Indiabulls Housing Finance Limited's Q3 FY'15 Conference Call"

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MANAGEMENT: **MR. GAGAN BANGA – VICE CHAIRMAN & MD, INDIABULLS HOUSING FINANCE LIMITED**
MR. ASHWINI KUMAR HOODA – DEPUTY MANAGING DIRECTOR, INDIABULLS HOUSING FINANCE LIMITED
MR. MUKESH GARG – CHIEF FINANCIAL OFFICER, INDIABULLS HOUSING FINANCE LIMITED
MR. RAMNATH SHENOY – EXECUTIVE VP, INVESTOR RELATIONS, INDIABULLS HOUSING FINANCE LIMITED

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

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Indiabulls Housing Finance Q3 FY-'15 Results Conference Call hosted by UBS Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you. And over to you, Mr. Kumar.

Ishank Kumar

Good Evening everyone and thank you for joining us today. I would like to welcome the management team of Indiabulls Housing Finance. We have with us Mr. Ashwini Hooda – Deputy Managing Director; Mr. Mukesh Garg – Chief Financial Officer; and Mr. Ramnath Shenoy – Executive Vice President, Investor Relations. Mr. Gagan Banga – Vice Chairman and Managing Director will also join us shortly. And I now invite Mr. Hooda to provide key highlights of results. Over to you sir.

Ashwini Hooda

Thank you Ishank. A very good day to all of you and welcome to the Indiabulls Housing Finance Limited Q3 FY-'15 Result Announcement. We have crossed a very important milestone this quarter when our **life-to-date** **1.21** disbursement passed 1 lakh crore. Each of our stakeholders have contributed towards this achievement and I take this opportunity to thank our investors, our customers, our lending partners, the rating agencies and the 4,000 plus employees that we have of the company.

Over the past five year IBHFL has consistently delivered on all key parameters on the back of our focus on Home Loans in the affordable housing segment. More than 80% of our Home Loan portfolio is of loans less than 50 lakhs and is towards financing of our affordable housing. The opportunity in this affordable housing segment is vast and all components of our Home Loan operations have geared towards this. Our brand locations are optimally distributed we have a direct sales team of nearly 2,000 employees that man nearly 800 builder sites regularly. Our rating agencies have drawn comfort from this and in the first nine months of the year all four rating agency that we work with have upgraded our long-term rating. We have availed our facilities opened by RBI for raising ECBs for onward lending towards affordable housing and have already tied the facilities of $200 million.

Our bond program has been very healthy and very good off take and we have been able to raise Rs. (+3,500) crore through bonds in last 12 months. This year so far has been very good for us. Our upgrade to AAA in the first half of the year has begun to have a positive impact on our cost of borrowing. Our cost of debt has moved to 9.88% and is now lower than the base rate of many banks. This has significantly enhanced our competitive capabilities permitting us to address an increasingly larger portion of the prime low risk at mortgage segment. As this is on the back of falling cost of debt despite more finely pricing our loans our margins are maintained. As a results of this both our disbursements and consequently the loan book has seen healthy growth.

Our disbursement for the quarter are 5,350 crore and for the nine months are 13,885 crore. This is an increase of 37% over the 10,165 crore of disbursal in the first nine months of FY-'14. Our loan assets at the end of Q3 FY-'15 stood at 48,078 crore compared to 39,000 crore at the end of Q3 FY-'14 a growth 23% year-on-year.

Coming back to the ratings, during this financial year we have been upgraded to AAA by CARE ratings and Brickwork and upgraded to AA+ by CRISIL a Standard & Poor's company and ICRA and associate of Moody's Investor Services. We are the only second company amongst our HFC and NBFC peer set to have a combination of AAA rating from CARE and also to be rated at AA+ or above from both CRISIL and ICRA. In the second quarter we also got rated by India Ratings& Research a Fitch Group company at the highest short-term debt rating of A1+. We are the only company come HFC and BFC and private banks to be rated by all five domestic rating agencies. We have stuck to our guidance given on financial and operational parameters and remain well capitalize. We have been able to maintain both our earnings momentum and crucially our credit quality as this segment largely comprises our salaried customer that are purchasing their first home with substantial contribution own sources. Our focus on this segment shall continue.

