"Indiabulls Housing Finance Limited Q1 FY 2016 Earnings Conference Call"

July 21, 2015

ANALYST: **MR. GAUTAM CHHAOCHHARIA - HEAD OF INDIA RESEARCH - UBS SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. GAGAN BANGA - VICE CHAIRMAN & MANAGING DIRECTOR – INDIABULLS HOUSING FINANCE LIMITED**

MR. ASHWINI KUMAR HOODA - DEPUTY MANAGING DIRECTOR - INDIABULLS HOUSING FINANCE LIMITED

MR. MUKESH GARG – CHIEF FINANCIAL OFFICER - INDIABULLS HOUSING FINANCE LIMITED

MR. PINANK SHAH - HEAD OF TREASURY - INDIABULLS HOUSING FINANCE LIMITED

MR. RAMNATH SHENOY - EXECUTIVE VP AND IR INDIABULLS HOUSING FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q1 FY 2016 Earnings Conference Call hosted by UBS Securities India Private Limited. 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. Gautam Chhaochharia. Thank you and over to you Sir!

Gautam C.: Thanks. Welcome everyone. We are pleased to have the management of Indiabulls Housing Finance for the Q1 call. From the management team, we have Mr. Gagan Banga, Vice Chairman & Managing Director, Mr. Ashwini Kumar, Deputy Managing Director, Mr. Mukesh Garg, CFO, Mr. Pinank Shah, Head of Treasury and Mr. Ramnath Shenoy, Executive VP and IR. I will just hand it over to the management for quick remarks and then we can open it up for Q&A. Thanks.

Gagan Banga: Very good day to all of you. I am Gagan Banga. Welcome to the Indiabulls Housing Finance Limited Q1 FY 2016 results announcement. The quarter was very good for us both quantitatively as well as qualitatively and I will quickly run you through several numbers and then also give you update on the qualitative progress which we have achieved in this quarter. Our asset book growth remains healthy on the back of some robust disbursement across asset classes. At the end of Q1 FY 2016, our loan asset stands at Rs.54, 022 Crores which is a growth of 28%. The topline has gone past 2000 Crores and has registered a growth of 27%. The net interest income for Q1 has gone to Rs.821.5 Crores, which is growth of 25.9%. As you are aware from the previous quarter onwards, we have stopped adding fees to the net interest income line, so this number is net of fees and other charges. We will give you the details of fees in a short while. We continue to remain on our guided targets on profitability with PAT of Rs.511.3 Crores which is a growth of 20.6% over Rs.424 Crores which we have reported last year. As I had guided at the start of the year we are targeting growth across financial parameters of 20% to 25% and on all key parameters we have achieved that number. We are pleased to announce a dividend of Rs.9 per share amounting to pay out of Rs.385 Crores. As has been discussed at length, our long-term dividend payout policy is to pay out 50% of earning. In the past, we had increased the payout policy given the risk-weight breaks that we had received which had taken our capital adequacy beyond 20%. Now that capital adequacy is at more normal level we have decided that we will try to pay out Rs.9 per share per quarter till the time that we get this number back to 50% of profits to be paid out as dividend which is expected to be reached by Q2 of financial year 2017. So management will try to make sure that every quarter till Q2 financial year 2017 we continue with a payout policy of Rs.9 per share per quarter.

Post Q2 financial year 2017, we will take it back up beyond Rs.9 per share and will maintain a long-term dividend payout of 50% of profits. Capital adequacy adjusted for investments in mutual funds stood at 18.2% as against 18.36% at the end of Q4 of last year. Net leverage is at 6.3 times. We continue to be one of the least levered companies amongst our mortgage finance peers. The range for our peers is 7 to 12 times. Our gross NPA, net NPA are flat at 85 and 36-basis points respectively. In computing net NPA, we only use provisions, which are again substandard assets. Standard asset provisions and countercyclical provisions of Rs.364 Crores are not deducted and our total coverage on gross NPL is at 137%. Our total credit cost for this quarter are Rs.64 Crores which works out to an annualize 48 basis points on AUM, which is again in the guided range of approximately 45 to 50-basis points of credit cost that we plan to take this year. For Q1 FY 2015, net credit cost to Rs.54 Crores working to an annualized credit cost of 51 basis points. The credit costs are also in line with what we had guided. At the end of Q1 financial 2016, the total substandard provisions stood at Rs.263.1 Crores, general provisions were Rs.163 Crores and specific provisions at Rs.100 Crores, floating provisions of Rs.50 Crores, standard provisions of Rs.314 Crores, totaling to a total provision pool of Rs.627 Crores. Our NPA is for over three years have remained within the range of 70-basis points to 90-basis points that is for gross NPAs and net NPAs have remained in the range of 30 to 50-basis points and we are reasonably confident of continuing to remain within this target range in the foreseeable future. On the borrowing side, 93% of our borrowings are long-term in nature. I think one of the most important qualitative achievements has been that on the borrowing side we have made very significant progress on how bonds contribute to our overall borrowing mix. I am happy to inform you that 99% of our borrowings in Q3 have been net finance through bonds, which is a big achievement in our long-term strategy. We have also indicated in the past that over the course of the next two to three years, we would like to see bank financing dip to about 40% from 60% where it has historically been at. I am happy to inform you that bank borrowings for the last 12 months stand at about 44%, so we are already in that range and I am very, very confident that in due course of time, we will get this down to 40%, it is already down to about 55% of stock and this is clearly headed in the direction of 40% over a period of time. The good news is that today as bond yields stand, we save approximately 110 to 120-basis points over bank base rate. So, if you issue a bond, we save about 120-basis points to a comparable borrowing from the bank. So while the company has to also achieve the objective of tightening its spread that it pays over other CRISIL AA process or AAA, so that one task at time, the other task is also to move the long-term liability borrowing strategy. So, we continue to make progress on both, even though G-Sec rates have gone up by about 12-basis points quarter-on-quarter. We have been able to tighten our spreads moderately and I am sure that we will continue to make progress in this. In Q1, we have already done about over 3800 Crores of borrowings through bond, which is over 50% of the borrowing that we had done in the whole of financial year 2015. As I said earlier bonds is where we have made very, very substantial progress and this is a very good long-term investment that we made in Q1 2016. As a result of all of this, our spreads in Q1 have stayed stable. We have been making progress on doing more and more of finely priced home loans and finely priced loan against property. So our spreads was stable at 328-basis points and we are confident that even though overall asset demand is slow in the industry and therefore that usually put pressure on spreads as a combination of the change in a borrowing mix and thanks to our superior rating. We should be able to maintain a spread of between 300 and 330-basis points, which is within the guided range that we have discussed in the past. Cost of fund is currently on book basis at 9.6% as compared to 9.75% for Q4 and on an incremental basis, cost of funds is down to 9.2% and even though we did do a base rate or prime lending rate cut off 20-basis points in the previous quarter we have been able to maintain our spreads which is good commentary on where our borrowing costs are headed and our long-term competitiveness.

