"Indiabulls Housing Finance Limited Q3 FY16 Earnings Conference Call"

January 20, 2016

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Indiabulls Housing Finance Limited Q3 FY16 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 now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you sir.

Ishank Kumar: Good Evening, Everyone and Thank You for joining us today. I would like to welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga -- Vice Chairman & Managing Director; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Mukesh Garg -- Chief Financial Officer; Mr. Pinank Shah -- Head Treasury; and Mr. Ramnath Shenoy – Executive Vice President (Investor Relations). I now invite Mr. Banga to provide Key Highlights of Results. Over to you sir.

Gagan Banga: Good Day to all of you and I Welcome You to the Q3 and Nine Months FY 2015-16 Earning Call. I also thank you all for taking the time out to log into the call. I am very pleased to inform you that this has been our biggest quarter ever with PAT of Rs.602.4 crores, which is a year-on-year growth of 26% over Q3FY15 in which we have reported earnings of Rs.478.1 crores. We have closed the balance sheet also and crossed an important milestone of Rs.70,000 crores. So, our balance sheet is now north of Rs.71,000 crores. The Loan book has grown to Rs.62,264 crores which is a 29.5% growth over Rs.48,000 crores in Q3 FY15. We have also announced an interim dividend of Rs. 9 per share in continuation of our dividend policy. While our disbursals and book growth have remained healthy through the last few years mainly owing to our focus on the mass market Affordable Housing, our average ticket size is about Rs.24 to 25 lakhs and the area of focus for us continues to be Home Loan in the range of Rs.15 to 75 lakhs of ticket size. Unfortunately, the wider commentary on the Housing market be it Housing Loan market as well as the overall real estate market has been one of doom and gloom.

I will spend the next few minutes in just making everyone understand as to how we see the industry going forward. Recent industry reports indicate that the Affordable Housing segment is turning around and is indicating a very strong pickup in demand across the country. We have provided you with data in our earning update on some of the recent industry trends and I will summarize the same for you here: In the last two years there has been an interesting divergence between the Affordable Housing segment and Houses which are priced in the above one crore category. Tax deduction against principal and interest repayment of housing loan has significantly cut the effective rate in the Affordable Housing segment of Rs.15 to 75 lakhs. With the existing deductions against interest and principal repayments, headline yield of let us say 9.5% which is where most of the industry participants are today result into an effective yield of around 4.5% for Rs.25 lakhs Home Loan and the range is 2.8% to about 6% in this entire Rs.15 to Rs.75 lakhs range. For Rs.25 lakhs Home Loan, this accounts for only Rs.2,765 of excess expense if one buys the house today and pays for the interest and principal in an EMI structure as against the rent that he is paying. Rental yields in India range from 2.5% to 3%. On to kind of back up this data in December 2015, real estate consultant JLL had published a report which indicated that the residential unit sale in Mumbai for the preceding 12-month period was up 28% year-on-year, and this growth is largely coming in more the Affordable segment as against Premium Homes in which most opinion makers buy their houses and pay into gloom and doom picture. The report went on to mention that while absolute capital values of houses may have actually fallen, Residential price inflation lower than overall inflation has resulted in significant time correction over the last couple of years. In a background of increasing input land and construction cost, Residential price inflation is not expected to go much lower from here.

We have also all been reading lots of news stories around Commercial Leasing activity. According to a recent report by the property advisory firm CBRE office space leased in the top seven cities of India grew by 18% in 2015. The report attributed this growth to overall positive market sentiment and strong macroeconomic climate. Further, this report pointed to acceleration in the leasing activity in the last quarter of 2015 and clocking 26% growth over the quarter before, combined with steady supply and I believe about 40 million sq.ft. of leasing has happened in India over the last 12 months. Our own sister company, Indiabulls Real Estate and other group companies have leased out close to a million sq.ft. in the last 12 months in Mumbai and Chennai. Rule of thumb is that 100 sq.ft. of space will require about 1000 sq.ft. of Residential space, thus the uptake in commercial lending activity is nothing but a precursor to a spurt in Residential sales and we are already witnessing the same in all the markets where employment has been created and we believe that this trend will continue to benefit the Rs.15 to 75 lakhs ticket size range.

