"Indiabulls Housing Finance Limited Q2 FY19 Earnings Conference Call"

**October 15, 2018**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q2 FY19 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant' lines will be in the listen-only mode. 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you sir.

**Ishank Kumar:** Thank you. Hi! everyone. Thanks for joining this call. We welcome the management of Indiabulls Housing Finance to discuss Q2FY19 results. From the management team we have Mr. Gagan Banga – Vice Chairman, M.D. and CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Sachin Chaudhary – Chief Operating Officer; Mr. Mukesh Garg – Chief Financial Officer; Mr. Ashwin Mallick – Head, Treasury; Mr. Ramnath Shenoy – Head, Investor Relations and Analytics and Mr. Harshil Suvarnkar – Head, Markets.

I now invite Mr**.** Banga to share the key detail of the results. Over to you, sir.

**Gagan Banga:** Very good day to all of you and welcome to the Q2 fiscal '19 earnings call. It has been an eventful end to the quarter with the NBFC, HFC space going through a stress test of its business model so to speak. Dearth of liquidity is a key risk to models that are largely wholesale funded. It is something that we have well recognized at Indiabulls Housing for over a decade and management of liquidity has been a key operating principle for us. Our principle has been to operate with adequate liquidity to suffice six months of debt repayment. This is to negotiate situations exactly of this nature. And indeed liquidity freeze occurs fairly regularly every four to five years in India. In 2008, following the global financial crisis, we had such a freeze, then again in 2010 following the telecom auction and then in 2013 when the Reserve Bank of India had to raise short-term interest rates by over 300 basis points. Through each of these crises, our policy of maintaining adequate liquidity to suffice six months of debt repayment has seen us come out stronger and each of these events and our resilience through them has served as a trigger for a rating upgrade in the past. When the present crisis hit on the 21st of September we had Rs.230 billion of liquidity with us. Subsequently in the next few days all the rating agencies that rate us namely CRISIL, ICRA, CARE and Brickworks after due diligence reaffirmed our ratings at the highest long-term rating of AAA in the very next week.

To reiterate, despite the negative carry, MTM movement and impact on the P&L for well over 10-years now we have been maintaining adequate liquidity which has been a long-standing operating principle of Indiabulls Housing business. We have spoken about this and also recently summarized this in the disclosure filed with the exchanges on 7th of September. As of September end, we have closed with cash and liquid investments of Rs.212.5 million without taking into account any undrawn lines of any nature. We continue to take pioneering industry first initiatives. We were first to get all of our incremental LAP loans graded in 2015 and a year or so prior to demonetization and that came in really handy. We saw the changing distribution model and took the first steps through our eHome Loan platform of digitizing loan origination and underwriting which we have now further built upon a comprehensive digital home loan technology platform and this initiative was taken in 2016. Two years ago, we voluntarily, regulations do not require it, chose to get all of our direct assignment pools monitored on a monthly basis by CRISIL, again a pioneering step.

And as I mentioned in fiscal ’17 Results Call, internally we had moved to a liquidity framework that is guided by Basel-III and is in line with the liquidity ratios prescribed for banks. If you refer to slides #11 and #12, the 30-day liquidity coverage ratio is computed as a ratio of liquid investments including investments in government securities, PSU bonds, etc., termed as high quality liquid assets to 30-days of net outflows. The LCR is meant to build resilience against acute liquidity stress scenarios such as loss of unexpected wholesale funding, something that the sector is currently undergoing or rating action or decrease in valuation of collateral, etc., The LCR of Indiabulls Housing is at over 400% and covers 30-day net outflows with 4x cover. This for most private banks, adjusted for CRR and SLR, is at around 130%, without CRR, SLR is at about 90%.

Akin to banks, we have also adopted an approach of granular ALM, that particularly focuses on near-term maturity of assets and liabilities. On Slide #12 you will observe that we are fully matched on all ALM buckets. Through the last two weeks of September, we continued to borrow from the market plus sold down loan pools totaling to Rs.34.7 billion over the past three weeks. We have also bought back Rs.18.2 billion worth of our papers from the market, thus providing liquidity to our mutual fund partners as well as instilling confidence in them with regards to the safety of our paper. IBHFL is also the only non-bank company in India to follow a strict and conservative practice of repayments through a third-party trust managed by Axis Bank, trustee, wherein all scheduled repayments are transferred to the trust, 7-days in advance on a rolling basis thereby ensuring timely sale-proof repayment discipline of all obligations. A testament to our debt subscribers confidence to us is the fact that Rs.5.8 billion worth of IBHFL’s paper were traded in the secondary market over the past three weeks which otherwise seems to have been quite locked up. Thus, all three parts which are vital to a liability franchise are working. We have been able to additionally borrow. There is secondary activity in our paper. In order to make sure that our papers are properly and confidently held we also continue to buy back from time-to-time.

