in 2018. That is one way of looking at it the other way of looking at it is that already had \$120, \$130 million a month we are the third largest mortgage originator amongst HFCs. My goal is not to get capped at being the third largest mortgage originator amongst HFCs. I believe these niche segments allow us to partner with banks and actually become amongst the top five mortgage originators in the country between banks and NBFCs especially because we are not constrained on the liability side. Within that we will continue to focus on specific segments. We will thus do away with the disadvantage that we have on a relative basis on our cost of funds. There are a few of our peers who do lending at 12% to 13% whose cost of funds are 9% and they have built very, very good businesses. We believe those businesses need scale; we already have scale. We also have certain segments which we understand within Urban India very well and have a track record of having gone through three cycles and thus know exactly what type of a business tends to swim naked when the tide is high. So we stay away from those credits those credits have performed exceedingly well as long as we do not lose our head and try and again go very mark and try and compete at what is the 6.5% to 7.5% market right now that is not the market for us. In the first place in 2017 we should not have gone to that market we will never go to that market currently we cater to a market which is 8% to 9%, if you look at our slide which is slide number #5 we are doing average ticket size of Rs.28 lakhs which is 2.8 million where 2.3 million is the average ticket size for our home loan and 6 million is the average ticket size for our LAP loan but look at the credit bureau score which is the CIBIL score we are doing loans which are 750 and above. So these are good quality loans good quality profiles but the credit appraisal is a little bit more tedious than appraising an employee working for a AAA or a AA rated company. These would require a whole lot more of due diligence for which we have to continue to invest in a technology platform such that a large part of that diligence is done more through technology and less through human intervention and we can provide the last 10% to 15% of subjectivity through the

institutional memory that we have built for appraising these credits more efficiently. So that is the segment that we would go behind. Again on the higher yielding low-ticket segment we wanted to trade on that product extremely cautiously once we make up our mind then we will scale up that product. Most of our peers in that segment do around \$40 to \$50 million a month which I believe we will start doing in six to seven months from now that kind of scale. So in order to not rush into that product we took to two and a half years to test the product built a book saw how it went through COVID and everything else that the macro economy has gone through and now we are confident that we have the right products with the right cities and so on and the right cost structure where for doing a Rs.10 million monthly disbursement we do not spend more than Rs.300,000. We took to two and a half years to get that model right and that is the other segment that we would be going behind. With all of this within the niche we are very, very competitive and as I mentioned our cost of funds despite the rate cycle is only headed down, our credit rating agencies are appreciative of that model we continue to engage we continue to focus on bolstering our capital further and I am sure that would continue to keep us on a positive rating trajectory which will continue to bring down our cost of funds, but even if those costs of funds are to go down to a level where we can afford to do mass lending let me clarify again much like we are not pursuing balance sheet growth absolute mass lending is not for us and we are not going to pursue that.

Felix Berghmans: That is very helpful Gagan thanks a lot.

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

Amit Mehendale: Thanks for the opportunity. I have a couple of questions; first question is on the disbursement and I am referring to slide #4 where we are looking to disburse about Rs.15000 Crores from the AIF so this is essentially the current wholesale book moving from NBFC to AIF and not a fresh disbursement is my understanding correct here.

Gagan Banga: No Sir, I am sorry your understanding is not correct. As I have clarified a few times in my comments that the runoff of the wholesale book would largely be dependent on self-liquidation which is being facilitated by the robust sales and thereby the collections that are happening despite money is being put back into construction. I was just commenting to my board members earlier today that if we look around our office and see around a radius of five kilometers around our office in Lower Parel in Mumbai a lot of the buildings that we had that are mortgaged to us which were 30%, 40% complete today are at a stage where either they have received occupancy certificate or are in the process of receiving it over the next three to four months. As that happens the collections in the escrow accounts continue to remain very robust and our primary goal for reduction of the wholesale book would be