With this focus and the consequent increase in the share of Home Loan book the yield and consequently the spreads will rationalize over a period of time. Owing to that 10 bps fall in cost of debt our spread on the portfolio is stable at 340 bps similar to the previous quarter and also the same quarter last year.

Moving to the specific numbers now, for the quarter we have declared a dividend of Rs.9 per share with this our dividend for nine months FY-'15 will be Rs.26. With a networth of 6,135 crore, the company is one of the best capitalized housing finance companies and one of the **least geared at 6.08.** I will now quickly go over to the key numbers before proceeding to discuss the results in greater detail.

At the end of Q3 FY-'15 our loan assets stood at 48,000 crore compared to 45,000 crore at the end of Q2 FY-'15. Our PAT for nine month FY-'15 is 1,350 crore which is a growth of 20.9% over the nine month FY-'14 PAT of 1,117 crore. Our PAT for Q3 FY-'15 is 478 crore which is at growth of 21% over Q3 FY-'14 PAT of 395 crore. Disbursals for nine month FY-'15 were at 13,880 crore which is a growth of 37% over the corresponding period last year. Our total revenues from Q3 FY-'15 were 1,871 crore a growth of 18.8% over the Q3 FY-'15 revenue of 1,574 crore. Fee income for Q3 FY-'15 was 94 crore which for Q2 FY-'15 was 90 crore. The NII number for Q3 FY-'15 was 828 crore a growth of 25.6% over Q3 FY-'14 number of 659 crore. Our spreads for Q3 FY-'15 was stable at 340 basis point on book basis and 310 basis point on incremental basis. Cost of fund is 9.88% on our book basis and incremental basis as well.

Now moving on to the balance sheet number – Our net worth at the end of 9M FY-15 stood at 6135 crore. On the borrowing side 92% of our borrowings are long-term in nature in form of bank loans and bonds. Bonds have contributed to 43% of incremental borrowing in the last 12 months. Over the last 12 months we have raised 3,500 plus through bonds and 4,200 plus through bank lines. In keeping with IHFL philosophy of maintaining adequate liquidity the company had 7,800 crore plus in liquid funds in form of cash, cash equivalent and investment in liquid schemes of mutual funds. Our net leverage after deducting from total borrowings above cash and cash equivalent stood at 6.08. IBHFL is one the least levered company among its mortgage finance peers.

At the end of nine month FY-'15 the total sub-standard provisions were 247 crore and total provision pool is at 604 crores. Now moving to the asset quality indicators. We are very well provided with total provisions at 1.65 xs of the regulatory requirement. Our gross NPA and net NPA are at 0.86% and 0.34% respectively. In computing net NPAs only provision against sub-standards are deducted from gross NPAs. Standard asset provisioning and counter cyclical provision amounting to 357 crore are not deducted including these provisions are total provisions divided by gross NPA our total provision cover is 147%. On NPAs for over three years now we have remain within the range of 0.7% to 0.9% for the gross NPA and 0.3% to 0.5% for net NPAs. We continue to remain within this target range despite an extended bad phase of credit cycle. There is value in being financially conservative especially when fund raising avenues are prone to bouts of seizure. Indiabulls Housing Finance has a liquidity policy of maintaining around 15% to 20% of loan asset as cash and liquid investment. This helps us carry on our lending activities and insulate us from the intermittent liquidity tightening the likes of which we saw following RBI moves in quarter two of last financial year.

As a company we manage asset quality proactively and prudently. We are more than adequately provided on our NPAs with a total provisioning pool of 605 crore against gross NPAs of 411 crore a provisioning cover of 147%. We have also been successful in maintaining or managing spread our spread on portfolio have remain stable at 340 basis point. We are now headed into a big and busy fourth quarter and remain optimistic in being able to meet our guidance in line with the first nine months of the financial year. This is all from my side and we are ready to take the questions. Thank you.

Moderator Thank you very much. We will now begin with the question-and-answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah Sir my first question is I am sorry if I have missed that out but in terms of provisioning and P&L how much is the credit cost which we have taken in this quarter?

Ashwini Hooda The total credit cost is 74 crore. This was you know versus some 32 crore which we had last year.

