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MR. SACHIN CHAUDHARY – CHIEF OPERATING OFFICER, INDIABULLS HOUSING FINANCE LIMITED
MR. MUKESH GARG – CHIEF FINANCIAL OFFICER, INDIABULLS HOUSING FINANCE LIMITED
MR. ASHWIN MALLICK – HEAD (TREASURY), INDIABULLS HOUSING FINANCE LIMITED
MR. RAMNATH SHENOY – HEAD (INVESTOR RELATION AND ANALYTICS), INDIABULLS HOUSING FINANCE LIMITED
MR. HARSHIL SUVARNKAR – HEAD (MARKETS), INDIABULLS HOUSING FINANCE LIMITED

MODERATOR: **MR. ISHANK KUMAR – UBS SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q3 FY 2018 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: Thanks, Lizzan. We welcome the management of Indiabulls Housing Finance on the call to discuss Q3 FY 2018 results. From the management team, we have Mr. Gagan Banga – Vice Chairman, MD and CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Sachin Chaudhary – Chief Operating Officer; Mr. Mukesh Garg – Chief Financial Officer; Mr. Ashwin Mallick – Head (Treasury); and Mr. Ramnath Shenoy – Head (Investor Relation and Analytics); Mr. Harshil Suvarnkar – Head (Markets).

Now I invite Mr. Banga to share the key details of the result. Over to you, sir.

Gagan Banga: I wish you all a good day and welcome you to the Q3 FY 2017 - 18 earnings call. Thank you all for logging-in and sincere apologies for the slight delay. The Board Meeting went on for longer and thereby the result got slightly delayed in getting release.

For 32 quarters now, we have been compounding profits between 20% and 25%. This quarter, largely thanks to the stake sale in OakNorth Bank, our profits for Q3 FY18 stand at Rs. 11.68 billion, up 55% from Q3 FY17 profits of Rs. 7.51 billion. The profits, as I mentioned, include pre-tax gains of Rs. 5.42 billion from stake sale of approximately 10% of our stake in OakNorth Bank which was sold for a total consideration of Rs. 7.68 billion to GIC of Singapore.

As a prudent measure, we have used one-third of these gains and created an additional provision of Rs. 1.80 billion as a countercyclical provision. With this partial divestment, IBHFL has recovered its entire investment in OakNorth Bank made two years ago. The balance investment of IBHFL and OakNorth Bank is worth Rs. 15.10 billion of approximately 20%.

Post the sale, Indiabulls will continue to hold the stake of 20% in the UK Bank and will remain as the single largest shareholder with two nominees on the board. In two years of investment of Rs. 6.6 billion the value of our holding has appreciated 3.6x.

As a result, I am also very pleased to announce that the board has approved an interim dividend of Rs. 14 per share; an additional dividend of Rs. 5 over and above the regular Rs. 9

is being distributed from the profits of the sale of one-third of IBHFL holding in OakNorth Bank.

This quarter was also momentous for us with CRISIL, the S&P Company in India upgrading our long-term credit rating to the highest AAA. Most stakeholders are aware that the company had been striving to get an upgrade from both ICRA and CRISIL for the last couple of years and this has finally come through in calendar 2017.

With this rating upgrade, all of the four leading rating agencies in India rate IBHFL at the highest long-term credit rating of AAA. IBHFL is also only the second private non-bank lender on standalone strength to have received a credit rating of AAA by CRISIL.

In upgrading the rating CRISIL has factored Indiabulls Housing's continued healthy asset quality, robust capitalization, strong profitability, healthy cover for asset side risk and sufficient liquidity.

Our upgrades by both CRISIL and ICRA are already playing through into our cost of funds with our bonds being priced 25 bps to 100 bps lower to where they were priced in May of 2017. ICRA had upgraded us in June of 2017.

Corporate and sovereign yields have gone up by 45-50 basis points from mid-2017 levels. However, specific to IBHFL, due to the rating upgrades, lower bond pricing for fresh issuances combined with re-finance of stock of earlier issued bonds. This rating upgrade has enabled us to offset most of this macro rise in rates.

The ratings upgrade and our diversified liabilities profile accords us flexibility and provides us multiple options to efficiently manage our cost of funds. We had not accessed bank markets for some time prior to this rating upgrade. With the view on rupee being strong, forward rates have been pretty low. As a result of this, we have been able to borrow foreign currency loans on a fully hedged basis from local banks almost at par or lower than bonds.

Banks have had reduced their MCLR by 10-15 basis points last quarter which has been fully transmitted to us and that also helped us manage our cost of funds. Re-financing of ECB loans on maturity at lower cost is helping us bring down the cost of funds on our stock of borrowings.

Further, portfolio securitization continues to remain strong and the large requirements for pools from banks in quarter four will have a favorable impact on the cost of funds as it did in quarter three.