self-liquidation that is a far more cost-efficient model. The robustness of that model is also evident in the fact through the other data that I shared with you that all the structure deals that we did one year ago have already within one year run down by as much as 45%. So there is no loan which is contracted for two years in the project finance market so the 45% run down is obviously a rundown which is much, much ahead of schedule. The AIF platform is largely for incremental lending there could be a 20% to 30% contribution from our book but no more than that. 70% to 80% so at least Rs.10,000 to Rs.11,000 Crores out of the Rs.15,000 Crores that we are talking about would be us going back to the market booking new loans and restarting that line of income for ourselves which is a very profitable line of income. Despite the near double digit delinquency that the wholesale book now sits on because it has run down etc. if you look back in time and see the last 15 years that we have been doing this product it has been a steady 5% annualized ROA asset class for us so the asset class is done well despite the fact that in the first half of the 15 years commercial assets were down in the second half which is the last eight years residential assets have been down despite that the asset class has delivered to us 5% ROA so it is a very, very profitable asset class to lend to. We have made our mistakes we have learned from our mistakes there are other challenges as far as lending to real estate is concerned which is largely reputational in nature which again would get addressed with a global partner partnering with you and thereby there being nothing very hairy around the loans that one is giving out. So as a combination the right thing to do is to do this via an AIF platform especially if the underlying fund is an open-ended fund which is the structure that we are trying to create and just as a breakup a large part of the Rs.15,000 crores would go to pursue new business opportunities.

Amit Mehendale: Right great thanks and so that essentially means that the growth numbers for the AUM numbers next year will be quite significant as in about Rs.18,000 in retail and about Rs.10,000 in AIF will be about Rs.25,000 Crores plus type of a number and from where we are today it will be quite a substantial growth in terms of...

Gagan Banga: Rs.15,000 crores because we continue to receive at least a Rs.1,000 Crores back every month and with the enhanced collections in the wholesale assets on our balance sheet that book would also continue to run down. So it would be a 15% growth number we very carefully calculated that and that is how we have arrived at that.

Amit Mehendale: Great thanks I have a second question on the sourcing on the retail side. So we disclosed about Rs.2,800 Crores this quarter could you share some like what are the sourcing channels that we are using like some ballpark numbers on how much comes from branches, DSA, digital some any indicative numbers will be greatly appreciated.

Gagan Banga: So customers who opt for a large part of the journey to be digital would be around 40%, 45%. If you ask me strictly digital origination where somebody would go to an online broker and from there would come to us that is not how real estate purchases happen in India that is not how we believe they will ever happen in India so physical presence both of the office as well as at the construction site as well as a network with the brokers for resale transactions, we are currently more focused on resale we are not so focused on under construction or we are focusing on projects which are close to occupancy certificate and are at more an inventory stage rather than an early stage of construction. So here it is a combination mostly of around 30% of the business coming from broker/ DSA and the balance 70% coming from our physical presence. Of this 100%, around 40% - 45% of the people are today willing to do a large part of the journey digitally where they do not have to necessarily call our executives to upload their Aadhaar document or their income statement or their P&L statement or whatever they are happy to upload it by themselves we are also able to today be in a position where we do not need a lot of this documentation from the customer and we can get it from the source itself so the tax related information the GST related information a lot of the property related details we are able to get it from the source itself so I would say about half of the processing happens digitally 70% of the sourcing happens by our people and 30% through the channel.

Amit Mehendale: Okay great thanks a lot.

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

Hemant: First of all congratulations on great set of achievements that have been mentioned on the call. I wanted to check the status of the PIL and whether the affidavits of agencies are pending have been submitted to the court.

Gagan Banga: So the folks behind the PIL will continue to harass us. The good news is that the key agencies which were supposed to file affidavits or complete their inspections have all done so and MCA has filed the affidavit, the NHB inspection the special audit also got over and we filed a disclosure around that with the stock exchanges and it is on our website as well. NHB and RBI work together on that so the financial direct regulator the wider group regulators those are the three key stakeholders they are all done with their process unfortunately because of the COVID the PIL listing has not really happened. As and when it happens this is a judgment passed by the Supreme Court I believe the matter they have already classified it as infructuous, so the Delhi High Court should also follow suit. That said, those people will continue to irritate us since we went hammer and tongs behind them classified them as blackmailers proved to the world that they are actual professional blackmailers, got the police to investigate and subsequently arrest them and some of them