Besides liquidity, the other area of key focus for the company has been management of capital and traditionally we have maintained the highest level in the industry of capital adequacy. Our capital adequacy stands at 23.39% which is the highest amongst our large HFC peers, our net gearing of 5.9x is one of the best and the lowest in the industry. Additionally our NPA levels have continued to remain very moderate with the gross NPA at 0.77% and net NPA at 0.58%. With all the provisions that we carry for Stage-I, Stage-II, Stage-III as well as the ad hoc provisions that we have been able to create last quarter, our provisions to gross NPA stand at 168%. Our gross NPAs have now remained below 0.9% for 29-quarters.

With our micros on a strong footing, I believe improving macro conditions through appropriate regulatory and government actions is necessary to regain the investor confidence in the industry. The RBI in its bi-monthly monetary policy meet on October 5th held the repo-rates unchanged at 6.5% which is positive for the entire NBFC sector. This would also hopefully bring down bond yields as was seen by the 13-basis points decline in the 10-year GSec yields on the day of RBI's announcement. In addition to this, the RBI has also taken a string of measures to increase liquidity in the system to further bring down bond yields. They have injected Rs.200 billion into the system through open market operations in September and have announced open market operations to the tune of further Rs.360 billion in October. RBI has also notified that banks could carve up to 15% of their holdings under the SLR against 13% allowed previously to meet the liquidity coverage ratio requirements which is likely to infuse around 2.5 trillion into the banking system in Q3. Open market operations along with LCR carve out may likely ease pressures of yields going forward. On October 9th, the National Housing Bank, our regulator, also increased the refinance limit for housing finance companies for fiscal '19 to 300 million from the original budget of 240 million.

Just for clarity, before I move on, I must also comment that for everyone's understanding that IL&FS, which is in some ways seem to have caused this entire crisis, is not a classic NBFC, that extends loans to end retail customers, small businesses and corporate. It is largely a core investment company which borrows money for lending to its own group companies or co-investing with them. These group companies are mainly in the business of infrastructure development and management of the same. Its lending portfolio to third parties is only about Rs.134 billion which is about 10% of its balance sheet size and an insignificant 0.6% of the total NBFC/HFC industry loan book. Thus the fear of IL&FS kind of business risks in other NBFCs, HFCs is largely misplaced.

A brief overview of the major HFCs and NBFCs prove that the business fundamentals of these companies along with their growth potential, asset quality and capitalization are on solid footing. Rating agencies have also said that NBFCs and HFCs have been maintaining adequate liquidity for any mismatches in their ALM. There is no real concern on the liquidity of HFCs and NBFCs or their solvency. In effect, the ongoing crisis is not actually a liquidity crisis but a crisis of confidence amongst market participants.

Coming to the numbers for the quarter:

I am very pleased to announce that the board has approved an interim dividend of Rs.10 per share. Dividends are keeping in pace with our guidance of paying 50% of profits as dividend. This is the second quarter where we published our results under IND AS.

Now, please refer to Slide #6 of the Earnings Update:

Our growth story continues. Our balance sheet at the end of Q2 fiscal '19 stood at Rs.1.4 trillion, up 20.4%. Our AUM has grown almost 29% to Rs,1.29 trillion. Capital adequacy is just under 24% against a regulatory requirement of 12%. Our borrowings stand at Rs.1.2 trillion and the net of cash and liquid investments of Rs.188.72 billion. Our net gearing stands at 5.9x. Our book value per share now stands at Rs.410. Our profit after tax for the quarter is at Rs.10.44 billion, up 21.2% from Rs.8.61 billion in Q2 fiscal '18 and are Rs.20.99 billion for first half of fiscal '19 despite all the adverse bond movements and the resultant mark-to-market.

With the adverse movement in bond yields, we took an MTM loss. Consequently, the NII for the quarter stood at Rs.16.31 billion, up 17.8%, up from 13.84 billion. For the first half, NII grew by 20% to 33.2 billion from 27.6 billion in the first half last year.

