"Indiabulls Housing Finance Limited Q1 FY18 Earnings Conference Call"

July 24, 2017

ANALYST: **MR. ISHANK KUMAR – UBS SECURITIES**

MANAGEMENT: **MR. GAGAN BANGA - VICE CHAIRMAN AND MANAGING DIRECTOR - INDIABULLS HOUSING FINANCE LIMITED**
MR. ASHWINI KUMAR HOODA - DEPUTY MANAGING DIRECTOR - INDIABULLS HOUSING FINANCE LIMITED
MR. SACHIN CHAUDHARY - EXECUTIVE DIRECTOR AND 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 - EXECUTIVE VICE PRESIDENT, INVESTOR RELATIONS - INDIABULLS HOUSING FINANCE LIMITED

Moderator: Ladies and Gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q1 FY18 Earnings Conference Call, hosted by UBS Securities. 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, 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. Ishank Kumar from UBS Securities. Thank you and over to you Sir!

Ishank Kumar: Thanks Raman. We welcome the management of Indiabulls Housing Finance on the call to discuss Q1 FY18 results. From the management team we have Mr. Gagan Banga, Vice Chairman and Managing Director, Mr. Ashwini Hooda, Deputy Managing Director, Mr. Sachin Chaudhary, Executive Director and Chief Operating Officer, Mr. Mukesh Garg, Chief Financial Officer, Mr. Ashwin Mallick – Head, Treasury, and Mr. Ramnath Shenoy – Executive Vice President (Investor Relations). I now invite Mr. Banga to share the key details of the results. Over to you Sir!

Gagan Banga: A very good day to all of you and I welcome you to the Q1 2017-18 earnings call. I will begin with the significant operational business aspects of Q1 FY18 before moving on to specific numbers. The year could not have begun on a better note for us with the rating agency ICRA the Indian arm of the leading international rating agency Moody's upgrading a long-term credit rating to the highest AAA. If you refer back to our previous earnings call, I had mentioned that this is in the works and fortunately it has happened before I had to come back to all of you. It is both heartening and humbling that the last non bank company to be upgraded to AAA on standalone strength that is without implied sovereign backing or the support of a larger parent group got this upgrade 20 years ago and it was none other than our role model and a goal standard financial services company that is HDFC. So we are very, very fortunate that we have been able to break through this and that also with Moody's.

As a consequence, our margins on both the stock of loans as well as on incremental disbursals have expanded driven by increasing funding efficiencies from the ICRA rating upgrade to AAA in June of 2017. Margins are now at the higher end of the guided range in both incremental disbursements as well as the stock of loans. On stock of loans our spreads at the end of Q1 FY18 is at 324 basis points and up from 318 basis points last year. Our spreads on incremental loans are just under 300 basis points up from 275 basis points at the end of Q4 FY17. If you recollect we have guided that on book we will try and preserve margins at 300 to 325 basis points and on incremental loans between 275 and 300 basis points. As we speak we are at the higher end of both of these.

Another source of efficient financing historically for us has been loan sell down. This has been a key area of focus for us and we have been consistently one of the largest sellers of mortgage pools in the country. Last year we have stridden this down a bit in our quest to achieve the key milestone of a trillion rupees of balance sheet size. Having done this we are back in size and scale in Q1. We have sold down Rs.20 billion of loan assets, which is an equivalent to 64% of incremental loan assets added in Q1 FY18. It is also the highest amount that we have ever sold in the first quarter of any fiscal year.

Securitization as most of you are aware is an extremely capital efficient tool. The capital requirement for a sold down pool is only about a tenth of what would be needed if it were on the books and we have historically strategically used this to maximize RoE. We will continue to use this tool to work to its maximum advantage for us.

