"Indiabulls Housing Finance Limited Q2 FY18 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to the Indiabulls Housing Finance Limited Q2 FY18 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an 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: Thanks, Stanford. We welcome the management of Indiabulls Housing Finance on the call to discuss Q2 FY18 results. From the management team, we have Mr. Gagan Banga – Vice Chairman, MD and CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Sachin Chaudhary – Chief Operating Officer; Mr. Mukesh Garg – Chief Financial Officer; Mr. Ashwin Mallick – Head (Treasury); and Mr. Ramnath Shenoy – Head (Investor Relation & Analytics).

I now invite Mr. Banga to share the key details of the result. Over to you, Gagan.

Gagan Banga: I wish all of you a good day, and welcome you to the quarter two FY2017-2018 earnings call. Thank you all for logging in. We have clocked the highest quarterly profit after tax and this is also the 31st successive quarter, where the company's profits have compounded between 20% and 25%. Our profits for quarter 2 FY18 are at Rs. 8.61 billion, up almost 26%, over quarter 2 FY17, where we had reported profits of Rs. 6.84 billion. This quarter we have also passed another important milestone with loan assets growing beyond Rs. 1 trillion. Last year, we had crossed a balance sheet of a trillion. Balance sheet has now grown to 1.16 trillion. Loan assets are up nearly 33% and balance sheet is up 27%.

The Affordable Housing segment has shrugged off any impact from GST and RERA posting extremely strong growth. According to NHB data, the sub 2.5 million home loan segment grew by 33% in FY17 compared with near zero growth over 2.5 million segment. The sub Rs. 2.5 million home loan segment now form 76% of all home loans disbursal, up from 70% in FY16. This was despite the Pradhan Mantri Awas Yojana not being launched last year. Post the launch of Pradhan Mantri Awas Yojana, Affordable Housing has only gained in traction. Our home loan disbursals also grew strongly Y-o-Y and stood at Rs. 57.2 billion for quarter two FY18, up by 36% over Rs. 41.9 billion of home loans disbursed in quarter two FY17. We expect these numbers to go up further, as sales pick up during the festival season. Since the subsidies were notified in March of '17, Affordable Housing segment has been seeing further accelerated growth supported both by the subsidies and tax deductions on home loan repayments, which have driven effective home loan rates down to all of 30 basis points levels.

As on page 8 of the earnings update of quarter 2 FY18, according to a recent Cushman & Wakefield Report, there was a 27% increase in new units launched in affordable housing sector in the top eight cities of the country in the first half of fiscal '18, out of which 40% were in the City of Mumbai. New launches in affordable housing space grew 9x in Hyderabad and 4x in Mumbai. In FY16, when home loans were 50% of our loan book, we had reiterated our focus on affordable home loans and had said that home loans will rise to form 66% of our loan assets by fiscal '20.

We had also said that as our loan book transforms, spreads would be sustained as incremental funding cost should come down. We have completed half of this journey. Home loans now form 58% of our loan amount and supported by borrowing efficiencies, our spreads remain at the higher end of our guided range with spread on stock of loans at 325 basis points, our guided range for stock is 300 to 325 and spread on incremental loans at 299. Our guidance for incremental loans is 275 to 300 basis points.

With the increasing penetration of eHome loans and increasingly digitized sourcing and underwriting model, our cost to income ratio is also rapidly declining. Both the decline in OpEx as a percentage of loan assets, and credit costs as a percentage of loan assets have supported ROAs and sustained our topline spreads.

The funding environment is as we speak extremely positive. The overarching phenomena in the Indian financial landscape is the rapid financialization and disintermediation of the Indian savings and lending sector and this we believe is going to be a very relevant trend for housing finance companies, especially the higher rated housing finance companies. Indian household savings, which is a whopping 30% of GDP is now moving away from traditional avenues like gold and property to financial assets, and financial assets other than current and savings accounts. Attracted by healthy returns, a lot of this funding is landing up with mutual funds and insurance companies.

The number of new mutual fund folios has risen to 60,000 in number per day, and thrice the monthly average from the past three years. The AUMs of mutual funds have doubled to 12 trillion from September '14. The share of incremental bonds in the system credit has increased to 56%, which was only 25% till very recently. The share of bonds in incremental corporate credit has grown to 71%. For AAA rated company like IBHFL, this is an extremely favorable move. As flows into debt mutual funds increase, the spread of AAA bond yields to GSEC will compress further strongly supporting business spreads.

The competitive front is even otherwise very favorable. Foreign banks have been retreating. The PSU banks have been losing market share. Only a select few of the large private banks have a home loan product. We did a recent analysis and what we figured out was that we are talking of the very large public sector and private banks here, they have a cost of fund advantage of approximately 150 to 180 basis points over a top rated housing finance company,

but with cost-to-income ratios of over 40% in contrast with Indiabulls Housing, cost-to-income ratio of 12.9% and further pressure on their priority sector lending requirements, they land up with a return on asset post tax of under 0.5%, which in our case is nearly 2.5 times and this is for the most prime home loan borrower, whose price tag is 8.35% today.

