“Indiabulls Housing Finance Limited
Q3 FY2021 Earnings Conference Call”

February 12, 2021

MANAGEMENT:	**MR. GAGAN BANGA - VICE CHAIRMAN, MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - INDIABULLS HOUSING FINANCE LIMITED** **MR. ASHWINI HOODA - DEPUTY MANAGING DIRECTOR - INDIABULLS HOUSING FINANCE LIMITED** **MR. SACHIN CHAUDHARY - CHIEF OPERATING OFFICER - INDIABULLS HOUSING FINANCE LIMITED** **MR. MUKESH GARG - CHIEF FINANCIAL OFFICER - INDIABULLS HOUSING FINANCE LIMITED** **MR. ASHWIN MALLICK - HEAD TREASURY - INDIABULLS HOUSING FINANCE LIMITED** **MR. RAMNATH SHENOY - HEAD INVESTOR RELATIONS AND & ANALYTICS - INDIABULLS HOUSING FINANCE LIMITED** **MR. HEMAL ZAVERI - HEAD BANKING - INDIABULLS HOUSING FINANCE LIMITED** **MR. VEEKESH GANDHI – HEAD MARKETS - INDIABULLS HOUSING FINANCE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q3 FY2021 Earnings Conference Call hosted by Investec Capital Services. 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. To discuss the quarterly performance of Indiabulls Housing Finance we have with us 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: A very good day to all of you and welcome to the quarter 3 FY2021 earnings call.

While we have largely resumed working out of our offices, some of us are taking this call from our homes. Therefore we request that you restrict yourself to high level questions; granular numbers beyond the one detailed in the earnings update or on this call can be taken directly from the investor relations team by emailing them.

I will first quickly cover the headline numbers before discussing the business and the quarter in greater detail.

I request all of you to please refer to the earnings update that has been sent across.

Please refer to slide 3:

- Our loan book stood at ₹ 70,282 Cr. On the back of the up-cycle in the real estate sector, we are seeing strong traction on developer loan refinance
- Our regulatory capital adequacy stands comfortably at 30.5% of which tier I capital is 23.7%, well ahead of the regulatory requirements
- Our net debt to equity remains very low at 3.3x
- As cost of funds have started to moderate, spread on loan book has marginally expanded, leading to a rise in our net interest income, which for the quarter rose to ₹ 809 Cr against ₹ 750 Cr in Q2 and ₹ 731 Cr in Q1
- PBT was at ₹ 437 Cr against ₹ 413 Cr in Q2 and ₹ 354 Cr in Q1 while Profit after Tax for the quarter came in at ₹ 329 Cr against ₹ 323 Cr in Q2 and ₹ 273 Cr in Q1

On slide 6, we have detailed the building blocks of the business going ahead. I request you to refer to this slide. The blocks detailed here are our key focus areas for the next few quarters and years. This will help us build a larger granular profitable book, increase our customer base, and enhance profitability.

For the past several quarters, we have been running down our developer loan book and this consolidation continues to be an area of key focus.

We will now also very shortly begin with incremental lending to the developer segment through an AIF structure in tie-up with a foreign portfolio investor, who will be a partner in the AIF. The discussions to this end have ended and now the setup of the AIF etc., backward process will begin shortly. We expect to start business via this route by quarter 2 of fiscal 2022.

As far as the main balance sheet is concerned, we will continue to de-risk our developer loan book through refinance and securitization of loans. With the pickup in the residential real estate cycle, we have been seeing strong traction in developer loan refinance. By March 2021, we are on track to generate liquidity of further approximately ₹ 3,000 Crores through refinance /securitization of the developer loan book. Overall, we have set a target to reduce our wholesale book by 33% from here by March 2022 and by 50% by December 2022.

The next area of focus is to expand our distribution reach for retail loans. We are already in the process of adding technology enabled smart branches in up-country locations. Our near-term target is to add 50 such branches by September 2021 to our branch count at the end of September 2020. We will be able to realize better yield on these retail loans and this will also serve to diversify our loan book and customer base.

