"Indiabulls Housing Finance Q2 FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Q2 FY2017 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you Sir!

Ishank Kumar: Good evening everyone and thank you for joining us today. I welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga, Vice Chairman and Managing Director, Mr. Ashwini Hooda, Deputy Managing Director, Mr. Sachin Chaudhary, Executive Director, Mr. Mukesh Garg, Chief Financial Officer, Mr. Pinank Shah, Head, Treasury and Mr. Ramnath Shenoy, Executive Vice President Investor Relation. I now invite Mr. Banga to provide key highlights of results. Over to you Sir!

Gagan Banga: Thank you. A very good day to all of you and I welcome you to the Q2 and first half financial year 2016-2017 earnings call. To start of I am extremely proud to tell you that both qualitatively and quantitatively this has been the best quarter in our operating history. At the end of the quarter we are in a position to re-emphasize our focus on the affordable housing opportunity.

The opportunity is scaleable and will build a sustainable and profitable business for us much in line with what we have created over the last 28 quarters. The objective for us and so to say our mission 2020 is to have housing loans form two-thirds of our loan assets from the current approximately 54%, we will do this by expanding into the new cities, we are launching today a new product called smart city home loans and we would also be expanding the breadth of our existing home loan offering where we are increasing our average ticket size expectation from the current Rs.25 lakhs to Rs.28 lakhs and increasing our focus area from Rs.20 to Rs.40 lakhs to Rs.20 to Rs.50 lakhs.

Despite the increase in the share of prime mass market home loans our spreads would be sustained by a well diversified and optimized liability franchise. Our return on assets will continue to remain supported by a falling cost to income ratio and lower credit cost and I will delve into specific numbers on these two parameters shortly.

Our return to equity will again be supported by home loans, which are a capital efficient structure and is also extremely scaleable. This capital will be stretched out further and would be frugally utilized. Our growth is driven by our core home loan business and I am very pleased to announce that we are expanding our home loan range to smart city home loans. This product is for the emerging smart cities and is 100-city roll out opportunity. We will do under this product home loans are between 10 and 40 lakhs in the emerging smart cities. We have already expanded and reorganized our mortgage team and are capacitized for this business after having tested this for the last three years. This product should start contributing to approximately 15% of our home loans business in the next 12 months. This is clearly a very large new opportunity that we are starting to tap.

In the locations that we are already present we will target a wider ticket size range than we have done in the past while in the past we were mainly looking at home loans of between Rs.20 and Rs.30 lakh, we will now target two ticket sizes this will go up to Rs.50 lakh. This will address a larger portion of the prime mass-market affordable loans. We are fully geared up and with expanding home loan we should cross Rs.1 Lakh Crore of balance sheet size that is one trillion of balance sheet size within the current financial year. In increasing the proportion of housing loans within the total loan our spreads would be sustained. In fact as we have gone about conducting ourselves in this manner we have since January of 2016 been able to expand our spreads by 4 basis points despite a significantly larger share of housing loans.

The reason for this is coming from the continuing efficiency that we get on the liability side. Our big success for this quarter and half year was the liability side of the balance sheet in which for the half year ending we have raised Rs.195 billion of bonds, which was greater than Rs.173 billion of bonds raised in the combined period of fiscal 2015 and 2016. We through the course of the quarter raised Rs.13 billion from rupee denominated masala bonds and Rs.70 billion through a public issue of bonds, both of which have truly broad based and diversified our funding mix and given us access to an investor community, which otherwise we were not being able to access. We were also only the third Indian company to be able to issue masala bonds out of India and second in the NBFC HFC space, both the masala and the bonds listed under the public issue window are trading extremely well in the secondary market and that leaves us very optimistic that we should be able to come back with both instruments within the current fiscal year obviously market conditions liquidity and interest rates permitting.

As a consequence of the large bond issuance for the first time in our operating history term loans form less than 40% of our funding mix. Some of you may recollect this was set as a business goal to be achieved by end of financial year 2018, so we have been able to prepone our business goal and a very significant business goal by about 1.5 years. Term loans as we speak are between 80 and 100 basis points more expensive than bonds. Acceleration in our bond issuances has ensured a drop in our cost of funds such that margin expanded despite an increasing share of housing loans in our books.

Over a period of time as the bond franchise has evolved it is now both diversified and sustainable. With the masala bond piece we have been able to tie a tap into the vast international investor class and the public issue of bonds has given us access to individuals in the Indian scenario close to about 30% of the issue was subscribed to by individuals hence both of these first time issuances have opened up avenues to a near endless source of capital in the form of both international investors as well as the individuals within our country. Another key enabler to our housing loan expansion and foray into the new cities with smart city home loans is our e-home loan platform, which was launched last quarter. Within three months of launch 11% of our home loan sourcing is now from e-home loans. E-home loans along with the app-enabled process functionality on handled for our sales, credit, technical and legal work force forms a seamless end-to-end credit appraisal and loan fulfilment platform. This is enabling us to expand into new cities with a technology levered lean branch model and bringing in true efficiencies of scale leading to a steady decline in processing cost for file and subsequently decline in our cost to income ratio, so while we role out this 100 branch product we will continue to see a decline in our cost to income ratio because we are taking a lot of our processes digital and online. E-home loans also vastly increases customer convenience and application form can be filled and submitted in under 30 minutes today and in our next version we will be bringing that down to 5 to 7 minutes and that next version should be launched within the next four months.

