"Indiabulls Housing Finance Limited Q4 FY2019 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Indiabulls Housing Finance Limited Q4 FY2019 Earnings Conference Call hosted by UBS Securities 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 this conference is being recorded. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you Ishank!

Ishank Kumar: Thank you. Hi everyone. Thanks for joining this call. We welcome the management of Indiabulls Housing Finance to discuss Q4 FY2019 results. From the management team, we have Mr. Gagan Banga, Vice Chairman and Managing Director and CEO, Mr. Ashwini Hooda, Deputy Managing Director, Mr. Sachin Chaudhary, Chief Operating Officer, Mr. Mukesh Garg, Chief Financial Officer, Mr. Ashwin Mallick, Head, Treasury, and Mr. Ramnath Shenoy, Head Investor Relations and Analytics and Mr. Harshil Suvarnkar, Head Markets. I now invite Mr. Banga to share the key details of the results. Over to you Gagan.

Gagan Banga: A very good day to all of you and welcome to the Q4 and full year FY2019 earnings call. In the second half of FY2019 we have raised over Rs.50,000 Cr. of money and focused on elongating our liability profile and shoring up liquidity. Our disbursals are now back at normal levels and we disbursed as much as two times of what we disbursed in Q3 in FY2019 at Rs.7,300 Cr. Despite this disbursal we have now over Rs.30,000 Cr. of ready liquidity available with us. The details of which have also been shared in the earnings update. Some of this Rs.30,000 Cr. is growth capital that we have kept ready for pursing the growth opportunity in FY2020 and this will allow us to meet and exceed a normal disbursal run rate as well as to meet all liability repayments and still be left with ample growth capital at the end of Q1 FY2020. Thus we now look to step up growth and we are disbursing at our regular pre September 2018 levels and we would like to reiterate as we did in the previous quarter that we are looking to grow the AUM at about 20% levels now.

In these past six months, we have raised as much as Rs.51,312 Cr. during this period spread across different sources of funding from 25 banks, 13 mutual funds and 6 insurance companies. In all, now we have 658 strong relationships, 21 PSU banks, 26 private and foreign banks and 611 mutual funds, provident funds, pension funds, insurance companies and corporates. Since September 21, 2018 when the crisis began, we raised funds from the following sources. Bank loans of Rs.14,477 Cr., bonds of Rs.5,480 Cr., securitization of over Rs.21,480 Cr. and commercial papers of around Rs.10,000 Cr., the outstanding stock of which is around Rs.5,000 Cr. These funds were raised from the most marquee names in the country including top private sector banks, public sector banks, largest of the mutual funds and largest financial institutions.

Going ahead, it is this nimbleness to shift between these diverse and complementary sources of liabilities that will help us fund growth. In this period, we have also raised Rs.5,480 Cr. of bonds while being extremely prudent about pricing and just because we built a strong pipeline well in advance in Q3 itself, we did not need to resort to any forced borrowing when rates started rising in the middle of Q4 FY2019. Through the last six months the competitive landscape has become less cluttered with the much awaited GST cut coming through the housing market, especially in the affordable housing segment has now strongly picked up April onwards and we are perfectly poised to make the most of this. We are also very excited with the SME lending opportunity in the country, especially given the bank merger and amalgamation process that we are pursuing. Self employed underwriting has been a core competence of IBH. We are pioneers of the LAP product in the country and have over 13 years of experience in this product. The LAP product has seen five business cycles and has demonstrated credit performance through the global financial crisis and recently demonetization, GST transition and also the liquidity squeeze of the last six months. Mandatory filing of GST returns for SMEs with turnover of over Rs.40 lakhs will prove to be a game changer as the credit opportunity. Ready availability of GST returns for verification will make underwriting alone for a product as complex as a LAP very quick affair. This is expected to be a catalyst for growth of lending to SMEs. While the MSME sector contributes to 37.5% of the country's GDP, it is allocated only 4% of the financial systems credit. This is indicative of a large opportunity for growth in this industry. With the digital lending market in India expected to reach about one trillion in five years, technology backed quick and efficient MSME lending is bound to experience a substantial boost in the coming years and we are well poised to take advantage of this.

I will now get into the numbers for the quarter. I will request you to keep the earnings update handy. Kindly refer to slide four of the earnings update. The net interest income excluding sell-down upfront income, the upfront income that we get out of securitization transactions for FY2019 stood at Rs.6,415 Cr., which is a growth of over 7.6% over FY2018 net interest income of Rs.5,960 Cr. For Q4 FY2019 NII is at Rs.1,591 Cr. a growth of about 5.8% over Q3 FY2019 of Rs.1,504 Cr. Again we have not taken the sell down upfront income in this NII. The sell-down upfronted income was Rs.244 Cr. in Q4 FY2019. Our PBT growth for FY2019 was 24.1% with PBT growing to Rs.5,604 Cr. from Rs.4,515 Cr. in FY2019. The tax rate for the company was significantly higher as was discussed in the last quarter in both Q3 and Q4. The tax rate for Q4 has increased from 11.7% to 29.9%. This was on account of one time redemptions in some of our historical investments and as a result the profit after tax was impacted due to this onetime tax and incidence of about Rs.291 Cr.. We have demonstrated in the past that we are an efficient pass-through model for rate changes, increase in cost of borrowings have been promptly passed on and the full effect of this game through in Q4 with NII expanding by 5.8%. I am also very pleased to announce that the board has approved a dividend of Rs.10 per share. With this we have a paid out total dividend of Rs.40 per share during the FY2018-2019.

