"Indiabulls Housing Finance Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q3 FY2019 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you Sir!

Ishank Kumar: Thank you Bikram. Thanks for joining this call. We welcome the management of Indiabulls Housing Finance to discuss Q3 FY2019 results. From the management team, we have Mr. Gagan Banga, Vice Chairman and Managing Director 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 Relations and Analytics and Mr. Harshil Suvarnkar, head markets. I now invite Mr. Banga to share the key details of the results. Over to you Sir!

Gagan Banga: A very good day to all of you and welcome to the Q3 FY2019 earnings call.

Please keep the earnings update handy with you. The same has been uploaded on our website and also on Bloomberg. We will be frequently referring to the slides from the earnings update.

First, please refer to slide 4 of the earnings update. The profit for nine-month ended December 31, 2018 was ₹ 3,084 Cr., a growth of 19.7% on nine-month FY2018 profits of ₹ 2,576 Cr. Our PBT for Q3 FY2019 was up 23.1%, growing to ₹ 1,388 Cr. from ₹ 1,127 Cr. in Q3 FY2018. Due to a one-time tax incidence on redemption of long-term units of debt mutual funds, the PAT for Q3 FY2019 was ₹ 986 Cr. growing by 9% over Q3 FY2018 PAT of ₹ 905 Cr. This ₹ 905 Cr. is adjusted for the OakNorth Bank stake that we had done last year to GIC of Singapore. I am also very pleased to announce that the board has approved an interim dividend of ₹ 10 per share for the quarter.

Now please refer to slides 6 through 10 of the earnings update where we have presented quarter wise ALM for the next 10 years. Our three months commercial paper is now down to only 4% of our borrowings. Further it is now a key operating principle that three months CP will be capped at 5%.

Our focus over the last many quarters in raising long-term borrowings has translated into a spread out borrowing repayment schedule and our continuing focus through Q3 has also allowed us to run down the CP program very rapidly. Our longstanding policy of maintaining adequate liquidity is especially meant to negotiate times like these. We closed Q3 FY2019 with cash and cash equivalents of ₹ 21,090 Cr. Instrument-wise break up of this cash and cash equivalent is current account balances and fixed deposits of ₹ 9,703 Cr., mutual fund investments [available to us on t+1 or t+2 basis] of ₹ 8,202 Cr., investment in bank CDs of ₹ 2,328 Cr., quasi-sovereign tax free liquid bonds of ₹ 853 Cr. and cash in hand in our various branches of ₹ 4 Cr., totaling ₹ 21,090 Cr. Factoring in quarterly customer repayments, you will note that the 'Net cash' number, which is the last row, is significantly positive for every quarter for the next 10 years.

Over the last 36 months, Indiabulls Housing has demonstrated the depth of its diversified liabilities franchise by moving nimbly across instruments such as institutional bonds, retail bonds, securitization bank term loans, external commercial borrowings and Masala Bonds, etc., based on macro conditions around liquidity and interest rates. While in Q3 FY2019, the bulk of our liquidity came from sell-down of loans, going ahead, it is this nimbleness to shift between these diverse and complementary sources of liabilities that will help us fund growth.

In Q3 FY2019, we raised funds from the following sources, bank loans of ₹ 5,680 Cr., bonds of ₹ 3,150 Cr., commercial paper of ₹ 4,300 Cr. and securitization of ₹ 12,055 Cr. totaling up to ₹ 25,185 Cr.

Now moving to the next section on slide 11, we have presented the granularity and high quality of the retail loan book evidenced by over ₹ 47,000 Cr. of loans sold down in as many as 163 different pools. The performance of these pools is monitored on a monthly basis at an account level by CRISIL. Only 15 PTC pools are monitored by ICRA and CARE otherwise all direct assignment pools are monitored by CRISIL. The average home loan ticket size at disbursal in these pools is ₹ 24 lakhs and that for LAP is ₹ 70 lakhs. After an average of 27 months on books, the 90+ and 180+ days past due delinquency are very negligible. The pool-by-pool data is also available in the earning update.

Indiabulls Housing has always been one of the largest sellers of mortgage pools and loan sell-downs, which has been a very long established source of funds for us. Till date, we have sold down pools of ₹ 47,278 Cr. with sell-down contributing now to over 19% of our overall funding mix. The acceptability of IBH's granular loan book portfolio across investor base, including public, private and foreign banks, is a testament to its strong portfolio quality and strength of IBHFL's underwriting capabilities. Amongst its securitization investors, the company now counts 21 strong banking relationships - 16 with PSU banks and 5 with private and foreign banks.

Now moving on to Slide 12, this is around our developer loan portfolio. Our developer loans are supported by top lease rental assets in prime locations. I have to stress that these assets are exclusively mortgaged to IBH by the borrowing developers and of the examples given in the sheet; the total value is in excess of ₹ 26,000 Cr. These LRDs are extended at low loan to values and these mortgage assets are extremely liquid.

You would be reading and hearing almost every other day that commercial assets and malls, which are leased out are being acquired by various private equity funds, and transactions and monies are regularly changing hands.

We have listed all of our top LRDs, which show healthy spreads across geographies. This is very important to understand, these LRD assets are cross-collateralized with residential development loans to the same developers vastly strengthening the collateral back-up on our loans and the enforceability of the collateral.