The other key highlight has been the NPA management. Over the course of the last four to five years our gross NPAs have hovered around 85 basis points and net NPAs have hovered around 35 basis points. We have taken steps to significantly bring it down to now closer to 80 and 30 basis points. Gross NPAs as of end of Q1 have declined to 80 basis points and net NPAs have declined to 31 basis points. This is extremely important given the rather peculiar divergence that one continues to witness in the real estate sector. There was a very recent NHB update, which was also published in the media over the weekend, which talks about home loans of up to 25 lakhs compounding at over 33%, but there actually being a decline in home loan growth above 25 lakhs. As a consequence the proportion of home loans below 25 lakhs is now 76% of the overall pool. We are fortunate that we operate in that segment and therefore are getting the necessary tailwinds as far as our home loan portfolio is concerned, but given the almost parallel implementation of RERA and GST premium housing is clearly something that one has to watch out for and therefore both capital as well as NPA management through this period of time is very, very important. Fortunately we are very well positioned as far as all of this is concerned.

Increasing scale and technology deployment has also led to enhanced efficiencies at every step of the life cycle for us over the years. Two initiatives undertaken a year ago have now gained significant traction with both e-home loans and smart city home loans contributing to an increased share of disbursals. Consequently the decline in cost to income ratio has gained momentum and for Q1 FY18 this was down by 40 basis points over Q4 and now we are at under 13%, we had ended last year at 13.3%. In the whole of last year, which was a very, very good year as far as cost to income decline is concerned, it was all of a 100 basis points and with this 40 basis points coming in the first quarter itself one is reasonably optimistic that we will exceed the decline that we had witnessed last year. Five years ago, which is in FY2012 our cost to income ratio used to be around 19% and we are optimistic that we should end FY2018 well under 12%. We have also expanded our presence into several new cities. We have gone with our smart city program into as many as 47 Tier II and Tier III towns and this program, which is just about an year old is already contributing to 8% of our incremental home loan disbursals whereas e-home loans is already contributing to 22% of our incremental home loans.

Now to quickly run you through the headline numbers. Our growth continues to be strong. Our balance sheet at the end of Q1 FY18 stands at Rs.1.07 trillion, which is a 30% growth over the same quarter last year. Loan assets have increased to Rs.944.51 billion, which is a 33% growth up from Rs.710 billion. Profit after tax for the quarter is at Rs.7.88 billion this is up 25% from Rs.6.3 billion. This is despite our conservative approach to provisioning and fully utilizing and making sure that capital is sweated as efficiently as possible, we still have been able to do our profit at the higher end of our profit guidance range it is 20% to 25% we have gone ahead and grown profits at 25.1%.

Our strong growth is propelled by the growth in mid income affordable housing. Growth in this segment is gaining momentum and we would be at the higher end of our asset growth guidance range as well. As I was sharing earlier recent data from NHB on home loan disbursals for FY17 shows that disbursements of home loans of less than 2.5 million in value, which is a segment IBHFL caters to grew by as much as 33% over the previous year pushing growth in overall home loan disbursals to 23%. Starkly the number of home loans of over 2.5 million registered a marginal decline and as a consequence the sub 2.5 million home loans now has a 76% market in the overall home loan market. Our home loan disbursals too in line with this have grown strongly year-on-year and stood at 37.56 billion, which is a growth of as much as 39% over the 27 billion of home loans disbursed in Q1 FY2017. The expansion in margins has happened despite this accelerated growth in home loans and we have been able to afford this phenomenal growth largely because of the decline in our cost of finance, which is much, much ahead of the decline in interest rates in the system in general. The strong growth in affordable housing disbursals is propelled by the Pradhan Mantri Awas Yojana subsidy scheme and the tax deductions, which have driven effective home loan rates to near zero levels. Over the course of the last 60 to 90 days, the PMAY claim process has also now stabilized and we now receive subsidies from the national housing banks within 30 days of submission of claims that whole process has completely smoothened out.

With the ICRA AAA we now have the highest long-term credit rating of AAA from three rating agencies. The upgrade from ICRA has brought an immediate drop in our incremental funding cost along with a general decline in bond yields. We are now raising bonds at as much as 65 basis points lower than we did in Q4 FY2017. This is coming from two movements, our bond spreads have come off by 45 basis points, GSEC itself is down by 20 basis points since March 2017, our bond spreads over other comparable AAA is now down to 35 odd basis points, which one expects as we work with the system over the next few quarters and rationalize our bond issuances one expects this 35 basis points to decline by another 10 to 15 basis points and stabilize for the next year or so at about 20 basis points premium.

