"Indiabulls Housing Finance Limited Q4 FY'18 Earnings Conference Call"

April 20, 2018

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

Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q4 FY'18 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Also, the latest earning update has been uploaded on to the company's website. Participants are requested to keep the same handy as the management will be referring to a few slides during the conference call. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you, sir.

Ishank Kumar: Thanks, Rayo. We welcome the management of Indiabulls Housing Finance on the call to discuss Q4 FY'18 Results. From the management team, we have Mr. Gagan Banga – Vice Chairman, M.D. & CEO; Mr. Ashwini Hooda – Deputy Managing Director; Mr. Sachin Chaudhary – Chief Operating Officer; Mr. Mukesh Garg – Chief Financial Officer; Mr. Ashwin Mallick – Head, Treasury; Mr. Ramnath Shenoy – Head, Investor Relations and Analytics; Mr. Harshil Suvarnkar – Head, Markets.

I now invite "Mr. Banga to Share the Key Details of the Results." Over to you, sir.

Gagan Banga: I wish all of you a very good day and I welcome you to the Q4 & Full Year Fiscal '18 Results Call.

The year gone by has been very momentous for us, had upgrade to the highest long-term AAA rating by CRISIL and ICRA firmly lays the foundation for long-term sustainable and profitable growth.

Other important milestones during the course of the year which we achieved were, in the first half, our loan assets crossed Rs.1 trillion, propelled by strong growth in Mid Income Affordable Housing which is our core business segment. Since Q3 Fiscal '18, we are now clocking profit after tax of Rs.10 billion a quarter. For the first time, our loan sell-downs in fiscal '18 crossed 100 billion from 42 billion in fiscal '17. We sold down an equivalent of a third of incremental loan assets that we added this year. At first hand, we see strong traction for loan sell-downs and this very efficient source of funding makes our funding outlook all that much stronger and capital more efficient.

We also issued India's First Social Affordable Housing Bonds of Rs.10 billion. The proceeds of which will be used towards financing the Affordable Housing sector. These bonds conform to the social bond principles of the International Capital Markets Association, (ICMA) with assurance to principles being checked by KPMG.

We issued Rs.27.5 billion of the Tier-II bonds boosting our capital adequacy to nearly 21% levels against the regulatory requirement of only 12%, this will help us maximize ROEs.

Our eHome Loan product has now evolved into a comprehensive Indiabulls Integrated Home Loans Technology Platform. This platform will be driven by strong analytics engine and also brings on developer and external channel partners like DSA and developers into the interconnected network. Technology thrust will drive IBHFL's next phase of growth and we are already seeing tangible, operational as well as financial benefit from our technology initiatives.

Over fiscal '18, the real estate sector has strongly picked up. Sub-Rs.2.5 million home loan disbursal growth was at 33% in fiscal '17. This was before the extension of PMAY Credit Linked Subsidy Scheme to a core customer segment of mid income home loans. The numbers for FY'18 are expected to be still stronger. An indication of a very strong near-term growth is in comparison with China's individual mortgage market which is at $3.5 trillion and is 14x that of India's $245 billion mortgage market, while China's GDP is only 5x that of India.

With the GDP growth that is in line or higher in that of China's, it is on very sound grounds that I expect very strong (+30%) near-term growth in the segment. Both the residential and the commercial real estate markets are already showing signs of this.

In Slide #16 of our "Earning Update" we have shown how there is strong pick up in Affordable Housing segment across the country. In December 2017, the rating agency, ICRA, states that it expects feathered growth in this segment over the medium-to-long-term to be at over 30%, resulting in an increase in mortgage penetration to 12-14% from the present 9.7% of GDP by March 2022 itself. According to another industry report, Residential sales in sub-Rs.30 lakhs category saw a jump of 33% YoY in the second half of calendar '17. Also, the share of sub-Rs.30 lakhs category in Residential sales has increased to 27% in the second half of calendar '17 from 24%. Residential sales in Mumbai Metropolitan region and the national capital region on Delhi market grew by 32% and 28% YoY respectively in second half. Traction was also seen in launches in mid income Affordable Housing category with over 44% of launches in calendar '17 happening in ticket sizes of less than Rs.40 lakhs. The Premium market too has started to show signs of recovery. Bangalore witnessed 45% jump in demand for premium residential living space. It also exceeded the target for the government had set for registration duties. Uptick in high income group sales is led by Mumbai and NCR regions with each registering 20% YoY growth in second half of calendar '17.

Commercial office spatial absorption which is a lead indicator of housing demand recorded leasing of over 10 mn.sq.ft. in Q1 calendar '18 which is a growth of 25% YoY. This was led by the corporate, BFSI sector and eCommerce companies which contributed to 64% of the absorption. For the past three years, commercial office space absorption in the country has been over 40 mn.sq.ft. every year. As per Knight Frank report of February 2018, office space vacancy was at a 10-year low in calendar '17. Key Indian IT hubs such as Bangalore, Pune and Hyderabad have vacancy at mid single digit levels. According to the rating agency, CRISIL, office rental saw strongest ever appreciation in most major markets with the growth of 5% YoY and rentals also are expected to grow by 5%-8% YoY in high demand micro markets across all the top-8 cities. As per a report by CBRE, office space addition grew 3x to 9.7 mn.sq.ft. during Q1 Calendar '18.

