"Indiabulls Housing Finance Limited Q2 FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to Indiabulls Housing Finance Limited Q2 FY 2021 Earnings Conference Call, hosted by Investec Capital Services. We have with us today 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.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gagan Banga. Thank you and over to you, sir.

Gagan Banga: A very good day to all of you and welcome to Quarter 2 Fiscal 2021 Earnings Call. I will first quickly cover the headline numbers before discussing the business and the quarter in greater detail. I request you all to refer to the earnings update that has been sent across.

Please refer to Slide #3.

- Our loan book stood at Rs. 72,791 crores. As per our estimates and our guidance, this should rise to over Rs. 76,000 crores by the end of the fiscal year.
- Including the capital raised through the QIP and the stake sale in OakNorth Bank, our regulatory capital adequacy has been boosted to 31.4%, of which Tier 1 capital is 24.4%.
- Our net debt-to-equity remains low at about 3.6x.
- Net interest income for the quarter expanded to Rs. 750 crores against Rs. 731 crores in quarter one fiscal 2021.
- Profit before tax was at Rs. 413 crores against Rs. 354 crores in quarter one, while profit after tax came in at Rs. 323 crores against Rs. 273 crores in quarter one, a 18.5% quarter-on-quarter jump.

We have been through a phase of consolidation and evolution that has lasted two years from September 2018 to September 2020. Since quarter four fiscal 2020, we believe that the company has formed a very stable base. In all of our future communications, we will be referring to quarter 4 fiscal 2020 as the base quarter, to measure and demonstrate continuing progress across various financial and operating parameters.

To structure this discussion, we believe that the three most important aspects to our business are:

Capital, gearing, liquidity and funding. Second, asset quality and related topics around retail and wholesale book, collection efficiency, moratorium etc. And thirdly, business outlook around book growth and various lending models. From here on, in all of our communications including this call, besides using quarter four fiscal 2020 as the base, we will structure all our communications to cover these three important aspects of our business.

To begin, I will address the capital, liquidity and funding flow. Amidst tough global and domestic macroeconomic situation, in September 2020, the company successfully raised Rs. 683 crores via a QIP. We are one of the very few companies in the AA/ AA+ rated NBFC category to have successfully raised equity monies. In addition to the QIP, we also raised Rs. 1,895 crores by partial stake sale in OakNorth Bank to various marquee investors. Between the QIP and the stake sale in OakNorth Bank, we have raised a total of Rs. 2,578 crores of equity capital. This is, by far, the highest amount of equity raised amongst all of our AA and AA+ rated peers. Following this, our already high capital adequacy now stands boosted to 31.4%, while net gearing stands reduced to 3.6x. This lends a lot of comfort to both our lenders and to credit rating agencies. To put these ratios in perspective, when Indiabulls Housing was upgraded to AAA by CRISIL and ICRA in 2017, our capital adequacy stood at 21.7% against the current over 31%. And the gearing was 6.2x against the current gearing of 3.6x. On fundamentals, we are thus on a considerably stronger footing than we have ever been.

We have also raised the highest amount of bonds amongst our AA and AA+ rated peers in continuation of what we had achieved in quarter one fiscal 2021. In total, including equity, bank lines, loan sell downs, etc., the company has raised almost Rs. 20,000 crores this year. On our balance sheet, the loan book should grow between 5% to 7% on the back of this ammunition that we have created for ourselves. The monies that we have already raised, which is the Rs. 20,000-odd crores, we have covered 75% of the funding target required for the growth this year.

The details of the monies we have raised are tabulated on Slide #4 of the presentation. We have raised Rs. 1,700 crores of five-year term loans, Rs. 1,230 crores of bonds of maturity greater than 30 years, Rs. 9,500 crores of bonds and loans between one and three years. Not only does the successful funding raise provide liquidity for growth, but it should hopefully also support an upward credit rating trajectory. We believe, the company's demonstrated ability to raise equity capital in such tough market conditions, normalization of its access to debt markets, and resumption of growth shall support the company's credit ratings, and we are quite hopeful that the trajectory will now turn positive over the course of the next few months.

If you now refer to Slide #6, we have shown our ALM as at the end of September 2020. The ALM is shown on a cumulative basis up to each bucket. As on September 30, 2020, Indiabulls Housing had a liquidity buffer, including undrawn available sanctions of Rs. 16,864 crores, which is 23% of our loan book. We are positive across all buckets and will have a positive net cash of Rs. 16,291 crores at the end of the first year. Our detailed 10-year quarterly ALM is in the appendix slides of the earnings update on Slide #23.

