"Indiabulls Housing Finance Limited
Q4 FY2021 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q4 FY2021 Conference Call hosted by Investec India. 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. From the management team we have Mr. Gagan Banga, Vice Chairman, MD, and CEO, Mr. Ashwini Hooda, Deputy Managing Director, Mr. Sachin Chaudhary, Chief Operating Officer, Mr. Mukesh Garg, Chief Financial Officer, Mr. Ashwin Mallick, Head Treasury, Mr. Ramnath Shenoy, Head IR and Analytics, Mr. Veekesh Gandhi, Head Markets, Mr. Hemal Zaveri, Head Banking. I now hand the conference over to Mr. Gagan Banga. Thank you and over to you Mr. Banga!

Gagan Banga: Thank you. A very good day to all of you and welcome to the Q4 and full year fiscal 2021 earnings call. I hope each one of you and your families are doing well and are safe. Owing to the lockdown most of us are taking this call from our homes therefore we request that you restrict yourself to high level questions. Granular numbers beyond the ones detailed in the earnings update or on this call can be taken directly from the Investor Relations team by emailing them.

The year gone by has been unprecedented in all of our lives as the COVID-19 pandemic raged across the world. India did well to control the spread of infections in the first wave and supported by government and RBI's initiatives, the battered economy clawed its way back to growth from October - November 2020 onwards; however, the sharp rise in COVID-19 cases since March 2021 has led to the reimposition of restrictions in various states and cities which has impacted economic activity. As the incidence of new cases reduces, the positivity rate in most metro cities is now coming to under 5%. As that happens in more and more cities we expect the economy to open up again in June, thereafter coupled with vaccination gathering pace, we expect a quick rebound in economic activity and growth. We thus expect disbursals and AUM growth to follow this and pickup pace from June onwards.

One silver lining through the last one year has been the resurgence of the real estate sector backed by a structural cyclical shift in the residential real estate space which was going down and down over the course of the last 12 years. The structural shift finally started playing true in September of 2020, supported by favorable parameters such as vastly increased affordability, government duty cuts, attractive prices offered by developers, lucrative payment plans and most importantly low interest rates. The sector witnessed a strong revival across price segments after more than a decade. Despite the economic toll imposed by the second wave, given that most of the structural factors causing the cyclical shift are still very strong one expects the real estate demand to remain strong and emerge stronger through this COVID phase two.

I will now quickly cover the headline numbers for the quarter and the year. I request all of you to refer to the earnings update that has been sent across. Please refer to slide #3.

As at the end of March 2021, our loan book stood at Rs. 66,000 Crores. With greater focus on granular retail loans and our asset light model, we have let our high-ticket loans across all product segments run off.

Our capital adequacy at the consolidated level stands comfortably at 30.7% of which Tier 1 capital is 24%. Our net debt to equity remains low at 3.4x.

Our net interest income for the quarter stood at Rs.764 Crores. The net interest income is after factoring in the reversal of interest on interest on moratorium cases as per the Honorable Supreme Court's judgment.

PAT for the quarter came in at Rs.276 Crores registering a growth of 102% over Q4 fiscal 2020 PAT of Rs.137 Crores. For the full year, PAT was Rs.1,202 Crores. As is evident through the stable profitability of the company over the course of the last five quarters, now, the period of repair for the company is largely over; the period of transition continues but the company has largely stabilized its earning profile and it should begin its upward trajectory as the disbursals start going forward. Growth in profits should also get supported by a declining cost of funds on the back of the rating outlook change that was effected on March 31, 2021. Our funding costs have already marginally moderated and that has allowed us to maintain our spread at about 2.7%.

I had communicated to all of you at the beginning of the year that we had briefly paused our dividend payouts to conserve liquidity, to ensure that the period of repair is shortened and we have tremendous strength or added strength through the period of transition. Now the earnings having stabilized with the period of repair being behind us, I am happy to announce that the company's board has approved of an interim dividend payout of Rs.9 per share and I am quite confident that as profitability increase so will the dividend payout.

Moving on to slide #4, here we have detailed the business goals the company has achieved during fiscal 2021. The three important pillars the management has worked on during fiscal 2021 to fortify the company's balance sheet are i) capital adequacy; ii) liquidity and iii) asset quality. I will cover updates and progress on these three pillars in the next few minutes.

In fiscal 2021, the company has raised a total of an equivalent of USD $515 million of equity/ quasi equity capital. This is the highest amount of equity capital raised within our peer set of AA rated NBFCs. As a result of the capital raise, our capital adequacy stands at 30.7% and our gearing stands reduced to 3.4x. To put this 3.4x in perspective, in 2017, when we were upgraded to AAA our gearing used to be 2x of this at 6.5x to 6.8x.