As a result, the home loan market share of banks has declined to 59% from 67% in 2010. This is despite the capital expenditure, CAPEX cycle in India being broken since 2011 and banks having announced an intent of getting larger and bigger in the home loan market. In the past, there have also been concerns around home loan pricing. Home loan pricing has been steady at 150 to 200 over GSEC, and it continues to be the trend. We have highlighted this in the past, and even as we speak, with credit growth between 5% and 6%, home loan pricing tends to be steady at about 175 over GSEC. With over 50% of our incremental funding coming from bonds, I expect incremental spreads on prime home loans to increase for Indiabulls Housing Finance in a competitive landscape.

We have also been working on life at Indiabulls Housing beyond 2020, and how we prepare Indiabulls Housing for the same. The focus there is on evolving our distribution model, and I will share our thoughts and strategies around this. A decade ago, home loan sourcing was branch-centric typically involving multiple visits to the lenders branch. A typical home loan would take 7 to 10 days. Indiabulls Housing also had a similar model, where most of our staff would be staffed at the residential construction site. And most of our sourcing was coming from tier 1 cities. As much as 75% of our home loan sourcing was from the top 20 cities. Underwriting was traditional and credit decisioning was pen and paper-based. Last year we launched eHome Loans, where we took the first step towards digitizing the process and making a pioneering move for the home loan industry. For customers, this represented a vast improvement in convenience. The loan application could now be filled anytime at the applicants' convenience. Key documents could be uploaded and the whole application eSigned with one eSign replacing as many as 70 signatures required on a physical form.

For us, eHome Loans have meant increase in sourcing efficiency, vastly improved man-power productivity, increased underwriting thoroughness, and very importantly greatly reducing our operating expenses. With this platform, we have been able to launch a supporting module to expand into tier-2 and tier-3 locations. At the end of quarter two, we have expanded to nearly 60 new tier-2 and tier-3 locations, which we called as Smart City Home Loans, and they are contributing to almost just under 10% of our incremental home loans.

Our geographical mix of home loan sourcing, wherein till 2012, 85% of the loans used to come from top 20 cities, has shifted to now 70% of the home loans coming from top 20 cities. And it is our goal that with branches expanding to a 100 Smart City branches by 2018, in the next two to three years, we will have over 50% of loans coming from the non-top 10 cities.

Digitization of home loan sourcing and underwriting is driving this change in sourcing pattern and as we expand to smaller towns, we'll be optimally positioned to catch the next wave of growth in home loans offtake. This would also help us maintain our underwriting standards with no increase in loan to values, and help us maintain our yields without impacting our cost-to-income ratio because of the digitization.

Besides the distribution change, what we are also doing is making sure that we take advantage of the information convergence driven by Aadhaar, and make a scoring model for home loan credit decisioning, which will allow us to drop our credit appraisal time from the current eight hours to a matter of a few minutes. This model is well underway and by the first quarter of fiscal '19, we will put out a blueprint for you for how this model will impact our cost-to-income ratio, our sourcing and the granularity of the book going forward.

Big data analytics will also enable us to further enhance our cross-sell opportunity. This year, we will be targeting Rs. 75 billion of insurance premiums and this number should continue to grow at a pace, which is much faster to our overall loan book growth. So our fee income should now start increasing beyond our loan book growth.

As the home loan distribution model has seen a complete overhaul in the last 15 years, it has allowed new player like Indiabulls Housing to capture roughly a 6% incremental market share. With the launch of eHome Loans, we created a space of our own. With the launch of Smart City, we have evolved our distribution and now through smart analytics, we should be able to further drive down our cost-to-income ratios and enhance the distribution platform as well as granularity to make sure that we are the strongest player around in tier-2, tier-3 and tier-4 locations.

In the past, we have spoken about the fact that Indiabulls Housing management believes that a mortgage business is more a game of liabilities management than asset management. The asset quality is such with 4, 5, 6 basis points of loan loss that as long as one manages the risk at a big picture level, the assets continue to chug along. We have been focused on managing our liabilities efficiently, and in doing so we have achieved the steepest rating upgrade curve in the industry. With the recent rating upgrade by ICRA to AAA in June 2017, our bond yields are comparable now to the best in the industry. So going forward, our competitiveness is based on our cost effectiveness and service levels, which our new model will bring out.

Now going back to the headline numbers. We have grown strongly across all key parameters. Our balance sheet stands at 1.16 trillion, up 27%. Our total loan assets are at 1 trillion, up 33% from 753 billion. Profit after tax for the quarter was 8.61 billion. This was up 26% from 6.84 billion. For the first half, we reported profits of Rs. 16.49 billion, which is again a growth of 26%. The Board has approved an interim dividend of Rs. 9 per share.

