"Indiabulls Housing Finance Limited Q3 FY17 Earnings Conference Call"

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

Moderator Ladies and gentlemen, good day and welcome to Indiabulls Housing Finance Limited Q3 FY17 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 welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga - Vice Chairman and Managing Director, Mr. Ashwini Hooda - Deputy Managing Director, Mr. Sachin Chaudhary - Executive Director, Mr. Mukesh Garg - Chief Financial Officer, Mr. Pinank Shah - Head (Treasury) and Mr. Ramnath Shenoy - Executive Vice President (Investor Relations). I now invite Mr. Banga to provide key highlights of results. Over to you Sir.

Gagan Banga A very good day to all of you and I welcome you to the Q3 and nine month FY17 earnings call. This has been Indiabulls Housing's biggest quarter in terms of both profits before taxes as well as profits after taxes. Our PBT for the quarter was Rs. 10.06 billion and profit after tax was Rs. 7.51 billion. In this quarter our balance sheet has grown to Rs. 1.02 trillion. On behalf of Indiabulls Housing, I thank all of you and all our other stakeholders for your unwavering support over the course of the last 12 years as we have built brick by brick this lending business. In my conversation with many of you, I have often mentioned how we have benefited from regulatory and policy changes in the past. Now more than ever I feel we have the most favorable macro for home loan and are well placed with specific capabilities around balance sheet size and strength, capital, technology and experience in dealing with liquidity and credit cycles to take full advantage of the opportunity that affordable housing presents to us.

The government is focused on its mission of housing for all by 2022. Home loan rates have come down to 8.65 levels which takes us back to similar rates in the year 2010 which is when our flagship home loan product of 8% was started and we had realigned our strategy to focus on prime mass market salaried Home Loans. Through the course of the last six years, we have managed a seemingly competitive environment, when our rating was much lower. Our bond program was nascent. And we have charted a study path of consistent growth to get to where we are today. We are now in a position where we have considerable fire-power on liabilities, reach, underwriting capacity to make the most of the opportunity in affordable housing. To reiterate our focus remains study on prime mass market salaried Home Loans and this is going to remain the main driver of our growth. Both our loans against property and developer loan book have been growing at around 20% levels, while home loan is growing at over 35% level. We remain on a trajectory to get Home Loans up to 66% of total loan assets by 2020.

The government at its end to further encourage home ownership as a new year's gift to mid income aspiring home buyers. Our Prime Minister expanded the coverage under the Pradhan Mantri Awas Yojana subsidy scheme to 1.2 million Rupees of home loan, factoring in tax deductions against home loan repayments, etc. Now the effective interest rate under the Pradhan Mantri Awas Yojana scheme is all of 2.4%. These rates are a fraction of the prevalent rental yields and effectively means that it will be cheaper to own a house than to rent one.

For the first time EMI has dropped below rents across cities making house ownership more lucrative and cheaper than renting property. For the past many quarters, we have emphasized on our focus on Home Loans in the affordable housing segment and our share of Home Loans within the total loan asset book has been steadily inching upwards. Towards this two quarters ago, we have also launched India's first end-to-end online home loan fulfillment platform, eHome Loans. Last quarter we have launched smart city Home Loans to expand our reach into Tier-II towns and cities through a technology enabled lean branch model. Through smart city Home Loans, we have now opened over 25 new locations and this is already started contributing 5% to 6% of incremental Home Loans that we are doing.

I am also glad to inform you that today on 20th of January we have launched version 2.0 of eHome Loans. The many customer convenient and operating efficiency enhancing features of this upgraded version is detailed in our earnings update, on page number 13. Increasing sales scale and effective technology deployment has resulted in improving cost efficiencies. Our cost-to-income ratio for 9 month FY17 has reduced to 13.8% from 14.4% last year and 18.7% five years ago,.

Our liability side continues to be a source of considerable strength and what is unique amongst HFC peers, over 60% of our funding mix is on variable rate. With the recent steep drop in MCLR the cost on our stock of loans, the entire book of loans and borrowings that we have has fallen while on the asset side lending rates have fallen only for incremental loans. This has resulted in an expansion in our spreads and has given us tremendous competitive leverage to make the most of the affordable housing opportunity. And this is in a competitive environment when many of our peers are focusing on non-home loan products like LAP and developer funding for almost all of their incremental growth. Some of our peers have grown have been depending almost two thirds of their growth to come from non-housing products, while we continue to focus on housing and remain extremely optimistic that the flexibility of our liability mix will allow us to take advantage of the macro which is extremely favorable for housing finance.

To quickly cover how our cost of funds and spreads have moved as detailed on slide 42 of our earnings update. Some of you may just refer to slide 42 of the earnings update. Our books spread guidance has remained within our range of 300 to 325 basis points. Our incremental spreads have remained within the guided range of 275 to 300 basis points. If you will review slide 42 you will notice that since September, our cost of funds on stock has dropped by 61 basis points while base rates have reduced only by 5 basis points. As some of you may recollect, MCLR is applicable only for loans given out since April 2016. All loans prior to April 2016 in the banking system are linked to base rates and base rates have dropped only by 5 basis points. Our incremental funding costs have declined by 70 basis points, while the incremental Home Loans have reduced only by 45 basis points. And this I speak as of January, after the recent rate cut. Since March, our incremental funding cost have declined by a 112 basis points which is inline or slightly ahead of the fall in AAA bond yields. Consequently, our spread for December expanded to 327 basis points from 320 basis points last quarter.