Our loan book, including the developer loan book and LAP, has seen regular and healthy repayments through the three quarters of this financial year, including Q3. These are around repayments, etc. It's also being given at the start of the ALM sheets. I am also pleased to inform you that in Q3 FY2019, we sold almost about ₹ 2,000 Cr. of developer loans to banks. Thus the sell-down in Q3 FY2019 mirrored the mix of our total loan assets. We will preserve this mix in the quarters going ahead as well.

Now moving on to Slide 13, we have always been absolutely cautious, conservative and proactive on our provisioning. We had a large securitization income of ₹ 527 Cr. in Q3 FY2019 which we have securitized much above the average, past averages as well as the average going forward. We have utilized this excess income to create excess provisions. While Supertech Limited is a standard asset with us, as a matter of abundant caution we have taken provisions of ₹ 330 Cr. against Supertech, considering issues that they are facing in their other projects.

Our conservative approach to provisioning and the strength of our recovery process is evidenced by the recovery that we are now seeing from Palais Royale. A total of ₹ 900 Cr. will be recovered from Palais Royale, of which ₹ 200 Cr. will be recovered in Q4 FY2019, which is the current quarter. The first installment of ₹ 200 Cr. has already been received in January of 2019. The account was classified as NPA early on and the resolution of the case has come about after pursuing a litigation process in courts for 2 years.

Again, I wish to underline that we have always been proactive and conservative in our provisioning policy. We have very strong and robust recovery practice and while the legal proceeding of SARFAESI etc., may be protracted, eventual enforceability of collateral and recovery of our monies is almost certain.

Now moving on to Slide 14, we come to the guidance for business going forward. For FY2019, we are on track to deliver PAT growth of between 15% and 16%. In the next financial year, PAT growth will be between 17% and 19%, while total loan assets i.e. our AUM, will grow between 20% and 25%. Balance sheet growth is expected to be around 10%.

The core strategy of IBH business will be to sell down pools of loans while retaining the spread door-to-door over the entire length of the loan. Sell-down helps us maintain conservative leverage while growing the total loan assets and retaining the spread. Sell-down hence helps us maintain healthy RoE while sustaining a conservative leverage, which is our stated policy.

Let us now go into the other operating numbers for the quarter. Please note while we booked ₹ 527 Cr. of income from our sell-down of ₹ 12,055 Cr., we have taken additional credit cost as a matter of abundant caution in all, which is ₹ 260 Cr. higher than our usual quarterly run rate. And we have also taken the full corporate social responsibility expense of ₹ 69.2 Cr. for FY2019, in Q3 FY2019 itself. Thus between credit cost and CSR, we have taken additional cost of ₹ 312 Cr., leaving us with a net income of ₹ 215 Cr. from sell-down in Q3 FY2019. This is equivalent to about ₹ 4,000 Cr. of sell-down. Compared with this, our regular sell-down quantum from now on is expected to be in the range of ₹ 4,000 Cr. to ₹ 6,000 Cr. per quarter. We have thus normalized the sell-down income and therefore the PBT from Q3 FY2019 contains no boost from a higher sell-down income.

I request you all now to please turn to Slide 25. We now move to spreads in the business. Our spreads on loan book for Q3 FY2019 increased to 3.46%, loan book yield was at 12% against our cost of funds on stock of borrowing at about 8.56%.

Please turn to Slide 19 of the earnings update. Our stage 3 assets and, hence, gross NPA are at 0.79% while the remaining 99.21% assets are in stage 1 and 2. We have ₹ 673 Cr. of ECL provisions against stage 1 and 2 assets. This includes ₹ 330 Cr. of provisions we have taken against Supertech. We have provisions of ₹ 247 Cr. against stage 3 assets. Our gross NPAs have remained below 0.9% for thirty quarters now.

Moving on to the liability profile, I request all of you to turn to Slide 23 of the earnings update. You will see on Slide 23 that we have significantly bought down reliance on 3-month CP in the process, ensuring a well matched ALM and durability of our liquidity levels.

If you turn overleaf to the next slide, Slide 24, in the table, you will see that besides loan sell-downs, long-term borrowings in the form of bonds and bank loans have been the key source of funding for us over the last 12 months.

Again I reiterate, our demonstrated nimble footedness and moving between various sources of liabilities from our diversified and complementary funding sources is the hallmark of the depth of our liabilities program, and this will over any two- three year period, continue to help us grow.

Our networth at the end of Q3 FY2019 stood at ₹ 17,792 Cr. And you will also see at the top of the slide how sell-downs has helped us sustain a very conservative gearing level with the net gearing at only 4.9x at the end of Q3 FY2019. Sell-down will ensure that the gearing level remains conservative, but retained spread on sold down book will sustain profit growth and healthy RoE levels.

In closing, I wish to reiterate that the underlying growth drivers for the housing sector continued to remain strong. Low mortgage penetration, favorable demographics and increasing affordability, combined with the government and regulatory push, will ensure that the housing finance industry will see sustained growth over the next decade.

I wish to restate our guidance: total loan assets i.e. AUM, growth of between 20% and 25%; PAT growth of between 17% to 19% for FY2020; conservative leverage through sell-downs; and resultant balance sheet growth of about 10%.