All of these combined helped us to effectively control our cost of funds in an increasing interest rate scenario.

Last month the company also received RBI approval to raise up to $750 million of Masala Bonds subsequent to which we have set up $1.5 billion MTN program and will tap the offshore market from time-to-time to optimally diversify our funding sources and further increase funding efficiencies besides increasing the proportion of foreign institutions on our liabilities registered.

In the past, we have guided for a spread on book basis of 300 basis points to 325 basis points. We are within this guided range with our spread on-book at 322 basis points at the end of the quarter.

Further, our strength in self-employed underwriting in the form of LAP to small businesses home loans to the self-employed segment and corporate mortgage loans give us considerable flexibility to sustain lending yields.

Fortunately, with the implementation of RERA, the demand for construction finance has gone up. This demand for LAP as well as home loans for self-employed has been further enhanced with the transition to GST. Our well-diversified borrowing program spread across bank term loans, bonds, and securitization and our well-diversified asset model with home loans, loans against property, home loans to self-employed, construction finance and lease-rent discounting, give management confidence that we should be able to continue to maintain our spreads at between 300 basis points to 325 basis points even in a rising interest rate scenario.

As a result, we stay confident to continue to grow earnings between 20% and 25% in fiscal 2018 and further up until fiscal 2020. I am talking only about core earnings. We are not factoring the bump-up that we get in earnings thanks to the OakNorth's transaction.

Affordable housing continues to benefit both from inherent economic and demographic-driven demand and from government policy focus. The Government has been keenly focused on the affordable housing sector. This financial year, that is, since April 2017, the Government continued policy measures and fiscal incentives to spur both housing demand and supply. The Union Budget of 2017 - 2018 announced a number of measures to boost affordable housing which include (i) an extension of interest subsidies to mid-income housing PMAY, along with tax deductions on home loan repayment; this has driven effective home loan rates down to near zero levels; this has been now extended this March of 2019 (ii) granting infrastructure status to affordable housing thus opening up access to more efficient funding; (iii) increasing the time for project completion to affordable housing builders from earlier three years to five years to avail the tax incentive; (iv) revision of the qualifying criteria for affordable housing from saleable area to carpet area. In April 2017, the government also permitted EPFO members to withdraw up to 90% of their accumulated corpus for purchase or construction of a house.

In June 2017, both the RBI and the NHB reduced standard asset provisions on incremental home loans from 40 basis points to 25 basis points. The regulators also cut risk weight by between 15% and 25% for various buckets of home loan ticket sizes.

In September 2017, the Government extended the interest subsidy for MIG-I and MIG-II type of housing, extending the cut-off date and also increasing the area. As a result of all of this, several analysts including ICRA the rating agency has commented on the Indian mortgage market saying that affordable housing companies are expected to continue to grow at north of 24% Y-o-Y. The credit growth in this segment over the medium-term to long-term is expected to be sustained at over 25% which could increase mortgage penetration levels from between 9% to 10% as it is currently to over 12% to 14% by March 2022. According to a Knight Frank report, housing sales across top eight property markets rose by as much as 28% for the quarter ended December 2017, from a year ago. Overall sale of residential units has also increased, with Delhi-NCR and Mumbai region leading with 21% and 19% Y-o-Y increase in sales respectively. Delhi-NCR region, in particular, has been performing extremely well as far as launches in affordable housing are concerned. The share of affordable housing launches in this region increased by as much as 71% in 2017 as at the end of Q3CY17, as compared to mere 21% in 2012. In the past three years, 47% of the units launched in these regions have been in the affordable housing segment.

Commercial office space absorption which is a lead indicator of housing demand crossed 42 million square feet in CY17. This was the third continues year when commercial office space absorption in the country was over 40 million square feet. CY17 saw a big jump in large office space deals with over 50 large leasing transactions of over 100,000 square feet each constituting over 11.5 million square feet. Pre-leasing, which is also a good indicator of sustained demand and occupiers interest, is at an all-time high with over 12 million square feet of pre-leasing activity recorded in CY17. Leasing activity has generally been the highest in suburban and peripheral localities which coincide with the supply of mid-income affordable housing, the area of our interest.

Backed by the favorable macros for housing, our home loan disbursals have grown strongly Y-o-Y and stood at Rs. 70.9 billion for Q3FY18, growing by over 44% over the Rs. 49.3 billion of home loans disbursed in Q3FY17. This is the third consecutive quarter where our home loan disbursals have grown by over 35% Y-o-Y.

In FY16, when home loans were 50% of our loan book, we had reiterated our focus on affordable mid-income home loans and said that home loans will rise to form 66% of our loan assets by FY20. We have completed over half of this journey and as of end of Q3FY18, home loans comprise 59% of our loan assets.