In keeping with our philosophy of maintaining adequate liquidity, the company had Rs.9552 Crores of liquid funds, which it is parked in the form of cash, cash equivalence and investments in liquid schemes of mutual fund and this works out to approximately 19.9% of our on-balance sheet loan assets. Disbursements are at Rs.4554 Crores as against Q1 FY2015 we had disbursed Rs.3665 Crores. Repayment rates in Q1 FY 2016 are moderately off which is something that again we have been making a lot of effort towards. We have been trying to control our repayment and prepayment rates, so repayment and prepayment rates together are now standing at about 1.4% per month as against 1.7% for all of financial year 2015. With this the average expected life of our home loan has gone past six years. Fee income for Q1 FY 2016 was Rs.80.1 Crores which was for the same quarter last year Rs.60.3 Crores which is a growth of 33% year-on-year. Our disbursals to corporate mortgage loans were proportionately a little higher and processing fees was a bit higher as compared to Rs.34 Crores last year we made Rs.43 Crores of processing fees. We have additionally made about Rs.19 Crores of prepayment fees and earned around Rs.18 Crores of income by selling insurance. These two lines were Rs.16 Crores and Rs.10 Crores respectively in Q1 of last year. Moving onto balance sheet items, the net worth stood at Rs.6681 Crores up from Rs.5648 Crores at the end of Q1 FY 2015.

Now, I will move onto the qualitative announcements. Some of you may already have read in some news articles which appeared today we have concluded a very important arrangement with CRISIL. I had spoken with a lot of our stakeholders in the past that as a lot of new entrants have got into the LAP market. There are various strategies being adopted by different players while underwriting LAP. We have also been participating in several seminars and other such forums in which we have gotten feedback that LAP has become a black box and people doing Rs.50 lakh, Rs.60 lakh of LAP, average ticket size are also categorizing it as LAP and people doing Rs.50 Crores are also categorizing it as LAP. There have also been several newspaper reports as well as research reports which have talked about all and sundry getting into LAP, LAP essentially being a type of a loan asset which is doing well because of asset price inflation and stuff like that. There have also been some reports which have indicated that lag delinquencies have gone up to 2-3% for a lot of participants and two year lagged delinquencies are in the range of 250 to 300-basis points for a lot of industry participants. To put some color on this black box and to make sure that Indiabulls Housing Finance not only explains its own portfolio in great detail, but it also takes leadership position as far as loan against property is concerned. We were the first movers as far as this product is concerned way back in 2005. We have a great track record of 10 years and through these 10 years this portfolio has come through for us through the global credit cycle as well as the downturn in the fortunes of not only overall corporate India, but the MSME segment also through 2011, 2012, 2013 and 2014, so our portfolios have done well. Our two-year lagged delinquencies stand at only 44-basis points as against some players apparently have taken this up to 250, 300-basis points. So, as to be able to give greater color, we have gotten into an arrangement with CRISIL where CRISIL for us would be looking at all the incremental loans that we are doing in financial year 2016. Through the course of financial year 2016 at the end of every quarter, we will present to our stakeholders what was the type of business that we did. The grading methodology and scale that has been developed by CRISIL, will grade the LAP loans on a 5-point scale indicating the creditworthiness of the loans and the clients. CRISIL grading will have an independent and thorough scrutiny of the LAP loans underwritten by us. These grading will over a period of time become the cornerstone of our portfolio and its management. Eventually we expect the grading process will move to a predisbursal stage and we are ambitious to plan a full risk model based on this grading scale. There are as far as the grading scale more specifically is concerned a few factors that will determine the quality of a LAP loan. One is the collateral against which the loan is given. The other is overall underwriting approach that one takes which is in our case completely cash flow based. Then there is a purpose of the loan whether it is for consumption of a productive deployment in business, then the nature of the customer is also very important, if it is consumption it could be salaried individual, if it is for business purpose it could be self-employed or a small business, but the vintage of that small business is extremely important. In our case, we focus a lot of vintage of the small business. So, the industry lends out LAP loans against combination of these factors and each of the combination translates to a different risk profile. A LAP loan given out against self-occupied residential property after a business cash flow based underwriting for productive business deployment is in our view the lowest end of the risk spectrum and is a type of prime loan against property segment that we operate in. Other combinations of these factors could lead to riskier loans and because of these complexities it is difficult at times to appreciate the relative credit quality of LAP portfolios being underwritten by different industry players. We are also all aware of the fact that SMEs are the backbone of our country. Being a pioneer in the industry and having seen how this particular part of the industry performed for now over 10 years we are extremely optimistic about the demand that the industry is to give to us as well as the overall opportunity that LAP has. There have been several studies based on reports published by IFC and all of that which estimate the demand to be at something like Rs.10 lakh Crores. The current size of the LAP market is something like a lakh and Rs.20,000 Crores and this particular asset class therefore has a lot of headroom to grow as SMEs grow this Rs.10 lakh Crores will become even larger and I am sure that without taking any additional credit risk if a player with good cost of finance tries to participate in this opportunity, there is enough and more loans to be taken.