On this note, the IBH management team is now open for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have a first question from the line of Shashank Savla from Lion Trust. Please go ahead.

Shashank Savla: Thanks for the call. I had a question, one on recent event, if you can throw some light. Like given the cost of funding fees which we had, and also news regarding Dewan over the last couple of days, is there a sense of where the cost of funding would be for your company? As in the squeeze, which we had in the last quarter did result in slowdown in the loan growth. But how long do you expect that to continue? And do you expect loan growth to recover over the next couple of quarters? Or is that something, which is still a bit further away?

Gagan Banga: Yes. So we have gone out there and made a guidance of 17% to 19% profit growth through FY2020 and AUM growth of 20% to 25%, and that is essentially after doing a detailed analysis of what kind of liabilities and at what costs will we be able to raise the monies. We all have to appreciate that over the years, the management of Indiabulls Housing has maintained that the franchise value of Indiabulls Housing is more on the liability side than on the asset side, which is why we have been a pioneer in whatever diversification opportunity the company has got. That said, we all have to appreciate that the bond markets in India do not have the requisite depth to be able to solely manage a large $15 billion-$20 billion balance sheet. And therefore, from time-to-time, it would not be able to support a large balance sheet on its own, especially in periods of time where either liquidity is very tight, and as a result, interest rates are rising, or there is a lack of consensus on where interest rates are going to go. In any 5-year period, there would be a two- three year period where bond markets are robust and are receiving a lot of monies, and there would be another two-three years where that would not be the case, and we will have to move on to other instruments. So to answer your question, I expect that we should be able to comfortably grow beyond 20%, which would mean that we would need to raise in between ₹ 26,000 Cr. and ₹ 30,000 Cr. on a net basis through FY2020. And given the fact that just in one quarter we have raised an almost ₹ 30,000 Cr., that sum of money is extremely doable. And I am sure what we have done in one quarter; we can definitely do over the next four quarters. As far as the recent developments of earlier this week or I would say, successive development since the aftermath of IL&FS, I believe that companies, such as Indiabulls Housing, over the years, have invested a lot on building a good governance model. If you look at it, you know we are probably one amongst very few non-banks and housing finance companies and even banks, which have never resorted to rating arbitrage. So we have been rated by the four leading rating agencies in the country for the last decade or so. If you look at the quality of auditors, today we have historically been audited by Deloitte. Now we are audited, based on auditor rotation, by Ernst & Young. Our internal auditors are Grant Thornton. The stock auditor for banks is Deloitte. If you look at the board, we have retired deputy governors from the Reserve Bank of India, who guide us through periods such as this. We have retired Supreme Court judges who help us prepare for all the recoveries that we need to do from time to time. And also if you look at the quality of assets over the last few months, there has been skepticism about what would happen to developers, and what we have done is put out an example of some of the high-quality assets that we have. And it is with a lot of conviction that one would put out such a detailed disclosure, and one has to have a lot of confidence on the assets. So I think the debt markets cutting across banks, mutual funds, insurance companies, etc., are appreciating our various initiatives. And I do not see why this 20% growth is not going to be feasible. We are a pass-through vehicle largely and given our ratings and overall access to credit, I do believe that we will be able to sustain our spreads, as we have done over the past many quarters, as government securities have moved from 6.5% levels to pass 8% levels. And we have seen three-four liquidity events, this one is no different, and we should be able to sustain it through. So there is a reasonably high level of confidence around being able to get to that 17%-19% profit after tax compounding that we have guided.

Shashank Savla: Given that you have raised your rates by 100 to 200 basis points, is there a sense of how that has impacted demand, like are you finding enough demand and good quality demands to be able to provide home loans even after increasing the rates?

Gagan Banga: We have raised rates differently for our different asset classes totaling to I believe an average of 70 basis points for the whole suite of products that we have. For home loans, we would have increased it by 40-50 basis points, for LAP, between 100-200 basis points, and for commercial loans, between 100-300 basis points, so on an average, our portfolio yields have gone up by about 70 basis points and if you look at product-by-product that would be give or take 25 basis points, the norm followed by other industry players as well. It is a matter of fact that monies have become dearer. It is also a matter of fact that rates across all products have gone up, especially around long tenor floating-rate assets. They have gone up across the industry by all leading players. Today, it is not about how much of assets can one accumulate. In India, we have to continue to believe that the asset opportunity is an immense opportunity. We have to, as long as we continue to focus on distribution, and while this is probably not the quarter to talk about distribution, the company has invested a lot over the years in building distribution both physically as well as digitally and so asset flow so to say at this point in time is the easy part of the business. This quarter and the next few quarters would continue to be quarters where we will have to talk about liabilities and liabilities alone and I think on that side, we are doing quite well. We have done exceptionally well in Q3, as far as both fundraising is concerned as well as I think it is a very bold statement for anyone to be able to put up a quarterly ALM for the next 10 years and to be able to then also say that we are putting a cardinal principle that we will not be looking at CPs beyond 5%, which means that even in tight liquidity scenarios where monies are generally available only in short pools, we are still very optimistic of being able to grow 20% despite that cardinal input, so all-in-all I think, the asset side flow will remain steady, which if we wish to grow 20%, the calibrating factor would only be liabilities. As of right now, to be able to raise between ₹ 26,000 Cr. to ₹ 30,000 Cr. next year on a net basis is not very difficult. As I had mentioned that we have raised about ₹ 25,000 Cr. in just this quarter, so it is reasonably doable.