The most important goal is to increase our customer base by as much as 50% by March 2023 and double it by March 2025.

Our people have historically been our greatest strength, and this is our next core area of focus. While I was recently looking at data, I was gladdened to note that the top 200 people of the Company, who really managed and oversee the day to day operation, have been with us for an average of 9+ years. People are our engines of growth and as we look to take advantage of this residential real estate upcycle, we will expand our team such that we are in capacity to be able to disburse as much as ₹ 1,500 Crores of retail loans a month by September this year and by March 2022 we should be able to disburse as much as ₹ 2,000 Crores of retail loans in a month. Given the fact that it is the same 200 people who used to oversee over ₹ 2,000 Crores of retail disbursals in 2018, this is a very, very achievable target.

Next, with our co-lending partnerships falling in place, we can now leverage on it to give us a balance sheet light growth and profitability. We have scaled up to five partnerships from the present two and the implementation of the new relationships will begin by quarter 1 of next fiscal. With our current partners, we have started achieving meaningful traction and with all of this we are scaling up to achieve ₹ 1,500 Crores of quarterly disbursals through the co-lending model by September 2021. In parallel, we have also begun work on a technology platform to give us one interface to integrate with the systems of our partner banks such that we can seamlessly source and onboard loans to partner banks wherever the jointly agreed trade policies converge. This interface is also targeted to be operational by September 2021.

Another key technology initiative we are working on is to create a technology driven housing solutions' ecosystem. We may also do a small technology company acquisition to implement this. We want to create a platform, which provides to our target customer in a wide age group of 25 to 55 years, services for renting, sale, purchase, resale, upgrade of house. So the entire real estate ecosystem when you start working at around the age of 25 to around the time that you are buying your final house, the entire ecosystem is what we wish to cater. This will form a ready customer base for us and will also open up multiple fee generation avenues. We are looking to make substantial progress on this by September 2021 and an update will be provided to you on a quarterly basis.

These will be the building blocks of our business going ahead. Besides this outlook, as communicated in our last earnings call, I will get into the other two important aspects of our business, which are capital gearing, liquidity and funding and asset quality.

Starting with the capital gearing, liquidity and funding.

Following our QIP and stake sale in Oak north, our capital adequacy now stands boosted to 30.5% and the net gearing at a low 3.3 times. This lends to a lot of comfort to both our lenders and credit rating agencies.

Our borrowing program has shaped up well. Our funding cost have started to moderate with cost of funds now having gone below 8.5% on book basis. This has thus helped expand our spread on book to 2.6%. In addition to availing funds at decreasing cost, we are also raising large sums of long-term monies of over five years tenure, which bodes well for our ALM. Overall, in fiscal 2021, the company has raised a total of over ₹ 28,000 Crores through equity, bank lines, bonds, and loan sell down. The details of monies we have raised are tabulated on slide 4 of the presentation. Not only does the successful funding raise provide liquidity for growth, but also supports an upward credit rating trajectory.

We believe that the company has demonstrated ability to raise equity capital in tough market conditions, normalization of its access to debt markets, and resumption of growth prospects supports the company's credit ratings. We are in continuous touch with rating agencies, movements in ratings are largely also driven by macros and with the strong tailwinds for the residential real estate sector, house sales which are at multiyear highest in quarter 3, we are fully expecting the companies rating trajectory to turn upwards now.

If you now refer to slide 7, we have shown our ALM at the end of December 2020. The ALM is shown on a cumulative basis up to each bucket. As on December 31, 2020 we had liquidity buffers, cash, investments, and undrawn available sanctions of over ₹ 17,000 Crores covering over 20% of our loan book. We are positive across all buckets and have a positive net cash of almost ₹ 14,000 Crores at the end of the first year. Our detailed 10 year quarterly ALM is in the appendix slides of earnings update on slide 20.

Moving onto the asset quality collection efficiency and derisking of the developer loan book.