Our cash and liquid investments stood at Rs. 222.5 billion at the end of H1 FY18. On the loan asset mix side, home loans have inched up to 58%; LAP is at 21% and large loans is also at

21%. At the end of fiscal '16, our home loan assets were 52%, which has increased to 58% and we remain on a trajectory to get to 66% of home loans by 2020.

The NII for H1 FY18 stood at 27.13 billion, a growth of 26.4% over H1 FY17. NII does not include fee and other charges. This quarter, we have disbursed a total of 95.04 billion, a growth of 41.8% over last year same quarter, in which we had disbursed 67 billion. The disbursals break into 57 billion of home loans, 18 billion of LAP and 19 billion of commercial loans.

Our gross and net NPAs reduced significantly this year, as we realized the benefits of increasing home loan proportion within total loan assets. Gross NPA and net NPA were down to 78 basis points and 31 basis points respectively from 83 basis points and 34 basis points a year ago. Our NPAs for over 25 quarters now have remained within a range of 70 to 90 basis points for gross NPAs and 30 to 50 basis points for net NPAs.

In order to bring greater clarity around asset quality, we have been proactive with the initiatives like LAP grading and publishing static analysis of home loans and LAPs. Through the transition to GST, our sourcing quality sustained in LAP and as is illustrated in the LAP grading section on page 29 of the earnings update, over 99% of our incremental LAP loans are in the top three grades of the five-point grading scale.

We have also got the credit rating agencies to do a static credit performance analysis, as of September 30th, thereby taking you through post GST phase. This is detailed on page 31. The cumulative collection ratio and monthly collection ratio for both LAP and home loans is at 99% plus level, even after 36 months on book, which is 36 months of seasoning and over 60% of amortization. Static 90 plus levels are at 5 basis points and 180 plus levels at 2 basis points.

Moving on to the borrowing side, on the borrowing side bank borrowings now constitute 33% of our funding mix, down from 39% last year. Capital market sources along with ECB and our portfolio sell downs have contributed to 95% of the incremental financing since March 2017, causing our incremental reliance on bank term loans to fall to only 5%. We were last year, only the second housing finance company, and fourth Indian corporate to have issued rupee-denominated Masala bonds. We plan to take advantage of the Masala bond and the overall ECB window in the second half of this year and intend to raise roughly $750 million overseas in the second half of this year.

The upgrade from ICRA continues to drive down our incremental bond yields. We are now raising bonds at as much as 75 basis points lower than we did in quarter four of fiscal '17. Margins on both the stock of loans as well as our incremental disbursals have thereby expanded, largely based on the funding efficiencies. Our spread at the end of half year expanded to 325 basis points from 320 basis points at the same time last year, and for incremental loans it expanded to 299 bps, up from 297 basis points at the end of quarter one fiscal '18.

Cost of funds on book basis is at 8.11%. We expect spreads to sustain between 300 basis points to 325 basis points, as we now move on from 58% to 66% of home loans. On incremental basis, the cost of funds is at 7.3%. The total capital adequacy, adjusted for investments in mutual funds, stood at 21.72%, marginally up over June and March. We have also got a reasonable headroom for Tier 2 capital. We did a 1,000 crore issuance of tier 2 capital in quarter two fiscal '18, and we intend to maintain capital adequacy levels at around 20% levels by steadily doing Tier 2 issuance between now and 2020 on a quarterly or half yearly basis.

We also continue to remain focused on capital conservation and sold down as much as 53.6 billion of loan assets in the first half compared to 42 billion in the whole of fiscal '17. Selling down loan assets is extremely capital efficient, freeing up capital, while retaining spreads, making this transaction highly ROE accretive. We continue to see steady benefits from an increasing share of home loans from our pioneering eHome Loan platform. 24% of all home loan disbursements are from loans sourced through the eHome Loan platform and as much as a third of our loans are being processed using modules within the eHome Loan platform such as eSignature. As mentioned earlier, the Smart City branches are already also contributing to just under 10% of our new business.

In the recently concluded AGM, we managed to do two significant things. One was that there was an auditor transition, which was managed quite smoothly. So we have transitioned our audit firm from Deloitte to Ernst & Young, post approval of shareholders. The other important thing was the senior management's focus on cost control and driving down the cost-to-income ratio. So the senior management has reiterated this by voluntarily restricting their increments to 15%. The Board has also approved a large ESOP scheme for up to 500 mid and senior management staff of 1.05 crore shares.