Our asset quality has remained stable, and this has been an area which has taken an enormous amount of management bandwidth, through fiscal 2021 despite it being a period of acute macroeconomic stress brought about by the COVID-19 pandemic and resultant lockdowns. Our net NPA has actually declined to Rs. 1,285 Crores from Rs. 1,517 Crores in Q1 fiscal 2021. We have had credit costs within our guided range and credit costs for the year have come in at 1.1%.

To further fortify our balance sheet, we have built up total provisions, which are as much as 2.7x of the regulatory requirement and equivalent to a healthy almost 4% of our loan book to be specific 3.7% of our loan book.

As further detailed on slide #6, our gross NPAs as at the end of March 2021 are 2.66% while net NPAs are at 1.59%. This is despite the fact that the company had degrown its book. Had we not degrown our book, the gross NPAs which are at 2.66% would have actually been 2.31%.

Our outstanding retail book which is the core area of focus of the company is now well-seasoned with an average vintage of the book of almost four years, 45 months to be precise. What this implies is that these loans have run down, the borrower's equity has gone up significantly in the finance property and the loan to values have come down. Thus there is a lot of equity and a lot of significant upside for the borrower to continue to service these loans in a very honorable manner. This vintage book should be one of our biggest strengths through this tough economic phase of the second wave of COVID-19.

Our collection efficiency was more or less normalized in the month of April as well. It moved only marginally from March. Logistically speaking we do not see much impact of employee unavailability. With the grace of God of our total collections team of over 1,300 people, only 46 employees got infected by COVID-19 of which 21 have already recovered. So of a team of 1,300 only 25 are at this moment indisposed. We are taking care of our employees and I am sure they should also be back very quickly to join the force.

Our strong provisioning pool, seasoned retail portfolio and strong demonstrated recovery capabilities will ensure that the asset quality will remain stable as it has through a very, very tough phase of fiscal 2021 and I am quite sure that we should be able to manage with a credit cost of between 1% and 1.25% in line with the 1.1% credit cost that we witnessed in fiscal 2021.

A big win for us in the last few months was the revision in our rating outlook by CRISIL to AA with stable outlook from a previously negative outlook. After two years of a negative outlook on our credit rating, the rating has finally stabilized. This gives comfort to our lenders, brings down our cost of funds and the company's management is confident that we are now on a rating trajectory where the momentum should be towards the upside.

On slide #5, we present the elements which will be at the core of laying the strong foundation of our retail asset-light model. The retail asset light model relies on strong partnerships, a low operating cost base and tech enabled distribution.

We have been on a path of consolidating our wholesale loan book in this whole model of repair and transition for the past two and a half years with the exercise gaining immense traction in the second half of fiscal 2021. Just in the month of March, we had seen as much as Rs. 2,000 Crores reduction in our wholesale book thanks to the highest ever sales tractions in the projects of our wholesale borrowers, leading to highest ever collections in escrow accounts of our projects, which are financed by us. This will put us firmly on track to reduce our wholesale book by the guided 33% by March 2022.

To expand our reach and customer base we will continue to open low-cost small tech enabled smart branches. We opened eight of them and we are in the process of opening another 42 to complete 50 new branches by the end of the first half which is September 30, 2021. We should have opened 50 new such low-cost high-tech branches in Tier 3 and Tier 4 cities.

We have also been capacitizing our team to ramp up disbursals and by June we would have added 500 people over March. We will continue to expand our team to be in a position to disburse Rs. 2,000 Crores of loans per month by March of 2022.

In conducting a profitable business, a key lever for NBFC is cost to income. While we do not have immediate control on our cost of funds and through periods of time even credit costs what we can control is our cost income ratio. Our technology-based lending workflow has ensured that we remain at an industry leading cost to income efficiency. In a challenging fiscal 2021 we were able to cut down our staff cost helping reduce the cost to income ratio to 12.8% from 16.2%. While we will invest in both people and technology through the period of fiscal 2022 and 2023, I expect the cost income ratio to remain in a range of 12% to 14%.

The most important strategic area for us to effectively scale up our retail focused asset line business was to consolidate our co-lending relationships. In April, we inked a co-lending arrangement with HDFC Limited for sourcing home loans. We already have a functional relationship with RBL Bank for our LAP loans and with another PSU bank and as we ink one more relationship with a PSU bank for home loans and LAP now our partnerships are complete in terms of their ability to be able to allow us to offer loans across the risk spectrum from low yield to high yield in both home loans as well as in LAP loans.