Shashank Savla: Thank you.

Moderator: Thank you Sir. We have the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Firstly, in terms of the guidance, if we look at 17% - 19% PAT growth, so overall when we look at it obviously the assignment income, which is there now most of it is getting booked upfront, so there will be limited flow which will be there going forward and as the quantum also comes down, the base for FY2019 in terms of the sell-downs could be much higher and besides that when we look at the overall balance sheet growth, in fact, this time also it is down quarter-on-quarter and given this kind of a run rate, overall balance sheet growth will be 10 odd percent, so what would bring this kind of a delta ? And even when we look at it overall in terms of these spreads, this quarter and the book spreads have actually gone up, but incremental spreads would be lower than that. What gives us the confidence in terms of growing higher than the balance sheet growth and what could be delivered to the overall PAT?

Gagan Banga: The way you will have to look at it is that AUM will have to grow higher than the profit growth. Balance sheet need not grow higher and in order to not have a very bumpy quarter in Q3 FY2019, I ran you through the details of the extra provisions and the extra expenses that we kind of front loaded and were made additionally over and above what wasn't required at all in order to bring about a more normal income line. So we brought down the net securitization income this quarter to levels which are more closer to ₹ 3,500 Cr. to ₹ 4,000 Cr. Whereas on our going forward plan, we, at least through FY2020, intend to do between ₹ 4,000 Cr. and ₹ 6,000 Cr. at least per quarter. So given that the typical principle that will follow is that the AUM will have to grow 4% - 6% higher than the expected profit, so if we are able to grow at about 25% of the AUM, the profit growth will be in the handle of 19%. Balance sheet growth as an outcome is not really going to increase or decrease the net income. It is essentially going to be an outcome of how much of monies you raise through securitization and how much monies we raise otherwise. So two things, one, ₹ 4,000 Cr. to ₹ 6,000 Cr. will be an average, which I expect to be a multi-quarter average that we will maintain at least through FY2020 if not longer and then we will have to take a view on interest rates and liquidity. The second part is that if ever there is a rather large chunkiness coming, as we have done in the past, whenever there has been a one-off income, we have always created extra provisions, but we will normalize that growth. We have done that calculation and as I said, as we have figured out that we need about ₹ 26,000 Cr.- ₹ 30,000 Cr. next year to be able to grow 20%. Similarly, we have done the math on how this 19% compounding of earnings will come and what would be the trail left after securitization. It is only after doing that detailing, that we have come out with this guidance.

Kunal Shah: This ₹ 12,000 Cr. of the portfolio, this would be primarily the individual loans or even non-individual loans are there in these sell-downs as of now?

Gagan Banga: It is a mixture of home loans, LAP and developer loans. In the past, we have been regularly selling home loans and LAPs. So if you look at the earning update, in the past of the ₹ 47,000 Cr. that we have sold down, we have sold down ₹ 29,000 Cr. of home loans and ₹ 18,000 Cr. of LAP loans. What we have additionally done this quarter is also sell, and in that sense established a bankability of our developer portfolio and create liquidity around that, so that has been a good move. What we have securitized this quarter is pretty much in the same breakup as we have loans, which are about 60% home loans and the rest is equally split between LAP and developer loans.

Kunal Shah: In terms of yields, given that ₹ 12,000 Cr., we have almost made the upfront income of ₹ 527 Cr., so almost like 4.4% to 4.5%? Also in terms of the portfolio, which we are selling down and which is on-book, how different would it be? Is it like there is more demand for a much better quality portfolio from banks and that is what is moving out of the books as of now and maybe what is continuing on the balance sheet maybe in terms of the delinquencies, given this kind of an environment, we see some risk emerging out there? How should we look at it because the spreads are also quite high?

Gagan Banga: The spreads are actually not very high given the fact that one has to be conservative, so in our ALM, we have put contracted kind of maturities, but if you look at actual repayments that we have received over the last three quarters, there have been an excess of almost ₹ 7,000 Cr. So in that spirit, we have to always be also factoring in while accounting for securitization. We have to follow a very aggressive model in terms of expectation of how soon can these prepayments happen, so we do not want to do a home loan securitization upfronting of 20 years when we fully well know that loans will come back in eight years or in LAP, we will not do it for seven-eight years when we know that loans come back in three-four years. So given that, we have been extremely conservative and we have taken the shortest possible assumption as far as the period in which we expect these loans to come back, and therefore only taken that much of income. Also since collection is our responsibility, we would have servicing costs, so we have discounted those also while calculating this upfront income. Now to talk about whether this is a portfolio which is any different to the portfolio that we otherwise have on our balance sheet, the number of ₹ 47,000 Cr. is very relevant. So if you see ₹ 47,000 Cr. in the overall scheme of how much loans has Indiabulls ever done, it is a very large percentage. So the way that what gets sold-down and what does not get sold-down typically gets calibrated is not by the nature of the loan, but by when did we do the loan and therefore is it ready to be sold down or not. It is more an outcome of that rather than whether a loan is typically going to qualify into a bank's standards or not. To be able to turnaround as large as ₹ 12,000 Cr. in one quarter is also a testimony of how liquid and how acceptable is the overall portfolio. What was definitely important was that the overall sold down book more or less starts reflecting over a period of time the overall AUM, and there is not a very stark difference. A few basis points here or there are fine. That is something that we have achieved by focusing more on the sell-down of loans against property and also taking initiatives of selling down developer loans to banks. Banks will be only able to do stuff which is bankable in that sense and to be able to get past that hurdle now that we have done, we opened up a new avenue. So going forward, we are reasonably confident that the overall AUMs will be very similar to what is on-book or off -book. It will not be distinctly different, and again repeating that the calibrating factor is the time since we did this loan rather than the type of a loan that we are doing.