Please now turn to Slide #9 of the Earnings Update:

Total provisions at the end of Q2 fiscal '19 stood at Rs.16.67 billion. As you are all aware, in the ECL model, we classify our assets under Stage-1, 2 and 3 with Stage-3 assets being equivalent to NPA under the older regulations. Our Stage-3 assets as gross NPA are at 0.77% while the remaining 99.23% assets are in Stage-1 and 2. We have created Rs.3.7 billion of ECL provision against Stage-1 and 2 assets.

The experiential loss given default in Stage-3 is 25% and hence we have provisions of Rs.2.5 billion against Stage-3 assets. In addition to this Rs.6.2 billion, we have Rs.10.5 billion of ad hoc provisions that we had retained during Q1 fiscal '19 from erstwhile provisions under the Indian GAAP regime.

As communicated during the last quarter's call, we will maintain ad hoc provisions at this level going forward. This is in line with our ultra conservative approach towards provisioning. There have also been concerns that tightening liquidity will spill over to the SME and the real estate developer sector making refinancing difficult, ultimately impacting asset quality.

Our underwriting approach to LAP has been discussed often and it continues to be cash flow based where applicants SMEs business is evaluated to ascertain loan repayment ability. The LAP grading done by CRISIL and ICRA which is reflected in the earning update for over three years now relies mainly on analysis of loan applicants financials. You will note that over 99% of the LAP we have sourced since April 2015 is in the top-3 grade of the 5-point scale. As mentioned earlier, voluntarily we also get all of our sold-down pools monitored on monthly basis.

On Slide #44, we have shown that since LAP underwriting is cash flow based and this is a very interesting table that we have put up. On Slide #44, we have shown that since LAP underwriting is cash flow based, the loan repayments are immune to fluctuation in residential price inflation. At the bottom left, we have shown that since the LTVs at disbursal are moderate at about 50%, and extreme 30% price fall over a period of time still leaves us with 2x cover. At the bottom right and this is extremely important in the current context, we presented experiential data that shows that 80% of prepayment is either regular repayment or accelerated repayment. Full prepayment which could be either coming from own sources or possible refinancing forms only about 20% of repayments that we see in LAP.

Please now refer to Slide #32. Similarly, our corporate mortgage portfolio does not rely on refinancing. If you review Slide #32, you will realize that over 70% of the corporate loan book is supported by lease rent discounting. We rely heavily on the concept of cross-collateralization whenever we do construction finance. The core of the book continues to be lease rent discounting. Lease rent discounting are loans to developers against the leased out commercial buildings which are office space buildings. We look for moderate rentals between 35 to 85 per sq.ft. per month. The average rental for the LRD portfolio of Indiabulls is at Rs.56 per sq.ft. per month.

Our approach to credit in LRD is as follows: We look for multi-tenanted buildings so that there is no tenant concentration; rent to EMI cover of over 1.2x; low average LTV of about 45%; the lease in LRD buildings are typically marquee international names, MNCs and top Indian companies. We also do not factor in rent escalation. As a result, some of the most marquee private equity deals that you have heard of in India with the larger real estate developers have been around assets which have been financed and were originally mortgaged to Indiabulls Housing including perhaps the top three private equity transactions which have happened in the country.

At moderate rentals of Rs.56 per sq.ft. per month, when you consider that a tenant typically spends about Rs.2,500 to do up the interiors, the tenant has sunk in over 40-months of rent, the risk of vacancy thus gets significantly diminished. In our LRDs we have an escrow mechanism under irrevocable structure by which tenants deposit rent into a central escrow account from which monies first go towards loan repayment servicing. Thus, to the utmost extent possible, our LRD loans are truly bankruptcy remote from the circumstances of the borrowing developer.

Similarly, to speak a little bit about residential construction finance, as mentioned earlier, over 70% of the overall book is supported by LRD facilities and most of the construction finance that we do would be generally cross-collateralized with another LRD facility. The encumbrance-free land which is a project land, comes to us as an upfront equity. We deal with the top-5 to 7 developers and insist on land coming in upfront and being at least 50% of the overall project value. If the underlying project land for some reason is of lower value, we take additional pass-throughs of land to ensure that at least 50% is coming to us as upfront equity. We fund only once all project permissions have been received and there is full financial closure at sanctions, such that net cash flows from pre-sales cover loan amount at least 1x. Total net cash flows including net future receivables from unsold areas cover the loan 3-4x.

The disbursements are all construction-linked. The projects that we fund are targeted at the upper middle class clientele in the top-6 cities of the country.

