



“Indiabulls Housing Finance Limited
Q2 FY 2016 Earnings Conference Call”

October 21, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Indiabulls Housing Finance Limited Q2 FY 2016 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishank Kumar from UBS Securities. Thank you and over to you Sir!

Ishank Kumar: Thanks. Welcome everyone. We are pleased to have the management of IndiaBulls Housing finances for the Q2 call. From the management team we have Mr. Gagan Banga – Vice Chairman and Managing Director, Mr. Ashwini Kumar, Deputy Managing Director, Mr. Mukesh Garg – Chief Financial Officer, Mr. Pinank Shah – Head Treasury and Mr. Ramnath Shenoy – Executive Vice President, Investor Relations. I now invite Mr. Banga to provide key highlights of results. Over to you Sir!

Gagan Banga: A very good day to all of you and welcome to the Q2 and H1 FY 2015-2016 earnings call. Firstly, I would sincerely apologize for any inconvenience caused on account of the rescheduling of the call. Our call as per the earlier schedule would have clashed with results calls of other large financial services companies and we were advised that in order to ensure maximum stakeholder participation we should postpone this to 7 p.m. India time, so very, very sorry about this.

As for this quarter, I am very happy to inform all of you that in this quarter we have clocked the highest ever PAT in the lifetime of Indiabulls Housing of Rs.555.5 Crores. It has been a very positive and a very high quality quarter for us and I was also fortunate that through the quarter, I met many of you as part of our QIP process.

The QIP was a resounding success and the faith reposed by all of you in us has been truly humbling for the management team. I thank you all for the faith and the confidence that you have shown on us. This QIP and the proceeds that we have raised put us on a very firm footing and it also lays roots for a very long-term scalable, sustainable and a profitable business.

Before I get into the numbers, I would like to talk about some qualitative aspects and the progress that we have made in this quarter on those aspects.

First there has been a marked change in our borrowing mix. Over the last many quarters we have been speaking about targets of getting bank borrowings down significantly. For the first time, since we started doing retail lending, we been able to get the bank term loan down to below 50% of the

borrowing mix. This has accelerated the drop in cost of debt and we have been able to comfortably maintain the spread within the guided range. On a rolling 12-month basis non-bank loan sources which is essentially bonds, ECBs, etc., has contributed to 71% to incremental borrowing and more importantly on a rolling six month basis it has contributed to 99% of incremental borrowing. So this is very, very good progress and it is a huge cost saving for us and it drives down our cost of funds much ahead and much faster to what we had originally projected ourselves.

The cost-to-income ratio and the progress that we have been able to make in that is also very good. Our operating efficiencies have been continuously increasing, largely on account of increasing employee productivity and also on the increasing scale of business. As a result cost-to-income ratio has dropped to 14.6% for a H1 FY 2016 from 18% three year's ago and 16.4% for last year.

Our thrust towards continuously coming down on the risk ladder has also allowed us to bring down our credit cost even though we continue to run at a very high over provisioning numbers and carry provisions north of 200 Crores over regulatory requirements. We have been still able to manage that by driving down our credit cost to around 60-basis points from around 70-basis points last year.

A very important announcement is also that continuing with the relationship that we entered into with CRISIL last quarter and on the feedback that we received from all of you, all of you gave it a resounding thumb up. We also thought that we had to extend this into a very robust risk model and in order to ensure that we are getting very fair inputs which can go into the risk model we tied up with ICRA. ICRA is Moody's Associate Company. So from Q3 onwards, which is October, November December quarter, ICRA would also be additionally grading the loans besides the grading of loans by CRISIL. So we will get two inputs one from ICRA and one from CRISIL both of which will be published at the end of the every quarter. In our earnings update we have put out the second report of CRISIL and from the earning release that we will do from Q3 in January. ICRA's report will also start getting published.

The criteria with which ICRA would be rating these loans will be marginally different to the way CRISIL looks at these loans and so we will get a variety of inputs and a different perspective as well. The asset book growth remained very healthy on the back of some robust disbursements across all the asset classes. At the end of H1 FY 2016 our total loan assets has grown to Rs. 58,225 Crores compared to 45,000 Crores which is a growth of around 29.3%. Often has been asked this question as to when there is an overall gloom and doom in the real estate market how come Indiabulls will be able to manage growth rate anywhere between 20% and 40% depending on the number that we pick up, so we deep dive into that and present to you some interesting data.

Today the most reliable source of data is data that we gather from credit bureaus as both RBI and national housing bank have made it mandatory for all lenders to report all loans to all credit bureaus on at least a monthly basis. So when we started doing that analysis we found that the housing loan market is concentrated in the range of Rs.15 lakh to Rs.75 lakh.