Now please turn overleaf to slide 4 of the earnings update where we have presented our performance on certain key parameters during the liquidity crisis of the past six months since September 21, 2018 up until March 31, 2019. Our spreads remain strong during this period to stand at 3.42% as compared to 3.11% last year. Our total commercial paper is now down to only 4% of our funding. Our net worth has gone up to Rs.18,284 Cr. Over the past six months portfolio sell down has helped us sustain a very conservative gearing level with a net gearing at only 4x at the end of Q4 FY2019. Sell down will continue to ensure that gearing remains conservative, but retains spread on sold down book will sustain profit growth and healthy ROE levels. Our capital adequacy at the end of Q4 FY2019 stood at 26.3% versus a regulatory requirement of 12%. We have also raised $270 million of ECBs during the year. We are incrementally looking to increasingly utilize the source of funding and increase its share in our overall funding mix. We are targeting to raise between $350 million to $500 million of overseas borrowings in Q1 fiscal 2020 and $750 million in the full year.

Now, if you can please refer to slides 5 through 9 of the earnings update where we have updated our quarter-wise ALM for the next 10 years. As was the case last quarter, the net cash number for us, which is the last row, is significantly positive for every quarter for the next 10 years. Our cash levels are as high as covering our 12 months debt repayment up to 1.3x without considering any repayment from our loan portfolios. The repayment in our loan portfolio last quarter was Rs.7,900 Cr. and for the last four quarters the average is almost Rs.7,000 Cr. Without including any of that Rs.28,000 Cr. of repayments that we get, even then we are covered to the tune of 1.3x assuming no fresh borrowings, so that is the kind of safety and stability that we have built in the ALM.

Please now turn to slide 14 of the earning update. Our stage 3 assets and hence gross NPA are at 0.88% while the remaining 99.12% assets are in stage 1 and 2. We have Rs.728 Cr. of ECL provisions against stage 1 and 2 assets and provisions of Rs.228 Cr. against stage 3 assets. Our gross NPAs have remained below 0.9% for 31 quarters now.

Moving on to the liability profile, I request all of you to turn to slide 19 of the earnings update. You will see on slide 19 that we have significantly brought down reliance on CPs to only 4% now and in the process ensuring a well-matched ALM and durability of our liquidity levels.

If you turn overleaf to the next slide in the table, you will see that of the total borrowings portfolio sell-down along with bank borrowings and ECBs have been the source of incremental borrowings for us in the past year. Sell-down has been our biggest source helping us decrease our reliance on CP as we brought it down to within 5% of the funding mix, which is the desired principle.

Moving on to slide 47, We have presented the details of the high-quality retail loan book of Rs.54,044 Cr. sold down in as many as 200 pools. The performance of these pools is monitored on a monthly basis at an account level by the rating agency CRISIL. Only 15 PTC pools are monitored by ICRA and CARE. After an average of 23 months on books, the 90 and 180-plus delinquencies of these books as is noticeable in the report are negligible.

IBH has always been one of the largest sellers of mortgage pools, and loans sell-down is a long established source of funds for us. Sell-down helps us maintain conservative leverage while growing our total loan assets, retaining the spread and maintain a healthy ROE. Over the past 12 months we sold down Rs.22,347 Cr. of loan assets. This based on a strong historic sell-down track record where to date we have sold down loans in excess of Rs.65,000 Cr. In fiscal 2018, we had sold down loans in excess of Rs.10,000 Cr. and because we had been doubling the sale of loans over the last two to three years we were again able to double from fiscal 2018 to fiscal 2019.

Sell-down in fiscal 2019 was obviously our highest ever sell-down recorded for a financial year. This sell-down has happened across products and segments such as affordable home loans, high-ticket home loans, plot loans, LAP loans as well as developer loans. It was for the first time in India last year that a lender has been able to securitize large assets to banks thereby giving liquidity into an asset pool, which is otherwise considered to be highly illiquid. The acceptability of IBHFL granular loan book portfolio across investor base including all kinds of banks is a testament to strong portfolio quality and strength of our underwriting capabilities. Amongst our securitization relationships, the bank now counts 16 PSU banks, 6 private and foreign banks. We have focused on capital conservation, and selling down loan assets is extremely capital efficient freeing up capital while retaining spreads making this transaction highly ROE accretive. As we move towards 2020, portfolio sell-down will contribute an increasingly larger proportion of our funding mix from the current 22%.