Now, going back to the more operating data around this quarter. Our disbursals for the quarter stood at Rs.110.34 billion. The disbursals break up into 61.16 for home loans, 18.69 for LAP and 30.49 for corporate mortgage loans. Our home loan book now forms over 60% of our loan portfolio with LAP and CC accounting for 39%; LAP being 19% and commercial corporate book being 20%. We are on track to reach our target of achieving 66% of home loans by 2020.

If you now refer to slide #64 of the earnings update, our spreads on the stock of loans now stands at 324 basis points and is at the higher end of our guided range of 300-325 basis points. We continue to convert our fixed rate bonds to floating rate through interest rate swap and in the process save around 90 basis points in the short-term. We have thus an efficient pass-through vehicle and our spreads have held within the guided range through rate cycle as shown at the bottom left of the slide.

Additionally, we have also sold down loans worth 46.6 billion in the first half of fiscal '19. This continues with the active securitization program that we follow. With liquidity expected to be tight, portfolio securitization would play a very important role in raising incremental funds. PSU banks who are the main investors in portfolio sell downs have increased their loan borrowing targets for the year. We aim to sell down close to about Rs.80 billion in the second half. For first half we also raised ECBs and between ECBs and portfolio sell downs, both contributed to almost 40% of our incremental borrowings. We have a similar ambitious plan for ECBs in the second half also. Blended for all, our cost of funds on book basis stood at 8.12% and on incremental basis at 8.08%. Our incremental spread for the quarter came in at 280 bps well within our guided range of 275-300 bps. I consider the current volatile times to be an opportunity for Indiabulls Housing. We look forward to continuously evolving regulations, as an evolved regulatory framework will provide stable operating environment over the medium-to-long-term. In the short-term it may well protect all of us, companies and stakeholders from rumormongering as well.

To sum up, while in the short-term the focus is on liquidity management. The fact is that this crisis will squeeze out some of our competitors thus making the competitive landscape even more benign. Fortunately, in our largest area of focus, which is mid income housing, the home sales have picked up with strong growth in both sales and new launches, and given the micro strength and the strength on the assets side we are extremely confident of sustaining our growth at over 20% level.

Thank you so much and we will now take questions. Before we get into questions, we will have to keep this call slightly brief this time. The company has also organized later today an event with CRISIL, our rating agency, where CRISIL is making a presentation on the credit profile of the company and Mr. Mundra, the Former Deputy Governor who retired last year and who has just come onboard as an Independent Director of Indiabulls Housing is making a key note address which will be followed by a panel discussion on the bond markets.On the panel we have Mr. Agarwal of Reliance Industries, Mr. Sabharwal of Tata Capital, Mr. Rajkiran Rai, the M.D. of Union Bank of India; Mr. Balasubramanian, the CEO of Birla and Mr. Prasun, the CIO of HDFC Life. So the management will have to head out there shortly. We will take maybe five questions and then we will have to address this. We are happy to take questions one-on-one as well.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch tone phones. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Anisha Khandelwal from Edelweiss. Please go ahead.

**Kunal:** Kunal over here. Firstly, maybe given this kind of entire liquidity situation, so what is our stance overall in terms of the growth? Maybe with respect to the commercial paper if we can just get the further breakup on the borrowing side, on the debt between like how much is the commercial paper and how much is bond and debenture, and maybe if we can get the breakup on the liability in terms of the subscribers as well in terms of how much from mutual funds, how much from banks, all put together?

**Gagan Banga:** As far as growth is concerned, as I mentioned earlier, I think with our liquidity management, our credit ratings as well as our capital structure, I continue to be optimistic that we should be able to grow about 20%. That said we have to see the market going back to its normal functioning and I think the market will take its little bit of time. So we will have to remain mindful. At this point in time, unlike some of our peers we are not in a mad race of raising liquidity. So against others who are perhaps just raising liquidity, we are managing liquidity. So the principle that we are following is that we have give or take 20,000 crores of cash. We are ensuring that number does not get depleted especially for growth of our loan book. So if we are getting new monies which are over and above whatever are our loan obligations we will continue to grow our book, otherwise the management will remain focused on management of liquidity. Fortunately, we are getting new monies. As mentioned, we have raised around Rs.3500 crores in the last 2-2.5-weeks and we are also engaged with several counterparties to raise both long-term bonds as well as loans through securitization, etc., So, I am very confident that we will continue to get growth capital but till the time that the money actually does not hit the bank and we see our liquidity going up, we will continue to focus on that single mindedly. So that should answer the question. So in short-term it is about liquidity management, over the medium-term we are confident that we will continue to grow 20%. Our CPs would approximately be in the ballpark of 15,000 crores on an overall borrowing of approximately Rs.1.2 lakh crores and about 30% of our borrowings come from mutual funds and the balance come from banks, insurance companies, provident funds and international FIIs, etc.,

**Kunal:** So with respect to this CPs of 15,000 crores, maybe in terms of the rollover when it comes in, so will this get substituted with other forms of borrowing and obviously maybe the CPs as a proportion of the balance sheet would come up quite significantly going forward at least in the near-term over next 6 to 9-odd months?