Now, moving on to highlighting some of the other key aspects of our business in this quarter and over the last few quarters: Our borrowing mix continues to evolve and has got more diversified with bank loans contributing on stock basis to only 49% of our funding mix. On a rolling 12-month basis non-bank loan sources now contributed to 65% of our incremental funding and the range of non-bank borrowing is generally 100 basis point cheaper than a bank borrowing. That is a major-major respite. Despite a large infusion and very healthy capital levels, we are very focused on efficient deployment of capital. Our thrust on Loan sell down continues; this quarter we sold down Rs.1,041 crores of Loans and the preceding 12 months was the strongest ever 12-months in our history of sell down. We sold down close to about Rs.4,213 crores of loans in the preceding 12 months and Rs.2,546 crores in the whole of nine months FY15. The sold down portfolio now stands at about Rs.7,412 crores and it is not only ROE-accretive, it will help us push the next dilution further and further down, and we hope that at least for the next 6 to 7-years as we hope to not dilute. This will be one of the key drivers of postponement of any dilution.

The other key aspect is the progress that we made on cost-to-income ratio. We have been speaking a lot about cost-to-income ratio. Our operating efficiencies have been continuously increasing both from employee productivity and also increasing sale of business. Our cost-to-income ratio at the end of nine months was at 14.4% from 16.4% at the end of FY15 and 17.1% at the end of FY14. Our focus on continuously coming down the risk ladder and on low risk granular Home Loan and Loan Against Property has resulted in a steady reduction in our cost of credit. Annualized for nine months FY16 this was down to about 62 basis points from 70 basis points in FY14. This quarter to further give comfort to our stakeholders given the massive uncertainty in the credit markets and the NPA issue is that a lot of other lenders are facing, we have formalized second rating relationship for our LAP portfolio with ICRA. In the last quarter I had mentioned about the same. So along with CRISIL which has published its third rating report on our LAP Loans, ICRA has published its first rating report; It is published in our earning update which is up on our website as well as on Bloomberg and has also been emailed to a lot of you. So I would urge you to go through this and understand the type of Loans Against Property, Loans that we do which is completely cash flow focused and are not the asset based lending or consumption lending that a lot of our peers continue to do in the market.

Come to some Financial Numbers: The top line has registered a healthy growth with revenue for nine months FY16 at Rs.6,580 crores as compared to Rs.5,135 crores at the end of nine months FY15, which is a growth of 28.1%. The revenue of our Q3 stood at Rs.2,307 crores. NII for nine months stood at Rs.2,677 crores against Rs.2054 crores last year; the NII for Q3 is Rs.971.3 crores as against Rs.745 crores. We continue to remain on our guided target of profits for the nine months and we have actually gone past the guided the range of profits for three months; we had given a guidance of 20% to 25% and we have done 26% of profit growth for the current quarter; in nine months we have recorded almost 24% increase in profits and therefore, I am hopeful that for the full year, we should be at the higher end of the guided range.

Our long term dividend payout policy would come down to 50% of earnings which is anticipated sometime in FY18, we should continue at the rate of Rs.9 per share per quarter.

Capital adequacy is comfortable, adjusted for investments in debt schemes and mutual funds. It stood at 25% at the end of Q3FY16 as against 25.3% at the end of Q2FY16. The world is extremely uncertain and I believe right now we have way too many tender boxes around us. So we have actually ramped up our cash balances through the quarter and as there was a lot of uncertainty in the geopolitical environment, we had actually ramped it up to almost Rs.15,000 crores to Rs.16,000 crores at the end of the quarter, we are running with cash of around Rs.12,600 crores and over the course of the next two to three quarters, we expect the geopolitical situation to play out and the global situation to also play out, we would be running with a very high cash position in order to have our line of defense very firmly up there. Our net leverage after deducting from total cash stood at about 4.3%.

The heartening thing about the quarter is how NPAs have panned out. We had guided in 2010 about the gross NPA range being 70 to 90 bps and net NPA range being 30 to 50 bps and we continue to remain very comfortable in that range at 83 bps of gross NPAs and 35 bps of net

NPAs. Standard asset provisions and countercyclical provisions amounting to about Rs.431.9 crores are not deducted while computing net NPA. Including these provisions our total provisions divided by gross NPA, that is our total provision cover on gross NPA was 141%. Our net credit cost stood at Rs.112.6 crores and we continue to adopt the policy of recognizing in advance and writing of well ahead of the curve. The credit cost on an annualized basis work out to 62 basis points as against 67 basis points for last year. As I have guided we expect these to continue to come off over the course of the next two years after which it should come down very-very sharply.

At the end of nine-month FY16 total substandard provisions stood at Rs.296.1 crores, general provisions were of Rs.169.4 crores and specific provisions of Rs.127 crores, floating provisions of Rs.50 crores and standard provisions of Rs.382 crores, totaling to total provisions of almost Rs.730 crores.

As I have said we had cash of almost Rs.12,000 crores, which is almost 23% on balance sheet own book and we will continue to run with heightened cash levels.

Now moving on to Disbursals: Disbursals for Q3 stood at about Rs.6,500 crores as against Rs.6,200 crores in Q2 FY16 and Rs.5,300 crores in Q3 FY15.

