"Indiabulls Housing Finance Limited
Q4 and Full Year FY2020 Earnings Conference Call

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Management: **Mr. Gagan Banga - Vice Chairman, Managing DIRECTOR & Chief Executive Officer - Indiabulls Housing Finance Limited**

Mr. Sachin Chaudhary - Chief Operating Officer - Indiabulls Housing Finance Limited

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Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q4 FY2020 Earnings Conference Call hosted by UBS Securities. 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. Ishank Kumar from UBS Securities. Thank you and over to you Sir.

Ishank Kumar: Thanks Steven. Thanks everyone for joining this call. We welcome the management of Indiabulls Housing Finance to discuss Q4 FY2020 results. From the management team, we have Mr. Gagan Banga- Vice Chairman, Managing Director and CEO, Mr. Sachin Chaudhary- Chief Operating Officer, Mr. Mukesh Garg- Chief Financial Officer, Mr. Ashwin Mallick- Head Treasury, Mr. Ramnath Shenoy- Head Investor Relations & Analytics, Mr. Veekesh Gandhi-Head Markets, and Mr. Hemal Zaveri- Head Banking. I now invite Gagan to share the key details of the results. Over to you, Gagan.

Gagan Banga: A very good day to all of you and welcome to Q4 and full year FY2019-2020 earnings call. Firstly I would like to sincerely apologize for the delay in starting this call due to an overrun in the board meeting caused by some technical glitches, the issues that we all face working from home. I hope each one of you and your families are doing well and are safe. The world today is facing an unprecedented challenge in the form of Covid-19 crisis which has adversely impacted business operations globally. Slowly and steadily, we are now moving towards resumption of normal operations. One is hopeful that a vaccine will be developed soon and we can put this surreal but instructive episode behind us and move ahead.

I request you all to keep handy the earnings update sent across to you a short while ago. Also kindly bear in mind that most of us are hosting this call from home and therefore we request that please restrict your questions to high level questions only, granular numbers beyond the ones detailed in the earnings update or on this call if required can be taken directly from the investor relations team by e-mailing them.

The NBFC/ HFC sector has been under acute stress for almost 21 months now, battling through liquidity crisis and a crisis of confidence generated by the IL&FS default and now the economic disruption caused due to Covid-19. Our experience from handling previous such trying circumstances have taught us that maintaining healthy capital and liquidity are the best defence towards such times and our efforts over the past 21 months have been focused towards this end. It is also testament to the resilience of the NBFC/HFC sector that it has survived despite practically no regulatory forbearance, through what can only be described as a stress-test that is worse than any stress could be modelled in theory.

To put the Housing Finance Company business and related risks in perspective – I quote Mr Deepak Parekh, Chairman HDFC, from his letter to shareholders, "It is important to recognise that unlike other loans , the underlying value of land is always there as security."

At Indiabulls Housing - our underlying loans – both retail and developer – have properties built up homes or land etc. as collateral for practically all loans and this will be a huge distinction in the behavior of our loans compared to other asset classes as all lenders – Banks , NBFCs and HFC's handle the evolving situation.

Now, moving on to numbers. If you can please refer to slide 3, our loan book has shrunk further to ₹ 69,676 Cr. Total revenues for the year came in at ₹ 13,223 Cr, while revenue for the quarter was ₹ 2,954 Cr. Our normalized PAT for the year was ₹ 2,904 Cr and after adjusting for 1% provisions of ₹ 700 Cr created from the P&L, the PAT stands adjusted to ₹ 2,200 Cr. For Q4 fiscal 2020, our normalized PAT was ₹ 841 Cr and after accounting for the provisions mentioned earlier, the adjusted PAT was ₹ 137 Cr.

Please refer now to slide 4 where we have provided reconciliation of the profits.

The pandemic has hit the economy hard throwing a lot of challenges for households and businesses alike. Many salaried individuals have either lost their jobs or have had to take pay cuts. Small and medium enterprises were one of the worst affected lots with most of the businesses coming to a total standstill during the lockdown. Just when the real estate market was showing signs of resurgence, the pandemic and the consequent lockdown has led to total demand destruction. Migration of labourers and skilled workers back to villages led to a complete halt in the construction activity of under-construction projects, which is now reviving. While the lockdown has now been partially lifted, as per our estimate, it will take at least a couple of quarters for the economic activity to get back to pre-Covid levels. With this distressed background in mind and keeping in mind that we have generally extended secured loans backed by properties - the management of the Company decided to take an extremely conservative and prudent approach towards provisioning in order to strengthen the balance sheet to effectively tackle any and all potential future contingencies. The Company has created additional conservative provisions of ₹ 700 Cr, representing 1% of our loan book, through the P&L and another additional ₹ 1,798 Cr of provisions, from its gain on fair valuation of holding in OakNorth Bank of ₹ 1,802 Cr, which have been routed through the Other Comprehensive Income [OCI] as required by IndAS. I shall explain this in some more detail.