Now, kindly turn to slide 21. We now move to the spreads of our business. Our spread on loan book for Q4 fiscal 2019 was strong at 3.42%, loan book yield at 12.15% against cost of funds on stock of borrowing at 8.73%. Again, as I mentioned, we operated as a perfect pass-through vehicle and passed on all of our increase in cost of funds very efficiently to the borrowers. These numbers of fiscal 2019 and these financials assume special significance, as shortly they will be submitted to the regulators and other statutory bodies in our application for merger with Lakshmi Vilas Bank. As a part of the merger process, the balance sheet and loan book of fiscal 2019 and the related financials will form the base documents for regulatory and other statutory inspection and scrutiny.

We remain very confident and look forward to the next steps in the merger process. Merger applications are being filed with respective regulatory and statutory bodies. A dedicated team is also working on transitioning IBH’s business and balance sheet to come under banking regulatory norms. The amalgamated bank will build on IBH’s strength and focus on the vast housing opportunity in India and it will also build on IBH’s expertise in self-employed lending to focus on the equally vast MSME lending opportunity. In the meantime, till the time that this merger is effective, we continue to be a much focused housing finance company and for us it is business as usual. Towards this, I wish to reiterate we are fully back into the growth mode and in line with our pre-September 2018 disbursal levels where we used to disburse around Rs.10,000 Cr. a quarter. In quarter fiscal 2020 also we will be disbursing around Rs.10,000 Cr. On this note the IBH management team is now open for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. I just wanted to understand the disbursal mix in the fourth quarter. What proportion is from home loans, what proportion is from LAPs, and what proportion is from the construction finance that is my first question Sir?

Gagan Banga: It is roughly 50-30-20 between home loans, LAP and developer loans.

Shubhranshu Mishra: And these are fresh sanctions or these are like renewal in the construction plan, Sir?

Gagan Banga: These would generally be sanctions of our existing loans. There would still be a couple of new loans. The rest would be where we have to continue to disburse on projects, which are under construction.

Shubhranshu Mishra: Right, Sir. Thank you for that Sir. My second question is with respect to any specific account recoveries like you mentioned in the previous quarter that you had recovered certain amounts and there were certain accounts, which were under litigation any particular accounts, which have been recovered in this particular quarter, Sir?

Gagan Banga: Specifically if you are talking of Palais Royale that is still underway. It has not progressed to the extent that we thought it would, but we have made legal progress on that and you would start seeing the outcome of that over the next 48 hours. So we are still quite hopeful that in the very, very short term, our recovery to a higher extent to what we have projected, so we have projected that we will recover over three years. Now with the revised legal orders we are hopeful of being able to recover much faster. As for other recoveries there would be normal course of business, so we have recovered. We have also given our higher securitization income, continue to provide aggressively. So between all of that it is pretty much in course of normal business.

Shubhranshu Mishra: Right. Sure. And my last question is with regards to the CP roll over. How much of CPs would be rolling over on April 30, 2019? What quantum would be in that?

Gagan Banga: We have no CP rollovers due on April 30, 2019. Over the next 90 days, around Rs.4,000 Cr. will come up for rollover, which is all factored into the ALM and in our ALM we assume no rollovers.

Shubhranshu Mishra: Sure Sir. Thank you so much for your time.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.

Piran Engineer: Hi Sir, congrats on the quarter and I just had a couple of question. Firstly this net gain on fair value changes of negative Rs.133 Cr., what exactly would that be attributable to?

Gagan Banga: Which number are you referring to exactly?

Piran Engineer: Sir, revenue from operation Section 4 minus Rs.133 Cr..

Gagan Banga: No. So this is credit cost of function.

Piran Engineer: This is credit cost I thought impairment of financial instruments.

Gagan Banga: Net gain on fair value is notional loss on units, which we had invested in mutual fund and there was a dividend on that, so there is a notional loss because of that and the dividend income line if you see is accordingly bumped up by Rs.471 Cr., so it is extraordinarily larger.

Piran Engineer: Okay and so then in this quarter what was our sell-downs and what was the income associated with it?

Gagan Banga: Our income, as I shared, was about Rs.244 Cr. and we sold down a bit lower Rs.6,000 Cr..

Piran Engineer: Rs.244 Cr. comes in the interest income line, is it because now we have changed our methodology of disclosure, so I just want to be clear?

Gagan Banga: Yes Rs.244 Cr. will be part of the interest income line and then we are detailing the net interest income, etc., we are excluding this Rs.200 Cr..

Piran Engineer: Okay. Got it and just lastly on your comments on Palais Royale, so Rs.200 Cr. we have not received this quarter is that correct?

