



“Indiabulls Housing Finance Limited
Q3 FY 2024 Earnings Conference Call”

February 14, 2024



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Moderator:

Ladies and gentlemen, good day, and welcome to the Q3 FY 2024 Earnings Conference Call for Indiabulls Housing. We have with us on the call today, Mr. Gagan Banga, Vice Chairman, Managing Director and the Chief Executive Officer; Mr. Sachin Chaudhary, Chief Operating Officer; and Mr. Ramnath Shenoy, Head IR and Analytics.

As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touch tone phone. Please note that this conference is being recorded.

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

Gagan Banga:

Thank you. A very good day to all of you, and welcome to the quarter 3 FY'24 Earnings Call. Perhaps our last call as Indiabulls Housing Finance. I'm quite hopeful that by the next quarter, the name of the company would have formally changed to "Sammaan Capital". And here on, you will be getting updates from Sammaan Capital, hopefully by the end of quarter 4.

To start off, I'm very pleased to inform you that the bidding for the rights issue, which closed yesterday. We were expecting to raise close to about INR3,700 crores. And we received over 2x of that as bids. We got approximately INR7,500 crores adjusted for a partly paid structure, which translates to over a 2x subscription. I thank all of you, especially those amongst you that are shareholders for your whole hearted support and participation, which made this possible.

There have been a lot of well-wishers, which have stood by us through our ups and downs, shareholders or otherwise. And some of them may be on this call. I would like to thank them personally whether they are bondholders or just well-wishers, thank you so much for whatever you've done for us through the last 24 years and especially through the last 5 years.

With this fund raised, we should get back on a positive rating trajectory and fully normalize our access to debt as well as rationalize our borrowing costs, which will subsequently also result into a competitive cost/income ratio and shall be an outcome of an accelerated growth of our retail AUM.

We have been on the path to achieve all of this for quite some time, having built a high-quality asset-light model, but this sizable equity infusion speeds up this process and will enable us to achieve our goals sooner.

When things go wrong, everything goes wrong. And when things start falling in place, I believe the Almighty gets all the ducks in line. Another good news in the recent couple of weeks is that the Honorable Delhi High Court dismissed the PIL, which was lodged against us in 2019 by Mr. Prashant Bhushan. He was motivated by blackmailers, whose case had already been dismissed by the courts. But given his background and credibility, the PIL, at that point in time, created massive market cap destruction, value destruction and those pained were minority shareholders.

Through the course of the last 5 years, specifically 4 years since this PIL, I have, at several times, said very loudly that most of the allegations or every allegation is completely wrong and

misinterpreted. Finally, after 5 long years, the summary dispersal by the Honorable Delhi High Court, the following observations should lay to rest any lingering concerns in the minds of our stakeholders.

This court is of the opinion that the allegations leveled by the petitioners are not substantiated as these are not supported by any evidence. Finding no merit in the present petition, it is accordingly dismissed. In the considered opinion of this court, due to articles published in magazines and newspapers, the tweets made by member of the petitioner firm or a member of Parliament, the shareholders of accused companies were jolted and they were made to suffer huge losses.

As management, I apologize to shareholders to have put them in this place, but there's nothing that we could have really done when there is malafide in people's intentions in attacking us. We do make mistakes when we conduct our business, but governance is supremely important to us. And this was a case which was just done to create massive shareholder value destruction.

Businesses world over, in their regular conduct of business, especially in the lending business, tend to face multiple litigations. As we wind down our wholesale book, we will face litigations as a counter blast to our recovery efforts. I cannot do nothing about that aside of the fact that I am, along with my team, performing a fiduciary to recover as much money as possible for the company.

If there is a counterblast, we will take it on our chin and we will continue to fight on merit. And you will, from time to time hear of such a counter blast. If by repaying close to INR1,20,000 crores, if by coming through this PIL, there is little credibility that the company's management has built, please trust us. These counterblast are merely a planned efforts to enable or disable the company from recovering its dues.

As stakeholders of the company, we should all stand together and ensure that if there is a defaulter, the defaulter is brought to book. Against the industry average of being able to recover 30% to 40% from assets sold to ARC, your company in the last 3 years has recovered over 76% of what it has sold to ARCs. I most humbly request you to hold my hand while we, with all of our energy and effort, go behind trying to recover maximum and try to grow the franchise value of this business through accelerated disbursements on the retail side.

Moving on to the quarter's results. Please refer to slide three of our earnings update. Our balance sheet has stabilized at INR73,500 crores. The net interest income has come in at INR900 crores for quarter 3 fiscal '24. For the 9 months, we have made over INR2,300 crores. The profit after tax for the quarter is INR303 crores versus INR291 crores same quarter last year. For the 9 months, we made INR897 crores versus INR867 crores for 9 months of last financial year.

