“Indiabulls Housing Finance Limited Q1 FY-19 Earnings Conference Call”

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MANAGEMENT: **MR. GAGAN BANGA – VICE CHAIRMAN, MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, INDIABULLS**
MR. ASHWINI HOODA – DEPUTY MANAGING DIRECTOR INDIABULLS
MR. SACHIN CHAUDHARY – CHIEF OPERATING OFFICER, INDIABULLS
MR. MUKESH GARG – CHIEF FINANCIAL OFFICER, INDIABULLS
MR. ASHWIN MALLICK – HEAD, TREASURY, INDIABULLS
MR. RAMNATH SHENOY – HEAD, INVESTOR RELATIONS &ANALYTICS, INDIABULLS
MR. HARSHIL SUVARNKAR – HEAD, MARKETS, INDIABULLS

MODERATOR: MR. VISHAL GOYAL – UBS SECURITIES

Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q1 FY19 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 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. Vishal Goyal from UBS Securities. Thank you and over to you sir.

Vishal Goyal: Thank you. Hi everyone, thanks for joining this call. We welcome the Management of Indiabulls Housing Finance to discuss Quarter One Results. From the Management Team we have Mr. Gagan Banga who is Vice Chairman, MD and CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Sachin Chaudhary – Chief Operating Officer; Mr. Mukesh Garg – Chief Financial Officer; Mr. Ashwin Mallick – Head (Treasury); Mr. Ramnath Shenoy – Head (Investor Relations & Analytics); Mr. Harshil Suvarnkar – Head (Markets).

I now invite Gagan to share the key details of the results. Over to you, Gagan.

Gagan Banga: Thank you Vishal. A very good day to all of you and I welcome you to the Quarter One Fiscal 19 Earnings Call. Before I get into the numbers, I am pleased to mention that Forbes in its 2000 list of the largest consumer company has ranked Indiabulls Housing Finance as the "13th Largest Consumer Finance Company Globally". We are one of the only two Indian companies on the list. Indiabulls Housing Finance is also now amongst the top 15 dividend paying companies in India and continuing with that tradition I am very pleased to announce the Board has approved an interim dividend of Rs.10 per share.

Now I would request all of you to please keep the earnings update which we have emailed and uploaded on our website and also on Bloomberg handy as we will frequently refer to it.

As you are all well aware this was the quarter of transitioning, so we have successfully transitioned into the new Indian Accounting Standards popularly called ad IndAS. All of our systems are now geared towards the new norms of accounting. Apart from the slight volatility from upfronting of sell down income, the new accounting norms are largely a welcome change as we align ourselves with global accounting standards.

Now getting straight into the numbers:

All numbers that we are speaking about unless specifically referred to are under IndAS accounting norms. First please now refer to Slide #6 of the earning update. Our profits for the quarter are at Rs.10.55 billion up 30% over last year's profit of Rs.8.1 billion. Under IndAS owing to fair value accounting of investments our net worth now stands at 164.18 billion at the end of June 2018, up from 134.24 billion under IGAAP at the end of March 31st, 2018. This is on account of fair value of investment in OakNorth Bank, release of deferred tax liabilities on section 361A and other minor adjustments.

We have also grown strongly across all key parameters. Our balance sheet at the end of quarter one fiscal 19 stood at 1.38 trillion, up 29.7% against last year’s, total assets are at 1.26 trillion up 33.4% from 944.5 billion at the end of quarter one fiscal 18.

Please now turn to Slide #7 of the earnings update:

Our profit after tax is at Rs 10.55 billion up 30%. Under IndAS in the effective interest rate methodology which is called EIR expenses and incomes that are directly related, and which can be mapped to individual loans will be subsumed within the loan to compute an effective interest rate. The effective interest rate and the resultant income hence now contains amortized piece netted-off for sourcing expenses. Thus, from now on, we will have to report (NII) Net Interest Income inclusive of fees. However, kindly note this very carefully that we will exclude the up fronted sell down income from net interest income. This is because up fronted gain from assignment of loans is not a reflection of margins in any manner and will be volatile as it is driven by quantum and nature of assets sold in the quarter.

The net interest income for quarter one fiscal 19 grew by 22.1% to over 16.9 billion over quarter one fiscal 18 where the net interest income was 13.84 billion. This is despite a mark-to-market loss of around Rs.0.5 billion on our liquid investments from G-Sec movements which moved by as-much-as 50 basis points in the quarter from 7.5% levels to 7.9% levels within the quarter. While upfronting of sell-down income will contribute to some volatility in the income statement, nevertheless, we have adequate buffers in the business to smoothen this amount, you can thus expect predictable profit compounding to continue as it has for the last 10 years and this is probably the single biggest achievement of Indiabulls Housing.

Our net credit cost for quarter one fiscal 18 stood at Rs 0.65 billion versus Rs.1.98 billion last year after the adoption of new ECL model and we will delve in detail about the ECL model a little later.

Please turn on to Slide #8 of the earnings update where we would provide a reconciliation of the profit after tax for quarter one fiscal 17-18. The EIR adjustment net of asset and liability is (-0.72) billion this is almost all entirely on account of zero coupon bonds and issue expenses which was earlier netted-off against reserves. The adjustment on account of net gains from assignment transactions for the quarter stood at Rs.0.47 billion. The ECL model resulted in slightly lower provisioning requirement resulting in a release of 0.09 billion. Tax impact on above and the release of deferred tax liabilities created on section 361A reserves led to release of 0.19 billion. Our profits under IndAS for quarter one fiscal 18 thus stood at Rs 8.1 billion higher than the Rs.7.88 billion under Indian GAAP.