So, this initiative which I had started speaking about three to four months ago we have completed. This is first in the industry. We will work with other rating agencies also because over a period of time, we want the whole portfolio to be rated like this and it may be logistically a very difficult exercise given the thousands of loans out there and I am sure several of our peers will follow suit and will also adopt this rating scale that we have built out with CRISIL. Over the course of the next three to four months, another key area where we are initiating a similar engagement with several rating agency is going to be to continuously monitor our direct assignment pools. As some of you may be aware, there were some unfavorable tax announcements made by the Government of India in their budget two, three years ago, which has resulted in passthrough certificates becoming unpopular when portfolio sell downs happen and direct assignment becoming the more popular way of selling down. I believe of the Rs.20 odd thousand Crores of sell down which happened last year almost 90% plus happened through the direct assignment route.

The only issue in the direct assignment route is that once the rating opinion is given if it is taken by the buyer, after that there is no monitoring of that portfolio. So, we are engaging with all of our rating agencies for them on a quarterly basis publish what is the performance of direct assignment pools also and we will make this part of the quarterly update that we give. Currently, we have about Rs.6126 Crores of loans which are outstanding. This number should grow by 20%, 25% by the end of this year and therefore it is a very substantial part of our overall portfolio. It is also a very good source of data for investors to get a handle on what are lag delinquencies looking like. Today all of our pools have collection efficiency ratios for pools with vintage of two, three years have collection efficiency ratios of 99, 99.5%. In a recent webinar a rating agency had commented that the pool of Indiabulls Housing have delinquencies on current basis of 29-basis points and lagged basis of 44-basis points, since we are very, very sure about our portfolio performance we are in a good position to take the second initiative, which I hope to start presenting if not by September quarter, definitely by the time that we publish the December quarter results.

The other concern which has been spoken about quite a bit in the last few months has been that in a scenario where there is an apparent slowdown in the real estate market what is the scope of growth in this market as far as the home loan business is concerned and therefore how sustainable is this 20%, 25% growth that we keep talking about. As I have said at the start of the quarter, this quarter has been reasonably robust and we have seen steady growth across all the asset classes. Now, if you look at the industry also, home loan demand has been reasonably robust for ticket sizes of up to 75 lakh of rupees, so this entire spectrum of loans from starting from Rs.10 lakh to Rs.75 lakh has remained robust. It is only the very expensive homes which run into Rs.2 Crores and above in the context of Bombay and Rs.1.5 Crores and above in the context of the other cities of the country that have been slowing down and have been showing lack of demand. There is a very clear mathematical explanation to it. Today, home loans cost about 9.9% for loans where the average ticket size is Rs.75 lakh or where the average ticket size is Rs.25 lakh the effective mortgage cost reduces to between 5% and 6% because of the various tax breaks that the Government of India gives. The average rental yield is around 2.5% to 3.5%, the average for the top 8 cities is 3.1%. So, therefore Rs.25 lakh home loan will attract only 2% extra and Rs.75 lakh home loan will require 3% extra over the rent that the person is paying and for approximately Rs.3500 in a month, a person can take a home loan of Rs.25 lakh and buy a house of around Rs.40 lakh and this type of customer will generally have a household income and annual household income of million rupee. So given that he can easily pay this Rs.3500 per month and it is for this mathematical reason that this part of the market continues to be very robust whereas the higher end of the market which traditionally was operating more out of hope for capital gain is not robust at all and there is no doubt that market is slow but given the mathematical compulsion and also the fact that wage inflation continues to be reasonably robust and affordability continues to be within good comfortable level and at a level where historically transaction have been happening for this particular segment I see no reason why this growth should not remain robust. I myself am pretty circumspect about very expensive homes and therefore when we look at our residential construction finance portfolio, we look at it very, very carefully and continue to focus on the risk checks that we have apartments already sold and the cover that it is giving in the high equity that we require the developer to build in.

On the basis of robust credit performance and on the basis of the various capacities that the company has built over a period of time at the various investment that we made in the technology that goes behind the company and the investment that we continue to make on the brand and people I am very confident that we are capacitized to be able to continue to tap into the opportunity that India presents for a company of our size to continue to grow at 20% to 25% and therefore I would like to repeat that at the end of Q1, we are more than confident of being able to achieve this guidance of 20% to 25% growth in financial year 2016 across all financial parameters. While this growth is being pursued as has been demonstrated, we will continue to work towards the improving the quality of our earnings as well as the quality of our interaction with external stakeholders. As the recent initiative with CRISIL has demonstrated we will more than welcome any feedback that we get from our various stakeholders and wherever it is practically implementable we shall surely do so. To sum it up, 20% to 25% growth is what we will pursue, Rs.9 per quarter dividend is what again we will pursue and I am reasonably sure both of these can be achieved without compromising on credit quality or very important cost income ratio. So all of those remain within what we have guided. That is all from our side and we are 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 Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Hi Gagan, congratulations on a good set of numbers. Firstly on LAP you highlighted may be it is more cash flow based that in a self-occupied property at the lower end of risks spectrum, but just wanted to understand in terms of pricing, so last time also we highlighted in terms of the incremental yield out there are somewhere around 14.5, but this being relatively lower risk segment and most of the players are also focusing on it are we seeing some kind of price in terms of pricing and do we expect yields particularly in this segment of LAP to come off a bit over a period of time?

Gagan Banga: No, I am sure that I probably made a mistake in communication or it could have been misunderstood. What I would have indicated is that the book yield stands at about 14.5%, so as we speak the book yield stands at 14.47%, incrementally we are getting around 12.5% to 13% or just a little over 13%, so its in that ballpark range that we are comfortably getting our yields and we have disbursed close to about Rs.1193 Crores in this quarter. On that we have been able to get a yield of 13.2% on an average for the full quarter.