To cover the third pillar of liquidity and ALM management in some detail; on the pillar of liquidity fiscal 2021 was extremely good and the company was able to raise over almost $5 billion or Rs. 34,000 Crores across bank loans, bonds, portfolio sell downs and equity insurances. To put this Rs. 34,000 Crores in perspective, our total loan book today is Rs. 66,000 Crores, so that is the quantum of liquidity we have been able to raise through this whole period.

On the important topic of ALM management a topic which is discussed often and I have also received feedback is that we have a large bond repayment falling due in September 2021. I thought of using this forum to inform all of you that off the Rs. 6,567 Crores of bonds due for repayment in September 2021, as on date, which is May 20, 2021, we have already repurchased Rs. 4,340 Crores of bonds which amounts to 66% of the amounts due for repayment in September 2021. These bonds sit as our treasury stock. No further monies need to be spent for this Rs. 4,340 Crores of bonds which have been repurchased. To complete the buyback or repurchase or payment of Rs. 6,576 Crores we will only need to spend Rs. 2,236 Crores more. This Rs. 4,340 Crores is not forming part of our liquidity buffer. If you refer to our ALM published on slide #7 and detailed on slide #19 to #23, this has been bought out in great detail. If there are any further questions around this we are happy to answer that.

At this point in time I would like to also highlight that in total the net reduction in our borrowings over the course of the last 32 months has been to the quantum of Rs. 56,000 Crores or around $7.7 billion. Despite this reduction of Rs. 56,000 Crores, despite this repurchase of Rs. 4,340 Crores of bonds maturing in September 2021, we are sitting on a strong Rs. 12,000 Crores of net liquidity, split between around Rs. 13,100 Crores which is lying in unencumbered bank balances and unencumbered bank deposits and we have another Rs. 1,390 Crores which is lying between government securities of Rs.940 Crores and Rs.450 Crores split between bonds, mutual funds and CPs. We had cut cheques, issued cheques to our borrowers to the tune of Rs. 2,000 Crores which had not been encashed as of March 31, 2021, net of that we have we are sitting on a net liquidity of Rs. 12,000 Crores which is completely unencumbered available to us on T+1 basis and does not include Rs. 4,340 Crores of bonds which we have repurchased.

In the backdrop of IBH having raised Rs. 34,000 Crores in fiscal 2021, which is over two times of the repayments for the next 12 months, somehow again the feedback that I have received is that a few stakeholders continue to obsess over balance sheet growth as being the most important parameter to define the strengths and the future prospects of a financial services company.

I beg to defer with them. That is not what Indiabulls Housing stands for. We have an established originate and securitized model as well as strong partners now for co-lending. Who we are is a retail focused, tech enabled, low-cost, mortgage origination and servicing platform. I will repeat who we are, is a retail focused, tech enabled, low-cost, mortgage origination and servicing platform.

We measure our success by our disbursal growth, we value our franchise by its scalability demonstrated by the number of customers we are incrementally acquiring and servicing. The guidance that we give out is that we will grow our disbursals to Rs. 2,000 Crores in March 2022 and increase our customer franchise by 1.5x. What we focus compounding is our customer base, our net interest income, our return on asset, our profit after tax, our return on equity and very, very importantly our dividends.

We believe our sustainability comes from operating on a customer service focused low-cost platform. Our sustainability is not by increasing borrowings perhaps our sustainability is more enhanced by reducing borrowings to be able to achieve all that we will do what we do every day which is invest in our leadership, in our people, in technology and data led innovation.

We will continue to move forward on letting go of wholesale assets and building our retail disbursals. Our strength as I said earlier is origination and servicing of loans. Our partner strength is their access to low-cost granular deposits in CASA, so collaboration is we strongly believe the right way forward. Our partners can capably warehouse credit, which is acceptable to them and thus enable mutual earning compounding.

While I was at business school I was taught that the growth mindset relied on perseverance and resilience and that love of challenge, belief in effort, resilience in the face of setbacks and creative thinking led to greater success. This was my mantra over the last 14 to 15 years that I have been the CEO of Indiabulls Housing and then uncertain times hit us around two and a half years ago and I was wondering if this growth mindset was enough for us to thrive in such periods of uncertainty. Over the last two and a half years we were hit by India's Lehmann moment, impacted by big motivated blackmailing forces, the nation, the world and Indiabulls was affected by COVID, yet we continued to perform and we performed exceptionally well through fiscal 2021 and made the most of it.