Kunal Shah: Thanks a lot.

Moderator: Thank you Sir. We have the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Gagan, in light of these current issues around developer loans, I was wondering if you guys have done a detailed walk-through of your entire portfolio and how are you seeing your portfolio, especially on the residential finance side? And I just want to know if the provisions could be just limited to the Supertech or you think there are additional areas, which can come through and if you can take a more conservative stance around that on provisions ? And follow up on Supertech, this ₹ 330 Cr., why did you feel the need to take this because some of your competitors have not taken this stuff on that? Thank you.

Gagan Banga: Thanks. The developer loan portfolio scrub is something that we do every day and not since today. It is something that we have been doing historically, so you have to appreciate that every lender will have a certain perception in the market and we are not ashamed of this, we are seen as a hard lender. We are seen as someone who would not leave his money and will go behind that and that goes back to the days where in 2005 we were a multiproduct lender. Since then, the discipline has been that collections get reviewed. That has also been reflected in the kind of recoveries that we have been able to do. So a case like Palais Royale, which has over a period of time become a fairly complicated legal matter. I have shared with our stakeholders in the past that there are multiple cases running. Some running in Supreme Court, some running in High Court, some matters lying with the municipal corporation, and some matters in arbitration. It had become a complicated case and for us to be able to crack that, is a reflection of the focus that we have on getting our money back. As far as the portfolio quality is concerned, we are fully on top of each and every loan and we monitor the progress of each construction loan there is. The basic portfolio outcome is going to be an outcome of the construct of the portfolio. The construct of the portfolio is that the portfolio is a five- six city portfolio. All of our assets, be it construction finance assets or rent discounting assets, are very easily recognizable assets. A lot of the stakeholders who are familiar with Mumbai, NCR, Bengaluru, or Chennai, if they would review the list that we have given out would be familiar with these assets, could have either seen these buildings or visited these malls. Even some of the residential assets that we have financed are well known to people. For example, Palais Royale is a heart of town, Worli, South Mumbai asset that unfortunately got stuck, so after doing this review, we constantly keep working with our developers. Some of the others will face some sort of issues and if they do either they are not being able to create the necessary sales momentum or they are distracted for one reason or the other, we will get through our network and get somebody else to come in and help them out. For example in one of our assets in Central Mumbai area, we got a very large real-estate company to come in and support this particular asset in our development model. You will start seeing the ads of the new brand, etc., in the next few days, so to that extent, we will have to be proactive and we would not wait for an asset to go bad. As far as, specifically Supertech is concerned, we have created provisions of a little over 50% of our exposure, more out of a very conservative approach that we had. While Supertech continues to be a standard asset in our books also, in the past, we had created these provisions ahead of time not worried about our assets, but to generally make sure that there is enough capital and provision cover that we always have and that is the reason why for now over forty quarters we have been able to so steadily compound without giving anyone a heart attack around our earnings. It is only because we have these kinds of buffer. There is nothing wrong specifically with our exposure to Supertech. The exposure runs well. I am actually quite optimistic that one of the prime assets will see a sale transaction, which should hopefully very materially progress in this quarter itself. With that said, it is best to be conservative and on the broader portfolio, at this point in time, I see no concern. Again, going back to why I see no concern, is because the fundamental construct is large city heart-of-town assets as well as in most of the cases as we have explained in the past, we try and also get a rent discounting asset into the structure. That means that we have captured a lot of equity value of the developer. So if push comes to shove and additional equity is required in the construction finance project, we do not have to look towards either the developer or someone else to suddenly produce equity at a time when money is extremely dear. The commercial asset gets sold, equity gets released and that comes to support the construction finance project and that again has been demonstrated time and time again. With the overall construct comfort, I am comforted and then we are obviously monitoring and making sure that nothing goes wrong.

Saurabh Kumar: Thank you. That is very fair. One just additional question, so on the residential part of the portfolio, the average LTV should be 0.5x?

Gagan Banga: No, it should be even better, so it should be more like 2.3-2.5 times cover.

Saurabh Kumar: Thank you.

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

Rakesh Jain: Sir what will be the disbursements for the quarter and basically the segment wise disbursements for the quarter?

Gagan Banga: Yes, so the disbursements would be in the handle of I think ₹ 3,853 Cr. Home loans would be about ₹ 2,298 Cr., LAP of ₹ 1,142 Cr. and commercial loans of ₹ 413 Cr. As I mentioned, this was not really a quarter and time to throw the book. This was a liabilities quarter and I think the outcome is extremely positive.

Rakesh Jain: How much collateral coverage do we take for the commercial properties that we fund?