Gagan Banga: We received the first installment and then we did not. So we have proceeded with the litigation and we have received the necessary orders to take over the project and we are I think either tomorrow or day after releasing the public notice to take over the project.

Piran Engineer: Okay. The reason I ask is that on an absolute basis, the GNPAs have increased by Rs.75 Cr.- Rs.80 Cr. during the quarter and if we have received Rs.200 Cr. from Palais Royale that means we must have had some slippages of Rs.270 Cr.- Rs.280 Cr..

Gagan Banga: We have received the first installment of that Rs.200 Cr. so we received about Rs.20 Cr., Rs.25 Cr. and then we did not receive the balance. So we pursued the matter in court and we got the order, I think, a few days ago and now we are releasing the public notice for the auction, etc., over the next couple of days.

Piran Engineer: Okay, but this developer is under liquidation is that correct?

Gagan Banga: Let the developer be under liquidation. The order is under SARFAESI. So we take over the project under SARFAESI.

Piran Engineer: Okay great. Good to hear. Thank you and all the best.

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

Nischint Chawathe: Just one clarification. The sell-down income of Rs.244 Cr., this is reflected in the interest income of Rs.3,700 Cr., right?

Gagan Banga: That is right.

Nischint Chawathe: Okay and if you could share the sell-down income booked upfront for the entire year?

Gagan Banga: Okay. Give us a minute. We will just come back to you on that. It would be in the handle of Rs.900 Cr. I will come back to you in a minute with the exact number. We can move on to the next question in the meantime.

Nischint Chawathe: Sure and just one last point. If you could explain the tax case because of which your liability, I think, you mentioned went up by around Rs.290-odd Cr.?

Gagan Banga: Yes so the exact income on securitization is Rs.914 Cr. The tax incidence is on account of redemption of some long-term units. Ashwini will just explain how the whole thing works.

Ashwini Kumar: So essentially, four years back there were some bonus units that came. So the bonus units we were carrying for a long term, and since their cost is 0, so the entire amount when they were redeemed, there was a tax incidence, so it was one-time. There is no such other long-term investment, which is being carried at 0.

Nischint Chawathe: Sure those were my questions Sir. Thank you very much and all the best.

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

Kunal Shah: Sir on sell-downs, looking at the trend, which was there in last two quarters and now incrementally what is the kind of run rate, which we are looking at and ideally the spreads, which were there earlier in last two quarters and maybe going forward if you can just guide in terms of whether these spreads would be similar or it would be relatively lower?

Gagan Banga: The spreads have actually improved from Q3 to Q4 and my sense is that now they will pretty much track with the improvement done and the movement in interest rates. If one is to expect that interest rates will stay benign, then they should only get stronger from here. The number that we will now be targeting, as I had explained in the previous quarter call our long-term average would be between Rs.3,000 Cr. to Rs.4,000 Cr.. Our longer-term expectation of income would be in the handle of Rs.150 Cr. and anything above that we would generally try and use for provisions.

Kunal Shah: Okay and when we give this spreads, so does this include the assignment income on these spreads?

Gagan Banga: But not treated as upfront thing. It is treated as if we are getting X percentage from the customer and paying Y percent to the bank, so it is X minus Y. We are not taking spread as total revenue minus total expense. I hope I am clear.

Kunal Shah: So when we look at it maybe in terms of Rs.914-odd Cr. for the full year of FY2019, that entirely would not have got factored in when we are seeing 3.42% spread?

Gagan Banga: That is correct.

Kunal Shah: Okay and secondly in terms of the overall sentiments in the real estate markets and given the liquidity, which is there with, say, few of the corporate developers, so what broadly we are seeing in terms of the resolution or maybe the collection mechanism, which is not all being followed, so are we maybe incrementally as compared to that, I would say, what was there in October and November, how we are seeing the liquidity situation on the developers wherein we have funded and if maybe they are facing any kind of an issue, then what is the sort of resolution, which we are working upon with in terms of like selling down the inventory or maybe the change of the developers in few of the projected units, so what is major mechanism, which is followed over here?

Gagan Banga: Again as I had explained the last time, I will go through the construct of the portfolio. The portfolio largely hinges on rent-discounting transactions so our endeavor over the last 3 to 4 years, ever since fiscal 2014 now actually 4 to 5 years, back in fiscal 2014, on a similar investor call, I had said that we are extremely concerned about premium real estate and incrementally we will go very, very slow on the same. Till the time that we can come back with a revised model and we came back to all of you with a revised model about a year-and-a-half years later, which still continues to hinge on rent discounting. What rent discounting does is: A, it captures the most prime asset of such a developer; B, and in our last earnings release we had also listed down a few of the assets that are mortgaged to us as rent-discounting transactions and it also provides for equity support. As is quite evident and you would be reading about it in the papers every day, there are commercial transactions, which are happening. Now, with the REIT of Embassy-Blackstone also getting listed, the whole market has become even more lucrative. The REIT is trading at sub-8% level. So there is a lot of interest that is there in that whole commercial real estate space, which is obviously helping us a lot because these assets have tremendously increased in value. So the whole model is that we try and first do a rent discounting and then also if there is a construction finance opportunity to do that. Generally, the assets that we are including the commercial construction finance assets would be catering to the mid-income group and would be assets in cities that you would recognize. The mid-income segment continues to be pretty robust in sales and apart from something very selectively getting stuck for either litigation or a peculiar permission or something like that.