Our reported Gross NPAs at the end of December 2020 are at 1.75% while Net NPAs stand at 0.77%. Without the Supreme Court directed stand still on asset classification, our proforma gross NPA i.e. without the Supreme Court dispensation would be 2.44% as on December 31, 2020 against 2.21% as on September 30, 2020. We have continued to pad up on provisions and we now have a provision pool covering over 3.4% of our loan book. We have also done accelerated write offs from where recovery is expected of roughly ₹ 1,100 Crores. All of this put together has resulted in having total effective provisions of almost 5% of the loan book.

Our Stage 3 provisions coverage ratio stands at 40% of proforma gross NPA i.e. without the Supreme Court dispensation.

Had the Company not chosen to de-grow its book in the past 1 year, the proforma Gross NPAs of 2.44% would have actually been just 2.06%.

We believe we have passed the asset quality pain that the industry was to endure, and you will now see a very stable sort of asset quality. The company has also had to restructure only about 0.95% of its loan book, which strongly supports this outlook.

Our collection efficiency has also normalized at about 98%, against 95.2% in September.

The NPA numbers have held up during these difficult times and our strong, demonstrated recovery capabilities will ensure that asset quality should be maintained within a tight range.

As we approach the end of the fiscal year, I am reflecting back on the thought I had around March 2020 and through the initial phase of the lockdown when I would keep reminding myself to 'hold fast' during the storm and to try and steer IBH towards the light.

I feel we are closer to that light than ever before. Things are looking up for IBH, our NBFC sector, the real estate industry and for our beloved country. As we progress, I look forward to ending the year at a high of a performance in quarter 4 fiscal 2021.

As Indiabulls Housing bounces off from the crisis the sector has been facing for almost last 30 months and the world has been suffering for the last one year we need to remain mindful that troubles do not get over very quickly, but we are certainly today much, much further ahead in the bounce back than we have ever been. As we move towards the last 45 days of quarter 4, I am confident in our ability to stay resilient and deliver on the guidance provided to stakeholders. This confidence comes from witnessing how much we have been through as a company and being part of a strong and committed team, which also gives one a sense of calm. Even though at times through the course of the last 30 months one has felt isolated, but the team has held up and we have looked over one another. I look forward with both calm and confidence to the next chapter we will begin in April 2021 after successfully achieving goals set for March 2021. We have shared the building blocks, which will allow us to double our customer base by March 2025, leveraging on our superior technology capabilities. Across challenges, we remain committed to deliver a brighter fiscal 2022 to all our stakeholders. On this note, the IBH management is now open for questions. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Kang Zheng from Tahan Capital Management. Please go ahead.

Kang Zheng: My first question is regarding the loan book growth, so previously the guidance was that by the end of FY2021, we will have 20% growth for AUM and 5 to 7% for on-balance sheet loan asset, so it seems like the latest quarter number shows that both AUM and on-balance sheet loan assets are down quarter on quarter basis, so can you share your thoughts about what is behind this development?

Gagan Banga: Yes. So I have shared last time that as a mathematical outcome of our wholesale book reduction and the retail book growth, we will operate in a range on the loan book side between ₹ 70,000 - 76,000 Crores. As we have detailed in both my opening remarks as well as in the earnings deck, we have seen accelerated repayments on the wholesale book side much ahead of what we thought we would be getting. The retail disbursals continue to track up and are growing on a month on month basis and we are headed in a direction where we should be able to get to retail monthly disbursals of ₹ 1,500 Crores by September of this year. My sense is that we are right now at ₹ 70,000 Crores, which is per se the floor in my expectation. From here, as of end of quarter 4, we should be certainly higher on the loan book side since the retail disbursals have begun and are happening quite aggressively. February and March are anyways very important months as far as the retail business is concerned. So we are well within the guided range of between ₹ 70 and ₹ 76,000 Crore. I had clarified it repeatedly in the last earnings call as well that this is the range, and it is a mathematical outcome since when a wholesale loan gets refinanced we get back lets say $ 50 - 100 million, but to disburse that on the granular side takes its own time. I hope I have clarified.