Kunal Shah Okay. And how this would have been broken up say in terms of second say the standard one?

Ashwini Hooda These are essentially write-offs and sub-standard provision. So, almost 95% of these are write-off and sub-standard provisioning.

Kunal Shah Okay. And 25% of this would be write-off and substandard.

Ashwini Hooda No, 95% I will say. So standard asset provisioning you know very well provided for already there was slightly excess so, no additional standard asset provisioning is made this quarter.

Kunal Shah Okay. And sir in terms of break of disbursements of this 5,354 crores okay how much has been towards the Home Loan net and say the commercial mortgage or corporate mortgage loans.

Ashwini Hooda So essentially retail mortgage has contributed 4,200 crore. Home Loan is 2,700 crore, loan against property is 1,500 crore and the large ticket loan is 1,130 crore.

Kunal Shah Okay. And sir in terms of the interest on zero coupon bonds how much would that been this quarter?

Ashwini Hooda That number is 65 crore for this quarter.

Kunal Shah And this borrowing profile which we looked today also say banks are somewhere around say 60 odd percent, post repo rate cut, how are we looking at say in terms of the mix and definitely there has been the rating upgrade, so how should we see the skew in the borrowing profile say 18 months down the line or say 24 months down the line?

Gagan Banga Hi, this is Gagan here. So incrementally speaking we will be borrowing close to about 55 to 60% for the next 12 to 18 months from bonds about 25 to 30% from banks and the balance through portfolio sell down and in the current quarter which is quarter four portfolio sell down will be a bit higher than that but that apart this will be long-term the borrowing trend that you will see. So overall, I would say after 18 months the break up that you see today on incremental borrowing which is 52 and 43% between bank borrowings and bonds that should become more like 60-40, 60 in favor of bonds.

Kunal Shah Okay, and sir my last question in terms of how much has been the securitization done during the quarter?

Gagan Banga I think this quarter we have done around 700 crores.

Kunal Shah 700 crores?

Gagan Banga Yes.

Kunal Shah And how much has been the securitization income books for the quarter?

Gagan Banga We do not book any upfront income.

Kunal Shah Yeah, so that amount that you spread …

Gagan Banga Taken spread for 340 basis point over the life of the loan.

Moderator Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek Yeah. So first I believe ours is the only company which has been able to recover substantial amount from Deccan Chronicle, how much we have pending from them and what is status of the Palais Royale loan in Bombay? And second thing, I just wanted to know about this say this corporate loans which we are extending so how will we covering our risk and is that because of that the substantial exposure to the corporate segment that our price earnings are slightly on the lower side compared to us? That is it.