It is generally the mid-income segment continues to see traction. Since a lot of people on this call would be familiar with Mumbai, in Mumbai, anything which is priced at about Rs.9000 to Rs.10000 a square foot continues to sell in a pretty robust manner. It is only assets, which are priced at north of Rs.20000 a square foot that continue to struggle on sales. In such assets, our presence is very, very small. As for strategy, our emphasis is to continue to support the developer where there is good sales traction and construction progress. If we are seeing that the project requires equity, then we ensure that the commercial real estate building gets sold and equity gets released. If we feel that the brand needs to be supported, we either replace the developer or find a suitable structure, which will boost sales. We have adopted all three models and this quarter was pretty critical from making sure that asset quality, etc. stays healthy. I am very happy with the outcome as far as this quarter is concerned. So we are quite confident that the portfolio will continue to behave and will not give any kind of an alarming outcome, either causing any massive pressure on profits or on delinquencies any time in the near future, fairly confident about how the portfolio should behave.

Kunal Shah: Okay and on the corporate mortgage slide 17%, which is equivalent to Rs.20,000 odd, if you can just broadly break it up into LRD and the pure construction finance?

Gagan Banga: It would be roughly 50-50, which is the pure breakup on stand-alone assets, but these assets are also all cross-collateralized, so over 70% of the portfolio in that handle will continue to be supported by our rent-discounting transaction.

Kunal Shah: And the average ticket size on Rs.10,000, 50% of the construction finance?

Gagan Banga: It would be about Rs.200 Cr. On construction finance, it will be slightly lower. On the overall package will be about Rs.200 Cr.

Kunal Shah: Okay, so on Rs.20,000, it will be Rs.200 Cr.?

Gagan Banga: Yes.

Kunal Shah: Okay, yes. Thanks a lot.

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

Adarsh Parasrampuria: Hi Gagan, thanks for taking my question. A question on the NCD funding. Quarter-on-quarter, there is like a Rs.7,000 Cr., Rs.8,000 Cr. drop in that side of funding obviously there would have been some maturities. Just wanted to understand that is the lagging part in terms of the money raised right, in the last maybe 6 months. Obviously the market has been shut for a few months initially. What is the outlook there in terms of what you can raise and also for the next say every block of three months like you quantified for CPs, can you quantify what is the NCD maturity that we have over, say, Q1, Q2, Q3 and Q4 for next year?

Gagan Banga: So I do not know where you got that Rs.7000 Cr., Rs.8000 Cr.. For the full year, we have had only Rs.2000 Cr. of reduction in our bond stock. You are probably confusing it with… because earlier in the liability breakup, bonds and CPs used to be together and they were called debentures and security. Now we have broken it up debentures and securities, which is bonds, is reported separately and CPs reported separately. So what used to be 54% last year is now 40%. But in that, 8% decline comes from CP. So the CP is what has massively declined by as much as almost Rs.9,500 Cr., which is an intentional strategy. As far as funds raised is concerned, on an absolute quantum, as I mentioned at the start of the call, it is Rs.51,312 Cr. of which bonds themselves are about Rs.5,480 Cr. and then bank loans are about Rs.14,500 Cr., securitization of over Rs.21000 Cr. and CP, which gets rolled over every three months on a gross basis, is about Rs.10,000 Cr. So for us, over the last six months, all the instruments have been working. We have also been slightly proactive. So if you recollect, by December itself, we had put together a liquidity buffer of over Rs.21,000 Cr. So a large part of our borrowing program, which was required for the full year was completed in Q3 itself and being in a rate-sensitive business, we have to be extremely conservative. So when rates and corporate bond spreads went up in February until about mid-March, we had to be extremely conservative. As far as April is concerned, we have already raised, if I am not mistaken in the handle of Rs.600 Cr.- Rs.700 Cr. of bonds in the last 2- 2.5 weeks and by the end of April, I expect to close another Rs.300 Cr.- Rs.400 Cr. of bonds and we are also looking at doing an overseas issuance very shortly. So that should get us to Rs.2,000 - Rs.3,000 Cr..

So overall funding outlook is stable. We still continue to be extremely, let us say conservative about liquidity and we shall continue to remain so. There are enough concerns out there in the marketplace.