Kunal Shah: Okay, this quarter yield on this particular LAP was 13%. So eventually may be I think overall yield in this segment would come up which would get offset by the lower funding cost as well.

Gagan Banga: Sorry.

Kunal Shah: So, this would get offset by the lower funding cost, the benefit which we are getting on the funding cost side, it would get broadly offset and that is the reason likely you are mentioning spread to sustain around 3.3%.

Gagan Banga: Right and the other point is that the market that we operate in average ticket size of Rs.70 lakh, Rs.80 lakh. The competitive intensity in that segment, we have not seen escalating beyond control the way it is happening for I said Rs.2 Crores and Rs.5 Crores. So, most of the new players who are coming to the market are targeting these high tickets and that is where some of the risk like higher LTV and very low prices are being offered. So, we have seen Rs.70 lakh, Rs.80 lakh which is large volume players and these are very three, four players in the market who process 3000, 4000 thousand files a month and sanctioned 1000-1500 files that kind of scale, there are only three, four players in the market and that segment has not seen irrational competition. So given just has guidance for the future, we will expect that at least in Q2 unless there are further reference rate cuts from the

Central Bank one would incremental business to get booked around 13% and the book over a period of time will definitely tend down from the 14.5% that it is currently priced at, this is anyway on actual life basis a 3 to 4 year asset and we do not expect the nature of that to change, so on incremental basis for your records you can keep this as a 13% asset, on that pricing we are reasonably sure that we will continue to do about 400 to 500 a month without compromising on credit quality and or any other credit checks that we have been doing in the past and in great detail we have, if you have to go through our earning update on two slides we have gone through in great detail as to what all are the various checks which are being performed by us as well as which are being reported in the files, so if you are to refer to page 28 and 29 of the earnings update it will give you a good sense of not only the various checks which are being performed but also the various ratios that we take in to consideration which really while the scale has to be customized being able to capture a self occupied residential property is definitely a very, very important input in to the eventual credit decision but that does not mean that we forget what the interest or risk service coverage ratio is or what is the outstanding liabilities to net worth or loan to value or EBITDA margin all of those are taken into consideration, so this is a regular cash flow based loan.

Kunal Shah: Just again coming on slide number 29, this is obviously in terms of incremental disbursement, but when we look at say the outstanding portfolio, now would the significant chunk would again be concentrated on LAP to grading scale?

Gagan Banga: Yes, it will be, bulk of it would be around LAP to grading scale.

Kunal Shah: So somewhere again let us say more than 70% would be over there.

Gagan Banga: Yes, mostly. I cannot say for certain because that process is on, but in terms of how that pool has performed even there is a lot of comfort that I derive from the fact that in an asset class where the expected life is around 36 to 40 months after a lag of 24 months when I look at that portfolio, it has 90 days past due of around 40 basis points, so at 40 basis points for a pool, which is being underwritten at 14.5% that is tremendous performance on a lag basis. On concurrent basis, it is around 29 basis points. So it is a pool, which has really done well. I am assuming from the little knowledge that I have of underwriting that yes it will all tend to be around a EBITDA margin of 10% to 12% and interest service ratio of between 5 and 6, so that is the broad range in which it should be there, but that portfolio is anyway seen the test of time and has performed extremely well, so one is not worried at all about that.

Kunal Shah: In terms of status on few of the accounts in the corporate mortgage book, has there been any recovery of any of these names, which we highlighted?

Gagan Banga: Yesterday, we achieved, in the last call I had mentioned that Supreme Court has allowed us to sell some assets of Deccan. Yesterday we sold, concluded the auction of their first house and we have received Rs.15 Crores, which should get adjusted and reflected in this quarter and as far as the other one is concerned, the government has issued the public parking lot letter, construction is going on and as I am told the developer is targeting the first quarter of financial year 2017 to achieve occupancy certificate. Since then you may have also read in the newspapers that the government is also trying to regularize not only one building but they are trying to devise a policy where on the basis of premium anybody who has built as per the old DCR can anyway take advantage of the FSI, so it is not only getting sorted for him, fortunately it is getting sorted out for the whole Mumbai real estate market and on the basis of this he is continuing to sell apartments. He has to still sell apartments at a discount, so he is selling apartments in the market where he should be pricing his apartments between Rs.40,000 to Rs.50,000 a square foot, he is selling them at between Rs.30,000 and Rs.35,000 square foot, but those sales are on as a result and as a consequence of that our loan servicing is on.

Moderator: Thank you. The next question is from the line of Laxmi Narayan from Catamaran. Please go ahead.

Laxmi Narayan: Thanks for taking my question. I have a couple of them. First, I just missed the point on total disbursements for this quarter and I understand that around Rs.1193 Crores is on LAP right?

Gagan Banga: We did Rs.4553 Crores of which Rs.1193 Crores was LAP, Rs.2100 Crores home loan and the rest was **corporate mortgage.**

Laxmi Narayan: How much was the home loan?

Gagan Banga: 2100.

Laxmi Narayan: On the home loans, do we see someone taking our home loan customers, existing customers, seasoned customers and also do we also take over from someone and if so what is that kind of proportion?

Gagan Banga: We do take over from people and people do take over from us, customer which are in the self-employed space when you underwrite a customer, you would underwrite the customer anywhere between 50 to 150 basis premium, a salaried customer and the expected life of that customer is only 3 to 4 years as we build his assets, self-employed loan will generally get runoff or refinanced for want of lower yield and probably when a top up the salaried guys will come stay with 7 to 8 years as a result average life is 7 years, that is how the portfolio breaks up and if there is a good customer out there who may be in the premium panel, we would also look to take over. Our case, I would say that number is very small but in the case of state-owned banks, state-owned banks do thrive because of their inability to be able to distribute the way the distribution has evolved, we do thrive on refinance.