Kang Zheng: Yes. That is a great answer. So can we understand what is the kind of breakdown in terms of overall disbursements in the last quarter?

Gagan Banga: Yes, the retail disbursals are growing. I think we would be now tracking to something around ₹ 2,000 odd Crores for the quarter. I can ask my IR team to send you the exact details in terms of breakup of retail and wholesale disbursals if it is required by you.

Kang Zheng: Yes sure thanks. My other question is regarding the Oaknorth stake. So the company has sold to a couple of investors between September and November raising I think close to ₹ 20 billion, so right now how many shares do we still own of Oaknorth and what was the average selling price for the September to October transactions?

Gagan Banga: Yes, for the stake that we had, we have raised a total of just over ₹ 2,000 Crores. Ramnath you can just detail out the enterprise value if you have it off hand and I think now we left with about 1.5% of the bank, which should be valued in the ballpark of ₹ 300 Crores.

Ramnath Shenoy: Yes, I can just give the numbers. I just need a couple of minutes to pull it up and I will read out the numbers.

Gagan Banga: Sure 1.5% is ₹ 300 Crores we can get the extra...

Ramnath Shenoy: Yes.

Gagan Banga: All the shares which were sold between September and November were sold at one price There was no price range, and it is by that valuation only that we have calculated the residual value of 1.5%. We will anyways just update you in a minute as to what was the exact valuation.

Ramnath Shenoy: It comes to around $3 billion dollars for the entire Oaknorth Bank.

Kang Zheng: Okay got it.

Ramnath Shenoy: We had purchased the stake for about ₹ 6.6 billion. In December 2017, we sold stake worth ₹ 7.7 billion. Through these various stake sales, we have realized another ₹ 20 billion and our residual stake is worth about ₹ 200 Crores. So in all for a purchase price of ₹ 6.6 billion, what we realized plus the value of residual stake is just under ₹ 30 billion. It is about five times is what we made on this.

Kang Zheng: Okay, one quick question so how we define the collection efficiency. So is it the amount that you have collected versus the value that you have billed your customers?

Gagan Banga: No. It is the due for the month versus what we have collected for the month.

Ramnath Shenoy: So it is not all collections. It is only collections against what is due. So if there is any pre-payment or such, it is not taken in the numerator; so it only measures what we have collected against the demand we have raised. If we include pre-payment, collection efficiency will be well north of 100%.

Kang Zheng: Great, one last quick question. So obviously the dollar bond is due next May. So you have got may be like 15 months till then. So are there any early talks about the management on how it can be dealt with given that your existing bond is almost close to par. So is the current yield prohibitive to the company or not?

Gagan Banga: The current yield is certainly high once it starts trading at premium and at that point in time we can engage with investors. At this point in time, we will continue to focus on raising capital around sources of the capital, which makes commercial sense, as is running coupon, which is viable, for which we are focusing on our bankers to continue to support us, our securitization partners both banks and financial institutions to continue to support us and as and when one feels that there is an appropriate appreciation of the fundamental strength of the company in overseas market, one can engage with the overseas investors as well. That is the update as we speak. We obviously are engaged with all types of pools of capital, both debt and equity, at all points in time as a company we require frequent doses of capital and we shall continue with that engagement. The dollar bond has performed well especially for investors who have come in over the last year or so they have made a lot of money. So I am sure there will be support on whatever the company plans to do. We are also going to be repaying a tranche of our Masala bonds later this month, which was detailed in our last investor update sent in December. We have already funded the repayment trust for that quite a few months ago. So once that happens, it will further create a better appreciation for the Company. I think that payment will happen around 25th of this month. So given all of this and given the fact that the ALM is good, as I detailed we should be left with about ₹ 14,000 Crores after one year. So let us see we will engage at that time.

Kang Zheng: Right thank you very much guys.

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

Hariharan: Gagan congratulations. You know we were involved with you right through the last four to five quarters and I know what you have gone through and you have done a fantastic job and the presentation reveals that.