**Gagan Banga:** CP would come down I guess over a period of time. By how much? It is very difficult for me to say by how much it would come. From whatever I gathered, apart from some shrinkage of liquid funds, schemes of mutual funds, etc., I do not expect a big rollover challenge, but that said, I think there are proposals which we have made to the National Housing Bank to allow for short-term borrowings of housing finance companies to be substituted by secured bonds of shorter term nature as against commercial paper. So all of this said, I think directionally yes, CPs will be little over to where they are on percentage basis and other longer-term funding sources will probably continue to increase as a percentage of our borrowing.

**Kunal:** Lastly, in terms of spreads on incremental loans, so we have been giving out the guidance but now in this liquidity scenario how have we looked at it in terms of like say last week of September or maybe October till date, how is the movement in these spreads on incremental loans?

**Gagan Banga:** In a matter of two weeks or a month, so last week of September I think the market itself did not know where it wanted to price any kind of credit. If you think of some CPs that we have rolled over late last week, then we I think rolled it over at 7.70%- 7.75% if I am not mistaken. If I think of banks, banks in the meantime have increased MCLRs by anywhere between 5 to 20 basis points. The bonds that we last placed were at about 9.5 annualized which works to 9.1 monthly which works to about 8.5 or so on a floating basis. So these are the yields. I am not particularly concerned about where yields are. I think as a AAA as I said during my comments that it is more a question of confidence than liquidity. If someone is confident of continuing to be a participant on the other side, the pricing would be more or less logical. In the meantime, in April we have already increased our home loan rates by 20 basis points or so. So the transmission process is going on. Since April, home loan rates are up 70 basis points and that transmission is not unique to Indiabulls, the entire industry has gone a transmission of 70 basis points. So I would break up the current situation in three parts: There is the next 60-days where one will have to be mindful of management of liquidity. One has done it in the past through 2008, ’10, ’13, etc., Today, I am reasonably confident that most mutual funds who have to roll over our paper over the next 30-days actually have more money kept with them than the paper that they have to roll over. So that should give them a lot of confidence. So with that strength, and a strength of a very strong capital base and strong provisions, over the next 60-days I think Indiabulls Housing has to solely focus on liquidity management. After that we will get growth capital. I do not see a major disruption in growth capital cost and therefore I do not see any major disruption in margins. In the interim, we continue to be a pass-through vehicle which we have demonstrated in the past. So the problem is not as complicated that all aspects of business are under any kind of a challenge. I would rather imagine that as the competitive landscape becomes more benign, the pricing power actually goes up over the next few months.

**Moderator:** Thank you. We will take the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

**Saurabh Kumar**: Two questions; One on Slide #44, sir, you said your LAP repayments are typically about 20% in a year. What is typically the repayment in your mortgage book and CC book in a year?

**Gagan Banga:** Mortgage would be about 1.3-1.5% monthly which works out to about 15-17% annualized and CC would be between 25 and 30% annualized.

**Saurabh Kumar**: This excludes the LRD, right?

**Gagan Banga:** No, including the LRD because LRD is also prone to frequent refinance. So including LRD the average would be between 25% and 30%.

**Saurabh Kumar**: On Slide #32, you have kind of mentioned some standards of your CC lending. Just want to check the pre-sales the cash cover you calculated pre-sales plus loan inflow less construction cost, this is based on what is already sold, not unsold inventory, right?

**Gagan Banga:** No, this is what is already sold. On unsold, which is the total, if you come to bullet #5, average cash flow cover computed taking into account unsold units would be between 3 and 4x.

**Saurabh Kumar**: So basically just based on sold you can repay the loan actually?

**Gagan Banga:** Yes.

**Moderator:** Thank you. We will take the next question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

**Ritesh Nambiar**: Good evening, I wanted a little more clarity on this liquid investment of you. So Rs.17,000 number, how is the breakup like… how much is the mutual funds, how much is from GSec? Broadly wanted to know what is the time horizon because in mutual funds you can get your money in a day or two but in other investments how much time would it take for you to liquidate on a worst case scenario?