If you now refer to Slide #56 of the earnings update:

Our borrowings stand at Rs.1159.9 billion and net of cash and liquid investments of Rs.183.93 billion, our net gearing at only 5.9x. This is because our net worth after IndAS adjustments stands at 164.2 billion, I had mistakenly at the start mentioned this number at 166 please note that this number is 164.2 billion. Our capital adequacy now stands at 24% at these levels of gearing we are back to the levels of mid fiscal 16 after our last capital raise. Our book value per share now stands at Rs.385 per share. So, thus, all the questions around an imminent capital raise have been pushed back by a reasonable period of time.

On the borrowing side, bank borrowing formed now only 32% of our funding mix down from 35% last year same quarter. Capital market sources along with ECBs and sell-downs have contributed to all of our net funding this quarter. Our cash and liquid investment stood at Rs 183.93 billion at the end of quarter one fiscal 19.

Please now turn to Slide #57:

Our spreads on the stock of loans now stands at 323 basis points and is hence, at the highest end of our guided range between 300 to 325 basis points. During the previous earnings call in April, I had mentioned that after the rate increase that we have done, our margins would be moving up and we have ended quarter one despite the move in government securities of as much as 50 basis points at the highest end of our margins at 323 basis points. We have been making the point that as mortgage lending happens at floating rates housing finance companies can efficiently pass on rate increases in an increasing interest rate cycle and effectively retain their spreads. As a matter of fact, all repo rate increases are a great opportunity to effectively do this transmission.

Cost of fund on book basis is at 7.92% and continues to drop as we refinance our stock of loans with primely price bonds. On an incremental basis the cost of funds was at 7.88%. We have increased salaried home loan lending rate by 30 basis points and other rates by 50 basis points and that is despite the rise in the cost of funds on stock of borrowing, our yield has in fact expanded this quarter as mentioned earlier to 323 bps. Spreads on incremental lending have also expanded to 281 bps from 277 bps in quarter four fiscal 18.

If you look at Slide #57 we have incorporated a new data point there, there is a small at the left-hand bottom there is a tabulation of house spreads on stock of loans have sustained despite sourcing incremental loans at a spread of 30 to 40 basis points lower than that of stock of loans which has been my point for the longest time now. Each increase in repo rate is an event for passing through the rate increase. Overall, now we are exceedingly well-placed on the funding side owing to upgrade to CRISIL and ICRA AAA. Our cost of spreads to AAA rated housing finance companies, market leader has compressed by 30 to 35 bps since last year to only about 15 bps since June 17. I would also like to very proudly share another very interesting data we are one amongst only five companies in India privately owned which have attained a AAA rating by CRISIL within 20 years of inception.

I will now go over the ECL model which we have on Slide #9 of the earnings update:

Our approach to provisioning has always been very conservative and we continue with this conservative approach. We have 99.22% of our assets in Stage-1 and 2, and in Stage-3 we have Rs.9.8 billion which is 0.78% of our total loan assets or thus gross NPA. Stage one indicates loans up to 30 days due stage to indicates loans between 30 and 90 days past due and Stage-3 indicates all loans which are (+90) days. We have Rs.3.2 billion of ECL provisions against Stage-1 and 2 assets. The experiential loss given default in Stage-3 is around 25% and hence we have provisions of Rs.2.4 billion against Stage-3 assets. We have to appreciate that by not given default historically has been extremely low, these experiential losses and these provisions are an outcome of the fact that you continue to approve interest in the new IndAS model on loans which have gone 90 days past due. And these losses also factor in for the time taken for recovery even though all of these loans are extremely well-collateralized.

In keeping with our ultra conservative approach to provision we have retained Rs.10.5 billion of ad-hoc provisions over and above ECL provisions of Rs.5.6 billion. The excess provision level will not change and what is important here is that incremental provisions will only be from the ECL model. So, the ad-hoc provisions that we have created are one time and will be capped at Rs.10.5 billion and here on we will continue to follow the ECL model where our credit cost can be expected to reduce significantly to about 25 basis points from what we were running earlier which is 70 to 80 basis points. So, for the quarter for 0.65 billion of provisions the credit cost come in at 20 basis points, for the same quarter last year provisions were 1.98 billion and were 80 basis points, so this is the state of business. So, business will require 20-25 basis points for provisioning going forward. For the past 28 quarters our NPAs on a gross basis have remained in the rate of 70 to 90 basis points as mentioned earlier gross NPAs now stand at 78 basis points. If we look at provisioning level which is specific to Stage-3 the net NPAs are 59 basis points. If we look at all the provisions put together including the ad-hoc provisions, we are a 0 net NPA company.