On the Borrowing side: Bank borrowings now form 49% of our borrowing mix. Bonds along with ECBs have contributed to 47% of the incremental borrowing over the last 12-months.

The other high quality piece which have been able to achieve over the last nine months is that I had guided at the start of the year that we will be maintaining spreads in the range of 300 to 325 basis points. Even as we emphasize on Home Loans a whole lot more, we have been able to maintain spreads at about 316 basis points on book basis which is at the higher end of the range and 303 basis points on incremental basis. Cost of funds is at 9.4% and on book basis compared to 9.5% at the end of Q2. On an incremental basis the cost of funds is just under 9%.

Borrowing mix has ensured that we have been able to maintain our spreads in the guided range and we are very optimistic that this 300 to 325 basis points will provide a very good borderline to how we continue to grow our business and increase the emphasis of Home Loans to 60% by FY18.

The other piece which has been a continuous feedback from several stakeholders has been this entire Zero Coupon Bonds. Zero Coupon Bonds as a measure of financing has come down sharply. Zero Coupon Bonds now contribute to merely 3.1% as of December '15 versus 4.7%, and I had committed to stakeholders that we will not be looking at growing this as a percentage of our borrowings, we have actually been able to very meaningfully bring it down and that should be the trend going forward.

We will continue to drive our profits by increasing operating efficiencies and our focus on granular Retail Home Loan and Loan Against Property has ensured that two other key expense lines which is operating expenses and credit cost have a declining trend. Our operating expenses have increased marginally to Rs.166 crores for Q3 against Rs.146 crores for Q3 FY15. Cost-to-income ratio has thus come off and annualized for nine months FY16 is down to 14.4% from 17.1% in FY14 and 16.4% last year. Net credit cost as a percentage of AUM is down to 62 bps for nine month FY16 from 0.67% in last year. This downward trend of both cost-to-income ratio and credit cost will ensure that profitability will be sustained and will not be compromised in pursue it of long term scalable business.

Our monthly HL prepayments are also down to about 1.1% per month more in line with the industry as against 1.8% last year. For LAP this is down to 1.8% down from 2% and as we align more and more of these loan to prime credits at rates which are offered by the largest and the best in the industry. Our repayment and prepayment rates will be bang on target with other industry players. With these repayment rates our Home Loans would get repaid in just about seven years which is what the industry averages for large players and LAP will be in between four to five years. Fee income for Q3 is at about Rs.129 crores, sharply up from Rs.94 crores last year. We have also earned some prepayment fees and insurance cross sell line continues to be very strong. So between processing prepayment and cross sell of insurance our fee income line should continue to steadily compound.

Moving on to Balance Sheet Numbers: Net worth stands at the end of Q3 at Rs.10,517 crores, up from Rs.6,135 crores at the end of Q3 FY15 and Rs.10,367 crores at the end of Q2 FY16.

After having taken you through the key numbers, I will like to come back to explaining the LAP grading arrangement with ICRA. This is one of two very important initiatives taken by the company this quarter. Over 80% of the loans as rated by ICRA have been graded as good or excellent and another 18.6% have been graded as average. ICRA will concurrently rate our files along with CRISIL. CRISIL will also continue to grade our files as it has published the third report. So now every quarter we would be publishing grading reports both looking at different aspects of loans and will that give you a very rounded flavor of how rating agencies look at LAP loans and what all do they value it. As many new entrants have come into the LAP market and LAP has become some sort of black box with underwriting standards being very different, I think as an industry leader it is a very-very important initiative taken by us. Some industry reports have been suggesting that given the hectic activity in the LAP market. It is more prudent that the delinquency number to monitor in LAP is the two-year lagged NPA number. For LAP Loans, our present gross NPA stands at about Rs.48.2 crores and on Q3 FY16 close LAP AUM of Rs.16,000 crores, amounting to 30 basis points. On a two-year lag basis computed on Q3 FY14 AUM of Rs.9,882 crores, this works out to 49 basis points. I do not think we can possibly ever provide you with even more detailed or granular data as compared to this. The grading methodology and scale have been developed by ICRA and will grade the LAP Loans on a 5-point scale indicating the quality of the Loans. The ICRA gradings are an independent and thorough scrutiny of the LAP Loans underwritten by IBHFL.

Both CRISIL and ICRA LAP gradings will go on and to become the cornerstone of our portfolio management processes over a period of time as we draw correlations between how the grading pans out to credit cost. Rating agencies are anyways engaged with us continuously to manage our direct assignment pools. We sold now around Rs.20,000 crores of loans over the last five to six years to a variety of banks and that data is also published on a regular basis by rating agencies and is put up on their websites for all you to go out and see. Of this Rs.20,000 crores, what is outstanding right now is Rs.7,400 crores.

