"Indiabulls Housing Finance Q4 Financial Year 2015 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Q4 FY 2015 Results Conference Call, hosted by UBS Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode. 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 would now like to hand the floor over to Mr. Anant Shirgaonkar from UBS Securities. Thank you and over to you Sir!

Anant Shirgaonkar: Hello everyone. Good evening this is Anant Shirgaonkar from UBS. I am glad to welcome you all to Q4 earnings call of Indiabulls Housing Finance. We have with us the top management of the company, Mr. Gagan Banga, Vice Chairman & Managing Director, Mr. Ashwini Kumar Hooda, Deputy Managing Director, Mr. Mukesh Garg, CFO, Mr. Pinank Shah, Head of Treasury and Mr. Ramnath Shenoy, Executive VP and IR. Over to you Gagan for your opening comments!

Gagan Banga: Good evening to all of you and welcome to the Indiabulls Hosing Finance Results announcement. I am very pleased to announce that we are only the second privately owned housing finance company and NBFC in the Indian economy to have crossed annual profits of Rs.1900 Crores and me and my team are extremely proud of this achievement.

At the end of Q4 financial year 2015, our loan asset stand at Rs.52235 Crores compared to Rs.48078 Crores at the end of Q3 of FY15. Total revenue as for the quarter is at 2122 Crores, which is a growth of approximately 35% over Rs.1568 Crores that we have made last year Q4 of FY14.

The NII number has increased to Rs. 912.9 Crores, which is a growth of about 30% over same time last year. The PAT has increased for the full year to Rs. 1901.2 Crores, which is a growth of about 21% over Rs.1568.5 Crores that we made last year and for the quarter we have made Rs.551 Crores, which is a growth of 22% over Rs. 451.5 Crores, which we made last year.

Capital adequacy stands at 18.36% as against 19.14% at the end of FY 2014. The total net leverage netted for cash and cash equivalents and investment in liquid schemes of mutual fund stands at 5.9 times of networth. We are and remain one of the least levered companies amongst mortgage finance peers. We are also extremely well provided with total provisions at about 1.66 the regulatory provision and at about 140% of gross NPAs. Our gross NPAs were stable and so were our net NPAs at 0.85% and 0.36% respectively. In computing net NPA only provisions against substandard assets are deducted from the gross NPA. Standard asset provisions and counter cyclical provisions totaling to 358 Crores are not deducted while computing net NPA, which is how we have provided 140% of a gross NPA.

At the end of Q4 FY 2015 the total substandard provisions are of Rs.257 Crores and the total provision pool stands at Rs.615.5 Crores. Our NPAs for over three years now have remained within a range of 0.7% to 0.9% for gross NPAs and 0.3% to 0. 5% for net NPAs, which is one of the rules that we had said that we would like to run the company with way back in 2010, and it gives us immense satisfaction to say that while the entire banking environment seems to be continuing to go through a reasonably extended credit cycle we have been able to maintain our asset performance within the guided range.

Our spread on book was stable at 330 basis points and on incremental basis also we were able to maintain our spreads. Cost of funds has reduced significantly so we have been able to save almost 45 basis points from the start of the year and cost of funds has dipped to about 9.7%. I will come back to this topic since it is a pretty unique opportunity that we have basis the relief reducing cost of fund.

In keeping with IHFL philosophy of maintaining adequate liquidity, the company has Rs.9631.2 Crores of cash, which it has deployed in liquid funds and other AAA PSU bond kind of investments.

Fee income for Q4 was at Rs.144.8 Crores, which for Q4 FY 2014 was Rs.86 Crores.

Moving onto the balance sheet numbers, the networth stands at about 6633 Crores. On the borrowing side 93% of our borrowings are long-term in nature. Bonds along with ECB have contributed to 45% of the incremental borrowing in the last

12 months. In the last 12 months, we have raised over Rs.4103 Crores on net basis through bonds and an additional Rs.1252 Crores on net basis to ECB.

On the cashbook we made higher than expected gain of approximately nearly 100%. Besides this, we have also made about Rs.25 Crores of higher than usual prepayment fees in this quarter. Continuing with our prudent policy of creating provisions with such gains, we have taken additional provisions in the fourth quarter so as to be having a very stable type of an earning curve.

The year overall has been extremely good for us. We started June, July of last year with the reorganization of the founder's ownership, which clearly mitigated the risk of having an industrial business within the group. That went onto get extended by serious beefing up of the board with the heavy weights like Dr. Chakraborthy and two justices of the Supreme Court and the member CBDT coming on board, which was all culminated with our credit ratings getting upgraded to AAA by 2 and AA+ by 2.

This upgrade in credit rating has had a very positive impact on our ratings. On the overall cost of bonds ever since our credit upgrade we saved almost a 130 basis points of which 60 to 70 basis points has clearly come through because of the yield curve shift downwards but the balance 60 to 70 basis points has come on the back of our upgrade in credit rating and we have another 20 to 25 basis points to go further before we can say that the full benefit of credit rating upgrade has been captured and this total journey of almost 85 basis points which we should complete by June, July of this year is giving a serious earning power and growth power to the company. It has significantly enhanced our competitive abilities and we have chosen to address an increasingly larger portion of the prime low risk mortgage segment.

