"Indiabulls Housing Finance Limited Q1 FY2020 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q1 FY2020 Earnings Conference Call hosted by UBS Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 Raymond. Thanks for joining this call. We welcome the management of Indiabulls Housing Finance to discuss Q1 FY2020 results. From the management team we have Mr. Gagan Banga, Vice Chairman, Managing Director 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 and & Analytics and Mr. Harshil Suvarnkar, Head Markets. I now invite Gagan to share the key details of the result. Over to you Gagan!

Gagan Banga: A very good day to all of you and welcome to Q1 Fiscal 2020 earnings call. In over the nine months in September 2020 we have raised over ₹60,000 Crores of money and are focused on elongating our liability profile and shoring up liquidity. We have disbursed nearly ₹7,500 Crores in Q1 fiscal 2020 nearly the same as disbursements in Q4 fiscal 2019. We have over ₹28,500 Crores of ready liquidity available with us, which covers our next 12 months of debt repayments by about 1.4x. Since September 2018 IBH has raised over ₹6,300 Crores in bonds, which was subscribed by 12 life and general insurance companies, mutual funds, banks and corporates. We have reduced our dependence on CPs to under 1% levels, this is in line with our operating principle of capping the total three months CPs of the company to 5% of our funding. IBH has adopted a liquidity buffer principle in line with the high quality liquid assets model adopted by banks and holds liquid investments in the form of cash, current account balances, term deposits with banks, government securities, etc., essentially money, which is available on T+1 or T+2 basis.

The RBI on May 24, 2019 through a draft circular on liquidity risk management framework introduced the requirement for NBFCs to maintain LCR in line with those maintained by banks. The LCR requirement shall be binding on NBFCs from April 1, 2020 as and when the circular gets finalized with a minimum LCR to be held as 60% progressively increasing in equal steps to reach 100% by 2024. Against this requirement of 60% IBH had an LCR of 552% as on June 30, 2019. We are extremely well provided for in terms of liquidity and we have also shared the details of the working of the LCR on slide 10 of our earnings update.

Moving on to the more important theme as we speak, which also takes up a lot of management time is an update on the merger. Towards the end of June 2019 we received an approval from the Competition Commission of India for the proposed merger with Lakshmi Vilas Bank. We made an application to the Reserve Bank in early May and expect to get a decision or hear back from them in the next 45 to 60 days. We have also applied to both the stock exchanges BSE and NSE for their approval. The Board of Directors of the company met on July 25, 2019 and recommended with a view to ensure continuity to provide broader oversight and to benefit from the vision of Sameer, his name has been proposed to RBI subject to the merger itself being approved as the non-executive Chairman and my name has been proposed as the Managing Director and the CEO of the bank. Both the recommendations are obviously subject to applicable regulatory and statutory approvals besides the overall approval of the Reserve Bank of India to first the merger and then to the specific appointments.

While the merger application is under consideration, we are working and focusing on two broad things, one is to reduce our commercial real estate exposure and two is to enhance our SME presence. It is a testament to our underwriting and the quality of assets underpinning our loans that since the announcement of the merger with LVB in April 2019, within about 90 to 100 days of the announcement the company has been able to reduce on a gross basis, the commercial real estate exposure by as much as ₹6,000 Crores through refinance and private equity investments. These assets are bought by leading banks, investments were made by private equity players and financial institutions and this theme will continue. Since September 2018 i.e. since the NBFC crisis started, there was a lot of concern expressed around the real estate industry also the gross refinance that we have seen in our book is to the extent of almost ₹10,000 Crores, so that again is a testimony to the kind of liquidity and liquid assets and also the credit underwriting that we have been doing. As mentioned earlier, the amalgamated bank will focus on the MSME and housing loan business.

Now if you can please turn to slide 11 of the earning update.

Our stage 3 assets and gross NPAs are at 1.47% while the remaining 98.53% of the assets are in stage 1 and 2. We have ₹953 Crores of ECL provisions against stage 1 and 2 assets and provisions of around ₹416 Crores against stage 3 assets. Despite the difficult conditions for the real estate sector our asset quality is amongst the best in the HFC space.