The other key area of long term importance is the "Platform of Innovate" which we set up where we are inviting startups, entrepreneurs, established companies, etc., to help us improve our efficiency and that has received a very-very resounding success and initiatives such as **(Inaudible) 22:10** a) are an indication of the sensitivity that management has to continuously keep evolving its practices of gathering more efficiency as well as reaching out to the market and you will see us as the cutting edge of technology in terms of our engagement with customers as well as all other stakeholders, and we hope to be becoming more and more efficient as far as customer engagement is concerned. And with the transformation in the Digital market place, I am confident that this initiative along with whatever else we are doing on the Digital side will take forward our brand by at least 10-years in terms of recall over the course of the next one to two years.

In conclusion our guidance for FY 2015-16 remains intact. We will continue to grow at 20 to 25%. After nine months having gone by I am very hopeful that we should be able to close at the higher end of the range. Our confidence in the overall mortgage market especially in the segments that we operate remains extremely high.

So all in all a very-very good quarter, record quarter on profits and balance sheet size and I am the happiest around the quality of the earnings that we have been able to bring out and some of the aspects of quality I have highlighted in my discussions with you. I am happy to take questions now.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Kunal Shah from Edelweiss.

Kunal Shah: Firstly, when we look at in terms of say CRISIL upgrading, when we look at the average for the first nine months, that has actually gone up to 15-16% and say the 'Excellent' and 'Good' rating which used to be 95% has now come down to somewhere around 80% or so. Considering maybe this kind of steady overall mix, would we tend to slow down in LAP market or are we actually moving towards relatively higher yielding category on the LAP side, so what is our strategy out there?

Gagan Banga: Any grading methodology would take two to three quarters and probably that should be it to evolve. If you remember the first report that had been published, we had even mention that they were able to only grade a few hundred files. So now the population of files that we have given to them is reasonably large. The rating scale has sort of stabilized. You will see a similar evolution in the ICRA rating scale also over a period of time. So my sense is that their rating scale would stabilize by September of 2016 and my sense is that the CRISIL grading will be pretty stable in terms of its break up here on, ICRA grading will go up and down a little bit over the next two to three quarters and eventually stabilize. It is a question of an appropriate number of files going for them to be able to evolve their own grading scale. There are different industries which go on and which keep on coming into their purview. So it is less at this stage indicator of what are credit practice evolution has been over the last six to nine months, actually there has been none and given the uncertainty in the market, so our sense and the approach that we have to LAP is that as the commodity price deflation has hit each and every industry, what one witnesses is that the end car price is not reduced, the end TV price is not reduced. So end production companies are probably not suffering as much as throughput companies are and our entire team is extremely conscious of this fact and therefore we have only been tightening the screws around our LAP portfolio. The strength of Indiabulls in terms of the LAP franchise is around being able to remain very nimble-footed in its cash flow approach and that is something which is extremely dear to us and which is also reflected in how the portfolio has played out over the last 10-years. My sense is that over the next three to four years, what you will witness is that a lot of people who have done asset base lending will suffer while everybody who has done cash flow base landing which is a bunch of large private banks and one or two non-bank finance companies or housing finance companies, their LAP portfolios will be completely divergent to the trend that some of the other players who are doing Rs.5, 10, 15, 20 crores of lending will witness. So our strength will come from distribution, our strength will come from credit practices and tightening of those credit practices, and we are extremely cognizant of how SMEs have to be evaluated and what do we have to do in a scenario such as the one that the macro economy has thrown at us.

Kunal Shah: On a steady state basis, once maybe all the files as a grade by CRISIL, what is our assessment, maybe today what is excellent and good about it 80%-odd, how could it come down or maybe this is more or less the…?

Gagan Banga: I think now CRISIL is more or less stable and ICRA will take as I said three quarters more to stabilize.

Kunal Shah: How could be the yield differential between these?

Gagan Banga: The range will be from top to bottom would be 200 basis points.

Kunal Shah: How are we looking at the overall yield behavior particularly say even on our Home Loan rates after the base rate cuts by banks and even on the LAP side, so are we seeing any…?

Gagan Banga: As you may be aware, as you cut the base rate more aggressively have actually put a premium, so what was a home loan price as a base rate product has now become a base rate plus-plus something. I think the next level of evolution on rates, etc., would come and would become an active topic of discussion either along with our final results or more appropriate along with our first quarter results. So next year by which time the marginal cost lending approach would have probably stabilized. As far this quarter in terms of disbursements, Home Loans we were able to get just over 10%, in LAP we have got 13% and on the Large Loan book we have got 14.65%, on book basis our Home Loan book is 10.4%, LAP is at about 14.2% and the Large Loan book is at 15%.