Credit bureaus data indicates that home loans in this segment between 15 and 75 lakhs has grown year-on-year at 15% versus disbursal growth versus a 10% disbursal growth and the overall market has grown by approximately 18%. Most housing finance companies and especially Indiabulls Housing is completely focused on the sub Rs.75 lakh segment whereas matter of fact focus very heavily on the sub Rs.25 lakh as well and for all housing finance companies over 50% of the disbursements are coming from 50 X 75 lakh segment as per data that we have received from the credit bureaus.

HSCs has make the most of this credit offtake in this segment and HSCs are managed to grow at a CAGR of 22% between FY 2012 and FY 2015 outpacing the industry growth of 18% over the same period. This is despite banks through this period of 2013, 2014 and 2015 facing an adverse credit market have been talking about focusing on only retail segment especially home loans. Despite that housing finance companies have been growing at a pace which is faster to banks and have been gaining market share and now control approximately 39% of the market.

What will further help in this growth is the fact that effective home loan yield in the market place over the course of the last 12 to 16 months are down by almost 100-basis points. Tax breaks have also been increased over the last year and a half as a result today after factoring in the total reduction of Rs.3.5 lakh, Rs.1.5 lakh against principal repayment and Rs.2lakhs against is interest repayment, the effective yield of a home loan of let us say Rs.24 lakh against a headline yield of 9.6% works to around 4.5%, which is nearly around 1.5% higher than what a person pays if he is living in a rented accommodation, which means that for under Rs.3000 a person is able to move from a rented accommodation to a own house and this is one of the biggest reasons why in this particular segment which is the more affordable housing segment demand continues to remain robust and we rely for all of our growth in the home loan product on this particular market.

Now let us focus on our numbers. The topline has registered a healthy growth of for H1 FY 2016 to 4270 Crores as compared to 3281 Crores which is a growth of 30.2%. Revenue for the quarter was 2245 Crores which is a growth of 32.7%, NII for H1 FY 2016 stood at 1706 Crores which is a 30% growth. NII for Q2 was 884.6 Crores, which is a growth of 34.6%, all of this growth in NII can be attributed to the fact that we relying more heavily on bonds as against other sources of money and we have also been able to bring down significantly the bond yields that we are paying on the back of the credit rating upgrades that we have received in early last year.

We continue to remain on our guided target on profits the PAT of Rs.555 Crores for the quarter which is at 24% increase. The PAT for H1 FY 2016 stood at 1066.8 Crores which is a growth of 22.3%. We have also announced a dividend of Rs.9 per share for the quarter. As has been shared earlier our long-term dividend payout policy is a payout ratio of 50% of our earnings. We will continue to maintain a payout of Rs.9 per share per quarter till the EPS grows to a level where the dividend payout reaches 50% of profit which should happen by Q4 of next financial year, till that we will maintain a dividend of Rs.9 per share per quarter.

Capital adequacy adjusted for investments and mutual fund stood at 25.3% at the end of Q2 FY 2016 from 18.2%. This does not factor on the recent deduction in the risk weight which came in effect from October 9, 2015 and which will also substantially help us increase the capital adequacy further since the loans of below Rs.30 lakh which is our target segment have been given reduced risk weight of from 50% to 35%.

The cash that we held as of end of quarter was Rs. 12,595 Crores which was a number which is substantially higher to what we would have been normal conditions run with towards the end of the quarter and this was largely due to the QIP in which the fund came towards mid of September. Our net leverage after deducting from total borrowings above cash and cash equivalents and investments in mutual fund stood at 3.9. Our NPA for over 16 quarters which is four years now have remained within the range of 70 to 90-basis points for gross NPA and 30 to 50-basis points for net NPA and we continue to remain with the target range with management not seeing anything which should result in the range on the higher side getting busted.

Our gross NPA and net NPA were 84-basis points and 35-basis point respectively. In computing net NPA only provisions against substandard asset is deducted from the gross NPA. Standard asset provisions and counter cyclical provisions amounting to 395 Crores are not deducted while computing net NPAs, including these provisions our total provisions divided by gross NPA that is our total provision cover on gross NPA was 139%. Our net credit cost for Q2 was 113 Crores for the first half of the year the annualized credit cost works to about 61-basis points as against almost 70-basis point in the previous year.

At the end of H1 FY 2016 the total substandard provisions were 285 Crores and total floating provisions were at 50 Crores, standard asset provisions 344 Crores and the total provisions pool was 679 Crores.