In November 2015 Indiabulls Housing had invested USD 100 million, in UK challenger bank OakNorth Bank acquiring a controlling stake of 39.76%. After a partial stake sale and various equity funding rounds undertaken by OakNorth Bank, including the last round in which GIC of Singapore and Softbank had come, IBH’s current holding in the bank now stands at only 15.71%.

As a result of the reduction in effective holding and consequent loss of significant control in OakNorth Bank, our stake in the Bank will now be considered as an “Investment” on our Balance Sheet rather than the Bank being considered as an “Associate” as was the case before. As per IndAS guidelines, this investment will now be marked to market and therefore, the fair market value of the investment in OakNorth Bank amounting to ₹ 1,802 Cr will now be recorded under OCI in Net worth. We have utilized this very gain from the OCI to create additional conservative provisions of ₹ 1,798 Cr through the OCI route. Such routing is consistent with our past practise of recognising fair value gains and realised gains through the OCI. When we had migrated to Ind-AS two years ago we had adopted this practice and we are continuing with the same practice.

What the management is extremely mindful of is that while there is underlying value of mortgaged collateral backing each loan, we are also aware that the real estate sector will take its own time to get repaired, real estate prices will have to reflect current market realities. While these price adjustments will help developers offload their unsold inventory and improve their cash flows, we have to protect the balance sheet through the ensuing period.

If you now refer to slide 5, combining the ₹ 700 Cr of provisions for COVID-19 through the P&L and the approximately ₹ 1,800 Cr of provisions taken through the OCI, the total provision buffer has now been shored up to over ₹ 3,741 Cr which is 5.4% of the loan book and 218% of gross NPAs as of March 2020.

It is to be noted here, that having created the extra provisions this quarter, the Company has effectively reached a status of net NPA is zero and carries ₹ 2,391 Cr of extra provisions to tide over any contingency arising out of COVID-19, and also to negotiate the macro headwinds that the real estate sector is facing.

Please now move to slide 6. The last 3 months have been the best since September 2018 that is almost two years ago, in terms of the funds we have raised. We have raised the total of ₹ 9,494 Cr through various institutions including ₹ 1,275 Cr of five year term loans, ₹ 1,230 Cr of bonds of maturity greater than three years and ₹ 5,120 Cr of bonds and loans of between one and three years. I am also extremely happy to tell you all that even during the lockdown we were able to securitise developer loans and generate ₹ 1,870 Cr of long-term monies co-terminus with the loans. This was a big achievement as we were able to complete what is usually a logistically cumbersome exercise coordinating across multiple locations to achieve this. This is also a reflection of the underlying quality of the developer loans where despite loans being under moratorium investors have come in and refinanced/securitized our loans to the tune of almost ₹ 2,000 Cr of net liquidity to us.

Along with the retail sell down, securitization of loans has always been a core element of our business model. While we have been saying this for many years, and have been consistently the largest sellers of mortgage pools in the country the industry, the regulators and the rating agencies have now recognised the importance and criticality of these transactions. Credit rating agencies which in our experience were originally skeptical of securitization as a fund raising program on an organized ongoing basis that could support housing finance companies, have now turned around and started appreciating it as an important source of raising funds both for liquidity as well as asset liability matching. Even the regulators have realized the importance of securitization/ organized sell down programs and have worked to deepen this very important market as is evidenced from the recently proposed new draft guidelines on securitization and sale of loan exposures. The draft guidelines of RBI are in fact quite evolved and will definitely give a further boost to this market. Reduction of Minimum Holding Period [MHP] for securitization of RMBS loans to 6 months from the earlier 12 months will result in an increase in the supply of assets eligible for securitisation. Removal of Minimum Retention Requirement [MRR] for sale of loan exposures will help generate greater liquidity for the originators from the same quantum of asset pool. We expect portfolio sell downs to contribute an increasingly larger proportion of our funding mix going forward as is also detailed in our new business model which I will be sharing again with you. All of this also comes at a happy juncture for us as an asset like business model is central to our growth plans.