We have been able to increase our disbursements to Rs.20,000 Crores in FY 2015 as against 14,000 Crores last year and we are ensuring that not only are we competing with the largest of housing finance companies and banks, we are also being able to do so while maintaining our margins. Both disbursals and book growth are being able to witness a very steady growth largely because of the huge fall that we have seen in our bond borrowing cost and I think this trend would continue through the initial few months of financial year 2016 also.

The full impact of the rating upgrade as I said earlier is in the process of transmission. Cost of debt reduction on the full stock of borrowings will allow us to continue to address the lower risk mass market even more aggressively. This will ensure that the healthy disbursal trend and the book growth trend that we have shown in financial year 2015 will continue through financial year 2016. This combined with a recovering economy will give us a very, very optimistic book growth scenario and other financial parameter scenario through financial year 2016.

We are thus reiterating our guidance of 20% to 25% growth across all financial parameters of financial year 2016. I would also like to highlight a very key point, which has been for the benefit of those who may have the earning update of the company handy, which is also placed out in financial year on page number 16 of the earning update.

The earning update is available on our website Bloomberg and it has also been mailed to a lot of you. The government's tax breaks on home loan repayments which come thanks to the Section 24(b) on interest repayment and Section 80(C) on the principal repayment has made the effective cost of a home loan of up to 25 lakhs at only about 5.1%.

There was a recent NHB survey, which showed that rental yields across markets in India stands between 2.5% and 4.7%. Now on an average, we have a rental yield to ownership gap to an effective interest rate gap of only 2%, so average rental yield in the country is around 3%, 3.1% effective interest rate is 5%, 5.1%. So by spending an additional 2%, a person today in India is able to buy a house of about 30 lakhs – 35 lakhs and take a home loan of approximately 25 lakhs.

For a house of 30 lakhs it means an additional payout of only Rs.3,500 over the rent that he is paying for him to become an owner of the house. Now this strong mathematics where a guy only has to pay Rs.3,500 additional over the rent he is paying to buy a house is causing strong momentum to continue in an otherwise largely slow real estate market and our choice of the sub-segment that we operate in which is the below 50 lakh home loan segment and most specifically the below 25 lakh home loan segment is continuing to see this momentum even though in the backdrop the real estate market is seen as largely slow.

I think this mathematics will stay compulsive and home buying up to 30 – 40 lakhs will continue to be of prudent financial decision through financial year 2016-2017 also. So as this happens and with everything else falling in place, the company is also reasonably optimistic of being able to get to about a 1 lakh Crores mark on balance sheet by financial year 2018.

Over the past 24 quarters IHFL has consistently delivered on all key parameters. Our single product focus especially home loans to the affordable housing segment have enabled this stability in our earnings and all related financial parameters. Today about 80% of our home loans is of loans comprising of a ticket size of less than Rs.50 lakh. This has allowed us to raise ECBs, get a preferred treatment from banks and now this is also transmitting into a larger bond book subscription thanks to the efforts of the Government of India where they are directing various pools of capitals to specifically invest in home loans and bonds where the underlying home loans below 50 lakhs.

Through FY 2016 we are optimistic of being able to abide by the principals of business which we have set, which is that we will maintain our overall book growth of between 20% and 25% which would mean that there would be a stable asset growth of approximately 2500 to 3000 Crores of net growth per quarter. We should definitely be able to maintain our gross NPAs in the range of 70 to 90 basis points and net NPAs in the range of 30 to 50 basis points.

Gross NPAs today stand at 85 bps and net at 36 bps. We will continue to maintain the discipline of keeping 15% to 20% of our asset book in the form of cash. We had over Rs.9600 Crores of cash as of March 31, 2015 and this principal will be abided by and capital which is a comfortable 18.3% should also stay and should stay just around 18% by the end of the year, so we should be between 17.5% and 18% well within the comfort range of both regulatory requirements as well as what is required to maintain our rating.

Again I would refer to page 29 of our earning updates where I have tried to highlight the blocks of strategy as well as efficiencies that we have created for ourselves. So we are today operating in an environment where the economy is growing and there is extremely low mortgage penetration and in this market we are being able to increase our market share at the cost of growing economy and a growing market as well as some inefficient players losing markets. Our focus on affordable housing, which is backed by a nationwide expanding network, is allowing us to grow the assets on a very granular basis. The young staff that we have is being able to work very hard and is being able to find customers at several hundreds of construction sites and their ability to service hard is resonating extremely well with the home buyers whose age himself or herself is reducing and now the average home buyer's age has come down to as low as 35 years, so this is also working extremely well for us.

On the financial side, I think our heavy capitalization and moderate balance sheet size on top of that is helping us to grow at a very steady cliff. We have been able to demonstrate expertise over the last ten years in the self-employed segment both in home loans and LAP and that would continue to be an expertise that we will leverage on and on top of that we are building a very nice client servicing model, which reduces the turnaround time, which increases the efficiency of servicing the clients through very heavy technology deployment.

The company also being able to overcome the brand awareness hump as fortunately for us the whole communication paradigm in the country is changing so what TV channels did to newspapers a few years ago, the mobile and the Internet is doing to TV channels today and our ability of being able to leverage on this whole digital opportunity especially given the perceived youth like image of the company is helping us increase our awareness by leaps and bounds.