The net interest margin is stable at 4.9%. ROA has marginally grown to 1.6% from 1.5%. Spreads are stable at 330 basis points. Gross NPAs have materially declined year-on-year and the net debt to equity is extremely low at 1.5x.

Retail disbursements under our asset-light model have now grown to INR7,200 crores in 9 months. Cumulatively, the company has disbursed over INR18,000 crores under the asset-light model in the last 2 years.

Since September 2018, the company has repaid debt of INR1,66,750 crores on gross basis, INR85,000 crores on a net basis, INR1,20,000 crores, almost INR1,21,000 crores, including interest. When this entire crisis started, our full loan book was INR1,14,000 crores. And there was skepticism around that, all of these litigations and allegations and what not. From that book of INR1,14,000 crores on a net basis, your company has repaid INR1,21,000 crores. What more validation can we provide to you?

In doing this, the company has had to run down its AUM by over half. Through this equity raise, I'm now confident that we will capture back the half that we've lost and grow much beyond. By fiscal '27, we should be back to being a 15% ROE company or higher. And the challenge that the management has taken is can we pull the fiscal '27 target forward to fiscal '26 and push up our ROE to 15% over the course of the next 2 years itself.

If I can now request you all to turn to Slide 6, which is our ALM summary, several of our lenders would have logged in, and this is crucial for them. At the end of December '23, we had INR7,000 crores as cash. The ALM, which has been shown on a cumulative basis up to each bucket, has a positive net cash of approximately INR10,000 crores at the end of the first year.

The detailed 10-year quarterly ALM is there on Slide 16 to 20 of the earnings update. As per the RBI master direction for HFCs, we have to maintain a LCR, liquidity coverage ratio, of 70%. We are comfortably placed against that. Further, we have liquidated voluntarily created the FD of INR942 crores, which was created for the put option of our FCCB in March '24. The funds are already moving. And on or before 4th of March 2024, all of our FCCB holders who exercised the put option, the date of which the put option exercise ends tomorrow, all of those guys will get their monies on or before 4th of March.

To give additional comfort to the bondholders, the FCCB holders, which have a put option in September '24, we have started the process, as we always do, or have been typically doing for the last 3 years. We've created a fixed deposit of nearly INR300 crores, which is equivalent to about 25% of the FCCB. And assuming that this also gets put, this will be very systematically funded as we have funded over \$3.2 billion of overseas borrowings that we have done in the last 5 years and repaid them.

Our long-term credit rating has been reaffirmed by the top rating agencies of the country, CRISIL and ICRA, at AA stable as of November and December end. The asset quality has been stable, while we continue with our efforts of trying to recover. And in our earnings update, we have demonstrated that we carry imputed provisions of approximately INR7,000 crores, which is 13.4% of the loan book and covers our gross NPAs approximately 4x.

We still need to do that recovery and management will make all efforts to make sure that, that recovery happens. That was the update for the quarter. When the monies came in or the bids came in yesterday, I shared a message with a lot of our stakeholders saying, this is a very

emotional moment for me. The last 5 years personally have been tough for both me as well as my team. And I can't thank you guys enough for having stood by us for logging into these calls, listening to the story of a management, it should always come and say, we are degrowing for A, B, C, D reason.

It is my strong assurance to you pretty much as strong as an assurance I gave to my debt holders over the course of the last 20 quarters, that your monies are safe. On a similar note, I give all my equity holders assurance that the story has turned, the page has turned. The light at the end of the tunnel is very bright. If you are not already out of the tunnel and growth shall resume.

Last time around, this management created a 20-plus percent annualized compounding story for 42 quarters. With all the experience and the mistakes and thereby the learning of the mistakes that we committed, I can assure you, we are now set for a compounding of 15% to 16% annualized for the rest of my working life.

Thank you so much for your support, and I'm happy to take questions now.

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

Craig Elliot: Congratulations, Gagan on the great business results and the success of the rights issue. I wanted to express a few things on NWI's behalf. We've been involved in virtually every external bond issuance. And as you said, the wide paths for the last several years for the business has been a little up and down, but we really appreciate that you've established your credibility. You always say what you're going to do and you deliver what you're going to say and that's very impeccable business.

Number two, you mark -- embarked on a monumental transformation to that asset-light model in a market, which currently still is super focused on balance sheet growth and I think they still really haven't appreciated that, but we're looking forward to the market continuing to appreciate that more and more, and we appreciate that you don't flourish in your transformation and your commitment to that. And then lastly, we really enjoyed the transparency and professionalism. We wish you and other stakeholders the very best of all success. Thank you very much.