Bolstered by this the spread on incremental loans is back at roughly 300 basis points from 275 basis points at the end of FY2017. One expects that as a surge in CASA following demonetisation recedes and banks go back to a static CASA kind of a regime our competitiveness will continue to increase and our ability to continue to grow home loans without any incremental negative impact on our margins will only get stronger. Bonds represent the cheapest source of finance particularly so after this upgrade and along with the loan sold down 93% of our incremental funding was from either bonds or loan sell downs. As mentioned earlier we sold down an equivalent of 64% of our incremental loan assets this quarter. By FY2020 I have guided as our balance sheet grows to around Rs.2 trillion bonds would contribute to 60% of that financing, which is roughly 1.2 trillion. The upgrade could not have come at in more opportune time of this 1.2 trillion we will be benefited by the fact that over 1 trillion of bonds will be from fresh issuances, which will be at this tighter spread over benchmarks and would continue to give us the necessary spreads, which will allow us to maintain our book spreads at between 300 to 325 basis points even though the proportion of home loans would have grown by then to 66% of the overall loan book.

I shared earlier we continue to be mindful and extremely cautious about RERA and GST both of which are one time events, which will bring about structural changes in the housing industry while long-term benefits are well understood and undoubtedly extremely positive for the industry this change would be a result of deep changes to longstanding ways of conducting business in the real estate industry. As these changes ensue we remain cautious during this transition phase. Above all else we have conducted our business in a prudent manner and we would remain watchful over the next few quarters especially as far as our commercial credit book is concerned for impact from both RERA and GST, but what is abundantly clear is that both of these are extremely positive for the real estate sector as the sector gets more formalized as the smaller player gets completely edged out and hopefully with GST as it happened with most other countries in which GST has been implemented over the last two decades the finances of the government would improve resulting in tax compliance increasing, fiscal deficit reducing, and hopefully interest rates would remain on the lower side for an extended period of time, interest rate cycles will become longer and India is seeing a downward interest rate cycle, so hopefully this downward interest rate cycle would get extended by many, many years.

Moving onto specific numbers. PAT has grown to 7.88 billion, which is a 25.1% growth. I am very pleased to announce that the board has also approved an interim dividend of Rs.9 per share. Our loan book at the end of the quarter stood at 944.51 billion, which is a growth of 33% cash and liquid investment stood at 184.88 billion at the end of Q1 in continuation with our liquidity policy. Our loan asset mix at the end of Q1 splits 57% home loans, 21% LAP and 22% large loans. Our home loan book, which is now 57% of total assets, is up from 53% at the end of Q1 FY2017, so in one year we have been able to grow 4%. Directionally we are firmly on the past to get to two thirds of home loan by 2020. Our topline has registered healthy growth with revenue for Q1 growing to 32.25 billion a growth of 24% despite a lower interest rate regime. Of this 27.89 billion is from interest on the loan book 3.07 billion from cash and liquid investments and 1.29 billion from net fees. The NII for the quarter is at 13.24 billion, which is a growth of 25.7%. This despite the fact that we have reduced our zero coupon bond stock and the leverage has also increased now to 5.9 times. This quarter we have disbursed 67.99 billion a growth of 29.5% over last year same quarter in which we have disbursed 52.51 billion. The disbursals break has 38 billion of home loans, 14 billion of LAP and 16 billion of corporate mortgage loans. The big win of this quarter has been the reduction in gross and net NPAs. Gross and net NPAs were down to 80 and 31 basis points respectively from 84 and 36 basis points a year ago. Our NPAs for over 24 quarters have now remained within a range of 70 to 90 basis points for gross NPAs and 30 to 50 basis points for net NPAs.

On the borrowing side bank borrowings form now only 35% of our funding mixes and if you look at the last three months the stock of bank borrowings has actually on an overall basis declined. We hope that this would be a trend, which we will be able to achieve for many more quarters, so while overall bank borrowings on a year-on-year basis may inch up marginally the inch up would be only very, very marginal and bulk of the financing would continue to come from either bonds or portfolio securitization or ECBs.