I am sure that if we continue to leverage on the strengths that we have highlighted as well as continue to focus on the profitability that we have been focusing in each sub-segment that we cater to continue to remain extremely conscious of high risk management and keep our low NPAs very low and continue to focus on leveraging operating efficiencies and dragging down our cost to income ratio which we have dragged down by about 70 basis points as was committed, I am sure that we will continue in this process of creating a very scalable and sustainable value for all stakeholders including everyone on this call and me and my team are committed to ensuring that all of this results in not only a very strong earnings momentum that earning momentum is backed by high credit quality and this company is in a position to continue to compound its earnings for at the rate of 20% for many years to come.

So on that note I will end my address and I am happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Congratulations on good set of numbers. My question on branch addition during the last one year, could you highlight how we move on that front?

Gagan Banga: We have added about 15 branches, we stand at about 220 branches and this year we should add about 25 branches and get this number to between 245 and 250 branches.

Manish Ostwal: Secondly Sir could we have a breakup of our splits in terms of indigenous and nonindigenous categories?

Gagan Banga: The overall business has a spread of 330 basis points and the spread between the mortgage assets, which is home loans, and LAPS would be getting us about 2. 6% and the commercial loans, which are the large loans and our cost of funds, will be about 5.8%.

Manish Ostwal: What has been the repayment rate in last one year?

Gagan Banga: Our home loan book has demonstrated an amortization of annualized of about 1.7% monthly. Our LAP book has shown an amount of about 1.9% for LAP, commercial vehicles which are a very, very small book now at 3.6% and large loans have amounted at about 1.8% monthly.

Manish Ostwal: Lastly, could you highlight the top five cities for incremental loan book growth this year and how do you see the key markets for next year?

Gagan Banga: The top five markets we are at our size we are a shadow of the real estate market so the top five markets would be largely the top which is the NCR region, Mumbai region, Chennai, Bangalore and Pune. Now Hyderabad is starting to pick up again and then comes Calcutta.

Manish Ostwal: So in terms of pricing and the volume trend in those markets, could you throw some light how has been those trends and how do you see going forward?

Gagan Banga: We are focused on the below 50 lakhs type of a market where generally across the country and these are published reports of NHB also in the affordable segment both demand as well as price appreciation has been steady so depending on city the demand growth has been anywhere between 5% and 20% in the affordable segment and which has resulted in the overall mortgage market I think for last year would have grown by about 16%, 17% and then there has been a price appreciation of anywhere between 5% and 12% across all of these cities in the affordable segment. So our experience will be pretty much the same.

Manish Ostwal: Lastly could you give one data points small data point disbursement number for the full year and versus last year?

Gagan Banga: 20000 Crores is the disbursement for this year as against 14000 Crores last year.

Manish Ostwal: Thank you so much and all the best.

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

Vikesh Gandhi: Hi Gagan, congratulations. Just had some questions one is, can you just give the breakup of your NII in terms of how much fee was earned in this quarter?

Gagan Banga: The NII that we are reporting from this quarter does not and there was feedback that we should not add fee in NII, so the NII that we have reported this quarter of 900 some Crores is net of a 145 Crores of fees.

Vikesh Gandhi: You also were putting in other income the income from all the liquid investments?

Gagan Banga: That is part of the 913 Crores.

Vikesh Gandhi: How much would that be?

Gagan Banga: Other income would be 240 Crores for the quarter.

Vikesh Gandhi: So basically you have standardized rate for in the PPT that you have given it is all like-to-like comparison right?

Gagan Banga: Yes, we have netted off fees from the NII line this quarter.

Vikesh Gandhi: I was just looking at your provisioning line, which is, I think, I got 155 Crores as provisioning for the quarter outside of your OpEx so what is that breakup?

Gagan Banga: Breakup between the provisioning and write-offs?

Vikesh Gandhi: Yes, because I was just doing there is one slide on asset quality that you have and you have on the right given this how much excess over regulatory provisioning you have and taking all those numbers when deducting the last quarter from that I end up getting something like 70 Crores and the P&L number is 155 so I was just trying to see this?

Gagan Banga: We will come back to you in the format that you generally send to us for your research report but for the convenience of everyone we have done our total credit cost of 155 Crores, we have a 163 Crores of write-offs and 9 Crores of provisions and then there would be some recoveries, which is resulting in a 155 Crores of credit cost.

Vikesh Gandhi: So you said write-off of 163 Crores?

Gagan Banga: Yes, so as I mentioned at the start of the call we earned about a 125 Crores of excess income which we have used to write-off.

Vikesh Gandhi: Sorry I was not…

Gagan Banga: Nothing but a 100% provision.

Vikesh Gandhi: I understood, sorry I joined the call a bit late so I missed that.

Gagan Banga: We had a onetime capital gain so we had invested in tax free bonds and CDs which though the year have given us about a 100 plus Crores of capital gains which we have booked and we have used that to create an additional provision.

Vikesh Gandhi: There was some bit of rise in NPLs when I look at the absolute numbers sequentially the 410 is the number I had of gross NPA and it has gone up to 440, is there anything of that as other gross level 30 odd Crores increase?