Ashwini Hooda So on Deccan and in that in some ways that also defines how we cover our risks, on Deccan Chronicle we have something around 75 odd crores which is to be recovered against which we have securities in excess of 200 crores. These are three bungalows in Hyderabad which are mortgage to us which were earlier occupied by the two promoters and their mother. So they are currently in our possession and we have to sell them off and then there is an office and one parcel of land. So all these five are mortgage to us. We have taken position of the three bungalows and all of this put together is worth north of 200 crores. We will recover that. Currently, there is a suite ongoing in the Supreme Court where the Supreme Court is as per to the best of my knowledge is extremely inclined to dispose it off on 20th which is tomorrow and if it does dispose it off tomorrow or in quick time then we should be able to sell these properties within 60 days of the Supreme Court order coming. That is point number one, point number two on overall corporate lending in some ways as I have said the structure in which we lend to Deccan kind of proves that the lending that we do is extremely safe, all is collateral backed that collateral is many times over and obviously we do a very serious cash flow analysis and a viability analysis. In the past on these calls I have gone through how we do appraisal offer residential construction finance project or office lease rent discounting when we do it and what is the rule engine. I do not think that anyone should have any doubt on our credit appraisal abilities, time and time again we have displayed that this is one of the finest performing portfolios. The recent upgrades by all credit rating agencies who have the privilege of also looking into granular loan-wise data proves that all stakeholders have a lot of comfort in how we are appraising including Palais Royale. In Palais Royale while the matter is still subject to litigation as I had updated all of you, there was a big policy change of BMC with which a massive release has come and he is filing on 29th of January he is filing and affidavit in which he is saying that since now the dispute is restricted to only about 12 floors he should be given OC for the balance 46 floors and I think with the affidavit he is filing he should get OC for the balance 46 floors. He has been selling one or two apartments every quarter at a discounted rate and as I have updated you in the past and servicing our loans and as I have updated you in the past depending on whether 12 floors get knocked off or six or three or none, the difference that we will make is that if everything comes his way then he will make 2,000 crores of profit if 12 floors get knocked off which is the maximum damage that the last BMC order can do then he will make a 1,000 crores of profit after taking care of our loan construction expenses and all of that. And incidentally, we have also started adding to a provision pool so that we are not caught on the wrong foot and we are providing somewhere to the extent of 40-50 crores every quarter to make sure that additionally providing so that we have adequate provision covers in our balance sheet God forbid this or any other large loan tomorrow is to go bad. So I think on overall credit appraisal time and time again we have demonstrated that our credit appraisal is as good or better than most players in the industry therefore even in the case of a outright fraud in which the rest of the system has lost something around five and half thousand crores and has no recoverability to it. We have already recovered something like 25 crores and we will definitely recover the balance 75 crores like Deccan and we are also continuously creating additional provisions on the balance sheet to make sure that God forbid tomorrow there has to be a delay or an accident, we are very well provided. On price to earnings while as management it is not my job to be commenting on how the market values are what I can say is that the company has undergone a significant maturity as far as the time that it got created between 2005 to 2009 and ever since 2009 there are 22 straight quarters now where we have grown a little bit every quarter at a very, very steady pace of 20 to 25%. I think whatever quality inputs various stakeholders including people on this call have given to us, we have tried to incorporate most of those inputs and extremely importantly when a management team is recommending to its Board a steady dividend payout what it is demonstrating is not only the power of the earnings that it has today but also the confidence that the management team has in earnings of the future. So I think that confidence the market is slowly getting which is reflected in how the various ratios with which all of you guys major companies like us are improving and I can only say that me, and my colleagues in the management team will stay focused in completing the guidance of 20 to 25% that we have gotten. The good thing which is happening in the market is that the segment which we have been focusing for the past many years that segment is receiving a lot of positive momentum from the government of India. So there is a lot which is happening around Home Loans of up to 50 lakhs, I got slightly delayed to join this call by about 10 minutes because I was with the Head of one of the largest insurance companies in the country and I can assure you that insurance companies are looking at financing affordable housing by taking more and more of our bonds. Overall what it means is that the liability franchise of Indiabulls is going to see significant momentum because of the asset class that we have been focusing on and therefore the guidance that we have given at the start of the year is extremely achievable. Nine months are gone, we are well within the guided range and even for the years to come I think this whole affordable housing opportunity will not only allow players like us to continue to grow at 20 to 25% for next many years. The market will become so large that many new players can also participate.

G Vivek Fantastic and two more queries, I believe LAP is a big differentiator for us a company and how is in that way and second thing any plans of going into segment like Gruh **and** Reppco **which** appears to be a biggest opportunity size on non-salaried class actually?

Ashwini Hooda So we have identified our segments extremely carefully and today the organization is mature enough that it is not doing anything, it need not do anything new in terms of go outside and try and look at asset classes which are unique. We would want to continue to stay at a high correlation with doing business with the more prime and prime customer through 2009 to date it has been a very gradual yet focused journey where we have moved the business model away from operating in the highest risk asset class then we used to do small ticket personal loans to today the least risk asset class where we are doing largely focusing on doing home loans and loans against home so loans against property in our case is more loans against home. This is clearly the least risk asset class. It is demonstrated in the credit performance of our various retail portfolios. Today, there would be close to about 20,000 crores of retail portfolios out there which have been sold to various banks and institutions which continue to remain rated by rating agencies and that information is up there in public domain and you have credit performances where after three years of origination these portfolios have been generating 99.5% plus collection efficiency. So I would much rather focus on what we already understand and when the opportunity is as large as it is and as I have highlighted the whole emphasis on up to 50 lakhs is only going to gain momentum I think it is better that we focus on our demonstrated strength rather than trying to do stuff which is probably extremely interesting for other players but at our scale today when we are talking about book growth in a quarter of 3-3,500 crores it may not be a very scalable opportunity. So there is a lot of comfort that stakeholders are drawing and stakeholders who are there on this call need to draw out of the fact that the company today has completed the important milestone of having done disbursements of over one lakh crore. It takes a long time for a retail focused organization to achieve one lakh crores of disbursements and having done that there is a lot of credit bandwidth which has been internally created and we would much rather leverage on that credit bandwidth and trying scale up our business.