This confidence around both liquidity and capital has enabled us to launch buybacks from time to time. Last month, we had launched a buyback for all of our bonds maturing until March 2021. Hardly any of the investors in those bonds tendered the bonds in the buyback program. We are now opportunistically discussing with bond holders who are holding our bonds up to September 2021.

Moving on to the second aspect of the business, which covers asset quality, collection efficiency, and de-risking of the developer loan book. Kindly refer to Slide #7.

Our reported gross NPAs at the end of September 2020 are at 1.98%. This was on account of the Supreme Court directions to standstill the asset classification of accounts that were not declared as NPA till August 31, 2020. If accounts were classified as NPAs after August 31, 2020, our pro forma gross NPAs would be 2.21% and the net NPA would be 1.63% as at September 30, 2020.

Had the company not chosen to de-grow its book in the past one year, the pro forma gross NPAs, which stand at 2.21%, would have actually been 1.89%. One should appreciate the fact that in mortgage loans, the underlying value of land is always there as security. For Indiabulls Housing, most of our underlying loans, both retail and developer, have built up properties, homes or land etc., as collateral. As an example of the strength of the portfolio, even if there are any slippages into either the non-performing category or any loans that are written-off or sold to asset reconstruction companies, the loss given default on such loans is some 25%. In the last six years, our total slippages of loans greater than Rs. 10 crores is in the ballpark of Rs. 5,000 crores, of which almost Rs. 3,500 crores, which is about 66%, has already been recovered. Further, despite COVID times, etc., our NPA numbers have held up and our strong demonstrated recovery capabilities will continue to ensure that the asset quality is maintained. We do not expect our gross NPAs to exceed the upper barrier of 2.5% in the near future.

Moving on to Slide #8.

The RBI announced moratorium concluded at the end of August 31st, at which point, 16% of our individual loan customers had availed of the moratorium. Since then, collections have picked up strongly month on month. Overall, our collection efficiency, including moratorium loans, was at 95.2% for September, which has further improved to 96.1% in October. And in November, we expect the collection efficiency to be in the handle of 97%.

Taking into consideration the improving macroeconomic conditions, as well as our collection efficiency, we do not expect our portfolio quality to worsen. For loans which need handholding, we may utilize the RBIs restructuring window for eligible cases. For most real-estate developers, the eligibility will be very difficult. So, the restructuring window will be used in the rarest of rare situation. We believe that we are adequately provided for any contingency that may arise in the future and expect the overall credit cost, including write-offs for fiscal 2021 to be at within 1.5% of loan book.

As we have been discussing in the past investor calls, we continue to de-risk our developer loan book through refinance and securitization of loans. Even through the lockdown and in fiscal 2021 to-date, we have already done transactions of almost Rs. 3,500 crores and we have a pipeline on which we are executing that by December this Rs. 3,500 crores will increase by another Rs. 5,000 crores, and we would have achieved refinance of around Rs. 8,500 crores in calendar 2020.

Now moving on to business prospects and growth.

After going through a period of consolidation, the company has turned the corner and is now back on the path of growth. Net retail assets have already started growing, asset quality is stable and should improve hereon, on the back of very encouraging trends for the real-estate industry.

Commensurate with the progress on the liability side of the business, the asset side of the business is also coming along well. Multiple macro reports are indicating a strong recovery in residential housing sales across geographies and across price segments. A combination of factors such as all-time low interest rates, upfront discounts being offered by developers, reduction in risk weightages for mortgages, reduction in stamp duties in states, as well as general realization among people during the lockdown phase of needing a larger home have resulted into strong tailwinds after almost eight years for house sales. As per Anarock Property Consultants, home sales volume across top seven Indian cities during quarter three calendar 2020 has already recovered to about 70% of pre-COVID levels. As per the online property portal PropTiger, stock of unsold inventory in quarter three calendar 2020 fell 12% Y-o-Y, while new launches have already reached 79% of pre-COVID levels. Even the premium property market, which had been in the doldrums for the last eight years, saw an uptick over the last few months, with October alone witnessing sales of Rs. 500 crores in the premium South-Central Mumbai localities, compared with sales of only around Rs. 150 crores in the same period last year, thus recording a 230% jump Y-o-Y. Real-estate developers have regained confidence on the premium housing market and 10% of the new launches in the top seven Indian cities were in the premium segment. Home Loan sales have led to an increase in home loan off take. As per NHB data, housing finance companies during September 2020 were at 130% of September 2019 levels, while home loan disbursements by HFCs during September 2020 were at 105% of the same period last year.