The adverse effects of demonetization are already receding. Our disbursals bounce back in December and are very strong for the month of January aided by the fall in interest rates as detailed on slide 49. Through demonetization and its aftermath now, HFCs have remained largely unaffected and we have quoted data from CIBIL in both the demonetization update that we gave on 22nd December and the second update subsequent to demonetization which we have been included in the earning update of this quarter release today. The drop-in home loan enquiries was largely on account of banks and not on account of housing finance company. Banks were fully occupied with the logistics of demonetization to attend to retail and home loan customers. With more small businesses moving away from cash base transactions the demand for funding through formal channels of finance has started increasing.

IBHFL is focused on Home Loans and it is home loan that is doing our asset growth year-on-year. Home Loans grew by 43% while both LAP and developer book has grown by under 20%. I have also got some queries over the course of the last month or so on the disparity between what real estate developer is saying and what lenders like us and banks are saying on home sales and home loan off take. I think what is important to understand is that more of the organized large developers whose voices heard in the media and by the analyst community prominently cover and are focused on the premium housing market. It is common knowledge which other lenders will attest to us as well that sales in the premium housing market have been for the last 4 to 5 years, sluggish if not dead. Home sales in the affordable market have been extremely strong. RBI data for bank loan assets released on 10th of January shows Home Loans from banks and in the system grew by 16% in fiscal 2016, while gross bank credit grew only by 4%. This of course does not relate to what developers are saying because it is been driven by sales in the affordable housing segment. In the monthly update, it is also apparent that sales continue to grow at roughly 15.6% through the course of the month of November.

As many of you may recall in the month of December we engaged with rating agencies such as CRISIL, to publish monthly updates on the performance of sold down pools of Rs. 159.5 billion of principle. This was over and above the ratings of our LAP business that both CRISIL and ICRA release on a quarterly basis, which is included in the earning update. This quarter's earnings updates also carry such a report. What we ask CRISIL to do was to publish our monthly report on all the pools which we sold down across different banks and financial institutions. The second monthly update from this exercise is part of the current earnings update. The cumulative and monthly collection ratios for Home Loans and mortgage pools continues to remain over 99.5%, this underlines the robustness of our credit underwriting. This data for our pools also agrees to what ICRA report has released on 4th January 2017 said about the industries LAP and industries home loan pools that collection performance has not been impacted by demonetization.

As we had expected our underlying strength of credit appraisal would pull through the LAP collection efficiency for both cumulative collection efficiency and monthly collection efficiency and the numbers remain well north of 99.5%. You can have a very detailed inside into the LAP grading exercise conducted by both CRISIL and ICRA. In which over 99% of our incremental LAP loans are in the top3 grades on a 5-point LAP grading scale. This is the 7th such update that we have put out and this data pertains to stock of last 7 quarters.

Now moving on to specific numbers, we continue to remain on our guided target of profits and PAT for 9 month FY17 at Rs. 20.66 billion up from 16.69 billion for 9 month FY16, which is a growth of just under 24%. For quarter 3 FY17 our PAT stood at 7.51 billion a growth of 24.7% up from 6.02 billion in quarter 3 FY16. I am very pleased to announce that the board has approved a declaration of a 3rd interim dividend of Rs. 9 per share. Our dividend payout policy is to pay 50% of profits is dividend. In the past when the HFC sector regulator reduce risk weight we had increased our payouts to the present Rs. 9 per quarter which is above our target 50% of profit level. The general expectation that we have based on the guidance that we have given is that by quarter 3 FY18 our profits will be at a level where the dividends can start rising beyond Rs. 9 per quarter in which time they would remain capped at Rs. 9 per quarter per share and the longer term dividend payout policy that the company would continue to follow would be 50% of profits.

Our loan book at the end of 9 month FY17 stood at 814.22 billion as compared to Rs. 622.65 billion at the end of 9 month FY16 which is a growth of 30.8%. Our cash and liquid investments stood at 228.15 billion at the end of quarter 3 FY17. We have maintained elevated levels of liquidity through the quarter due to both global concerns of US elections, Fed rate hike and domestic concerns following currency demonetization. This heightened in cash level is reflected in higher other income. Due to sharp fall in interest rate we have made treasury gains to the tune of 120 crores. Net off higher interest expenses due to higher the normal liquidity levels. We have a net one-off gain of Rs. 50 crores, which we have utilized as has been promised in the past to create higher provision.

On the asset side, our asset mix at the end of 9 month FY17 splits as, 55% Home Loans, 24% LAP and 21% of corporate mortgage loans. Our housing loan book has inched up to form now 55% of total assets are up from 51% at the end of the quarter 3 fiscal 2016. We remain on a trajectory to get to 66% share of Home Loans within our total loan asset book by fiscal 2020. Our topline has registered a healthy growth with revenue of 9 month fiscal 2017 at 84.77 billion a growth of 28.9% over 9 month FY16 revenue of Rs. 65.78 billion. For quarter 3 fiscal 2017 the revenue stood at 30.04 billion up from Rs. 23.08 billion in quarter 3 fiscal 2016, which is a growth of 30.2%. The

NII for 9 months stood at Rs. 34.08 billion which was at 27.3% growth. NII in our case does not include fee and other charges. The NII for quarter 3 fiscal 2017 is at 12.61 billion as compared to 9.71 billion which is just under 30% growth. This NII does include the onetime gain in investment in equity fund.