Moderator: Thank you. The next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: Just had a few questions; one is can you just give some color on your overall Corporate book? Anything you can comment on with regards to Palais Royal account?

Gagan Banga: Overall Corporate book, Vikesh, we have been saying this quarter-by-quarter for the last 3-4-quarters that we are optimistic but very careful. The emphasis is to do more and more lease rent discounting or engage with newer customers who are in a position to first start a relationship around Lease Rent discounting and then do Residential Construction Finance Loan. Our entry into Residential Construction Finance Loan has changed at two levels – one, we are less enamored by big names because real estate being a cyclical industry, what is very evident is that as people try and gather size…size in India is generally gathered by also piling up debt, so we are not enamored too much by the very-very large names that you hear of. We are more focused right now on trying to evaluate what has been the recent progress in the last 24-36 months that a developer has made based on what he has been able to construct, sell and collect and collections have been the most important part. As a consequence of that, the entry into several Residential Construction Projects whichever we have entered into this fiscal year have come in at a much later stage to where we would have usually come in…usually we would have come in a few months after receipt of all permissions, right now we are coming in with initial sales having been done and we are happy to get 50-60 basis points lower but we do not want to enter into that stage. On Palais Royal, I had reported that project he continues to do distress sale of his apartments and over the last 3-quarters, he has been selling and servicing the loan. As we speak, the High Court is listening the matter for the non-parking portion, for the residual portion on a daily basis. There is a Supreme Court order directing the High Court to deal with the matter by 30-31st of January. So I am hopeful that whatever is the order of the High Court would come in by which time and then we will get clarity on the 4-5-floors which are still head up after the clarity on parking has emerged. So let us see what happens on those 4-5-floors from High Court perspective but otherwise whatever progress he needs to make to get part-OC in the next 5-6-months, that progress is being made, construction is on, services are being installed and part-OCs being targeted by July-August of this year.

Vikesh Gandhi: I believe you have made some provisions around this particular project, right or is there a way to do that?

Gagan Banga: We have made provisions and we are also not recognizing interest. So we have been abundantly cautious about this.

Vikesh Gandhi: For the quarter, can you just give me the breakup of your provisioning?

Gagan Banga: Standard asset provisioning stood at Rs.38 crores, sub-standard asset provisioning which is specific asset provisioning was Rs.30 crores and write-off also Rs.45 crores, totaling to Rs.112.6 crores.

Vikesh Gandhi: You mention in your opening remarks, you had a fee income of Rs.129 crores. What about the surplus that you earn from mutual funds or other kind of investments, how much was that number and any recovery related income?

Gagan Banga: Recovery related income was not very significant last quarter. We got a very positive court order on something that we had written off about 2-years ago. So fourth quarter should see very meaningful recovery in that. We have also been able to sell that asset and that auction is concluded but it happened in January. So there will be meaningful recovery. In terms of cash, we have kept almost around Rs.14,000 crores of cash and which has resulted in about 7.75% and close to about Rs.250 crores of monies have been received on this Rs.14,000 crores.

Vikesh Gandhi: Your Tier-1 total is 25, right?

Gagan Banga: Tier-1 precisely is 21.72 and 3.24.

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

Sameer Bhise: If I just look at the March '15 funding breakup, is there a way you have changed the reporting, the bonds are somewhere around 31% and as of today it is roughly 31%. So I think there is some reclassification. Additional disclosure of around commercial papers I think.

Gagan Banga: No, commercial papers have been disclosed regularly since 7-8-years now. So there is no reduction. We have started disclosing sell-down also as a percentage because that has become very meaningful number on an incremental basis. So on an incremental basis it has contributed to almost 14% of our borrowings which is why there would be a slight change in the way that you will look at our funding. But we report both separately as well. So if you look at Page #41 of the Earning Update, then first it has the borrowings breakup and then how the sell down contributes to.

Sameer Bhise: Secondly, what is the number of branches right now?

Gagan Banga: It would be about 224 branches.

Sameer Bhise: Any update on the OakNorth that I think we had guided will probably look at quarterly retails or some progress on that?

Gagan Banga: This quarter would be just to capitalize the bank. So it will be too early. From next quarter we will give you a regular update on a 6-monthly basis.

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

Adarsh P: Just one question in the funding mix. We have seen last quarter we have not had incremental or at least the bond funding is almost constant QoQ. So just wanted to get some sense on that?