**Gagan Banga:** If you refer to Slide #11, this 17,000 crores, bulk of it would be with mutual funds and rest with government securities, etc., generally speaking you will not wait for maturity, you would wait for secondary market opportunity, I do not think India yet has a secondary market lock up in which you cannot sell government securities. So this is basis whatever the prescribed guidelines of HQLA are and therefore this money is all available for liquidation within 7-days.

**Ritesh Nambiar**: How much you said, how much is the Mutual Funds figure?

**Gagan Banga:** Mutual funds will be around Rs. 11,000 crores

**Ritesh Nambiar**: Secondly, just wanted to have a sense, there was a press release, in fact, your rates have got reset in home loans by 20 basis and in LAP as high as 200 basis. So is it true and what is the strategy like more so in LAP?

**Gagan Banga:** The rate reset is 20 basis points for home loans, retail LAP by 100 basis points and larger LAP and all the corporate mortgage loans between 100 and 200 basis points. So the clear strategy is that one, we stay pretty much in line with the market. So I think most market participants on corporate loans have increased rates between 100 to 200 basis points either by changing benchmarks or by increasing spreads. Both strategies have been resorted, rather than increasing spreads, we have increased the benchmark for the large loan. And clearly, one is spread management and the other is that in the larger loan portfolio if there is some refinance because of this we will welcome that liquidity also.

**Ritesh Nambiar**: One more clarity I wanted because you had this 30-day liquidity but mutual funds redemptions are in November and some in December, so how is 90-day liquidity or 60-day looking like which is 401% which you're seeing in a 30-day window?

**Gagan Banga:** What November and December redemptions are you referring to?

**Ritesh Nambiar**: Generally most of the CPs are maturing in November till December. So how is this ratio looking like if you extend it to 60-days ?

**Gagan Banga:** For that you will have to refer to Slide #12. We are 135% cover on our six months liability outflow and if you look at up to 90-days so we will have 1.6x cover.

**Moderator:** Thank you. The next from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave**: So, I wanted to ask you what about the worst case scenario that plays out, right, which is that as of now as you said it is more a problem of confidence than liquidity and my previous interactions with you guys have led me to believe that the liquidity for you guys, the way you manage your ALM. So let us assume that there is actually a stress in some pockets, right, because for some of the HFCs and some of the NBFCs, the assets which are backing the loans will become illiquid, so will we see loan losses going up, there will be some repercussions right, if not for you then for others and hence will there be a chain effect on your assets also, for example, you have mentioned that your expected LGD is around 25%, do you expect that number to change in the worst case scenario?

**Gagan Banga:** If we refer to slide #44, then I go back to the point I was trying to make in my comment, so generally speaking loan losses for a specific company would go down, basis in the short term is we were doing asset based kind of financing and refinance market would freeze up because some NBFCs and HFCs do not have money. Therefore we would get stuck, but as the top data shows that despite real estate prices moving up and down and refinance is really an outcome of how real estate prices are moving. If you have lent a 100 bucks today on a property worth 200 bucks, you can probably lend 120 or 130 bucks, but no one lends 160 bucks on a property of 200 bucks. At some point in time that market stops and refinance therefore as a consequence stops. If you look at real estate prices in India ever since 2014, there has hardly been any inflation, 3%, 7%, 5%, so prices have not really been growing, but the repayment rate has not come down and it has not come down because cash flows of our borrowers have continued to be steady. If you look at the bottom right table then that indicates that bulk of the repayment that we receive is actually the regular contracted repayment or the borrower stays with us and instead of giving us back 10 bucks of EMI in a year, he lands up giving 12 to 15 bucks of EMI while the loan stays with us. It is only about a 5th of our total repayment in LAP that we actually resort to getting payments eventually come back to us because of refinance. Similarly, on the commercial book, bulk of the money that we get in are linked to rents and those rents are not really an outcome of whether monies are available with NBFCs and HFCs are not, those rents are coming and hitting into an escrow account and that is really operating businesses, large companies who had out space at about a dollar per square foot, putting in rent into the escrow account. Now, if India is going to lease 43 million square feet or 45 million square feet this year in 2018, obviously the leasing market is strong, and if the leasing market is strong I do not see any credit event happening around rent discounting. Similarly, if you look at the construction finance space, home sales seem to be going up, even today's newspapers carry the same detail. So if home sales are improving for now almost year-and-a-half to two-years there is a real estate regulation act also in play which puts fairly onerous liability on all these developers, why will these buildings not come up and get sold. So for some of our peers who may have done asset-based lending, some of the fears that you mentioned could be relevant. I am reasonably confident that this is not, at least in the short term going to play into a credit contagion. It is a crisis of confidence. The industry, if it shows resilience for the next month or so, I am reasonably confident that this crisis of confidence will go away.