Supported strongly by the digital infrastructure of eHome loans, our Smart City initiative which is to spread into Tier-II, Tier-III, and Tier-IV locations continues to have strong traction. As at the end of Q3FY18, we have 69 Smart City home loan branches in Tier-II, Tier-III, and Tier-IV locations already contributing to 10% in incremental home loan sourcing. Our geographical mix of home loan sourcing where in 2012, 85% of the loans used to come from top 20 cities has now shifted to 70% of the loans coming from top 20 cities. By September

2018, we will have at least a 100 Smart City home loan branches and our dependence on the top 20 cities will continue to come down.

I will now quickly run you through the headline numbers:

We have grown strongly across all key parameters. Our balance sheet at the end of 9MFY18 stood at Rs. 1.23 trillion, up 20% over the same quarter last year. Our total loan assets are at Rs. 1.07 trillion, up 32% from Rs. 814.22 billion at the end of 9MFY17. Profit after tax for the quarter was at Rs. 11.68 billion, this is up 55% from Rs. 7.51 billion. The higher growth, as I mentioned, on account of the stake sale of OakNorth. From this, one-off pre-tax profit on sale of investment, we have created a Rs. 1.80 Bn counter-cyclical provisions. This is not towards any specific stressed asset, this is just a prudent practice that we have followed.

For 9MFY18, our PAT stood at Rs. 28.17 billion, a growth of 36% from Rs. 20.66 billion in 9MFY17. Our profits for Q3FY18 stood at Rs. 11.68 billion, up 55% from Q3FY17. Our cash and liquid investments stood at Rs. 210.89 billion. If we strip out the one-time gain of OakNorth Bank and the provision that we have created, then our core PAT stood Rs. 9.30 billion for the quarter, growing by 23.8% over Rs. 7.51 billion.

Now on the asset side:

Our loan asset mix at the end of Q3 FY18 splits at 59% home loans, 20% LAP and 21% of large loans. Our home loan book, which is now 59% of total loan assets, is up from 52% at the end of FY16. We remain on a trajectory to get to 66% of home loans within our total loan assets by FY20.

Our top-line has registered healthy growth with revenue for 9MFY18 at Rs. 106.73 billion, a growth of 26%. Of this, Rs. 87.12 billion is from interest on the loan book, Rs. 9.81 billion from cash and liquid investment, Rs. 4.38 billion from fee income and Rs. 5.42 billion from the sale of equity stake in OakNorth Bank.

The NII for 9MFY18 stood at Rs. 41.24 billion, a growth of 25.4% over 9MFY17 NII of Rs. 32.88 billion. NII does not include fee and other charges. The NII for Q3 FY18 stood at Rs. 14.10 billion, a growth of 23.6% over Q3 FY17 NII of Rs. 11.41 billion. This NII is adjusted for one-off gains in Q3FY17 and Q3FY18.

So just to be clear, we have made Rs. 9.30 billion of core profit after tax. We had about Rs. 1.20 billion of capital gains last quarter same time. If we remove that as well as if we remove the capital gains from the OakNorth transaction, the net interest income is up 23.6% to Rs. 14.10 billion.

This quarter we have disbursed a total of Rs. 122.75 billion, a growth of 35% over last year same quarter in which we have disbursed Rs. 90.98 billion. The disbursals break into Rs. 70.9 billion of home loans Rs. 20.4 billion of LAP and Rs. 31.5 billion of corporate mortgage loans.

Our gross and net NPAs have reduced significantly this quarter and have dropped to their lowest level in 21 quarters as we gain from an increasing proportion of home loans within total assets. Gross NPA and net NPA were down to 77 bps and 31 bps respectively from 85 bps and 36 bps same time last year. In computing net NPA, only provisions against substandard assets are deducted. Standard asset provisions and counter cyclical provisions are not deducted while computing net NPA. Our NPAs for over 26 quarters now have remained within a range of 70 basis points to 90 basis points for gross NPAs and 30 basis points to 50 basis points for net NPAs.

Our core net credit costs for Q3 FY18, excluding the one-off of Rs. 1.8 billion counter-cyclical provision created from the pre-tax gain of OakNorth transaction, stood at Rs. 1.47 billion, lower by 17% from the corresponding figure of Rs. 1.78 billion in Q3FY17. So core net credit cost has declined to Rs. 1.47 billion as against Rs. 1.78 billion in the same period last year.

On the borrowing side:

Bank borrowings forms 34% of our funding mix, down from 37% last year same quarter. Capital market sources along with ECB and sell downs have contributed to 79% of the incremental funding since March 2017. The rating upgrades and our diversified liabilities profile afford us considerable flexibility and multiple options to efficiently manage our cost of funds.