Gagan Banga: Thank you so much, Craig. Between Hari and you, you guys have been like pillars for us, both professionally and personally as -- to get Hari's sound counsel when one is wondering what we're doing in business has been quite remarkable. I am really glad that we are in this position today that we are able to return your monies with all that we contracted for.

And I really do hope that in one capacity or the other as a bondholder or whatever capacity it's possible, we continue with our association with NWI. I really, really do appreciate the entire team support there. And my team and I are very grateful for whatever help you have extended to us over the years.

Moderator: The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna:

Congratulations for a good set of numbers. Gaganji, I just -- the entire speech that you have given is really emotional and being the -- in this community and tracking the banking sector for 20 years and the kind of journey that you have gone through and your entire team, it is sort of inspiration for all of us to learn from these hard times. And really appreciate the way you have tried to assure all your -- not only the debt holders, but the equity holders is unbelievable.

So just to put questions forward. My first question pertains to if you could just glance us through the -- we have already provided somewhat INR800 crores for the AIF thing. And the net worth that we have shown during this quarter, just to glance us the comparison from last quarter to this quarter, how it has come to almost a similar number?

And just one more accounting clarification that the ESOPs that have been issued to -- which has been vested and the share capital has gone up. So just the accounting principle that we are following in the books, how that has been accounted for would be really appreciated?

Gagan Banga:

Yes. Thank you for your very kind words. And I'm sorry if the speech was too emotional or something. But the last 2, 3 days of the last week has been kind of an emotional joy ride, thankfully, it has end up creating value for most of us and has been an assurance for the team.

So thanks from my team and on their behalf to all the stakeholders. The accounting that we did for the AIF, and I just request Ramnath to come in and clarify on the numbers. I don't have the numbers top of my head. I'll just give you the principle.

Very regularly as a housing finance company, we make annually reserves, create reserves, which are called additional Section 29 C reserves, which we are allowed to dip in from time to time depending on extraneous situations, which are not in the normal course of business.

It's an enabling provision given by the regulator. We have dipped into this 3 or 4 times in the past. The first time I remember was after the global credit crisis and thereon. So this was a unique sort of a situation. So we have dipped into it in the ballpark of just under INR700 crores.

The exact working of the net worth as well as how it has played out, I believe our profits for the last 9 months would be in the handle of INR800 crores, INR900 crores. And therefore, year-on-year, it would show a growth of a couple of hundred crores since we've dipped in to the tune of about INR700 crores. That's the top of head kind of numbers.

Ramnath, if you can just jump in and explain the exact math, please?

Ramnath Shenoy:

So we had -- for the quarter, profits of, as you all can see, about INR303 crores. So net of tax, we have dipped into the additional Section 29C results, as Gagan mentioned, of about INR600-odd crores. There has been addition to the securities premium account, both on account of ESOPs and other items and OCI. All of these put together added another INR175 crores. So the net effect of all of this was a reduction of about INR200 crores. So broadly, hence, the net worth has remained pretty much stable, except for this INR200 crores difference.

Gagan Banga:

And he also inquired about the ESOP accounting and how we go about doing that?

- Ramnath Shenoy:** Yes. So on -- can you -- on what aspect of the ESOP accounting is your question about, sir? Is it on how it goes into the profits or...
- Bajrang Bafna:** Yes, both profits as well as balance sheet? You have already indicated that INR175 crores has been added to securities payment account. And since it is a double entry, where is the second entry that you are putting in?
- Ramnath Shenoy:** No, no. So these are new shares that get created and hence, they add to the net worth when they are issued.
- Bajrang Bafna:** No, that I got it. But sir, since we follow the double account -- double entry method.
- Ramnath Shenoy:** On the other side, it comes in as cash. On the asset side, it comes in as cash and it adds to the net worth on the liability side.
- Bajrang Bafna:** Okay. So this amount has been received in cash from the ESOP holders. That is what you are trying to...
- Gagan Banga:** Yes, yes, it has to be received in cash.
- Ramnath Shenoy:** Yes, it has to be received in cash before the shares have to be -- before the shares are issued.
- Bajrang Bafna:** Okay. Okay. Because some amount has already passed through P&L also in a couple of cases. So that is why I just wanted to...
- Gagan Banga:** No, no, that ESOP accounting through the P&L as a completely different concept. But if someone is exercising investing in a stock and is receiving stock, they have to obviously pay cash. There's nothing else. The ESOP accounting is on the basis of the option valuation, which is getting created because the employee has that option and the price moves up and down.
- And therefore, the option valuation goes up and down. And therefore, it under Ind AS has to get accounted for in the P&L. That has nothing to do with the cash flow of it. If anyone is getting 1 share, he has to pay for that 1 share. He or she has to pay for that 1 share.
- Bajrang Bafna:** Got it. Got it. Thank you very much and all the very best that we come back on the growth trajectory from -- probably from FY '25 onwards, and all the good wishes to all of you.
- Moderator:** The next question is from the line of Pradyumna from Flute Aura.
- Pradyumna:** Good evening everyone and thank you for taking my question. Gagan ji and team, many congratulations on the rights issue and the success. I just have a couple of questions that pertain to and I'm just touching upon the previous participant's question and 1 more. Obviously, we've come a long way from the last 5 years like you mentioned in your opening remarks. .
- Gagan ji I had one question regarding the net worth. So obviously, our net worth, and as you mentioned, our CRAR requirements, etcetera, already quite on the higher side. If you could just shed a little bit more light in terms of the rationale and the usage for the funds from the rights