In our core consumer focus mid income home loan segment, the competitive landscape could not have been more conducive for us. Slide #14 of the update shows how housing finance companies have been steadily gaining home loan market share from banks and now account for 41% of the stock of the country's home loans, up from 33% in fiscal '10. On an incremental basis, housing finance companies now extend more than 50% of the home loans in India in fiscal '18. Given the asset quality issues and other distractions that both private and public sector banks are grappling with. In the bank scheme of things and order of priorities, home loans continues to not be the key focus area, that this competitive product requires.

A very interesting report released by the Reserve Bank of India in January 2018 on Affordable Housing shows that public sector banks NPAs are 2.5x that of housing finance companies. Consequently, the field is very much open for focus lenders like Indiabulls Housing. Besides with the near and mid-term issues, banks have larger structural issues requiring long drawn-out solution. Over half of all the public sector banks are in prompt corrective action of RBI and are thus rendered practically useless. Even the much touted banks recapitalization which had earlier in the fiscal called for a lot of concern has barely made any positive impact on banks performance or competitiveness in the home loans space.

The transition piece of RERA and GST are now well behind us. The benefits of these two major reformations are now becoming evident. RERA has led to beneficial consolidation in the real estate industry with single plot one-project developers that used to form the vast majority of non-organized real estate developers segment, now increasingly entering into joint development agreements with larger organized players. The whole industry is now getting capital-efficient. The larger developers do not have to lever up their balance sheets as a small partner brings in the land. RERA rules require proper formal working capital finance to be put in. That is working capital finance and the kind of construction finance that we can give out that demand has gone through the roof. GST has had a similar impact towards the end of the project of postponement of sales happening. GST has also had the impact on the self-employed segment which is extremely positive. Self-employed underwriting is a core strength of Indiabulls over the years and over the last 15-years that we have been doing this business, our portfolio has gone through at least 3-4 credit and interest rate cycles. It has also seen demonetization, RERA and GST. 30% of our home loans and all of our LAP loans are to the self-employed small business owners. GST has drastically cut the cash component in the business. Formal books are strengthened and many that were earlier operating in the organized segment are now in the formal mainstream. All of these, over the next few years, are going to become a ready market for a formal financier like Indiabulls Housing.

Before I go into the key financials, I am very pleased to announce that the board has approved an interim dividend of Rs.10 per share. Dividends have risen from Rs.9.25 to Rs.10 to keep pace with our guidance of paying 50% of profits as dividends.

We have grown strongly across all key parameters. Our balance sheet at the end of fiscal '18 stood at Rs.1.32 trillion, up 27.2%. Our total loan assets are at Rs 1.23 trillion, up 34.3% at the end of fiscal '17; it was at Rs 913 billion. Profit after tax for the year is at Rs.38.5 billion up 32.4% from Rs.29.1 billion for fiscal '17 and PAT for the quarter is at Rs.10.3 billion which is up 22.6% from Rs.8.4 billion in Q4 of fiscal '17. Our top line has registered a healthy growth with revenue for fiscal '18 at Rs.146.4 billion which is a growth of 25.1%. Of this Rs 121.1 billion is from interest on the loan book, Rs 13.37 billion from cash and liquid investments, Rs 6.5 billion from fees and Rs 5.42 billion from sale of equity stake in OakNorth Bank in Q3. Our top line for Q4 fiscal '18 were at Rs 39.7 billion growing 25.1% on Q4 fiscal '17. The NII for fiscal '18 stood at Rs 57.85 billion, a growth of 21.3% over fiscal '17.I request you to refer to Slide #23 which is the new slide that we have introduced which talks about the various sources of revenue for the company. We are perhaps a very unique mortgage focused franchise in India which has not only a large portion of the income coming from interest income but we have been able to very successfully diversify the sources of revenue to go beyond just pure interest income. 1.6% of disbursal is accounted in the context which is fee income without even taking into account other penal and loan recoveries that we do. Loan sell-down earn us a spread of 3% and are further complemented by an active syndication desk that we run. Even the liquidity that we carry continues to get us a return of over 7%, thus beefing up either our net interest income line or our profit after tax line. As we look forward towards more and more technology integration, we expect the fee income to only go up from here towards 2%. As we focus more on the home loan segment, loan sell-downs will continue to be at least a third of our book. We are quite confident that we will not be getting a massive negative carry on the liquidity buffer that we have. As a result, the net interest income for the quarter stands at Rs 16.61 billion, a growth of 22.2%. We have been focusing hard on reducing our operating expenses; our cost-income ratio which in fiscal '11 used to be as high as 21% in fiscal '18 has declined to 12.5%. OPEX stands at Rs 8.53 billion, up from fiscal '18 OPEX of Rs 7.2 billion. OPEX for Q4 was at 2.06 billion against Rs 1.98 billion in Q4 last year. With the increasing penetration of the home loans and increasing digitization, we are confident that we will continue to trek the path that we have since fiscal '11. We have already bought down the cost-income ratio from 21% to 12.5% and this will continue to decline to a single digit over the next couple of years. Our net credit cost for fiscal '18 stood at Rs.10.36 billion excluding the one-off provision of Rs.1.8 billion that we made from OakNorth stake sale, the credit costs were Rs.8.6 billion. Net credit cost for Q4 FY'18 is at Rs 4.12 billion versus Rs 3.11 billion last year. For the past 27-quarters, our NPAs have been within our guided range of 70-90 basis points of gross NPAs and 30-50 basis points of net NPAs. Gross NPAs and net NPAs were down to 77 basis points and 34 basis points respectively from 85 bps and 36 bps a year ago. In computing net NPA, only provision against substandard assets is deducted from the gross NPA and asset provisions and countercyclical provisions are not deducted while computing net NPA. Our total provision stood at Rs 17.58 billion translating to total provision to gross NPA cover of 185%. The total provision of Rs 17.58 billion also contains Rs 4 billion of countercyclical floating provisions. We have Rs 8.66 billion of provisions in excess of regulatory provisions.