Moderator The next question is from the line of Veekesh Gandhi from Bank of America. Please go ahead.

Veekesh Gandhi Congratulations, Gagan. Just had a few data point questions I guess one is what is your Tier-1 now?

Gagan Banga Veekesh, we will have to look at capital adequacy in the middle of the year assuming that mutual fund investments which at the end of the quarter were around 3,500 plus crores are non-risk weight assets. So assuming that at the end of the year we do not have any mutual fund investments. We will close the year with capital adequacy between 17.7 and 18% of which Tier-1 will be about give or take 14 and the balance will be Tier-2.

Veekesh Gandhi So this is assuming that you do not have mutual fund, right?

Gagan Banga Yes, which we will not have which is a conscious decision that we take so we have shed off all risk weight assets at the end of the year but through the quarter we do not want to take loss of even one day of interest.

Veekesh Gandhi So what I believe these mutual fund assets are part of your liquidity, right, which is that 7,800 crores?

Gagan Banga Yeah, so at the end of a financial year when capital adequacy has to be computed for bankers and regulatory agencies and the thing we move the investments from mutual funds into current accounts or fixed deposit investments both of which do not carry risk weight. So assuming for one minute that mutual fund investments do not carry risk weight today, the capital adequacy will be about 18% which will drop by maximum of 25 basis point for the growth that we will do in the quarter.

Veekesh Gandhi Right, okay, perfect. And secondly, again your operating side cost was on the higher side I am assuming that CSR as built in over here again, right, like last quarter?

Gagan Banga CSR to the extent of, so we will have to put in 2% of our profit into that so that will mean that there will be a 50 to 60 crore charge of which about 45 I think we have taken so 15 more has to be taken.

Veekesh Gandhi: 45 has been taken in 2 quarters?

Gagan Banga: In 3 quarters.

Veekesh Gandhi: And this would be for every year?

Gagan Banga: Yes it is now every year.

Veekesh Gandhi: And finally I saw your slide on provisioning but can you remind me what is the amount outstanding in the countercyclical buffer and standard asset provisioning separately?

Gagan Banga: Rs. 50 odd crores is the countercyclical.

Veekesh Gandhi: And out of that 357?

Gagan Banga: So, substandard is 247, countercyclical is 50, and standard asset is 307.

Veekesh Gandhi: And just one final qualitative question – your growth has obviously been rising on AUM basis, so right now you closed at 23% YoY, are we changing any direction more on the upside from here on in the range of whatever 22% to 23% to 25% or are we comfortable more with like a 20-22% or what it used to be like 18-20% in the last few quarters?

Gagan Banga: Asset growth will have to be more closer to higher-end of the range for profits to be even at the lower-end of the range because the gearing will keep on increasing and therefore book will grow by say, 23% to 25%, NII will grow by 22% to 23%, then profits will grow 20% to 21%. So, which is why I have been saying for some time that all financial parameters will grow between 20% and 25%, so we will stick to that number for the 4th quarter, so all financial parameters which is book growth, NII and profit growth will be in the range of 20% to 25%.

Moderator: Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: I had three questions, one is you just said the spreads have been stable at 340 on a book basis and incrementally 310, yet we see net income growth is far higher than AUM growth, quarter-over-quarter, so how should we understand this, is there some other income or are the margins higher despite spreads being lower, so that was one part. Second is, could you share with us what is the incremental borrowing cost on bonds separately, I understand the incremental overall is 988?