As mentioned on slide 5 in the earnings update we have recovered a sum of ₹1,932 Crores in the last five years corresponding to 71% of the ₹2,735 Crores of slippages that we saw in this five-year period. By slippages, I mean anything which went into NPA and was written off. So 71% of that has already been recovered and I think this would be the highest recovery that any lender has seen in the country, bank or non-bank. IBH does only mortgage backed secured lending which ensures a high degree of recoverability as demonstrated by the recent recovery from the Palais Royale case where the SARFAESI process was upheld by the Supreme Court and the money was recovered after four years since the project first went into litigation. So it did take time, it did go through a lot of litigation, but it is finally done. In addition to our strong track record of recoveries, we have also made adequate provisioning buffer in the form of our OakNorth Bank investments, which today stand at a value of about ₹3,500 Crores.

For the other numbers for this quarter please refer to slide 3 of the earning update.

Our balance sheet at the end of Q1 fiscal 2020 stood at ₹1,20,947 Crores compared with same time last year of ₹1,38,000 Crores. The reduction in balance sheet was primarily on account of increased portfolio securitization undertaken by us over the nine months and the run down that we have seen in the CRE book. Our loan assets stood at ₹1,13,000 Crores at the end of Q1 fiscal 2020 as against ₹1,25,000 Crores in Q1 FY19. Our disbursals for the quarter were at ₹7,500 Crores a moderate sequential growth over Q4 fiscal 2019 disbursal. The NII without including the sell down upfront income for Q1 fiscal 2020 stood at ₹1,475 Crores compared to Q1 fiscal 2019 at ₹1,690 Crores. The sell down upfront income for the quarter was at just about ₹48 Crores. Our PBT for the quarter is ₹1,106 Crores against PBT of ₹1,402 Crores. The net profit for the quarter is ₹802 Crores compared with Q1 fiscal 2019 profits of ₹1,055 Crores. I am pleased to announce that the Board has approved an interim dividend of Rs.8 per share in line with our policy to distribute 50% of profits as dividends.

Now if you can please turn to slide 9 of the earning update where we have presented our performance on certain key parameters during the liquidity crisis of the past nine months.

- Our spreads on book remained within our guided range of 300 to 325 bps to stand at 314 bps.
- Our total Commercial Papers are now down to only 1.0% of our funding.
- Over the past 9 months, portfolio sell down has helped us sustain very conservative gearing levels with the net gearing at only 3.8x at the end of Q1FY20. Sell down will ensure the gearing remains conservative but retained spread on sold down book will sustain profit growth and healthy RoE levels.
- Our CRAR as at end of Q1FY20 stood at 27.8% versus a regulatory requirement of 12%.

Moving on to the liability profile I request all of you to turn to slide 12 of the earnings update. You will see that the CPs as I mentioned earlier are now down to less than 1%.

In the month of May, Moody’s international rating agency initiated the corporate family rating of IBH at Ba1, which is an equivalent to BB+ plus rating just one notch below the sovereign rating of BBB-. Along with this international rating all of the four leading rating agencies of India including CRISIL, ICRA, CARE and Brickwork are all rating us at the highest long-term rating of AAA. With a view to take advantage of low cost funds available from the offshore market, in May 2019 we tapped the offshore bond market where we were able to raise $350 million.

I request you now to please turn to slide 13.

We now move to spreads in the business. Our spread on loan book was 3.14%. We had passed on additional rate increases to customers ahead of time anticipating increase in our cost of funds. As the cost of funds increased this quarter, to reach our anticipated levels, the unusually expanded book spreads in last quarter have now rationalized to stand at 3.14%; we had also guided the same that the rationalization would happen in Q1, so it has happened. The spread continues to be well within our guided range of 300 to 325 basis points. Subsequent to our bank merger announcement in the last couple of months, the company has faced malicious and bizarre allegations. It seems to us to be a concerted effort to derail our applications for merger with Lakshmi Vilas Bank. The first wave of allegations was leveled by an organized blackmailing gang posing as lawyers, which alleged that Indiabulls Company had siphoned off ₹98,000 Crores. Subsequent to police investigations, which unearthed past instances of blackmail against other corporates, non-bailable warrants have been issued against the father and son masterminds behind the racket. The father has been arrested for over a month and his bail applications have been repeatedly denied by the courts. The son continues to still be on the run.