Please now turn to Slide 7. Our net debt to equity remains low at 4x. At 27.1% our capital adequacy is very comfortable. Our book spread is at about 280 basis points with yields at 11.58% and cost of funds at 8.79%. Our cost-to-income ratio is at 16.2% and is projected to continue to trend even lower through fiscal 2021 and beyond despite the reduce loan AUM. I will later touch on the various initiatives taken by the management to continue to reduce the cost-to-income ratio and be a leader on this particular aspect.

Our NPA levels are moderate with gross NPA at 1.84%. Total provisions of ₹ 3,741 Cr on balance sheet represent 218% of gross NPAs, and extra provisions represent 3.4% of loan book.

If you now refer to slide 8, we have shown our ALM as at end of March 2020. The ALM is shown on a cumulative basis, up to each bucket. As on March 31st, 2020, IBH had on-balance sheet liquidity of ₹ 13,410 Cr in the form of cash and liquid investments, which is 13% of our balance sheet, over 2x times the level of liquidity our peers carry. We are positive across all buckets. In fact, we will have a positive net cash of ₹ 10,686 Cr at the end of first year. The ALM takes into account the EMIs impacted for the period of March'20 to August'20 due to the moratorium extended to our customers. Our detailed 10 year quarterly ALM is in the appendix slides of the earnings update on slide 20. We have no negative mismatch in any bucket and are already fully in compliance with guidelines issued by the RBI on November 4th 2019, which permits 10% to 20% mismatch in various time buckets.

The RBI on 27th March 2020 announced a Covid-19 regulatory package wherein it allowed borrowers to avail moratorium for instalments falling due between March 1, 2020 and May 31, 2020. In May 2020, the RBI extended the moratorium for further 3 months i.e. up to August 31, 2020. In line with the RBI's guidelines and as per policy approved by the Board, the Company has extended the benefit of moratorium to all eligible customers, retail as well as wholesale. As at the end of June about 20% of IBH customers had availed of the moratorium. Customers are being continuously educated on the economics of the moratorium and the proportion of customers opting for moratorium has thus declined from the peak of 35% to the current around 20%. Collections have effectively doubled from April to May and again from May to June. The early trend of July, are also extremely encouraging. The Company has made requisite loan provisions for the loan book under moratorium as part of the overall provisioning done by the company.

The company has also looked to achieve operating expense rationalization as I had mentioned earlier. We continue to work in a scenario where we expect ourselves to be a leader on the cost-to-income ratio and continue to trend it down. This can only be achieved by a continuous cost optimization across all expense overheads. The senior management has taken the lead in reducing operating expenses. Our Chairman Mr. Gehlaut will not draw any salary in fiscal 2021. I myself have taken a salary cut of 80% and my other senior management colleagues have taken a salary cut of up to 50%. Total monthly operating expenses of the company have reduced from an average of approximately ₹ 70 Cr per month. That is roughly about ₹ 840 - ₹ 850 Cr per year down to only about ₹ 40 Cr per month or roughly around ₹ 480 Cr per year. With the exception of a few strategic positions, all incremental and replacement hiring has been frozen till September 2020. Rents of all current branches have also been renegotiated and riding on the digital platform that we had created for ourselves, which is the e-home loan platform, we have been able to meaningfully rationalize our branches. This has all been achieved while still trebling our collections workforce from roughly 600 people to 1700 people.

To summarize fiscal 2020, we have demonstrated the quality of our underlying loans by reduction of loans by 40% or ₹ 45,226 Cr since 2018. That is a whooping ₹ 45,226 Cr in a liquidity scenario where in theory liquidity was abundant but risk aversion amongst banks and lack of liquidity amongst non-banks skewed the refinance market to just very limited high quality assets and in this environment we were able to get rid of ₹ 45,000 plus Cr of asset. We were able to refinance and securitize during lockdown as I mentioned ₹ 1,870 Cr of developer loans again demonstrating the quality of underlying exposures which are all heart of town prime assets and continue to be attractive even in stressed times for the real estate industry. This comes on top of around ₹ 18,000 Cr of total refinance/gross repayments that have been achieved on the wholesale book. These are gross numbers, we will have to also make disbursals for continuing with construction in the various construction finance projects.

Through the COVID-19 period, moderate moratorium availed by retail borrowers, the numbers of which I have shared, sell down or developer loans and most importantly overall maintenance of asset quality has demonstrated the strong base available to the company to grow from as and when the market and sentiment improves and one is able to take rational credit decisions.

On liquidity, the company has raised ₹ 9,494 Cr representing 12.5% of our liquidity in a span of just three months and those also three months of lockdown in the country. We have maintained our liquidity buffers steadily through the course of the last 21 months, which were representative of the worst phase for NBFCs.