**Agastya Dave**: Gagan, just a couple of final questions from my side. One, can you give us a little bit of commentary on the RERA part? From what I understand there was some state which are facing problems, for example in Karnataka, lot of projects are stuck, so what are you seeing on the ground? And also a bit of commentary, you obviously are trying to focus on home loans and trying to focus on the affordable side and the reasonably priced properties, but what about the luxury side, so how big is our exposure on our current balance sheet, there is a lot of problem in the Bombay real estate and NCR region and it is a small part as such volume wise there is a much bigger market out there, but value wise this is a big junk of the market right, so any commentary on that part would be pretty useful?

**Gagan Banga:** Take the case of Central Bombay which some of you will be familiar with, the large exposures there are well understood that they are not with us and they have with some other peers, so that is really not the nature of the lending that we have usually done. So we have been looking at financing properties in the residential construction finance space which would be priced between Rs.4,000 and Rs.10,000 a square foot, in the case of Bombay that could go up to maybe Rs.12,000 or 12,500 a square foot. It will not be much lower in Bombay, then may be Rs.8000 rupees a square foot. So we would not go to distant suburbs, we would be in suburbs. In the NCR we would be there and in the 6 or 7 markets that we focus on, we actually find that RERA is kicking and solid in each of the 6 or 7 markets. So it is also about state administration. So I do know that RERA works extremely well in Mumbai and the authorities are extremely responsible. Whether they are being able to extend the same responsibility in Aurangabad or no? I do not have any clue, but because I have no exposure in Aurangabad. In the top six or seven cities, the customer is also extremely vocal. So if any government agency is not doing its jobs, you and I would both know about it on social media. So in that background I think RERA is doing a good job as I drive around the city I see myself a lot of projects which had been stuck for years are now getting closer to completion, work is happening because there are third-party liabilities which had been created which now the developer realizes have to be delivered on. So RERA has actually done quite a fair job in derisking the market.

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

**Adarsh Parasrampuria**: Hi, Gagan. Just a question on the asset side, NBFCs, HFCs have been fairly systemically important, in that sense you also mentioned that some of the loans are lending linked on the commercial real estate side could may not be as secured for peers is it for you all. In that context I just wanted to check from the regulatory perspective, do you see extra vigilance, by vigilance what I mean is banks have been through extra vigilance on the asset side for the last two to three years from the regulator, so what is your view around that in terms of discussions with the regulator?

**Gagan Banga:** I am not trying to pass any sort of negative commentary on anyone, all I am saying that I am extremely aware of the business model that Indiabulls Housing follows and for years now we have been talking about it being more cash flow based. There have been questions around at times why do not you guys grow faster, why are you not entering a space where yields are slightly higher given the fact that security is there, why you are carrying so much of cash. I think all of those practices from time-to-time come out as prudent practices to follow and this is one such time. Now, as far as regulators are concerned, unlike the Reserve Bank of India, National Housing Bank monitors the housing sector and housing finance companies. If it monitors the top-6 housing finance companies, I think it is able to cover over 80% of the assets, that are in the entire HFC space. So obviously, the top-6 are extremely tightly monitored and all of us go through annual financial inspections of four to six weeks. Ours just got over I think 10-days ago or so. And it is an annual process, it happens at least once, sometimes it happens twice a year. The regulator, unlike a bank where it has to also look at what our branches doing, what is going on, on the liability side with the depositors and so on, in the case of housing finance companies, it has to only cover assets and within assets larger focus on the relatively bigger ticket loans rather than the Rs.20-25 lakh home loans. So a reasonable scrub is done with good depth. I think how the regulatory framework will evolve is in a continuation of how it has been anyways progressing. So, what might have missed people's attention is that the apparent regulatory arbitrage has been shutting over a period of time. So from a time where capital adequacy was lower, it has been increased, standard asset provisioning came in, NPL recognition for housing finance companies was always at 90-days past due but it went down from 180 to 90-days past due over three years for NBFC. There are some ALM principles which obviously need to be tightened. They would probably get tightened. But is it going to be resulting in some sort of a massive kneejerk where the regulator be it RBI or NHB would come down, I doubt that, I have not seen regulators in India at least behave in an eased out manner, I do not think it is going to happen this time as well. I have also shared this with a lot of stakeholders in the past, Indiabulls is a child of regulation and we are where we are today in terms of the size and everything largely because of a rapidly evolving regulatory environment. Even now if the regulation tightens up, I think it will be extremely good for the sector medium-to-long-term. The one thing that I worry about most is irresponsible rumormongering which goes on without people referring to facts, that will probably go away if the sector is even more tightly regulated. So I most welcome regulation. That said I am quite confident that there will be nothing easier.