Laxmi Narayan: If we look at the customers only have lost because of that would be, how large it would be as a percentage to get some range whether it is like 5 to 10% of the loan book or it is like 1 to 2%?

Gagan Banga: When we analyze our prepayment, about 65% to 70% of the prepayments that we received are from customers who are partly paying the loan, so it is only about 30% of the prepayment where the customer is getting either refinanced or restarting the loan, so it is not a very, very large or large percentage or a percentage that one needs to worry about and as a credit underwriter over a period of time I have kind of started **(indiscernible) 38.23** because it is a good reflection on our credit practices and others by over our loans, I think it is just an overall good certificate to have. So in terms of percentages etc., and as a reflection of how our cost income ratios work, I think it is a practice which are return on asset as well as the cost income ratios both can afford to have.

Laxmi Narayan: What is the blended yield you are working on for the incremental home loan portfolio and existing loan portfolio, home loan portfolio?

Gagan Banga: Existing book will be at about 10.68% and incrementally we will be getting just under 10.5%.

Moderator: Thank you. The next question is from the line of Adarsh P. from Nomura. Please go ahead.

Adarsh P.: I have couple of questions from my side, one was the CRISIL grading that you have developed for LAP, will they use the same metrics for the LAP grading across the board if various other players choose to do that or is it like specific to Indiabulls?

Gagan Banga: It is proprietary to us, but there is only so much that you can analyze in a business, so they may choose to not call it LAP 1, 2, 3, 4, 5; they may choose to call it something else, but it is not proprietary to Indiabulls that you will look at EBITDA margin or outstanding liability or interest service coverage ratio anybody would look at it, so to answer it in one line it is proprietary and I do not know how I will protect my IP on this, so it is also copyable, but it is very expensive, so I do not know whether a player, which is doing Rs.100 Crores, Rs.150 Crores can afford to pay the cost that we will be paying per file and will they for the want of transparency with stakeholders who may not in the immediate term even influenced the business volume positively, therefore will that expense be a motivating or a demotivating factor I am not certain to as my colleague Ashwini mentioned a lot of players have been trying to get scale in this business very quickly, you have to appreciate that as Indiabulls Housing, we have been fortunate that we have had the opportunity to evolve our strategy in 2005-2006 was to do high yield type of loans and as our cost of money is reduced over a period of time as we demonstrated longevity in the business, as we went through cycle shifts, we had the opportunity of being able to bring down our cost of funds slowly and we also had a lot of patient capital, which allowed us for two to three years actually run down it on an equity to almost single digit before it has gone up to where it is right now. Every other player in the industry is not so fortunate, they are sitting with impatient capital and therefore they need scale and there is clearly why we also felt the need of coming out with such a crystal clear statement of what we do is because we ourselves were getting confused that what is this LAP because LAP was also Rs.25 Crores of loans, Rs.50 Crores of loans and here we were doing

Rs.60 lakh, Rs.70 lakh of loans and I am not certain that there are too many players in the industry, which can actually adopt this rating methodology because they may just get tripped on the average ticket size or loan to value etc. So it will be very interesting to see that even though it is easily copyable so to say rating methodology how many people actually adopt and I am not certain that too many will.

Adarsh P.: The question was more to see if people do that, so will the rating scales because proprietary to you, will it be comparable?

Gagan Banga: It is as a matter of fact I do clarify the IPR is with CRISIL, not with us, so it is more proprietary with CRISIL, so they are better to comment on this, but I am not so certain as to whether because of the type of business that is being underwritten and to the type of expense that this exercise undertakes I am not certain how many other people will do it.

Adarsh P.: Perfect and just one more question again obviously this quarter has seen a large increase in the bond book, so just wanted some sense of acceptability with various players that you are seeing so investors, insurance, MF, if you can give some more color that will be helpful?

Gagan Banga: So in terms of acceptability based on various stock exchange filings and other disclosures that we keep our eyes on for our peers I believe companies with balance sheets of two to four times our size has issued bond in the range of Rs.3000 Crores to Rs.5000 Crores in the last quarter, we have issued bonds of Rs.3800 Crores, so there is overall acceptability, which is there across market participants. It is eventually a bond issuance and the pricing that one derives is a direct function of demand and supply. If we are to choke up the supply of our paper, the journey that we have to make in terms of contracting the spreads that we pay over some of our peers will collapse tomorrow morning, but we cannot afford to do that given the fact that we are saving 120 basis points over base rate and which is the other alternate source of financing, so we are trying to do a tightrope walk, in that tightrope walk I wish I could choke my supply and let the demand be there, unfortunately I can only choke it to a limited extent, but I am happy with the way things are progressing both in terms of spread contraction as well as in the overall demand of the paper and I think that it will be like a game changing event, which one has actually witnessed in Q3 where all of our incremental financing has come through bonds that can potentially in due course of time add theoretically 100 basis points to our margin and what that does to numbers is for one to just do some back-of-envelope calculation. I will clarify that we will not add 100 basis points to our margin, we will use that to accelerate growth, but the comfort is phenomenal, so I would say that Q1 of this financial year from our liability program, which is essentially the foundation stone for the whole business, it was a game changing quarter.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Sir, I missed your comments on the dividend payout, if you can please repeat that again?

Gagan Banga: We spoke about this I think two quarters back and I shall repeat that we have been for the last four quarters now being paying out Rs.9 per share per quarter. Our long-term dividend payout policy as has been shared with all of our stakeholders over the course of the last four years has been that it is at 50% around two years ago we had bumped this dividend payout policy to around 70% because the Reserve Bank of India and subsequently National Housing Bank had reduced risk weight on both residential construction finance as well as home loans and our capital adequacy had gone past 20%, now it is at the more normal 18%, 18.5% and we feel that we have to come back to our long term dividend payout policy of 50% at the same time we do not want to reduce the payout that we have been doing per quarter, so therefore we are capping payout per quarter at Rs.9 per share. It will continue and we will strive, I cannot guarantee, but we will as management strive to allow this payout to continue for the next few quarters till we get it past a stage where it is touching 50%, which as per our calculation should be achieved by Q2 of next financial year, so from Q2 of next financial year it should start climbing and 9 should become 10 and subsequently wherever it goes till then it should be operating at Rs.9 per share per quarter from a more longer term perspective it is 50% of our profits to be paid out to shareholders for dividend.