Gagan Banga: So, if you look at year-on-year comparison, Fee income has gone up from 60 odd crores to 95 odd crores that is one. 2) Net interest income for a particular quarter will be more the basis of where in the quarter the book growth came, so if you are able to generate 2-2.5 months of additional interest on Rs. 1000 crores of assets that also makes a lot of difference. So, it will be merely that but approximately as I said we will be growing by about 25% book, 22-23% NII and 20-21% profits. One odd percent movement in net interest income could be either that fee is more in a quarter or recovery is more in a quarter or there could be some capital gain booking that we could have done, so but nothing extraordinary which is like a permanent thing has happened in this quarter, whatever delta is there would be to the tune of Rs. 10-15 crore.

Aditya Singhania: Okay and the cost of borrowings on the bonds?

Gagan Banga: Cost of borrowings on incremental basis on a monthly basis is about 8.9%.

Aditya Singhania: This is for what tenure?

Gagan Banga: These will be generally in the range of 3-4 years. Currently, we are refraining from issuing very long-term bonds, we feel that the right time for that will be 3-6 months, so we are currently very consciously issuing bonds of 3-4 years tenures only.

Aditya Singhania: And banks would be all at base rate now by and large?

Gagan Banga: Yes, so the average cost of bank borrowing will be I think based between base rate (+5) or (+7), something like that, incrementally we will be borrowing on base rate only.

Aditya Singhania: And just a final thing, if I may, you know the write-offs for the quarter appeared to be in the Rs. 60 crore range, could you give us some sense as in which segment of the portfolio it is coming from?

Gagan Banga: It is essentially a way of providing on an accelerated basis, so there is no specific write-off which needed to be written off and so it was regular provisioning which is happening, we just want to ensure that our credit costs are hovering around 50 basis points for the full year and that is how the whole thing has been planned. So, there is no one large loan which has to be provided or anything of that sort, the business in normal course takes 30-35 basis points of provisioning but because there is an element of concentration in our book, we would want to run for this year, next year our provisioning at around 50 basis points which will be 15-16 basis points lower than last year or 30 basis points lower than 2 years ago but I strongly believe that given the concentrated nature of 25% of our book, we would much rather continue to build on our provisions. And this is why we are today to the extent of approximately Rs. 250 crores, over provided to where regulatory provisions are.

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

Saurabh Kumar: I actually have 3 questions, so one is on the developer lending, I know you have a lot of collateral there but is the cash flow also escrowed in your favor or no?

Gagan Banga: Our cash flows are fully escrowed so there are dedicated escrow accounts which are with one or the other of the banks, preferably private banks and both in residential construction finance when we issue a no objection certificate for a sale to happen, in that case the buyer is very clearly told and if the buyer is taking a home loan, then the home loan company is very clearly told that monies have to be deposited into a designated account and similarly which is escrowed to us and similarly in a lease-rent receivable discounting structure, all the tenants are told that their tenancy rights will be gone if they do not deposit money into a designated account.

Saurabh Kumar: Okay and typically what will be the cover on this escrow, like it will be 1.5-2x?

Gagan Banga: No it will be a function of the type of transaction, so at the cost of repeating what I had detailed in a few calls ago as far as rules of residential construction finance, so generally when we do a residential construction finance, presales, sales which have already happened which is normally in the context of Bombay called a soft launch would give us a cover of anywhere between 1.2-1.5x the peak loan amount that we will disburse. The overall, which is a launch which is done at a time where a lender cannot come in because permission, etc., are not there and we will come in when its permissions are there, so by that time he is doing proper sales which are culminating into registries, etc. The gross value of the sales, less construction expenses should give us at least a 4-5x cover on the peak loan that we will disburse and that 4-5x will flow through this escrow account, is theoretically supposed to flow through this escrow account, generally if the guys lands up selling so much, he will prepay our loan. And similarly, in a lease and receivable discounting, his current rent should be able to pay off a 115% of what his principle cum interest obligation for that particular month is. It is an EMI structure which gets built in. While doing lease-rent receivable discounting we do not factor in for escalations, so most buildings will have rent escalations of 15% every 3 years, we do not factor in that. We assume that rental will stay the same and whatever is the residual tenure that the current rent will be able to amortize the whole principle and also service the loan. Those are broadly the principles with which we lend.