Business has rebounded for us as well with disbursals in quarter two fiscal 2021 already at quarter four fiscal 2020 levels. We also are witnessing good traction in loan co-lending. As I had mentioned in our call after the Q1 results, in addition to the co-lending tie up with the PSU bank, we have signed up a co-lending agreement with a mid-sized private sector bank for sourcing LAP loans. I am happy to report that, since then, active sourcing of loans has already begun under this partnership from September and disbursals are steadily gaining traction. The integration phase with two other PSU banks and one private bank is on as we speak. By end of this year, which is 31st December 2020, we will be in market actively sourcing loans with five partner banks and we are well on track to ensure that we get to a number of Rs. 1,000 crores of disbursals through co-lending in fiscal 2021 that will create a very good base for monthly disbursals to reach a run rate of Rs. 500 crores per month in fiscal 2022, and Rs. 1,000 crores per month in fiscal 2023. We are taking very conservative disbursal estimates as of now and are giving ourselves two years to stabilize the co-lending model.

On the developer loan sourcing, our talks with two large real estate focused funds have materially progressed. Here, the plan is for Indiabulls Housing to participate in an alternate investment fund structure to co-invest in completed or near-completed quality residential and commercial assets. The idea is for the investment platform to be in the form of a discretionary fund with an initial AUM of around $500 million. This, through the course of the next six months, will emerge as a major profitability driver for Indiabulls Housing. Thus, on both liabilities and the asset side of the business, and with the macro also now turning positive, our sole aim will be to focus on proper execution of our business strategy.

On Slide #10 to 13, we have described in detail our proposed asset light business model and our return expectation through this model. In 2016, IBH was the first home loan financier in India to introduce a completely online end-to-end digital home loan technology platform. Over the last four years, 28% of Indiabulls Housing incremental loans, that is roughly 60,000 loans, have been fulfilled end-to-end on the eHome loan platform. An additional 42% of the loans have used one or more modules of our eHome loan platform in the loan fulfilment process. Even underwriting and loan fulfilment of a product as complex as LAP is now possible on the same platform, aided by rich data on GST and business vendors. Through enhanced employee productivity and operating efficiency, a home loan fulfilment through digital eHome loan platform saves us 75% of the cost when compared with physical loan fulfilment.

This eHome loan platform will continue to play a very important role in our channel strategy in our next phase of growth. Going forward, in Tier 3 and 4 towns, we intend to employ a 'Phygital' channel strategy, whereby the company will offer fully digital online loan fulfilment through eHome loans for specific target customer segments, which are well versed with technology, while at the same time continuing to serve other customers through its branch model supported by technology backbone of eHome loans. The phygital strategy will help drive expansion into geographies with lower competitive intensity and thus contributing to better margins at low cost to income and all of this will happen without dilution of any credit standards. It will ride on the eHome loan infrastructure with lean spoke branches, logging in digital/ scanned loan applications, which are underwritten at centralized regional credit hubs. We intend to add 50 new branches in Tier 3 and 4 towns using this model in the next 12 months.

Now, please refer to Slide #14.

We have been continually working to improve standards around corporate governance. We seek to implement robust, resilient and best corporate practices in every facet of our operations and all spheres of activity. I personally strongly believe if we have to repeat the 10-year steady compounding that we had achieved through 2009 to 2019, over the course of the next 10 years we will continue to need to strengthen the corporate governance practices that we adopt.

In continuation of this thought, in August 2020, the Board had appointed Mr. Mundra, ex-Deputy Governor of the RBI as the non-Executive Chairman of the company. Today, we have also appointed Mr. Siddharth, who served as a partner at the Big 4 audit firm Deloitte Haskins & Sells for 33 years to Chair the Audit Committee of the company. Mr. Siddharth had been inducted as an Independent Director a few months ago. Indiabulls Housing has always tried to have a diversified and highly experienced independent board and has had an ex-Deputy Governor of RBI on the Board for now six years. Within the next few weeks, we are also inducting a very eminent personality who is an ex-MD of a bank on to our board.

We have always had one of the Big 4 audit firms as our external auditor for almost a decade now. Our current statutory auditor is E&Y, prior to which we had Deloitte as our statutory auditor. We also have Grant Thornton as our internal auditor. Reputed audit firms serve to ensure transparency, accountability, and proper risk assessment and mitigation planning which is in the best interest of all stakeholders.