Our employees being our core strength and our focus for all of our growth, we would continue to remain engaged with employees and find unique ways of incentivizing them; ESOPs being a very critical way forward on that. As we capacitize the organization for life beyond 2020, by which time we will be 2 trillion in assets, we are strengthening our relationship with various campuses, and this year across business schools, chartered accounting institute, engineering colleges and graduate schools, we will hire as many as 600 people.

Our investment in OakNorth Bank has also showed some very heartening results. Earlier this month, OakNorth Bank raised about US $203 million, for a 16% stake at a valuation of 1.2 billion. With this, the IBHFL stake is now valued at 380 million, multiplying from the 100 million investment that we had made just under two years ago. Operationally also the Bank is well ahead of expectations. It broke-even last year and is continuing to contribute with just under US $1.5 million of contribution to our bottomline in the current quarter.

Total deposits have now expanded to $614 million and loan assets stand at $659 million. The Bank has also pioneered a digital lending platform called ACORN Machine that leverages artificial intelligence and allows them to focus on a machine-based lending to SMEs. This platform is not only being used by OakNorth Bank for SME lending, but is also being offered to other banks on a one-time implementation fee and volume based subscription revenue.

To sum up, the macro environment for us is extremely good, as it is good for affordable housing, with rapid financialization and financial disintermediation, competitive edge is decisively moving towards AAA housing finance companies over banks. As a result margins will sustain, as we move more and more towards home loans. Gross and net NPAs have declined significantly and should now stay more in the range of 70 to 80 basis points on gross and 30 to 40 basis points on net.

Cost-to-income ratio in the first half itself has declined by 40 basis points, and it will continue to decline at an accelerated pace. We remain very much on target to get to a balance sheet of over Rs. 2 trillion by fiscal '20, and home loans will be forming 66% of our total loan assets by then, on the back of bond borrowings comprising over 60% of our borrowings. With this change in borrowing mix, we are reasonably confident of being able to sustain our spreads and return on asset, as we have done so in the first half of this journey between fiscal '15 and fiscal '17.

We are putting together for our stakeholders a blueprint of life at Indiabulls Housing beyond fiscal '20. We see a clear opportunity of loans increasing to Rs. 6 trillion by fiscal '25 and as we look to leverage that opportunity, we have to invest in technology, distribution, people and continue to stay invested on the liability side. We have the base for it and we will put up a blueprint for your reference, along with our Annual Results in April.

On that note, I'd like to thank you all again for joining and supporting us and we can take questions now. As a last, we have declared a Rs. 9 interim dividend. As per the dividend payout policy, it is 50% of our profit. So our estimate is that by quarter four, dividend plus distribution tax and the EPS should reach levels, where we can start increasing it beyond Rs. 9 levels. Thank you so much and we can take questions now.

Moderator: Thank you very much sir. We take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: And if we look at it in terms of the overall mix of affordable housing within our book, then within the home loan, how much would be qualifying for the affordable housing on the outstanding book? And how much is on the incremental basis over the last two quarters?

Gagan Banga: Our average ticket size, as you may have noticed, is about Rs. 25 lakh. So what the government did, I refer to page 26 of the earning update that we have released, where the average loan size is Rs. 2.4 million. Now what the government did under the Pradhan Mantri

Awas Yojana was increase the income eligibility to Rs. 1.8 million from earlier Rs. 0.5 million and also increased the size of the house to 1,185 square feet. By doing that, they have basically included almost our entire portfolio under this scheme. So our average income level is about a million rupee for our borrowers and the average size of the house that we finance is about a 1,000 square feet. So almost by number, almost 85% to 90% of the loans that we would be doing, would be getting covered under what is eligible under the MIG scheme of the Prime Minister's Housing Program or Pradhan Mantri Awas Yojana. The other way of looking at it is the RBI definition of what gets covered under priority sector for home loans for banks. That number is Rs. 2.8 million, and we are at Rs. 2.4 million of average. So almost the entire book of home loans, that is 58%, is covered under what is classified one way or the other affordable housing.

Kunal Shah: Okay. And in terms of our traction on the CLSS, so how had been the sanctions, how many cases have we applied for? And if any maybe in terms of the disbursements, how much is it contributing today?

Gagan Banga: So you will appreciate that while we are only a conduit for the subsidy to get transferred, in case, the subsidy transfer was ineffective, we would be the agency swamped with customer service issues. So we were in touch with our regulator, the National Housing Bank, which is also a nodal agency. Once the system stabilized by June, July to be able to start paying down these subsidies, we've been filing thousands of cases. By the end of the calendar year, which is 31st of December, our sense is that we would have received credit for roughly 30,000 people who have and will be applying, who are in the process of completing the paperwork. So by end of this quarter, we will have roughly 30,000 people who would have availed of CLSS.

Kunal Shah: Okay. By end of this quarter?

Gagan Banga: Yes.