Vital information is also gathered directly from sourced databases and automatically populated in the credit decisioning workflow. Customer ID and address verification is done directly from the Government of India’s UIDAI Unique Identification Authority of India database through a tie up with them. Tax filing, salary and income information is pulled from the tax database through a tie up with NSDL. Bank statements are directly accessed from customer bank through an application. Thus the scope of fake information or fraudulent documents getting submitted and processed is greatly reduced. The whole process also reduces human and data entry errors and other operational risks. The credit team is also able to focus on appraisal and underwriting and spend less time on time-consuming data entry.

Spreads will remain stable on the back of accelerating fall in cost of our debt despite an increasing home loan book. The ROA will be supported with operating expenses further moderating both as a result of technology, which I had explained a short while back, the rising scale of productivity and because housing underwriting is inherently less cost intensive as compared to other products such as LAP. We expect cost to income ratios to drop down to 12% levels by financial year 2018 and get to the 10% handle by financial year 2020.

Another big boost to our return on asset will come from declining credit cost across various classes of lenders housing loans have the lowest NPA levels and that will play out in our credit cost. Standard asset provisions are at 40 basis points are also significantly lower than other loan types. Housing loans are also extremely capital efficient with a risk weight of only 35%. The capital utilization is most frugal when compared to other loan types, which have a 100% risk weight. We are also the largest seller of mortgage loans and pools of sub Rs.28 lakhs housing loans are most in demand, which is our area of focus.

Given our emphasis on housing loans and given the success that we have achieved in building our retail franchise, it gives me immense pleasure to announce that Sachin Chaudhary who has set up this business for us over the course of the last 11 years is being elevated to a board position. The Board of Directors today approved his appointment. This will be subject to regulatory and shareholder approval. Sachin is both a friend and a valued colleague and has been the driving force behind Indiabulls Housing Finances retail lending journey. Sachin leads a very stable team of retail mortgage business leaders most of who have been with Indiabulls since we began retail mortgage lending 11 years ago. He has complete operational responsibility for the retail mortgage P&L and his elevation to the board reemphasizes our focus on housing loans. All in all we are fully geared up for and with expanding home loan book to cross Rs.1 lakh Crore within the current financial year and that is an important milestone that we hope to achieve very, very shortly.

Now moving onto specific numbers we continue to remain on our guided target of profits with PAT of the first half at 13.14 billion up from 10.67 billion in the first half of the last fiscal, which is a growth of 23.2%. For Q2 our PAT is 6.84 billion growth again a little over 23% from 5.56 billion. We are pleased to announce that we have declared a second interim dividend for shareholders of Rs.9 per share in line with a dividend payout policy. Our loan book at the end of the first half stood at 753 billion as compared to 582 billion at the end of the first half of fiscal 2016, which is a growth of nearly 30%.

We carried a cash of 205.92 billion in the form of cash and cash equivalents and investments in liquid instruments. Our liquidity levels have been elevated through the quarter due to macro and global concerns at the start of the quarter followed by large private masala and public issuances towards the second half of the quarter. This higher cash balance is reflected in the other income line, which is higher by about Rs.140 Crores compared with the last quarter. This goes along with interest expenses to some extent. The actual net gain has been used to increase provisions resultantly net credit cost is higher by about Rs.20 Crores from sequential previous quarter and Rs.30 Crores from the quarter the year before. We have set aside on the basis of treasury gains and additional Rs.30 Crores of excess provisions, which will come in handy in due course of time and go towards our objective of building up an extra provision pool. We have also crossed for the first time 150% coverage on our gross NPAs and we will continue to invest in our excess provision pool till the time that it reaches roughly Rs.600 Crores as we speak it stands at about Rs.330 Crores.

Our asset mix at the end of half-year splits broadly into 54% home loans, 24% LAP and 22% of corporate mortgage loans. Our housing loan book has inched up to form 54% up from 49% at the end of Q2 fiscal 2016. We are poised to make the most of the growth opportunities in the housing sector and will grow faster than the market as our market share expands from the present 5% to 6%. Resultantly the composition of housing loans within the total loan asset book will continue to inch up as guided by the end of fiscal 20 will get to 66% of our loan assets. This is up from our earlier guidance of 60% and a result of sooner than expected shift in funding mix towards bonds.

Our topline has registered a healthy growth with revenue of 54.72 billion, a growth of 28% over corresponding period last year. For Q2 the revenue stood at 28.75 billion up from 22.46 billion in Q2 last year. NII have expanded in line to 21.46 billion a growth of approximately 26% over the first half. NII in our case does not include fee and other charges. The NII for Q2 stands at 10.93 billion, which is a growth of roughly 24%. Total income for the first half splits has income from operations of Rs.46.56 billion, other operating income of 2.26 billion and other income of 5.91 billion. Fee income is 2.71 billion for the first half as against 2.04 billion in the first half last year. Fee income for the current quarter stands at 1.42 billion as against 1.24 billion in Q2 of fiscal 2016 in line with the increase in our disbursements and enhanced insurance penetration.