Allegation in the second instance too echo those contained in the first instance, the primary allegation against the company accuses it of having siphoned off ₹1 lakh Crores from NHB by borrowing through some Shell Group Companies. Here as we have already highlighted in our release to the exchanges, I would like to bring to everyone’s notice that by law the National Housing Bank extends the refinance assistance only to primary lending institutions including scheduled commercial banks, regional rural banks, housing finance companies and government backed agencies for their housing loans to individuals. Thus, amongst the Indiabulls companies, only Indiabulls Housing being a housing finance company is eligible to avail refinance from National Housing Bank. Till date Indiabulls Housing has not availed of any refinance facility from National Housing Bank. It follows that loans outstanding to IBH from NHB is obviously zero. Hence the allegation of IBH or Shell companies of Indiabulls having siphoned off funds from NHB through refinance facility is a blatant lie. Also according to NHB’s most recent available annual report of fiscal 2017-2018, the cumulative refinance that they have done from fiscal 1989 up until June 2018 almost like a 30-year period was ₹2,11,527 Crores of which disbursals to housing finance companies are ₹98,000 Crores, so it seems we have stolen all of that money i.e. the cumulative refinance extended by NHB to all HFCs in the last 30 years is itself lower than the amount claim to have been siphoned off by India Bulls in the last 14 years.

Another insinuation was that politicians have routed their illegal money through investments in the company. As on June 30, 2019 the promoter holds 21.5% of the company while financial institutions foreign and domestic combined hold about 66% of the company. That is accounting to over 87.4% of the shareholding. The remainder 12.6% is held by over three-and-a-half lakh shareholders. Sameer is a self-made man and is the son of a military officer. We started the group from 150 square feet office in the year 2000 and since inception Indiabulls Housing including our erstwhile parent Indiabulls Financial Services, which reverse merged into Indiabulls Housing has raised ₹8,583 Crores roughly $1.24 billion of equity capital, which has seen participation by some of the most marquee foreign institutional investors and domestic institutions, some of which would have also logged on to this call. This equity funding round was managed by reputed book managers and legal advisors. We have since then transparently disclosed the name of all the participants of these equity rounds in public domain through a press release, stock exchange intimation as well as newspaper advertisements. You may also find the same on slide 7 of the earnings update.

On the allegations of tax revision in the last three years, Indiabulls Housing has paid a corporate tax of ₹3,560 Crores. If there was a large tax liability arising out of any action of income tax authorities this would have reflected in recent years and the tax rate would have been substantially higher than the average 25% that we have paid over the last three years. I would like to categorically state that all allegations leveled against Indiabulls Housing are false and unfounded and we will stand strong in the phase of this onslaught. Indiabulls Group, which has over 24,000 employees has paid over ₹14,000 Crores in taxes to the government since inception and has distributed over ₹11,000 Crores in dividends to over 3,84.000 shareholders is extremely viable and all parts of the group are doing extremely well. Our 25,00,000 customers continue to help us grow and we continue to remain extremely optimistic about both the merger as well as the business in future.

With our healthy liquidity and strong capital base, we are poised to getting back to our normal quarterly disbursal run rate from Q2 itself. We are very excited about the SME lending opportunity in the country subsequent to the rollout of GST and the data that one is able to now capture over the last two to three years. We look forward to increasing our retail and SME lending growth and continue to reduce our CRE portfolio. Reduction in CRE exposure will continue to be our primary area of focus especially in the background of the merger with LVB. We have healthy provisioning on the books and enough buffers for any stress that may arrive in the future so as to negate any impact on profitability. We expect our strong recoveries to continue in the future with loss given default to be at the minimum. In the last nine months the real estate sector has undergone a thorough stress test. Despite this Indiabulls Housing's book's asset quality remains at par with the best housing finance companies. With so much noise around the real estate sector in the last 60 days combined with our proposed merger with the bank our developer loan book has been scrubbed with fine tooth by various stakeholders and the output is in front of you at 1.47% gross NPL for the company on the whole. Our resilience to the liquidity crisis engulfing the NBFC sector and the outperformance in the liquidity buffers that we hold compared to our peers is visible through the strength of the balance sheet, the extremely high levels of capital that we have and also our ability to continue to pay dividends to our shareholders even in such trying circumstances.