Gagan Banga: We have chosen to accelerate the whole process of running off the commercial vehicles book and initiating the recovery process of commercial vehicles book so whatever vehicles who are in our stock we chose to sell them off and whatever is the depreciation on those we wrote off that whole amount and also categorized wherever we felt that those commercial vehicle loans are not going to be easy to recover so as to be able to re-possess it quickly and to accelerate the whole runoff process of commercial vehicles, we chose to categorize them as NPA. So apart from that there is nothing.

Vikesh Gandhi: The final question I have is the CSR in this quarter done or the allocation that you were doing on this year?

Gagan Banga: Yes, everything is done as I had mentioned in the previous quarter we have done with our CSR so whatever compliance we had to do we are already done with it.

Vikesh Gandhi: Are the numbers there in this quarter also or it was done in the last quarter?

Gagan Banga: All done in the last quarter.

Vikesh Gandhi: Okay fine great. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Sneha Kothari from Shubkham Ventures. Please go ahead.

Sneha Kothari: Sir how do we see the borrowing mix for the fiscal?

Gagan Banga: Fiscal 2016 should see approximately 50% of incremental borrowings coming from, so we hope to grow the book by about a 12000 odd Crores so I think that well 12000 Crores will get financed to the tune of about 6000 Crores net with bonds, about 2500 Crores or so of sell down and then 3500 Crores we have made another application to RBI for external commercial borrowings. I expect the permission to come for about 1800 Crores or so, if it comes then we will do 1800

Crores of ECB, if it does not come then we will do about 3500 Crores of term loan bank borrowings.

Sneha Kothari: In terms of the OpEx there is some substantial rise in on quarter-on-quarter anything to read on that?

Gagan Banga: Year-on-year or quarter-on-quarter is flat.

Sneha Kothari: Quarter-on-quarter?

Gagan Banga: No Q3 to Q4, we have flat at 146 Crores.

Sneha Kothari: Considering what is the comfort level in terms of the net getting ratio considering capital adequacy ratio at 18%?

Gagan Banga: More importantly since credit rating agencies monitor us. We have stated in the past to go up to seven times of gearing is something that we have already had a discussion with and everybody is on board and that reflects on the rated limits that we enjoy today so up to seven times of gearing we are fine and I think we will pick up the topic as and when we are getting close to seven times gearing. We are currently just under six times gearings.

Sneha Kothari: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Jonathan Dutoit from Truffle Asset Management. Please go ahead.

Jonathan Dutoit: Congratulations Gagan for good set of results. If I could just followup on you said you have got seven times net gearings?

Gagan Banga: Yes that is correct.

Jonathan Dutoit: It is past 38, look at the rate across in gearing, you could probably get there in the next 18 months, am I probably correct in saying that what is your preferred method to obtain more capital when you get close to the 17 seven times gearing?

Gagan Banga: The journey could well be a little longer than 18 months because we would continue to sell down so between in the next two financial years we would additionally sell down close to about $1 billion so that should just delay the process a little bit and impact the net gearing positively. Besides that the company has had historically a dividend payout policy of 50%, which had been increased three financial years ago given the requisite breaks that we had got. I had been mentioning in the last few calls that we will start normalizing it once we get to 18% so what we have started doing now for the last three quarters which we will continue is that till the time that we get to a 50% dividend payout, we will cap out our dividend per quarter payouts to Rs.9 per share and thus I think by about end of FY 2017 or early 2018 we should get back to a 50% dividend payout ratio with both of these decisions, my sense is that we would be we are good to go till FY 2018 or so and in terms of our net gearing and our capital adequacy etc. So we have two years to think this through and closer to that date we will see whether we want to do a rights or an QIP or something, it is not something that the management is currently preoccupied with or is **(indiscernible)** over.

Jonathan Dutoit: Also see in this year you are growing the number of employees 15% to 20%, if I look at the last three years, it was largely declining has there been a specific change that we also talked about adding new branches has there been a change to add more branches and increase the staff count and where do you see that number going?

Gagan Banga: In the past, I had mentioned that we were growing our mortgage employees and were shedding employees on the collection side, people who had been historically earlier collecting on unsecured loans and then on commercial vehicle loans. One of the big reasons why we kind of accelerated the entire NPA categorization as well as the disposal of assets process in commercial vehicles was to also effectively streamline the collections work force and make it into a smaller more lean workforce which is going behind with a specific strategy on recovery of these commercial vehicles. So that part is kind of sorted now going forward we have grown our workforce 20% this year because there was no net reduction on the other collections work force side. I do not think we are going to be reducing our collections workforce for other products for the next year and a half so at least for financial year 2016 and 2017, you can expect about a 15% to 18% increase in workforce to be able to demonstrate a 25-odd % increase in book growth which is what we are internally targeting and guiding on a few for.

Jonathan Dutoit: Thanks very much.

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

Saurabh Kumar: Thanks for the opportunity. I actually have four questions. First is on your growth NPLs you have said that maybe economic recovery can help in improving this number, you have two specific accounts I wanted some information on, one is Deccan Chronicle and Palais Royale, so has there been any progress on any of the two and like what is the provisioning you are running with on these?