In the first half we have disbursed a total of 119.55 billion, a growth of 11.2% over first half last year. Our first half disbursement split has 68.95 billion for home loans, 28.6 billion for LAP and 22 billion for corporate mortgage loans. Disbursals for Q2 stand at 67.04 billion again 61.93 billion in Q2 fiscal 2016 and 52 billion in Q1 fiscal 2017. This split, which is the 67.04 billion of Q2 splits, has 41.91 billion for home loans, Rs.16 billion for LAP and Rs.8.86 billion for corporate mortgage loans.

Our NPAs have been extremely steady for over 20 quarters now and have remained within the guided range of 70 to 90 basis points for gross NPAs and 50 basis points for net NPAs. We continue to remain within this target range. Our gross NPAs are 83 basis points and net NPAs are 34 basis points. In computing net NPA only provisions against our standard assets is deducted from the gross NPA. Standard asset provisions and counter cyclical provisions amounting to Rs.5.85 billion are not deducted while computing net NPAs.

We continue to be prudent in our provisioning approach as mentioned a short while back our provisioning is now 153% of gross NPAs. Total excess provisions over regulatory requirements have increased to 3.36 billion as compared to Rs.2.99 billion and are headed in the direction of Rs.6 billion in due course of time.

Treasury gains have been used to create 30 Crores of additional provisions this quarter. Our credit costs for the quarter are 1.45 billion, which is roughly 72 basis as compared to 74 basis points for the whole of fiscal 2016. If we had not made this 30 Crores provision we would have been at roughly 60 basis points of credit cost down from 74 basis points for the previous year.

At the end of Q2 fiscal 2017 total substandard asset provisions were 3.7 billion, floating provisions were 0.75 billion and standard provisions were Rs.5.09 billion totaling to Rs.9.54 billion of total provisions.

Our net leverage after deducting from total borrowings, the above cash, cash equivalents and investments in mutual fund stood at 4.8x. On the borrowing side, bank borrowings for the first time as mentioned now forms sub 40% of our funding mix down from 49% in March 2016. This we have been able to bring down our bank borrowings for nearly 10% in half a year.

Capital market sources along with ECB and sell downs have contributed to 83% of incremental funding in the last 12 months. If we look over the last six months, our stock of bank borrowings is actually down and this is in a scenario where we are also growing at a rate of almost 30% annualized. So not only are we financing growth from the ventures and securities, sell downs and ECBs. We are actually being able to shrink in parallel our bank borrowing stock. As I shared earlier we save 80 to 100 basis points every time we do not borrow from bank.

Our spread for Q2 fiscal 2017 has expanded to 320 basis points on book basis and 316 basis on incremental basis. Cost of fund is now just over 9% on book basis. On an incremental basis it is at 8.4% for Q2. These are monthly rates. Borrowing flexibility has ensured spreads will sustain within the guided range. The zero coupon stock is down to Rs.9.75 billion and is now less than half of what it used to be 12 to 15 months ago. At the end of Q2 fiscal 2016 it used to be almost Rs.19 billion. Zero coupon borrowings now comprise only 1.3% of our total borrowings versus 3.5% for the same period last year.

Moving on to balance sheet numbers our networth at the end of Q2 was 114.75 billion up from 103.67 billion at the end of Q2 fiscal 2016 and 113.6 billion at the end of Q1. Capital adequacy adjusted for investment in mutual fund stood at 23.32%. We continue to sell down. Sell down continuous to remain a key focus area and it has been an extremely important means of capital conservation and a source of both profitability and liquidity. In the first half of fiscal 2017 we sold a total of 23.58 billion compared to 20.82 billion last year. For the preceding 12 months, we have sold a total of 47 billion up from Rs.42 billion and we have arranged for close to about 27% of our incremental book growth through this mean.

We will continue to get between 25% and 30% of our incremental book growth funded through sell downs. In terms of the overall environment for housing finance companies and this is something I have been emphasizing for the last two quarters, almost every other day the government does something or other to make the environment more favorable to all of us. The government has a focus and a mission of housing for all and has resulted in all financial regulators getting promoted to increase flow of funds to housing finance companies.

We have discussed in the past the SEBI has increased the mutual fund investment limits and that has resulted in a lot of flow coming into corporate bonds of housing finance companies as the limits were increased from 5% to 10% over and above the 25% sectoral cap. This was followed by IRDA also increasing investment cap of insurance companies for the housing finance sector. An aggregate of 15% of the investible corpus could be invested in housing finance companies or infrastructure securities as against the earlier requirement of only 5% in housing finance companies and 10% in infrastructure companies.

Now investment in AAA rated bonds is exempted from sectoral cap of 25%. So they can go significantly higher and last night RBI has also reduced risk weights on bank lending to AAA HFCs from 100% to 20%. So all in all, all financial regulators RBI, SEBI, and IRDA over the last three to four months have acted and have ensured that there is more fund flow happening to the housing finance companies.

Such regulatory changes and initiatives by the government is not only a recognition of the vital role played by housing finance companies in the housing finance industry but will also result in the housing finance companies market share growing beyond 40%.