Disbursals for Q2 FY 2016 were 6,192 Crores, in Q2 FY 2015 we had disbursed 4,855 Crores and last quarter we have disbursed in Q1 we have disbursed 4,500 Crores. On the borrowing side as I had mentioned earlier for the first time in our history bank borrowing came to below let us say 50% of our

borrowing mix. Bonds along with ECBs have contributed to over 70% of the incremental borrowing in the last 12 months.

In my interaction with you in the past I have always maintained that our business changes on building a strong liability franchise and there is lag today that we have the capability to smoothly resolve our borrowing mix amongst the various sources giving us a very good control over our cost of debt and also ensuring continues availability of liquidity. What is major success for us and time of increasing flexibility on the liability franchise and also what will on a going forward basis really help maintain our asset liability matching is that we have raised over a 1000 Crores the quarter gone by from various pension funds. This is long-term money, which is very stable and this is a source of money which will expand to getting us about 25% to 30% of our annual funding requirement from next year itself.

Now very importantly it is that our upgrade to AAA last year since then our bond yields has come off approximately 96-basis points. Our bonds borrowings have increased to about 96% of the incremental borrowings for the last three months and 98% of incremental borrowing for the last six months and 60% of the incremental borrowing for the last 12 months. In the six months that has gone by we have graded about 6277 Crores which compares to 7000 Crores that we laid in the full year last year and will easily reach another 6000 Crores in the second half of the year so this year we will be between 12000 and 13000 Crores as against 7500 Crores last year.

Over the last 12 months the rate at which we have raised money to do bond issuances has reduced by 145-basis points of this about 80-basis point is due to general softening of grade as are all highly peers have seen this reduction. That is the remainder 65-basis points is given to us and is because of the upgrade in our ratings. We have leveraged this further by funneling a larger portion of our incremental borrowings through bond and what we will target if that we will regulate the issuance of bonds on a relative basis and try and get another compression of 20-basis points in bond yield on a going forward basis. This is without any further upgrade in our credit rating, we should be able to achieve this. At the present yield levels of approximately 8.8% on monthly nominal rates we are still borrowing at about a 100-basis point below base rate and that is the power which is allowed us to increase our net interest income by 34%.

Our spread for the quarter was stable at about 340-basis point on booked basis. Cost of funds is at about 9.45% on book basis compared to 9.6% last quarter. On an incremental basis the cost of fund is 9%. We have thus maintained our spreads over the quarter both on book as well as on incremental lending. Borrowing flexibility has also ensured that we not only maintain our spreads in the guided range, we also focus more and more on growing the retail home loan space and improve operating efficiencies around that. Our operating expenses has remained flat year-on-year so the spend in Q2



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FY 2016 are 142 Crores against 148 Crores that we spent in the same quarter last year despite growing our business substantially and growing our disbursement substantially. Cost-to-income has thus been coming off and the annualized cost-to-income ratio for H1 FY 2016 stands up 14.6%.

The other saving that we have done as I had mentioned earlier is on net credit cost, so bond yield going down, bond increasing cost-to-income coming down and credit cost coming down have been the big drivers of the profitability both in the first half as well as in the quarter. The fact that we have aligned all of our retail products pricing to the industry leaders has resulted in our HLV payments and prepayment rates coming down to about 1% per month from 1.5% same time last year. For LAP this is now standing at about 1.4% as against 1.7% level. With these three repayments rates our home loans will get repaid exactly over seven years and LAP in between four and five years. This is also an item which is significantly impacting the cost-to-income ratio and bringing it down and these numbers are now in line more or less with industry averages and also indicative of the price alignment that we have done with other leading mortgage financiers over the last few years.

The fee income was at 124 Crores as against 89.9 Crores which is a growth of 38% year-on-year. Our corporate mortgage loan disbursements were proportionately higher earning us the higher processing fees. Additionally we also earned approximately 40 Crores in prepayment fees and about 22 Crores by selling insurance. Our insurance penetration for the first time has crossed the 85% of retail loans and that should be a far industry record.

Moving on to balance sheet numbers, our networth at the end of Q2 FY 2016 stands at 10367 Crores up from 6120 Crores at the end of Q2 and 6681 Crores quarter at the end of Q1. Despite the large infusion of capital we remain focused on the capital efficiency and last quarter we sold out Rs. 1,404 Crores of loans. This clearly marks for us the revival of the whole sell down product which had kind of taken some sort of a backseat last year. For the first half we have been able to sell down Rs. 1,874 Crores worth of loans. As has been shared in the past now we are in a position to be able to choose what type of loans that we sell down as against earlier a compulsion of only selling down priority sector loans, so today if we can derive larger capital efficiency by selling down loans which attract a higher risk weight. This year we have already sold out close to about 1900 Crores of loans as against 2500 Crores in the whole of last year and I am sure that by the end of Q3 we would be very close or would have exceeded the loans that we had sold down last year. Q4 is the most aggressive quarter as far as sell down is concerned, so this should be a very, very good year as far as the sell down and the resultant capital efficiency. This product is obviously highly ROE accretive. It is also a very good source of a diversification, gives us a lot of operational leverage as far as capital is concerned and also is possibly the best way of doing an asset liability matching.