Now, moving to the Balance Sheet Numbers: Net worth at the end of fiscal '18 stood at Rs.134.24 billion, up from Rs.121.22 billion last year. Total capital adequacy adjusted for investments in mutual funds stood at 20.82%, with Tier-1 at 15.07%. This quarter we have disbursed a total of Rs.195.54 billion, a growth of 35.5% over last year in which we have disbursed Rs.144 billion.

Our Home Loan book now stands at Rs.726 billion, forming around 60% of the total loan assets. Our Home Loan book has grown 44% YoY. We are on track to get to a stated target of Home Loans forming around two-thirds of our loan assets by fiscal '20. Driven by increasing share of home loans, the ratio of risk weighted assets to loan book is up to 78% at the end of fiscal '18 from 86% last year. Risk weighted assets to loan book is a strong indicator of risk being underwritten and declining ratio is also indicator of frugal capital utilization.

On the borrowing side, bank borrowings form 34% of our funding mix, down from 37% last year same quarter. Capital markets sources along with the ECB and sell-downs have contributed to over 75% of the incremental fundings since March 2017. Our cash and liquid investments stood at Rs.165.35 billion at the end of fiscal '18. The quarter which gone by was most talked about because of the sharp rise in GSec yields post budget. Corporate and sovereign yields were up by 30-40 bps from the pre-budget levels and 100-140 bps from mid 2017 levels. However, specific to IBHFL, due to the rating upgrades, low bond pricing for precious issuances combined with refinance of stock of earlier issued bonds and ECBs enabled us to offset most of this macro rising rate. This quarter we have also issued Rs.16.5 billion of Tier-II subordinated bonds. Further being the final quarter, demand for portfolio securitization was also reasonable as there were large requirements of pools especially on the priority sector side. All of these combined and helped us to effectively control our cost of funds and also manage capital efficiency.

We have also set up the $1.5 billion MTM program last year through which we will tap the offshore market from time-to-time, to optimally diversify our funding sources and further increase funding efficiencies. We did a very small round of $50 million only issuing India's First Social Affordable Housing Masala Bonds in January 2018, conforming to the social bonds principles in 2017 issued by ICMA. We will look to utilize more of our remainder of 700 million RBI approval limit in the first half of fiscal '19. As mentioned earlier, over the last two quarters, we have also issued a total of Rs.15.4 billion of Social Affordable Housing Bonds, and these are being checked by KPMG for adherence to the ICMA principles.

Another big positive for the year was that we crossed the landmark of selling over Rs 100 billion of loan assets to banks. This was the highest ever sell-down recorded for a financial year by Indiabulls Housing. We are focused on capital conservation and selling down loan assets is extremely capital efficient, freeing up capital while retaining spreads, making the transaction highly ROE accretive. We have gotten to 30% ROE – Thanks to an active sell-down strategy.

As we move towards fiscal 2020, portfolio sell-down will contribute to an increasingly larger proportion of a funding mix, and from the current 10-11% we hope to see that rising to almost 20% level.

Cost of funds on book basis is at 7.75% and continues to drop as we refinance our stock of loans with finely priced bonds. On an incremental basis, the cost of funds was at 7.65%, these are monthly rates. Our spread at the end of fiscal '18 on book stood at 311 basis points while on incremental book it stood at 277 basis points. Most lenders including Indiabulls Housing has since then increased rates. We have increased rates effective from 1st April 2018. Our PLR has increased by 20 basis points for Home Loans, and this will entirely add to the Q4 spread of 311 basis points. This demonstrates the resilience of our spread which for over now five years have sustained within our guided range of 300-325 basis points while the Home Loans proportion on our book has increased from about 35% to 60% in the same period.

We have effectively proven yet again that we continue to be a transmission vehicle with the ability to almost immediately pass on any rise in our input cost of funds. There was much concern last quarter on how our loan spreads will hold up with the upward movement of interest rates. I had made the point that even with appreciable height in interest rates due to tailwinds from our upgrade, rating for our incremental funding cost will be lower than the funding cost from the stock of borrowing. True to this, our cost of funds for Q4 on stock of borrowings was down by 17 basis points to 7.75%, the yield on our stock of loans was at 10.86% resulting in a spread of 311 basis points.

Our underwriting strength and the ability to get a slight pop on our book is evident in the resilience of our LAP book. All of which are notes to small business owners. In the 13-plus-years that we have been doing LAP lending, the portfolio has seen multiple cycles. Even through the most recent challenges like demonetization and GST transitions, self-employed book saw no worsening in credit quality. If you refer to Page #42 and #44 you can go through the latest report of CRISIL and ICRA on our LAP book and Page #47 onwards we also published an update on the static delinquency analysis of both our Home Loans and our LAP book. This is extremely relevant because this has come in the phase after GST has been rolled out and is now starting to stabilize.