Even though capital ratios are strong and the company have continued to maintain capital adequacy of well north of 20%, we have today requested the Board to approve a further capital raise of up to $300 million which will come in handy through this period of uncertainty. We are engaged with certain investors and we will come back and inform both the Board and our shareholders in quick time as to how we intent to move forward on this transaction. We are quite hopeful that this $300 million transaction we should be able to conclude in the course of the next couple of months itself.

In order to battle ready itself for the huge growth opportunities, the company has also expanded its scope of co-origination relationships and we will be formally announcing a new co-origination relationship with a private bank for our LAP business over the course of the next three weeks.

To further institutionalize ourselves and prepare for the next 10-year opportunity we already have very eminent people on our boards such as the Former Deputy Governor of Reserve Bank of India, Former Supreme Court Justice, Former Director General of Police, we have also inducted today Mr. Siddharth Achutan who is the Former Senior Partner at Deloitte and he will continue to support the company and advisors. You will also continue to see further addition at the Board level over the course of the next few weeks as we prepare for our annual shareholders meeting.

Over the course of the last few calls which have happened in this stressful period, I have taken the liberty of often speaking to you informally. I strongly believe that failure is not fatal but failure to change can be. We do not wish to avoid change because we are avoiding mistakes or rationalizing our past actions in our head. Without failure and mistakes I do not know how do we learn? But having learnt a lot from all the mistakes that we had made and the reality that is dawned on us over the course of the last one-

and-a-half to two years and in order to make our new reality better we boldly embrace the winds of change and focus on our new business model.

The crisis of the past 21 months have made us realize that the HFC business will now have to go through a cyclical shift wherein chunky balance sheets and high leverage will have to make way for leaner balance sheets by following an asset light model of business. We have detailed again the business model on slides 10 and 11 and while we have shared these with you it is an opportune time to dwell on the new business model.

In retail loans we will originate home loans and MSME loans which we can then securitize to banks and other financial institutions. As I mentioned earlier IBH has always been one of the largest sellers of mortgage pools. There are quite a few slides in our earning update which I dedicated to the performance of these pools over years. We have ongoing sell down relationships with 25 banks and financial institutions. The new RBI guidelines on securitization are expected to give a big leg up to this pool of capital and I personally expect new investors to also come in besides banks.

The second part of our business will be co-origination of developer loans with real estate focused investment funds and P/E players. As they say, every cloud has a silver lining and the silver lining in the liquidity crisis faced by NBFCs and HFCs is that we have all looked to monetize our wholesale assets to generate liquidity and in the process we have sparked the interest of some large P/Es and alternate investment funds who are now actively looking to invest huge sums of monies into the Indian real estate sector as is evident by the transaction that we have just concluded. We have detailed the financial mechanics of this model on slide 11. Similar to co-origination of retail loans IBH will retain 20% its balance sheet while 80% will be on the investors' balance sheet. IBH will get to keep the entire processing fee including on the investors' 80% and additionally we will also earn some spread. The ROA for this business on a sustained basis will be around 7.1% and the ROE will exceed well past 12%.

As we tread this path towards an asset light model over the course of the next two to three years, IBH's book will come to comprise of approximately 90% granular loans with the balance sheet growing in single digits and AUM growing in high teens to early twenties. The new business model will earn us a ROA of about 3% which at a steady leverage of 1:5 will work out to an ROE of 25%. It will obviously take us sometime to get to a leverage of 1:5 and we are currently comfortable with four. With the capital raise we will go lower but in due course of time as the granular loan book further increases, we will, probably in three to four years, get to a peak leverage of 1:5 where we can generate a peak ROE of around 25%.

To conclude I now quote from a note I read recently from a domestic mutual fund which read- Over the past 21 months, both debt and equity markets have been too pessimistic of NBFC franchises. However, NBFCs have turned out to be far more resilient than what they were thought to be. Locked market for more than 21 months has cost them heavy but most of them have survived without any regulatory backstop. NBFC's ALMs are now better matched and most of them remain well capitalised. Various liquidity support measures from the RBI as well as the governments have helped them tide over the liquidity crisis. Fear of a sudden default by any NBFC has also been taken out with RBI's Special Liquidity Scheme. NBFCs have thus passed the big test. It is time for the stakeholders to now embrace them.

As far as IBH is concerned, our strategy of ensuring no ALM mismatch, conserving capital through controlled growth and maintaining high liquidity on balance sheet in spite of the high negative carry has paid off despite criticism around shrinkage of loan book. The Company is now a lot more nimble footed (means smaller) and agile and in times of crisis small is the most beautiful. IBH has gone through deep scrubs from all the regulators as well as numerous auditors due to sectoral issues as well as specific targeting and has come out unscathed. The Company sees no consequential impact of the RBI's new proposed guidelines for HFCs.