Now comes into the relationship with ICRA. I shared earlier ICRA will concurrently rate all of our files along with CRISIL. CRISIL will continue to grade our files disbursed from FY 2015-2016 onwards. Concurrent grading by multiple rating agencies will offer us a broader and deeper perspective and means to further improve our portfolio. Over the last few years as many new entrants have got into the LAP market and LAP loans they were underwritten by different players very widely. I think the confusion as far as LAP understanding is concerned continues to be quite a bit. We have taken the stance of being an industry leader, we have also taken the stance of being a large participant in the market and we have introduced the concept of getting our loans graded by rating agencies.

As competition builds up there have been many research reports as far as what is LAP and what is the type of LAP Indiabulls does, what are the type of margin that people enjoy etc., I hope that both of these grading will help you understand that neither is Indiabulls comprising to get more business on loan to values and as we align our pricing we are very, very conscious of the spread that we enjoy in a certain product and today we are in a position, thanks to our cost of funds coming down much faster than the industry rates coming down despite competitive pressures to continue to remain competitive in this particular segment without affecting our margins and as these results are demonstrated that margins have actually improved or stayed steady our net interest income has also improved and I am reasonably sure that as we continue to be aligned our borrowing mix our margins will only tend to improve which we will then use to get further market share as far as home loans is concerned and try and build a new dimension of scalability as far as the future of Indiabulls Housing is there.

In conclusion, I would like to say that our guidance for FY 2015-2016 remains intact. We will clock a growth of 20% to 25% across all these financial parameters. If we continue with this migration we should well end at the higher end of this range as far as profits and book growth is concerned. A few quarters ago I have made a comment that best phase of Indiabulls Housing Finance is yet to come, I think Q2 FY 2016 is a demonstration of the beginning of this best phase so not only have we been able to do a very successful QIP with marquee investors coming in and backing us, I think we would also been able to demonstrate that we continue to remain focused on delivering quarter-on-quarter and we ourselves setup the parameters around which we would like to deliver.

We have focused over the last four years on trying to come back to stakeholders with a lot of stability in our earnings and that stability has largely been achieved by focusing on profitability in each loan that we do. On a going forward basis management is fully engaged in making sure that as this company moves from 75000 Crores of balance sheet which is where we should end this year to a 100000 Crores of balance sheet and beyond. We also start focusing very heavily on scalability and scalability is the new puller that we would like to build our business for the next five to six years. The recent capital gains will come in very, very handy as far as building the scale is concerned. It will allow us through various means to bring down our cost of funds.



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It will also allow us to become more competitive and stay even more focused on the home loans market, in which we will continue to not only grow as much as the industry is growing but as faster and thereby gain some market share without dilution of credit standards.

At the end I can only give you a comfort that you should remain confident of the fact that that this particular management team will be as focused on credit quality as ever before because that is I think the still disturbing factor which can come in the way of our growth and just to touch you some targets we will not allow any dilution of credit standards and I am reasonably optimistic that from the position that we have achieved the growth that we intend to achieve will come without compromising on any credit standards or on our spreads and thus our guidance stands firm.

That is all from our side and we will now open to questions.

Moderator: We will now begin the question answer session. The first is from the line of Krunal Shah from Edelweiss. Please go ahead.

Krunal Shah: Congratulations for a good set of numbers. Firstly in terms of we have raised capital as well as 4000 Crores plus say RBI has come out with SEBI norms of a lower risk weight, so I think one makes it applicable for the housing finance companies, we would see the benefit kicking in our capital adequacy. So, given that firstly may be if you can explain as to how much of the proportion of book would this impact in terms of 35% risk weight and if that happens and how are we looking at in terms of overall leveraging. So whether say our reliance on securitization would come off and we would tend to retain higher amount of the book say on balance sheet and secondly would we pursue any kind of inorganic opportunities?