Over the past 1.5 to 2 years, on account of various macro and micro factors, the company's book has gone through a lot of scrutiny by all the relevant regulators as well as independent auditors at the behest of our bank lenders. Through all such inspections and audits, other than regular operational areas of improvement, no red flags have been reported. And all of these audits and inspections are over. Our books have come out absolutely clean with no deviation in NPLs observed by the regulator. It is an outcome of this that we have been able to raise such large sums of money in the current financial year from the same bank lenders who had conducted several of these audits and inspections on us.

To just put governance in perspective, kindly referred to Slide #15, which gives out details of our returns on our investment in OakNorth Bank. Many of you, who have been following the company since 2015, would recall when in November 2015, almost at the same time of the year, two or three days before Diwali, we had made this investment and the next day the stock had corrected 25% and there was a lot of chatter around governance, etc. Five years later, the returns from the investment are here for everyone to see. The investment has yielded us an annualized IRR of 35% over five years, multiplying our investment 4.5x. This would possibly be higher than returns of almost all well-managed top investment funds across the globe. Against our investment of Rs. 663 crores in 2015, we have already realized Rs. 2,663 crores from stake sale, while our residual stake off approximately 2% is still worth around Rs. 300 crores, that is half of our initial investment. So Rs. 2,000 crores is already in excess of our investment been realized and liquidated, and the residual stake is still worth half of the initial investment. It has been an extremely profitable investment despite the pain which came in the initial phase of the investment.

As I have said earlier, I would like to again repeat, that while some decisions of ours with benefit of hindsight may seem wrong, even at times stupid, there is never malice in any loan or investment decision taken by the management team. Success of any business depends on the trust and support from all of its stakeholders. Through this difficult period of the past two years, it has been our continuous endeavor to maintain the trust of our lenders as well as investors. Our efforts have borne fruit as we have received tremendous support from both our lenders and equity investors, which has helped us sail through one of the most difficult times for the sector. It will now be our goal to repay the trust shown by our stakeholders in us.

To quote Sadhguru, who I deeply believe in, "Confidence is no substitute for clarity". To be successful you need clarity, not confidence.

With great clarity, we have charted out our path for future growth. This path for future growth will get us to the dividend paying company that we have been since our listing. And with great confidence, I can assure that within fiscal 2021, we will start rewarding our shareholders with dividends. The management team wishes to now solely focus on execution with complete clarity of thought.

On this note, the IBH management team is open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Abhiram Iyer from Deutsche CIB Center. Please go ahead.

Abhiram Iyer: First, I would like to congratulate the company on a good set of numbers and good set of results, clearly these have been difficult times and they have come out well. I had a few questions pertaining to the ALM and the liquidity. Sir, could you please let me know what is the split between unused lines and cash and equivalents in the ALM? Right now, you are showing Rs. 16 billion as the total availability, so what's the split?

Gagan Banga: So, about Rs. 12.5 billion is the cash and cash equivalents, and the remaining would be undrawn lines. As you are aware that our borrowing cost is in the handle of 8.5%, and currently when we invest in liquid funds or fixed deposits, we are getting only about 3%. So, the negative carry has increased to 5.5% percent. In order to do that, and given the fact that now the environment is a lot, lot more stable, we would continue to have this split where about 65% to 70% of the cash buffer would be held as cash and liquid investments, and the balance 30% - 35% would be held as undrawn lines.

Abhiram Iyer: And the figure is Rs. 125 billion, I mean, the total number is Rs. 160 billion, of which 125 billion is in cash?

Gagan Banga: Yes, it is Rs. 12,500-odd crores in cash and Rs. 4,000-odd crores in undrawn lines.

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

Hari Haran: Gagan, congratulations on not only a good set of numbers, but a first-class presentation. The concept of anchoring to fourth quarter 2020 and using that as a base and the three silos in which you addressed the presentation was first class, well done. Here is the question. It seems to me that for the quality of the amount of capital you raised, the level of liquidity and solvency you see, the comment you are making about both the credit quality and the collection successes, it seems to me that the company is selling at an absurd multiple of 0.4 price-to-book. So, I am just sitting and wondering, what is it about the situation around the company that the domestic equity investor base is failing to appreciate? In other words, is the asset-light model suggesting that the balance sheet will not show growth? Is that not being correctly perceived by the market? In other words, is balance sheet growth viewed as a traditional old-style commercial bank growth metric? And is your explaining of that proposition to the market not very clear? That's question number one.