issue because obviously, that's going to further pad up the networth. But if you could just shed some more light in terms of the timing of the requirement right now would be very, very useful.

Gagan Banga:

Yes, that's a great question and I should have actually addressed it in my comments. So if you have to really restart the growth trajectory, I am firmly convinced of the fact that on a long-term durable basis, we have to leverage on our distribution on our credit appraisal capabilities, and we have to leverage on our relationship with banks and their ability to hold loans on a long-term basis versus our ability, which is when we are funded wholesale, we can't really hold anything long term.

The company came all of this way because, thankfully, amongst the many mistakes that we made, we did not make one mistake, which was borrow short, lend long. So we -- our ALM was matched, which it continues to be.

If we have to really continue with a robust balance sheet and a quality focused business, we need to make sure that we have the ammunition of being able to cover the entire play field and not just be restricted to priority sector loans because we are so focused on asset light. Asset light under the co-lending structure is a recent creation and a forbearance of the RBI. And we are grateful that the RBI has done this for us.

If you look at the last 15, 20 years of Indiabulls' existence, always close to about 15% to 20% of our assets used to be assets that we would securitize -- originate and securitize. So that's a business that we would like to get back to.

And -- but for doing that, we have to hold on to assets that we create for 6 to 8 months and eventually securitize them, unlike an on-tap arrangement, which is there under the co-lending scheme where you can kind of receive the liquidity for the asset in 30 to 45 days itself.

So we needed to get capital to be able to break this logjam, start this process where we are holding on to assets, originating and holding them on. And subsequently, the cycle will begin where banks are churning these assets for us. And we did not necessarily want to pad up on our leverage at this time. We continue to remain extremely mindful for leverage.

In due course, willy-nilly out of our business model leverage from 1.5x will grow to 2, 2.25x, not more than that. But that's a gradual and slow increase that we would like to see versus an immediate increase. But to grow our disbursements from INR800 crores - INR900 crores a month to INR2,000 crores a month, we needed this injection. So that's the general utilization of the liquidity that we shall receive. We've transit out basis what the requirement of liquidity will be.

And therefore, we've not fall for the entire sum upfront because we will need it in due course. We can't -- even if you want, we can't disburse INR3,700 crores tomorrow or over the next month or 2. So we've tried to be extremely transparent and fair in how we are trying to draw up this liquidity.

There would also be other strategic and tactical utilization of this capital, which will facilitate both a cost of fund reduction in due course of time and improving cost income ratio over the

next 12 months and acceleration of recoveries through this capital by our ability to provide over the next 12 to 24 months.

So all in all, my sense is that whether it is a contribution to earnings compounding or reduction of cost of funds or accelerated recoveries, the benefit of this INR3,700 crores, which in the short term will accrue to investors, will be in the quantum of -- will be to the quantum of INR10,000 crores, which was our market cap when we started with this entire thing.

So through this INR3,700 crores, the intention of management is by using this money from a liquidity perspective to also achieve certain strategic objectives as well as to use it tactically between the 3, create cash of approximately INR10,000 crores and that's what we're out to do.

Pradyumna: Understood, sir. Very, very helpful, thank you for elaborating. Sir, just one more small question. Just touching upon what my previous participant had mentioned. If I'm -- it's more of a clarification, actually, if I remember correctly, in our FY '23 annual report, we had mentioned somewhere that the investments in the AIF units by our company somewhere to the tune of INR3,000 crores to INR3,500 crores. My apologies...