Subhankar Ojha: Secondly what is the total book, how much is percentage of LAP and housing finance and construction?

Gagan Banga: Broadly 50% is housing finance, 20% is home loans, 25% is LAP, 20% to 23% is large loans and the balance is commercial vehicles loan, which is running off and which will become zero within this financial year.

Moderator: Thank you. The next question is from the line of Veekesh Gandhi from Bank Of America. Please go ahead.

Veekesh Gandhi: Hi Gagan, congratulations. I just had a couple of questions one if you can give some color around and obviously it is too early in the day, but something around the affordable housing thing. Currently, if we are doing in the home loan book, which is 50%, how much of that would be focused in this segment and probably we all know the potential that has been outlined by the government, but just from current state of affairs on your book, is there anything meaningful out there and secondly I just needed some couple of data points, which I will ask you in a bit?

Gagan Banga: So affordable housing is an interesting definition, it is an interesting area of growth, there are various definitions, so there is a definition by the Reserve Bank of India, which classifies affordable housing as loans of up to Rs.50 lakh, then within that Reserve Bank of India has increased the priority sector limit from Rs.25 Lakh of Rs.28 Lakh and I believe there are two different other guidelines by various other departments, where affordable housing at one level is Rs.30 lakh and another is Rs.10 Lakh. Historically, depending on which category of affordable housing you are looking at we participate in some, we do not participate in some segments. Clearly, the company has no interest whatsoever to participate in the Rs.10 Lakh segment at least in the foreseeable future. We are very, very active participant in the Rs.25, Rs.28, Rs.30 lakh market even going up to Rs.50 lakh of market, so we are very direct beneficiaries of whatever steps the Reserve Bank or the central government or in due course of time various state governments may take as far as encouraging affordable housing is concerned. Today, as we stand we are already beneficiaries to the extent that we have been able to diversify our financing source by tapping into the ECB window and we have $200 million of ECB, which is specifically targeted to affordable housing. We expect within this financial year to raise another $300 million of ECBs again directed towards affordable housing and that money is not only cheaper than bank term loans, it is also a very, very good source of diversification, it is also very good source of reaching out for an institutional investor, who can come in through the ECB route and once exposed to our credit can also come into our rupee bond route. So it is a very meaningful medium to diversify our borrowings. That said as a company we have also been trying to take initiatives where we do not want to remain trapped as we were in the past in this below Rs.25 lakh segment. I believe with the bond program finding its speed, we are in good position to actually increase our average ticket size moderately. We are seeing a lot of demand not only for our bonds, but also for the home loans that we are originating of Rs.30, Rs.40 lakh from a variety of banks. Today, we have sanctioned limit of at least Rs.2000 Crores to Rs.2500 Crores from banks, which want to buy these portfolios at rates where it make sense on a per loan basis to sell it down. So therefore we will continue to strive hard to operate in the segment where we are currently operating, which are loans ranging from Rs.20 lakh to Rs.50 lakh. Historically we were getting bogged down in the range of 20 to 25 Lakhs thanks to either government initiatives and the RBI initiatives, which made the affordable housing definition up to 50 Lakhs of rupees and also because of the credit profile that we built for ourself and the subsequent credit rating I think we should be in a pretty good position to tap this entire opportunity, I would say as far as housing loans are concerned we are today in a sweet spot as far as this 22 to 50 lakh rupee range is concerned.

Veekesh Gandhi: And just couple of data points Gagan if you can share, what is the current zero-coupon bond outstanding?

Gagan Banga: 1961 Crores.

Veekesh Gandhi: The other thing is if you can just share the income from the liquid investments for the quarter?

Gagan Banga: It should be 195 Crores or so.

Veekesh Gandhi: And what would be this number last quarter and last year?

Gagan Banga: Last quarter it was I think, 245 Crores, I will just confirm the number to you Veekesh.

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

Nischint Chawathe: I just want to know what proportion of the disbursements in the LAP book would be sourced from repeat customers?

Gagan Banga: So you mean top ups, it would be a very, very small number in our case, a lot of our LAP program is done keeping in mind that we eventually want to sell down a bunch of these loans and when we sell down there are clear boundaries set up by the buyers of these loans that we cannot give top ups, etc., so therefore, that is not a segment, which is of much interest to us, which is reflected in the fact that our loans have a life of only between 3 and 4 years, if we were giving top ups and at the competitive rates that we are operating on then these loans would have run their whole life or would have gone beyond, so top ups would be like under 10% of the portfolio.

Nischint Chawathe: What could be the proportion of customers who are possibly completed a cycles of may be three to four years and then possibly have come back?

Gagan Banga: The contract is 7 to 10 years, so for the customer to complete a cycle, he will have to complete the whole 7 to 10 years. What can potentially happen is that a customer runs a loan with us gets it refinanced and goes away after three to four years and then approaches us again, at that time you will have to really take a very fresh call on what his cash flows are, what his margins look like, why did he go away and we will also have to take a call on what is the cost associated to doing business within before we book his business back, so if your question is how many people have gone through the whole cycle then they would have to go through the whole cycle to qualify in that, they will have to run through 7 to 10 years. There will also be a lot of customers in our book who have done part prepayments, so to just give you an example, we disbursed somebody 1 Crore of rupees, every year he supposed to approximately pay us 15, 16 lakh of rupees, but he in three years lands up paying us 60, 65 lakh of rupees, so those type of customers would be there and they would have a smaller gestation**,** so to some extent their track record is richer than somebody else who is just following his amortization schedule, but as far as we are concerned the cycle does not get over in three to four years.