I have a question on just the dynamics of the business as you see it now, specifically on two items. One is on the liability side. At one point in time, related to concerns about the industry in general and also concerns about the credit quality of NBFCs and so on. Some of the traditional pools of capital you are accessing in the past went away. Has there been any change in terms of your sources of liquidity locally or is there still a large dependence, if you will, on public sector banks. Secondly, on the business itself, you talked about the incipient pickup in demand? What can you tell us about ability to price? What is the margin outlook given the combination of your improving liquidity and liability prospects versus demand, and finally from a target market perspective on the asset quality side, are you able to get into the kind of target market you need now or is there a tremendous competition among everybody because of the massive liquidity surplus in the system? Thank you.

Gagan Banga: Thank you, Hari. Thanks for the support you have provided to the company for the last many months and also the guidance you have given to the management from time to time. We are stronger today than ever before thanks to all the supporters and stakeholders such as you.

Now coming to your question, on the liability side you know the way that we are prioritizing the raise of capital is pretty much what we have been focusing on the last three or four quarters. The most important pool of capital for us right now is the liquidity that we generate, on a gross basis, by reducing our wholesale book that allows us to raise liquidity for making sure that more capital goes into those projects, which we had already financed and are under construction, those projects do not stall and hundreds of people are working on those projects to bring them to early closure and eventually that is the fastest and the most efficient and profitable way of getting back the money from the wholesale book and that is generating a fair amount of liquidity as I indicated just in the next 45 days we are expecting almost $500 million from just this initiative. So that is the quantum of liquidity we are being able to generate.

The second pool of capital which is of interest to us and is the most viable is our retail securitization, which has to be done tactically. Given the fact that the loan book has already shrunk by a lot, we cannot just get out there and raise a lot of liquidity through that source. We have to keep that as more a balancing number.

The third pool of capital is lines for onward lending being raised from public sector banks, which come to us at a fairly cost efficient manner so that we can also compete with the banks.

Now as far as the mutual funds is concerned, I believe that mutual funds are still not really subscribing to bonds of non-banks finance companies aside of a couple of AAA rated companies and some gold loan companies. My sense is that as companies such as ours continue to add up on equity capital and continue to demonstrate steady asset quality, short-term bonds would start getting subscribed by these mutual funds. The CIO of a large mutual fund has just about two weeks ago also spoken about this in public forum that at least in his fund, he is looking to pad up.

At a company level, we will approach that pool of capital with great caution. What we have realized as a company is that as we go through cycles, on the up cycle we will usually, and this is in someway related to your second question also, be able to beat our peers in terms of asset growth, asset quality, etc. Once if the cycle is down especially as an outcome of a crisis sort of a situation, then given the fact that we do not have a corporate house backing us or a large financial institution backing us, we are an entrepreneurial organization, we have to cut back and cut back more sharply than our peers. The cycle is turning and therefore I believe the cutback process is now done and as we look to grow, the other interesting pool of capital will be how we engage with the overseas market and while we may still take our own time in issuing some sort of an instrument there, that engagement for me is very important as a key area of focus to diversify our liability profile. So this is broadly how we intend to continue to fund ourselves at least over the next 12 to 18 months. Once the rating trajectory is moving up again, that is the time to again re-engage with insurance companies and provident funds for bond subscription. I think we have a good time for that, and that pool of capital is certainly open on a longer term basis.