In conclusion I would like to reiterate our objective of growing housing loan from two-third of our loan assets by 2020. We are excited for this opportunity and are capacitized and operationally fully ready. I also wish to reemphasize on our growth guidance of between 20% and 25% across all financial parameters and on that very positive note, I conclude the result announcement and throw open the call to questions. Thank you so much.

Moderator: Thank you. Ladies and gentlemen we will begin with the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Congratulations for good set of numbers. Sir, firstly with respect to the cash and liquid investments proportion which has gone up I think our last date would be on account of the bond raising which you would have done. So last time, we mentioned it is largely because of the uncertainly on Brexit and we would want to normalize it henceforth. So what level, so how much may be we will be utilizing it over the period and where do we see this settling on the normalized basis?

Gagan Banga: We will continue to abide by our principle of 20% of our loan book in the form of cash. Right now it is running significantly higher. By the end of this quarter, I expect this to normalize at around 20% of our loan book in the form of cash and cash equivalence. In the meantime, I have also been mentioning on these calls that while we communicate to stakeholders for the sake of simplicity that it is 20% we have a liquidity policy which deep dives into our 30, 60, 90, 120 and 180 day fund requirement and we keep buffers around that, which continues to be around that 20% mark in terms of an end result. So from an end of quarter expectation we should be roughly at about 80000 to 85000 Crores of loan assets by the end of this quarter. So our cash and cash equivalent should be in the range of 16000 to 17000 Crores. As we speak it is at about 20000 Crores.

Kunal Shah: So that should provide some kind of margin benefit as well?

Gagan Banga: It should provide some sort of margin benefit all of which has been computed to be used to grow our home loan book so we are not guiding you for higher margins our guided range of margins continues to be 300 to 325 basis points. We have been able to inch it up from 316 to 320 basis points we should remain in this ballpark of 318 to 320 basis points any additional spread that we get we will use to grow our home loan book that much higher.

Kunal Shah: The other one with respect to the other income so I do not know if you have shared with it but what has been leading to such a kind of a jump and what would be the breakup of this other income in terms of the income?

Gagan Banga: The other income is a consequence of the higher cash balance that we have roughly through the quarter we have maintained a cash balance of almost 18000 Crores and the yield on that is just under 7.4%. We have also had some treasury gains which I had mentioned that we are use to create since treasury gains or most parts of treasury gains are more onetime in nature as we have committed to shareholders we continue to use all onetime gains to create more provision so we have done that.

Kunal Shah: It would be around 30 odd Crores when we assume it to be 30 odd Crores or may be higher.

Gagan Banga: Treasury gains was approximately 45 Crores of which 30 Crores was more onetime in nature which has been used and so it is roughly 7.4% on approximately 18000 Crores of cash.

Kunal Shah: Largely when we look at the differential between the standalone and the consolidated one so normally the differential last year last full year has been done about 40, 45 odd Crores in first quarter it was 8, 9 Crores in this quarter that differential is almost like 40 odd Crores so what is the reason for that between the standalone and the consolidated?

Gagan Banga: IndiaBulls Commercial Credit went through a merger with IndiaBulls Finance Company Private Limited last year so now on a consolidated basis it is a slightly larger entity and would therefore have a slightly higher percentage of the overall book. We have also started to grow since we have close to a 1000 Crores of capital in that and along with the budget government had announced that nonbank finance companies would be SARFAESI notified about two months ago they eventually notified 100 odd entities of which IndiaBulls Commercial Credit also forms part of that list so it is also now SARFAESI notified so we are building a small portion of our loans against property portfolio in that business to be able to efficiently utilize the capital that we have already put into that business, so now that book would also continue to grow roughly at about the same pace at the overall IndiaBulls Housing Finance book will grow.

Kunal Shah: You mentioned how much would be the capital cost, how much is the capital in that?

Gagan Banga: Roughly 1000 Crores.

Kunal Shah: So far this particular quarter we would have done most like 40 odd Crores on that?

Gagan Banga: I can come back to you on the specifics but I am sure those numbers ICCL issues bonds with standalone numbers, anyways reported as exchange I will come back to you shortly on the standalone numbers of it.

Kunal Shah: Sir maybe in terms of the differential between the standalone and the consolidated this would pretty much continue now what we have seen as a trend in Q2 it will be very much there going forward as well because we are building up this book?

Gagan Banga: Yes.

Kunal Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vikram Agarwal from Jupiter Asset Management. Please go ahead.

Vikram Agarwal: My question is regarding the corporate mortgage part of your loan portfolio earlier can you please give us more detail as to the NPA ratio within the corporate mortgage part of the portfolio and also what is the average LTV is here?

Ashwini Hooda: This is Ashwini. Overall corporate mortgage breaks into two products one is the loan form of CMBS which is secured by lease rents and the commercial building is mortgaged to us that product forms almost 55% of the corporate book and is the least risk asset class. The second asset that we do in that business is residential construction finance so these are multi-apartment buildings. Again the risk weight by RBI is 75% lower than 100% and is considered within that developer book safer product. The LTV for a lease rent receivable securitization or LRD as we call it in India is around 40% to 45% and in the residential construction finance the LTVs would be between 20% and 35% on average around 28%, 29% the delinquency in the corporate book would be 1.8% as we speak.