The first phase of Indiabulls Housing finance growth was equity fueled. As our ratings improve through this period, we firmly established ourselves as the prime low risk mark-to-market home loan lender. Today, we have the highest long-term rating, "AAA" from all four leading Indian rating agencies. Our strong liability franchise spread across diversified funding sources and an optimal mix of loan products gives us the best-in-class spreads that are sustained within our guided range of 300-325 basis points. In Slide #7 of the earnings update, we bring out strong business fundamentals. If you can all please refer to Slide #7, akin to banks we have access to deep pools of debt and equity capital. Our processes and risk management practices are at par or better than that of most banks. But as an HFC, we cater to an asset class that is immensely scaleable and profitable. I have already run you through the numbers of China versus India. Our 9.7% mortgage to GDP penetration reflects that we have a long headwind to continue to grow. We are focused on catering to the mid income customer segment. Our relationship with customer is long-term. During the course of which there are multiple cross-sell opportunities which allow us to complement our net interest income. Our product suite, fee generation, opportunities and operating efficiencies translate into our ability to sustain (+3%) spread in the business and ROE of (+25%).

The next phase of evolution for us and indeed for the industry is technology. We were first movers here with eHome Loans platform that we launched nearly two years ago. Already, around 25% of our incremental home loans are sourced through the eHome Loan platform. We made considerable investments in IT and are now well underway to launch a comprehensive Indiabulls Integrated Home Loan Technology Platform in fiscal '19. Various modules of this platform will go live from Q2 fiscal '19 onwards. If you can please refer to "Slide #34 of the Earnings Update", Components of the Indiabulls Integrated Home Loan Technology Platform and the tangible operational benefits and the impact on financial performance are enumerated on Slide #34. eHome Loans will integrate onto the platform and our analytics engine drawing from credit bureau history, banking information and tax filings will decision home loans on a real-time basis. The platform will also tie up access to GST filing database providing credit teams authentic revenue information on small businesses for LAP underwriting. Today's deliberate and long-drawn credit appraisal process will be considerably quicker without any compromise in credit result. This will help IBHFL maintain the proportion of self-employed loans even as we aim to grow upwards of 25% in the home loan segment in the near to mid-term. This will in future help us sustain spreads at 3% level. Analytics and Social Media integration will give us means to stay engaged with our customers, helping us better anticipate their needs, opening up cross-sell and resultant fee generation opportunities. Thus, our fee income which is currently 1.6% of disbursements will tend towards 2%.

Another big change that this will bring about is the platforms ability to also link with developers and channel partners such as DSA. We will have the ability to process home loans and construction sites itself as the buyer concludes its purchase and we will be able to immediately disburse to developers, considering developer working capital cycles both at the initial disbursement stage and through the course of the home loan disbursements which typically gets tranched and gets disbursed over two years. Developers will raise demand for subsequent tranches on the platform and the tranche can be disbursed almost on real-time basis which we hope will result in us becoming preferred financiers significantly increasing our home loans per project.

A few clear financial outcome that we target through this technology initiatives are, long-term sustained loan book growth of around 25%, enhanced fee generation to 2% level from 1.6%, operating efficiencies resulting in cost-income ratio going to single digits, reducing our credit cost to under 50 basis points.

The Indiabulls Integrated Home Loan Technology Platform will help us comprehensively address Mid Income Affordable Housing Loan market. As illustrated in Slide #35, we will have multiple touch points to reach out to our target customers spanning digital channel, our existing 3,000 strong feet-on-street which is continuing to grow every day. Nearly, 300 pan India brick-and-mortar branches which are also continuing to grow every day. Our technology and analytics driven processing capacity is elastic with the digital channel that can underwrite loans on a real-time basis at one end to the traditional pen and paper application palm route. As we grow further from here on, we will firmly remain focused on our target segments in Home Loans. These segments are illustrated in Slide #28.

A couple of quarters ago, I had said that we will put forth our five-year plan till fiscal ’23 in the ’18 earnings call. We have every confidence that we will meet these numbers. Our balance sheet and loan book will compound at 25% going past first Rs.2 trillion by fiscal ’20 and then double from there to Rs.4 trillion by fiscal ’23. Our earnings should compound at over 22% growing to Rs.55 billion by fiscal ’20 and then Rs.100 billion by fiscal ’23. Our target for cost-income is sub-10% in fiscal ’20 and 8% by fiscal ’23. Annualized credit cost should slip to 50 basis points by fiscal ’23.

We continue to see good traction on our Smart City Home Loans. Our geographical mix that now stands at 70% from top-20 cities and 30% from remainder should even out to only 50% from top-20 cities. Through all of these, we expect our spreads to sustain at around 300 basis points level. I cannot be more optimistic for Indiabulls Housing Finance prospect. Fiscal ’18 has been if not our best amongst our best years ever.

If you refer to Slide #63, we have tried to summarize the various strengths that Indiabulls Housing sits with at the end of fiscal ’18. These are our strengths and would continue to remain our areas of focus. I am quite confident that with all these performances and the strengths with us, and such a confident enable team, we should continue with this journey of creating scalable and sustainable value for all stakeholders. Thank you so much. We can now open for questions.

Moderator: Sure, thank you very much. We will now begin with the Question-and-Answer Session. We will take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Firstly, in terms of contingency provisioning, had we done something in this quarter to the tune of say 200-220-odd crores?

Gagan Banga: Yes, total credit costs are at about Rs.412 crores, of which floating provisions are at about Rs.145 crores.

Kunal Shah: So, floating and contingency, how would be the broader breakup within this?

Gagan Banga: So floating would be Rs.145 crores, substandard is Rs.180 crores and standard asset provision is Rs.86 crores.

Kunal Shah: So overall in terms of the floating provisions, last time we had advantage of the stake sale and we had made some countercyclical provisioning as well, so how would be the policy out there particularly with respect to this going forward?

Gagan Banga: We have an excess provision pool of roughly Rs.800 crores. We would want that to continue to grow and the excess provisions which are at about 80 bps of loan book, should increase to about 100 bps of loan book.