On a more philosophical note some of you may be aware that I run marathons and several times during the course of that 26 mile run one does have uphill, there are also times when with the uphill there comes headwind and I was running just this Sunday and there was an uphill, there was headwind and there was rain and I have got more determined than ever before that this business that I run much like the Marathon that I run will continue to strive, to grow, to do well. I have not had a situation where I have had a DNF as they call it in a marathon. This situation that our sector is facing as well as the brave step that we have taken of going through this merger process one anticipated that there would be a lot of attacks on us. These attacks we will take in our stride, we will fight them through merit and data as we have been doing and I would like to assure you that starting from Q2 itself our disbursements are going to be extremely strong and between Q3 and Q4 we should be able to grow our book and the corresponding number in mid to high teens.

So on that note, I will open this call for questions and we shall answer whatever any of you has a query on. Thank you.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Thank you for the opportunity Sir. My question on the balance sheet growth for the full year, as you rightly said we are doing some sell down of loans and secondly reduction of the commercial real estate exposure and we are having excess liquidity and lower leverage in the last six months, so what is our best assessment of the growth of the balance sheet before the merger we remain conservative in terms of balance sheet growth till the merger sail through?

Gagan Banga: No we will remain conservative for both liquidity and capital preservation, so that is priority number one. Priority number two is to continue to run down our CRE book that said I think a large part of that is done and now we will be at more normal levels, which will continue through the course of the next few quarters. So Q4 and Q1 in some sense as far as the rundown of the book is concerned were similar to Q3 and Q4 of fiscal year, last fiscal year where the securitization onetime was increased to enhance the liquidity level and now it has since then come down to more normal level, so starting this quarter both securitization as well as the portfolio rundown on CRE will be in the handle of ₹2,000 to ₹3,000 Crores each and our disbursals this quarter are targeted to increase from ₹7,500 Crores that we did last quarter to be in the handle of about ₹10,000 Crores and then through Q3 and Q4 that also being busy season will continue to increase further. That said the underlying environment is quite testing right now one has to really take a very diligent view on the credit that one is underwriting, so not trying to chase any growths target per se, we remain optimistic about both the housing as well as the SME opportunity and believe that a mid teen kind of a growth is possible through fiscal 2020, but our primary area of focus would be credit quality, we do not wish to underwrite loans that two to three years later will come down to haunt us as well as making sure that we remain liquid and extremely well capitalized, so within these constraints we hope to continue to grow our disbursals and as I said we are targeting about ₹10,000 Crores of disbursals in Q2.

Manish Ostwal: Right Sir and the second question on this merger with Lakshmi Vilas Bank, with interaction with regulators and your assessment, what is the timeline where we can see the approval from the RBI and other regulatory agencies?

Gagan Banga: So I hope to hear back from the RBI basis, all the various communication that we have been doing with them as an in principle over the next 45 to 60 days and that is the same timeline that we have been indicating right from the announcement of the merger and will be in line with the time that RBI has taken for other such applications. Our application came in and went through to them only in May and the Indiabulls Group has a lot many more entities to study, but one basis whatever is the interaction and communication is hopeful that over the next 45 to 60 days towards the end of the current quarter we should be hearing back from RBI. If all is well and one is extremely confident that all will be well the technical process and the administrative process which requires NCLT and other shareholder and other such approvals will take another three to four months, so towards the end of the fiscal the merger should become effective.

Manish Ostwal: And lastly Sir based on these media reports have you received any specific communication from the RBI or NHB in this regard?