Vikram Agarwal: What is the level of provisioning for the corporate mortgage book?

Ashwini Hooda: This would be provided to the tune of approximately almost 70% in terms of specific provisions and plus the overall excess provision pool that we have is good for any segment of the balance sheet including corporate mortgage.

Vikram Agarwal: Also in terms of your loans which is sell down and securitized you provide a breakdown of the surveillance to which banks decided to or the deals which have done?

Ashwini Hooda: We have a very detailed presentation on our website which gives you a flavor of where we sell down our loans against property so there is a breakdown there of bank wise details. We also the same information is also available on a bank wise details on the website of credit rating agencies if you will the banks are pretty much within counterparties for both home loans and loans against property so the laundry list would remain pretty much the same. As a general practice our priority sector loans are generally sold to private and foreign banks more private banks now than foreign banks and the regular retail loans which are sold down either as a direct assignment of pass-through certificate are more sold down to public sector banks.

Vikram Agarwal: In terms of percentage, what is the break down between LAP and home loans we are selling down every year?

Ashwini Kumar: It would be roughly 65, 35, 65% home loans and 35% loans against property.

Vikram Agarwal: Can you give an update as to the tax investigation into the IndiaBulls parent company and the headlines about in July have this case being closed for an update?

Gagan Banga: There is no parent company of IndiaBulls Housing and the other two listed entities which is IndiaBulls real estate and IndiaBulls ventures are parallel to each other so they are independently listed company with no equity cross holding or and no holdco either. IndiaBulls group as I had shared in the previous call so the overall tax mans visit was so to say on the entire IndiaBulls group. The emphasis of the tax investigation was on IndiaBulls Real Estate as has been the practice in India that all real estate companies one-by-one over the last 24 months and that practice has continued and companies are getting visited. IndiaBulls Housing Finance was not the emphasis area for the tax investigations and we continue to remain unaffected by the whole process and we also as we had formally stated last time we do not expect any liability whatsoever to arise out of this tax investigation on IndiaBulls House.

Vikram Agarwal: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Dinesh Shukla from Crisil. Please go ahead.

Dinesh Shukla: In the call it was told that risk rates for housing finance companies have come down from 100% to 20% so is it for banks lending to housing finance companies or on housing loans?

Gagan Banga: Till day before yesterday if a bank would lend to a housing finance company irrespective of its credit rating it would be a 100% risk rate from yesterday what RBI is saying is that the risk rate would be applicable on the basis of what the credit rating is much in line with the differentiation that it has for asset finance companies and infrastructure finance companies so it has carved out a special differentiation in the NBFC-HFC regime for housing finance companies. AAA rated housing finance companies thus will now attract a 20% risk rate as against the earlier 100% risk rate.

Dinesh Shukla: Sir other question was on the masala bonds. Now I agree the pricing would be lower than the bank borrowings but how does it comparing with the domestic bond borrowing?

Gagan Banga: The additional payout would be to the extent of the withholding tax as several newspaper reports suggest the government is actively considering removal of the withholding tax of 5% so to the extent of the withholding tax, there is a 40 basis points markup it still continuous to be around 40 to 60 basis points cheaper than a bank borrowing and roughly 40 basis points more expensive than domestic bond issuance this is for the first issue as the market develops just because it is a larger pool of capital and that larger pool of capital on the basis of my experience and if you will speak with the merchant bankers they will in all likelihood confirm that the international pool of capital is willing to except in a format in which they are taking currency risk only very, very specific credits which is why you have seen a lot of companies go out there and make announcements so it is only HDFC and us who has been able to successfully do market issuances so my sense is that as this market absorbs more of our paper the pricing will get tighter and some part of the withholding tax would actually get absorbed in the tighter pricing so while we issued in our first issuance at par with our domestic curve in our next issue I am hopeful of being able to try say tighter to the tune of 10 to 15 basis points thus the excess flow will get restricted now to 25 basis points.

Dinesh Shukla: That was helpful. Thank you Sir.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Congrats on the good set of numbers. Just a few data points can you please repeat the breakdown of the income from operations line?

Gagan Banga: I said the total income for the first half splits as an income from operations are 46.56 billion other operating income of 2.26 billion and other income of 5.91 billion fee income in the first half was 2.71 billion which was 2.04 billion in the first half of previous year. Fee income was 1.42 billion in this quarter as compared to 1.24 billion in quarter two of fiscal 2016. Is there any other number that you want?

Sameer Bhise: Yes that is good enough the income from the loans line includes the income that you would have received on deposit accounts and bonds?

Gagan Banga: Bonds would come in the other income line.

Sameer Bhise: Thank you. So it just includes the loans and the sell down that we do?

Gagan Banga: That is correct.

Sameer Bhise: Thank you.

Moderator: Thank you. We will take the next question from the line of Sneha Ganatra from Shubkam Ventures. Please go ahead.

Sneha Ganatra: Sir what is the status of the Palais Royale. First question is on what is the status of the Palais Royale. Second question is on the rating agency any changes are expecting and third is on the LAP book could you just elaborate further?