Gagan Banga: We are extremely sensitive to our yields and the spreads. As you all may know that and I think one pink paper has also carried this, given the price dislocation which happened in the market subsequent to the Amtek Auto Replacement default, the market was not conducive for not increasing spread substantially and yet large issuance of bonds. We anyways are hopeful that and we continue to work towards our spreads coming down which we have been able to navigate very well and in the first two weeks of January we have been able to do a pretty large issuance of almost $200 million… almost Rs.1200 crores at very-very good rate of 9% annualized. I think that overall strategy has worked out. There would be quarters where we will have to pull back from a certain instrument based on several strategic or macroeconomic reasons or some methodology in which we will be expecting cut in our prices. So like this quarter again we will focus on both bank and bond borrowing. In the first quarter we will not focus on bank borrowing because we would like to see the new pricing regime settle down. So there would be quarters but on a more longer-term basis, as I had guided at the start of the year we are running in that ratio of 65-35 and by the end of the year I expect this number to give more looking like 70-30 which is a very good number to come from when we were 60-40 the other way. So, all in all, I think for the 9-months I am extremely positive about how the bond program has worked and if I increase the thing from 9 to 10-months I get even more optimistic.

Adarsh P: We have seen a decent AUM growth. Now, when we see some competitors kind of see some slowdown in their mortgage portfolio. So I just wanted to understand which pockets would you think is still doing well because our Loan book is fairly large size now for you to be meaningful in a system level. So I just wanted to get some perspective as to which pockets are doing so well.

Gagan Banga: Clearly, what we are benefiting from is that till the time we could not finance ourselves through bonds very aggressively as a meaningful percentage, portfolio sell down that also restricted to priority sector was main methodology of being able to earn any sort of spread on the Home Loan book and which would restrict our presence to loans to just below Rs.25 lakhs. So what would peculiarly happen is that if we are sitting in a project, we could finance a house which was two bedrooms but we could not finance a house which was three bedrooms because the ticket size would move from Rs.25 to Rs.30 lakhs and that clearly was a big-big restriction for us. So it is small efficiencies which we are getting now that we are less sensitive about or less obsessive about capping our Home Loan in just Rs.25 lakhs. I am in no way indicating that our ticket size from Rs.25 lakhs will suddenly become Re.1 crore. But there would be a marginal inch-up. So I had indicated this in the last call also. So, it will move up over a period of time to Rs.30-35 lakhs and as we see that we will in the process gain on operating efficiencies which will play out in the loan per sales person which has been hovering going up beyond two loans and our cost-income ratio as a consequence falling and it will also result in some market share gain. So from an overall industry perspective, I think mortgage industry and most players have their average ticket sizes between Rs.15 lakhs to Rs.75 lakhs across the spectrum. The growth has been 18%, Housing Finance companies have been growing at 22%, and some private banks have been growing at 25-26%. Our sense is that we will be growing at the same speed as some private banks have. ICICI Bank along with their press release when they crossed a lakh crore in the mortgage book, indicated that in the last 12-months and in the last 36-months they have grown at a CAGR of 25%. We are a smaller player. So we will be able to grow easily at that 25-27% number for Home Loans. I am hopeful that with this artificial obsession going away, we should actually be able to gain little bit of market share also. So we will grow at a pace which is a tad faster to housing finance companies and in the process gain marginal market share. Right now, our market share is around 6-6.5% on flow basis, which should hopefully over the next 2-3-years become more like 8-8.5%.

Moderator: Thank you. The next question is from the line of Utsav G from Investec. Please go ahead.

Utsav G: Can you please provide me with the disbursement breakup of Home Loan and LAP for this quarter and YoY basis?

Gagan Banga: In total we have disbursed Rs.6,474 crores, of which Home Loans are Rs.3,500 crores, LAP is almost Rs.1700 crores and Large Loans is around Rs.1300 crores.

Utsav G: What was the proportion last year?

Gagan Banga: Last year we had disbursed Rs.5,300 crores, of which Home Loans was Rs.2,700 crores, so from Rs.900 crores a month we have grown to about Rs.1200 crores a month, LAP was Rs.1500 crores which has grown to about Rs.1600-1700 crores. So we have grown from Rs.500 crores to about Rs.570-600 crores a month and Commercial Credit was broadly the same.

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

Saurabh Kumar: Can you just tell us on the rating upgrade from CRISIL, is there any progress on that? The recovery which you said in fourth quarter. Does that relate to Deccan Chronicle?