Nischint Chawathe: Will you be engaged in very detailed cash flow analysis of your customers, just wondering whether when you are doing the cash flows initially you kind of do get a sense that yes the customer can prepay the loan in three to four years or is it something that it comes, sometime in between he gets cash from somewhere, which was possibly not forecasted or may be manages to get it re-priced that he is prepaying the loan.

Gagan Banga: Customers will be able to do part prepayments essentially because you will have to appreciate that this is not as straight jacketed an appraisal as looking at a salaried employe's Form 16 and a bank statement and therefore being able to accurately arrive at what the income is, this is an appraisal, so we have to look at what his EBITDA margins in the past has stood like, what is other margins are stood like, what is the growth prospect of the company, therefore where his earnings are going and we would like to err on the downside rather on the upside as far as his growth potential is concerned. So given that there are enough buffers that we leave behind where a customer can have additional cash flows over us, what we cannot afford to have is where the customer's cash flows are weaker than what we anticipated. Given that there is more than enough scope coming out of cash flows, which will allow a customer to part prepay the loan. There could also be situations where some asset sale happens and therefore that causes a repayment, so the customer may have indicated to the credit appraisal team that I will eventually sell this asset or that asset, but we cannot take that as a given and therefore, we cannot assume that to be a part of the cash flow. That apart I see no reason why we should not be able to anticipate additional cash flows, we would like to err on the downside.

Ashwini Kumar: And also the way we have built our loan structure is that up to 25% of loan amount, in a given year he can prepay without prepayment charge, now these businessmen have lumpy cash flow from business. The whole loan that they have taken from us may be utilized which might give quick returns, we have seen almost 60, 70% of our prepayments are in form of part prepayments and this businessmen return this money faster.

Nischint Chawathe: Maybe this is too early in the day to ask, but could you have some sense or what would be the rate of interest differential between let us say LAP 1 and the LAP 2?

Gagan Banga: That is where we want to go, when I said that we want to built a risk model we want to built a risk model basis, when we are putting hard coding customers as LAP 1 and LAP 2, we will over a period of time see if there is any correlation between this and that, but I know for a fact that several people have attempted to do that while buying our portfolios and have been surprised at the type of credit quality, which has come through across the various types of loans that they buy and the type of consistency that one observes where a customer that you were not so convinced upon gives a delinquency of 30 basis points and somebody else gives a delinquency of 20 basis points and at 10 basis points, how much of cost of fund advantage can you give to a particular borrower I personally expect between LAP 1 and LAP 2 that similar tightness to be there as far as credit quality is concerned, but yes today it is little premature and time will tell whether I can eventually get this up to a standard where we can do risk based pricing on this.

Nischint Chawathe: Okay great just one last data point, I did not catch the number for provisions?

Ashwini Kumar: See the total credit cost for this quarter is 64 Crores of which the total write-off we did were 53 Crores and the rest we took as provision.

Moderator: The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Hi sir, just some color on this Deccan Chronicle, so once you sell this asset, what is the provisioning which will get released assuming, I mean I am sure you will probably get all your money back, but what is the quantum provisioning which gets released?

Gagan Banga: In due course of time we have been told to go and sell one asset, go and confirm to Supreme Court of India that we have sold one asset then they will allow us to sell two more assets, so it is like I expect that whole process to go on because these are houses of people and so we sold their first house for 15 odd Crores and I think the total amount that we need to recover are 68 or Rs. 70 Crores, we have not been charging interest, so we will recover our interest also, so it is in that ballpark range Rs. 70 Crores plus interest that we will recover as and when we recover it is a fully provided for loans, so that is what gets released.

Saurabh Kumar: So Rs. 70 Crores hopefully over two years, that is what is possible?

Gagan Banga: Let us keep our fingers crossed and says 12 months. We have waited long enough for this.

Saurabh Kumar: Okay and just two questions more, one is this LAP 1, 2, 3, this is all like a self occupied residential property right, there is no commercial property?

Gagan Banga: Over 95% should be SORP and the balance could be commercial.

Saurabh Kumar: Commercial if it all will be LAP 3 or can it be LAP 2?

Gagan Banga: No, it could be in LAP 1 and LAP 2, it will be commercial, commercial will be office and not industrial and LAP 2 will be very prime office, but we are talking of an inconsequential number of 5 to 10.

Saurabh Kumar: Okay and just one last question of what is happening on your developer lending, banks obviously are very vary of this, they build a book but we see in some other NBFC like LIC and all they book substantially of a very low base, what has your growth been on that book right now?

Gagan Banga: I get very confusing signals from the market, I do not know therefore who is wary and who is active, there have been times where one has been feeling that the banks are getting too aggressive without taking adequate checks. We have in the past also seen banks do construction finance for slum rehab projects for redevelopment projects, for projects where there are some rights coming in the form of rights being mortgaged and therefore land not getting mortgaged, so I have personally gone through enough cases where the builder will come and say that you guys do not this, but a bank does it and how come. We continue to stick to our guiding principles where if we are doing lease rent discounting we would like to do lease rent discounting of buildings, which in today's context would be generating rents of 50 to 65 rupees a square foot should be multi-tenanted, should be of a good developer with a proven track record, should not have concentration risk, so with those principles we are happy to underwrite, the rental market in some region has been showing good growth, so Bangalore, Gurgaon and some parts of Bombay have shown very good growth, most parts of Bombay continue to be still under stress, fortunately we do not like very high per square foot buildings which are largely the case of Bombay where nothing is available for less than 100 rupees, so that anyway is not an area of focus, but overall this part continues to do extremely well for us, as far as residential construction finance is concerned we have been maintaining since the start of 2013 that this is an asset class that we would want to be very, very circumspect in, from the start of 2013 till now we are well past the middle of 2015 we would have done a handful of transactions with builders where we are very familiar with where we see all permissions are in place, these are heart of town properties where land is paid up, where equity is already there and over the traditional checks that we have been having were we ensure that pre-sales already has a net receivable of around 1.3 times of our loan amount, we are also now very focused on the size of the apartment, so we like apartments which are give or take 1200 square feet and therefore are reasonably affordable, I think the differentiating factor between projects which sell and projects which do not sell is sizing and sizing is very, very important besides the ability of the developer to finish. Given that, there is more business out there that I can underwrite and I very sincerely wish that state owned banks are a little wary of what they are doing.