The absolute stock of bank loans is down from the end of FY2017 and last year it used to contribute to 47% in the same quarter, which is now down to 35%, 52% of our financing now comes from debentures and we are firmly on track to increase this to 60% by 2020. This used to be all of 40% at the same time last year.

Margins on both the stock of loans as well as on incremental disbursals have expanded driven by an increasing funding efficiency. Our spread for the first quarter expanded to 324 basis points up from 318 basis points and incremental spreads also expanded by 22 basis points. Cost of fund on book basis is at 8.25% and continues to drop as the refinance of stock of loans is finally priced bonds. We expect spreads to very easily be sustained in our guided range of 300 to 325 basis points. On an incremental basis the cost of fund is 7.51%. Capital adequacy is at 20.95% of which Tier I is about 17%. Over the course of the year we intend to focus on beefing up our Tier II stock and increasing it to roughly between 4% and 5% of our overall capital adequacy. We will keep you informed as we move forward on this initiative through the course of the year.

In my discussions with several stakeholders, the competitive landscape for home loans has often been an item of discussion and as I have been sharing the competitive landscape continues to be reasonably encouraging. For banks the firepower for an inundation of liquidity following demonetisation is fast depleting as liquidity gets better allocated and moves to mutual funds, insurance companies, etc. This in turn will get directed to the corporate bond market especially highly rated paper like that of IBHFL - compressing corporate bond yields. It may have come to some of to your attention that SEBI has also been particularly focused on increasing secondary bond market liquidity. Recent measures like consolidation of ISINs are indicative of the regulators focus on this issue and such regulatory steps gives us the comfort that finally India might start seeing a slightly better and more active secondary market. As liquidity gets directed to corporate bond markets bond yields are expected to remain low in the mid to long term. Long-term benefits accruing out of GST will also keep inflation low and current account deficit in check within the government targets will facilitate a lower interest rate regime. Thus we are as management looking at prevalence of low interest rates for an extended length of time. Highly rated housing finance companies will definitely benefit from this, as they fund and refinance their borrowings from low cost bonds. Banks are also under pressure from worsening asset quality. The PSL NPAs or priority sector NPAs are over 6% of the banking sector. High NPAs in the corporate book combined with lukewarm sub 10% credit growth is suppressing income leading to spike in cost to income ratios, which combined for the top five public sector banks and the top five private sector banks now stands at about 45%. For the top five public sector banks this is as much as 55% this compares with our under 13% cost to income ratio. Thus there is pressure on every expense head severely restricting banks' pricing power. We therefore expect the home loan market to remain rational and expect home loan prices to remain stable at a spread of between 150 to 200 basis points over government securities. As we speak this spread is at the higher end of the range and is presently at 194 basis points. The spread of home loans to headline AAA corporate bond rate has also remained reasonably sticky at between 85 to 100 basis points. This spread is as we speak at 100 basis points and has remained stable over the last two financial years, so I was before coming into this call looking at both government security spreads as well as corporate bond spreads over prime home loan rate for June 2015, June 2016 and as on date. So, corporate bonds through June 2015, June 2016 and today are stable at between 85 to 100 basis points spread over home loans giving 85 to 100 basis points spread and for government securities it is a very stable spread of 175 to 200 basis points, so despite all of the stocks of increased competition despite the last two years seeing muted credit growth especially last year pricing for the concerns that banks have, which I have highlighted earlier tends to be reasonably stable.

In this background where home loan spreads for the industry have stabilized, spreads for Indiabulls Housing are expanding and further cost efficiencies will only help us take that cost forward. To conclude while we are optimistic about the long-term effects of RERA and GST, which are very big and positive developments over the medium-term we continue to be extremely watchful of how both of these regulations play out to reiterate our guidance. Margins on both the stock of loans as well as on the incremental disbursements will remain at the higher end of the guided range. Gross and net NPAs, which have declined significantly to 80 basis points and 31 basis points, will be operating closer to these levels as against claiming back to 85 basis points levels. Cost to income ratio, which is now down below 13% would continue to go down further and would end at below 12% level and securitization, which has really picked up for the company in the first quarter would continue to remain at least third of our incremental financing. We remain very much on our target to get to a balance sheet of over 2 trillion by FY2020 with profits of over 5500 Crores and home loans comprising of 66% accruing cost efficiencies from e-home loans and smart city loans will also ensure that our cost to income ratio is in single digit.