Couple of years ago, we become the second housing financing company and the fourth Indian corporate to have issued rupee denominated Masala Bonds. We plan a newer issue as part of our MTN program over the next few months as and when the bond markets are to stabilize.

In the last quarter, we also did the first of its kind social bond, qualified under the ICMA guidelines, to be audited by KPMG; that was the first issue that we did, and we are hopeful of continuing with such issues of social bonds. That should, as the currency gains some traction, be able to bring down our bond cost across the social bond program by at least 5 basis points to 10 basis points over our regular secured bonds.

Our spread at the end of 9MFY18 on book stood at 322 bps and on incremental book stood at around 280 bps. Cost of funds on book basis is at 7.92% and continued to drop as we re-finance our stock of loans with finely priced bonds. On an incremental basis, the cost of fund as of December 31st was at 7.50%.

Now moving on to balance sheet numbers:

Our net worth at the end of 9MFY18 stood at Rs. 131.82 billion, up from Rs. 117.86 billion at the end of last year same quarter. Total capital adequacy is at 21.35%.

We continue to remain keenly focused on capital conservation and sold down as much as Rs. 76.2 billion of loan assets in 9MFY18 compared to Rs. 42 billion in the whole of last year. Selling downs loan assets is an extremely capital efficient structure and it also helps us maximize our ROE. In the fourth quarter, it will also be a huge enabler in bringing down our yields since we have a big stock of what qualifies for bank as priority sector loans, which becomes a very desired commodity in the fourth quarter.

We continue to see steady benefits from an increasing share of home loans from our pioneering e-Home Loan platform. Now about 25% of all home loan disbursements are from eHome Loans. Besides this, as much as 36% of other home loan disbursements are also using one or the other module of eHome Loan. Digitization of loan sourcing and underwriting has enabled us to open up as many as 69 branches in smaller cities which will increase to 100 branches.

At the end, I would like to summarize saying that the macro environment is extremely good for affordable housing. Now, with our credit rating stack, we not only have the highest long-term credit rating that, along with all the options that we have in terms of our liability mix, should give us the necessary ammunition of being able to maintain our margins on both stocks as well as incremental loans. And give or take at 300 basis points we should be able to continue to 300 basis points of spread, we will continue to build our book. We continue to move towards our target of getting to Rs. 2 trillion of balance sheet by 2020. And in the process, we should be able to maintain our credit quality and continue with our declining credit cost as well as with the declining cost income ratio.

In our last capital raise, we had committed on the credit rating upgrade which has come through. So, I am extremely grateful to shareholders who had contributed to the capital raise at that time which was definitely a big input into us eventually getting to the credit rating. When we had made the OakNorth transaction there was a split opinion. I think the way that the whole transaction has fructified is a good testimony of the ability of management to look through various opportunities.

The affordable housing opportunity is a multi-decade opportunity and it presents a very-very unique proposition of Indiabulls first getting to Rs. 2 trillion by FY20 and then getting to at least two times to three times of that size over the next four years to five years.

So that is all from our side in terms of giving you an update and now we are open to questions. Thank you.

We are open to questions now. Thank you.

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

Kunal Shah: So firstly, in terms of this entire interest rate change which has happened particularly on the bond market side and we have seen rates inching up and overall incremental spreads as you highlighted has come up to 280 basis points, so it is very much within the guided range of 275 basis points to 300 basis points. But how do we see it going forward and may be in terms of the overall borrowing, how do we see it? So as of now may be with the help of the rating upgrade we are borrowing from debentures as well. But would it skew more towards the bank loans and will there be more pressure on spreads as we move forward?

Gagan Banga: So our expectation is that if I was to compute how we are borrowing on let us say 23rd of January, 2018 and not how we were borrowing in the middle of December in 2017 than our cost of funds on an incremental basis would have gone up by 15 basis points. But you would notice that our stock of funds is as 7.92%. Our incremental cost of borrowings was at 7.5% they will increase to 7.65%. But there would still be a decline that we will continue to see on our stock because that gap is still quite wide. Plus, specifically in quarter four, there is the additional benefit that the company has where a large portion - so we will this quarter sell down roughly U.S.$500 million or around Rs. 3,000 crores of loans which should be sold in the handle of under 7% - so that is going to be a massive benefit that we are going to get specifically in quarter four. The expectation on the asset yield side is that the asset yields will either stabilize or start going up if the bond markets are not to cool off. You may have already noticed that a few private sector have increased their MCLRs by 5 basis points to 20 basis points, so that transmission has already happened. There is usually a lag of three months to four months. Fortunately, before the transmission on the upward side starts, over that period of three months to four months, we are still gaining from the rating upgrade as well as from the priority sector securitization that we can do specifically in this quarter. As I have been mentioning in the past, just stepping back and going out of the domain of very specific numbers, comparing on a peer-to-peer basis, if interest rates are to stay flat, our cost of funds will continue to decline and even if they are to increase, for at least the next 1 year - 1.5 years not longer, our cost of funds will continue to decline, but at a significantly slower pace. So that is the very unique advantage, which is why there is confidence in the management that on stock of loans we will continue to make 300 basis points to 325 basis points. The incremental loan spreads will be between 275 basis points to 300 basis points which is essentially an input. What the P&L represents is the stock of loan which should continue quite confidently between 300 basis points to 325 basis points. Even though within quarter three, there was almost a 40 basis points to 45 basis points of adverse movement, our spreads still remained kind of flattish at 322 basis points.