spent quite a long period of time in jail and now the charge sheets have been filed and they are facing trial, so they continue to harass us. Some FIR here some complaints they are getting some other investigative agency to look into that etc. To that end the Mumbai High Court division bench in April of 2021 passed a very, very strong order which said that all of these efforts are malicious and are being done to paint the company that said we are in business and these kind of things will happen whichever regulatory agency or court or whoever asks us we continue to cooperate, I am least worried now about these allegations especially given the fact that the company has gone through a very, very detailed scrub at the regulator level and we have a concurrent auditor which has been appointed by our bankers who has been in place since October 2019 I believe the concurrent auditor has gone through as we speak roughly 98% of the portfolio and has been observing every rupee in and out of the company since October 2019, so anybody who tomorrow gets up and alleges that there is cycling done by the company it is the duty of the relevant agency to look into that but as far as we are concerned we know it is the same thing it is the same wine in a different bottle and how to swallow it and grapple with it we know quite well it. It is almost like power for the course the courts have been extremely supportive and if there is anybody else who decides to trouble us we will seek the necessary legal remedy we will go to the necessary court we have a very, very strong order and we can always go back to the court and say that despite your order so and so is asking us questions please clarify we should get a favorable order so I am at this stage on three counts; one this is the scrub, two this is the current governance framework that we have with the board oversight, and three with the engagement that we have had with the judicial authorities and the kind of support that we have received there we strongly believe that these are matters which businesses have to deal with in regular course of business there is not even a 1% risk of any financial loss or liability to any individual or to the company coming out of any of these matters. This I want to state very, very matter of fact and put it on record once and for all. If there is any further question we will just take one more question and that should be the last question if there is none then we can end the call.

Moderator: Thank you. We will take the next question from the line of Vishakh Bhatt, individual investor. Please go ahead.

Vishakh Bhatt: Yes Sir, my question is on PIL which is you commented on that.

Gagan Banga: Right so as I said please do not worry there is no liability which we have done our homework we have done a lot of hard work unfortunately we work in a country where people do not appreciate growth we suffered that we took it on our chin but the silver lining is that today our regulators, our bankers, the wider government agencies they understand our business as well as we do our bankers have supported us, our rating agencies have supported us they have done their diligence and they continue to support us they would be

irritants in the form of these PILs or some inquiry or something or the other I think every and any company in the country today has to go through this, this is part and parcel of an evolving democracy where our institutions are also becoming more mature and we have to support as they evolve and they also help us evolve as a business and improve our business practices a large part of the governance overall that we did was also keeping in mind that we have to draw a line between ownership and management so that whatever are these allegations which keep coming up from time to time of the past they never come in the future and which is why a professionally managed company run by a professional CEO assisted by a professional managing director and a chief operating officer and a chief financial officer these are all very high quality gatekeepers that we have and be rest assured everything is in good hands.

- Moderator:** Thank you. Sir should we take the next question.
- Gagan Banga:** Yes please one last question please, I actually have something at 6:45 so we have to end it before that.
- Moderator:** Sure Sir. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Hi Sir, thanks a lot for the opportunity and congratulations for the great transformation. Sir, when you say that AIF your contribution will be 10% that means out of total planned disbursement of Rs.15,000 Crores your contribution will be one Rs.1,500 Crores.
- Gagan Banga:** Sorry could you repeat that please your line was a little muffled.
- Pranav Tendulkar:** On the AIF platform out of say Rs.15,000 Crores disbursement when you mean that your contribution is 10% you will be disbursing something like Rs.1,500 Crores.
- Gagan Banga:** Yes and the ROA that we are computing which is expected to be 5% is based on our Rs.1,500 Crores contribution.
- Pranav Tendulkar:** Perfect Sir also congrats on offering the board shift to the new investors and that is a great change. Thanks a lot.
- Gagan Banga:** Thank you. So we are open to any and every such feedback. The other important thing is that the big picture is that the company has transformed from trying to design a transformational model to something which is actual. The ROA of 3% is actual these disbursements are actual the demand from our partners is actual so on this basis I would just like to re-emphasize that we are fairly confident that we should be back on a growth track from

fiscal 2023. Thank you again for the patience as we did a fairly painful transformation but that painful transformation has many a silver lining including the fact that today our gearing is all of between 2.5 – 3 times and that is where we long-term want to be which makes us very, very stable and as I said there have been some great supportive stakeholders, shareholders, credit rating agencies, bankers, etc. and I cannot thank them enough because I know it is very painful to support a financial institution which is de-growing I hope I do not continue to give you this pain for too long and again me and my team would like to record our thanks to all of you for your patience. Look forward to speaking to you at the end of the financial year. Thank you so much.

Moderator:

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