Fee income for 9 months FY17 is Rs. 4.03 billion which was 3.3 billion in 9month. Fee income for quarter 3 FY17 was flat at 1.31 billion which was 1.29 billion in quarter 3 fiscal 2016 given demonetization and the change in the nature of disbursement that we bought about. In 9 month FY17 we have disbursed a total of 210.53 billion a growth of 22.3% over 9 month FY16 disbursements of 172 billion. 9 month FY17 disbursals split as a 118 billion for Home Loans, 47.4 billion for LAP and 45 billion for corporate mortgage loans. Disbursals for quarter 3 fiscal 2017 were Rs. 90.98 billion which splits as 50 billion for Home Loans, 19 billion for LAP and 22 billion for corporate mortgage loans.

Our NPAs for over 21 quarters now have remained within a range which we have guided of 70 to 90 basis points. So, gross NPA and 250 basis points for net NPAs. Our gross NPA stood at 85 basis points and net NPA 36 basis points respectively. In computing net NPA only provisions against substandard asset is deducted from the gross NPA. Standard assets provisions and counter cyclical provision amounting to Rs. 6.28 billion are not deducted while computing net NPA. We continue to remain prudent in our provisioning approach, our total provisions as a percentage of gross NPAs now stands at approximately a 150%. Total excess provisions stand at roughly 3.15 billion. One-off treasury gain has been used to create additional provision, is resultant our own credit cost for this quarter stood at 1.78 billion. Our annualized credit cost remains within our guided range of 70 to 80 basis points and stood at 74 basis points. At the end of quarter 3 fiscal 2017 total substandard assets provision were 3.98 billion, floating provision of 0.75 billion and standard asset provision of 5.52 billion.

Our net leverage after deducting from total borrowings cash and cash equivalents stood at 5.2x. On the borrowing side, bank borrowings from 37% of our financing mix down from 49%. Capital markets source is along with ECB and sell downs have contributed to over 98% of the incremental finance since March 2016. Our spreads for quarter 3 fiscal 2017 expanded to 327 basis points on book basis and was 307 basis points on incremental basis. We have maintained our guidance that our spread on book basis will be at 300 to 325 basis points on incremental basis will be between 275 to 300 basis points. So, as of December end we were operating at the higher end or beyond the higher end of both of these limits. On the longer term basis, we will be operating within 300 to 325 basis points of spreads on book and 275 to 300 on incremental lending.

Cost of fund as of December 31st is at 8.8% and has dropped since then in January as I have been highlighted. On an incremental basis for quarter 3 fiscal 2017 cost of fund stood at 8.06% which has now dropped to 7.7%. After the drop in MCLR in the week since first January as we have speak our incremental stretch stand at roughly 280 basis points with incremental loans being lend at about 10.5% and incremental cost of fund is 7.7%. Our zero-coupon stock is now down to an insignificant Rs. 6.05 billion at the end of quarter 3 fiscal 2017 as compared to zero coupon stock of Rs. 17.59 billion at the end of quarter 3 fiscal 2016. Zero coupon as a percentage of total borrowings is now stand at a mere 0.7% as against 3.1% for the same period last year.

Our net worth at the end of quarter 3 fiscal 2017 stands at a 117.86 billion up from 105.18 billion at the end of quarter 3 fiscal 2016 and 114 billion at the end of quarter 2. Total capital adequacy adjusted for investments in mutual funds stands at just over 22% at the end of quarter 3 fiscal 2017 with tier 1 at 18.17%. We are extremely excited with the opportunity in the housing finance sector and the wider mortgage backed financing industry. We reiterate our growth guidance of between 23% to 28% for fiscal 2017, in fact we have been forward of our growth estimate and we are now hopeful of being able to grow our balance sheet to 1.5 trillion by fiscal 2019 itself against the earlier projection of fiscal 2020. As our share of home loan increases the risk weight for Home Loans is 35% as against a 100% for LAP and 75% for residential construction and portfolio sell down also increases over a period of time, thus our capital consumption will remain quite frugal. Combined with the headroom **to** shore up Tier-II capital even by FY2020 our capital adequacy will be well north of 20% against the regulatory requirement of only 12%.

Given the robustness in the micro around our balance sheet, capital, technology, people and experience as well as the best macro that I have seen in many years now for housing finance, I am extremely optimistic that the growth trajectory that we have set for ourselves and the stability and the predictability that we have been able to bring out in the financials would continue through the course of the next many years and quarters and years. And I would like to repeat that our growth guidance of 23% to 28% for fiscal 2017 stands which is just now one quarter away.

Thank you so much and we can move on to questions now.

Moderator Thank you very much. We will now begin with the question and answer session. We take our first question from the line of Deepak Sharma from Allainz. Please go ahead.

Deepak Sharma: Just wanted to understand what is the impact of demonetization on the loan repayment for both residential mortgages and also loan against property?