On that optimistic note I would like to end this call and as I say internally I would like to repeat this for all of our stakeholders, with this upgrade one is very optimistic that best time for Indiabulls Housing has just begun. The next two to three years will be significantly stronger in fundamental performance as compared to even the last two to three years where we have seen very steady compounding of profits. Incidentally now we are in the eighth year of compounding our profits on a quarter-on-quarter basis between 20% and 25%. Thank you so much and I look forward to answering your questions.

Moderator: Sure thank you very much. We will now begin with the question and answer session. We have the first question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Congratulations for good set of numbers. Sir particularly when we as you also highlighted there is some uptake in terms of the overall disbursements, but under this entire CLSS we have heard that maybe the June month and even prior to the implementation of GST and the RERA in fact a retraction was pretty strong out there in terms of the overall disbursements. So have we also witnessed the same and how do we look at in terms of Q2, would we see some kind of a slowdown maybe from two to three year perspective you clearly highlighted that the things are much better, but in the near-term maybe in Q2 and Q3 do we see any kind of a slowdown in the momentum because of upfronting in demand, which would have happened in Q1?

Gagan Banga: No I would tend to believe that the surge in demand that one has seen over the last four to five months would only get stronger. The Indian retail industry across asset classes be it home loans or other asset classes is peculiar that about 35% to 40% of the business gets done in Q4 and March itself sees between 15% and 20% of the business for the full year. It is very heartening and encouraging that in the month of May itself we have started doing business, which was in home loan specifically, which was closer to the business that we had done in March that number went beyond March and June and July is continuing to be a month with similar performance, so what you have to appreciate is that this near zero cost of a home loan is a very, very strong driver for demand, it takes time for the market to understand from a consumer standpoint as to what it really means for the consumer and a lot of housing finance companies including Indiabulls Housing have invested quite significantly in educating the customer. If you go on YouTube or something you will find a very nice video, which really educates the customer developed by Indiabulls Housing. So as that education is happening the market is definitely picking up. GST and its construct is also such that it does not really impact mass housing because the cost of construction in a mass housing project is north of 70% of the overall cost of the house. It impacts premium housing so the two trends that one expects to only strengthen over the next 6 to 12 months and then one will have to see what happens is that mass housing, which continue to gain momentum and the expectation that the various bodies be it credit rating agencies or the national housing bank or even the Reserve Bank of India have put out, which read between 27% to a 40% expected compounding our growth in this mass housing product that would definitely come through. As far as premium housing is concerned the demand was any ways muted, the same is reflected in numbers and over the course of the next 6 to 12 months one would continue to be watchful of that segment. As a prudent lender in that part of our portfolio we continue to be extremely conservative. As far as mass housing is concerned we continue to remain extremely optimistic and remain focused on growing in that market. So my sense is that product segment for the current financial year against 33% last year will grow closer to between 35% and 40%.

Kunal Shah: Secondly in terms of overall for the industry what is your sense in terms of the balance transfer cases as compared to that of last two to three years so has it come of, it is staying at the similar level where it was two three years back, so how has been the behaviour in the balance transfer cases across the industry particularly for say all the housing finance companies from banks?