Kunal Shah: Yes. Sir, the only thing obviously in this quarter is may be the decline has not been much. But overall if we look at it because of the competition, the pricing power is much lower. In fact and may be housing finance companies have been on the benefit because of the very easy liquidity which was there in the system. So even if the rates move up, do you think there would be effective pricing power available for the housing finance companies? Maybe banks have raised it by 5 odd basis points in terms of MCLR, but would there be pricing power available which HFCs.

Gagan Banga: Not only banks, even HFCs have started raising. So home loan rates have not gone up. But some HFCs have already raised the prime lending rate for their commercial portfolio. An extremely large HFC has raised it by as much as 15 basis points since 1st of January. So transmission is going to happen. We have discussed in the past with stakeholders that it is not as if banks are making some killer kind of returns in even the core home loan business. With their cost-to-income ratio, whatever gains they have on cost of funds gets offset in a flattish interest rate regime. They make about one-third of the spreads or the return on asset that housing finance company with a AAA rating and with good cost-to-income ratio makes. Maybe in a rising interest rate scenario, that one-third will get reduce to half of the ROA that we are making. But they would still continue to be at a disadvantage, which is why you do not see the midsized private banks - which otherwise are gaining massive share on the corporate side and are also gaining almost growing their retail books in triple digit - are not venturing into home loans. So given this entire macro and our discussions around where home loan yields are, my sense is that if government securities continue to be in the handle of 7.5% as they had gone, sooner than later you will see transmission across the board, across home loans, LAP as well as corporate loan.

Kunal Shah: Okay. And lastly in terms of construction finance of Rs. 3,180 crores of disbursement any concentration out there and what would be the rating nature of these loans which we have disbursed because it is higher as compared to that of last several quarter.

Gagan Banga: It is higher because clearly market is picking-up sales in the Rs. 1 crore to Rs. 3 crores kind of home market are clearly picking up. There are now several industry reports which are indicating the sales across the Rs. 40 crores to Rs. 1 crore market is also picking up. With RERA and GST now behind, there are fewer events which one needs to watch out for. So we kind of understand now how the developer community is reacting to both RERA and GST. Therefore, clearly one is more comfortable around the entire construction finance space not for apartments which will be like say Rs. 10 crores kind of apartments but yes, up to Rs. 3 crores in Bombay (Mumbai) and up to Rs. 1 crores - Rs. 1.5 crores in other cities. One is a lot more confident around the sales and there is traction that one is witnessing. I read a press release of DLF - they have also sold tremendously in their project called Crest so even apartments in the range of Rs. 4 crores - Rs. 5 crores are starting to sell. So I think overall, on the resi side there is greater sales momentum and there is no reason why Indiabulls Housing should not leverage on that opportunity. As far as Rs. 3 odd crores that we have disbursed is concerned it would be a spread across the developers. We continue to also syndicate and sell down some of these loans which is a practice, and which is also a testimony of the credit acceptance of our loans across the industry and all the syndication would generally be happening with the more proactive banks. So we are now a lot more comfortable than we were say two years - three years ago around the construction finance space.

Kunal Shah: Okay, so no concentration.

Moderator Thank you. We take the next question from the line of Gitanshu Buch from Jupiter Trading. Please go ahead.

Gitanshu Buch: I just had one just quick question about the loss or gain of flexibility in the funding mix when you reach your stated goal of reducing dependence on variable rate funding sources?

Gagan Banga: So we have been inching up on our bond borrowing program and we do not really close out on variable funding. Our asset side is variable price and a meaningful portion of our bond program and there is a specific policy around it. But just for the benefit of time, a meaningful portion of the bond borrowing program also gets swapped into floating rate. So we are floating rate lenders, so a large portion of our borrowings also has to be floating rate apart from let us say a year or two, we cannot take a longer-term call on interest rates and therefore we have to necessarily swap it out. The flexibility that one enjoys today is that our lenders cut across bank's mutual funds, insurance companies provident funds, FPIs, etc., and each of the sources of money have been gaining in size besides banks. So while we are getting the benefit of an upgrade of our credit ratings, we were also in parallel diversifying. Today, we are credit approved across all of these institutions and thus we have the flexibility in period such as the last 45 days to 60 days, it makes more sense to borrow perhaps from banks and use that option and move away from bonds. Similarly, on the liability side, we moved away from large investments in mutual funds temporarily for almost 2.5 months and put more money into fix deposit kind of instruments. So these are flexibilities that we have to continue to exercise. On the asset side also, rather than become a single product company, we have been harping on for years that we would want to maintain spreads at 300 bps and therefore, we will never become a 90% home loan company. We will stop at 66%. So, the big point being that flexibility is critical and we do not wish to go anywhere close to losing or closing out the variable liability side pricing opportunity.