Gagan Banga: On Palais Royale as was also mentioned in the media court had referred the case back to the BMC commissioner. The BMC commissioner has already filed his report with the court which does away with any fear of demolition and there is an impact of roughly 80000 square feet which is well below our calculation and which will leave with spread which will be well north of 1000 Crores after repayment of our loan and other liabilities. The court has already been seized of this matter. As we speak the developer and the BMC are engaged in the approval of the revised plans and it is expected the revised plans will be approved in the next 30 days subsequent to which the builder will go ahead and process for an occupancy certificate which is expected in six months after that so that loan is sort of sorted and the moment we get this occupancy certificate he can start demanding for over 1200, 1300 Crores of receivables that he has from already sold down apartments. As for credit rating agencies are concerned we have been engaged with them in the past I think the overall financial system in India is now a lot more steadier than what it was during our last engagement. Our size has also increased and our performance across all counts has been very steady so we can reengage with the rating agencies and after the engagement, I continue to remain optimistic of positive result and LAP for us continuous to be a steady product unlike some of our peers we have not gone ahead and increased our average ticket size. We have not also increased our loan to values. We continue to remain the only player of size in the industry who is going ahead and getting a concurrent review of all incremental files as we disburse. As a consequence of the concurrent review, today we have approximately 75% of our LAP book under review for either the purpose of the LAP grading exercise initiated by us or for the purpose of review under the portfolio sell down, a pool process which is under review of one or the other rating agency which is also publishing this data. A large part of that data we are reproducing in our earning update which is up on our website and on Bloomberg and is also we are also reproducing the same data in a very detailed presentation on LAP, which also gives you trends around repayment, loan to values principle amortization etc., so all-in-all LAP continues to be an extremely study product and I think a lot of the concerns which keep coming out from time-to-time are very holistically addressed in our LAP presentation that a lot of those concerns are not really reflected in our portfolio. What is good to note is that the authors of some of those reports are also taking a conscious call on differentiating the IndiaBulls portfolio and the IndiaBulls strategy to a large number of other players in the industry. At a big picture level while a lot of my peers are emphasizing more and more on non-housing we are using this entire window of opportunity created out of the liability side to move more and more into housing so the core housing expansion is our core strategy which has been highlighted in great detail in the earning update this time and I would strongly urge all of you to please read through those two, three slides where we explained how we are going to continue to go behind emphasizing the core housing product that is also been bought out in the recent reports. The other is that very few of the existing players have scale in the market are doing cash flow base lending. A lot of players are doing asset based lending is especially the players who have joined the LAP band whether in off late. We continue to do cash flow base lending we get the two rating agencies to talk about those cash flow criteria which we appraise and details are same 99% of our loans are in the good to high quality grade which also clearly indicates the EBITDA margins etc., that we lend to and the underlying businesses quality so LAP for us will continue to remain a product which gives us a lot of competitive advantage we would continue to remain focused on it but as a bigger picture strategy we will focus and emphasized on the housing loan product even harder.

Sneha Ganatra: I just wanted to reconfirm what is your target you mentioned by of housing loan by 2020.

Gagan Banga: 66% of our books would be home loan by 2020.

Sneha Ganatra: Second question is what is the provision we are having on the Palais Royale currently?

Gagan Banga: We have close to about 65% to 70% of the loan provided.

Sneha Ganatra: Any changes in the dividend policy expected?

Gagan Banga: Till the time that we do not reach 50% of payout, we continue with Rs.9 per share per quarter I expect that by the end of this year our EPS will go beyond Rs.72 and therefore from next year onwards 50% of profit is the applicable dividend payout policy and which is the more long-term dividend payout policy.

Sneha Ganatra: The borrowing mix currently it would remain in the same manner as of now what is that prevailing in the Q2 numbers?

Gagan Banga: It would continue to trend down in terms of bank term loans and by 2020 it will be consist 20% of term loans we will have an intermediate goal of 30% of term loans by 2018 and as we speak we are now at 39% so between now and 18 we move 39% to 30% and between 2018 and 2020 we move 30% to 20%.

Sneha Ganatra: Thanks for the clarification.

Moderator: Thank you. The next question is from the line of Chinmaya Garg from Dron Capital. Please go ahead.

Pathik Gandotra: This is Pathik Gandotra. My question is about the disbursement growth. It is only 11% so are you concern and also which segment as a disbursement growth slowed down?

Gagan Banga: Disbursement is not slowing. There is an overall book growth target that one has to go by so our book is growing by roughly 30% which I think is a reasonably strong number and given our emphasis on continuing to finance ourselves efficiently we are growing reasonably strongly. You have to also appreciate that within this overall disbursement growth what we are deemphasizing on is the corporate mortgage loan book and emphasizing more on the housing loan book so what you see as a 11% growth is actually a resultant number of a deemphasize on corporate mortgages and an emphasis on overall mortgages on housing loans. The housing loan longevity is much longer so you have an average holding time of between six and seven years as against a corporate mortgage loan generally maturing between two to three years so all-in-all we do not really have to focus very hard on increasing our disbursement numbers and since we do not have to do that it will result in great efficiencies coming on the cost to income ratio as the length of our book continues to move towards between six to seven years as more and more home loans file up on the book our disbursement growth will continue to remain in this 10%, 11% range only so I am actually quite pleased with this transition.