Gagan Banga: I will answer the last question first. As far as inorganic opportunities are concerned in the mortgage finance industry space there is to the best of knowledge very, very little opportunity and generally because there is very little opportunity and a lot of interest in this space whenever there is a small transaction it happens, it happens generally at a price which is not very shareholder friendly or ROE possibility is very limited after that. So as we speak I do not see any acquisition opportunity in the housing finance industry space. That said we will keep our eyes and ears open and if there is anything interesting we will definitely discuss this with the board and shareholders. As far securitization, securitization for us is a lesser function of on for the last few years and even right now is a lesser function of we being capital stretched, it is more of a function of maintaining a discipline within the company that capital is dear. Capital on a longer term basis is also expensive and we cannot afford to not remain capital efficient. Shareholders have been extremely helpful so when we wanted to start building on a high quality salaried home loan product. In 2009 we were able to get that capital from shareholders. That capital was raised at Rs.171 per share. Since then the company because of the

progress that it made thanks to that capital was able to repay to shareholders Rs.140 as dividend. Again we have raised capital and this will also go a long way in achieving the longer term strategic objectives. As shared in the past that what management is seized with is the fact that we have had a lot of success over the last 24 quarters, which is 6 years and 6 years we have been able to build a very, very stable engine of growth and what we would like to see is in other 24 quarters of similar stable growth and this capital and the strategic objectives that it lines up achieving for us will help us fight out any situation of uncertainty, which is bound to come. So over the next 60 years it is not as India will be riding some high horse and there will no issue. There will be liquidity issues, there will be interest rates movements and all of that and capital will come in and I am sure shareholders will appreciate that the company remains capital efficient. The company remains focused on building a book which is as capital light as possible. So our sell down strategy would continue. On an incremental basis we would like to see north of 20% of our loans being sold down and over a period of time we would like to see the 12% of our financing which is currently coming from selling down our loans increasing to close to 20%. So till that it is still work-in-progress. As far the risk weight piece NHB has already put that. So the circular is out and the reduced risk weight apply on housing finance company also now but our capital adequacy for many, many years will remain north of 20% will remain close to 22%, 23% adjusted for obviously investments from mutual fund and I do not yet see us diluting the initial standard what we had said which was that we will get to a maximum leverage of seven times of equity. We are just about half of that as we speak so we have ambition to grow for five years and achieve within that many milestone. So the original stay that we will dilute next time around whenever we are close to seven times of bearing. If we had not raised capital last year this quarter we would have ended up at about 6.6 times of bearing. So next time may be we will be higher on credit ratings and therefore we will be able to push it a little bit but not much beyond 7, so that is our sort of hurdle rate as far as dilution is concerned.

Krunal Shah:

But Sir in terms of this risk weight if you can quantify as to how much of say the capital adequacy? Sir in terms of the benefit on the risk weights if you can quantify as to how much of the existing say capital adequacy gets boosted because of it. So in terms of say the proportion of our loans which qualify say less than 75 lakh bucket and say less than 75% LTV wherein we do have now like 35%. So what would be the proportion of the book?

Gagan Banga:

That number will be about 35% to 40% of the overall book would qualify so approximately 50% is home loan of which 75% to 80% would qualify in this about 35% to 40% in the overall book will qualify in this for that we will have to adjust because when I say 75% to 80% it also includes sold down assets. So we will have to make adjustments for that but I think broadly it will be on asset under management it will be 35% to 40%. We can come back to you with the precise calculation as to what would be the precise capital adequacy impact.



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- Krunal Shah:** Sir one last question in terms of say the provisioning as to how much it has been increased in this particular quarter. So we look at it in terms of increase in say the provisioning from 417 to 460. Sir in terms of the provisioning we have increased from 417 to 467 quarter-on-quarter so 50 Crores is the overall provisioning. How much is the provisioning hit in this quarter?
- Gagan Banga:** The total credit cost that we have is 113 Crores, of which we have written off 41 Crores and we have made substandard provisions also of 41 Crores and standard asset provisions of 30 Crores. So we had originally created a large standard asset provision pool which we have now kind of run down in terms of completely consumed it. So this quarter onwards we will have to do additional standard asset provision, which for the current quarter stands at about 30 Crores. So despite this being there and the same time last year it was not there we have been able to bring down on annualized basis are credit cost by about 10 basis points.
- Krunal Shah:** Thanks a lot Sir.
- Moderator:** Thank you. Our next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.
- Vikesh Gandhi:** Gagan, congratulations. Just couple of questions, can you just guide us on what kind of loan growth we are looking at or rather asset growth that we are looking at. So we have been doing like 29 for the last couple of quarters. Do we see that range sustaining in this full year or it can step up now that you have capital and are you looking to alter the mix of home loans a bit I mean obviously it cannot be done overnight but more and more towards home loans versus others?
- Gagan Banga:** Yes we will definitely step up our home loan portion of disbursement but any ways been stepping up slow and steadily. So the disbursements in that space but by the time that the overall books changes its colour it takes a little bit of time but you will see that over the course of the next two to three years this 50% will start moving towards more like 60%. So that is definitely going to happen. We expect LAP to also continue to grow at a steady phase but home loan will definitely grow at a pace which is slightly ahead of LAP and both commercial loans and commercial loans will continue to remain circumspect as we have over the last year and a half or so and we will continue to select those opportunities very, very carefully. So home loans are one asset class which will surely grow and my sense is that we will grow in this range of 29% to 30% for the full year. 30% is kind of our hurdle rate we would not want to cross that by too much. So 29%, 30% book growth is what we are targeting as far as financial year 2016 is concerned.