Kunal Shah: Okay. And in terms of eHome loans, definitely there is a traction, which is building up now, almost 21% is coming from there. So where do we see it, maybe as you highlighted, maybe getting into FY20 and beyond, how do we see the traction in the home loan, and how different would it be from say the other players who are also offering, say the online home loans. So what would be the major edge out there?

Gagan Banga: So you know what I can very proudly say is that some of our peers are definitely offering eHome loans, but nobody has gone the whole process where you can apply, your credit appraisal happens and you also get a disbursal digitally. The only physical interaction is when you go to the Property Registrar's office to register your property. So most of our peers have of the three vital stages one or two only. So to that extent, the product as on date is superior. But as is the things, which are technology based, somebody or the other will catch up and perhaps go higher. What we are trying to do is develop a version two for this, where not only do we focus on the customer convenience in terms of the whole process, we also look at how do we

leverage this to expand our own distribution network to free up our credit processing capabilities, and to do a lot of machine learning and perform some analytics, so as to be able to offer pre-approved kind of loans to some of our existing and new borrowers. So that is a platform which going forward will become the major source of loans. It is very difficult for me to be able to tell you where 25% will go. It would continue to grow and grow at a rapid pace. What I can, with great confidence tell you is that over 50% of our loans by fiscal '20 would be coming from smaller towns and cities and not from the super metros and metros that we know of. And that's a target towards with which we are moving meaningfully. Within about a year of launching the smart city home loan product, not only have we expanded to nearly 60 cities, we have also ramped up our business to almost 10%. And this should increase to 100 cities and 15% by next year same time, and then this will continue to ramp up in due course of time.

Kunal Shah: Okay. And lastly in terms of within this Tier II, Tier III, so any kind of a mix change we are seeing between the salaried and the self-employed or it will continue to be almost similar and more focus will be there on the salaried segment?

Gagan Banga: So the focus would remain on the salaried segment. Roughly 70% of home loans would continue to be delivered to the salaried segment. Within that, as we move to Tier II, Tier III locations, the emphasis could well be that a few of these Tier II locations are more government employee dominated. So that percentage may go up in the whole piece, but big picture, the split between salaried and self-employed for home loan should remain at a 70-30 level.

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

Adarsh Parasrampuria: Just a couple of questions. One is, you did mention about the incremental cost of funds at 7.3%. I just wanted to understand the breakup, and is it just the bond funding or the total funding cost on an incremental basis?

Gagan Banga: So it is the total funding cost and bulk of the incremental funding is coming from bonds and these are monthly costs and not annualized cost. Bonds are generally priced on annualized basis. So this is a blend on monthly basis between our bond yields across tenures. The yields that we pay for securitizing. Between those two, almost 90% to 93% of our incremental financing is coming. This also takes care of the balance 8 odd percent of financing, which has come from either the ECB route or the bank route.

Adarsh Parasrampuria: And where would now be the difference versus HDFC and LIC say 6, 12 months back and now?

Gagan Banga: So 6, 12 months back the difference was 40 to 110 basis points. Today the difference will be 10 to 50 basis points.

Adarsh Parasrampuria: And this wide gap of 40 to 110 is just at that point of time difference or?

Gagan Banga: It's based on where you are on the yield curve. So on the shorter end it would be 40, on the longer end it would be 100, 110. If we would do a large issuance of let's say 2,000 crores, the difference would be larger because we would have to pay a size premium. So blended for all of that, it would be 40 to 110. If I was to do 2,000 crore, 3,000 crore ten year issuance today, we would pay roughly, I would say, 45 basis points premium which, one is working with the system, which should decline in normal course to 25 basis points. This is just for bonds. On an overall basis, we have a disadvantage of roughly 20 basis points on cost of funds. On bank term loans, there has been no disadvantage for the last five years. On securitization, we actually save a lot. Our spreads there are in the ballpark of 300 basis points. LIC doesn't securitize, and HDFC has a back-to-back arrangement with HDFC Bank, you know the details of the same. So blended for all three of these, the disadvantage is roughly 20 basis points, specifically for bonds, I have given you the numbers. With the decline in bond yields, my sense is that the differential will drop down by the end of fiscal '19 to 10 odd basis points.

Adarsh Parasrampuria: Thanks. And the second question was relating to, I'm sure you've looked at the RBI's data on mortgages and then we've looked at some bank's data as well on mortgage growth. There seems to certainly be some slowdown over the last 8-9 months, clearly we've kind of gained share, but the overall industry momentum, even when you talk to rating agencies, including the HFCs and NBFCs, they talked about a couple of percentage points drop in the growth rate overall, and this can include higher ticket, affordable, everything put together. So what's your view there or any specific data points there because the whole mortgage growth has come down a little bit.