Moving onto your second question about price outlook target market, etc., you know from the incremental lending perspective, we are looking at granular home loans. We are slicing it by market. Key area focus is tier 3, tier 4, tier 5, semi urban kind of locations where we do home loans, which are in the ballpark of ₹ 15 lakh or ₹ 1.5 million and then on the urban center side, we are more focused on looking at doing home loans, which are anywhere between ₹ 3 million to ₹ 30 million either on our balance sheet or co-lending with either a public sector bank or large housing finance company. With all of this for the loans that we keep on our balance sheet as well as keep on our balance sheet temporarily for eventually securitizing, we should be able to get a yield of give or take 9%. Since the urban center still have loans which are happening in double digits, in the more competitive markets, loans will happen at about 8% to 8.5% for the slightly higher ticket sizes beyond ₹ 2 million. On an average, we should be able to get between 9% and 9.3%. In this product we will only be competitive and will be able to sustain an ROA, which then translates into an ROE if we originate and securitize. We have done that at scale as it has been detailed in the earnings deck. We have originated and securitized close to about $10 billion in the last few years. So that process will continue. I am not making any claim that this is going to be a ROE sustainable business, by being able to keep it on my balance sheet. So the area of focus as far as target market is concerned, A- is the smaller urban centers and the semi urban market. In the urban market, loan ticket sizes are ₹ 3 million to ₹ 30 million. When we blend salaried with self-employed and all of these ticket sizes, we are able to comfortably get proposition where till the time that the loan is with us we make close to about the 100 basis points of spread and after that we just keep earning on that loan without putting at work our capital. I hope I have been able to answer that.

Just the last point as far as this is concerned, you know through the period of 2009 to 2017, we did not enjoy AAA credit rating form Crisil or ICRA and through that period we were still earning a very respectable high teen kind of return on equity from our retail business. So by this originating and securitizing and building that engine and refining it, now we have the added advantage that we have already seen scale. Our technology platform has already seen scale. We are already at a very low cost to income ratio of 13%. So one is of a strong conviction that we will be able to get just on the retail side to a high kind of a teen ROE over the course of the next two years, as we scale up and for that we have set and disclosed targets today where we are saying that by September we will be in capacity to do ₹ 1,500 and by March ₹ 2,000 Crores a month.

Hariharan: Thank you. Just as a quick follow-up, Gagan. What is interesting is given the kind of numbers you have posted, the capital adequacy, trends in credit quality, collections and also your efficiency in cost, I just wonder at least according to the information we have on Bloomberg, the company is still selling at a price to book of 64%. Is there an issue in the sense that the equity investing institutional investor market in India, has not quite figured out your business model in other words is there still a fixation on asset growth, and you know loan growth etc., as opposed to this concept that you want to become a very nimble, originate to sell kind of an institution? Is that why we have this unbelievable discount to book value in your equity price?

Gagan Banga: I believe there are 3 parts to this discount. The first part is as you rightly mentioned India and most analysts in India would prefer larger and larger or used to prefer larger and larger balance sheet, which kind of moved our way of thinking from being an efficient originator and then subsequently distributing those loans to try to bloat up the balance sheet. I think you know over the course of the last 2 years, thanks to the efforts and communication that we have made, other NBFCs have made, the regulators have also contributed by coming up with guidelines, etc. I believe now most analysts are appreciative that the viable way of doing long-term mortgage lending by NBFC, historically and technically, cannot have access to pools of capital, which are long-term in nature. The best way is to park these loans with banks or other financial institutions in due course of time. This is I would say a recent change in outlook. It will still take its own time. At our end while we have spoken about it we have to still demonstrate that we can really scale this up, which is why today we chose in consultation with our board to clearly articulate what we will do with co-lending, what kind of number and what kind of time frame, etc., such that we can be tracked and measured on how we are succeeding as far as the creation and the scaling up of this entire machine is concerned. So the proof of concept is underway. The change in mindset has occurred in my opinion, but as we progress along the proof of concept, the valuation will come. Historically, if you look at company like Indiabulls, then I am happy to share a chart and it is on Bloomberg, our price to book has historically moved with our credit ratings and I believe that may be true for most NBFCs. I am also quite sure that as the credit rating trajectory steadies and moves up, there would be a further appreciation as far as price to book or any other way of measuring the equity value of the company. The third is the entire perception, which has to shift. From our perceptive we have taken all the right steps, which are required to make sure that the market believes that we are a well governed organization. We will continue to take the right steps in terms of having the right shareholder representation on the board, etc. which is the next level of you know enhancing the governance standards of the company. So while we do a lot of things as far as ALM, asset, co-lending model, technology, people etc., is concerned that is again something in terms of continuous enhancement of governance having shareholder representation on the Board, which is another step that the company's management is taking. As a result of all of this much like you know the dollar bond, which appreciated with consistent communication and performance, I am quite sure that this stock price will also continue to appreciate with consistent performance and communication and with a strong governance framework.