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

Sunil Tirumalai: Hi, Good Evening. This is Sunil Tirumalai from Credit Suisse. I have a couple of questions. Sir, my first question is on the bond markets. Is it fair to say that Indiabulls Housing Finance, you have been getting AAA rated by various agencies over the last couple of years and probably the CRISIL rating was the last one to come-in. Is it fair to say that a large part of the benefit of these upgrades is behind us because the bond investors would have been seeing this coming in and it could have been factored in and how much more. Is there any upside further at all from this?

Gagan Banga: No, actually not. And I would think that at some point in time that upside would go away. My personal estimation is that process of getting benefit would go on for the next 18 months to 24 months at least. So if you think about May of 2017 and since May of 2017, the period following we would have issued say between 10 and - I do not have that number I can get it - approximately Rs. 10,000 crores - Rs. 12,000 crores of bonds which is roughly 20% of our overall bond borrowings at these reduced costs. And we have the balance 80% to refinance that is one opportunity and to put that opportunity in perspective we were paying anywhere from 25 bps to 100 bps as of May of 2017 over comparable AAA. As we speak, we pay about 10 bps to 25 bps. So there has been a reduction in our spreads between May and December of 15 bps to 85 bps. Now, in that context we have roughly 400 billion of bonds which are outstanding which will get re-priced. If we think of fiscal 20 and a 2 trillion balance sheet with about 1.8 trillion of borrowings, roughly 25% of that would be getting re-priced over the next 18 months to 24 months. So that is just the re-financing power that we have and as time passes and as we settle, this 10 to 25 will further decline to may be 5 to 10 over a peer. So there is on fresh issuances and other say ballpark of 15 basis points of saving to do. This is just on yields. As we speak, we have roughly - leave aside the ECB program in our domestically listed rupee bonds - we have a mere presence of about 5% of FPIs. So as that increases the local supply reduces. We also have the further flexibility of Rs. 1.5 billion MTN program that we have set-up that further reduces the local supply and enables us to bring down our yields to the level that I have indicated. So my sense is that over the next 18 months to 24 months, we gain a very serious spread benefit from the refinancing. We continue to get some spread benefit of roughly 15 basis points on our incremental borrowings and thus, I go back to the point that I made that at least for the next 18 months to 24 months, irrespective of what happens to interest rate, we will either be going lower in a flattish or growing slower on our cost in a rising interest rate environment. I hope, I have answered your question.

Sunil Tirumalai: Yes, this was very helpful. Thank you. The second question probably related I guess. When you have a back book spread of 322 basis points and incremental spread of 285 basis points I mean can you explain why the spread that you report every quarter should not come down?

Gagan Banga: It would come down if interest rates were to remain flat. But the point again that we have been making is that generally the norm in retail lending in India is that you tend to book new loans at a slightly lower rate than your book is. As interest rates rise what will happen. So six months from now, if G-SEC is to be at 7.5 they would at least be a couple PLR changes which would have happened. So the loan that I book in the quarter of October to December of 280 basis points would have probably gone through a 25 bps - 30 bps PLR increase. It would be also then in the ballpark of 300 basis points to 325 basis points. This is quite counter intuitive but generally speaking, in a rising interest rate environment in the first 6 months to 12 months, lenders in the current structure that Indian interest rates operate in and the way that they get transmitted actually make more money.

Sunil Tirumalai: Right. So would I be wrong to say that the large banks and guys like SBI are the ones who set the pricing for the market?

Gagan Banga: Yes, SBI set the pricing.

Sunil Tirumalai: Right. So what you are saying would require SBI's MCLR rates to move up faster than your bond funding cost for you to benefit in the first six months of the rising rate market.

Gagan Banga: SBI's MCLR will essentially follow the model that other private banks will. So if an Axis Bank or somebody else is raising interest rate there is no reason why SBI will not raise interest rate. They have already increased it by 5 basis points to 20 basis points. So it is a fait accompli but our bond yields will continue to be flattish for a period of time on a stock basis because our incremental costs are still lower. So just to put some numbers in perspective, our stock of borrowings was 792 bps; as on 23rd of January our incremental cost was 765 bps. So as of 31st of March, our stock of borrowings would have actually reduced. And in all probability, MCLRs would have gone up.