Gagan Banga: Generally in LRD, it will be between 40% - 60% loan-to-value and for residential, the loan-to-value will be between 30% and 50%.

Rakesh Jain: Thanks a lot.

Moderator: Thank you Sir. We have the next question from the line of Hardik Shah from Max Life Insurance Company Limited. Please go ahead.

Hardik Shah: Sir two questions. One you mentioned that three month CP will not exceed 5%, so does it mean that higher tenor CPs you are okay for going beyond that?

Gagan Banga: Yes. All CPs, which are maturing within one year, will not exceed 7%. CPs maturing within three months will not exceed 5%. Currently, we are at about 4% for three-month CPs and around 7% for all CPs.

Hardik Shah: Sir, secondly, your total AUM would be like around ₹ 1.5 lakh Cr., approximately?

Gagan Banga: Our total AUM is ₹ 1, 24,271 Cr.

Hardik Shah: AUM is ₹ 1, 24,271 Cr you are saying?

Gagan Banga: Yes.

Hardik Shah: How much would be on-book?

Gagan Banga: On-book would be ₹ 99,270 Cr.

Hardik Shah: Sir, just one clarification. Sir, you have given that your corporate loans are 19%?

Gagan Banga: Yes.

Hardik Shah: You mentioned one place that your total LRD is around ₹ 26,000 Cr.?

Gagan Banga: No. What we have said is that the total value of the assets mortgaged to us is ₹ 26,000 Cr., so if we read that sheet, it says that -

Hardik Shah: Loan outstanding against that LRD?

Gagan Banga: I am just repeating the line. Lease rent discounting assets exclusively mortgaged to IBH by developers are valued in excess of ₹ 26,000 Cr. by leading IPCs. These rental assets are liquid and have a low loan-to-value. A substantial part of the developer's equity is tied up in the mortgage of these LRD assets. This is the point I was trying to make a short while ago that we are trapping a lot of equity. About 55% of our overall developer book would be directly rent discounting, but we cross collateralize all the assets. What we always do is that all the borrowers of a developer, so there are various companies into which all of these assets are, they would all be co-borrowers along with the parent company and all the assets will be cross collateralized.

Hardik Shah: Sir, my final question. What is breakup of the mortgage loans between home loan and LAP?

Gagan Banga: Between home loan and LAP will be roughly about 60% and 20%.

Hardik Shah: Thank you so much.

Moderator: Thank you Sir. We have the next question from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Walecha: Thanks for taking my question. Sir I have a question on Supertech. Which project of Supertech have you lent to and which stage of the construction cycle is in that project?

Ashwini Kumar Hooda: Yes, so we have lent to two projects. One is a commercial building ready in Supernova, which is heart of Noida, the most prime area, on DND flyover you can see that building. The second project that we have lent to is in Gurgaon, which is a Hill Town project. This is on the Gurgaon Sohna Road, next to GD Goenka University and it is at a 75% completion stage and almost 80% of inventory is sold.

Gagan Banga: We get a steady income as the build project goes up, we keep getting money into our escrow account from sold apartments and whenever new sales happen, we get monies into the escrow account. That escrow account is what is used to service the facility. It is ring fenced from every other project, both basis our loan documents as well as with RERA and the property is exclusively mortgaged to us, both Supernova and the other residential project.

Nikhil Walecha: Both the property as well as the land we have as collateral.

Gagan Banga: Yes, that is right. That is the basic. The more important thing in lending is where the cash flow is coming from, so the cash flow is coming from the escrow account. The escrow account gets liquidity as the building progresses. As these apartments progress, since most of the project is sold, the developer makes a demand on the buyer and they are supposed to finance it. That is a typical thing for anyone who has bought a house, which is still under construction and they also keep doing additional sales through which they would again get money. Our primary defense in terms of cash flow is coming out of the liquidity, which the buyers give into the dedicated escrow account, which is exclusively charged to us.

Nikhil Walecha: Sure. Thanks.

Moderator: Thank you Sir. We have the next question from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: I have a couple of questions. Firstly, just qualitatively I would like your commentary on portfolio sell-downs, because now every HFC, be it PNB housing or Dewan and now you all, everyone is talking about stepping this up, but is there really this much appetite in the market? Secondly, when so much supply comes into the market, how would that impact the economics of the transaction? Would it be less ROE accretive when everyone wants to do this and there are less takers for those assets?

Gagan Banga: The banks that at least we do business with and that just keeps increasing quarter-by-quarter, they obviously wish to do business with institutions whose portfolio they have seen in the past. For us, having done business of nearly ₹ 50,000 Cr. across in almost 25 different institutions, there is familiarity with the portfolio lenders, as in, banks know what to expect when they come to do a due diligence of the files as per RBI guidelines and which is why we have been able to do single shot transactions of ₹ 3,000 Cr.-₹ 4,000 Cr. with a single bank. Of the total stock, some banks will have bought portfolios historically in excess of ₹ 10,000 Cr. from us. From a demand point of view, I see absolutely no issue. As far as spreads are concerned, again, banks are only comfortable in bank loans from select few kind of players and in their credit policies, they themselves write that even though they are not taking an exposure on the company, which is originating in effect, it is an indirect exposure because the company has to continue to service, so the originator has to service or continue to service and this put in conditions like what is the bare minimum credit rating of the originator, etc. So the small new players will not be able to really make much of a break-through in this securitization route. They may be able to do it in the PTC route. Banks are not really very active in the PTC route right now, so it would be dominated by a select few players. Now just to give you a short-term flavor and I hope that we continue to witness it. Last quarter, we needed to bump up securitization, given the liquidity conditions in the market. Now that we have run down our CPs to levels which are within our principles, going forward, today as we speak, we have actually more sanctions from banks than the portfolio that we have planned to sell down in Q4, so we are in that position now to go back to our bankers and request them for slightly better rates such that we can make some regular monies and also make a sustainable RoE for our stakeholders. At least over the short to medium term, I do not see this play out that ROEs will be under pressure and what I also do not see changing is RBI in its guidelines that direct assignment cannot give any kind of a risk protection to the buyer. So buyers will be extremely selective about the originators that they do business with, and we are fortunately of a size that we would be the obvious choice, being the largest player in this market by a mile and I therefore do not see any pressure on the economics as far as securitization is concerned.