Gagan Banga: If you referred to slide number 41 of our earning update in which we have bought out the second update subsequent to demonetization. The first update was published on 22nd of December and this update has been bought out with a request made by us to CRISIL, which clearly on page 44 brings out that home loan pools continued to have a cumulative collection ratio of 99.9% and LAP pools continue to have a cumulative collection ratio of 99.5%. If you go through slides 45, 46, 47 and 48 that brings out a pool by pool granular data for you as to what these cumulative collections ratios range from. So, all in all there has been no impact what so ever on the collection efficiency of both home loan and LAP portfolio. ICRA which had released an industry wide report on 7th of

January has also bought out the same fact that while several other retail loan asset classes have been disturbed marginally to quite strongly. Home Loans and loans against property remain reasonably unaffected. So, if you were to ask me what is the impact of demonetization the one big impact of demonetization is that cost of funds have come down other than that there is no material impact what so ever.

Deepak Sharma: So, this 99.9% for housing loan pools and also 99.5% for LAP pools, so what will be the ratio since November 8th or November and December, so like I believe this ratio may be over a period of time, right? Or is it after that period?

Gagan Banga: So, we have on a pool by pool basis also bought out the monthly collection ratios which will be for the specific month. So, this would, the second report would talk about the specific preceding 30-day period and the monthly collection ratio would generally in a lot of cases even exceed a 100% because of several technical reasons. So, there is absolutely no impact neither in the monthly data nor in the cumulative data.

Deepak Sharma: One more thing, could you please tell me what is the plan with regards to the bond issuance and so will it be in the Rupee or US Dollar or may be masala?

Gagan Banga: So, we would largely through quarter four continue to borrow in the bond markets in Rupee. Opportunistically speaking we may issue masala bond that will more opportunistically speaking given the Fed action interest rates have to be taken a view on as well as foreign institutional investors has a view on the currency. So, we will have to see how things play out over the next 60 days or so. Housing finance companies cannot really issue Dollar bonds, so we have annual limits for ECBs, so far, we have roughly about $415 million of ECBs outstanding and we have exhausted our limits. As of, for fiscal 2017 we do not have any additional limits. We will apply to RBI in the next fiscal year.

Deepak Sharma: So, whether the issuer has been effected by, I mean have you been affected by aggressive rate cuts in the retail loans by commercial banks?

Gagan Banga: So, we have brought out again on slide number 42 in the earning update. If you notice, there has been a 61 basis points reduction in financing cost for Indiabulls Housing on stock basis which is our entire borrowings of 83,000 crores have come down by 61 basis points since September 2016. Banks on a base rate basis have only passed on 5 basis points. For new loans our incremental cost of financing has come down by 70 basis points. Home loan rates have come down by only 45 basis points. So, we are, as I spoke in my commentary we are sitting in a situation where through quarter 3 our margins had actually gone past the guided limits over quarter 4 and over the medium term we would like our margins to remain within the guided range and whatever additional incremental margins we get we would much rather used that to grow faster. So, I would like to reiterate that our guided margin range is 300 to 325 basis points for stock and 225 to 300 basis points for incremental loans. If we get any higher we will use that to get more growth and pass it on to, to capture that growth.

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

Sunil Tirumalai: This is Sunil Tirumalai from Credit Suisse. Sir, I had a couple of questions. Thanks for the detailed overview that you have given in the collections in the home loan and LAP spaces. Can you also do a similar, give a similar update on what is happen in the builder loan book especially the non-LRD book since demonetization, there is a sense of slackness in the real estate market. How is that impacted and also specific update on Palais Royale, please. Thank you.

Gagan Banga: So, we had, if you refer back to our earnings call of January of 2014 in that we had guided that we were seeing slackness in prime housing sales and therefore we were de-emphasizing and we are going to emphasis more and more on lease rent discounting and that has been the general trend. As I had highlighted that while our overall book has been growing ahead 27%-28% for the last 3 or 4 years. It is largely the growth has been coming from Home Loans and our commercial loan book has been growing significantly slower to our overall book. Within that Construction Finance has been not really growing we have really capped it at an absolute value and that would continue to remain as a strategy going forward. But since this decision was taken almost 3 years ago, now, what is happened is that the projects that we had financed most of the projects have significantly matured and we have had very few additions in our portfolio over the course of the last 3 years. The additions that we have had our additions that the management continues to remain extremely confident about and therefore my sense is that given the cautious approach that we have had towards residential Construction Finance it would turn out to be a portfolio which will perform and continue to perform very strongly for us. We have very intentionally stayed away from the strategy that a lot of our peers are adopting which is to focus more on non-housing or non-home loan growth as against the strategy of focusing on home loan growth being emphasized by us and we are quite comfortable. At that point in time the questions were around how would we manage spread in a scenario that we were going slowly on a product which at that time was going to be yielding us 16% to 17% and was a significant contributed to our profits? We have managed through the course of the last 12 quarters. This migration largely on the back of improving liabilities and reducing cost of funds. We continue to follow the same practice and we will remain extremely cautious on residential Construction Finance. For incremental growth, that said the portfolio continues to perform most of the homes, residential projects that we have financed have now reached the stage where there is a negative working capital cycle in place where sales have already reached the level where net receivables of sales far exceed the future amount of construction expenses left. So, the more the builder builds the more money he collects and the repayments come back to us. Specifically, on Palais Royale, BMC has already issued cleared the public parking plot it was reported in the newspapers. It has also taken a final view on the refuge area and has sent the same for government approval. So, the project is absolutely on track. The court should clear it and then it should be in inline to receive an occupancy certificate over the course of the next few months. So, we continue to remain provided on Palais Royale, we continue with the same stands as we have had in the past around how we look at this asset in the time that it is completely clear and does not receive occupancy certificate, we would continue with the provisions, etc., and the cautious approach. But I think that this situation is behind us and this project should be delivered to the end home buyers within the next year to year and a half.