We are now looking forward to get back to AUM growth in the second half of fiscal 2021 through our new asset light business model.

On this note the IBH management is now open for questions and we would like to remind you again that most of us are at home while we host this call and therefore we request that you please restrict your questions to a high level strategy questions. Granular numbers beyond the ones detailed in the earnings update or on this call if required can be taken directly from the investor relations team through e-mail. Thank you so much and again sincere apologies for the delay. We are now open the questions.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Harsh Agarwal from Deutsche bank. Please go ahead.

Harsh Agarwal: Two quick questions from me. One was quite a sharp decline in your number of employees in FY2020 they have gone down from 8,500 to 5,500. I can imagine given the new business model I am assuming this is a permanent reduction and kind of cost saving as to say you do not expect to kind of get the employees back post COVID so as to say right?

Gagan Banga: We believe that given the digital initiatives taken by the company and the fact that we will be more Tier II, Tier III and Tier IV located, in terms of new sourcing, we will require fewer employees. We are also bracing for a slow and steady scale up before we get back to the kind of numbers which we used to do which was around ₹ 3,000 to ₹ 4,000 Cr of retail disbursements in a month so we believe that it will take us time and we will continue to add people. Over the course of the second half of the year we expect month on month to add people as the disbursals pick up but I do not think that we will need to add people in calendar year 2020 assuming that we are growing at the expected rate October onwards. My sense is most to the hiring will only happen now in fiscal 2022. We should be able to achieve our fiscal 2021 numbers with pretty much the same workforce.

Harsh Agarwal: Got it and Gagan one more question. Sameer’s stake in the company has gone up from 21.5% at the end of December to about 22.9% at the end of March this increase I am assuming has happened purely through on-market kind of acquisitions of shares by him?

Gagan Banga: Yes it actually has gone up a little further. He has got shares, so it is closer to 23.5%. Yes it is through creeping acquisition. His interest would be to be just short of 25% and continue to acquire at whatever opportune time.

Harsh Agarwal: Let me comeback in the queue I had a couple of more questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche bank. Please go ahead.

Abhiram Iyer: Could you please throw some light on the sale of developer loans that you made recently to Oak Tree. If I am not mistaken there were around ₹ 2,000 Cr of loans that were just been sold. Is there plan to sell more in the future and what were the prices at which these were sold down?

Gagan Banga: The quantum of liquidity that we have received is in the ballpark of ₹ 2,000 Cr. The structure is such it has three components to it. There is a component of liquidity that we receive immediately which is what I have detailed. There is a second component of the monies that will go additionally into the projects since most of these projects are under-construction projects and that quantum is roughly similar i.e. around ₹ 1,600 Cr that has been carved out and will additionally go into the project. The structure is that our loan gets repaid and there is a junior and a senior NCD. The senior NCD is roughly 45% to 50% of the original loan and the junior NCD is the balance. The senior NCD and the junior NCD together have a mortgage created over the underlying property so both are secured by the mortgage. The waterfall is such that the senior NCD gets paid earlier and then the junior NCD gets paid. The customers continue to pay the same rate that he was paying for the loan and therefore there is no extra cost which comes either to the customer or to us. The only thing that happens is that our residual cash flow will now happen after the senior NCD has been paid. So that is the broad structure which is there. There are at least three other parties that we are talking to and we hope to conclude meaningful transactions through the course of Q2 fiscal 2021 also. In total my expectation is that through this route we should, between now and December, be able to generate at least a billion dollars of liquidity.

Abhiram Iyer: Sir just adding on to another question here right now what is the percentage ratio between developer loans and retailer's loans in the portfolio?

Gagan Banga: It will be about 80:20

Abhiram Iyer: 80-20. Thanks a lot. Let me get back in line.

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

Craig Elliot: Good evening. Thank you for your time and congratulations on dealing with these unprecedented challenges in a good way and particularly with the capital market success. A couple of questions, one on the capital market asset liability maturity which you put for forward, I notice that on the timing bucket in the one to three years is probably the one that is quote the tightest. When you consider various scenarios how do you think about kind of scenarios and how you might respond particularly related to the interest on maturities out through that three year time bucket?