Number two is, from a perspective of the rating agencies, again, when you look at some of the tables and show the metrics, your metrics are far better than when you were AAA. So maybe, could you clarify what is the quality of the discussion you are having with rating agencies? And then the final question is, in terms of your funding sources, you obviously have done a very good job of taking advantage of both the Reserve Bank related programs and what the public sector banks are willing to do. But some of the historical investors like mutual funds, are they showing any interest or are they going to be waiting to get a rating agency affirmation? Could you please comment on that also, thank you.

Gagan Banga: Thank you, Hari, for your kind words, your advice and support. So, there are there parts to your question, as I understand. One is, is the asset-light model being appreciated? As I understand that the company was going through a transitionary phase where we ourselves were unable to give growth guidance through the period or any sort of business guidance for practically 1.5 years, between September 2018 and early calendar 2020. And through this period, obviously, there was a lot of disillusionment, earnings came off. What we failed as a management team was to effectively communicate that de-growing was actually very sound business logic, given the fact that not only does it improve on your solvency, but it also demonstrates, on a long-term basis, the quality of the portfolio that we had created, that in a period where risk aversion was running at its highest that I have witnessed in the last 2, 2.5 decades that I have been working, there were other lenders who were still willing to refinance our loans. This de-growth caused a fall in earnings, which caused the stock prices to get corrected. And midway through that, we started with the process of trying to merge with the bank, which may have led some to believe that we do not believe in the long-term prospects of remaining a housing finance company. The bank merger did not go through and we came back to being a housing finance company and came up with this asset-light model.

In India, the classic way that companies have been valued, and that was also the belief that we had was the balance sheet has to continue to grow. This model of origination and securitization is the classic model for mortgage lending adopted in most parts of the Western world, it is still to be tested in India, somewhat. At Indiabulls Housing, we have already taken it to scale, if you look, at I don't recollect the exact slide, but one of the slides shows that we have already done securitization to the tune of Rs. 63,000 crores of disbursed loans. At $9 billion we have already demonstrated scale, but we need to re-demonstrate it over the next few months as we establish the co-lending model with multiple partners and take it to a scale. I am quite confident that once we get to a scale of $100 million of monthly disbursals through this model, the market would be assured that this is truly a scalable model. Me and my team, we are convinced that this is the way to collaborate with banks to work with them on a long-term sustainable basis.

At this time, I will jump on directly to the third part of your question, as in some of the historical investors and how what is the level of engagement that we have with them and what are they thinking about the company. I am not so deeply engaged with them; I am very deeply engaged with my banking partners. And we are very clear that we have to adopt for long-term growth, which goes and cuts across decades. We have to continue to collaborate with banks, grow our balance sheet at a rate which is significantly lower to the rate at which bank credit growth happens in India. So, we do not have this risk of becoming a larger and larger exposure as a percentage of the bank. If we are able to achieve this collaboration, we really do not need any other provider of capital. Alternate providers of capital are very valuable, but it is a situation where if you need the money you will never get it, when you don't need the money there will be a few outside your door. We need to get to that situation. Some of the other smaller non-bank finance companies used to, I would always wonder as to why they grow at the rate that they grow, and why don't they do issuances in the bond markets. And now I realize that they have probably gone through this in the late 90s and the early 2000s, where they have chosen to adopt a tactic that let people come and bid for their bonds, rather than the other way. And that's the type of a business that one would want to adopt.

The engagement with the rating agencies are extremely constructive. Rating agencies are or had been looking at liquidity, they moved on to looking at capital and at this point in time, they are looking at credit quality. The macro is now easing up on credit quality. Collection efficiency numbers, not only for us, but across the industry are showing an encouraging strength. Given all of this, I am very, very confident that the rating trajectory would be on the positive side over the course of the next few months itself. Rating agencies have historically been extremely constructive and have been hugely supportive and we have also never indulged in rating arbitrage. For the last 16 years, we have been rated by multiple rating agencies. For the last 10 years, we have been rated by as many as four rating agencies. So, I am quite confident on my engagement with the rating agencies. I am quite confident of getting to Rs. 1,000 crores of disbursals within the calendar year on the co-lending model. We are already there in the market doing that and if we continue to collaborate; other pools of capital will certainly queue up for our bonds rather than the other way around. I hope I have answered all your questions, Hari.