Moving to more operational aspects:

The hardening of interest rates that started in mid-2017 remained considerably stable this quarter with 10-year G-Sec yield oscillating in the range of 7.5 to 7.9%. Specific to Indiabulls Housing we are have been the unique beneficiary amongst all our peers because of our rating upgrade which has enabled us to offset most of the macro rise in rates through issuance of low prices bonds and refinance of our stock of earlier issued bonds. Other levers afforded by a diversified funding profile have also helped us effectively manage our cost of funding. The RBI in April allowed HFCs access to low cost FOREX funds through ECBs up to 750 million under and automatic route. In late June we became the country's first HFC to take advantage of the liberalized ECB guidelines and raised about $240 million from a Syndicate of banks from Singapore, Korea, Japan and Taiwan. We also refinanced our existing erstwhile ECBs of $350 million saving over 50 bps and now we have over 25 international lenders from countries such as Taiwan, Singapore, Korea, Japan, Dubai and United Kingdom. As intimated previously IBHFL has established an MTN program of up to USD $1.5 billion on the Singapore Stock Exchange which enables us to issue Masala as well as Dollar Bonds on tap. We hope to tap into these long-term dollar debt markets regularly and raise at least $1 billion annually. We are also developing the ECB and Masala Bond market for ourselves and continue with the practice of diversifying our sources of financing. Cost efficient portfolio securitization also came in strong in this quarter with Indiabulls Housing clocking over 25.1 billion of pool sell-downs in quarter one fiscal 19 up over 24% over quarter one fiscal 18. Where we had sold down around 20.3 billion. This increases our funding efficiencies, increases return on equity and we continue to use whatever diversification products we get. We also continue to use swaps efficiently to both reduce our cost as-well-as hedge all market risks.

We have just concluded our largest operating quarter in our lifetime and on this note I cannot be more optimistic for Indiabulls Housing Finance prospects and for the whole housing sector. And I feel that over the next 5 to 10 years we will continue to compound on the basis that we have compounded over the last 10 years.

On this upbeat note we are now all open for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. We have our first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Firstly, under this IndAS how has the net worth particularly the opening net worth as of 1st of April that has got restructured and even if you can just share in terms of the FY18 numbers where in there was say 9,000 crores so how is that coming what is that number under IndAS.

Gagan Banga: Just before we answer these net worth and balance sheet related questions answers are all subject to the fact that we have not yet undergone audit and therefore these are as accurate as estimates we can get this time. With that my colleague, Ashwini, will just run you through these numbers.

Ashwini Hooda: So, if we talk about April 2007 where cumulative impact of transition of March 17 the impact on balance sheet is there. The difference is around 3%. we had under IndAS net worth of Rs 12,125 crores or Rs.121 odd billion which has increased to Rs.124.7 billion. So, there is a difference of 3%. Largely most of the impact has come through release of deferred tax liabilities. Whatever was Rs101.5 billion of effective interest rate negative has been made up positive on securitization upfront of income of around 3 billion and hence, the net effect of DTL is what is reflecting in the higher net worth by 3% to 124.7 billion.

Gagan Banga: And in March 18 it is largely on account of both deferred tax liabilities as well as revaluation of our stake on the back of the capital raise that OakNorth Bank had done and then subsequently we sold our stake to GIC and then there was another $70 million transaction which was done. So basis all of these external transactions OakNorth Banks revaluation has contributed to the balance increase in our net worth.

Kunal Shah: So, this OakNorth now it is at the fair value rather than at the cost.

Gagan Banga: That is correct.

Kunal Shah: And that was not in FY17 but that has happened in FY18.

Gagan Banga: FY17 there was an insignificant change in OakNorth valuation that we had done in FY18 because there were third party transactions including the stake sale that we did we had an accurate benchmark to revalue and hereon there are now OakNorth has many external shareholders besides Indiabulls Housing which are very large funds so on that basis the valuation whenever there is a third party transaction will move up or down.

Kunal Shah: Okay. And in terms of earnings last time 3800 crores of PAT so what was the restated number.

Ashwin Mallick: We have restated it for the quarter and we have compiled it for you and given it for full year, etc., we are going to put up those numbers in a few days.

Kunal Shah: Okay. And in terms of the disbursements, maybe the disbursements under IndAS has also changed and this such cumulative is it under IndAS what we share it in the operating metrics.

Gagan Banga: No disbursements under IndAS don't change, disbursements under IndAS are the same.

Kunal Shah: So, this number which is there in terms of disbursements so what is the disbursements in this particular quarter.

Gagan Banga: Disbursements are standing at how much? We have disbursed Rs 10,044 crores this quarter.

Kunal Shah: 10,044?

Gagan Banga: Yes.

Kunal Shah: And the breakup between the home loan mortgage or maybe home loan LAP and the non-individual.

Gagan Banga: Around Rs 5600 crores of home loans, 1500 crores of LAP and around 3000 crores of commercial loans, split between construction finance and lease rent discounting. The two trends which I forgot to mention in my earlier remarks one is that, the home loan space which is the mid income group space is seeing reasonably good traction and the competition remains absolutely benign and therefore there is good traction that we are continuing to see there and now subsequent to RERA and GST having settled, both of those for a different reason which we have spoken about in the past are causing a tremendous consolidation in the residential construction space and therefore fairly large demand from good high quality developers so that product is also seeing extremely good traction.

Kunal Shah: So, why last time in terms of cumulative loans disbursed it was 1.97 trillion and now it is becoming almost 2.25 trillion, so I think that number was coming to almost 200 odd billion which was quite surprising, so I do not know why that is happening. If you look at Q4 FY18 cumulative loans disbursed till date that was 1.97 trillion and today when we look at it in this presentation it is 2.25 trillion so that suggest in this quarter, we would have done almost like 280 odd billion kind of disbursement since we…

Gagan Banga: I can check that with the number.