Saurabh Kumar: And secondly, once assuming the other two rating agencies also give you AAA, the book should significantly migrate towards lower risk mortgages over a 2-year-period I guess? So, what do you think should be an ideal mix for you between let us say just home loans and developer loans and LAP, maybe 18 to 24 months down the line?

Gagan Banga: No I do not think we need to migrate this any further, I think what a company like ours should be rightfully chasing, is scale because the opportunity is just so large. We have to appreciate that the mortgage to GDP penetration in this country is all of 9% and in most emerging markets with similar demographics is anywhere between 15-20% and also in the backdrop that housing finance companies are gaining market share over banks, so clearly there is a recognized need of a product provider like a Housing Finance company, so in that our objective should be to increase scale rather than trying to necessarily reduce risk on products in which it is proven now through an extended credit cycle that credit costs are extremely manageable, so I am happy even if CRISIL and ICRA are to upgrade me to a AAA, we are happy to ensure that our asset mix of 75% retail and 25% Corporate lending continues to remain and within that the whole pie and what we disburse in a month and how we grow our book, I would be happier to increase that if I am getting the liability of both quality as well as at the price point that one is competitive. So, what is kind of holding back our growth is our over emphasis on efficient liability management, it is not either risk that we see on a continuous basis in any asset class be it large loans or retail home loans or LAP. There was a period of 1-1.5 years where we were concerned about the large loan book and there we stopped growing that book, so almost from the period January 2013 till August 2014 we did not grow, apart from those periods on a more 5-10 year basis we are happy with a 75-25 mix.

Saurabh Kumar: Okay, I was just asking because let us say your AAA happens, your cost of funding is probably going to shift down significantly, so if the mix does not change, will it be fair to assume then your spread should ideally go up?

Gagan Banga: No we would want to; today we are marginal players in the greater than 50 lakh segment. Earlier we used to be marginal players in the greater than 25 lakhs segment. For the last 4 months, ever since the rating upgrade, we have started doing a bit more business in the 25-50 lakhs segment, I would much rather compete in all this and offer customers a viable interest rate rather than either increasing our margins or shifting away from the corporate loan book. So, the intention therefore is to maintain asset mix and also to maintain margins at these levels and whatever savings we get out of cost of funds, we would use those savings to accelerate our growth.

Moderator: Thank you. The next question is from the line of Jonathan du Toit from Truffle Asset Management. Please go ahead.

Jonathan du Toit: I was just focusing a bit on your capital and your gearing. I see your net gearings now is at 6.1, how high would you let the net gearing go you would still be comfortable and when do you think you need more capital and what is the base structure do you think in order to get more capital?

Gagan Banga: See we continue to operate in a pretty distorted capital structure. So today at 6x gearing and after growing 20-23%, one is still the least geared lender in the mortgage industry and some of our peers are running at gearing level which are almost 2x our gearing level, So I do not think we are yet at a stage where we need to start worrying about capital. Our rating agencies, if you look at their rating rationales have given us borrowing limits which are approximately 1.5-1.7x the borrowings that we have currently, so clearly they are okay with gearing levels going to 7-8x. I would want to revisit this topic only when we are at about a gearing level of 7x to see whether capital is required or not, till then I think we are still in a pretty over capitalized state basis, either regulatory requirements as well as where competition is and therefore I do not see us raising capital through FY16 at least. It is also a call that management has to take from time to time. As we have discussed this in the board, at least through FY16 we feel that we do not require any capital and which is why we continue to focus on maintaining a reasonably high dividend payout.

Moderator: Thank you. The next question is from the line of G Vivek from J M Investments. Please go ahead.

G Vivek: Are we lender of the last resort in terms that the customers who are not getting loan from anywhere for example Lal Dora land, are able to get the loans from us, Indiabulls Finance?