Kunal Shah: Secondly, in terms of disbursement, so how has been the number in this quarter?

Gagan Banga: We have disbursed around Rs.19,500 crores; overall disbursements for the year are Rs.48,000 crores.

Kunal Shah: This Rs.19,500 crores between the home loans and LAP?

Gagan Banga: Home Loans are at about Rs.9,900 crores, LAP at Rs.2,600 crores and Commercial Loans at Rs.7,000 crores.

Kunal Shah: Lastly, in terms of any inorganic opportunities which we would be evaluating, maybe now we have reached a particular base with very strong fundamental, so how would be our view in terms of the inorganic opportunity be it in terms of the Affordable Housing segment or any other area?

Gagan Banga: Top-5 housing finance companies control about 93% or so of the overall stock of housing finance loans by HFC. So in that context, I am not sure what is available in the top-5. If something is it will be interesting to see. From a growth opportunity point of view, there is a macro which I have highlighted. There is also a certain glide path that we have been following which has been set by the largest housing finance company, they were in 2011, and since then they have grown about 3x. So I believe that the opportunity to get to Rs.4 trillion has already been demonstrated and we continue to follow that. If there is anything which is material which goes beyond one or two quarters of growth, we will take a look but generally speaking I am not aware of which housing finance company which is of a size which is beyond two quarters of growth for us is available or going to be available. So the opportunity comes, we will evaluate, but as we speak, I am not aware of what is worth the effort of going through a process of integration of team, systems, etc.,

Kunal Shah: So maybe two quarters of growth would be say about 15% in the overall size in our balance sheet?

Gagan Banga: If there is something which is beyond that which is available, we will take a look, smaller than that, I think we will not even take a look.

Moderator: Thank you. We will take the next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Have a couple of questions. So was there any one-off in the OPEX that kind of seemed a bit low for the quarter? Last quarter I believe there was some one-offs. So is this the base number?

Gagan Banga: We had front-loaded our employee hiring and we had completed our CSR charge in the first three quarters itself, I think bulk of it was taken in Q3. So we did not have any CSR this year. In that context, we have been able to have only a very marginal growth in our operating expenses over previous Q4. Generally speaking, we will have to time hiring from time to time and sometimes we will front load and sometimes we will not be able to front load it. In fiscal ’19 also, our intention is to front load hiring both at the mid management level as well as the junior management level including the feet-on-street. That is how in all probability we will continue to plan our operating expenses. So the first two to three quarters you will see faster pace of growth and then the fourth quarter we will see slow pace of growth. The first three quarters also see increments coming in and bonus is being paid out, so that also has an impact.

Sunil Tirumalai: Second question is the new slide on the fee income, investment income, etc., So 1.6% of disbursement, I would be surprised if you make that on the Home Loan segment?

Gagan Banga: No-no, we do not make it on Home Loan…

Sunil Tirumalai: So which means the non-loan segment, what is the percentage typically?

Gagan Banga: In the Home Loan segment, it is small processing fees, but we are able to attach almost 1.3-1.4% and at times even 2% of the loan amount as commissioned and given our payouts, we are able to get a pretty handsome return on Home Loans also, the commissions that we have been able to negotiate with insurance companies. And then loans against property, there is a hefty processing fee, add to that the insurance commission and again on commercial loans there is a reasonable processing fee, there is negligible insurance income as a percentage of loan there. So as a combination, it is a function of both processing fees and insurance income. Then, what we have also started doing is since the proportion of Home Loans has been increasing and therefore the tenure of engagement with the retail customer, LAP used to be around four years has now increased to seven years, our ability to sell multiple insurance products through the course of our engagement with the customer has gone up materially especially given the fact that if you refer to the slide which detail out the products, Slide #29, you will see the average age of the customer is around 38-years. So generally around 34-35-years is when the engagements with us starts and at that time families are expanding the maximum number of assets are being acquired, so all that requires insurance. So all this adds up to the fee income that I am talking about.

Sunil Tirumalai: So, insurance for a home loan normally works out to 1% of disbursement, is it?

Gagan Banga: I would say closer to 1.5%.

Sunil Tirumalai: So, this is like the credit protect kind of plans?

Gagan Banga: There are three or four different products that we try and sell. So the most remunerative for us is a group life insurance policy that we sell. We target to get about (+85%) attachment rate. So we either sell a group life product or we sell home protect product. The risk principle behind insurance still continues to be that it is primarily risk management exercise, very nearly it also lands up making us reasonable money. Last year almost across the entire portfolio, there were 150 claims made of either people who died or people who met with serious accidents, disability kind of situation. So through those claims, we were also able to avoid 150 delinquencies. So say between LAP and Home Loans the average ticket is about Rs.40 lakhs, that could have been an additional 64s of delinquencies which would have come in which were avoided. So that is the principle, #1, and then it also makes us a reasonable amount of money.

Sunil Tirumalai: Final question is on tax rate. Was there anything one-off during the quarter, how should we look at it sustained?

Gagan Banga: Sustainable is about 25% basis how capital gains and losses are taken on the liquidity that we employ into mutual funds. There could be a variance between quarters but generally speaking for the full year going forward we should expect between 25% and 26% tax rate which will be marginally higher to where it was earlier between 23% and 24%.

Moderator: Thank you. We will take the next question from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra: Two questions. I wanted to understand what percentage of construction finance is from the top-5 cities and what has been the average ticket size and the number of transactions you did in fiscal '18 Vs fiscal '17?