Kunal Shah: But the number is any which ways is 100-odd billion.

Gagan Banga Yes, that number is 100 odd billion I can check what this is and get it rectified.

Moderator: Thank you sir. We have our next question from the line of Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: I have few questions again going back to the transition and if you could explain to me if I look at last quarter March quarters presentation I think you are carrying total provisions of about 17.6 billion whereas now you are carrying only 16.1 billion, so it has actually fallen I just want to understand what happened?

Gagan Banga: These are carrying provisions.

Sunil Tirumalai: Sir last quarter Slide #26 8.92 regulatory plus 8.66 extra that is 17.6 whereas now if I add the three buckets of Stage-1 to Stage-3 and your ad-hoc it comes to 16.1 so the sum 140 crores lower provisioning total this time.

Gagan Banga: There would be some release of provisions which would have happened which will happen through the course of the next three quarters, so you will see a release of provisions of around the balancing number which you see as a gap. So, there would be some adjustments that we would have done in the net worth and some other adjustments that we will have to do which will be relatively minor in, major which we will have to do over the course of the next three quarters so 100, 150 crores that you are talking about will happen over the course of the next three quarters.

Sunil Tirumalai: So, there will be 150 crores more of release in the next three quarters.

Gagan Banga: Yes. In that ballpark I could be wrong by a little bit but in that broad ballpark there will be a further release over the next three quarters.

Sunil Tirumalai: Right. And you mentioned ad-hoc of 10.5 is where it is and going forward it is going to be just driven by the ECL, PDL, and GDL model.

Gagan Banga: That is right. And we expect it to be in the range of 20 to 25 bps of assets.

Sunil Tirumalai: But if you had the freedom to create or make this 10.5 billion ad-hoc stock, why not also create ad-hoc recurring in our running provisions as well every quarter?

Gagan Banga: For our ECL model we actually engaged a couple of consultants including Deloitte and Experian, etc., and we have been able to create these ad-hoc provisions basis the macroeconomic factors which have moved from over the last two years from demonetization through a potential rate increase environment. And because the macro has been evolving very rapidly and the country has seen significant events which are almost like once in a lifetime kind of events especially as the country went through demonetization and then through GST, etc., our consultants have allowed us to create these provisions on an ongoing basis there is no provision which you can create on a micro basis so unless there is some big macro event there would be no scope of creating ad-hoc provisions and micro provisions will have to move basis the ECL put up numbers. So, as I understand what would happen is that, as a stock of our home loans increases and the granularity of the book continues to increase, since you will appreciate having heard so many NBFCs now that each product has its own ECL model, the loss given default and the probability of default of a home loan is the lowest amongst the four products that we have and therefore what is currently 20 basis points will trend 20-25 basis points will trend even lower. So, that is the nature of ECL. So, ad-hoc will not be allowed, we will have only these ECL provisions which will be in the range of 20 to 25 bps trending lower as home loan proportion increases. So, the requirement of business under ECL is 20 basis points and is not the historical 70, 80, 90 basis points that we used to create.

Sunil Tirumalai: Right. So, basically your earlier philosophy of actively, cautiously creating extra provisions that would not work anymore.

Gagan Banga: That is correct so we will not be able to create those extra provisions so we will have to look at other ways of being able to create buffers around expenses and investments in all of that to be able to create some buffers but creating buffers through lost provisions is not going to be feasible anymore.

Sunil Tirumalai: Right. And unlike your usual slide deck, last couple of slides on the consolidated balance sheet and income statement was missing this time so that is something that.

Gagan Banga: It will have to be missing because the balance sheet, etc., have to be reviewed by auditors and you will appreciate that in this transitory phase there is only so much that we can put out in writing and it is always very difficult to restate any number. We have also put up right at the start the fact that some of these numbers may change a little bit because especially the balance sheet related numbers by little bit but that is just being on the safe side. We have tried to most accurately estimate everything and they have been reviewed by two different set of eyes external eyes so I am quite confident but it is difficult to put up these numbers. As far as P&L, etc., is concerned whatever exchange filings are required, we have done that and they would be up on our website as well as the exchange website from a P&L point of view.

Sunil Tirumalai: Got it. And under the IndAS reporting your NII would include your yield.

Gagan Banga: Would include the amortized fee that we have and will not include securitization. Securitization number will be reported separately and while it will impact the profit for the quarter and thus we will have to create an impact for that when we are giving out our guidance, etc. But it will vary depending on how much we sell and what proportion of assets we sell between priority and non-priority loans and between home loans and LAP, the spread range is quite different and so are the time and the securitization model, the up fronting model for each loan that we have. So given that there could be reasonable degree of volatility but fortunately those numbers are such that for a company reporting profit before tax of 1300-1400 crores it will be like 1% to 2% kind of impact item but it will have a greater impact on the net interest income compounding number and what most stake holders tend to view net interest income is more a reflection of their margins are, it is not going to be a true reflection of margin in any manner. So, net interest income will not carry securitization, all loans that we do generate some sort of fee income unlike a bank we do not have any fee income which cannot be attributable to a certain loan and loan account number and therefore fee income can now be especially since it is not being up fronted can be attributed. It will be spread over the life of the loan and therefore will be a steady NII item, securitization will not.

Sunil Tirumalai: And sorry the yield on your investments.

Gagan Banga: Yield on investments was always part of NII and will continue to be a part of NII.