Sunil Tirumalai: What is the construction book, what size is that right now?

Gagan Banga: It should be roughly between 6000 crores and 7000 crores.

Sunil Tirumalai: And also sir, an update if you can provide on Oak North and it is been more than a year now since the acquisition. What progress has happened? Or are your targets been met etc.?

Ashwini Kumar Hooda: So Oak North has envisaged by us has seen the big four banks reduced their balance sheet and vacate more and more space for SME financing. So, we have seen Oak North Banks scale up its book very smartly and it has turn profitably you would have notice from the minority profit this quarter but more importantly the quality of asset and the growth opportunity is a huge. They would raise capital may be 12-18 months hence, but similar banks are attracting huge capital and valuations. So, both from an investment perspective and the bank performance we are very happy the way the business has been scaled up and seeing the opportunity to fund SMEs on back of very low cost base because the deposit raising is through internet, so it is a Fintech model where they operate out of 7-8 central offices for relationship base lending to these SMEs and raise entire deposit franchise on the internet and this model continues to be very competitive and showing good growth.

Sunil Tirumalai: How big is the book Oak North currently?

Ashwini Kumar Hooda: It is around 250 million.

Sunil Tirumalai: I think the target was 2.5 billion or something if I am not mistaken.

Gagan Banga: No. Target is 2 years from now to get to 1.5 billion.

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

Sneha Ganatra: There is a substantial reduction in the cost-to-income ratio which is planning at 13.8. Is there for this scope to reduce on that front? And second question is there has been substantial rise on the OPEX front that is on the other expenses which has grown by 23% anything look into that?

Gagan Banga: So, the cost-to-income ratio has been declining at a pace of 70 to 100 basis points. When we launched the eHome Loan initiative we have said that we will use the eHome Loan products strategically to make sure that this downward journey continues and we have already witnessed benefits of that with 50 basis points reduction, so far this year as well. I am reasonably optimistic that we will continue to see a downward trajectory in cost-to-income ratio. In the first half of this year we had also capacitized ourselves for growth that we are going to achieve through fiscal 2018 and 2019 and having capacitized ourselves we had seen a bump up in our employee cost. Now that those employees are stabilized the impact will over the course of the next two quarters be evident on the efficiency that we get out of them. Towards quarter 3 and quarter 4 other operating expenses will generally rise because of the impact of the CSR contribution that we have to make as per the Companies Act. So, that is the only bump up other than that there is nothing. Overall, the cost-to-income ratio which incidentally includes that expense stands at 13.8% which is well in line with our guidance of 70 to 100 basis points reduction through the course of the current fiscal and that 70 to 100 basis points annual reduction would continue over the course of the next few years as well.

Sneha Ganatra: My second question is on the cash and cash equivalent. Would you like to make come down on this levels compared to the Q3 numbers or it would remain sticky at that Q3 levels only?

Gagan Banga: I think in absolute value it would remain pretty much at these levels, in terms of percentages as the balance sheet continues to grow it would come down as a percentage. So, it would remain a close to about 20,000 crores give or take and because the balance sheet is also rapidly increasing and we would not want to under any situation dilute our liquidity principle of 20% of loan book to be maintained in the form of cash. So, that principle we will continue to abide by. Calendar 2016 saw almost six months of very high degree of uncertainty first with Brexit, followed by the US election and then the uncertainty around Fed rates as well as demonization. I had read a research report which even went on to say that the big impact on housing finance companies and non-bank finance companies would not come by virtue of how their asset classes will perform but it will come by virtue of banks not lending or the overall liquidity drying up, while I could not make much sense of that given all of these uncertainty, we have chosen to be on the erring on the side of caution. I am hopeful that 2017 should be slightly more stable and with lot less volatile news coming out of large markets and if that is to be the case we will strictly stick to 20% of loan book in the form of cash and avoid the higher negative carry. If volatility is to increase, we will have no option but to bump up our liquidity levels.

Sneha Ganatra: And on the corporate book could you just give break up on that front, on the corporate loan book which stands at 21% of the book?

Gagan Banga: So, roughly about 10,000 crores is lease-rent discounting and 7000 crores is Construction Finance.

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

Aswin Balasubramanian: Firstly, I just wanted to know what will be the sort of incremental and also book yields on each of the segments like Home Loan, LAP and the Corporate Loan segment and also within Home Loans would it be fair to assume that most of the loans for the salaried class will be close to your card rates. And similarly, on the Corporate Finance book could you also give what would be your yields on the LRD and Construction Finance segment separately?