And as I had mentioned in our previous call that for us, we will prefer safety over everything else. So that is the core model. But as far as the ammunition for growth is concerned, we already have enough. And on incremental flow basis, we are getting enough across all kinds of sources, which is why I have repeatedly stated over the last few minutes that we are back to normal levels. In Q1 fiscal 2019, we had disbursed about Rs.10000 Cr. and in Q1 fiscal 2020, our target is also to disburse about Rs.10000 Cr., which is pretty good for a Q1. So I hope I have answered your question.

Adarsh Parasrampuria: Yes, Gagan, sorry, just getting back, right, so I was just looking at our December presentation and just comparing it to the March 2019 presentation, so there I see the debenture and securities line is about Rs.56,800 Cr..

Gagan Banga: If you look at the bottom table that was only three-month Commercial Paper. The rest of about Rs.3,000 Cr. of Commercial Paper was in debentures and securities.

Adarsh Parasrampuria: Okay, so that has been netted of is, okay and second thing was I just asked if you can just give some sense of bond maturities for FY2020, NCD maturity, sorry, if I missed that number in your reply?

Gagan Banga: NCD maturities in fiscal 2020?

Adarsh Parasrampuria: Yes.

Gagan Banga: **I**ncluding all CPs we have total maturities of about Rs.24,000 Cr. this year of which about Rs.5,000 Cr. is CP and the balance Rs.19,000 Cr. will be split between bonds and this thing. So our securities will be about Rs.9,000 Cr.- Rs.10,000 Cr.

Adarsh Parasrampuria: Perfect, it sounds good. Thanks a lot.

Moderator: Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan: Hi, good evening. Just wanted to understand what would be your average yield in the overall investment book ? The reason why I am asking is just wanted to understand across your various investment categories, would the mutual fund investments be in like largely liquid funds or because you mentioned t1, t2 basis, would it be in liquid funds or a spread across short duration or would there also be some closed-ended funds here and what kind of the average yields you are expecting on the investment book?

Gagan Banga: The bulk of it would be mutual funds and the investment book would be yielding us between 7 1/4% and 7 1/2% today.

Anitha Rangan: Okay and within your current account balance and FDs, would it be largely to current accounts or FDs and what would be like sense.

Gagan Banga: The current account is very end-of-the-quarter phenomenon and generally speaking, most of it is in fixed deposits. So for example, yesterday, we had closed about Rs.12,000 Cr. in bonds and the rest in CDs. So either we put money into mutual funds or CDs. So let me just give you yesterday's break-up and we have made some long-term FDs because some banks were offering attractive rates. So, for example, yesterday, we had about Rs.11,154 Cr. in mutual funds, about Rs.11,000 Cr. in NCDs. And the balance would be split between bonds such as NHB, PFC, etc., and fixed deposits.

Anitha Rangan: Okay, okay. And also wanted to understand in terms of like overall balance sheet degrowth like there is a marginal degrowth, which we all understand, given the overall market scenario. So going forward, how are you seeing which segments would like perhaps grow faster than the others? And overall, is the developer segment also, just pure developer lending, wanted to understand what is your outlook here and what you actually mean by saying construction finance also has LRD cross-collateralization. That is something I didn't understand clearly.

Gagan Banga: Okay. So while as an overarching theme, we will -- because this is a year where; A, we are coming back to growth; B, we are also transitioning into a bank. So we will have to manage growth with the transition into a bank and therefore our emphasis would remain on the housing lending and the SME lending. We have to make our overall portfolio aligned with what it should be looking like for a bank and therefore the emphasis on CRE per se would be very limited. Fortunately, our construction finance exposure as a percentage of our overall book is in line with what most banks have as CREs, just a pure construction finance part, most private banks have CREs. So there's not a lot of work that we have to do, but we can't grow that book by a lot. So at a very headline level, loan AUM should be growing by around 20%. Balance sheet will be growing by about 10%. And within the loan AUM, the emphasis would be to focus on the housing and the SME opportunity incrementally even as housing finance company while we transition to the bank.

On the other question, which is LRD and construction finance. So I tried to explain it in detail last quarter. So if you can review that transcript, it will be perhaps very useful. But I'll just explain quickly again that when we initiate a relationship usually, we initiate it with a developer by taking their prime commercial asset as mortgage, which is generating rent and does not have an execution risk, so a steady cash flow is coming. And once we are comfortable with that asset and with the developer, as a second exposure, we will take on exposure on some construction opportunity where some building is coming up. It would largely be a residential building. In very few cases, it could also be a commercial building. And all of these assets would be cross-collateralized. So this is what we meant that 70% of the portfolio is supported by rent-discounting transactions.

Anitha Rangan: Okay. Got it. Thank you very much.

Moderator: The next question is from the line of Hardik Shah from Max Life Insurance. As there is no response, we move to the next question from the line of Utsav Gogirwar from Investec Capital.