Piran Engineer: Thanks for that and the ₹ 12,000 Cr. that we sold down this quarter was it just to banks or to other entities also?

Gagan Banga: Just to banks.

Piran Engineer: What percentage of your sell-down pools is PSL compliant? The thing I am trying to understand how you all make a spread of 2.4% on the sell-downs when it is predominantly home loan and LAP and I would have probably expected something closer to 100 to 150 basis points, so what percentage is PSL compliant and do you also get it at below MCLR from the banks?

Gagan Banga: We sell-down both home loans and LAP. On LAP, we obviously make a larger spread. A large portion of home loans and about 50% of LAP will be PSL compliant, so banks, because of the PSL compliance on home loans, give us a reasonable spread and especially in LAP, whatever is PSL compliant gets us a pretty handsome kind of a spread, all blended together gets us a spread of about 240 basis points.

Piran Engineer: The rate will not be below MCLR right? They cannot give below nor can they give it by looking into other?

Gagan Banga: No, it would not be below MCLR, but they give us a servicing fee since they we are continuing to collect and service the portfolio.

Piran Engineer: The 2.4 includes the fee also?

Gagan Banga: That is right.

Piran Engineer: Got it. I missed it in your comments, but could you repeat why you did not have a boost from assignment income this quarter? You said you put some ₹ 60 Cr.?

Gagan Banga: Debt related provisions, which were not really required, of an excess of ₹ 300 Cr. and since the assets that we created, provisions are still standard, so as a matter of abundant precaution, we created those additional provisions. Then we also front loaded some expenses so as to normalize the profit compounding. Between the two, we brought down the income to levels which are actually slightly lower than the income that we expect to get from this source over the next few quarters. The bigger point that I think it is an opportune time to talk about is that securitization is a core part of our strategy. Upfronting of income is not a core part of our strategy. So what we are trying to do is think about securitization as not an income upfronting model. We are thinking of securitization as a perpetual liquidity model where the liquidity is matched with the maturity of the asset and therefore is the best kind of liquidity. From our point of view, why securitization is a core part of our strategy is because it gets us the right kind of liquidity. It also helps us conserve the gearing at a prudent level. We do not think about securitization as upfronting of income and this is not something that we are talking about now. We have been speaking about it for the past many quarters. Till the time Ind AS did not force us to, we were not even upfronting this income. Therefore, we will run the business in a manner that if the average expected securitization over the next few quarters is ₹ 4,000 Cr. to ₹ 6,000 Cr., we will only recognize that much of income. and if in a quarter, we do additional securitization, we will create extra kind of provisions to make sure that there is no bumpy or chunkiness in profits in any particular quarter. If you do the math basis how much of our portfolio is sold down and how much of it becomes available basis the minimum holding period guidelines of the Reserve Bank of India. We have enough stock, which is coming and which will be ready for securitization over the next few quarters, so this will be more a steady state kind of a business.

Piran Engineer: The revised guidelines were only till March 31, right if I am not mistaken or is it next few quarters you can continue to do it?

Gagan Banga: The six month minimum holding period is still May 29. I'm not referring to that. I am referring to the classic model where it is securitized after 12 months of minimum holding. So on that front, as a core strategy, you can expect ₹ 4,000 Cr. to ₹ 6,000 Cr. of securitization going forward every quarter.

Piran Engineer: Just lastly what was our credit cost for the quarter just a bookkeeping entry, the total provisions, basically?

Gagan Banga: The total provisions that we have created are of ₹ 308 Cr.

Piran Engineer: ₹ 308 Cr. great. Thank you so much and all the best.

Moderator: Thank you Sir. We have the next question from the line of Umang Shah from HSBC Securities. Please go ahead.

Umang Shah: Thanks for the opportunity. I just had one question that we have revised our guidance on growth and profitability. What would be our stance on dividend policy going forward?

Gagan Banga: The dividend policy stays unchanged. As we declared a dividend of ₹ 10 per share, so it would continue to remain at 50% of profits.

Umang Shah: So fair to assume 50% of profits. Thank you so much and all the best.

Gagan Banga: We will take two more questions and then we will have to end the call, so the last two questions, please.

Moderator: Thank you Sir. We have the next question from the line of Gitanshu Buch from Jupiter Trading Advisors. Please go ahead.