Moderator: Thank you. The next question is from the line of Subrat Trivedi from SBI Life Insurance. Please go ahead.

Subrat Trivedi: The first few questions are on the developer loans. So, most of the peers in the HFC space are shying away from this segment and are focusing solely on retail. Whereas your strategy seems not completely stop, but to have a different model where you are partnering with credit risk funds and taking a lower exposure on the book. So, if you could give some more colour on why are you adopting this strategy?

And secondly, just some numbers. So, what is the developer book now? And when you say you have refinanced 'x' amount; does it move away from your book?

Gagan Banga: Thanks for your questions. See, the strategy is very clear that what Indiabulls Housing would do would be pure retail loans on the balance sheet. That said, historically, our strength has been that we understand the real-estate space, and we can be a great origination partner for other pools of capital, which globally have exposure to real-estate developers. We do not wish to put a large part or a material part of our capital to work as far as the real-estate developer segment is concerned. But at the same point in time, we can utilize this knowledge that we have acquired to drive up the profitability of the company and for that, we have thought of an alternate investment fund structure. We will continue to fully focus our energies on the retail part of the business around home loans and LAP, and within home loans to look at leveraging our digital platform, to go into smaller cities, so that's the area of focus. But we shall also leverage on our origination capabilities, our collection capabilities and management of project capabilities, and offer all of these services to global funds which are looking at the Indian real-estate opportunity.

Again, if we are to look at the Western world, then in the Western world, products such as construction finance, etc., are usually provided by specialized agencies, which are fund backed and not backed by banks. And that's the same transition that India is going to take. In India, this market is completely open right now, there are hardly any providers of capital. So, if we can find the right partners who are willing to put their capital at work, we can certainly leverage on our strengths.

As far as refinance is concerned, there are two or three models in which refinance happens. One is the absolutely complete 100% refinance which happens via bank or another housing finance company. The other is where credit funds come in and we do refinance. In none of these structures are we giving any sort of guarantee of any sort, either our loan is 100% taken or taken to the tune of 40% to 65%. That 40% to 65% liquidity is provided to us upfront and further capital is allocated such that the under-construction projects can get completed without it being a drain on our liquidity. So, this gross number of roughly Rs. 20,000-odd crores of refinance that we have done, none of the Rs. 20,000 crores have any tail risk on us. This Rs. 20,000 crores have been received with no tail credit risk on us.

Subrat Trivedi: Thank you. Just one small clarification on this. So, I understand that in September 2018, which is the base year, which is mentioned in that slide, the developer book was around 20% or roughly maybe around Rs. 20,000 crores. And so, if a lot of that Rs. 20,000 crores has been refinance so where does that book stand now?

Gagan Banga: So, at that point in time our assets were about, if I am not mistaken, Rs. 1.3 trillion, it was 20%, so it was about Rs. 26,000 crores- Rs. 27,000 crores. This is gross refinance which happens. We have to continue to disburse loans such that these projects get completed. So, this is not the net number of reductions, I can get back to you as to what the net number of reductions from that base would be.

Moderator: Thank you. The next question is from the line of Rui Zhang from Triada Capital. Please go ahead.

Rui Zhang: I have a couple of questions. So, regarding the growth for the rest of the year, I think the management is guiding 5% to 7% growth for the full fiscal year. Given the lack of growth in the first two quarters, how do you plan to reach that number? That's my first question.

Gagan Banga: I am sorry, I did not get the second question, could you please repeat that? I got the first one about the growth. Second part I did not get.

Rui Zhang: Yes, second one is about the dividend payments that you are planning to do this year. You mentioned you are reinstating dividends for FY 2021. So, I am just wondering to what extent and how the company plans to balance the dividend payments and the concentration of liquidity? And the third question is, could you elaborate more on the transaction structure of the AIF sell down that we did in late October? And how is this structure differently from the one we did earlier this year?

Gagan Banga: Okay. Sure. So, as far as growth is concerned, in line with how other stakeholders are thinking, for us, there were two or three things that we needed sorted out first, we needed to be sure about our liquidity, we needed to be sure about being able to maintain our gearing at between 3.5x to 4x, and we also needed to be extremely confident about the opportunity to lend money in a safe manner. With COVID-19 behind us, with the capital raise behind us and in total liquidity of almost Rs. 20,000-odd crores having been raised, and 75% of the borrowing plan for the full year having been achieved, one is now quite confident that the balance sheet assets can operate in a range of Rs. 70,000 crores to Rs. 76,000 crores between quarter three and quarter four. We will continue to run down our developer book and continue to increase our retail disbursements. As we do that, mathematically, we get to a number of Rs. 76,000 crores, and that's the guidance that we have given that by the end of the year we will get out Rs. 76,000 crores by just increasing our retail disbursals and also simulating the Rs. 5,000-odd crores reduction that one has spoken about as far as the developer loan book is concerned.