Pathik Gandotra: So but then this is what we continue to happen because as I hear you saying that you are going to continue deemphasize corporate loan growth and the housing proportion will increase right?

Gagan Banga: Yes.

Pathik Gandotra: Will the average ticket size fall from here on?

Gagan Banga: So the average ticket size would be in the ballpark of this because we will have at one level on our existing product average ticket size growing from Rs.25 to Rs.28 lakh in the same time we have launched a new product where we expect the average ticket size to be 15 lakhs but that product would come up to 15% of our home loans in the next 12 months. As a net of both of these my sense is that our average ticket size would remain in this Rs.25, Rs.26 lakh range.

Pathik Gandotra: What about your capital raising with then when will you need capital again?

Gagan Banga: I have emphasized it through the course of my speech as well as in the earning updates that the one thing that we are focusing extremely hard on is capital efficiency and as we emphasize more on housing loans the efficiency only increases on two fronts one is that you can securitize so much more of housing loans. We are already up to 27% of our incremental financing coming in the form of securitization and the risk weights also reduced and at some point in time we will be in a position my sense is three to four years we will be in a position to start focusing on the capital adequacy number as against the net gearing number. As that transition happens my sense is we do not need capital at least for the next five to seven years. When we are getting close to the targets and the feelings that we have set for ourselves we will see in terms of a more defined guidance but at least for the next five odd years we do not need capital.

Pathik Gandotra: Thank you.

Moderator: Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Can you share the breakup of disbursements into home loans, LAP and other corporate loans?

Gagan Banga: This quarter we have disbursed in total 6700 Crores of which home loans is 4200 Crores LAP is 1600 Crores and corporate loans is about 900 Crores.

Nishchint Chawathe: For the first-half?

Gagan Banga: In the previous quarter we had done about 3000 Crores of home loans, 1400 Crores of LAP and 1800 Crores of corporate mortgage loans. In total we have done around just under 7000 Crores of home loans 2800 Crores of LAP and around 2200 Crores of corporate mortgages.

Nishchint Chawathe: Just to double check currently the share of LAP is 23% right?

Gagan Banga: It is 24%.

Nishchint Chawathe: One final question for LAP customers is there any prepayment penalty?

Gagan Banga: Yes there is a prepayment penalty which goes as high as 5% on an average on a prepayment we are able to realize between 2% and 3%.

Nishchint Chawathe: Just one last final question what proportion of LAP customers would be individuals and what proportion could be corporate as a company?

Gagan Banga: All the LAP loan agreements to would have in the co-borrower status the business of the small business owner and the business owner in his personal capacity and in all probability he would also have a female member of the family as a co-borrower. So we will take the mortgager who will be the owner of the property. We will take the owner of the small business most in all likelihood they would be the same people and we would also take the small business. So we are trying to capture the cash flow of the small business. We also get the property which is a self occupied residential property of the small business owner mortgaged against the loan. We are essentially saying that the repayment comes out of the so to say salary of the small business owner which he would have taken in the normal course. He is going to be repaying us but we want his debt equity to be kind of trapped in the business and thus we appraise the cash flow and to the extent that he would have been able to take out that money he is in a position to service the loan. The loan is not only a mortgage backed loan, it is also a personal loan so in case God forbid we ever get into a situation where the property is not covering our loan he is personally liable.

Nishchint Chawathe: Perfect, that answers my question. Thank you very much and all the best.

Moderator: Thank you. We will take the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Thank you for taking my question. Congratulations on a good set of numbers. My question was can you give me the yield breakup between various products?

Gagan Banga: The yield breakup between various products our home loan book is getting us 10.2%, LAP is getting us 13.8%, commercial vehicles is getting us 15.5% so that is the book so the portfolio is about 12.2%.

Sarvesh Gupta: How does it compare Q-o-Q?

Gagan Banga: On an incremental basis we get home loans at 9.84%, LAP at 12.4% and corporate mortgage loans at 13.5%.

Sarvesh Gupta: Sir there is a lot of talk in the market regarding compression in the LAP yield so are you facing compression in the LAP spread as of now?

Gagan Banga: lap yields has gone down much in line with our overall interest rates in the market has gone down so unlike home loans where banks have chosen not to reduce base rates and therefore home loan rates have been reasonably sticky whatever is the reduction in bond yields if you look at bond yields, bond yields are down roughly 100 basis points so that is the kind of reduction in the headline interest rates of LAP, which we can very comfortably afford. While LAP yields are down, yet on a relative basis is that our cost of debt has reduced more.

Sarvesh Gupta: Sir on your LAP book have you what has been the experience in terms of properties that you have taken position of because of delinquency and problems in payment in those cases what has been the realization experience in terms of selling the properties?