Vikesh Gandhi: Second thing I just wanted to ask is so your tier I increased by 3.5% sequentially and this is after capital coming in. I believe there is an adjustment towards mutual funds. If that was not there then how much is proper increase or the gross increase?

Gagan Banga: The two major impacting items are that 6176 Crores was additionally capped at mutual funds as against March. So in March we had 2653 Crores kept in mutual fund as of September end we are get it 30 capped in mutual fund. So that was one big and mutual funds are a risk-weight asset. Also in quarter four the dividend that was paid out was not adjusted to capital because of new section in the Company's Act called Section 123. So this year instead of two dividend adjustments from the capital there have been three dividend adjustments from the capital. So total of 1231 Crores has been adjusted from capital as of September 30 and from now onwards it will be steady. So it will be just one per quarter. So we will be back. This is the new section which forced us to not deduct capital when we paid out the March earnings related capital March quarter related capital. It was deducted from April 1 and this cost quarter because it was a balance sheet quarter it was deducted twice. So in total we have had deductions in this financial year of 1231 Crores towards dividend. So if you adjust all of this you will and add 4000 Crores you will get the number.

Vikesh Gandhi: Thanks a lot and all the best.

Moderator: Thank you. Our next question is from the line of Subhir Sen from Birla Sun Life Asset Management. Please go ahead.

Subhir Sen: Thanks for taking my question. Just wanted to understand in the current real estate market scenario how do you see the proper mortgage loan books growing from here onwards and some bit of colour on if any kind of stress you are seeing in the environment and any kind of incremental slippages we see? That is my first question. The related question is the grading that we are doing for LAP loans CRISIL and ICRA that is only for LAP loans and not for the mortgage loans if you can just clarify? Thanks.

Gagan Banga: So all loans are mortgage loans and so it is I not for home loans and it is not for the corporate mortgage loan. It is for loans against property and corporate mortgage loans are reviewed by rating agencies in quite a bit of detail especially the top few relationships, which will comprise 70%, 80%, 85% of that book whenever our rating review happens so all four rating, five rating agencies will come and do loan level discussion as far as the top 20, 25 exposures are concerned and that should generally cover over 80% of that book. As far as growth prospects of the corporate mortgage books are concerned we continue to remain slightly more focused on lease rent discounting as against residential construction finance. We are no doubts doing a little bit of residential construction finance also especially in some projects where the range of sale the apartment is in the range of Rs.4000 to

7000. Those apartments continue to see reasonable momentum. There are some builders who have either historical land parcels or have been able to get those land parcels at a throwaway price given the stress in the market. So those type of residential construction finance where there is a good credible all permission etc., there that continues to be a little bit but bulk of the growth that we get is largely from lease rent discounting and I think over the course of the next few quarters that would continue to be our strategy and stress this asset class has normally been contributing to a little over a percent as far as non-performing assets are concerned. So the general run rates since this asset classes between 1% and 1.5% and I think we continue to see a similar performance as far as this particular asset class is concerned. There is no new stressed loan that I am aware of or for the management team is aware of everything seems to be fine and even in some of the stressed loans which are often being discussed here which includes Palais Royale and a couple of others, Palais Royale has made good progress last quarter which is quarter one he had sold a few apartments. This quarter he has been able to sell as many as eight apartments and make substantial servicing of his liabilities to us and that project seems to be on track of getting OC over the next few months. So that is efficiently to management and no doubt that till the time that he does get OC he will have to continue to sell at a discount but despite the discount he is well covered over three to four times even today and besides that I do not think there is anything much to worry about as we see things.

- Subhir Sen:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Sameer Bhise from Macquarie Capital. Please go ahead.
- Sameer Bhise:** Thanks for the opportunity. Sir just looking at a quarterly presentation the average ticket size on the LAP book has been fairly steady last couple of years but just that last three to four quarter there has been some increase. So is there something to read into it? I mean it has gone from say 68 lakhs to 72 lakhs in three quarters, which is again what we had seen in FY 2014, FY 2015.
- Gagan Banga:** No I think Rs.4 lakh if we focus more and more on the prime customers as we realign our price we are generally talking of businesses which are slightly bigger, which have a slightly longer vintage and as our cost of funds goes down our ability of being able to attract a business which was 15 years in existence as against a business which were seven to eight years. Intuitively the 15 year old business will be slightly bigger. The promoter will be staying in a slightly bigger house and so it is in that tight range it is more commentary on the quality of the business that we are trying to underwrite and this is an insignificant change frankly. So what is important is that loan to values remain tied leach and I think the overall emphasis continues to be to do for vintage businesses. So as to make sure that the longevity of the business is the big risk mitigant in itself. That would be our focus and I do not think there is any other reason to it.