Gagan Banga: About three years ago the prepayment penalties were abolished for housing finance companies and then a few months later it was abolished for banks, as that happened there was some surge in prepayment rates that further got augmented by wherever the lender was not being in a position to pass on any cost benefit in cost of financing to its existing book. What is known to the industry is that the back book and the new book generally operates at a rate differential of roughly 50 basis points, but in the case of some lenders that had increased to as much as 100 to 150 basis points and lenders were resisting to pass on the reduced cost of finance. For those of us who have been prudent and have passed on is not in full at least partially to the back book also the prepayment rates have actually come off. For us the greater benefit is that two three years ago we had a low proportion of home loans and within that there was a higher contribution coming more from self employed kind of home loans, etc. As the book has become more towards home loans and within that as a proportion of salaried home loans has increased to now over 70%, the prepayment rates have actually come off. My sense is that there are two types of players in the industry, one, which has passed on part of the benefit, the other, which has not. Without taking names some of the housing finance companies, which have not continued to see heightened prepayment rates whereas us and a few others continue to actually see a decline or stabilization in prepayment rates. Our home loan prepayment rate for example is all of 62 basis points on a monthly basis, which is next to nothing, so I think the market is reasonably mature, the customer also is quite okay if their home loan rate is 50-60 basis points higher than the lowest offering, but when it becomes like 150 basis points, so if you talk to a borrower who is working for a cat A company and is earning roughly say Rs.1.5 million if you have to offer him if he finds his home loan running at 8.75%, 8.8%, 8.85% today he is fine, but if he finds it running at 9.5% he clearly has a problem, so we have to basically align and make sure that our borrowers are in that ballpark. I think industry clearly again there has a little bit of divergence.

Kunal Shah: Just two data points. How much has been the provisioning for the quarter?

Gagan Banga: The provisioning in terms of, I will just come back to that number.

Kunal Shah: Secondly in terms of the zero coupon bonds so how much is the outstanding number you said we have repaid significant chunk of it, so how much is the outstanding now?

Gagan Banga: So the outstanding for zero coupon bonds is 1060 Crores.

Kunal Shah: Thank you.

Moderator: Sure thank you very much. The next question is from the line of Aditiya Jain from Citicorp Services. Please go ahead.

Aditiya Jain: Congratulations on good set of numbers. My question is with respect to the commercial credit portfolio can you throw some light on the concentration issues in construction finance and LRD portfolio and secondly delinquencies and write-offs in this portfolio over the past three years?

Gagan Banga: So there is no concern that one has on a risk adjusted basis it continues to be one of the best performing portfolios, from a concentration risk point of view we have been abundantly clear on our strategy that we align with the top 30, 40, 50 builders in the country and therefore we do write out big cheques, but those cheques, which are in the ballpark of US$30 to US$50 million are across the best possible assets that one can hope to get in this book it is roughly 20% of our books so it is like a $3.5 billion kind of a loan book, which is today comprising of the best possible NIMs. Some of the most marquee transactions, which have happened in the real estate industry, have happened around assets, which are mortgaged to us. The first CMBS a large part of the assets that are being taken and equity position is by some of the largest private equity players. Some of the best performing residential assets in both Mumbai, NCR as well as Bengaluru they are all mortgaged to us and some of the finer builders, which are being able to establish by the good track record and would possibly be the largest beneficiaries of RERA given the discipline that they have demonstrated on their balance sheet as well as the track records that they have done are part of this portfolio. So, this portfolio has historically had an non-performing loan position of between 1.5% to 2% for an asset class, which is in the ballpark of 14%, 15% 1.5% to 2% are non-performing loan on a 90-day basis is something that is well, well within the budget and this continues to be an asset class, which is trending on those lines. We have to remain watchful of the changing legislations, these are once in multi decade kind of changes, which have happened in the country and they are directly relevant to our industry. RERA is specifically for our industry, GST has a meaningful impact on the industry, so it will be immature on our side not to be abundantly cautious about it, we were and I go back to February and January call of 2014 where I had sounded out a similar cautious note on the commercial loan portfolio given the muted demand in premium housing, so some of these things you have to be abundantly cautious of. That does not mean that anything is going to happen tomorrow, nothing happened to Indiabulls Housing over the course of the last three-and-a-half years since that time, but it is only mature for organization and its stakeholders to be mindful of whatever is happening.

Aditiya Jain: Thank you Sir!

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

Adarsh P: I was asking, the first question was related to the breakup of the 78% mortgage mix between LAP and home loans?

Gagan Banga: It is 57% and 21%.

Adarsh P: Second one Gagan was on incremental yields if you can speak about the three segments home loans, LAP and corporate loans what would be broadly the origination levels today?