Gagan Banga: As we had shared during my initial remarks, NHB had released this data where loans of up to Rs. 2.5 million last year compounded by 33%. This year the general expectation is that they will compound by 35% to 40%. So banks last year also had not grown by much. This year they are growing by 10%-11%. I think across large state-owned banks and private banks, the distractions are so many that I don't think they have the wherewithal today. And it is not as if the asset class is so attractive, that they believe everything and they start pursuing this particular opportunity. The return on assets for any large private bank, and the largest of large public sector banks will not even be 50 basis points. They can't do a portfolio securitization to maximize ROE etc. So for them it's an interesting asset class to the extent that business comes easy. In the month of July and early part of August, business had definitely slowed down a little bit because both developers as well as buyers were thinking about how the GST would impact. Fortunately loans of up to Rs. 3 to 4 million, the cost of construction is so meaningful, that the input credit which is received by the developer is enabling them not to pass on the additional cost of GST and that is now a well-accepted practice. And my sense is that all focused housing players will report growth rates of give or take 30% and that's what we see in the market. Indiabulls Housing has the additional lever that we have all of 6% market share, we have comparable cost of funds, a better distribution and product. And given that in periods such as July and August, it is not very difficult for us to increase our market share a little bit to

be able to clock our growth targets. So I go back to reiterating that for the year we will grow the book by around 30%.

Moderator: Thank you. We take the next question from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra: I have got two questions, one is with regards to the supply side issue of affordable housing. If you can give some qualitative as well as some quantitative comments on it, about the supply side issue for the affordable housing?

Gagan Banga: I had mentioned during my remarks that there was a recent report published by Cushman, which talked about over 27% increase in new units launched in the affordable housing sector in the top eight cities. And in a city like the outskirts of Mumbai, the increase was as much as 40%. So that in some sense is indicative of how large developers are already moving in. I also have read reports where some of the large developers have not only submitted planning permissions, they have also set up specific subsidiaries to be able to take more advantage of affordable housing. So continuing with what I had tried to explain in the previous call, both RERA and GST will have an impact where affordable housing will now stand to be dominated by the large players. This would not require land transactions to happen, more joint developments will happen. Planning permissions will continue to be filed with the relevant local authorities. Planning permissions without RERA take 6 to 12 months. So you will see quarter-by-quarter an increase in the launches. Last quarter we have seen a 27% increase. I think we will see a similar increase this quarter or maybe perhaps even higher and you will continue to see a greater increase in due course of time especially in the first half of the next calendar. So that's the sense that we get. We also understand that builders are welcoming the fact that the tax incentives around this are now reasonably clear and the net of tax margins between affordable and premium housing are now equivalent. Since premium housing doesn't sell, any developer with wherewithal is looking to launch affordable housing. As and when permissions come, they would launch it, and there is also demand for this product. So neither quantitatively there is data to back this up, qualitatively based on my discussions, one is reasonably heartened that there would not be any supply side issue. Prices in this particular product would grow at a slower pace to inflation, so affordability will remain and that is again a very important demand driver.

Shubhranshu Mishra: Right sir. Thank you for that. And in respect to your construction finance, any specific strategy do you want to cross-sell those particular apartments to your customers or something like that?

Gagan Banga: On construction finance, we continue to be both circumspect and opportunistic. We have comfort on the execution ability of a few developers across the country. We also understand what sells and what does not sell. So I would not say that we have red flagged this product or anything, but it would continue to grow at a pace which is slightly slower. So it would continue to grow more in the high-teens as against the 36% that home loans have grown by.

And that would remain the strategy. Cross-sell has historically not been the way that we have looked at this product. So we have tried to focus as far as construction finance is concerned at a product space which is slightly more premium than the mass housing, given the fact that the cost of land then acts as an equity, since land cannot get financed. And that as a model has done well for us and we will continue to stay focused on that segment. We would not want to dilute that credit standard and get down to doing construction finance at scale for projects where cost of land is only 20%, 30% of the overall project. So there is limited cross-sell opportunity there. We continue to be extremely cautious of the segment, but at the same time, given the momentum that certain developers have displayed even in properties which are selling at as much as Rs. 10 million because of their delivery, I think the business model in construction is just changing from a stage where Rs. 10 million to 20 million home would sell as soon as it is launched. Today it sells closer to it receiving occupancy certificate. That's just a change in the model and one has to adapt to it.

Shubhranshu Mishra: Right, sir. And just as a follow-up question for this, what is the kind of concentration that you have in the top 10 cities for construction finance?

Gagan Banga: It will be 100% of the portfolio. I will not even say top 10 cities, I will say top five cities, it will be 100% of the portfolio.

Shubhranshu Mishra: Sure, sir. And just one housekeeping question, what is the quantum of funding, which is coming up for re-pricing in the second half sir?

Gagan Banga: Quantum of our liabilities, which will come up for re-pricing?

Shubhranshu Mishra: Yes, sir.

Gagan Banga: So we will have roughly around 6,000 crores, which will come up for re-financing or re-pricing.