Moderator: Thank you sir. We have our next question from the line of Adarsh P from Nomura Securities. Please go ahead.

Adarsh P: On the net worth impact I just wanted to understand that the increase that we had after revaluation of OakNorth in regulatory terms does that, that is allowed to be carried as Tier-I?

Gagan Banga: Yes. To the best of my knowledge and whatever exchange we have had with the National Housing Bank, the National Housing Bank has told us that this will be part of Tier-I will be part of our capital adequacy which stands at 24% and the only thing that we need to report separately to the National Housing Bank and for our subsidiary Indiabulls commercial credit to Reserve Bank of India is NPA, as it is on 90 days past due basis and the provisioning which is required against that and there is a provisioning there we are grossly over provided. Our standard provisions approximately 1.3% of balance sheet and therefore there is no issue on that. Apart from that, whatever IndAS allows the regulator has allowed and therefore this is part of core Tier-I and brings up the capital adequacy.

Adarsh P: The second question was relating to the Slide #8 you kind of show the movement from IGAAP to IndAS. I just wanted to understand the (-72) crore is obviously on the EIR and that 64 crores number, is that the up fronted income on assignment is these 64 crores the up fronted income in 1Q assignment is that the way I read these numbers?

Ramnath Shenoy: Adarsh there is a slight adjustment as well because in Indian GAAP, I would already be accruing the spread earlier for the quarter, so this adjustment is net off that steady growth. So, some of that spread will get reversed and it will get up fronted.

Adarsh P: So, this is the net up fronting that you would have done right, correct.

Ramnath Shenoy: So, the actually up fronting for the quarter would be higher than this netted-off against the reversal that I have to do it would be 64.

Gagan Banga: So, every quarter will see some positive from whatever we will upfront, from whatever we will sell-down in that quarter and it will be netted-off with some negative which will be coming from the previous quarter and therefore the number that you will see which in this case is 64 crores is an net number of that upfronting and the negative.

Adarsh P: So, if I use 1Q as a trend Gagan and Ramnath is it safe to assume the recurring NII is lower by 72 crores and then the 64 crores will vary depending up on the sale you will do. Is that a fair assessment of, if I extrapolate this number is that the way I look into the numbers?

Gagan Banga: Are you talking about the rest of the year?

Adarsh P: I am just saying if I assume this to be more a recurring pattern or if I can do.

Gagan Banga So, going forward there will not be any concept as zero coupon bond everything is going under IndAS through the P&L so there won't be this negative going forward that is what we are talking in the long-term. So, it is only for the previous year because the zero coupon bond interest did not flow through P&L is there is a negative item there.

Adarsh P: And all of it related to the zero coupon only. Now there will be other adjustment right 72 crores.

Gagan Banga: We have to talk about 90% of any item, 90% of the item is zero coupon.

Adarsh P: Okay, understood. Next question on the cost of funds right. We reported cost of fund on book basis of 792, if you can just give me the cost of fund broken by instruments because that is a very good cost of fund or pretty low so I just wanted to understand the MCLR is higher than this, a AAA institution would borrow higher than this so if you can just give me the breakup of your various liabilities that led up to 792 on a weighted basis.

Gagan Banga: Adarsh, we are also AAA.

Adarsh P: Yes, absolutely.

Gagan Banga So, when you say AAA would borrow lower than.

Adarsh P: No, in AAA higher I meant like you have given the rates today so I was just trying to match this whether we, what rate.

Gagan Banga: These are rates which are all on monthly basis and we have to report all of our bond borrowings for the last year plus on the stock exchanges so these would all tally back to whatever you will see there, their rates would generally be annualized. On banks we borrow at about 8.05% the marginal favor that we get hear, saving that we get here over what you would simply see as MCLRs would be that we have fair amount almost over a third of our borrowing from banks in the FCL route which allows us to borrow at least 30-35 basis points cheaper than what we would borrow net off the swap that we would borrow if we were doing just pure rupee term borrowing. Then we have bonds and securities which are blended for NCDs and CPs and these are monthly rates. And then we would also be doing some swapping here to convert some of these fixed rates borrowing to floating rates borrowings given the fact that GSEC had moved up from 668 to 780, 790 but repo has only now gone up twice there is a fair degree of spread and saving that you can do when you convert your fixed into floating and that swapping we actively do. Our ECBs are at about 7.55%, sell-downs blended for both priority sector and non-priority sector are at about 7.6% and that is how we get 7.92. On an incremental basis our term loans come to us at just over 8.1%, our bonds come to us at 8.2%, CPs at 7.35, external commercial borrowings at 7.55, and sell-down in the same handle; to get us at 7.88% or so off incremental borrowing.

Adarsh P: And last question is on the insurance sale, the credit protect sale, is that income has to be amortized or it is still an upfront booking that is allowed under IndAS.

Gagan Banga: So, that income is not to be amortized, it is a onetime income and therefore it is taken and we do not only sell the credit protect product. We have live active arrangements for life, non-life as wealth as health products and whatever commission we get it is sold to our existing customers and therefore and in some ways linked to a loan and it helps us cover the risk of loan either by covering the property or the life of the borrower, but that income can be taken upfront.

Moderator: Thank you sir. We have our next question from the line of Pooja Ahuja from Equentis Wealth. Please go ahead.

Pooja Ahuja: Sir my question is, in your mortgage loans what will be the breakup between home loans and LAPs.