Gagan Banga: There is a very good progress on both of those. Unfortunately the progress is court driven and therefore is government agency driven and therefore more permanent in nature specifically Deccan Chronicle, the Supreme Court of India has as of about 10 days ago given them a notice of three weeks. There are assets worth about Rs.150 Crores in our possession and out of those assets, it has identified three assets which it has agreed that either Deccan Chronicle will sell it within three weeks, or we can sell it at any time after three weeks. So I think that three-week process would end give or take around May 10, or something like that. So we have a good time within this quarter and since it is from the Supreme Court it is not even appealable, so my sense is that we will see substantial recovery in the Deccan Chronicle case if we are able to dispose off those assets. Those are prime assets of homes of Banjara Hills in Hyderabad, therefore there should not be much of an issue maybe some of our investors on this call may want to buy those houses, so we will dispose off those assets and I hope to report some recovery next time we are on this earnings call. I am rather confident of being able to report recovery on that call. On Palais Royale when we had discussed this case in detail we had mentioned that the total area is 13.6 lakhs square feet of which the contentious area had become 3.6 lakhs square feet. There were largely two reasons why the area had become contentious after giving them public parking lot approval as was the case for all builders BMC had retrospectively tried to change policy since then basically because of the way they were fairing in courts, the BMC and the government had to revise their policy again, which I had mentioned in the last call and finally BMC has started the process of taking over the public parking lot and regularizing close to about 150000 of the 350000 square feet, which is under contention. So with the regularization of this 150000, two things happened one the builder can go out there and seek part OC so the mobilization of labor etc., has started and the builder intents to start doing fit outs in the next 60 days. Once that happens in about six months from now you should be seeking a part OC and with that substantial cash flows will start. He has receivables currently from the area, which is sold the area, which is sold, is about 920000 square feet. In the past few quarters he has been able to sell an additional 60000 square feet, the balance area to sell is about 230000 square feet and at a rate of Rs.40000 a square foot he should have a receivable of 920 square feet from the balance area to be 920 Crores from the balance area. From the sold area he has a total receivable of 2300 Crores, he has received a 1000, he needs to receive another 1300 Crores so his total receivable is about 2000 to 2300 Crores, he has to pay about 350 Crores for construction and the little over 600 Crores back to us, so his net would be about 1300 Crores. So on our loan we have something like a 3.16 times cash flow cover and if he gets permission for the contentious area also which he should and this is again court driven the basis on where the court is going he should be able to get that refuge area permission also that will add another 840 Crores. More importantly, I am reasonably confident that within the calendar year he will have a part OC.

Saurabh Kumar: Is this account part of the NPA or no as of now?

Gagan Banga: No we do not recognize interest but this is not an NPA because he services interest but we do not recognize it.

Saurabh Kumar: So his services interest but how does he account them, work then?

Gagan Banga: No we just keep it in suspense and we do not accrue the interest.

Saurabh Kumar: So if it were to become regular you are going to have…

Gagan Banga: We will have a large time.

Saurabh Kumar: The second is essentially on this disbursement mix but you said once post AAA you will seek to do more mortgages so basically what I am trying to understand is your spread should still remain the same as you pass on this entire benefit down into your mix or should your spreads expand on account of that?

Gagan Banga: All of that has already played out so if you notice the year-on-year the retail mortgage piece has increased to 76% and all of that has paid out. Now it is actually time as the economy recovers and as I have been mentioning in the call so we should actually be looking at doing more like 75 – 25 and as a commercial vehicle piece runs off my sense in the next 2% that the corporate mortgage book will actually gain about 2% of the book.

Saurabh Kumar: Third is essentially on your funding mix so our funding mix is still heavily bank rated, this is obviously on an incremental basis you are saying that you do 50% in bonds but that still lower than what other housing finance NBFCs are at, so is that something you will have a spot on that over a period of maybe two years would want to be there?

Gagan Banga: Currently we are dependent about 60% on banks and on an incremental basis we want to reduce that to about 30% to banks. I think the best most benchmark housing finance companies are about 25% to 30% on banks so if we continue to follow that practice for three years we will also reduce this up to 30%, 40%, and 45%. So it is a journey that we have embarked on. We have already reduced from 60% dependence on banks last year that number has come down to 55% in between 2016 and 2017 I hope to bring that number down to 30% and if we achieve that then in due course of time we will be in line with where other large housing finance companies are and companies that we choose to benchmark against.

Saurabh Kumar: Okay and just one final question on your tax rate your tax rate is still 26%, so HSCs have been asked to increase their tax rate right?

Gagan Banga: We have explained last March that we were fortunate to have achieved large notional capital loss book and that book we are still running through which is by you know the mutual fund income had moved from being part regular income to other income, so that portion is there. I think in about two years we will steady at about 25% to 26% tax rate, which is anyway the direction that we have taken.

Saurabh Kumar: Okay, so this is just because of this year end capital gains?

Gagan Banga: Which we had taken last year and we continue to run that down, so we will for this year I think our tax rate is just over 23% next year when I budget 20% to 25% profit growth it should be between 24% and 25% and the year after that we will get to 25%.