Shubhranshu Mishra: So how do we look at cost of funds in the second half?

Gagan Banga: Our cost of funds will on an incremental basis be 7.2%, 7.3%.

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

Sunil Tirumalai: This is Sunil Tirumalai. Gagan, a few questions on OakNorth, any color who the investors are?

Gagan Banga: There were three funds, Clermont Capital, Toscafund and one other fund, I'll just give you the name. So I'll just give you the name of the third investor. It was Clermont and so Clermont is Mr. Richard Chandler and Tosca is Mr. Martin Hughes' fund. I'll give you the third funds name. It's called Coltrane Capital.

Sunil Tirumalai: Yes. Okay. Got it. Thank you. Secondly sir, maybe I am reading too much into the detail, but very helpful slide on the pools' performance. Over here you gave a similar chart a couple of quarters ago and there seems to be some slippage in the LAP from 99.6 to 98.5 on a monthly collections run rate. I mean, is that something to be worried about or to be monitored closely, what could be the reasons behind that?

Management: Yes. Sunil, so what you should look at is cumulative collection ratio because on a monthly basis there could be some kind of aberrations. So one account doesn't pay, slips into let's say X plus or 30 plus. But what you have to look at is since the day the pool was sold and what we have built and off that what has been collected over these many months is cumulative collection ratio, in that you would not have seen much change.

Sunil Tirumalai: Yes. But the CCR would be a much more slower moving number, and the MCR as per your chart is what gives a much more real time sense. So how do you actually calculate MCR in this? What you define MCR in this?

Management: So that's whatever would have been last month's collection rate, it would reflect that. It could be at times more than 100%, at times it is below 100%. So there will be a big variation in that.

Gagan Banga: It will be a function of what was the level of prepayment, which will get received. So it's not only a function of what's the due payment, it is also a function of what was not due yet received. So in one month, if the prepayment rate is lower in a particular month that number could go up and down by at least a 100 basis point.

Sunil Tirumalai: Yes. Just in terms of accounting on this, so any shortfall over here will be a straight hit to your P&L?

Gagan Banga: So what happens is that there is extra interest spread, which would first get credited to the buyers account. So it does not eat into any kind of a cash collateral or in case it is a direct assignment then proportionate cash division happens, there is no hit by account.

Management: So there is primary recourse to the excess interest rate `and what rating agencies also publishes, the threshold level to which CCR has to slip before excess interest spread can't make up for the payments. So this typically for HL and LAP pools is at about 80% levels. So only if your cumulative collection ratio slips below 80%, will you need to get into credit enhancement or any such outside of the excess interest.

Sunil Tirumalai: Okay. Understood. Couple of data points that I was looking for. So in the total income, what is the share of fee income?

Gagan Banga: Sunil, I will just give you that number in one minute. Just to sum up the collection ratios etc., what we have been anyways trying to do for the past three years is align our rates across the board to whichever is the largest lender. And as we do that and we also allow our existing

customers to have a re-pricing model available with us, our prepayment rates have come down. So please bear in mind that the MCR would be greatly influenced by prepayment rates. CCR is something that we would like to reiterate is the number to look at.

Sunil Tirumalai: Got it. Understood.

Gagan Banga: Yes. So our total fee income is 185 crores for the quarter.

Sunil Tirumalai: Got it. And similarly within the OpEx, the credit cost component and the normal OpEx?

Gagan Banga: Yes. Credit cost for the quarter, net credit cost for the quarter is 187 crores.

Sunil Tirumalai: 187?

Gagan Banga: It was last quarter at Rs 196.89. crores and for quarter two fiscal '17 at 145 crores.

Moderator: Thank you. We take the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: I had two questions. One is, our average ticket size is 2.4 million and how much percentage of our home loan book would be 1 crore plus ticket size?

Gagan Banga: It will be in roughly 10% kind of level.

Sagar Karkhanis: 10%. Okay. Great. And secondly, our exposure to Delhi and NCR market would be roughly how much percentage of our home loan book?

Gagan Banga: Roughly about 25%.

Moderator: Thank you. We take the next question from the line of Harsh Desai from Vallum Capital. Please go ahead.

Harsh Desai: I am Harsh Desai from Vallum Capital. I just wanted to ask you about the switches in the industry, in the sense, is there any specific trend in the sense that the books of PSU banks, some banks have been eroded and there is a national trend to shift towards housing finance companies in the latest quarter. And even within the housing finance companies, do you see any particular company's book being eroded as such and being shifted to Indiabulls Housing Finance?