Gagan Banga: So, generally speaking all home loan providers including us could be able to basis on a blended mix of salaried and self-employed, various ticket sizes, CIBIL scores, markets, loan-to-values, etc., are able to get roughly 40 basis points additional on a blended incremental lending. So, the yields that we are now getting are for Home Loans are roughly 9.05% and this is data not as of December 31st but as we speak because the context is changed quite dramatically. LAP we are getting between 10.5% and 11%, Corporate Credit book we are getting around 12.5% with lease-rent discounting at 10% to 10.5% and Construction Finance set around 15%. On a book basis, we have close to about as of December 31st our Home Loan book was at about 10%, LAP book was about 13.5% and Commercial Credit book was at about 15%. So, these are stock details and what I have given to you earlier are the incremental details.

Aswin Balasubramanian: Just one further question with regard to this. So, typically in your experience, like when do the book rates kind of converge to the incremental data, assuming of course that there are no further sort of downward revisions in the rate? So, like just wanted to understand how do borrowers kind of repriced over period of time, does it take a year or like more than that to actually?

Gagan Banga: So, borrowers in loans which are other than Home Loans have reasonably stiff prepayment penalties and therefore that product really runs the course that it has to. In LAP for example what we have seen is that we usually have about 20%-21% repayment cum prepayment which had gone up for a variety of reasons to 25% and so that would be the behavior but because your prepayment penalties that book cannot really quickly reprice. Home Loans will reprice, so we have a switch product where you land up at a yield which is generally higher by about 10 to 25 basis points than the current track rate and you have to pay a switch fees which is a pretty standard product to everything. So, I would say that the Home Loan book would tend to move towards the current offering over the course of the next 1 to 1.5 years. The rest of the book would remain reasonably sticky.

Aswin Balasubramanian: Just one last question, if I look at your balance sheet from September to December the short-term borrowings have gone up by about 6000-odd crores. So, would it be fair to assume that most of the incremental borrowings in the last quarter would have come from the CP route?

Gagan Banga: No, they would come largely from bank term loans which would be converted into foreign currency loans and that would have a maturity of just less than one year and therefore would be categorized under the short-term route and then there would be generally rolled over at the end of one year. So, incrementally speaking whatever bank term loan borrowing that we are doing including whatever is coming up for repricing or repayment and the roll-over of that, we are trying to do it more on the FCL basis such that we can get costs of 7.25% to 7.50% as against 8% to 8.5% of prevailing MCLRs.

Moderator: Thank you. We take the next question from the line of Mohit Bansal from Ajinkya MPL. Please go ahead.

Mohit Bansal: My question relates to eHome Loan product – so we have seen a very good response in the first 3, 4 months itself. I want to understand, in terms of percentage of home loans, where do we see this in the next 3 years and the next 5 years from medium-to long-term and how do you see it going ahead?

Gagan Banga: It is a function of several arms of the Government and what we are doing working together as well as the technology backbone to work. So when we launched the product for example, e-sign would need to be placed repeatedly and so it was not a meaningful replacement to a physical document. In a physical document, when you take a home loan you generally have to put about 70 signatures. Now we will within a few months move to a situation where with one signature you can get done, which is a meaningful convenience for anybody who is salaried or where there are multiple co-borrowers but all of this needs the facilitation of the entire legal framework, the Government and various bodies coming together. So if such facilitations continue, then my sense is that almost a fourth of our loans would start coming through this route, especially because there is a lot of emphasis on our end to make it more and more mobile friendly, but I think the more relevant short term impact of this is, what we are doing, using this platform with the Smart City product where we are being able to do our entire credit processing digitally rather than people moving paper or analyzing paper at different branches. And we have been able to therefore quickly roll out so many branches which are more sales points and acquisition points as against credit processing points. So I would say, over the course of the next year and a half, the more meaningful impact you will see will be on the cost-to-income ratio over the course of fiscal '19 and '20 you would probably see this become a big brand journey that Indiabulls Housing desires to achieve. So, it should get about a fourth of our customers to start coming through this route and position us as the most convenient home loan provider.

Mohit Bansal: Great. So these new branches that we are opening for Smart Cities, you know roughly 20 branches, so basically these are sales branches, right? So we do not have credit functions in these branches, these are all centralized.

Gagan Banga: No.

Mohit Bansal: So what is the rough target of these branch openings in Tier-II, Tier-III and Smart cities?

Gagan Banga: In the next six months' we would have completed the roll out of the 100 cities. So by June or so we would be present in a 100 different cities with these branches and my hope is that by which time we should get almost 12% to 15% of our incremental business coming from these branches.

Mohit Bansal: So with these incremental additions to employee strength and expenses, we still believe that we will be able to reduce our cost-to-income?

Gagan Banga: 100 branches would mean 200 people on a company which employs 6500 people.

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

Sameer Bhise: Just wanted to have some understanding on where is growth coming from, in fact geographically or say Top 10 cities were proportion of the incremental disbursements, they are some qualitative aspects of that.