Gagan Banga: Top-5 we extended to six, we will make almost 95% of the construction finance that we do. The average ticket size will be… I do not have that number handy, but it will be in the ballpark of between Rs.200 crores to Rs.300 crores which is the sanction, disbursement could be lower. Regarding the number of transactions, we would have done about 60 loans this year as against around 50 loans last year.

Shubhranshu Mishra: So the second question I had is how do you break up your disbursements in terms of new sale, resale and balance transfer?

Gagan Banga: The new sale will be roughly about 65%, balance transfer will be another 10-15% and about 20% would be resale transactions in home loans.

Shubhranshu Mishra: Just a small outlook on Construction Finance for fiscal ’19 and ’20 both?

Gagan Banga: It is already about half the book post RERA and for the last year or so we have gotten reasonably comfortable with the segment. I think it will remain close to half the disbursements and half the book of the commercial loans. Overall commercial loans will directionally be moving down slightly from the current 21% but the split between lease rent discounting and construction loan which used to be at one-time 60:40 is now closer to 50:50.

Moderator: Thank you. We will take the next question from the line of Adarsh Parasrampuria from Nomura Securities. Please go ahead.

Adarsh Parasrampuria: Hi, Gagan. Firstly, a question on sell-down, right. So if you can just refresh in the last six months what rates have you sold down at, over the next two years what is the kind of funding cost you would expect vis-à-vis say a bank loan or a bond?

Gagan Banga: So priority sector loans will generally be sold at between 7% and 7.5% and non-priority sector loans will be sold at between 7.5%-8%, close to the banks MCLR (+/-10) basis points, priority sector loans will have a discount. So going forward, we expect securitization to be in the ballpark of 7.5% or slightly lower, it really is a function of demand, this year fiscal ’19 there will be very strong demand from foreign banks because the guidelines had changed and this number could move down by 20-25 basis points on a relative basis, it will be in the range of 7-7.25%.

Adarsh Parasrampuria: So for you, half year book or sell-downs are generally PSL, is it?

Gagan Banga: In the fourth quarter, they are slightly higher and more priority sector, in general 60% priority sector, 40% non-priority sector. As home loans grow, it will become even higher on priority sector. So on a longer-term, you can expect two-third, one-third split between priority and non-priority.

Adarsh Parasrampuria: The other question was on your spreads. I think the 311 that you report is for the full year for FY’18?

Gagan Banga: 311 is at the end of the year.

Adarsh Parasrampuria: I am just looking at nine-month number was about 322. The 277 you mentioned was the fourth quarter spread?

Gagan Banga: 311 is the spread as of 31st March 2018 on book loans, 322 was the spread for on book loans as on 31st December 2018. For the loans that we would have done between 1st January 2018 and 31st March 2018, the spread would be 277 basis points. The overall spread would be now in the ballpark of 3.1%. We have increased home loans rates by 20 bps LAP rates by 40 bps and all that. So overall effective increase would be between 20 and 30 bps for the overall book.

Adarsh Parasrampuria: So the 277 moving to 310 is a function of the increase of 20 and 40 bps broadly?

Gagan Banga: That is right, and 311 would have also moved up by between 20 and 30 basis points.

Moderator: Thank you. We will take the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the repayment rate in the housing loan book. What is the repayment rate in the last 12-months?

Gagan Banga: On a public forum, I must complement my team because we work really extremely hard to make sure that our repayment rates continue to trend down and we have had in a year when banks were quite hungry for assets, we have actually had very low rates. So they are down to about 75 basis points of amortization on a monthly basis. This is generally speaking an outcome of having priced in line with the leaders over the last 9-years. So there is no real arbitrage in the market and there has been a very conscious effort over the last 18-months to make sure that repayment rates in the company continue to trend down. This year we have taken internally even more stiffer target. So hopefully we should be able to sustain at least this much. In a rising interest rate environment, anyways, at least in the short-term the pressure is lower.

Manish Ostwal: Secondly, sir, in terms of our cost of funds overseas funding what is that number? Secondly, of total loan book how much percentage is fixed rate loan book sir?

Gagan Banga: On the assets side, there are practically no fixed rate loans negligible and ECBs we went through an exercise of refinancing all of our ECBs and we were able to successfully materially reduce our rates which were north of 8%, now they are down to 7.5%.

Manish Ostwal: Masala Bonds, what rate we have raised?

Gagan Banga: Masala Bonds we raised at 7.8% annualized which will be roughly about 7.45% monthly.

Moderator: Thank you. We will take the next question from the line of Mark Smith from Sierra Capital. Please go ahead.

Mark Smith: Can you elaborate on the general provisioning policy because I seem to remember that there was a target of $100 million, 160% of coverage which you would have paid to have gone through, so exactly what is the policy therein and why you are making these general provisions, will they just sit on the balance sheet, perhaps you could elaborate some more?

Gagan Banga: The general concern that management has is that we have about a fifth of our loans which are reasonably large in size. As I mentioned, most of our large loans will be on an average at least 50 million in size and could be even larger. As markets have been volatile in India, as events which are structural in nature get rolled out, there is a possibility that at sometimes suddenly a couple of guys are unable to manage and then we have to make provisions in the very short-term on such loans. As the loan book increases, we should have adequate buffers. So the two buffers that we carry on our asset and liability side is on the liability side we carry 20% of the loan book in the form of cash and we have been adhering to that. On the assets side, in the ideal world, we would try and create a provision pool which is as much as 100 basis points of assets. This number of the large pool gets down to somewhere around 15-16%, till that time we should have at least 100 basis points of provisions. These provisions can come in handy. If you recollect we were hit by a large loan default and we were able to manage all of that thankfully, because we have some flexibilities on our financial. So in that context, we would like to build a buffer. From a provisioning policy point of view, till we get to about 100 basis points, we would want to run credit cost at about 70 basis points and after that there will be a decline of about 50 basis points.