Sunil Tirumalai: Okay, understood. Thirdly on the PMAY subsidy schemes especially the middle-income schemes they seem to have been some report that it is actually not as successful in terms of uptick over the last 12 months given that the scheme was launched in March with the retrospective January effect. And the total number of homes that actually came up and took up the subsidy seems to have been fairly small. I mean any reading into that because I mean this was…

Gagan Banga: I explained in the past also that every month that number is increasing. We are already up ourselves to putting in applications for 5,000 - 6,000 people a month so that number four months ago was not even a 1,000. So it takes time for these kind of schemes to stabilize. The paper work, people's desires, all of that takes a little bit of time and the nodal agency also to start putting the money in takes time. So while the scheme was announced in March the final notification of the whole process became almost May. By the time that we started receiving the funds was like August-September. So we really started pushing the scheme from September-October onwards and it is gaining traction. So as we speak, we are at about 5,000 - 6,000 loans a month that we are putting in.

Sunil Tirumalai: And given your experience so far, what do you think if at all, if there is a bottleneck to come in, in terms of disclosures from customers?

Gagan Banga: There is no bottleneck. There were several bottlenecks in terms of how we claim even simple stuff like if our previous claim was pending we could not make a new claim. So there was a lot of operational issues. Fortunately both the government and the nodal agencies have been extremely cooperative and whatever feedback we give, they tend to sort it out in 30 days to 45 days. But that 30 days to 45 days in a six months period is like a material period for which we have to hold back. As I would speak for now or for the last 60 days - 90 days, I would say that over the last 60 days - 90 days there is no significant operational hold back and this thing is clearly gaining traction.

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

Nishant Shah: Just one query on the developer finance portfolio. So you mentioned that there has been a demand uptick after RERA. But you have also seen like a couple of very large PSU banks like SBI and a couple of others coming and say these balance sheets of these developers are now more lendable after RERA. So do you expect the competition from banks to really start coming up and how do you see your growth in that particular piece going ahead?

Gagan Banga: No, the likes of SBI, etc., you have to appreciate all have gaps around commercial real estate, so they cannot really build I think even double-digit on percentage basis exposures to commercial real estate. All of you are also well aware that for the last two years whatever credit growth that banks have seen has either been to NBFCs or the real estate sector. So most of these banks have already either breached or are on the verge of breaching. So as I speak today, in construction finance I would say that the competitive environment from banks is very-very benign. In lease-rent discounting, for a very typical kind of a lease-rent discounting of a large office complex there is undoubtedly a lot of hunger in banks but not for construction finance. And RERA as I tried to explain earlier also from a construction finance structure does not make it more or less bankable. A typical construction finance structure was anyways tighter than what the RERA guideline allows. Like RERA allows 30% of the monies to be taken out practically an equity takeout of 30% even while the project is under construction. No reasonable lender and definitely not Indiabulls Housing will allow even 1% of equity take out during the construction phase. So what RERA does is essentially when it came in there was a general fear that sales will slow down, launches will slow down, etc., when I say both RERA and GST are behind us there is whatever slow down had to happen in launches is behind us. Whatever anxiety customers had around whether their projects would become RERA complaint, that is behind us. How GST is being transmitted to buyers is behind us and thus, the booking and sale numbers are back to near normal levels. So that is what I mean when I say that RERA and GST are behind. The other impact of RERA is that land would not be transacted anymore. There would be more joint development models. Though joint development models require a certain sense of understanding of how to create security, which is not really the forte of banks. Banks are extremely good at doing standard kind of stuff. Here you have to take the land as security, take development rights as security, pledge the shares and all of that. So this is actually a blessing for housing finance companies given the specialization that they have.

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

Adarsh Parasrampuria: I just had a question around the bond mix like what part of that is commercial paper now and is that been rising or has that been used to manage cost of funds in the last few months?

Gagan Banga: We have actually declined our commercial paper quarter-on-quarter by almost Rs. 3,000 crores. Of the overall borrowings we will not have even 10% as commercial paper and that is ages old philosophy that we have. So we do not borrow short and lend long. We have indulged in the past. Given our side we will still have 10,000-odd crores of commercial paper. But if you look at quarter two to quarter three it would have materially declined and what we have also been able to do is convert a material amount of our cash credit facilities from banks given their high MCLRs, either into foreign currency loans or one-year CPs. So the CP maturity would also be close to one year and not the typical three month kind of issuance that happens to mutual funds.

Adarsh Parasrampuria: Thank you. Second question, when you talk about the incremental cost of funds at 750 bps or 760 bps that is at a blended liability mix, or it is the incremental just the bond pricing?

Gagan Banga: No, it is blended mix between bonds, securitization, bank term loans, and ECBs on an incremental basis and on a monthly rate basis.