Moderator: Thank you. Our next question is from the line of Kunal Shah from Edelweiss Securities, please go ahead.

Kunal Shah: Thanks for taking the question. Most of the questions have been answered Sir, just one thing in terms of again coming back to this question on Deccan Chronicle last time we mentioned recovery of 75 Crores is something that is left to be done, is that already provided for and it will be just like the write back which we will be getting?

Gagan Banga: Yes. It is 100% provided.

Kunal Shah: Sir this write off which has been done in this quarter of 163 Crores, so this is more kind of write off or is it a contingency provision?

Gagan Banga: It is more a notional provision of 100%.

Kunal Shah: Okay, so maybe then in that case where do we stand in terms of the counter cyclical provisions on the book today.

Gagan Banga: No. No. You can either create a counter cyclical provision pool or you can just accelerate the NPA recognition or some assets which may not be NPA and then and write it off from the NPA existing pool, so all of that is essentially which bucket do you wish to put these things in. My sense is that there is limited utilization right now for counter cyclical provision it is better to create a regular provision pool of 100% and to write off especially in the case where a loan is either unsecured because the commercial vehicle's value add itself depreciated so wherever we had suspicion that recoverability is probably doubtful or may take a long period of time, we have chosen to provide it 100%, over 60% of this has gone in to commercial vehicles, so I think, it should be read as nothing more than 155-160 Crores of additional provisions being done.

Kunal Shah: Okay and in terms of the traction on the disbursements in Q4 in particular and even when we look at the overall AUM growth that is say now almost 27 odd percent so is it to say may be this is the kind of trend which we could carry it forward for the next two to three years may be we were guiding for say somewhere around 22% to 23% or 24 odd percent, but may be on the mortgage as well as on the corporate mortgage side we are seeing good traction and that has lead to this kind of AUM growth in this quarter.

Gagan Banga: See this company has to be seen as a company which commits a few things, so before I come to that, I would like to commit go back to the provision on NPLP. Whatever additional onetime income we will earn and we will obviously strive without taking risk to earn more and more and as we provide they would be large charge back, which would also accrue to the company we would want to ensure that this company is seen as more a 20% profit compounding company than a company which is utilizing those onetime gain declaring a higher profit after tax one quarter and then declaring a lower profit after tax, the best way to create a buffer in our business is to do accelerated provision. I have already guided at the start of the year that our credit costs for the year irrespective of whether you provide or write off which are more technical accounting entries would be in the range 50 basis points, which is something that we have done and I would be comfortable running with a 50 basis points type of credit cost and I am reasonably sure that the business requires only about 30 to 35 basis points of credit cost. The additional 15 to 20 basis of credit cost that I am desiring to do would either be funded by lower cost of funds which we are today utilizing to drive growth or by one-offs. We were fortunate that we got this one-off so we utilized low-cost of fund to drive growth. If there was no such one-off the lower cost of fund would have been utilized to create and get to 50 basis points of credit cost, so my request is that all of you should think of us as a 20% compounding profit company and in your model should put about 50 basis points of credit costs because that is something that one is comfortable with. Till that time that these regulatory provisions that we are running in excess get to about 600-700 hundred Crores and we are very, very comfortable with large provision pool that we are sitting on. Now, coming back to growth, clearly and these are numbers out in public domain when large banks and housing finance companies and even state owned banks are today talking about retail credit north of 25%, there is opportunity. There are always question because a lot of us are Mumbai based and we see a lot of construction around us but not a lot of sale activity and then we wonder where is this growth momentum coming from which is why I had drawn your attention to the affordability factor, which has highlighted in earning update and I will sincerely urge all of you to go through the math, it is a very interesting math and that is the single biggest reason why this growth momentum continues, so there is opportunity to grow at a pace which is higher than 25%. I am committing that we will through financial year 2016 grow across all financial parameters which includes growth between 20% and 25%. If we have to get to a 20% book growth either we see some massive margin expansion or we will have grow the book closer to 25, grow the NII closer to 22 to be able to grow the book at about 20, so that is the math with which we are broadly running the company. There will be opportunity to be able to grow at greater than 25%. A lot of other things need to fall in place for us to be able to utilize those opportunities. The transformation in our borrowing program is the most important part of that. If we are able to successfully achieve it, if bonds indeed become 50, 55% of incremental borrowing we should be in a peripheral neuropathy to exceed that but till that time with whatever we have already achieved, I would like to commit on the 20% to 25% type of number.

Kunal Shah: Last thing on the corporate mortgage book and since a significant chunk 70% of that would be say more kind of leased rental discounting, so any kind of risk apart from the two accounts which has been highlighted since last two quarters or there any other accounts which are under the watch list or in commercial property space, we have send the tenancy issues or say the rentals coming off?