Gagan Banga: Firstly in India, if you doing a self-occupied residential property product, you will very rarely have to exercise that option of the small percentage of borrowers on whom we have to initiate the SARFAESI process over 70% of those would anyways repay us within the initial 60 day notice period then there is another 60 to 90 day process where we have take symbolic possession and regular possession and then we take out an ad for auction so while by the time that we get to an auction it is nearly a small percentage in a 5%, 7% of the cases where we had originally started SARFAESI, I would say that if for every 30, 40 loans that we get there three four of them would be extremely litigant and would drag us through DRT, DRAT, High Court, Supreme Court. The rest would not do so it is also reasonably expensive to go through this entire litigation process. So all in all I would say that in terms of impact of SARFAESI, it is a very reasonably powerful tool and on loss given default is like insignificant in this product so it continues to be a product in which if you do repossess, it is reasonably comfortable to get back your money but as management, the one thing which has kept us going and kept our NPA position in check is because we as a team strongly believe that asset base lending as a concept is extremely poor and especially in a country like India it should not get exercised so our emphasis continues to be on cash flow base lending if you do cash flow base lending and you do look at lead indicators on portfolio quality such as harmony repayment instruments or bouncing in a particular month and early bucket resolution you do not really have to do a lot of work around SARFAESI. So as a company and team we would much rather think about what is the effectiveness that we have of our cash flow appraisal rather than worry about whether we are going to lose money if we have to repossess.

Sarvesh Gupta: Sir, are you suggesting that 100% of your collateral for LAP loans is in the nature of self occupied residential property?

Gagan Banga: Close to about 98%.

Sarvesh Gupta: So given your LAP ticket size being around Rs.70 lakh so these are on an average 1.5 Crores plus self occupied.

Gagan Banga: 1.5 to 2 Crores type of home.

Sarvesh Gupta: Self occupied residential property?

Gagan Banga: Yes.

Sarvesh Gupta: Thanks a lot Sir.

Moderator: Thank you. We will take the next question from the line of Kaushal Jaitliya from Karvy Stock Broking. Please go ahead.

Kaushal Jaitliya: Thank you for the opportunity. Congratulations on good set of numbers. Just I would like to understand on the yields and spreads now like the expected decrease in interest rate scenario how do we see our yields and spreads moving like from 12.52% of yield in March 2015 now it has come down to 12.25% as on September again and yields are in through actual it is from 3.18% to 3.2% so how do we see this going forward at what level of spread we would be very much comfortable?

Gagan Banga: We are guided for spreads to be maintained at between 300 and 325 basis points. We are reemphasizing on our guidance that we currently are in the range of 320 basis points, which is up from 316 basis points six months ago and while we continue to grow our home loan piece we do not expect our spreads to get disturbed on the negative side. We are clear beneficiaries of the fact that till March 31, we had close to about 49% of our borrowings coming in the form of bank term loans. As bank term loans get re-priced down we are today in a unique position in our industry where we take get benefit of both the movements of bank term loans getting re-priced down as well as most of our incremental borrowing happening 80 to 100 basis points lower than what we were borrowing say same time last year. The same time last year roughly 50% of our borrowings would be coming from bank term loans in the last six months we have not borrowed a single rupee on net basis from banks so that 50% is giving us a saving of 80 to 100 basis points and that is reasonably significant. In this falling interest rate regime, I think it is possibly the most opportune time for us to be getting on and accelerating this journey of focusing even harder on our core housing finance product, which is why we are accelerating that entire move, we have been able to accelerate the move away from bank term loans and get that number forward by about a year-and-a-half. We have also been able to utilize this opportunity to actually up our focus on affordable housing and tell you that instead of 60% we will be getting to 66% of home loans by 2020 while maintaining our spreads so on our ability of being able to manage spreads as interest rates come down, I think the opportunity actually is to grow spreads and grow them significantly. What management has chosen is that instead of growing spreads significantly we will grow our home loan book significantly.

Kaushal Jaitliya: Thank you Sir. That is it from my side and all the best.

Moderator: Thank you. We will take the next question from the line of Manjeet Buaria of Solidarity Investment Advisors. Please go ahead.

Manjeet Buaria: Thanks for taking my question. I just had two data points on the home loans one was what is the split between salaried and self employed?

Gagan Banga: It is 70-30, 70% salaried and 30% self employed.

Manjeet Buaria: How much of this would be fixed rate versus floating rate?

Gagan Banga: We do not have a fixed rate product so we have a theoretical offering nobody really takes it. We are not interested in it so about 99.9% of our loan was floating.

Manjeet Buaria: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.

Gagan Banga: As I said right at the start of the call this quarter was both qualitatively and quantitatively our best quarter ever. We continue to focus on our core home loan business and are very confident of growing that business through the introduction of the new products of increasing the proportion of home loans in our asset mix. We continue to reemphasize on our guidance across financial parameters of 20% to 25% growth. We have already in the first-half achieved an earnings growth of around 23% and as the liability side continues to throw up significant options for us we are optimistic that as a team we should be in a position to take full advantage of these opportunities and continue to fulfill on the guidance that we have given to you. Overall it is a confident set of management that is giving you this guidance and once again thank you all for joining in on this call and supporting us. We will speak with you next quarter. Thanks.

Moderator: Thank you members of the management team. Ladies and gentlemen with that we can close today's conference. Thank you for joining us and you may now disconnect your lines.