Gagan Banga: See we are a tightly regulated company so to give you a perspective of some numbers, housing finance companies would have a total loan outstanding today of approximately Rs. 4.5 lakh crores. If you look at the top 4 housing finance companies, then between themselves about Rs. 3.80 lakh odd crores would get covered, if not Rs. 10,000 crores higher. So, the regulator clearly, unlike RBI which has 60 different banks to regulate, of which at least 40 banks are of significant size and so many NBFCs to regulate. National Housing Bank as a regulator, if it wants to regulate its sector tightly to the tune of about 85%, needs to only regulate 4 entities, given that it is in a very strong position to ensure and pursue that each of its regulations and policies is very strictly implemented on the ground and as a policy, we are not allowed to do home lending on irregular property, on a property where the construction has happened outside of plans or where the mortgage cannot get created. Lal Dora land as such, you cannot mortgage, agricultural land you cannot mortgage and therefore you cannot create security and therefore we cannot lend on it. So, we are therefore, a) Bound by regulations. b) We would be the lender of the last resort if our offering to the customer was in anyway inferior to other housing finance companies or banks. Today, a good salaried employee looking for a loan in a Vasai or Dombivali or something, which is where the a guy with a household income of approximately Rs. 2 lakh annualized, who can buy a house in Mumbai would get an offering from us which is very similar to any bank or housing finance companies, if not identical. With a service level which is significantly higher, I would urge you to visit some of these locations to see our physical presence on the ground in Vasai, in Noida, in New Bombay, at the outskirts of Bangalore to realize how well-networked we are in construction sites where homes are selling at about Rs. 50-60 lakhs, I am happy to even organize a tour for some of our stake holders for doing that and that really is our focus, so my 2500-2600 strong direct sales team sits on a few 100 projects every weekend, engages with customers while they are deciding which house to buy and that is where we give our home loans neither regulatorily nor because of our cost of funds today, are we required to do any asset based or high-risk lending.

G Vivek: One more thing, I would like to congratulate you, is on your brand building effort you have really catchy ad, fantastic ad and what is your effort in that direction mode and why the mortgage penetration ratio in India remains at such a low level?

Gagan Banga: Mortgage penetration in India remains at a low level because of a variety of things and while the trend will be upwards, I think that this call may not be the most appropriate time to discuss such a macro trend. And also, many thanks for the ad. We are entering a very important year for Indiabulls Housing, this is the 15th year of our inception, and we will be making suitable additions to our brand building efforts given the fact that it is such a critical year. I hope to continue to build the brand though the brand I strongly believe and that is the education that we try and give to our staff also is less a function of awareness that you create through catchy ads, it is more a function of how you service your customer and how you build customer's loyalty and especially in an emotional product like a home, how do you make sure that the customer becomes your brand ambassador, and that is what we would like to continue to remain focused on. I am happy to tell you that we have completed 1 lakh crore of disbursements and today we have thousands and thousands of customers out there who are our happy brand ambassadors and I would consider them to be one of our biggest strengths.

I think we are done with questions and I would like to only summarize with that the company is at a very interesting inflection point. Through calendar 2014, we have gone through 3 very significant events – One was the reorganization of the founder group, which has clearly taken out the contagion risk of an industrial business that resulted in the 2nd very significant event happening, which was the upgrade of our credit ratings and we have also invested in building a very strong board, ever since the induction of the new board members, a few board meetings have happened, including today's and I am happy to share with you that the feedback that had come my way that we need board members who will ensure that stakeholders who are external to management start to believe that their stakes are being protected. Some of the board members are extremely vocal and they will ensure that your interests are more than protected. So the reorganization of the founder group, the improvement in ratings and the induction of extremely strong board members has given a very different type of a profile to Indiabulls Housing when it approaches new types of lenders, there are new types of lenders which are getting associated to the company every day, that is allowing us to build on the asset base in a very healthy manner and I am getting on a day-to-day basis more and more comfortable about our liability profile. To add to that, there are various positive Government policies around affordable housing which are giving us a lot of buffers when it comes to choosing the type of assets that we wish to finance. As I short while ago mentioned that we have already reached a critical point where we have disbursed over 1 lakh crores, which has built a very good credit bandwidth within the organization and all of these and our confidence in the growth profile of the company, is demonstrated in the strong dividend payout that we have continued through the last few years, which we are confident of continuing to deliver on over the next few years as well. I think all of these points kind of summarize the confidence that we have on our business and I am sure that my team and I will continue to work to fulfill our guidance. That is it from us and thank you all for joining.

Moderator: Thank you, on behalf of UBS Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.