Gagan Banga: RBI recently published data which said that the average home loan yield in the industry is at 9.7%. The average incremental yield that most prime home loan providers would be getting would be about 8.85, 8.9 with the lowest being 8.35. So despite this gap being as much as 135 basis points or 80 basis points, the product pricing has been reasonably sticky for existing

borrowers. So one is not seeing any massive trend in home loan refinance from A type of institution to B type of institution. What the trend that continues to gather pace is on an incremental basis, anyone who is not being able to evolve their distribution model. As I tried to highlight in my speech, distribution has evolved from people waiting in the office for borrowers to walk in to for players such as us the large opportunity came with being able to engage with borrowers at the construction site. So unless you're deploying the construction sites as we speak, and in due course of time unless you're being able to offer a solution to the customer on his phone, you would continue to lose market share because that's the preference or you would get stuck in a negative selection bias and only those borrowers, who are rejected by others would come, where then the credit costs would make the whole product unsustainable. I think somewhere a large number of participants, who are losing market share are caught in either an inability of being able to staff distribution point, which is the point of sale today or have also gotten stuck in a negative selection bias. So given that on an incremental basis, most type of banks are losing market share, which is why against affordable housing growing at 30% plus, overall mortgage credit growing at 20% plus, banks are growing at low teens or even slower than that.

Harsh Desai: Correct and just one more thing you said that the focused housing players would grow roughly at 30%. I was just wondering with a lot of these developers offering a lot of discounts, because their houses earnings **(Inaudible) 59:21** all in the value of the underlying asset affect this growth, have you considered that when you gave us rough estimate of 30% in growth?

Gagan Banga: So the discounts being offered are more in the premium end of the market and I have tried to explain the very limited correlation that the premium end of the market has to mass housing, the demand drivers are completely different. Today, for a buyer, when he is looking at buying Rs. 3 million to 4 million or 5 million home, the choices, if they are staying in rented house of a similar value they are paying 3%, but if they are buying it, they are paying 30 basis points to 50 basis points, given the subsidy of Pradhan Mantri Awas Yojana and the tax break. So which is why their demand in this segment is very sustainable. The premium end or even for that matter, the mid income end is where you see the discounts, the mid income end subject to these discounts continues to sell a little bit, premium end still does not sell. Fortunately for us, our exposure there is limited. At the levels that we are financing there is not much of discount, there can't be much of discount because the margins on a pre-tax basis for the developer are only 15%, which is why the government had so as to encourage more supply in that segment give tax breaks and make it a tax free kind of a product for developers. From what I gather as feedback from my team, there is not any material discounting which is happening and definitely not of levels which can disturb the loan to value.

Moderator: Thank you. We take the next question from the line of Aswin Balasubramanian from HSBC Asset Management. Please go ahead.

Aswin Balasubramanian: Yes, hi. I had a couple of questions. Firstly in terms of your home loans, what would be the rough sort of breakup between, let's say, home loans given to freshly constructed properties and the resale, plot loans or self-constructed sort of loans and so on? And what would be also the balance transfer top up portion within the same?

Management: If you have to break up the home loan piece, around 72% to 75% comprises of the new acquisitions, which are typically the developed projects, especially in the affordable segment. And rest of the 25%, 10% comes from the self-construction or extension of the houses and around 4% to 5% will be the people who will be buying a plot and doing the self-construction there on. And rest will be in terms of the takeover of the loan or some open market resale transactions.

Aswin Balasubramanian: Secondly, in terms of the spreads of 325 basis points which you've mentioned, does it also include the fee part as well or it is excluding the fees basically?

Gagan Banga: The fee in this product is insignificant. So it's a few thousand rupees, it's insignificant.

Aswin Balasubramanian: The spread on the stock of loans, which you've mentioned is 325 basis points.

Gagan Banga: Yes.

Aswin Balasubramanian: So does that include..

Gagan Banga: This is the spread between the interest that we pay and the interest that we receive.

Aswin Balasubramanian: Okay, okay, because if I sort of take a home loan sort of yield of let's say 9.5% or so on stock of loans and sort of back calculate the non-housing loan, yield comes to about 14% odd. So that seems slightly on higher side. So just…

Gagan Banga: Our home loan yield will be 9.63% on book basis. And if you will calculate, then everything else will be in the ballpark of 13%.

Aswin Balasubramanian: 13%, okay. And what will be within this 13% between LAP and let's say….

Gagan Banga: Construction finance. So it will all be in the ballpark of, 13% will be LAP, construction finance will be 16% and LRD will be closer to 11 point something.

Moderator: Thank you.

Gagan Banga: I have to jump into something else. So I would like to thank everyone for joining us on this call. It has been a good first half. One is extremely optimistic about the second half and the management team is confident that we should be able to continue on the path we started and get to our targets by fiscal '20. As promised, we will also share with you the life as we are

planning for Indiabulls Housing for after 2020. The opportunity, clearly there is to get to 6 trillion in assets by 2025. We are laying all the foundation stones required for that and we'll share the same with you. Thank you so much and I look forward to your continuing support.

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