Gitanshu Buch: Thank you for taking my questions. Just wanted to commend the management on their transparency not just in the quarter that just went by, but also consistently through the presentation, so related to that on the funding side, trying to understand why the company still has to pay a spread on debt issuance relative to HDFC?

Gagan Banga: HDFC carries a liquid portfolio of ₹ 2 lakh Cr. and that liquid portfolio consists of shares of some of the best financial companies in the country. We, unfortunately, are much younger, are not that old and we have a liquidity principle, which is extremely healthy and we carry ₹ 20,000 Cr. plus. If you compare similar lakh crore type of other balance sheets and I do it for a living, they are all at between ₹ 5,000 Cr. and ₹ 8,000 Cr. of liquidity, so we have invested in this and because of the investments in a well diversified liability program and ALM, which is perfectly matched for as long as you wish to match it and has an outcome of the high liquidity. We have made progress over the last 10 years and we have been able to deliver on profits and other such returns to shareholders extremely consistently. Over a period of time, that gap keeps reducing. Then there would be times such as what the country has witnessed over the last four months as an aftermath of the IL&FS crisis, where the spreads may temporarily expand and then in more normal conditions, they would go back. As a defense to that, we have to keep moving between various sources of financing so as to be able to manage our spreads and earnings, which we have again demonstrated that in the period when there was abundant availability of monies in the bond markets, we were raising monies. For three years on the trot, we were amongst the top six to seven issuers of bonds in the country cutting across all kinds of issuers, across all industries, government and private, so that is the acceptance of the bond instrument. At times such as these where some of our largest bond investors, that I would call bond partners, are themselves seeing redemption in their schemes on bond funds, their ability to be able to support the company diminishes. We have to look at our other lending partners, be it ECB providers or securitization or something else. This is what I was commenting a short while ago that over a period of five years, all instruments will be used, but there would be periods where securitization would be a main line of defense. We have to accept and be mindful that this business is being built in a country which has a shallow bond market and therefore why not adapt to the situation and say that this is how I would grow my business as long as it is accretive for shareholders and other stakeholders. HDFC is a great organization. We are trying to follow the path that it has shown to us, but it obviously is a much larger franchise than ours at this point in time.

Gitanshu Buch: At any point, does equity volatility become part of the debt covenants for IHFL?

Gagan Banga: No, there is no equity-linked volatility that we will ever bring into any of these instruments. None of our instruments will have a put cause beyond which we have recognized in the ALM. So if there is any sort of an optionality to a lender to be able to get back the money at some period in time, that is the period that we have assumed. So we have assumed that if there is a recall option under any situation, that recall option gets factored into that month or quarter of the ALM and there is no equity linked volatility which can come into our bond.

Gitanshu Buch: The same would apply to the corporate rating, which is quite valued at AAA from the rating agency side, not just the bond issuance side?

Gagan Banga: Rating agencies would take a very holistic view on the company and logically, it is more to do with the fundamentals such as capitalization level, the gearing level, the profitability level, the credit quality level, the depth of the management team, the depth of the board and all of that. So I think on all of those boxes we check, which is why we have our AAA. Much smaller companies also buy market cap, etc., also have AAA. So I do not see as long as we continue to run our business in a conservative manner, continue to stay liquid, which is why the priority of the management was the ALM and the liabilities as against anything else. As long as we continue to demonstrate this conservative attitude towards business, we have a lifetime to grow. It is just these few quarters that we have to be conservative and we have demonstrated that. So 10 years steady we have grown at 20% plus. A quarter or two of being very conservative is only going to on a long-term basis make us stronger.

Gitanshu Buch: Fine that is not an issue. Just a couple of housekeeping questions. First, cost income ratio in the April quarter guidance was that by the end of next year, it would come towards single digits or be at 10% are you still confident about that?

Gagan Banga: Yes, so this quarter, there have been some additional expenses that we have taken, small additional expenses that we have taken on the operating expenses side also. Those would not be there. So on an overall basis, our cost income will be on the lines of our guidance. We will get to single digits by FY2020.

Gitanshu Buch: Thank you and the final question is that management was on Bloomberg Television India, I believe in October or December, one of the statements made was about the valuation of OakNorth is there any progress on it?

Gagan Banga: Yes, so OakNorth raised money last quarter. I think it is to give or take ₹ 100 million or so last quarter as well. I think they have valued it at about ₹ 2.4 billion, if I am not mistaken, so that investment has continued to do extremely well for us. At this point in time, it is a very valuable investment and it is something that we would want to hold on to. The shareholder suite there is extremely deep and institutional as we sold stake to GIC and the other shareholders are also very deep pocketed. So at this point in time, I think OakNorth would continue to be part of our investment portfolio.

Gitanshu Buch: Thank you. That is all that we need to hear. Good luck.

Gagan Banga: The last question please.

Moderator: Thank you very much Sir. We have the last question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand what is your current incremental cost of borrowing? I know as of December, based on the presentation, but what is the current?

Gagan Banga: It is 8.8% as we wrote and in January, it will not be very significantly different to that.

Deepak Poddar: Sure that is it from my side. Thank you very much.

Gagan Banga: Thank you everyone. Thanks for being on the call with us and listening to us patiently and we look forward to delivering on the guidance that we have given out and we hope that you stay engaged with us and continue to support us. Thank you so much.

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