Gagan Banga: The lease rent discounting book is about 60%. Residential, construction, finance is about 40%. In a previous call we have highlighted that the lease, rent discounting that we do is generally a building which has a rental of around Rs.50 to Rs. 65 square feet. Our benchmark is one dollar a square feet. There was a newspaper article in the Economic Times, two or three days back, which highlighted that at that level there is actually a shortage of office supply and there is pre-leasing which is picked up and there is such intense activity that pre-leasing with some of the large developers and I am happy to say all of those developers are our customers, is to the extent to two million to three million square feet type of a thing, so today the lease rent discounting portion continues to be a good viable opportunity which we are pursuing and when I talk about low risk type of loans being more aggressively pursued, as the lease, rent discounting rates have come off we have been able to maintain our presence in that segment largely because of the fall in our cost of funds, so lease rent discounting will continue to be an important asset class which we will pursue, so will residential construction finance on a very, very selective basis and overall apart from the two accounts highlighted, there is no apparent risk that the management is seeing today. The management is confident that the loans are all good. That said we run a chunky portfolio to the extent of 22% of our loan book today and we would rather be safe than sorry and therefore we would continue to over provide.

Moderator: Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Thank you. Just first few understanding in terms of the numbers you are saying the fee income is not part of the NII so there is 913 Crores of NII if I were to look at the net revenues which is about 1052 Crores, which is basically all your income minus the interest expense, so of the 1051 Crores 913 Crores is the NII what would be fee income you would say?

Gagan Banga: 145 Crores.

Hiren Dasani: 145 Crores. So that is the bulk of it essentially and where would the securitization related spread get reflected that would be a part of NII.

Gagan Banga: 340 basis points would get added to the NII of 6100 Crores or 6200 Crores that we had.

Hiren Dasani: That will be the part of the 913 Crores, right.

Gagan Banga: That's correct.

Hiren Dasani: Okay and that would be in terms of accounting it would be part of your interest income.

Gagan Banga: That's correct.

Hiren Dasani: Okay and this 144 Crores is fairly large number for the fee for this quarter so is there any one-off there?

Gagan Banga: 25 Crores of repayment which I mentioned in my initial address apart from 25 Crores there is 120 Crores of fee income, we have disbursed close to about 6, 500 Crores this quarter and so it is exactly in line with it, so it is about processing fee plus the thing is about in line which what we have been doing the in the past.

Hiren Dasani: Okay and this prepayment must be from some corporate account, right.

Gagan Banga: Yeah. What we were fortunate about this quarter was that we could do a couple of large deals at the very start of the quarter and last quarter also we had witnessed pretty robust credit growth. So we had kind of postponed some disbursements to the start of the quarter and large prepayment, which was IT park, which was mortgaged to us that IT part the owner sold out and the IT park, the owner sold out and the IT park has been acquired by a very, very large private equity fund which chose to pay down the debt and therefore the prepayment came on March 30 or March 31, so that gave us about almost 20, 25 Crores of additional income.

Hiren Dasani: That is obviously to increase the provisioning for the quarter, now the other thing is on the spreads and yields, you said 330 basis points is the spread on the mortgages, is what you make?

Gagan Banga: Overall book.

Hiren Dasani: Can you just walk me of the 70% now what would be the individual loan mortgage and what would be the LAP?

Gagan Banga: 50 and 26.

Hiren Dasani: What would be the yields on both of that?

Gagan Banga: Home loan book is about 10.9 and lab book is about 14.9 and on incremental basis, we would be getting 10.6 and 14.5.

Hiren Dasani: And the rest of the 24%.

Gagan Banga: The rest of this 24% will have about 17% on commercials large loan, which has now dropped on incremental basis to about 16.5%.

Hiren Dasani: Okay that is largely the 24% right, CV is very little now. Beyond this yield you would also charge approximately 2%.

Gagan Banga: 17.5% is the residential construction finance. There is lease rent discounting which on book basis is 14 and incremental basis is 13, so the large loan book when you say the 22% is getting us a yield of 14.75% incrementally and 15.5% on book basis.

Hiren Dasani: Okay and beyond this yield you would also charge the disbursement related processing fees I mean at the time of disbursement which is if you go by 120 Crores over 6500 Crores?

Gagan Banga: We get home loans about 25 basis points and LAP about 150 basis points and in large loans about 200 basis points. On top of that we will have insurance commission. Last year, we sold about 160 Crores of insurance and very soon you will be hearing of a very, very interesting tie up, interesting because of the company that we are planning to do the tie up with for selling their insurance product and we are already the largest corporate agents for ICICI Lombard, so that gets us a good income and that is also now started adding up to significant trail income.

Hiren Dasani: Great. In terms of the spread economics 330 basis points spread overall you are comfortable to maintain as long as the business model there is not any change if you do not foresee any as of now?

Gagan Banga: We are confident of being able to maintain between 300 and 330 basis points, so that would be the range that we would be comfortable in.

Hiren Dasani: Okay and one more question on the warrant. Are there any pending warrants now or they are all exercised now.

Gagan Banga: I think there are about 65 Lakh warrants which are yet to be converted as of end of March. This is from the original 2010 allotment from what I am aware of the balance has been converted and 65 Lakhs are pending to be converted and they have time till August of this year.

Hiren Dasani: So if I remember correctly, 27.5 million were issued. The 2.75 Crores warrants were issued, of that only 65 lakhs is pending.

Gagan Banga: The rest is converted.

Hiren Dasani: When you say gearing below six, you would look at net gearing off, I mean when you calculate next gearing you would exclude the cash and cash equivalent?