Mark Smith: 70 basis points, that would be a reduction from 98 that we have just had in the fiscal year?

Gagan Banga: 98 was because we had a large gain in Q3 from the stake sale that we did of OakNorth Bank, that was more opportunistic. In normal course of business, it would have been closer to 80 bps which should decline this year to roughly 70 bps.

Mark Smith: We should expect a gradual decline over the years; 50 bps not until 2023 you are saying now, you used to say 2020?

Gagan Banga: In 2020 we should get there.

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

Saurabh Kumar: On the Construction Finance book and LRD, have you seen any spread compression happening in these books in the last one year?

Gagan Banga: There was pressure on the rent discounting book, not so much on the construction finance book, in the second half of fiscal ’17 and around the first quarter of fiscal ’18, second quarter onwards things stabilized, I think fourth quarter rates have effectively moved up. As an anecdote, we were through the middle of the quarter thinking of that at least $500 million to $600 million of our loans by the end of the quarter will get refinanced and therefore we front-loaded our loan growth in the quarter in anticipation of this, and practically nothing got refinanced is the banks just simply vanished. When we are looking around in the market, rates have actually moved up. So I think that entire rate reduction not only rates have moved up is the MCLR increases which have happened but spreads have actually increased. So in that context, I think the competitive pressure is off. Most banks today have already gone way past their commercial real estate limits. That is a large part of the lending that they were doing. My personal expectation is that fiscal ’19 we should actually see an increase in spreads on this book.

Saurabh Kumar: On both construction and LRD, you are saying?

Gagan Banga: Especially, construction because construction is one segment that banks are completely absent from.

Saurabh Kumar: What will be the duration of this LRD book now?

Gagan Banga: LRDs will typically be contracted for 9-10-years but they have a strong tendency of getting refinanced between the third and the fourth.

Saurabh Kumar: On the cash and investments, should we assume that the proportion is related to balance sheet continues to remain where it is?

Gagan Banga: Thanks to these credit rating upgrades. The ability of the company to place out 7-10-years paper has materially increased. The proportion of bonds placed out with provident funds and insurance companies have also materially increased. So in that context, it will remain between 15-20% of our loan book and not 20-22% that we were historically running it at.

Saurabh Kumar: But there is no negative carry on you are saying?

Gagan Banga: So far we avoided. As things seem like I think we will be able to manage to run it quite tightly.

Moderator: Thank you. We will take the next question from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

A Balasubramaniam: If I look at the consolidated balance sheet, apart from the Rs.60,000 crores of cash and liquid investments, there is also another Rs.3,000-odd crores of non-current investments which has increased by about Rs.2,000-odd crores. So what would that pertain to?

Gagan Banga: That would be government securities and tax-free bonds.

A Balasubramaniam: What would be your yields on various portfolios currently on a book basis?

Gagan Banga: Home Loans would be on stock basis about 9.4%, LAP will be about 12.5%, LRD would be 10.2% and Construction Finance will be a little over 15%.

A Balasubramaniam: You had also increased your rates in the LAP segment by about 40 basis points. Given that is already at 12.5%, that segment continues to see competition. Would you be able to pass on the entire rate increase to your customers?

Gagan Banga: 3-5% prepayment penalty stop people from prepaying, so if you have to recover that 3-5% prepayment and it is generally a product which comes back between three and four years, you will have to get LAP loans in single digits to be able to make good that penalty which is rarely the case, which is why the product has very little refinancing risk and incrementally rates for us will also be in the ballpark of 11%. So that book on an incremental basis get us around 11%.

Management: Also, the teams are very well trained to retain customers. For 25, 50 basis points, people do not really come, but in case there is a sustained interest rate increase there is pressure on prepayment which the team is able to contain and we are able to offer some switch policy in case somebody is already being offered a lower rate.

Moderator: Thank you. We will take the next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Just need a couple of data points: Can we have the number for zero coupon bond cost and NCD issuance cost for the fourth quarter this year and also for the full year FY'17 & '18?

Gagan Banga: The stock will be around Rs.2,000 crores and the number that we would have taken from zero coupons is in the ballpark of Rs.225 crores. This with the implementation of IndAS if everything goes through the P&L.

Subramanian Iyer: What would be this number last year?

Gagan Banga: Between premium and fees, last year we had paid Rs.261 crores, this year we have paid Rs.285 crores.

Subramanian Iyer: On the tax rate, if you can give some explanation how long can we see the tax rate sustaining around 25-26%?

Gagan Banga: It is a function of the cash. Since we will always maintain at least 15% of the cash, that is sustained for six months of all liability payment with a margin of 25% and our retail disbursements continuing. I believe that opportunity remains. Basically this tax rate is nothing but which is reducing the negative carry. So there is a negative carry on one side and there is a lower tax rate which is neutralizing that negative carry. So it is a function of cash and we look forward to maintaining at least 15-17%, earlier it used to be 20-22% of our balance sheet, the effect on the tax rate was more. Going forward it will reduce to 15-18% and the tax rate should be around 25%-odd.

Subramanian Iyer: Any guidance on the impact of IndAS on the numbers?