Saurabh Kumar: Is it fair to assume that between LRD and construction financing, which as you have explained is escrowed on customer cash flows, so that should be like 90% plus of your bidder book?

Gagan Banga: No, LRD is about 60% and construction finance is about 40%.

Saurabh Kumar: Okay there is no land financing at all in this?

Gagan Banga: By law we are not allowed to do land. Mr. Deepak Parekh has been fighting our cause for this for the longest time but even a person of his profile has not been able to convince the regulatory bodies to change that, so there is no question of land financing.

Moderator: Thank you, the next question is from the line of Mansi Sajeja from SBI Mutual Fund. Please go ahead.

Mansi Sajeja: On this CRISIL thing I think it is a very innovative kind of an arrangement, just to clarify all this would be post disbursement grading, so it would not be something which you would see pre disbursement and how much basis points cost also would be involved in such an exercise?

Gagan Banga: Mansi this is a post disbursement process right now, as we engage with more deeply with CRISIL on this, we our selves get our hands around this, they also do so and we are also in the process of engaging with a few other rating agencies, we hope to be able to built capacity in due course of time first to get all of our book rated and then to make it pre disbursement, today it is too early stage for me to be able to give you a timeline on when will I be able to achieve a predisbursement stage and the cost is a few thousand rupees per file, I would like to keep that information proprietary at this level and at our scale it would not disturb the cost income ratio or the opex to AUM ratio, so it is a meaningful cost, but it is a cost which runs into a few thousand rupees per file.

Mansi Sajeja: Sir just one more data point, in terms of on the call we again talked about this whole LAP margins where it is DSA lead business and where it is own people sourcing the business, so what kind of incremental LAP you are booking through DSAs and what is your own sourcing and how does the acquisition cost vary there?

Gagan Banga: About two third comes from DSA, third comes from our own team and it is actually what you call DSA that we know of, our DSA is more of a person who is referring the loan to us, he has an association with us for the past many years and he is not a car DSA or a credit card DSA and we do not rely on these intermediaries to do anything other than give us the coordinates of a potential lead and then we do starting from the KYC to the whole appraisal ourselves. Industry is that about 80% of DSAs, I do not know what they call DSAs, for us actually because we are just getting coordinates, so these are more lead providers and then 100% of the leads are worked on by own sales team.

Mansi Sajeja: So is there are substantial differences in cost when you move to your own sourcing versus DSA?

Gagan Banga: It is not very significant, we have a very large direct sales team which has a lot of capacity and 70% of their compensation, given the nature or the way that we are structured as far as distribution is concerned be it a LAP or a home loan or DSA sourcing or us we are reasonably efficient as far as our cost of origination is concerned.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Hi Gagan, just one small data point, what is the fee income in the quarter?

Gagan Banga: It is about Rs. 80 Crores where processing fees is approximately Rs. 43 Crores. Insurance is approximately Rs. 17, Rs. 18 Crores and rest is prepayment.

Hiren Dasani: If I understand you correctly the Deccan one is not part of the gross NPA, it is completely written off right?

Gagan Banga: It is completely written off that is correct.

Hiren Dasani: And of the gross NPA of like 400 odd what would be the Mumbai based large chunky exposure Rs. 456 Crores odd gross NPA or that is also written off?

Gagan Banga: No there is nothing very chunky which is Mumbai based which is out there, so if you are referring to Palais Royale, Palais Royale is not an NPA.

Hiren Dasani: It is not an NPA, and this 456 is, I mean how much of that is corporate and how much of that is in the retail and mortgage?

Gagan Banga: We have about Rs. 181 Crores as corporate loans, Rs. 164 Crores of commercial vehicle loans and the rest will be about Rs. 100 odd would be retail mortgages.

Hiren Dasani: Which will be a LAP as well as the….

Gagan Banga: As well as home loans, yes.

Hiren Dasani: And that Rs. 164 CV would be largely fully provided by now?

Gagan Banga: We have provided 137% now, it is very difficult for me to say which loan is provided fully and which loan is partially provided. Obviously while doing accounting the team would know, but off hand I cannot comment whether a loan is fully provided or not, what I know is that we are 140% odd provided on gross NPA.

Hiren Dasani: I am just curious CV you have kind of stopped doing for a while now, so why not completely write off and reduce the gross NPA?

Gagan Banga: We recover, so the team is working towards recovering from commercial vehicles or even from the erstwhile unsecured loans, even today from the erstwhile unsecured loans we recover a Crore and Crore and a half on monthly basis and I personally still spend while it is very small sums of money, I still spend time to make sure that the Crore and a half continues to come because at the end of the year it becomes Rs. 20 Crores. So we will continue to recover from CV and unsecured, we have close to about 600 odd people who are still employed towards this recovery and those 600 people are doing a very, very good job, so there is no reason why we have to fully provide or do anything, each loans has to be treated on the way that our assessment tells us to treat it. We will continue to be very adequately and over adequately provided.

Hiren Dasani: Credit charge in the P&L would be about Rs. 56 Crores for the quarter, 56.67?

Gagan Banga: No I just said it is about Rs. 64.6 Crores of which Rs. 53 Crores is being used towards writing off and the balance towards provision.

Hiren Dasani: Rs. 63 Crore is the total expense.

Gagan Banga: Rs. 64.5 Crores.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Gautam for closing comments. Thank you and over to you sir.

Gautam C.: Thank you everyone for the management team, thank you Mr. Gagan just close this call, thanks.

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