Gagan Banga: Home loans are roughly 60% of the book and LAP will be roughly 19% of the book.

Pooja Ahuja: Okay. This was the total book.

Gagan Banga: Yes.

Pooja Ahuja: And sir how much would be the smart city loans of the home loans.

Gagan Banga: Would be now about 28% of home loans.

Pooja Ahuja: So, all of the small city loans are e-home loans right, through the e-home loans platform.

Gagan Banga: All alone, that is a different platform so e-home loans will be contributing roughly a fourth of our incremental business 25-26%, smart city loans are the loans that we do in locations which are more like Tier-III, Tier-IV kind of locations which as an initiative we started about two years ago. And on an incremental basis it contributes to about 20% of our business.

Moderator: Thank you sir. We have our next question from the line of Rakesh Jain from Jasper Capital. Please go ahead.

Rakesh Jain: I just wanted to understand your segment lease like for home loans, CF affordable housing finance, is there any pressure you felt during in the quarter?

Gagan Banga: The spreads talk for themselves so at the end of March the spread stood at 311 basis points which has increased to 323 basis points. So, there is no pressure, the market has already we along with the market have already done at least two transmissions between March and April. Some banks have in anticipation of yesterday's RBI policy have already increased their MCLRs. I expect most banks to recalibrate MCLRs between the month of July and August and if not all most of the repo will get transmitted and we will follow soon. So, we will also do in our round of transmission in over the next few days as soon as the ALCO meets, as far as yields are concerned on an incremental basis home loans are fetching us now 9.25% which used to be 8.9% last quarter on incremental basis. LAP loans are getting us 11.65% up from 11.15% last quarter and commercial loans are getting us 12.86% up from 12.35% on incremental loans last quarter. So, more or less the transmission even on new loans has been efficiently done to the extent that the packed loans have been re-priced.

Rakesh Jain: And may be GNPA, maybe in the construction and commercial finance, construction finance book GNPA is over there.

Gagan Banga: Yes gross NPA is 2.12% are gross NPAs in the commercial loan book.

Moderator: Thank you sir. We have our next question from the line Amit Jain from Samsung Asset Management. Please go ahead.

Amit Jain: Just wanted to understand this IndAS, so this post 70 million that we see for this year sort off sell-down, if that is again a net number like 640 or that is only the excess interest spread that has been up fronted.

Gagan Banga: Are you referring to Slide #7 the 47 billion?

Amit Jain Yes

Gagan Banga That's related only to the quarter

Amit Jain: Yes. So, again in this there is no reversal of previous year, the net number that you have for.

Gagan Banga: There would be a reversal because that entire rounding off has happened as of March 17 so everything after March 17 will have a negative and a positive.

Amit Jain: So, there will be some negative.

Gagan Banga: Yes.

Amit Jain: Okay. And this one is again you only take this, the way it works is you take the interest spread which is there sort of up and up fronted and there are no cost related which are sort of mark to market as well or that is not such.

Gagan Banga: There would be. So, we would have the spread which will basis some assumptions of the life of the loan there would be the net present value of that and then there would be some servicing cost which would vary between different types of loans and the value of the loans which will reduce it and then there would be a reduction happening because of the past quarter flows. Net of all these three would find a number invoice.

Moderator: Thank you sir. We have our next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on this, your incremental spread thing you said it is 277 to 281 in this quarter whereas our average spread is 323 so the way one should look at it, your incremental spread will create further pressure your average spread.

Gagan Banga: Sir I would refer you to Slide #57 of our earning update. If you look at the bottom part of the page there, there is a table there which talks about trend of spread in stock of loans and incremental loans and if you see the trend ever since the rate environment has changed early to mid-last year, in March 17 it used to be and as we speak it stands in the handle of 780-790. The constant in our business is that the spread on stock of loans has remained around 320-325 levels and spread on incremental loans has remained in the range of 275 to 280 basis levels. So, as both of these blends intuitively the spread should be going down. But what you see is that the difference which is spread on stock of loans and spread on incremental loans (A-B) has stood stable at 42 basis points. And our spread on stock of loans has not declined despite this pressure of 40 to 42 basis points because you continue to pass on rate hikes on the back book. So, if you see our cost of funds have moved down between 8.25% in June 17 to 7.92% in June 18. Between March and June they would have moved up by about 12 basis points. Against the 12 basis points increase in our cost of funds we have already done a transmission which is in the handle of 30 to 50 basis points depending on the product on the whole back book. Stock of our borrowings went up by 12 bps but the yield on our lending went up by between 30 and 50 bps. So, in any interest rate rising environment whatever is the discount that you are typically doing which is an industry practice in India tends to get booked at a higher price because of effective transmission and I have been trying to point to the same industry fact for the longest time now. So, there is no pressure on rate and opportunity comes whenever RBI will hike repo. So, yesterday's repo hike **is a blessing in disguise, it** takes a little bit of difficultly to do a transmission just on the basis of increase in government securities but if RBI hikes then the market expects, as you would have read this morning's newspaper that home loans and all loans will become more expensive. I hope I have answered your question.

Manish Ostwal: Yes, it is quite helpful sir. The second question I have was on the growth side. I attended couple of real estate companies' concall to assess their demand outlook in the market and the new projects still very muted in terms of launches and the inventory is still very high in the key markets. So, in terms of growth where we are seeing growth in top cities or Tier-III cities or Tier-IV cities we are seeing via growth compared to the largest city and second in terms of price points, which price point highest growth we are anticipating or we are seeing in our business.