Utsav Gogirwar: Thanks for the opportunity. I have a couple of questions. First, can you share the on-book and incremental lending across segments, home loan, LAP and developer?

Gagan Banga: So as I mentioned, we have done very unique transactions both in Q3 and Q4 where we have also been able to assign some of our developer loans, trying to ensure that whatever securitization we have done through fiscal 2019 is pretty representative of how the book is split 60-20-20 between home loans, LAP and developer loans. So that is pretty much the split. So give or take a couple of percentage points, it's fair, both the books are a good shadow of each other. And that is what we will continue to endeavor to do. So even in Q1, the couple of transactions that we have actually initiated in April are the large loan transactions. We have not yet done securitization of the smaller loans, which we will in due course of time but that is the kind of focus that however the overall larger AUM is, even both the on-book and off-book should be a pretty close representation of each other.

Utsav Gogirwar: Sir how is the yields on these segments?

Gagan Banga: Sorry, I said some other number. The yields are: on home loans, it is at 9.85%; LAP is 13.1%; and commercial loans will be at about 15%; LRD at about 10.9%; and construction finance is 15%.

Utsav Gogirwar: So these are incremental?

Gagan Banga: This is incremental. Book will be 10.5% for home loans, LAP at 14.5% and commercial loans at 15.5%.

Utsav Gogirwar: And, Sir, lastly, what is the number of developers we have lent to? Total number of developers? And some color on how much will be the share for top 5, top 10 developers, our overall construction finance business?

Gagan Banga: So we would have around 40-odd developers, and top 25 developers constitute 75% of the portfolio.

Utsav Gogirwar: Thank you Sir. That is it from my side.

Moderator: The next question is from the line of Sneha Ganatra; from Subhkam Ventures.

Sneha Ganatra: Sir, just wanted to know on the growth outlook for the next year and what will be the profit growth target for the next year? And on the liquidity, we would be continuing that much amount of the cash and cash balance or any changes is expected?

Gagan Banga: So the liquidity that we have is clearly excessive and part of it is for growth capital. And so we are already in some sense funded for Q1, which is what gives me confidence but that said, with so much of noise in the system, one will continue to be extremely conservative about growth, etc. So on growth, we are targeting a 20% kind of AUM growth, a 10% kind of a balance sheet growth and high teens of profit growth. As things are, we are pretty confident that we will be able to achieve this but we will also calibrate growth on the basis of safety. And we are all well aware that there is so much of news flow around A group and B group and C group. So keeping all of that in mind and hoping that the system does not go into a lockdown mode. Optimistically speaking, these are the kind of numbers that we would be looking to pursue. From a liquidity perspective and from an ALM perspective, we are extremely well set. If anyone in the industry is, we are well set. Even from a flow point of view, we are very confident in terms of new money is coming and I do not think that there would be more than one other balance sheet, which can talk about having raised as much as Rs. 50,000 Cr. in the last six months. No one has other than 1 name would be in a position to say that such large funds have been raised and raised across all kinds of instruments. So to that extent, from this flow and from the success of the last six months, one has a confidence to say that we are back in growth mode but again, one would be very, very careful.

Sneha Ganatra: And just 20% AUM growth, what type of disbursement growth are we looking because there would be repayment also happening over a period of time?

Gagan Banga: Disbursal growth would be slightly higher because last year in Q3, our disbursals were extremely muted. I can come back to you in a minute on that number.

Sneha Ganatra: Okay. And on the CI front, cost-to-income ratio, because this time we have seen a sharp decline in the employee as well as other OpEx. Anything to look into that?

Gagan Banga: Decline? There is...

Sneha Ganatra: Quarter-on-quarter basis, yes.

Gagan Banga: Our cost income ratio is at 12.7%, which should come by - it should come to around 12% levels for fiscal 2020.

Sneha Ganatra: Ok.

Gagan Banga: Let us go to the next question, we are just coming back to you with that number.

Moderate: Thank you. Next question is from the line of Shashank Savla from Liontrust Asset Management. Please go ahead.

Shashank Damji Savla: Thanks for the call. Just regarding the cost-to-income ratio, which has risen slightly this year and after a very good trend of falling for the last six- seven-odd years. And you also had mentioned a target of getting it down to single digits. I do not know what the timeframe was. So can you explain like the reason why it is jumped up? And have you pushed back your target of getting to single-digit cost-to-income ratio now?

Gagan Banga: Yes. So the cost-to-income ratio has risen a little bit because our disbursal and related fee income was lower. But we did not allow our employee cost or our investments into branches and our e-Home Loan platform and all of that did not go down. So as a result the costs, on a relatively smaller base were marginally higher. The trend down would continue, and we would continue to improve it in a normal year by 70 to 100 basis points. So now that we are at 12.7%, it will take us about three years to get to single digits.