Gagan Banga: No we have not, but we have voluntarily written not only to RBI and NHB and explained all the facts, but we have also taken our board, our auditors, our regulators and various other stakeholders including various government departments on a voluntary basis through all the information since we are aware that we are going through a sensitive time and it is better to be proactive, so we have been proactively in touch with both RBI and National Housing Bank and have kept them informed, so there is no specific query so far that we have received as far as this is concerned. The process requires due diligence and as I have been mentioning in my various media interactions we locked up our books and submitted all of our books not only for Indiabulls Housing, but for the entire group back in May itself with the regulator, so they have all the information and at the click of a button they can get any and every information that they require about any loan, any investment or anything of that sort. There has been a talk since the entire NBFC crisis started that there should be an AQR on NBFCs and then chalk would be separated from cheese and so on. We have kind of voluntarily submitted ourselves to an asset quality review. I think that is the biggest deterrent why some of my peers may not have walked that path, but that said we have gone through a lot of diligence internally prior to submitting our books to the regulators. Since then these malicious allegations, there has obviously been a lot of noise and all stakeholders would want to delve into the depth of every allegation, which is made and we have obviously been able to do discussions with those stakeholders, take them through all details. As much as I hate rumor mongering, I was made aware of WhatsApp messages where it was being said that results will not come, auditors have resigned so on and so forth, you have seen the results today; they are as stable as could be. We have for the last 10 years held a philosophy that if we will get any one-off income or recovery we will create provisions, we got that and we created additional provisions. Under Ind-AS you cannot just generally create floating provisions, so we followed the path of identifying specific assets and created provisions around that and that is a conservative process that we have been doing for the last decade and will forever continue to follow that path. We would as management, want to focus on data and that data has been verified by the Board and the auditors and has been presented to all of you this evening.

Manish Ostwal: Thank you very much Sir. Thank you.

Moderator: Thank you. The next question is from the line of Subranshu Mishra from Bank of Baroda Capital Market. Please go ahead.

Subranshu Mishra: Thank you for the opportunity. The first question is what is the recovery from Palais Royale that you have mentioned, last concall if I remember it was to the tune of ₹200 Crores have you recovered the full amount?

Gagan Banga: In Q3 we had indicated that we will potentially recover ₹200 Crores over the next few months, we have actually recovered about ₹700 Crores partially where provisions have been released and partially the stock of NPAs has gone down, but the total so to say cash recovery; however, the accounting terminology works, has been in the handle of ₹700 Crores.

Subranshu Mishra: Sir if you can give a breakup of the provisions that you have made as to how much is for standard and how much have you done voluntarily over the standard?

Gagan Banga: We have done additional provisions voluntarily to the tune of around ₹450 Crores.

Subranshu Mishra: What would be the write off in this particular quarter?

Gagan Banga: I can get back to you, but it is a not a very large number.

Subranshu Mishra: Sure Sir and you have mentioned around ₹6,000 Crores of refinance in your commercial real estate, so that has totally moved out of the balance sheet?

Gagan Banga: Yes, this is the gross quantum, we would have disbursed some, so write off is only ₹28 Crores and yes this ₹6000 Crores is completely gone off from the balance sheet.

Subranshu Mishra: Sir if you can give a little more flavor to that particular refinancing that has been done in commercial real estate market because that particular market is very tight at the moment, so a little more flavor would be very helpful Sir?

Gagan Banga: So some of the assets are actually most of our assets have been also reported in the news papers of having either received refinance, so if I go back in the last six to eight months, we have had construction finance asset in NCR as well in Mumbai of five different developers, which have been refinanced, which would be roughly about 35% of this quantum. The total quantum being in the last eight months being about ₹10,000 Crores and the balance would be more rent discounting kind of transactions, which have been refinanced and also there have been two transactions where private equity money has come.

Subranshu Mishra: Sir just one last question Sir, why would you refinance LRD transaction because we have our cash flows ring fenced there right?

Gagan Banga: We have, but overall as a bank we do not want to be excessively exposed to CRE, so the challenge that the combined bank would face would be similar to the challenge that any term lending institution be it back in the day ICICI or recently IDFC would face where the term lending institution is exposed to a certain type of asset. Both ICICI and IDBI were exposed excessively to infrastructure and they had to reduce that exposure over a period of time and increase other loans, so ICICI has very successfully increased their retail loans. So the challenge in front of us would also be the same. As far as our business plan is concerned, over the next three to five years, we have given specific percentages that we would achieve as far as our CRE is concerned and in order to minimize the impediments that come in the way of the merger we would not want to go to RBI only with a plan, which is proposed. We would want to substantiate on that plan and make it stronger by going back to them with data that over the last three months or six months we have already achieved this; therefore, the trajectory that we are displaying to RBI is actually going to be lower than what we have actually projected, so that just add strengths to the application that is our approach and as I said be it any challenge that will come up we will try and overcome the challenge through data and this is the data based approach that we would want to take as far as this application is concerned to just add depth to our application process. So the CRE reduction be it LRD or construction finance both would continue.