Gagan Banga: Most of these listed companies again as we have been highlighting in the past continue to transition, but in the past have been largely focused on more premium housing which is not an area of interest for us. The mid-income group housing is the area of interest for us over the last 10 years and continues to remain area of interest. From various reports that we have been reading over the past few months, and we put out all of those statistics in the macro section of the earning update. Launches in the mid-income group housing are up between 40% to 70% year-on-year across all the suburbs of the large cities and those large cities continue to be there massive and maximum job creation is happening. So, Tier-I locations continue to be an area of focus. That said, now with GST having stabilized there is a great market also in Tier-II, Tier-III locations where assessment of credit has become a lot more easier and therefore those are also gaining traction as it is reflected in the business volumes that we are clocking in our smart city program. So, you will get a better idea of how launches are rapidly happening if you look at not these large listed real estate companies but more the mid-sized real estate companies or if you visit the suburbs of large cities such as if you visit Virar, Vasai, Panvel, etc., in the outskirts of Bombay then you will see. If you just go back three to four weeks the Chief Minister of Maharashtra for a mid-size developer Wadhwa Developers had done an inauguration in Panvel on a project which is spread over a100 acres and I think the total area under development is something like 3 crores square feet. So, that is the quantum of affordable housing development being done by just one mid-sized developer of Mumbai.

Manish Ostwal: Understood sir. And the last point I have, on the left side other banks have commented on the asset quality issues in the LAP and not right valuation happening in the segment. So, A) how we are seeing our portfolio behaving in loan against property and B) have we increased our underwriting standards up to factor the incremental risk?

Gagan Banga: There are three points from whatever I have read in the market. The concern is more about how collateral of SMEs is being valued and that need not necessarily be the collateral which is residential property. Valuing residential property is a lot easier to valuing plant and machinery, goods lying in godowns as well as industrial property which is what the banking system generally does when it gives out these 4, 5, 10 crores loans it rarely takes residential property. Most small businessmen will not have residential property worth the value of collateralizing such a large loan. They would generally be able to borrow money in a few lakhs of rupees or maybe a crore, crore and a half. They will not be able to support a Rs 5 to 10 crore valuation which is required when they are doing, borrowing from banks traditionally. So, that's what's been eluded to rather than residential valuation. Residential valuation is generally speaking reasonably straight forward. As a country this whole question around valuation and property prices, etc., has been going around now for nearly two years and it came to a lot of discussion in the period around demonetization. And today what we see as users when we go out there to try and find a house for ourselves, there is no property price correction which has happened in at least house property in most locations catering to mid-income type of houses, super premium there could have been some correction. So, in that context the business that Indiabulls Housing does is roughly a Rs.70 lakh loan against a property which is valued at about 1.5 crores, not so very difficult to value. Our regulator requires two valuations one internal and one external for anything that we value above a crore. So, we get two benchmarks, we have developed a reasonably large sophisticated technical team over the last 10 years which does these evaluations quite accurately, so we are not depending on third party valuers which is again what was eluded to in the discussions around valuations that there are no good high quality third party valuers which are there. And lastly for the last three years now we have adopted this practice of getting every loan against property loan, each loan of Rs.70 lakh then get subjected to a scrutiny by our rating agencies and which also publish a report which we then publish for you every quarter. Since we actively sell down our loans we also publish static information and probably we are the only guys in the industry doing so. Now for over three years, which reflects the health of our home loan and our loans against property portfolio on a static basis over the last three to four years. So, on the basis of all of this data which is in front of both you and me I am reasonably confident that neither is there a valuation challenge nor is there a portfolio quality challenge and the matter of fact the management team here is convinced that with the advent of GST and with GST now stabilizing lending to the self-employed is perhaps the single biggest lending opportunity which exists in India on a very-very scalable basis over the next 10 years and the fact that we have expertise and experience of having done that for the last 13 years I would say it is one of the largest growth opportunities in front of Indiabulls Housing which we are actively pursuing. So, our stand is actually the opposite we are very comfortable and extremely confident of this segment of lending.

Moderator: Thank you sir. We have our next question from the line of Manish Agarwal from PhillipCapital. Please go ahead.

Manish Agarwal: Can you share your experience in terms of prepayment especially in last six months.

Gagan Banga: The prepayments are holding pretty steady so home loans prepayments are at around 0.9% amortization which is reasonably steady. Sorry around 1% level which is reasonably steady. For the full fiscal 18 it was at about 0.75% so pre-payment rates are okay. We have over the last 8 years been benchmarking our pricing to the largest lenders in the home loan space. We have also made sure that our increase in our reference rates is in step with all of these large lenders so therefore neither the back book nor the incremental book has ever been mispriced in that sense and the teams very actively operates making sure that we have the highest level of efficiency. Thanks to the focus of the team we actually saw our quarter four is generally when the maximum pressure comes, we actually saw the lowest prepayments in that quarter because teams scaled up and took up a challenge so I would say we are fine as far as home loan prepayments are concerned. Other loans are good, it is a natural expectation of prepayments in the larger loans which is also in line what our expectations is.

Manish Agarwal: And next question is about like in the ECL calculations so how many years data generally is used in this calculation and I guess this is rolling in nature correct the period of data?