Gagan Banga: Deccan Chronicle should also happen in the fourth quarter hopefully, it is all led by courts. I cannot say for certain, but I am very-very optimistic that it should happen, at least part of the recovery should continue in Deccan. We have done two asset sales and recovered a portion. The third asset sale should happen in this quarter. This should be the final order because that is what the Supreme Court judge has reserved it for. So hopefully, it should wrap up the matter and then we should be able to recover our loan. It depends on when the order comes because there is a process of almost one month after the order before we can receive funds. This is another loan. So when we had gotten a little adventurous seven years ago, we had also ventured into doing three loans of Infrastructure Financing, fortunately, two of them got repaid, one did not and we had to write it off. So there is recovery happening out on that. We have been able to sell off that plant, it is a small plant and been able to recover money, we received 10% and we expect to receive the balance 90% by middle of next month is what the deadline is. So that has also been driven by court. So hopefully it should happen. As for rating upgrade, the engagement with rating agencies is now at the last leg. I think whatever is the outcome should be out close to the next two to three weeks.

Saurabh Kumar: Banks next year when say move to this marginal cost of funding, so the expectation is that mortgage rates come down. So in that context, how does your spread remain where it is?

Gagan Banga: There are three parts to it – one part is that as compared to our peers, we are a whole lot more banks financed. So I think the other guys are all in the range of 15%-ish and we are by stock basis almost 50%. So any transmission we would be disproportionate beneficiaries as against our peers. Then it comes to new loan pricing. New loan pricing as is being demonstrated by SBI, when SBI reduced its base rate to 9.3%, instead of reducing the home loan rate also proportionately. So home loan for SBI has been a base rate product for the last 5-years. It actually put a premium of I think 30 or 35 basis points and this comes from the same management which had actually gone on record to say that home loan should be allowed to be priced at some base rate and then when the transmission eventually happened, they actually jagged it up above this rate, which to me seems to indicate that there is basis, cost of acquisition, cost of credit and cost of monies, there is a floor below which banks cannot also finance home loans and on an incremental basis where home loans have traditionally been financed is more like 200 over sovereign and bond yields will be somewhere around 100 over sovereign. So my sense is that 100 to 150 basis points of spread will be there for the taking. We will have to calibrate our ticket sizes, etc., based on how the market plays out. But I do not believe that the compression or movement on an incremental basis for a product which has been historically priced at 200 over sovereign and for more state-owned banks as per industry reports, you guys will know it better, because you get more granular information, I rely more on newspaper reports, last year I read a newspaper report which told me that delinquency rates for most state-owned banks for home loans were ranging from 1.75% to 5.5%. So given those delinquency rates, I do not believe that they have the ability of being able to price home loans much below sovereign. If we take the example of another very aggressive player which is ICICI Bank, ICICI Bank also has a base rate of 9.3 if I am not mistaken and they continue to operate in the market actually at 5 basis points premium to even HDFC. So, everybody is today at a range of 9.55-9.6% and even though base rates for some have gone below. My sense is that the spread over GSec should not get massively disturbed.

Saurabh Kumar: This SEBI norm on mutual funds, any comments you have on the exposure to HFCs?

Gagan Banga: Some of you may laugh at this but I am actually quite delighted with this because I Indiabulls learnt these lessons in 2007 where we capped our commercial paper borrowing and we have kept it at 4% of our overall borrowings whereas if you will just go on Bloomberg and try and download data, you will find the new players and some of the very large players actually relying increasingly on CP. So there have been a lot of reliance on borrowing short lending norm. So as the CP limits of people freeze up, a lot of irrational pricing that all of you were massively concerned about especially in the LAP segment by a lot of NBFCs which did not have the long-term credit ratings, which were also not issuing bonds, yet were pricing so aggressively, so we would keep wondering if your borrowing from a bank at base rate or base rate plus, something how are you being able to price those loans. So it was obviously coming from CP and data says the same. So those guys are going to get squeezed and that should work very well to our advantage. So it does not really impact us. As over the last two weeks as there were some bit of expansion in spreads, etc., we relied on our cash buffers and we have not allowed our spreads to go up on CP. And even if it means temporarily we will run down our CP book, we are happy to do so, but we will not get trapped in this borrowing short lending, long type of a thing. On the other side on bonds, fortunately, our bonds to mutual funds are all of 1% of the debt fund AUM. So neither should we get impacted by the single party limits. It is more the likes of quasi sovereigns which are all sitting at and a few other names that all of us know of which are all sitting at the range of 8% to 10%. So if you will drop down data from the SEBI side of the top-10 debt mutual funds you will realize that all of those will have an exposure of 1% to 1.5% to Indiabulls Housing and a lot of other players it will be 8% to 11%. So some of those guys will get jammed by the 10% rule. That said there would be some bit of slowdown in mutual fund subscription because they will have to redo the 40% HSC-cum-NBFC limit down to 30%, most of them are in the range of 30, 31, 32%, the large guys and the small guys are in the range of 20% to 25%. So over the next three to four months, there would be generally slowdown in the subscription from mutual funds and then there will be a greater flow to players like us because their AUMs will hopefully grow, they are already sitting at single party limit caps for the other guys. So they will have to put money into people like us, which is why I said that I am actually quite happy with the way this has played out. In the meantime, we have been on record with all of you and with all stakeholders that we are anyways more focused on squeezing our spreads which cannot get squeezed by going back to the same subscribers. So we have been working very hard on increasing the base of subscribers and the transaction that I mentioned of about 200 million in January is not a single rupee has been issued to mutual funds and we have received funds as of two days ago. So it has all been done to parties which are ex of mutual funds, so stuff like PF, etc., has all come in. For whatever is our funding requirement for the next three months, we have already lined that up, so there would be another about $250 million of issuance which we will do till 31st March and none of that would happen to mutual funds. So over a short term we are looking at other subscribers, over the medium term I think this is a big plus which has happened for us.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Just wanted to know, are you seeing any pricing pressure on the Housing yield front?