While Indiabulls housing has navigated these uncertain times and this very uncertain world so far quite well, we have chosen now that we shall no longer react and navigate. We will create our own fiscal 2022 wherein we will thrive in the chaos around us. It is a very strong strength to have a book where the vintage is as much as 45 months. Leveraging on such strengths even if the future remains unpredictable and the world unstable and we are also a spec in the world so we remain vulnerable, we are determined to prevail against the odds. We have clarity of thought and goal when pursued and we are pursuing it with integrity and teamwork and clear communication of what we can and cannot do.

With this clear communication teamwork and clarity of thought, I am quite sure we will win fiscal 2022. Thank you all for your support through fiscal 2021and I look forward to the same kind of support in fiscal 2022. On this note we are now open to 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 Kang Zheng Gwee from Tahan Capital Management. Please go ahead.

Kang Zheng Gwee: Thanks for the opportunity. My first question relates to asset quality. So you mentioned Indiabulls chose not to degrow its book, the NPA would have been lower at 2.31% so can you explain to me what is the difference?

Gagan Banga: If the denominator would not have degrown and the numerator would have been the same, we would have mathematically arrived at, so hypothetically instead of Rs. 66,000 Crores, we were at the same level we were at a same time last year which is Rs. 75,000 Crores, nonperforming loans of around Rs. 2,000 Crores would have been divided by Rs. 75,000 Crores and not Rs. 66,000 Crores. We have degrown from a peak of around Rs. 1.25 lakh Crores to Rs. 66,000 Crores as part of a stated strategy. Had we not done that and had we continued with those loans, those are obviously very, very good loans which is why they were able to repay us so they would not have normally contributed to NPAs and thus the number would have been even lower.

Kang Zheng Gwee: I observed that even your competitors have reported an increase in gross NPA for home loan so what is the trend during the first quarter?

Gagan Banga: As I said, April collection was reasonably efficient. We were running at about 98.5% sort of collection efficiency through Q4 that has marginally come down by about 30-40 basis points in April and has come down further by another 20-30 basis points in May so we will still be well north of 97% collection efficiencies even in May but the way things are shaping up like in Mumbai, the city is now seeing fairly low numbers even in Delhi, the numbers have declined quite sharply. I am quite sure that the opening up will begin in June and within June we should be able to catch up. Fortunately logistically we are not disabled. We have our workforce which is intact so as of June, I do not expect any significant impact on our gross or net NPA and even for the year, as I have guided our credit cost expectation is that it would be in the range of 1% to 1.25% much like it was 1.1% in fiscal 2021.

Kang Zheng Gwee: Got it and can you give us a breakdown of your gross NPA between the home loans, LAP and the corporate loan books?

Gagan Banga: I will not have that handy but it should be in the ballpark of 50-60 basis points for home loans and about 125 bps for the LAP and around 7% for the developer book but my investor relations team will certainly get back to you with that specific number.

Kang Zheng Gwee: Thank you and what is the AUM break down along those three lines?

Gagan Banga: We have presented that on page #15 so Ramnath would you want to take that question please?

Ramnath Shenoy: I will take that question. If you refer to the slide on page #15 we have retail mortgage loans which are your traditional home loans. Our all of the developer loan book commercial, real estate loan portion, our LAP is split between the CRE portion and the business loans portion. So LAP which are typically larger ticket size or where we have lent to companies or against commercial property would as per regulatory guidelines be classified as commercial real estate. The more retail LAP which are to SMEs or to proprietorships would fall under business loans and retail mortgage loans are traditional housing loans.

Kang Zheng Gwee: One point about the corporate loan book so obviously you have set up the AIF structure and can you remind us how many transactions you have done so far apart from the OakTree transaction?

Gagan Banga: The AIF structure that we have setup is not for the OakTree kind of transaction but OakTree kind of transaction is where we are trying to raise liquidity. The AIF structure that we have been speaking about which we want to do with the investment partner is where we want to put more money to work, leverage on our heavy lifting capability of originating loans, credit approving them or proposing for them to be credit approved and then managing them that is a separate topic. That is a structure and a format which is still work-in-progress. We have done along with OakTree I think we have done three such transactions and two more transactions are underway which should get concluded in the next two to three months.

Kang Zheng Gwee: Thank you and one last final question so obviously the dollar bond is coming due in 12 months time so what is the company's plan for that?