Gagan Banga: As we look at the asset liability maturity we take a rather stringent view. We expect there would be only the outflows and other than contracted customers inflows there are no other customer inflows. As we have demonstrated in perhaps the worst market environment and peak risk aversion we have been able to raise almost $1.5 billion over the course of the last three months or so. I think the worst in terms of liquidity is well behind us, is not for the whole sector, and from here on refinance has become a path for the course; whatever course correction had to be done at our end where there were specific instruments that we had to run down we were able to run them down in a very, very stable manner without causing any sort of an issue and these were short term instruments which were as large as $2- $2.5 billion which have been completely repaid. As I shared with you even after one year despite whatever moratorium we have given, we expect to be sitting on $1.5 billion of cash. This is without assuming any further inflows from refinance etc. In terms of ballpark, what we have raised in the last three months is ballpark of what we have to repay over the next 10 to 12 months so that is the kind of currency we have been able to achieve. On the ALM now I am quite comfortable and happy. I think where we are sitting, in terms of an absolute basis, with the cash etc., we are extremely well placed. We also do not factor in significantly or massively discount, sanctioned and undrawn lines. Those are a further backup. So the more subjective answer to your question is that a) There is no incremental line of credit that we have factored into this b) We have not factored in prepayments which were a very steady feature till February of this year, it is only from March to about June that they kind of reduced but towards the end of June they again picked up so all of that has not been factored in this ALM and thus ALM has a lot of buffers.

Craig Elliot: A quick question on the business, number one post moratorium how do you see the weighted NPLs developing sort of what is the real underlying trend mean NPL that you might expect to?

Gagan Banga: That is an extremely, extremely difficult question to answer we do not know the quantum of real job losses and how people will come back. While I hear and see that migrant labor has started returning and I was reading a news report that from the states it generally send in migrant labor to larger centers such as Mumbai and Delhi etc., the trains, the reverse trains are packed for and there are no tickets available for the next one month so people are obviously coming back and if they come back then construction activity recommences, but there are yet enough uncertainties which will play out which is why there is a steady arch from the industry including from stalwarts such as Mr. Parekh that as far as developer loans is concerned there should be an opportunity given of being able to do onetime restructuring. From early trends that I see in terms of reversal of moratorium, as I shared from an early number of about one-third of the customers seeking moratorium that is now down to just 20%, collections have doubled month on month from April to May and May to June and in the first billing cycle of July which stand yesterday on the first the numbers were extremely encouraging. So all in all I am not perturbed by the situation but that said given the uncertainties we have chosen to create these provisions so that these provisions take care of any exigency which comes along and management can continue to focus on getting back to growth which we expect should be our area of focus starting October.

Craig Elliot: Thank you so much. Then your 25% ROE which you are targeting maybe three - four years out that is really based on also being able to ramp up leverage, prior to that what is your range where you think that business sort of gets pulled back to normal or back to a steady state, maybe not up to that 25%, but something that feels more like more healthy business part of the cycle. This is my last question. Thank you.

Gagan Banga: Yes, my short-term goal would be at the expenses of ROE and at the expense of moderate dilution to build as many buffers as we can. If I go back to the playbook of 2009 and how one emerged out of the crisis back then, the playbook were similar we did raise small QIP at that time given our size that was much more than sufficient of a $150 million and that gave us both growth and confidence capital to then put in place the foundation for a journey which went on for the next eight to nine years. My sense is that to run with a slightly lower ROE through fiscal 2021 and 2022 is okay as long as one is creating the right kind of base and therefore one is extremely keen to do this capital raise and God willing one will also pull this through and I think through fiscal 2022 we should be back to about mid to high teens and through fiscal 2023 get to the 20% kind of a level. That is the trajectory that one expects but at this point in time since we are coming essentially or right now tackling unprecedented times and over the course of the next few months we would be continuing to tackle through unprecedented times it is best do to have the right kind of buffers and fortunately there are shareholders existing as well as new investors who are engaged so I am quite positive on this.

Craig Elliot: Thank you Sir.

Moderator: Thank you. Next question is from the line of Amit Agarwal from Elara Capital. Please go ahead.

Amit Agarwal: Thanks. Just one quick question. So given the new reality after Covid-19 is there any change in your plans for that $50 million bond that you had announced and we were awaiting RBI approval from?

Gagan Banga: The RBI has not approved our proposal and they have asked us to not do the buyback, therefore that is off the table and that really, in terms of giving confidence to bond investors, was our intent at that point in time. So it is not a question of $50 million of liquidity, that is not going to move the needle at our end but what we will definitely want to do is continue to give confidence and I think the best confidence is if a franchise is receiving fresh capital and if you look at trends in terms of what we have been able to achieve over the last six months of the year or over the last three months of the year, I think the liability franchise is chugging along quite well. More importantly, it is the diversification of this so while the typical capital market kind of investors which are mutual funds etc., are still not really active as far as NBFC paper is concerned beyond two to three names and we are not part of those two to three names but whatever depth and width that we could get in terms of investors at all the large Indian banks to invest in our paper we have been able to successfully do that. We, also in our peer rated category, would have garnered most of the money. So that is also an encouraging sign on the liability franchise. Overall, I think on liquidity we are doing quite well. We obviously would like to do even better and for that I think as I mentioned earlier equity would be a good thing. The other thing that we have also done is set out a formal mandate for the stake sale of our investment in OakNorth and that formal mandate is out. Very material progress is being made with certain key investors and I am hopeful of getting that also behind us in a very, very short timeframe.