Gagan Banga: Home loans will be just under 8.9%, LAP will be between 11.25% and 11.5% and commercial loans will be between 13% and 13.5%.

Adarsh P: And LAP you would think the yields have now settled between 11%-11.5%, because last quarter and last couple of quarters you have been indicating the same yield so?

Gagan Banga: Yes, I would imagine that these would continue to trend as per how banks base rates and MCLRs are to move. MCLRs for the last three, four months have been reasonably stable I think that I have mentioned this in the past, when the Reserve Bank of India cuts their reference rates the market cheers, unfortunately when those rates get passed on the market sweats so the reduction plus minus 25 to 50 basis points in any asset class would generally be trending how interest rates have come off and in this little bit of analysis for the benefit of our stakeholders that both across government securities as well as corporate bonds the spreads for an extended period of time have stayed stable, which I mentioned 85 to 100 bps for corporate bonds and 150 to 200 basis points for home loan. Similarly for LAP I think the number is between 11 and 11.5 that it should remain stable and on the downward side you would still get some deals happening at 10%, but those are one offs if one has a very, very good working capital customer of a private bank you can possibly get that transaction. For the bulk of the customers who are being migrated from a public sector banks have working capital facilities, which are running in the ballpark of 12%, so 11%, 11.5% for them are very attractive rates and should stay stable.

Adarsh P: Last question is on the funding side. The expansion bond book that you will have in terms of incrementally showing for next two to three years can you just walk through the last couple of years how many investor, how is the investor base on bonds grown and like how you are expecting that, that will give some clarity on acceptance?

Gagan Banga: So in 2010 when we started we were almost 100% bank, banks are scribing to our bonds. By 2012-2013 we had mutual funds coming in. By 2014 when two rating agencies upgraded as to AAA a lot of the government type of pools of credit such as public insurance companies, provident funds kind of pools as capitals started coming in and then now with this recent upgrade whatever was not within the purview is also come in some government pools enhanced participation by FPIs so as we speak we are roughly 40% mutual fund, 30% insurance and PF and 30% between FPIs and banks and my sense is that mutual funds will remain at about 40% may even go down marginally, insurance companies and PFs should become 40%, 45% and from the current 30% and our banks and FPIs will remain between 15% and 20% so that is how the book would continue to evolve. We are already doing business on the insurance side with all state insurance companies have scaled with most private life insurance companies and non life insurance companies had reasonable scale. We also manage to do a pretty large retail bond issuance last year, based on rates we will remain open to that idea. This year we will try and focus a little bit on Tier II capital so as to keep our capital adequacy in the 20% handle even by the end of the year, so given that we should probably get a little more participation from the smaller provident funds so that is directionally where we are headed.

Adarsh P: Thanks a lot.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Sir just your views on this large ticket home loans related to what you said you remain cautious on it. What exactly do you mean in the sense like do we expect it also happen or do you mean the defaults to happen or do you mean the transaction would not close or in the post RERA, GST regime?

Gagan Banga: No we are not in the business of giving out large ticket home loans, we have a very tight range in which we do our home loan business, we do not go significantly below, we would not go significantly below 20 lakhs, last year we opened up a product in which we were in smaller cities happy to go up to 15 lakhs, but not below. On the higher side we simply cannot afford to be giving out 3 Crores, 6 Crores type of home loans so we are not really expose to that unless it is with a very good quality builders with projects, which has materially progressed. The word of caution that I was sounding out was for premium and super premium construction finance, which is roughly about 10% of the loan book. I do not expect defaults from the builders that we have financed because we have already even pre RERA we have been working with these guys for an extended period of time and ensuring that they have all permissions that their adds are in line with what RERA ask them to do, but on an incremental basis in terms of how much this book can progress one has to see what kind of demand would come. You may be aware that a lot of states have not even yet notified the rules as far as RERA are concerned, but at the same time builders are supposed to register by July 31, 2017 and till the time that they do not register they cannot advertise so in that context what happens to future demand and then while we may have been working with all of our developer customers we still have to see all of these projects getting registered, if they do not register then I can only do so much so therefore one has to be cautious on both sides. It is a builders business to follow regulations and comply with the same. Fortunately for the last many years we have shied away from doing business with the smaller developers, we have not taken exposures of 10, 20, 30 Crores, we have only done business with people where we will take a multi 100-Crore kind of exposure, which means the large developer. If you just step back and look at RERA very, very objectively then it is clearly that the small developer would get eliminated in this whole game and therefore these guys would benefit so from a one year, two year, three year perspective this is very positive for our customers for the next 6 to 12 months as a prudent lender one has to be mindful and watchful.