Gagan Banga: I have addressed in great length the September maturity. There are two other repayments which I can spend time on; one is in October which is a $200 million ECB maturity and then in May 22, 2021 there is a $350 million bond maturity. We have no plan to refinance these at this point in time. Our ALM is very robust and thus there is no need to refinance. As was the case when we repaid $167 million earlier in fiscal 2021 of ECBs and roughly Rs.315 Crores of masala bonds in fiscal 2021, we will just pay this out of our liquidity buffers. As I had mentioned earlier in my comments, on a net basis, we have repaid a dollar equivalent of borrowings of $7.7 billion or Rs. 57,000 Crores. Our very clear goal is that we are not focused on balance sheet growth, we are focused on NII compounding. We will originate and securitize or we will co-lend. Thus, any repayment which is already captured in the ALM if we look at our ALM as has been detailed on slide #7, we will have a net cash positive balance of Rs. 13,517 Crores after one year. We have also raised around Rs. 34,000 Crores in the last 12 months. So if we had to just repeat what we did last year which is to raise Rs. 34,000 Crores, we have liquidity of Rs. 12,000 Crores sitting with us today that is Rs. 46,000 Crores. We will have all dues of I think Rs. 16,000 Crores-Rs. 17,000 Crores which is left to be repaid after that also we will have access to roughly Rs. 29,000 Crores from which we can do our disbursals etc. This is not factoring in customer repayments which are coming in to the extent of around Rs. 10,000 Crores. So we will have if all goes well and even if it goes as well as it did in fiscal 2021, whereas fiscal 2022 is expected to be a better year, we will have access to something like Rs. 39,000 Crores after making good all repayments. So we are in a very, very comfortable liquidity position and I thought we should put this conversation around liquidity behind us. We should, having done what we have done in terms of creating the fortress balance sheet around capital liquidity and provisions, I would imagine we should put that behind us and now the company should fully focus on growing its disbursal while it has to continue to spend a lot of time in making sure that the asset quality stays stable.

Kang Zheng Gwee: Thank you very much for the comments.

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

Hari Haran: Congratulations what you have accomplished over the last 16-18 months is spectacular and the resumption of the dividend was also I guess a big accomplishment so well done. Just I have only one question, the announcement regarding your co-lending deal with HDFC and that was very interesting that the largest housing finance company chose to partner with you in terms of but there was some concern as to what the terms of engagement in terms of risk acceptance criteria would be whether maybe you can comment a little bit as to the extent you can as to the understanding with HDFC and that in terms of your ability to be able to originate assets which meet common risk acceptance criteria that is in good shape that is one and secondly how does the HDFC co-lending, how is it going to reside with what you have indicated previously that you are also talking to other entities about domestic and international including the possibility that you know there might be a more than just an originate and sell model with some of these entities there might even be the possibility of equity stake by some of them etc., so maybe you can comment on those two things? Thanks Gagan.