Subranshu Mishra: Sure Sir. Thank you so much for your time Sir. Best of luck!

Moderator: Thank you. The next question is from the line of Subrat Trivedi from SBI Life. Please go ahead.

Subrat Trivedi: Good evening Sir. Sir first question is on the increase in gross stage 3 by around ₹600 Crores if you could give a breakup of it and are you also seeing any increase in delinquencies in the retail book?

Gagan Banga: The retail book continues to be quite stable; we are not seeing any concern whatsoever. On the large loan book as I mentioned given the fact that we were having the privilege of being able to create excess provisions, we have created excess provisions. Under Ind-AS you cannot really just create general or countercyclical provision, you have to create specific provision, so we have proactively identified some assets which could have potentially gone into stress, so some exposures including smaller exposures to Zee as well as Café Coffee Day, even though the events have happened in July, we have chosen to provide for them and some other construction finance exposures we have created proactive provisions. The buffers that we have which are still in the handle of roughly ₹4,000 Crores, if we monetize any of those buffers, we will continue at least in the near future to use the same, to create extra provisions that has been and will continue to be the philosophy.

Subrat Trivedi: Yes Sir, I was asking about the breakup of the ₹600 Crores of increasing gross stage 3 they would primarily be in the wholesale?

Gagan Banga: In the wholesale.

Subrat Trivedi: Okay and any specific names they have increased any stressed assets?

Gagan Banga: As I shared some names, we have provided for the Zee group, the Cafe Coffee Day group as well as couple of other smaller construction finance loans.

Subrat Trivedi: Sure in Q4 PPT your estimating total inflows of around ₹4,700 Crores from customer advances in Q1 as against that how much has been the actual collection?

Gagan Banga: Our actual collections at an AUM level which includes the sold down book will be roughly ₹14,000 Crores, otherwise it will be in the handle of ₹11,000 Crores.

Subrat Trivedi: ₹11,000 Crores of inflows in Q1?

Gagan Banga: Yes.

Subrat Trivedi: And Sir if you could give a breakup of the on book loans ₹86,389 Crores how much of it would be retail home loans, LAP and CRE?

Gagan Banga: Those details I think are already there in the earning update, so we have created an appendix in which all of this granular information is there.

Subrat Trivedi: Sure Sir. That is all from my side.

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

Saurabh Kumar: Sir just two questions, one is the liquidity statement which you put out, just to reconfirm that is a structural liquidity right?

Gagan Banga: Yes, it is structural liquidity. It has no assumptions.

Saurabh Kumar: Okay and secondly in the Annual report there are about ₹4,000 odd Crores of stage 2 assets, so just want to know what is the color of those stage 2 assets and how much of them would be developer and of the remainder CRE book, how much core construction finance loans are left ex-LRD?

Gagan Banga: Yes, so stage 2 would be roughly 50-50 between retail loans and developer loans and the developer loans are a very small percentage of corporate loans that we have. So, it would be 50:50 between let us say the wholesale book and the retail book and on the construction finance part I can just come back to you.

Saurabh Kumar: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Kang Gwep from Tahan Capital. Please go ahead.

Kang Gwep: Good evening, Management. So my first question is regarding the Lakshmi Vilas Bank, so I understand that Indiabulls is probably going to subscribe 2 to 3 billion of subordinate debt, so is this true? And how much more funding would LVB need going forward, let us say both entities do merge?

Gagan Banga: Yes, so as far as more investments into their bonds are concerned that will be a small sum if we do of between $30 and $40 million only as we speak. There is no further investment envisaged between now and the approval, any significant further investment will only happen after we receive the in principle approval from the Reserve Bank of India.