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- Sameer Bhise:** Fair enough and just couple of things, just missed the total amount of fees this quarter?
- Gagan Banga:** It is 124 Crores.
- Sameer Bhise:** Finally when we say that we will be moving to 60-20-20 loan mix over next two to three years. You still see that spread should sustain around current levels or say north of 300, 320 basis points?
- Gagan Banga:** Yes so they would remain in the range of about 300 basis points. So the reduction that we will get on account of home loans will be largely offset by on an incremental basis more and more dependence on bond and external commercial borrowings as against term loans and in the past let us say a year and a half ago, we used to talk about the borrowing mix changing to 60% bond and 40% home loan by FY 2018. During the course of my discussions with various potential investors when I discuss with financial institutions we were indicating that this thing will get achieved by probably end of financial year 2017. I am happy to let you know that within FY 2016 we should get to about 55:45 and well within financial year 2017 we will get to 60:40 and as I explained the cost comparison is 110 basis point in lower cost of funds and we still have at the same level of credit rating at least 20 more basis points of savings to happen on our bond yield and management continues to remain extremely optimistic of the other rating agencies also upgrading us in due course of time so if that is to happen there is another movement of 50, 60 basis points on our bond at least 50-basis points that can potentially happen and the shift of 50% to 60% will also be gradual by which time the colour of the liability book will also change. So in a graded manner if see both of these we have to obviously manage spread. I am reasonably sure with our focus on profitability we will be able to comfortably defence spreads of 300-basis points and this is exactly what I was trying to explain to one of our stakeholders who was concerned that LAP yield in the market place have come down 150 basis points over a period of time and so therefore what is the impact on our spreads and I was explaining to them that LAP yield in certain segments, which are relatively higher ticket type of segments have come down 100 to 150 basis points, which is generally the segment, which is focused around 3 to 5 Crores in the segment which operates between 50 lakhs and let us say 1.5 Crores. Yield remains reasonably sticky and this is the segment, which also allows us to do a lot of cash flow lending. Yields would have come down 70 to 100-basis points and that is the almost offset by the savings that we have ourselves in our cost of funds, which are close to about 70-basis points year-on-year plus the reduction in our credit cost and the operating efficiencies that we achieve and with these levers which is the changing liability mix, cost-to-income ratio which is reducing and credit cost which will definitely reduce as we focus more and more on the home loan segment. We are very sure that not only will be we able to in the short-term want of any pressure on spreads which may come in the LAP segment over a long-term basis, we will also be able to fulfill our ambition of home loan going from the current levels to 60% without any damage to spread.



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- Sameer Bhise:** That is helpful. Thank you.
- Moderator:** Thank you. Our next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just a couple of data points. What is the absolute amount of gross NPLs?
- Gagan Banga:** 490.1 Crores.
- Nischint Chawathe:** And net?
- Gagan Banga:** 205.2 Crores.
- Nischint Chawathe:** Could you give a break up of disbursement between home loan and LAP?
- Management Speaker:** Home loans we have done almost 3000 Crores and LAP about 1400 Crores.
- Nischint Chawathe:** What would be the weighted average yield on home loans and LAP?
- Management Speaker:** Home loans our weighted average yield will be on the incremental yield basis will be around 10.25.
- Nischint Chawathe:** Weighted average would be about approximately 50 to 70 basis points.
- Management Speaker:** 10.25 is incremental and 10.63 for the book.
- Nischint Chawathe:** On LAP.
- Management Speaker:** On LAP incremental is 12.75 and on book it is 14%.
- Nischint Chawathe:** How should we read the difference between the weighted average and incremental rate in LAP? Is it because of competition or is it because you are shifting segments?
- Gagan Banga:** Again it is because yields have come of over last 18 months, 24 months. They have been continuously coming down but again you would notice that the incremental yields also continue to be on the higher side. So we have not seen too much of pricing competition on this average ticket of 70 lakhs. In fact we have seen only one new participant come into this market at that average ticket size in last five years.