Gagan Banga: Thanks Hari. Thanks for your kind words and your support. I will just elaborate and clarify that the co-lending model with HDFC or for that matter with Ratnakar Bank or the two public sector banks one which is in play and one which is going to come into play very shortly, is basically all the same. The way that it works is that there is a common accepted credit policy and there is a standard operating procedure along with a pre-agreed application form. The customer is sourced by Indiabulls based on the common credit policy. We do a soft approval and at times even do the hard approval. There is this one small nuance between the four different partners. The credit which is acceptable to the co-lending bank or co-lending NBFC is completely their choice. We expect that 99.9% of what gets approved by us should get approved by them because it is all being decided as per a commonly agreed credit policy and there is enough flow of data before we arrive at, at a decision but I must clarify that our credit decision is not necessarily going to be accepted by them. We do a soft approval. They do a hard approval therefore what we are trying to do is leverage on their housing capabilities because they have access to deposits in the case of HDFC, in the case of banks they have access to both deposits as well as CASA so they have that granular deposit base which is also low cost. We have the ability of being able to address the self-employed segment, we have the ability of being able to go to Tier 3, 4, 5 locations and do that business in a low-cost model. That is the strength that we bring to the table. The commercial arrangement is, and one has been very mindful of that, that one is not trying to generate a large upfront fee income. The processing fee is ours. Any third-party product that we sell the commission from that is ours, but what we are emphasizing on is through the life of the loan every month we should earn a trail income which is a spread on 80% percent which resides on our partners book. On the 20 which resides on our book we obviously earn a spread. So a sum total of the processing fee, the third-party product sold or bundled with the loan the fee coming out of that, the trailing income coming out of the 80% which is residing on our partner's books as well as the spread on our 20% all four of these combined is the income that we will be generating from this. Now when a loan goes bad, if it does, then the risk gets shared on pari-passu basis. 80% of the risk is of our partner, 20% of the risk is ours because that is the ratio in which the loan is residing. There is no first loss guarantee, there is no credit enhancement if a loan goes bad interest goes bad. It is a self-correcting market so if a large number of our loans start going bad in the bank's book or in our partners book it cannot do much about the past but it will obviously curtail the co-lending arrangement for the future and not source more business or curtail the credit policy such that we can only source a certain type of business. I hope this has clarified on the co-lending arrangement. Now moving onto the AIF structure, the AIF structure will be for wholesale loans, as I have been saying the first priority of the company was to finish the repair and transition phase. The repair phase is certainly over, the transition phase continues. As part of the transition phase the big goal that we have set for ourselves is to get to a disbursal number of Rs. 2,000 Crores of retail disbursals per month by March of 2022. As we steadily make progress towards that we will also start devoting energies in trying to concretize on the various partnership proposals that we have on our table as far as the AIF is concerned. Given the fact that we have been able to reduce on an absolute value basis our wholesale book by 50% in the last 30 months, people are seeing, a lot of global investors are seeing, a lot of value in the book that we have created. As I was mentioning a short while ago we have also partnered with a few of these investors to arrange for liquidity but the same investors have also seen our book and are appreciative of the assets that we have, which is why we continue to do these transactions. So either with one of them or others we will set up an AIF. We will set it up in the next quarter and have it operational from the second half. Over the next few months we would like to devote all our energies in scaling up our retail disbursals. The third part to your question the equity partnership as and when there is an equity transaction and if that is to be in a strategic partner or a strategic investor structure with most of the strategic investors that management is in touch with, they are completely in sync with the fact that the future of mortgage lending in India is a collaborative structure where there is a marriage between the distributor and the warehouse. There is no point of the distributor being the same as the warehouse. This is what happens in the US and most developed markets. Very few banks keep assets on their balance sheet. Most non-banks do not keep any assets on their balance sheets. They are pre-approved loans. We are trying to evolve to that structure. India is perhaps half a decade away but we are taking the lead in that and all the equity investors, strategic investors are appreciative of this. So as far as the retail structure is concerned there is going to be no rethink on that. Certainly the kind of investors who are talking to us also have their own real estate funds which is why the AIF strategy may marginally change, but on the retail strategy there is going to be no rethink.

Hari Haran: Gagan thank you very much and good luck.

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

Craig Elliot: First of all congratulations again on great results and especially impressed with the maintenance of asset quality during the last year and even during the last couple of challenging months. Now if you would, given the key success you outlined including good vintage and loan to value in your book and a very strong collections team, now, would you give a little more color on do you see these components and maybe some other components as being sort of a sustainable competitive advantage in that area of asset quality, I would just like to hear a little bit more about that?

Gagan Banga: The most sustainable part about asset quality as far as Indiabulls Housing is concerned and the same is true for anybody else whose book is largely secured by property is that unlike unsecured loans where the primary dependence is on the income of the borrower, here there is a lot of comfort which gets built in given the fact that the loan is secured. The borrower is aware that there is a lot of equity trapped and when it comes to cash flow prioritization they would always prioritize from their cash flow to service a loan where they have collateral and the collateral is where the equity value is only going up by the passing month and there is a lot of equity which is trapped in there. So we are clearly benefiting from the bias of cash flow allocation towards servicing of various loans, a home loan or a secured loan by home type of a loan would always get higher priority. The second advantage that we have which is not as strategically thought out as we are now getting it is that over the course of the last two, two-and-a-half years as we have not grown the loans which are there on our balance sheet have increased in vintage and thereby the equity contribution there has gone up which is contributing to their more superior performance. It also is, that the credit risk is extremely well understood by the entire team be it the credit team or the collections team as well as for the slightly larger loans we the senior management team, so we know exactly what is on our plate and we are going ahead and working on that. The third advantage is which is something, which is done us well through the good as well as the bad times is that we are a very early mover as far as the first stage of delinquency detection is concerned. We do not wait for loans to go overdue. Within 24 to 48 hours we press the trigger as far as recovery is concerned. Within the first or the second day of a loan becoming nonperforming we go out there and start the repossession activity which is why as much as 72% of the loans, which have gone overdue in the last four years and by overdue I mean either nonperforming or have been written off, 72% of those loans have already been recovered and I think that number is by far the highest in the industry, most of my banking peers would be a fraction of that. So it is a great degree of focus which has gotten us there. Anecdotally speaking, I was speaking to a private bank and we were discussing delinquency numbers and I told them that let us just focus on the pools which you purchased from me and look at the delinquency numbers there and the bank's CEO was quite surprised that the delinquency that our pools were demonstrating was one-third of the delinquency being reported by in the same asset class which is home loans in their own bank. So it is a combination of all of this. I do not have one answer or one mitigant to what we are doing different to be able to have a superior credit performance.