Kang Gwep: Do you have a rough sketch how much that would be?

Gagan Banga: We will have to see at that point in time what their capital ratios look like. If the merger is to go through then the capital adequacy levels will be extremely comfortable in high teens and therefore the merged balance sheet does not require any Tier-1 kind of investment, so it will be premature for me to answer if in the interim there is any urgent kind of Tier-1 investment, which is required. If the merger is to go through between now and the end of the fiscal year, which is the budget and our plan of both the organizations then as I visualized not very significant sums of money would be required in the interim. Anyways whatever is to be incrementally invested of any size would only be subject to RBI approvals coming in; we would not be putting in more money till that time.

Kang Gwep: Yes. Thank you. My second question is about securitization, so when you securitize your loan book do you still retain a risk or is it 100% sold to the creditors?

Gagan Banga: The structure which is more prevalent is what is called direct assignment in which generally the minimum retention of risk as per the Central Bank guidelines is that the loan gets split pari passu 20% and 80%, so we hold 20%, the buying bank holds 80% on a pari passu basis. We do not give any credit enhancement or any first loss coverage. If a loan goes bad then it gets 20:80 with 20% of the risk coming to us and 80% going to the buyer. I hope I answered you.

Kang Gwep: Yes, so my last question is how much in NCD Indiabulls repurchased this year?

Gagan Banga: We would have repurchased close to about $600 million so far.

Kang Gwep: No further questions. Thank you.

Moderator: Thank you. The next question is from the line of Ishita from FIS. Please go ahead.

Ishita: Thank you for the opportunity. My question was regarding your repurchase program that you have planned, so any color on when we could expect that and the quantum regarding the buyback?

Gagan Banga: Are you referring to the dollar bond buyback?

Ishita: Yes, I think the amount in the news is up to $50 million, so just wanted to clarify?

Gagan Banga: Yes, so we have applied to RBI to enable us to buyback up to $50 million and we are also in touch with them to allow us to buyback our masala bonds, which are maturing in October, so between those two buybacks I think a lot of space would get created in the overseas market and that is the endeavour, both of those transactions are subject to RBI approval.

Ishita: Any timeline Sir?

Gagan Banga: We have applied to them. These are about the unprecedented kind of applications, so we really do not have a precedent to be guided by whether they will take a week or three weeks or two weeks, we are in touch with them and our endeavour is to reduce our negative carry, especially the masala bonds which mature in the next couple of months, it is best bought back so our negative carry reduces. It is our endeavor to be able to take that transaction through at the earliest.

Ishita: Okay, alright. Thank you.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA. Please go ahead.

Prakhar: Hi Gagan, this is Prakhar. Gagan just a couple of things one on this ₹6,000 Crores of refinancing that you would have done on the corporate book there would not have been any kind of income recognition based on the way it works for securitization right?

Gagan Banga: No, this is pure refinance or generation from internal accruals or the borrower has sold equity, it has nothing, it is a clean loan being taken off of our books, there is no haircut involved, there is no income, which comes in, there is no risk that we retained, it is a straightforward refinance of a loan, so you may have gotten you or a lot of people on this call would have gotten their home loans refinanced, so it is a very similar transaction to that, so from lender A the loan moves to lender B.

Prakhar: Got it and retail sell downs, how much would that have been during the quarter?

Gagan Banga: They would be in the handle of ₹1,500 Crores.

Prakhar: On the disbursement side that you mentioned that activity can improve from ₹7,500 to ₹10,000 Crores, what is basically driving this confidence that you can push it by 25% odd?

Gagan Banga: We have over the last couple of months started focusing on the SME space and we are seeing good traction there and we are also being able to do a lot of analytics around the GST information which is available, so I think that entire technology initiative that we took a couple of years back is helping us. We do not want to increase our risk on the home loan side especially on the under execution projects, so on home loans we will remain restricted to home loans which we have already sanctioned, which are partially disbursed we will continue to disburse those and additionally we will focus more on resale transactions. We do not do high value loans a lot, so therefore, where inventory is already ready on an unsold basis that is not really the market that we are in, there again the execution risk is minimal, but the market is just not there, so on home loans, we focus on these two pieces as well as facilitating home sales in project which are financed by us and for everything else we will be focusing on SME loans and be looking to deploy those. There again one has to be extremely careful about which industry is doing well and which industry is not, so as I mentioned at the start given the constraint and scare around a certain industry such as auto and steel, etc., keeping those aside wherever we are seeing some sort of traction in the industry we will be pursuing the SME opportunity especially on the services side, so that is the game plan and the technology part is facilitating that.