Amit Agarwal: Thank you.

Moderator: Thank you. Next question is from the line of Saurabh Kabra from Nippon Mutual Fund. Please go ahead.

Saurabh Kabra: I just have two questions. One is what will be the liquidity position as on June end?

Gagan Banga: June end, we would as a matter of principal continue to maintain around 15% to 20% of our loan assets and that number has been maintained everyday and would has been maintained as of June end or as of today. So we will be somewhere between 15% and 20% of our loan assets, it will be a number well north of ₹ 10,000 Cr.

Saurabh Kabra: In terms of moratorium how much percentage of customers would have availed moratorium in the April and May cycle and how has it change in the June cycle?

Gagan Banga: As I have detailed in my comments the numbers started at about 35% and have declined to about 20%.

Saurabh Kabra: Thank you.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Thank you for the opportunity. First my clarification the moratorium numbers of 35% and 20% these are for the retail business?

Gagan Banga: Yes that is correct. These are for the retail business.

Nischint Chawathe: Second one was on slide 11 you have this data on partnership with FPI on the developer loan book. Now I think it is says that sharing of losses is on a pari passu basis so I was wondering whether if a senior subordinate kind of an arrangement or is it a pari passu arrangement?

Gagan Banga: Sorry, I could not understand your question?

Nischint Chawathe: The arrangement that you have with an FPI on the developer loan side so is the risk sharing on a pari passu basis?

Gagan Banga: Risk sharing is on a pari passu basis. The cash flow, as I detailed, they will have priority on cash flow there is no other credit enhancement that has been provided to them.

Nischint Chawathe: The way it works is that the initial cash flows will go to the senior bondholders and then eventually when it comes to sharing of losses it is equal is it, can you just clarify that?

Gagan Banga: In simple terms as far as these transactions are concerned, the question is generally is there some sort of a credit enhancement or a guarantee provided by us? The answer to that is none.

Nischint Chawathe: Just one last thing, we added around 20% odd ROE guidance for FY2023 that sort of factors in around one-third of loans on balance sheet and two-third outside balance sheet, is that the right reading?

Gagan Banga: Yes that is right, but again as I said ROE for me, if fiscal 2023 has to become 2024 that is not that much of a needle mover as to how we look at things we are quite confident of our business model being able to achieve scale and therefore being able to get there. What one is really focused on is right now and how we tackle over the course of the next three to six months and therefore getting all kinds of moats around us using whatever capital structures we can create whether it is stake sale or equity raise or whatever we will focus on that and then we can focus on getting to 20%. This 20% is within the realm of possibility and the one thing that we have done quite well is on a much sustained basis ramped up ROE till the time that the NBFC crisis did not start. Subsequent to the NBFC crisis started, starting we very early-on itself said that the go to structure for us is going to be securitization. I have at least on two to three occasions over the course of the last five to six quarters indicated that for us the strategy is ‘small is beautiful’ which we have delivered on. We have reduced the loan book by over ₹ 45,000 Cr, which is not a small number. We think we are pretty much now at the bottom of the reduction that we had to do and once the credit environment is better and my team is able to take rational credit decisions, as I have indicated, one is hopeful that from the second half we will be able to start growing again but these are less of pressure points the more important thing is stability, solvency and liquidity.

Nischint Chawathe: Definitely. Thanks a lot. Thank you very much and all the best.

Moderator: Thank you. Next question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: Adding on to previous question I just wanted to know you mentioned that you had raised around over ₹ 9,000 Cr of funds in the last few months. Could you give us an indication of what rate these funds were raised at?

Gagan Banga: These will all be raised at between 8.75% and 9%. This is aside of the developer loans refinance. The developer loan refinance has happened at the coupon which would be underlying coupon of the loan.

Abhiram Iyer: Got it thanks a lot.

Moderator: Thank you. Next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

Nishid Shah: Congratulations, considering the circumstances you guys have done very well. I have two questions. One on the PIL that was fine when is the next date and when do you expect a resolution on that?