Craig Elliot: Thank you very much. That is helpful.

Moderator: Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Thanks for taking my question Sir. Just if you could throw some more light on the asset quality in terms of restructuring or DCCO extensions or the ECLGS disbursements that you would have done for this year?

Gagan Banga: Restructuring is zero, ECLGS I think we have in total disbursed Rs.108 Crores some such very small number. It has been insignificant and DCCO falls under the same restructuring piece which is zero so under the guidelines which were prevalent before the recently announced guidelines in April there is practically nothing as far as the new restructuring policy is concerned. We are in the midst of debating that at the board level and finalizing it. Once it is finalized then we will go out there and engage with our borrowers but what the team tells me is that the way that borrowers are looking at it is that if we are eventually going to get reported as restructured we may not be categorized as NPA but it is quasi INPA so we may as well live temporarily with a marginally overdue status rather than be permanently billed as either an NPA or a quasi NPA that is the way that most borrowers thought of it the first time around. Most borrowers I believe will continue with it the second time around also so and it is not something which is hidden. Restructured loans have to be reported as restructured loans in the credit bureau and would remain a matter of record for the rest of the businesses life. So I do not see consumer behavior or borrower behavior changing significantly and as a consequence I do not see the restructuring number being of any consequence in our book.

Prashanth Sridhar: Sure and just since COVID has sort of intensified post April, is there any feedback on the projects in terms of some of the old issues we faced like migration or labor issues that would hinder progress?

Gagan Banga: A large number of projects continue with construction workforce which is in the handle of 60%-65% of what it was let us say in February or March. We moved early and suggested to all our developers to allocate living in space to most of the labor which they were able to build temporary quarters and make most of these people stay. So construction is going on in most of the projects. I have not recently ventured out but from my residence I see a few of our projects and I see the cranes moving up and down every day. I keep getting feedback from my team across the country and construction is going on but about 30%-35% of the workforce will be lower as we speak than let us say two months ago but as we witnessed last time, the labor tends to come back very quickly. As I understand right now, the numbers at least in metros, have started going down so there would be a positive bias for a lot of this labor to start coming back next month onwards.

Prashanth Sridhar: Sure with all the collective measures that you mentioned I believe the stage 2 from your annual report in FY2020 was around Rs. 22,500 Crores so that should have been significantly down now right?

Gagan Banga: No, we will keep it at that otherwise how will we continue to hold such large provisions. So the important thing as far as stage 2 is concerned is that it allows you to hold provisions, but there is insignificant slippage into stage 3 which is what we have witnessed through fiscal 2021. So it would be in the absolute value same ballpark, otherwise we would have had to release provisions which we do not want to. I just guided that we will continue to enhance provisions and run with the credit cost of over 1%. The goal is we are at about 3.7% provisions right now, we should get it to as close as 5%. This is a period of repair and transition. The repair is over, transition is on. Through this period of transition if you are able to build a very solid provision base of 5% then for the next five years management team only needs to focus on business growth and not about provisions and such negative elements which come in from time to time.

Prashanth Sridhar: Thank you so much Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much. I just wanted to understand first on the dividend policy. In this quarter, we have 33% dividend payout so how do we see dividend payout going forward?

Gagan Banga: My sense is dividend policy would be also governed to a large extent by what RBI finalizes. There is a proposed RBI dividend policy for NBFC, so we would at the big picture get governed by that. In my view, if we interpret, we would be able to payout 30% to 40% of profits as dividends. We will do it in a calibrated manner every year and we will look at what the profitability looks like, you will appreciate these are uncertain times. We have come through very strongly through these last five to six quarters and have been able to transition the business into a very safe and stable sort of a setting right now. So the dividend policy would continue at about 30% to 40% provided the regulator allows.

Deepak Poddar: Understood Sir, now we have restarted the dividend, paying the dividend, so we will continue that?

Gagan Banga: Not only we started we are also guiding that as absolute profitability increases, the dividend payout will continue to increase. So in value terms, this 9 should be going to 10 and to 11 as profitability increases.

Deepak Poddar: Fair enough and understood and then how do we see the growth coming into FY2022 so we are just talking a lot about the focus more not on the balance sheet?