Hariharan: Thank you Gagan. Congratulations again. Good luck.

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

Abhiram Iyer: Yes, thank you for taking my call. My first question was with respect to the expenses line item for the quarter which has sort of increased from the previous quarter and in fact more from quarter 1. So is there any particular reason for that, that is one and the second question was on the co-lending process, could you just give us an idea of how much loans have now been disbursed through this process and how much has been set up, what is the quantum of loans that has been disbursed through this process?

Gagan Banga: Yes, so the expenses have moved up for two reasons, one towards the end of the year, we have to start providing for the mandatory 2% CSR expense that has to be done by each company and so this quarter we would have done close to about I think ₹ 25 or ₹ 30 Crores more of CSR expense provision versus last quarter and about ₹ 35 Crores more than the first quarter and as per the Ind-

AS accounting on a quarter on quarter basis, the ESOP schemes of the company are valued and there could be a loss or gain on that. Last quarter there was a reversal of expense. This quarter there is an expense. So there would be a slight volatility in expenses. It is beyond my control; it is as per the accounting standard. Since the overall base of expenses over the last two years has lifted down. So this number of ₹ 30 to ₹ 35 Crores has become relevant. Otherwise, it would not be noticeable. As we scale up and increase the capacity, which I have been repeatedly speaking about, obviously the underlying absolute expense will move up so will the income line. One continues to be confident that the cost income ratio, which is in the handle of 13%, we should still be able to either hold it here or decline it at least at the rate of 40-50 basis point annualized. So I am not obsessing any more about reducing expenses as long as the cost income ratio is broadly in this range and we are continuing to create the right kind of capacity for doing the right kind of loans. I think it is a good investment, but the quarter on quarter movement is explained by these two items.

As far as co-lending is concerned, the co-lending process is marginally different for different banks. The process involves us to source the loan, give a soft approval, send it to the bank for a hard approval, the bank approves, and the systems then generate the joint sanction letter. We get in front of the customer and get the loan paperwork done. We then upload the loan paperwork and both the bank and we disburse into an escrow account jointly and from the escrow account the customer gets his disbursals. What we are trying to now do, basis the recent November circular of RBI- it gives a certain degree of flexibility, which shortens this to and fro between the banks, with one of our private banks partners we have already arrived at a new arrangement where we can sanction and eventually move the loan after a couple of days onto their balance sheet. So we do not really have to do to and fro of this. Since the partnership is a few months old, there is also greater predictability in terms of the credit decision. So that is the next level of co-lending that we have already moved onto. At this point in time, close to about 10% of what we are doing is co-lending. The goal is that in about 2 years, we should be able to get about 35% of what we are doing under co-lending.

Abhiram Iyer: Got it and just to clarify, is there any risk that you know sanctioning before essentially moving the loan on book, the loans sort of remaining on your balance sheet?

Gagan Banga: It is just a couple of days it is a like a continuous process. So today I will move loans that I will disburse perhaps on Monday.

Abhiram Iyer: Got it.

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

Nischint Chawathe: Yes, just one data keeping question have you done any disbursements under the government's ECLGS scheme and if you can mention any amount on this?

Gagan Banga: Yes, we have certainly done disbursals under the ECLGS scheme. They are not very large or significant disbursals. My sense is they will be in the handle of ₹ 100 Crores odd, but we can get you the number. Ramnath, if you could please source the number and share it.

Nischint Chawathe: Okay, thank you very much, that was my question.

Moderator: Thank you.

Gagan Banga: Yes. We will take one last question please?

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

Pranav Tendulkar: Hi, thanks a lot for the opportunity and congratulations for holding through this crisis and coming out stronger. Sir I have a question about the co-lending, how big it can be? Second is that how is the risk shared like for example if you originate ₹ 100 loan there will be some fee that will be charged and then there will be a loan that will reside on each of partners book or how the arrangement is and how is the ROE in this case?