Gagan Banga: Our own data related to retail loans now for 13 years. We have also relied on external consultants such as Deloitte, etc., to help us and use various data which is available with the credit bureaus of the country and use their help to create all these provisions and models. So, with 13 years of our own data we got 90% of the relevant data points and the balance 10% have been supplemented through third parties.

Manish Agarwal: And finally out of say you mentioned about 20-25 basis points kind of credit cost going ahead.

Gagan Banga: I would also like to add in quarter four we had also spoken about the entire creation of the ecosystem and how we are working hard on decisioning in an automated manner so all of that actually presupposes all of these risks. So for every loan that we do we already have reasonably well-established decisioning model which actually allocates the risk around that loan and helps us price back. So, we did not only have access to data which was the actual loan loss data, it is being put into practice on decisioning for the last year, year and a half ever since we launched our e-home loan platform so on all of these loans we have only been extremely conservative as we have been on provisioning in the past.

Manish Agarwal: Okay. Finally, can you give some sense about the ECL product wise maybe home loan LAP and your construction finance for the Stage-3.

Gagan Banga: Yes. It will come to a ballpark of 25% of Stage-3 assets and will tend to go slightly lower over a period of time. Currently as we speak it will be in the ballpark of 25% cutting across assets. On commercial, it is very difficult for us to give you this breakup because a large contribution to Stage-3 happens through commercial loans and each commercial loan has to be independently valued by cash flow basis to arrive at the expected credit loss and the loss given default especially given the fact that all of our loans are over collateralized. So all we are trying to estimate is the time to recovery which gets us to the expected credit loss. So, in that background the 25% number is rather conservative and I hope that over a period of time it will also move lower, but as we speak and as I have been mentioning in the past we have chosen to be slightly conservative.

Moderator: Thank you sir. We have our next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: One data point question basically. So, what proportion of your borrowings is commercial paper on both stock and incremental basis and what is the average tenure of your NCD book?

Gagan Banga: So, the average tenure of the NCD book will be around three, three and a half years, commercial paper outstanding will be around 9 to 10% of our overall borrowing. What we have been able to do in that commercial paper is elongate the length of the commercial paper. So what used to be three, three and a half months earlier now it has been elongated to almost eight months. So, it’s a reasonable duration product as against in the middle we had dropped it down because there was no money available longer than three, three and half months. Now we have been able to elongate to almost 8 months so we are comfortable at these levels.

Subramanian Iyer: And can you split your incremental yield on home loans into on an approximate basis into salaried home loans and self-employed home loans the 9.25%. As a thumb rule salaried self-employed home loans will get you about 100 bps higher and would be about 30% of the book.

Subramanian Iyer: Got it. And finally, the increase in net worth on account of the revaluation is approximately 3000 crores just wanted to get a sense.

Gagan Banga: Will be about 2.5 thousand crores.

Moderator: Thank you sir. We have a last question from the line of Deepinder Bhatia from Bayard Asset Management. Please go ahead.

Deepinder Bhatia: Gagan just a couple of quick questions on balance sheet and leverage you touched on at the start of the call, that as a result of the change in the total equity this is a re-val you have more flexibility as to when to raise additional capital, I was just wondering that is that sort of a key metric or that is really an accounting adjustment or our cash-on-cash ratio is equally important and what is your thinking in terms of the actual timing for any further capital entry so that is the first question? And the second it is sort of interconnected to that, I noticed that you did increase the dividend this quarter, but I think the payout ratio is somewhat lower than we had clocked last year so I was just wondering about that also. Thank you.

Gagan Banga: I will do the second before I come to the first because in some way the second leads to the first. So, the long-standing dividend payout policy of the company has been 50% of profits over the years the regulators have been giving risk weight breaks which have caused about three, four years ago a bit reduction in our overall capital requirement for the business and we had accelerated the dividend payout. For (+2) years we held it at a certain Rs.9 per share per quarter and from the last quarter we started increasing it given the increase in EPS. Our dividend policy it stays the same. Unfortunately, over the year the government has also imposed a dividend distribution tax, so the policy is 50% of profits come the dividend distribution tax and we will try and stick to this for as long as possible and that is where we get to 10 bucks for the current quarter. So, there is no change in our dividend distribution policy. As far as capital raise, etc., is concerned it is eventually an outcome of both capital adequacy and gearing. Gearing is down to 5.9 times and which is around the same levels that we had raised capital if I recollect after the capital rate we were at about 5.4times -5.5times when we had raised capital. So, we are at, at that kind of gearing levels we will continue to stay engaged with all stake holders. The most important as far as this is concerned is rating agency but from the preliminary read of this, we have an opportunity both from securitization as well as these accounting standards to be able to maximize return on equity and yet run at a reasonably robust capital adequacy which stands at a ballpark of 24% as we speak. So in that context any imminent capital raise is off the table but yes, as a responsible company we have to continue to staying engaged with all stake holders and we shall do so and if there is any plan we will obviously come back to you.

So, thank you everyone. A good solid quarter and great opportunity, the largest quarter for the company I think we have laid a good foundation by successfully and smoothly transitioning to IndAS without causing any big change in any of the numbers. We were ourselves quite concerned when we got to know in the middle of the quarter that we have to rapidly transit but the team has done extremely well so thank you again everyone for your support and look forward to speaking with you in about three months. Thanks.

Moderator: Thank you very much sir. 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.