The second question is around dividend. The long-term dividend policy of the company has been to pay 40% to 50% of our profits as dividends, and that would continue to be the long-term policy of the company and we are quite confident that fiscal 2022 onwards we will be paying out 40% to 50% of our profits as dividends. Over the course of the last 15 years of our listing, we have paid out over Rs. 300 per share of dividend, over Rs. 11,500 crores as dividends and that is the way, we believe, we reward our shareholders. For this year, it would be more a token sort of a dividend payout, more a reward for the shareholders who supported us through this period in the fourth quarter, that's the plan and it would also, in some ways, be a testimony of the normalcy having been achieved and growth having returned to the company. Long-term dividend payout policy would be the same, 40% to 50% of profits would be paid out.

As far as the transaction structure with the AIF transaction that we did earlier in the month, it is not very different from the previous transaction, that was where the incoming fund had directly invested into the NCD of the real-estate developer. Here, it has been done by an AIF. There, the incoming fund held a senior NCD and we held the junior NCD. In this particular case they hold units which are senior units and our units are junior units in the AIF, and the AIF has invested in one NCD of the developer, there is no junior and senior NCD. So, it is a pretty much similar structure that there is one extra layer as far as this round of transactions are concerned. In the transactions that we have envisaged in over the course of the next two to three months, both the structures which have been used so far would be adopted. And we should together be able to get to that Rs. 5,000-odd crores number. I hope I have answered your questions.

Rui Zhang: Yes. So, for the fund structure, the junior units, what are the advantages of the senior units versus the junior units? Are they getting earlier cash flows versus the junior units? And how is the risk being shared between the junior and senior units, are they getting shared over the life of the fund and the differences in timing of the cash flows or they are different in terms of our risk sharing?

Gagan Banga: So, the structure is pretty much the same as is in a senior, junior bond, both the senior and the junior have the mortgage, it is there for both. We received the liquidity upfront and, therefore, the senior holder will have access to the first cash flow, we will have access to the second cash flow. But we have also received liquidity. And the senior holder will be providing additional liquidity to the project for the project to get completed. So, the structure is pretty much the same. In this case, there is an investment manager, Edelweiss, who is managing third-party funds. Whereas, in that case, it was the direct hedge fund which had come in or the direct credit fund which had come in, and therefore, an AIF was not required. It's just that in this particular case, since there is an investment manager, so we had to create this sort of a structure. Otherwise, the mechanics of it is pretty much exactly the same.

Rui Zhang: Okay. And my last follow-on question is on the growth side. So, what is the target on the loan book side that we are trying to get by the end of fiscal 2021?

Gagan Banga: End of fiscal 2021 we are looking at getting to a 5% to 7% loan book growth, which will get us to assets of about Rs. 76,000 crores, and thereon we are looking at about a 20% growth in AUM, and a continuing 5% to 7% growth on balance sheet. So, our balance sheet will grow approximately at about 5% and our AUM will grow fiscal 2022 onwards at about 20%.

Rui Zhang: Okay. So, I don't think we have indicated the size of the AUM as of end of September, would you have this number?

Gagan Banga: I am sorry?

Rui Zhang: AUM size as of end of September 2020?

Gagan Banga: AUM will be about Rs. 90,000 crores.

Rui Zhang: So, is it right understanding that reduction in the run down in developer loans will be largely compensated by further disbursement under the home loan business? And that will take us to Rs. 76,000 crores of loan book towards the end of the fiscal year?

Gagan Banga: That is absolutely correct.

Rui Zhang: Okay. And the target of reduction in developers’ loan, are we still looking at reducing further $400 million?

Gagan Banga: On a net basis, yes.

Rui Zhang: Okay. So that would take us overall to $800 million reduction, correct?

Gagan Banga: I will have to reconfirm on that number, on the overall I don't have it back of mind. But yes, on a net basis $400-odd million of reduction will happen, on a gross basis about $700-odd million will happen here on.

Rui Zhang: So, $700 million is the gross and $400 million is net?