Management Speaker: Average gap between in home loans, the gap between book and incremental lending will always be in the range of 60 to 70 basis points. In LAP it will be generally in the range of 100-basis points. There is always a pressure on new business. New business generally gets especially in a downward interest rate scenario business will generally get booked at a slightly cheaper yield to existing businesses and prime lending rates come down. They are slightly more sticky than incremental yields coming down. So this is broadly the reason and this has not been fact which is prevalent from today. I would say this has been through for the last 18 to 20 months ever since the downward journey on interest rates started.

Nischint Chawathe: So basically what you are trying to say that this is more an interest rate phenomenon and not necessarily anything to do with this further you would have shifted segment?

Management Speaker: Marginally as I said there is 100-basis point gap, there is 125-basis point gap between booking and stock. So we are clearly shifting segment. We want to be more and more prime. So there would be minor readjustment and those 25-basis points well within the budget and when we guide you will be also that the range would be 300 to 325 basis points. So up to a flexibility of 25 basis points we would like to retain to ensure that the credit quality of the book only keeps on improving.

Nischint Chawathe: Thank you very much and all the best.

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

Saurabh Kumar: My question is essentially on your credit rating. So we are AA plus as from CRISIL and ICRA. So I just wanted to know is there any discussion around because your AAA with the other two I mean can this rating regulate to AAA between the other two and what impact will it have on your incremental cost of borrowings?

Gagan Banga: We are definitely focused on this aspect of our business. We are trying to strengthen the balance sheet, the quality of the balance sheet and with every passing quarter we also have the benefit of a longer operating history and as I shared in my initial remarks that we continue to remain optimistic about this exercise reaching some finality over the course of the next few months and as and when that is to happen that will incrementally bring down the bond yields by another 50 to 60-basis points. On an incremental basis it can potentially bring down the new cost of financing therefore by almost 50 to 60 basis points. If we are to take a slightly more optimistic view and say that 80% of borrowings will be coming through bonds and 20% will still on an incremental basis come from banks. Then it could potentially impact our margin positively by about 40 basis points, which is like a 14% to 15% margin expansion. So we are it is a very large number. It is a delta that will obviously have to achieve and we stay fully focused on this and whatever steps that we can do to improve the quality of our

P&L of the balance sheet of the overall company we are trying to achieve that in the shorter piece of possible time.

Saurabh Kumar: Just a final question. If the spread reduction actually were to happen that is cost of fund reduction were to happen would you rather maintain your spreads and pass it on in the market may be increase your growth or would you rather capture it in your margins?

Gagan Banga: As I shared that our longer term agenda my longer term I mean the next two to three years agenda is to at one level on the liability side be able to get to first 60:40 mix and then drive it down further between liabilities and liabilities coming from bonds versus bank term loan and then drive it down further and also we wish to make sure that as we achieve scale we are able to bring down our cost-to-income ratios by 100 basis points very steadily every year and over a period of time able to bring down our credit costs to about 40 basis points. The savings that we get through these three routes we would like to use to invest in increasing the share of home loans on our asset side of the balance sheet and increase home loans to about 60% over the next two to three years. So in terms of passing on the benefit per asset class to customers over the course of the last two to three years we are any ways priced at par with whoever else is the industry leader in the various segments that we operate in. So we do not have to pass on any more benefit to retain the position as far as the particular asset class is concerned. The only migration that we need to as in terms of passing this on is to do more home loans which is the relatively lower margin product but it also has a lower cost-to-income ratio and lower credit cost and overall brings in lot of stability to the quality of the balance sheet. So that is I would say medium term plan of the company and part of the input of the 60:40 and the computation around that is based on the fact that definitely in this two to three years period and much, much earlier than two to three years. We are reasonably confident that we will get this and through most of this two to three year period we will be operating as a AAA rated company from all rating agencies. So we are reasonably confident of that.

Saurabh Kumar: That is very clear. Thank you.

Moderator: Thank you. Our next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Sunil: This is Sunil from Credit Suisse. Most of my questions have been answered. Just a couple of data points, can you give the break down for the NII and the other income please?

Management Speaker: NII is 884 Crores and other income is 116 Crores, which is the total income of 1007 Crores.

Sunil: Yes so I was looking for investments income and income from loans etc., so just wanted that breakdown?



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- Management Speaker:** I will just come back to you in a minute or so on. We will possibly move onto the next question if you do not have and I will come back and answer this.
- Sunil:** Thank you.
- Management Speaker:** To answer that question, our income from financing was Rs. 1,838 Crores, our fee income was 124 Crores and from cash was 291 Crores. Does that answer your question?
- Moderator:** He is off the queue. We have no further questions in queue.
- Gagan Banga:** If there are no further questions, I would like to end this call. Again thanks to all participants. Just in case there are any unanswered questions or any further queries, please do send us an e-mail or call us we are available. Thanks once again and wish you all a Happy Diwali in advance.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of UBS Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.