Prakhar: In absolute terms, on the commercial or the corporate book do you have a thought process on where you want to have it like in the next by the end of this year or something?

Gagan Banga: I would look at refinance of between ₹2,000 and ₹3,000 Crores so on a gross basis refinance happening between ₹2,000 to ₹3,000 Crores. We would continue to disburse whatever are the construction finance projects, which are with us, so net of that whatever is the reduction is what we will see. What we are guiding RBI with is that there would be overall gross reduction and refinance by this much and then once the merger is through and the other side of the business is growing much more rapidly, at that time we have also ascribed some percentage reductions to share those is a little premature, so for right now let us go with ₹2,000 to ₹3,000 Crores of gross refinance.

Prakhar: Got it and Palais Royale repayment will come next quarter or is it already accounted in the 1Q results?

Gagan Banga: It is already accounted and correspondingly whatever provisions release that we got we have utilized those provisions.

Prakhar: Last question incremental cost of funds during the quarter would have been?

Gagan Banga: 9.21%.

Prakhar: Thank you so much Gagan. Good luck.

Moderator: Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC AMC. Please go ahead.

Ashwin B: Thanks for taking my question. If I look at the slide in which you have disclosed the total incremental borrowings over the past nine months and compare that with the previous quarter you have borrowed about ₹9,500 Crores during this current quarter and if I look at the borrowings they have come down by about ₹7,000 Crores odd, so overall on a gross basis you would have repaid about ₹16.000 Crores right, around that number right?

Gagan Banga: This quarter, no.

Ashwin B: Because like you have also raised about ₹9,000 Crores?

Gagan Banga: We have also disbursed around ₹7,500 Crores.

Ashwin B: Okay, so how much would have been the gross repayment in this quarter?

Gagan Banga: I think it would be in the handle of ₹6,000 to ₹7,000 Crores.

Ashwin B: Okay, so pretty much in line with what you had anticipated in the ALM of the previous quarter?

Gagan Banga: So anything over and above would only be because of buying back on an accelerated basis.

Ashwin B: Okay, but on the bank loan side there would have been no further like anything apart from what is anticipated would not be there right?

Gagan Banga: The bank loan stock is anyway flat, so there is nothing there.

Ashwin B: There is an item called other financial liability on the consolidated debt that has come down by about ₹3,000 Crores, so I just wanted to understand what is that?

Gagan Banga: So generally speaking at the end of the quarter if a lot of retail disbursements have happened where the cheques have not yet cleared you have to create a provision for that because those cheques on the retail side may take like 6- 7- 8 days, 10 days I think our policy is that we wait for 10 days and then cancel those, so those come in this line item. The overall disbursement is muted or is not back ended towards the end of the quarter then that number would generally be lower.

Ashwin B: Okay got it and in terms of yields what would be like in the past three, four months like how would it have moved like various segments?

Gagan Banga: So on an incremental basis, home loans lended for ticket sizes, salaried and self-employed, would be between 9.5% and 9.75%, LAP loans will be in the handle of 13%, and developer loans we are not really looking at doing anything much incrementally, but that would be broadly the numbers.

Ashwin B: How much would like on the book basis like would you have increased or decreased?

Gagan Banga: This quarter there has been no increase or decrease.

Ashwin B: Okay. Thank you.

Gagan Banga: Thank you so much and as I had mentioned earlier we continue to remain focused on the bank merger, we also have our priorities extremely clear. I think these are testing times and we have to manage risk firstly and then worry about everything else, but I am quite confident that come to second half of the year and for the full year we should be as a housing finance company be able to get to about mid teen kind of growth of our book and the overall credit quality is also going to remain stable, so on this note I would like to thank you all and look forward to speaking with you guys soon.

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