Gagan Banga: No, as I was explaining, Housing Loans which is Home Loans have traditionally over the last two years been priced at base rate for ticket sizes which are generally in the range of Rs.25 to Rs.30 lakhs and then basis the profile of the salaried employee, which company he works for ticket size and then loan to values, location, etc., there is a small premium. Generally, the premium is for salaried people capped at about 75 to 80 basis points from the lowest rate and for self-employed people it goes up all the way to 150 even 200 basis points. So those ranges have been maintained. What has happened especially in the last round of base rate cut, some banks which had drastically cut base rate actually did not transmit the whole piece to home loan borrowers, they put a premium; so both SBI and ICICI which were traditionally pricing their home loans at their base rates actually put premium on home loans of about 30 to 35 basis points. So there has historically been reasonable clarity in terms of home loan pricing and that pricing will continue.

Sneha Ganatra: What would be the guidance on the credit cost?

Gagan Banga: Credit cost for nine months is at 62 basis points annualized, I think for the full year we will be broadly in this range of 60 to 65 basis points of annualized credit cost, next year we should be in the range of 55 to 60 basis points of annualized credit cost.

Sneha Ganatra: How do you see the yield on advances moving? Going forward, as you are able to get the benefit from the cost of funds and as you are able to support our margins as well…

Gagan Banga: No, I think the major participants in the segment that we operate in are the more rational players. So I had also mentioned to you that the segment in LAP that we compete in is more dominated by a couple of say in private banks and one or two more traditional housing finance companies and non-bank finance companies, none of which get affected by the recent changes of SEBI. So I do not see any pricing moving either each way in the LAP that we do. It is the LAP that a lot of you guys get worried about which is the Rs.5, 10, 15 crores of LAP that will definitely see an uptick in pricing and I am very certain about that. Just to go back to other SEBI regulation related question, the one point that I missed out was that the third category of funds where there is a lot of fund flow especially in this quarter and which we will clearly benefit from is the Fixed Maturity Plan piece. So as a lot of these FMPs come for maturity in late Feb and through the first three weeks of March, there would have to be greater granularity that the FMPs at this roll over stage would need to take. We have fortunately got only all of Rs.500 crores of our bonds placed with various FMPs. So my sense is that what could well happen is that towards the end of this quarter, a lot of FMPs would be chasing our paper because they have to per force now look at more granularity and have a minimum number of papers in there. So that should also play out to our advantage.

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

A Balsubramaniam: I had a couple of questions; first is if I look at the filing in BSE, between your standalone and consolidated numbers, there is a difference of Rs.50 crores in the provisions. Just wanted to know is there any one-off there? Second question is related to the capital adequacy. So does this number of 21% include the revision in risk weights by NHB or it is before that or that is not yet factored in?

Gagan Banga: No, no that is factored in and that had a very marginal impact of 160, 170 basis points, something like that I can get you the exact calculation, but so the peak break that we could have gotten was about 170 basis points, write-offs would have happened on the basis of where certain loan is parked, so there are two non-bank finance companies where there are commercial vehicle loans which have historically been happening and I mention to you in the past that our entire endeavor is to be able to write off the erstwhile commercial vehicle book and clean that up and be able to repossess and sell those assets, which is why bulk of the provisioning would be happening in the subsidiaries where all the commercial vehicle assets are lying.

A Balsubramaniam: So this write-off of Rs.45 crores would primarily be coming from CV book?

Gagan Banga: Yes, almost all of it.

Moderator: Thank you very much. As there are no further questions from the participants, I now had the conference over to Mr. Ishank Kumar for closing comments.

Ishank Kumar: Thanks all for joining this call.

Moderator: On behalf of UBS Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.