Gagan Banga: Yes.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: As you have shared the industry data, September versus September has been good amount of disbursement growth, 105%. So, I need to have your view from the industry point of view, is this because the last four or five months there was no sell down? There is a pent-up demand which is visible now? Or is this demand more sustainable going forward, what is your view from industry point of view on that? Thank you.

Gagan Banga: Thanks for your question. I assume you are talking about residential sales and there being a pent-up demand in that, is my understanding correct?

Bunty Chawla: Yes, sir.

Gagan Banga: So, I don't think it is a pent-up demand, it is more about the macros of low interest rates, the home becoming more affordable, so many government schemes, stamp duties, price correction. So today, if you look at it, property prices are actually lower on absolute value basis than they were 10 years ago, in the mid to the premium end market in most locations. And in the same period, salaries would have gone up 3x at least. So, affordability has significantly improved because the last eight years there have been hardly any traction in momentum on the resi-sales cycle. And it's just a culmination of a lot of things coming together. The clear trend also is that whatever sales momentum one is witnessing, it is being witnessed only in apartments which are either ready or are getting ready, it is not being witnessed in early stage launches, etc. So, given that the emphasis and the opportunity have to be around getting apartments ready, if they are ready, they will sell.

From the home loan side, there is a lot of opportunity in being able to finance these ready units, thus the risk in the business has come down and it has opened up opportunities for specific credit funds to come and do the heavy lifting, as far as giving the construction money is concerned. So, in all, the opportunity has opened up many folds, the risk has gone down significantly in the business. And given the fact that it is based on very hard macro factors, very fundamental factors, one imagines that finally the residential real-estate cycle which had been down for about a decade has turned. Real-estate cycles are in generally step cycles, they extend over typically eight to 10 years, this one has extended the full 10 years and now hopefully it has turned.

Bunty Chawla: That's very helpful on the industry point of view. From the company point of view, over a longer period of time what will be the percentage between project portfolio as well as the home loan portfolio, what we should see on a longer-term point of view?

Gagan Banga: By fiscal 2023, the wholesale book should be in single-digit percentages for the company and will stay there. Our endeavor is to continue to reduce that as a percentage of our AUM. And this is a retail lending company. On an incremental basis we breathe only retail loans. Our distribution is focused around retail loans, a small part of the company is making sure that our projects get completed, such that there is no credit risk to the company. But every day, from morning to night, all we are thinking about is now how do we do more retail loans.

Moderator: Thank you. The next question is from the line of Gaurav Singhal of single from BK Partners. Please go ahead.

Gaurav Singhal: I just wanted to check, on a quarter-on-quarter basis, our on-balance sheet loan book has shrunk by Rs. 340 crores. Do you mind helping split that into wholesale and retail movement for the on-balance sheet? And also, for the upcoming December quarter, if I understood correctly from the previous question, we expect the wholesale to shrink on a net basis by about Rs. 3,000 crores? So, if you can also maybe give us some guidance on what you are tracking for both wholesale and retail for the next quarter.

Gagan Banga: Yes, it would be very difficult for me to give sort of a quarterly breakdown on this. But yes, over the second half of the year we will be able to increase the retail disbursals in a manner, and this is basis what we are achieving on a steady-state basis today, to be able to offset the wholesale book reduction which we expect to be on a net basis of around Rs. 3,000 crores, such that the overall book rises from here by about Rs. 3,000 crores - Rs. 3,500 crores to reach Rs. 76,000 crores. The quarterly transition between the wholesale and the retail book can be provided by the IR team and I will tell them to reach out to you offline. Directionally, the wholesale book will continue to go down, the retail disbursals quarter-on-quarter will continue to increase. We have already reached quarter four numbers of roughly Rs. 3,000-odd crores and these will continue to increase at about 30% to 40% every quarter. So, if we just do that math, we are able to get to a net asset on balance sheet of about Rs. 76,000 crores.

Gaurav Singhal: Got it. And for the current September quarter numbers, do you have the split between retail and wholesale out of the Rs. 76,000 crores you are talking about?

Gagan Banga: I don't have it off hand; we can reach out to you and discuss these micro numbers specifically.

Moderator: Thank you.

Gagan Banga: So, thank you, everyone, for taking out the time and continuously supporting us. As I said during the call, I think we are seeing much better times for the world, for the country. And it seems that the world is also winning its war against COVID. I am quite confident that the retail loan book growth which we have started witnessing and will only accelerate over the course of the next few months and we should be able to deliver on the guidance that we have provided here. On that note, I would like to say thank you again and goodbye. See you in January.

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