Ashwini Kumar Hooda: So the growth would continue to come from where affordability and employability is. So by value growth is going to come from the big cities only and the Top 10 cities continue to be the bulk of the business. In the outskirts of most of these cities NCR continues to remain muted but the other cities such as outskirts of Mumbai, Bangalore, Chennai, Hyderabad, Pune these are very strong markets and they continue to give us most of our growth. NCR in the last month or so, now we are seeing some growth come in products which are close to completion and are priced at Rs. 3000, Rs. 4000, Rs. 5000, Rs. 6000 in that range. The premium even slightly higher than Rs. 6000 or projects which are far away from construction completion are not seeing much of significant momentum. So, to answer your question, it continues to be the large cities which will drive the value, so you have to appreciate that home loan demand is a function of affordability at the end that we finance. So if you are taking a home for quite literally consumption, then your main driver is going to be affordability. If you are upgrading or investing, and mostly upgrade would also have an element of investment, then it would be a function of what capital appreciation, etc., you see, which is why the higher end or the premium end of the market continues to remain extremely muted. The lower end of the market which is the consumption end of the market, is a function of whether I can afford the house, affordability is a function of have Real Estate prices been rising? They have not really been rising, even in the housing market they have been going up at all a 5% to 8%. Where are interest rates? Interest rates are at 6-year lows and effective mortgage yields are I think at all-time lows because of the tax sops. With the Pradhan Mantri Awas Yojana you will actually have effective interest rates at 2.4% and in the revised scheme you will be able to buy a house of up to Rs. 45 lakhs, in the revised scheme under the Pradhan Mantri Awas Yojana at roughly 2.4%. So the big driver of affordability is whether I can pay for my EMI instead of paying for my rent? Most of the people with this mindset would be people who have migrated from a smaller city to a larger city for employment or running their small business and that is where all the growth is going to come from. So as long as this affordability equation keeps getting better, business momentum would continue to get better. We are hopeful that over a period of time there would be momentum in the smaller cities also just because people will find this entire equation just so compulsive that within the small cities there would be an element of upgrade which would start which is why we are going behind this Smart City Home Loan product. But from a primary house perspective I think the large city would continue to remain the big drivers.

Sameer Bhise: So, what proportion of our book would be now top 10 cities?

Ashwini Kumar Hooda: Top 10 cities would be about 60-65%.

Sameer Bhise: But that would be primarily outskirts of these centers, right?

Ashwini Kumar Hooda: That is correct. So, in the context of Bombay, Vasai, Dombivali, Belapur, all of such markets, in the context of…

Sameer Bhise: I was just kind of trying to understand the recent Knight Frank and Jones Lang's reports which say that 4Q home registrations were down like 40%, so how does one kind of read this?

Gagan Banga: So, the registration anyway is a process which can get postponed because of let us say demonetization, people were busy elsewhere but I would not see transaction level really coming down even in the affordable segment, all the developers that we work with on our retail side had a footfall decrease in November but December onwards things have returned back to normal and this time the festive season was a bumper festive season, so till October there were lot of transactions and that has percolated that business to last 2-3 months, so you would continue to see a lot of transaction in coming months where people might have postponed their registration but they would have bought the property nonetheless.

Ashwini Kumar Hooda: I will make 3 other points. If you refer to Page #49 of the quarterly earning update of today then you will notice and this is data from CIBIL that December enquiries are already almost in line for housing finance companies back to October enquiries and January is turning out to be much stronger that is Point #1. Point #2, if you look at the last monthly bulletin of the Reserve Bank of India, so home credit has continued to compound at 15.1% and thirdly you have to appreciate a very technical point that in most cities of India registration is closer to delivery and not at the time of booking. So, unless those apartments are ready for delivery and takeover, people would tend to postpone that cost to the last extent possible. So, the registration cycle would get materially impacted by demonetization because people personal working capital cycle has been impacted. All types of lenders are distracted, so when there is so much of chaos a technical event like registration may get impacted. I will be personally extremely surprised that whatever was the postponement if it does not get caught up within the current quarter itself. So, that is the very small type of postponement that could have maximum happened. The more important thing is there are inquiries and therefore there are new home loan sanctions, as is evident from this data home loan sanctions are where they were a few months ago.

Sameer Bhise: And just one data wanted 3Q disbursements split?

Ashwini Kumar Hooda: So, the total disbursements were Rs. 9,098 crores of which home loans was Rs. 4900 crores, LAP at Rs. 1881 crores and Corporate Loans were Rs. 2300 crores.

Moderator: Thank you. We take the next question from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah: If you go on the Slide #11, my question is on you have given some guidelines on CAGR that balance sheet, loan assets, revenue, PBT and PAT CAGR, what I wanted some kind of color from you how much you think your book value per share can compound over the last 7 years what it would have compounded at and how you see it over the next 2-3 years?

Gagan Banga: So, there is no guidance in this on Slide #11, this is historic data of how all of these financial metrics have compounded on an annualized basis since fiscal '11, up until 9 months fiscal '17 and this is the annualized compounding rate and this is historical. What we have been guiding is across financial parameters we should through the course of the current fiscal year, which is fiscal '17 grow at 23-28%, profits have grown in line, so profits have grown at about 24% and we continue to remain well in course of being able to achieve the compounding of 23-28% across various financial parameters. We will continue to have a Rs. 36 per annum or Rs. 9 per quarter dividend payout policy, so my sense is that assuming that over the next 3-4 years we payout 50% of profits as dividend. The rest will get added to book value, so if profits are compounding to 23% and dividend is being paid out for 50%, there would be an additional impact of dividend distribution tax, net of that all of that goes into book value.

Nishit Shah: Gagan but over the last 7 years we would have raised capital by way of QIP as well as preferential shares and so I think it would be useful to see last 7 years how our book value per share has compounded?