Gagan Banga: We are frankly working through that. The general expectation was that it will get deferred. It still is the case that I am being told, but we are anyways preparing for it. The last time we had looked at it, there was nothing very material. There is a lot of clarification that we still need from the regulator and post which we should be able to more accurately predict. We have been taking stock quarter-by-quarter. There was nothing which was going to be extremely material. There would be some element of transition and that transactionary box will have some number there, I am not yet on top of what that number is, but I am reasonably confident that it will not have any meaningful impact on net worth.

Moderator: Thank you. We will take the next question from the line of Shashank Salva from Lion trust. Please go ahead.

Shashank Salva: Last year when we met you had mentioned that the target for Tier-1 is to keep it above 15% and we are very close to that level right now, and also in terms of gearing that we see on page 55 it has risen to 7x from 5.7x last year. So how do you see these and in terms of equity raising going forward, because you had mentioned you raise equity of 5 years or so, are you comfortable with the levels of capital you have right now or do you think you will need to rise these any time soon?

Gagan Banga: Prior to our upgrade by the rating agencies last year, we were capping our gearing to 7x. Given the higher scale of operations and vintage of the book, we are comfortable to push it to a maximum at least in the near-term of 8x between 7 and 8x, we will raise capital which gives us flexibility of about a year and half or so. Risk weighted assets as I mentioned have been declining; in one year itself we have been able to cause a decline of 83% to 78% of total loan assets. So tier-1 between reduction on book of risk-weighted assets and securitization, we will still be able to manage. I think the number we will be guided by will be gearing and gearing at between 7x and 8x we will raise capital. So anytime over the next 18-months we will raise. What management did not want to do despite market, etc., have an ad hoc approach to it and therefore we have stuck to our commitment that not before 7 and we are at 7 now. Between 7 and 8 we will raise capital.

Shashank Salva: Any sort of changes to the dividend policy like instead of raising capital, reduce the payout ratio or something like that?

Gagan Banga: We will follow 50% of profits including the taxes as our long-term dividend payout policy and that is what we started following from this quarter, last quarter we were able to give ad hoc additional dividend because of the capital gain that we got on the bank stake sale. This quarter onwards we will follow a policy of 50% of profits inclusive of taxes.

Shashank Salva: How much of your liabilities are on fixed rate basis?

Gagan Banga: The bond program is generally on fixed rate basis. Bonds which are longer than three years, we generally swap them out. That is the general principle that we have. In a consensus, flat to rising rate kind of an environment, we can be slightly conservative on the swapping plan. As we speak, close to about 30-35% of our bonds we would have swapped out.

Shashank Salva: Even the borrowings and as well as the assets like when is it actually reset -- is it reset sort of on monthly, quarterly, annual basis?

Gagan Banga: Our asset can get repriced anytime that we reset on a monthly basis. So if I choose to reset it today, it will be applicable from 5th of May. So that is the cycle that we follow. On a liability side, bank term loans can get reset anywhere between one and six months.

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

Rakesh Jain: What would be the additional business that we have done in the Affordable Housing segment during the year?

Gagan Banga: Rakesh, as I have tried to explain in the past, the Affordable Housing definition of the Government of India now is income level going up to Rs.1.8 million. The average borrower of Indiabulls Home Loans has an income level of approximately a million rupee. So bulk of what we do qualifies for what is defined by the government as affordable housing. For priority sector, for the metro cities, central bank has a definition of up to Rs.2.8 million. Our average ticket size is Rs.2.4 million, so bulk of what we do there is also Affordable Housing in that sense. So largely most of the home loans that we give out are what is under the new definition of Affordable by Government of India all in there.

Rakesh Jain: What would be the subsidy under the PMAY Scheme where we see for the entire year?

Gagan Banga: It had materially jumped towards Feb and March, so that piece which was earlier struggling has extremely materially improved, it will be a few thousand loans, and I can come back to you on that.

Rakesh Jain: So, are there any challenges in receiving the money from the government or any delays kind of thing?

Gagan Banga: There are not money challenges, the government is extremely keen to disburse, there are operational challenges, one has to be extra careful about how the claim is being done and we have to keep a very tight vision that we are making the right kind of claims. We do not want to be subject to an audit in which then something is found lacking at our end. Once we submit papers the same are also scrutinized by NHB because they also do not want to get the rap from the CAG. So everybody is being super careful and going through documents five times. From a money point of view, there is no challenge. Actually the government funded NHB extra towards the end of March to make sure that, everyone's claims are taken care of.

Moderator: Thank you. We have last question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Disbursement breakup for the full year?

Gagan Banga: So we did a disbursement of around Rs.48,000 crores, of which Home Loans was roughly Rs.26,000, LAP was around Rs.8,000 and Commercial Loans were around Rs.14,000.

Alpesh Mehta: Just a request; if you can just put this as a target disclosure in the presentation that would be very useful?

Gagan Banga: Okay, I will try to.

Alpesh Mehta: Just a last clarification; about the IndAS, you will get the communication from NHB or from the MCA?

Gagan Banga: We will get it from MCA and NHB will implement what MCA says. Today, NHB has basically said that the provisions, etc., we have to follow as per the regulatory norms laid out by RBI. If that be the case, then there is a direct contradiction to what IndAS expect us to do. So there is a little bit of confusion there. If we have to just apply IndAS as is understood by the top consultants in the country. As I said, there is no meaningful impact on net worth or earnings that one can visualize here. If these guidelines are to be implemented, then there is no impact at all. I think over the coming days, we will consult with our regulator and figure out what is the way forward.

Fiscal '18 was a great year, and on a very optimistic note, we will sign off. Thank you for your support and look forward to speaking with all of you in July.

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