Shekhar Singh: Sir the second thing is related to the strong growth that we have seen in Q1 and this is not as per the trend because Q1 earlier used to be weaker and the first question, which was asked like May and June you had very strong growth, I still think would not that be because of RERA and GST coming in and therefore lot of front ending happening in terms of demand and therefore like going forward in Q2 and Q3 onwards you might actually see a dip?

Gagan Banga: So in June what you witnessed was the front ending happening because a large number of real estate developers were basically saying that if you pay a material some of money then your GST kind of gets waived off and you basically get away with service tax and VAT that was more applicable for premium housing you have to appreciate that in premium housing say in a heart of town project in Delhi or Mumbai the cost of land is 60%-70% of the project whereas for a project in Virar, Vasai or Panvel the cost of land is 20%-30% and the cost of construction is 70% and with the way GST is you can do a claw back on the cost of construction, so that really is not an additional cost on to the customer and therefore there was no benefit, which the customer would have gotten. In premium housing it was a benefit so therefore clearly the front ending, which happened was because of this GST benefit RERA rarely only some projects, which were close to occupancy certificate, code expedite the occupancy certificate, which I would say across the country would not even count to be 50 such projects so RERA was not so much of front ending GST for premium was definitely front ending. The issue is that with due respect to all of us, most people on this call would not be people who would be buying into an apartment where the house would be getting transacted at Rs.3 or Rs.4 million we all of us tend to look at apartments, which will be Rs.10 million and above and in that context we do not get to know what is going on at the ground level and we often tend to get our views painted by what is happening in the premium market, so in the premium market what you are saying is absolutely right and I am further confident about what this trend would and how it is playing out is because as per data that I see today in from my sales dashboard I still see that July is even stronger than June so there is no concern whatsoever.

Shekhar Singh: Great. Thanks a lot Sir!

Moderator: Thank you. The next question is from the line of Akash Jain from Nature One. Please go ahead.

Akash Jain: Can we just get some update on OakNorth Bank and strategy what we have going forward?

Gagan Banga: Yes OakNorth had turned positive in terms of its profitability in the September quarter last year it continues to be operationally cash flow and profit positive, it continues to contribute to the P&L line if you look at our P&L line there is a positive contribution from share of associate, it is trending, last quarter we had given a detailed update on the capital raise that it has done. There is no further capital raise that it has done and operationally it continues to be performing steadily it should get to its goal of crossing a billion pounds in assets over the course of the next year and a half or so, which is when we expect it to do a meaningfully larger round of capital raise and till that time on a six monthly basis we will update you on this call and on yearly basis we will update you in the earnings update.

Moderator: Thank you very much. That was the last question.

Gagan Banga: Thank you so much and as I said the best time for Indiabulls Housing has just begun. I am very confident that the goals that we have set out for ourselves to get to 2 trillion in assets and 55 billion in profits, by 2020 we are well on path for that, the credit rating upgrade is going to seriously help us and which is why in the past management had laid out so much of emphasis. It took a little bit of time, but it has come still at a very, very opportune time and has enabled a very rapid discussion and rapid reduction in our bond yields. The other request is that the annual general meeting would happen sometime in early September the resolutions would be out if shareholders or anyone has a query around any resolution as management we are more than available to have that discussion so I will encourage people to reach out to us directly to clarify on anything it is all extremely standard nothing is out of the way and you will be delighted to learn how management is taking steps out of the ordinary to make sure that it is a top led reduction in the cost to income ratio that we are driving through, but that said there could still be queries and we are happy to answer. Thank you again so much for your support and look forward to talking to you.

Moderator: Thank you. On behalf of UBS Securities, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.