Gagan Banga: It would not be strictly comparable because in the past we used to have a hefty stock of Zero Coupon Bonds based on the feedback of several stake holders over the course of the last year, year and a half we have run down that stock to now under 1% of our borrowings and therefore the Zero Coupon Bond servicing used to happen out of the share premium account, it therefore used to impact the book value, now it will have a much reduced impact on book value, therefore book value should compound at a rate of: profits minus dividend minus dividend distribution tax minus some minor adjustments; everything else will be book value accretion.

Moderator: Thank you. We take the next question from the line of Mohit Bansal from Ajinkya MPL. Please go ahead.

Mohit Bansal: Gagan you have been denying getting into some other businesses but then few quarters back you surprised us by putting some money into UK Operations. Any thought in the Board on taking a stake into some other NBFC in India which is not into Home Loan?

Gagan Banga: So, you will possibly appreciate that a management which is being able to compound profits and an organization which is being able to compound profits at a CAGR of 26% would, given the larger interest of being able to get maximum flexibility on the liability side, take a call on roughly 1% of our balance sheet. As a management team along with our Board, we have to take similar calls on loan assets almost on a daily basis of a similar size, so we took that call and so far as is evident from this quarter's financials more than ever before that small investment has already turned profitable and at that time also I said it is not for profit or Capital growth that we are making this investment. It is for larger objectives and I am sure that over the course of the next 2-3 years those larger objectives would also get achieved, so that is as far as that small distraction is concerned as far as the future the important thing to understand is at Rs. 1 trillion of assets for a company which is growing roughly at 25-30%, its book we are adding more assets than anything else which is on offer or several companies put together which may be on offer. And if we go back to 2012 we actually took a very serious long-term step when we reverse merged the then parent which is licensed as a non-bank finance company into what was a much smaller housing finance company and it came at a very stiff cost, so your NPA recognition used to be 180 days past due in NBFC became 90 days past due. The standard asset provisioning in NBFC is 25 basis points, here it is 40 and a 100 basis points. So, at a very stiff cost we took that decision and that decision really binds us to continue to do what we do. There is no Housing Finance Company to the best of my knowledge which is available, which would be more than a quarter or two of business for us. So, fortunately or unfortunately the way to grow for us is the organic route and I have nothing on my radar which is a credible, inorganic growth opportunity as we speak. You cannot ever rule out anything in business, so never say never but as we speak there is nothing which is up in consideration.

Mohit Bansal: Okay but the objective on acquiring or investing in the UK asset, does it not make more sense to invest in India based businesses.

Gagan Banga: We have gone over the objective of investing in the UK bank; today it is 0.6% of the balance sheet. In the interest of time I would request you to go through the 10s of transcripts which are available on the Bloomberg on the whole logic of investing in the UK bank and it is a very small investment that we made. It has nothing to do with trying to diversify into other asset classes, it has everything to do with the mortgage opportunity and as I said there is nothing on my agenda. We will continue to remain focused on the mortgage finance opportunity at the current profitability level of Rs. 750 crores; we make more profits than any other non-bank finance company in the country. So, why should we go pursuing the NBFC opportunity when the largest is also not a fraction of the profitability number that we sit on? From a shareholder perspective, the ROEs of those business are so poor and they are highly cyclical. The biggest structural opportunity in India is around the mortgage opportunity and as I said in the commentary the macro has never been as favorable as it is now for housing. So, it is the right time for the management to have an even tighter, sharper focus on the mortgage opportunity and just execute, execute, execute for the next 3 years and we will be able to grow off 50% in the next 2-3 years, that is the opportunity. I do not think any other asset class in the country offers that opportunity while preserving the return on equity that we generate.

Moderator: Thank you. Ladies and gentlemen, we take the last question. We take the follow up question from the line of Deepak Sharma from Allainz. Please go ahead.

Deepak Sharma: You have answered one of my questions about the inquiries although the real estate demands seem to be going down, so you have shown us the thing inquiry has been increasing. My other question was on the debt guidance, when you are assuming and you are also taking into account the 27-28% of growth, so how much will be the debt increase and could you also please give us the leverage guidance for the next 1 or 2 years?

Gagan Banga: So, as we have indicated in our growth that we hope to get to a balance sheet size of Rs. 1.5 trillion of assets by fiscal '19 and our capital adequacy including a marginal increase in Tier-II capital would be at about 20% levels even in fiscal 2020. So, we are extremely well-capitalized and whatever are the retained earnings on an annualized basis would be there besides that all other growth would come either in the form of regular debt or Tier-II capital.

Deepak Sharma: So, the leverage now that it has increased from 4.3 last year to 5.2, so how much will the leverage?

Gagan Banga: It will be by 2019-2020 between 6-6.5%. Thank you so much and as I said at the start it was a very important quarter for us. It had a lot of volatility in it but it has turned out to be another stable quarter and it has left us with a macro which is extremely favorable and a micro of Indiabulls Housing which is pulled through all of these periods of uncertainty with a lot of grace and a lot of demonstrated strength and I am extremely optimistic that we would continue to demonstrate and deliver on the guidance that we have given to all of you as our valued stake holders. So, thank you once again for all of your support and I look forward to speaking with you again in April. Thanks.

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