Gagan Banga: To the best of our understanding the matter is infructuous. We have also shared in the past through our exchange filing, the Supreme Court of India on a very similar matter to what is being dealt with in the PIL has already called the matter infructuous because both the case which had come up in the front of the Supreme Court as well as this PIL had only one prayer which was that someone should look into our books. All regulatory agencies which are relevant to us have looked into our books, several of them have also filed affidavits in the court and therefore the court and none other than the Supreme Court itself said that if the prayer was that someone looks in, they have looked in, filed an affidavit, the affidavit is clean, the matter becomes infructuous. I believe if the High Court is given an opportunity to hear the matter, it will also rule much in line with what the Supreme Court has done. Last time it was not allowed to hear and simply time was taken by the other side. Unfortunately then the lockdown happened and the courts have not sat. As and when the courts sit as of right now as per the schedule put out by the High Court, the date is July 29, 2020 but the lockdown has been at least extended in Mumbai and I am not aware of what and how the courts in Delhi are dealing with matters and if they started doing normal hearings or are they still doing just urgent hearings so if all is okay then it will come up to be heard on July 29, 2020. From our perspective, all the scrubbing that had to happen both related to this PIL as well as all the skepticism that comes around and such an event happens all that scrubbing has happened and the fact of the matter is that the first to react would be lenders since it is their money at stake and the proof of the pudding is despite so many months having gone passed the lenders continue to support and support how and the proof of the pudding is in front of you. So as far as I am concerned the PIL is sort of an infructuous matter now.

Nishid Shah: That is very useful and it will be important for the PIL to get dismissed by the Delhi High Court for us because we have gone through so much of pain over the last 12 months. My second question was on the dividend payout policy this quarter we have not paid dividend what is your thoughts on the dividend payout policy?

Gagan Banga: For us our shareholders are extremely important and therefore dividend is something which is the way that we have historically rewarded the shareholders for supporting us. The times are extremely uncertain and the management thought that at this juncture it is important to create as large provisions as possible to sit on liquidity, to create capital led moats. One of the single biggest strength of Indiabulls historically has been our high capital levels which have helped us in the past and continue to help us through this crisis. So till the crisis is not over in terms of stability around COVID, predictability around earnings etc., does not come back, I would imagine that the board will advice management to refrain from dividend. RBI has anyways advised banks to also refrain from dividend for the time being. So we would be guided by all of these inputs. On a longer-term basis the dividend payout policy stands at 50% but as I said a short while back for right now it is not about ROE or dividend payouts or anything else it is all about stability which comes through liquidity, solvency and maximizing capitalization levels which is what we will focus on.

Nishid Shah: Thank you. That is very useful. Thank you and all the best.

Gagan Banga: I'll just take one more question. It is quite late in the night so and we are anyways always available for any follow ups you may have.

Moderator: Thank you. We take the last question from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: My question was on the LTVs. What would be the highest LTVs that you would provide on a normal retail housing loan?

Gagan Banga: On a normal retail housing loan, we would be guided by regulatory limitations. I believe on a very small ticket housing loan we can go as high as 85% if I am not mistaken so that would be the highest but the portfolio would be on an average somewhere between 60% and 70% of LTV for the home loan portfolio and under 50% on the LAP portfolio. These are LTVs as are calculated at the time of sanctions, subsequently the portfolios generally amortize and loans come down and therefore the LTVs further improve so what I am saying is LTVs at the time of sanction and not the current LTVs which would have an impact of amortization and on the flip side they will also not have an impact immediately of whatever price correction would have happened so we would be somewhere in a similar range, since amortization and price correction one can assume would be about the same.

Sanket Chheda: For about more than 80% LTVs how much portfolio will be there?

Gagan Banga: It will be very small otherwise and mathematically you cannot achieve on a granular portfolio LTV mix of 60% to 70%.

Sanket Chheda: Sir on the moratorium you said that the 20% is on the retail piece so the developer piece?

Gagan Banga: Would be about 70%.

Sanket Chheda: One last question in the opening remarks you mentioned you have raised about ₹ 9,000 Cr in which you said ₹ 5,000 Cr consists of some bonds and loans, so how much of that would be the bonds, how much loans will be left. You mentioned term loans frequently it will be ₹ 1,200 Cr to ₹ 1,300 Cr but in that ₹ 5,000 Cr?

Gagan Banga: We raised a little over ₹ 2,000 Cr of bonds.

Sanket Chheda: That is it. Thanks.

Gagan Banga: Thank you so much. Apologies again for the delay and thanks for all the support that you have given to the company. I hope all of you and your families stay safe. Good night.

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