Gagan Banga: No, it was a little over INR4,000 crores, if I'm not mistaken, stand-alone was INR3,000-something crores. Ramnath, can you please take that? You will have the granular data on how it has been processed. It has largely been run down. So that is one thing. There will be a some impact on capital adequacy in due course, which we have more than compensated through this capital raise. And we have created provisions, but Ramnath can perhaps run you through the exact drill down of what's happened there.

Ramnath Shenoy: Yes. So that has been unwound. We had AIF investments in some of these structures where we had moved our -- few of our developer loan exposures. And hence, pursuant to this circular, we had to make the provisions that we have.

Pradyumna: So are we looking to -- will we be providing for the balance INR3,000 crores...

Gagan Banga: No, no, we have taken care of that. So whatever take compliance we needed to do from a provision perspective of the December, 18 circular, that's been completely done.

Pradyumna: Okay. So no residual impact, we are expecting as of now...

Gagan Banga: From the December 18 circular, no.

Pradyumna: Thank you, so much sir. Very, very useful and all the best to you and the team.

Gagan Banga: I'll just take one more question and then we'll -- you can obviously all ask us anything one-on-one. I'll just take one more question on this platform.

Moderator: We have the next question from the line of Rishikesh from Robo Capital.

Rishikesh: Thank you for the opportunity, my first question is, if I see the other income in this quarter has gone up from INR15 crores to INR60 crores. So just wanted to know whether there is any one-off? And if you could share the nature of the same, is it sustainable or not?

- Gagan Banga:** It's not a very large sum of money. Yes, just jump in and clarify this INR45 crores, please?
- Ramnath Shenoy:** Yes. So this has mostly come from an income tax refund that was due, which has now been received and hence the interest and interest on the refund.
- Rishikesh:** Okay. Secondly, most of the provisions this quarter were, I believe, taken for AIF other than which provisions were not much. So how should we see the net provisions going ahead in Q4 and for the next 2 years, as FY '25 and FY'26?
- Gagan Banga:** Yes. So provisions will be a matter of -- will be a matter of strategy. We are discussing that internally to see how do we accelerate the rundown of the wholesale book in a systematic manner. And we have the requisite capital buffer. So we have to basically look at what is tactically the right thing to do. I don't wish to, at this stage, give a guidance on credit costs because we are in the midst of taking this decision.
- All I can say is that whatever we do over the course of the next 24 months, we should be able to, between recoveries from past write-offs, etcetera, bring back cash to the tune of INR7,000 crores to INR10,000 crores, which is what I mentioned too, in the previous question as well. So that's the goal.
- We will just look at provisions and NPAs and write-offs and accelerated recoveries and what kind of litigation cost do we wish to pay and so on and so forth and take a very tactical decision around it. But much as we have been able to recover very successfully, as I mentioned, we sold down -- of what we sold down to ARCs, we've already recovered over 75%.
- We will be nimble footed, stay on our toes and continue with this process of recovery as incrementally, we focus on two things. One is the retail disbursal growth and the franchise creation around that, where clearly, the goal is over the next 12 months to double the disbursals. And then also use the wide opportunity which has gotten created for getting back to wholesale lending, but not on our balance sheet, not using our capital.
- Much like we are using our distribution and credit appraisal abilities on retail, we would like to utilize our experience of managing the life cycle of a real estate loan without really putting our capital to risk in a very transparent structure in partnership with the global fund. I've been talking about this for the last 6 months, and that should be the other area of focus.
- On credit costs, perhaps along with our quarter 4 earnings, we would have internally decided as to what should be the trajectory of that, and we'll certainly guide all stakeholders on that.
- Rishikesh:** Okay. Lastly, so the 15% ROE that we expect, is that after factoring write-backs or no?
- Gagan Banga:** It is after factoring everything. So the net worth, in my sense -- in my opinion, between now and then will grow by close to about INR6,000 crores to INR7,000 crores.
- Moderator:** Mr. Banga, that was the last question.
- Gagan Banga:** Thank you so much, guys, and thank you so much, everyone. And again, I apologize if my comments were more emotional than extremely data-based as they should be in normal course

of business. But perhaps some of you may appreciate that after having done these calls for the last 10, 11 years, and bored you with the same data, data, data for the last 40, 45 quarters, this may be just an interesting break where I get emotional. Thank you so much for your support, and I look forward to speaking with all of you again along with the annual results. Thank you.

Moderator:

Thank you, members of the management. On behalf of Indiabulls Housing Finance Limited, that concludes this conference. Thank you all for joining us, ladies and gentlemen. You may now disconnect your lines.