Gagan Banga: This fiscal 2022 my friend would continue to be a year of transition so we will start giving guidance on ROA and ROE in about a year or so. First and most importantly, I want to get to an absolute value of retail disbursals. I want to be firmly on track of being able to increase my customer base 1.5 times. Once that is underway, then ROA and ROE are an outcome. Whatever goes into an ROA are essentially three things: cost of funds, we are working towards continuously improving our credit rating, credit cost are stable, cost income, cost income is also fairly good. On ROE while we are not encouraging a model of massive leverage but by having a lot of loans which will be residing on our partner's balance sheet we will be able to get that effective leverage so on both ROA and ROE, the model is in place to be able to get to mid to high teams of ROE and around 2.5% sort of ROA. But is that immediate priority, no, the immediate priority is clearly to ramp up the retail disbursal and increase the scope of that franchise.

Deepak Poddar: Fair enough. I understood, so how do you look at the share of on book and off book so what share we are looking to maintain over the next one to two years?

Gagan Banga: In the initial year it will be largely originated and securitized. It should be 80% of what we do, which will reduce. So fiscal 2022, 80% of what we do will be originate and securitize by fiscal 2025 it will be 60% of what we do so that 80% to 60% migration is something that we have to achieve over the next three years.

Deepak Poddar: Securitization to 60% over the next two to three years?

Gagan Banga: Yes.

Deepak Poddar: That is from my side. All the best.

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

Pranav Tendulkar: Thanks a lot for the opportunity and congratulations for managing through this crisis. Sir, so when you say that 20% of the loan will be on my balance sheet, will it be each and every loan or will it be pool of loans?

Gagan Banga: It is every loan. So every loan, 20% is on our balance sheet, 80% is on our partner's balance sheet, every loan is approved by the partner. There is no pool concept. It exists in securitization, not in co-lending.

Pranav Tendulkar: Right so that is one and second is the eight branches that you have opened, and forty two branches that you are going to open by H2, can you just explain what happens in this branches, what is the economics and how is the disbursement per branch, what are the methods that you are tracking the effectiveness of this bank?

Gagan Banga: These are small 200 square feet two people on the third, fourth floor of a building sort of a branch where these three executives are essentially supposed to only come in scan documents if the customer is unable to scan directly and upload and if there is any servicing related requirement there is somebody that the customer can physically reach out also. That is all that happens in the branch. It is not a credit branch or a branch through which cheques are being disbursed or any massive storage is happening. They will collect the property papers and on the same day basis they will dispatch it to head office. It is essentially a sales and servicing unit.

Pranav Tendulkar: Right Sir. So this Rs. 2,000 Crores run rate that we are saying about disbursement, so Rs.400 Crores will be effectively on our book out of that and the rest of it will be co-lending?

Gagan Banga: Rs. 2,000 Crores is disbursal of which 80% as I said would be in an originate and securitized model. So at the start Rs. 1,600 Crores will be on my book, Rs.400 Crores will be in the co-lending model. Of that Rs. 1,600 Crores, it will be continuously getting churned so the stuff that I am doing right now will get securitized in a few months. That month's book will stay on book but the book of 12 months ago would keep getting securitized. So ultimately the model is that every loan that we do, we do only with a perspective that it has to either get securitized or it is done in the co-lending model.

Pranav Tendulkar: Sir last question on the project loans that we had, Sir in this case is there any more sell downs that are going to happen and can you quantify a roughly amount that could be sold down to in this six months or one year that is one and second is whatever is existing..

Gagan Banga: We are looking at Rs. 4,000 Crores transaction to happen in the next 60 days around wholesale loans.

Pranav Tendulkar: Right and whatever has stayed on our book how has the collection changed what is the percentage completion of those projects, can you just give some more colors so that we get more confidence that this book will take its pace?

Gagan Banga: The proof of the pudding is what has happened is if any of those projects required much of support, the easiest thing for us to do was to restructure them which we have chosen not to. Anyways we carry so much of provision even that would not have come in the way we could have easily restructured them instead of 6%-7% provision we could have increased it to 10% provision. So we did not want to restructure any loan, those loans are self-sufficient. We have continued to deploy a lot of capital through them. I would imagine on an average if I was to look at the book then the book will be at about 60% project completion.

Pranav Tendulkar: Thanks a lot.

Gagan Banga: Thank you everyone for your support and I hope you and everyone in your family and your organization stay safe. At Indiabulls we are trying our level best to support our employees and fortunately a large number of those who got affected have already recovered. I hope everyone stays safe and I look forward to speaking with you again next quarter. Thank you.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.