Gagan Banga: Yes. Thanks Pranav for your support and for your kind words. The way that the co-lending arrangement works is the scope of the business is practically unlimited given the fact that the entire system today is tuned towards doing retail loans. Most of the system is dysfunctional in terms of its ability to do retail loans at scale or to do them efficiently and therefore they look for partners such as us who have been traditional partners with these banks for securitization. The securitization process takes a year so if I disburse today I can securitize after a year and therefore the retail growth of that bank happens after a year. Given the fact that the last 12-24 months disbursals for us and other NBFCs were muted, therefore you can only do so much of securitization and therefore if these banks are in the near-term looking for retail growth they have to do co-lending and then once you get set on co-lending where you have a say in the decision making right from day 1, you are very comfortable with that entire process. So this is a long-term partnership, which one is creating. It is a self-correcting partnership. So my sense is that the scope and the size of the opportunity is a function of how my portfolio will perform. As long as my portfolio performs, the size and the scope are endless. Why I have confidence about this option is that my securitized portfolio of ₹ 65,000 to ₹ 66,000 Crores has performed. The money has come back for these banks. The delinquencies continued to remain extremely low. So this co-lending business will also thrive in a very similar manner. Now as far as you know risk sharing etc., in the classic co-lending, which is what are doing right now, there is no risk guarantee or risk cover that we provide. For the 80%, which is on the bank's balance sheet it will be their risk for the 20% on our balance sheet it is our risk. There is no cover that we have provided. A recent RBI circular allows for first loss default guarantee product also, which in my view actually is a very, very good solution. We know the kind of loss that can come in our granular assets. If we are able to provide that kind of guarantee, own the decision and use the bank to warehouse these loans. It serves both purposes and it is a great collaboration model. So a first loss default guarantee is something that we have recently just signed off with one of our partner banks and we are starting to originate. As we do that, I believe the scale up in that product with 1-3% kind of guarantee would be much faster than what joint decisioning process will take. The last point in terms of you know how much we can do and so on, we are in the midst of a very interesting relationship, actually two of them, which are really limitless, you know the whole opportunity for us and also make sure that we have options, which cut across all type of risk spectrums. So that the real value in this proposition would come and the true ROE we will be able to generate. Once this is happening at a scale of ₹ 500-1000 Crores a month across all kind of pricing, so you will be able to do a lot of manufacturing at 7% and you also have a solution for the 11-12% borrower. We are now at that stage where I believe we have the entire bouquet of this offering firmly in place. You will hear of some announcements also as soon as our agreements etc. are behind us. So as we do that, this product should scale up. In theory as I have said, this can be a very high ROE product provided you have scale. What we are targeting is that over the course of the next 3 years, a blend of onward lending for securitization and this in a ratio of 65:35 should be able to get us a 17-18% ROE.

Pranav Tendulkar: That is a great to hear and what would be the fee that you charge for this origination?

Gagan Banga: There are different arrangements that we have with different banks. The arrangement that we strongly prefer is a higher trailing income on a per year basis as against an upfront large fee. I believe that a trailing income over a period of time is a much more valuable stream of income. We do get an offset of our cost and there are clearly two models. If we get a high fee, then we get a lower trail. If we just get expense reimbursement, then we get a higher trail. We cross sell and whatever we cross sell that is all income to us. Not in this particular earnings deck, but in the previous deck all of this has been detailed. The numbers pretty much remain unchanged. So if you refer to the September deck, all of these granular details are there and if required I can ask my investor relations team to engage with you directly and also provide you that information.

Pranav Tendulkar: Thanks a lot.

Gagan Banga: So thank you everyone. You know the world is recovering from COVID at least around India we are bouncing back, the vaccination process is strong. Residential real estate cycle is certainly on the upswing. The NBFC sector is also seeing better days. The company is seeing much, much better days. So thank you for your support through our testing times and as I said towards the end of my comments, it is a commitment that we will deliver a very, very strong fiscal 2022 to you. Thank you so much.

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.