That is assuming that we i.e. under a housing finance company model. But one is quite confident that the housing finance company model would transition into a bank model, and then the cost-to-income ratio would be looking very different. So for fiscal 2020, one is confident of 70 to 100 basis points reduction as we look to grow the housing finance loan AUM by about 20%. And as we transition into a bank, then we will have to come back to you with revised projections for that.

Shashank Damji Savla: Right. And for the bank transaction like just trying to understand the timeframe of how long do you expect the approval process to last? And during that time, would you continue to pay 50% payout ratio? And would that ratio change if you have a merger with the LVB Bank?

Gagan Banga: Yes. So as long as we are a housing finance company, which I expect that for most of fiscal 2020, we would be a housing finance company, the payout ratio would continue to be at 50% of profits. And profits will only get better from here. So that number, which is currently at about 10 bucks a quarter, is quite stable. As for the timing, what was very important was to get the audited financials behind us. As I mentioned, these tape notes and P&L, Balance sheet, etc., would form the part of the base document around which the entire regulatory process across all regulators would run and therefore it was important to get this behind us. And a lot of effort has gone in over the last few months to be able to prepare this in quick time in a very, very diligent manner. So we've done that, and this is behind us. So now we should move very rapidly as far as making various applications are concerned and then the process will take its own time. So as we had mentioned on the call, we expect the process to take about six to nine months.

Shashank Damji Savla: And finally, more on strategy part, once let us say, if the margin is approved with LVB, what will the merged entity look like? Will you still be sort of raising deposits through LVB, but primarily the lending out for home loans? Or would you then venture out and try to become more of a universal bank competing with other private banks?

Gagan Banga: Given a very strong capital base and a very strong distribution and an extremely good starting point of over Rs.30,000 Cr. of term deposits, I think we will be well positioned to quickly become a universal bank, but a universal bank with a focus around housing and SME. So a universal bank would mean that we would also emphasize to up-sell and cross-sell to these retail customers and fully lever on the fee opportunity around that. Do we see ourselves as becoming a project finance bank if that includes being a universal bank? That is not something which is on our immediate charter. I think SME is a very unique opportunity. Housing is something that we already do at a very large scale. SME is something that we have done over the last 1.5 decades. That portfolio has done extremely well. It is a very profitable portfolio. And even through this period, it is a portfolio which has helped us sustain our profitability. So within all of that, as we reduce our dependence on commercial real estate, it will become an even important asset class. And therefore, we would be a SME- and housing-focused bank. And then step-by-step, we will move to other asset classes also.

Shashank Damji Savla: Right. Okay. Thank you.

Moderate: Thank you.

Gagan Banga: We will just take one more question and then we will have to get along.

Moderate: Sure, Sir. So we will take that question from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity again. Just wanted to understand your liability strategy as a merged entity; as a merged bank, how are you going to scale up your liability franchisee going forward?

Gagan Banga: It is still very early, but as I mentioned, with 550-odd branches and with that 250 coming in, we will have like 800 branches. For a balance sheet or loan assets of about Rs.25,000 Cr., the bank already has deposits, which compare with banks which have loan assets four to five times the size of LVB. So it is a very, very good starting point. They have a good retail franchise in the south. We have a good retail franchise pan-India. And as the success in our retail bond issuances have shown that we are able to attract reasonably high sums of money through retail bond issuances. So, we should be able to tap that same market for term deposits and CASA and so on. So it would be a classic strategy where one would depend on term deposits and slowly build up CASA, both by physical presence of 800 branches, which is also a very large presence for a bank of this size. The combined balance sheet would be in the handle of Rs.150,000 Cr.. So for a balance sheet of that size to have 800 branches is a very good starting point. And the other thing is that with the success that we've had in our digital strategy at OakNorth Bank, we are confident of being able to develop that into a full-term strategy in India as well. So that would be the other way that we would be looking at, for raising resources, but the model would be around CASA and term deposits, etc. SME also is an area of government focus. And therefore, there are several nodal agencies, which give a lot of refinance. And given our high capital and our existing exposure in the overseas market with our ECBs and Masala Bonds and with the dollar bond also coming, we should also be able to tap that market. So we would keep a very leveraged strategy, a very diversified strategy as we have at Indiabulls Housing.

Shubhranshu Mishra: Right Sir. Sure. Thank you for your time Sir. Best of luck.

Gagan Banga: Thank you so much. Thanks, everyone. And just to conclude, Indiabulls Housing continues to focus on making sure that our ALM is the strongest. Our liquidity levels are extremely high and comfortable. And that gives us confidence that now the time has come to start growing again and that is something that we would look forward from Q1 onwards. The bank opportunity is also a great opportunity into which a lot of work is going on. And hopefully, we are making very good progress, which will become quite visible in the days to come. So on this positive note, I thank you again for your support and look forward to speaking to you in the next few months. Thanks.

Moderate: Thank you very much. Ladies and gentlemen, on behalf of UBS Securities Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.