Gagan Banga: Yes that is what we have explained. We have always done that, so borrowing minus cash.

Hiren Dasani: And rating agencies are fairly comfortable with this.

Gagan Banga: Rating agencies mention the same in their rating opinions also.

Hiren Dasani: Great. Great set of numbers. Congratulations for him. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Mohit Pandey from Crisil. Please go ahead.

Mohit Pandey: Thanks for the opportunity. My question was on the LRDs. What would be the typical duration or tenure for which LRDs are done?

Gagan Banga:: 9 to 12 years depending on the underlying lease agreement.

Mohit Pandey: Okay and all these would be multi tenant properties or they would be LRD for some anchor tenants also?

Gagan Banga: These would largely multi tenanted properties where no tenant will have more than 20% to 25% concentration and they would be typically, as I said, about 50, 60 rupees a square feet type of properties largely occupied by IT type of companies and mostly found in cities like Bangalore, Chennai and Gurgaon.

Mohit Pandey: On the securitization front, what kind of momentum are you seeing and any impact that you see from the revisions in BSL lending norms that happened yesterday?

Gagan Banga: The bulk of the incremental disbursements that we have securitization or sell down securitization that we witnessed in the last financial year is on the back of non priority sector. As you are aware RBI at almost the start of the year had given credit to banks for the amount that they had put in to the rural infiltrate development fund run by NABARD which historically would not be a credit on to their priority sector account but they had given a one time **(indiscernible)** plus most banks did not grow their balance sheet plus a lot of banks got whoever did the FCNR transaction that the RBI had put in place in that period after July to September 2013 to stabilize the rupee that was again about a 30 billion type of FCNR which came in, so as a combination priority sector requirement for this year was muted. Everybody is already aware of the fact that there are tax issues around PTCs, so that also has been historically causing a little bit of a hiccup. As mentioned in the past that the company continues to see strong momentum on the non-priority sector part which is where the bulk of the sell down for previous year has happened and that I believe would continue to form about 20% of our incremental funding. On priority sector guidelines which have come yesterday the good thing is that 25 lakhs of home loans has increased to 28 lakhs of home loans so to that extent it is a minor benefit plus there is an additional limit which has come in for medium enterprises, so a lot of our LAP which would get restricted because of the limitation of 5-10 Crores type of investment in plant and machinery that number would go up, so that is a leg up. One has to still understand what would be the guidelines around priority sector certificates and who would be the guys who would be in a position to issues these certificates because to the best of my knowledge today the largest of public sector banks is also not sitting in a position of excess on priority sector and I am not aware as to who can therefore issue these priority sector certificates, one will have to wait and watch, if you ask me I would say the momentum around sell down will continue and we will continue to fund ourselves approximately 20% through sell down till the momentum on priority sector sell down comeback I am not so sure it is a function of whether banks choose to grow their balance sheets or not primarily for this year this is the big delta and one is unsure of whether they have the capital which is the public sector banks and whether they have the risk appetite to be able to grow, so one will have to wait and watch for that. Anyway with the fortunate event of our credit rating upgrade today the economic case which was very strong for a company like India Bulls which was issuing bonds at 10.5% around the same time last year and is now issuing bonds at 9% annualized rate and 8.6% monthly actually doing a priority sector deal is not so attractive anymore because priority sector deals are happening in the range of 9.3-9.4% whereas we are able to raise bonds at about 8.6-8.7%, so it is indeed a capital light structure so we will continue to look forward to doing that but it is not a situation where we were in two, three years ago where it was like almost a compulsion to do this.

Mohit Pandey: One last question, the borrowings that you raise through ECBs what was the rate at which you raised?

Gagan Banga: That turned out to be an all in cost inclusive of the 100% cover that we did of just under 9%.

Moderator: Sir, there are no more further questions in queue.

Gagan Banga: Thank you so much and to just reiterate we are extremely bullish about being able to maintain a growth momentum which is in line with what we have achieved over the last two years, the last two financial years were extremely tough for the Indian economy for the lending industry and we have been able to maintain these numbers thanks to some very conscious risk management. I can assure you that the company will continue to only pursue growth while ensuring that risk management practices are not compromised with. When we make a guidance of 20-25% we do a fair assessment of what is the market in a risk adjusted manner should give us an opportunity of growing but that said if tomorrow the economy is to turn weaker or if there is some macroeconomic event locally or globally which is to make the environment unsure we will not hesitate to not grow at the pace that we have grown in the past and to lower our growth, so for us risk management continues to be the primary benchmark with which we have to look at every loan that we look at doing and there is a lot that is going for the company right now. We have a bunch of very loyal employees. Our credit ratings are good. Our credit performance is good. The overall acceptance of our credit in the financial services industry has come to a different level now and I am very optimistic that financial year 2016 and 2017 would be definitely the golden years for India Bulls Housing and all the work and toil of the team here, of the 4800 employees that we have would come off age in the next two financial years. I would continue to seek your support and advice and I am always there to answer along with my team many of your queries. If you have any queries after this call, feel free to send us an email, call us or contact us in any manner and thanks once again.

Moderator: Thank you very much. Ladies and gentlemen, that concludes the conference call. Thank you for joining us and you may now disconnect the lines.