Adarsh Parasrampuria: And what is your expectation on securitization given the trends that you would have seen now what is the larger part of that mix?

Gagan Banga: This year we will get to about between Rs. 10,000 crores and Rs. 11,000 crores of securitization as against Rs. 4,000-odd crores of securitization. At the start of the year I had mentioned that last year we were focused on getting past a trillion rupees of balance sheet. Having done that, we will emphasize and this year overall, we will grow our assets between Rs. 25,000 crores and Rs. 30,000 crores and securitize roughly 35% of that on an incremental basis. For the first three quarters, the general trend is that about 60% of what we securitize is non-priority sector and 35% to 40% is priority sector. In the fourth quarter it is generally 75% is priority and 25% is non-priority. In the first three quarters we will get a yield of roughly 7.5% which will drop to below 7% in the fourth quarter. We will also be doing transactions in the very close to 6 handle, so that is how important priority sector assets become. So that should be an additional benefit that we will get in the fourth quarter.

Adarsh Parasrampuria: So largely the incremental cost assumes like a 30% coming from securitization? Is that a fair statement and that will be a large driver of managing the cost of funds for us.

Gagan Banga: In our assumption we would say 20%.

Moderator: Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Just one data point and I am not sure if you mentioned this earlier. This was in how much subsidy have you claimed under the CLSS scheme?

Gagan Banga: I have not mentioned it, I do not have it of hand. I will try and get it.

Moderator: Thank you. We will take the next question from the line of Rakesh Jain from Jasper Capital. Please go ahead.

Rakesh Jain: Just a couple of question. As you mentioned in case of securitization the cost of funds is around 7% so how are the bank's giving benchmarking to rather than the MCLR?

Gagan Banga: We will generally benchmark it to MCLR. So we continue to remain the collection agent and therefore, banks would generally give servicing fees which would come back to us and therefore, the effective cost drops. For home loan kind of assets this will be close to 7%. But if we had something like an agri loan this would in the handle of 5%. If we were lending and could claim schedule cast kind of lending it would be closer to 4%. So depending on how short a bank is in a particular category the pricing would vary from 4% to 7% - 7.5%.

Rakesh Jain: Okay. Just a follow-up question. What would be your segmental yield on like home loan, affordable housing, LAP and CF?

Gagan Banga: So what we do in home loans is what qualifies is affordable housing. So on an incremental basis we would be getting roughly 8.9% on home loan; around 11% on LAP; just under 10% on LRD; and around 15% on construction finance. So overall, we will be getting roughly about 10.3%.

Rakesh Jain: And just one more thing, what would be NIM for the quarter?

Gagan Banga: We talk about spreads there. So our spreads as I said is 322 basis points.

Rakesh Jain: Any guidance for may be NIM's, spreads I appreciate that but just for the NIM thing any guidance ahead?

Gagan Banga: Given our high equity we do not really do that. Give me one minute and I will come back to you with the NIM. It will be in the ballpark of 5%.

Moderator: Sir, can we move ahead with the next question?

Gagan Banga: I think we should try and end this call. So to just conclude since the bulk of the questions were around incremental spreads, I would like to summarize by assuring everyone that we still have a fair play. In terms of the whole pricing benefit of both the nature of our liability is changing as well as within that the bond spreads coming off. In an increasing interest rate environment, we will definitely be increasing our cost of funds at a pace much-much slower to our peers and

I continue to be extremely confident of the fact that as we have been able to maintain margins even in an environment in which was perceived that banks' have become hyperactive as far as home loans are concerned. Same time last year if you recollect there was a very similar concern when led by SBI, Banks had cut home loans rate by 65 basis points to 90 basis points in the first week of January. And at that time also I tried to explain that this was essentially the build-up of all the rate cuts that they had not passed on.

One year later we have ended at the higher-end of the spread of our loan. With the same confidence and understanding how the liability side of our book is playing out and as I have tried to mathematically explain our incremental cost of borrowing are still much lower than the stock of borrowings. So even in rising interest rate environment, our cost of funds will continue to decline. And thus, we should be able to maintain our spreads.

We are into the fourth quarter, which is a busy quarter for the entire retail lending industry and I am very confident that the core earnings ex of the OakNorth earnings will grow at the higher end of the 20% to 25% range for our profit compounding for fiscal 2018. And given the traction that I am seeing on the technology, people, and distribution side, I am reasonably confident that come April we will be in a position to give you a similar guidance for next year as well which we will formally and officially repeat in the month of April.

So on that note, I would like to thank you all. It was a milestone quarter given the credit rating upgrade that we received. Stakeholders have been truly supportive of the management and we are very-very grateful. Thank you. Happy New Year and thanks to everyone for all the questions that you asked us.

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