**Adarsh Parasrampuria**: Second question, Gagan, is on what are you hearing from banks in terms of funding you, peers generally if you can make a comment both in terms of lending directly to an NBFC, HFC or buying out portfolios, right, we heard the SBI commentary but I think what we wanted to check is more on the direct lending to the NBFC and HFC, this was the general interactions for you and maybe for the sector as well?

**Gagan Banga:** I think NBFCs which are able to demonstrate that they are managing their ALM well and given the noise around it, each of us will have to demonstrate our ALM. For those who are managing their ALM well are well capitalized, why would banks or any other lenders not lend to them. At the end of the day we are all in the business of either investing or lending and we have to carry on. So that is the way I think the scrub would happen between ALM and capital. Generally speaking, decisions would get taken. Where we have a little bit of an extra edge over several others is that over years we have sold our portfolios to over 20-banks. So not only do banks have a good color of ALM and now with today's move of having in a very external manner moving on to a Basel III compliant liquidity framework, we have obviously raised the bar and a bank will fully relate to the slides that we have put up. The bank has an additional comfort that over years we have sold I think about Rs.50,000 crores of loan assets to various banks. The banks have seen those and year-on-year our portfolio purchase program has only gotten stronger. So from Rs.5,000-odd crores in 2017 to Rs.10,000-11,000 crores last year to again headed to about Rs.14,000 crores or so this year. So there is a lot of very granular information which is available with banks. If you look at slide #45 on the earning update, very few organizations in the country would be able to publish this type of a static analysis of their LAP portfolio and a large part of this LAP portfolio is also lying with banks which they have acquired. Similarly, if you move on to looking at Slide #59, that has a summary of all the pools that we have sold down and there are at least 10 sheets in here which talk about various pools that we have sold down to various banks. So all of that gives an additional comfort to a bank. They have seen us at a balance sheet level, they have seen us at a five level and therefore if the portfolio is performing, why will they not lend? That in some ways is also the basis of what my interactions have been with banks.

**Moderator:** Thank you. We will take the next question from the line of Anita Ranjan from HSBC Asset Management. Please go ahead.

**Anita Ranjan**: I have two separate questions here: On is on the growth side. When I compare your growth from March to September balance sheet growth has been just around 5%. So, my first question is what gives you confidence to say that you will have overall 20% growth? My second question is can you give us what will be your available bank lines as of today, the sanctioned limits which you have not factored in your liquidity?

**Gagan Banga:** So our stated objective now for quite a few years has been that the balance sheet will grow at a pace which will be slower to the loan book growth. The loan from book September '17 to September '18 has grown by about 29%. The balance sheet because of the securitization that we are doing makes us capital efficient. It also provides us with the most matched liability. Since the securitization is co-terminus to the loan and therefore is the most efficient way of borrowing. So given a loan book growth of around 29%, I am reasonably confident of our numbers. In terms of bank lines, generally speaking, the bank lines that we would be carrying would be in the range of Rs.4,000-5,000 crores and as we speak we would have a similar number of around Rs.5,000 crores. On top of that there would be securitization sanctions that we would be carrying which would be over and above this. So, from a near-term liquidity perspective, one is not concerned because of all of these buffers and in our buffers we have not really referred to any of these undrawn bank lines.

**Anita Ranjan**: What is the average kind of securitization do you do per quarter, can you give us some sense there?

**Gagan Banga:** Last year we did about Rs.10,000 crores, in the first half we have done just under Rs.5,000 crores, in the second half we should do about Rs.8,000 crores.

Thank you, everyone. For those of you we may have accidentally missed out on inviting, this event is at 6:30 at St. Regis. So if you can make it, we will be delighted. Thank you again for supporting Indiabulls Housing. As I said, we are confident of being able to manage the situation extremely well, come out much stronger as we have through earlier periods of crisis in 2008, ’10 and ’13 and we should continue to follow the growth path that we have been doing over the last decade even as these three events unfolded over the last decade. So this is just another course and I am sure there will be fifth and sixth and we will be there stronger and larger than where we are today. Thank you.

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