



“Indiabulls Housing Finance Limited Q1 FY '21  
Earnings Conference Call”

**August 21, 2020**



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**MANAGEMENT: MR. GAGAN BANGA – VICE CHAIRMAN, MANAGING  
DIRECTOR AND CHIEF EXECUTIVE OFFICER,  
INDIABULLS HOUSING FINANCE LIMITED**

**Moderator:** Ladies and gentlemen, good day. And welcome to Indiabulls Housing Finance Limited Q1 FY '21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gagan Banga from Indiabulls Housing Finance Limited. Thank you and over to you, sir.

**Gagan Banga:** Thank you. A very good day to all of you. And welcome to the quarter one fiscal 2021 earnings call. Today's call will be brief, as we spoke hardly a month ago. Hence, there are admitted updates to touch upon. Also, kindly bear in mind that most of us are hosting this call from home, and therefore we request that please restrict your questions to high level questions only. Granular numbers beyond the ones detailed in the earnings update or on this call, if required, can be taken directly from the Investor Relations team by emailing them.

Before we go through the financial numbers for the quarter, I will briefly touch upon the non-financial updates. Last week, the Board of the company appointed Mr. Mundra – Ex-Deputy Governor of the Reserve Bank of India and former Chairman and Managing Director of Bank of Baroda as the non-Executive Chairman of the company effective August 12, 2020. Subsequently, the Founder relinquished his Executive Chairman position as he has taken up the position of Chief Executive Officer of another listed company promoted by him, Indiabulls Ventures Limited. As per regulations for listed companies, an individual cannot hold executive position in two listed companies. Mr. Gehlaut will continue to serve on the Board of Indiabulls Housing as a non-Executive Director.

Mr. Gehlaut served as Executive Chairman steering the company for over 20 years since its inception in January 2000. Under his able leadership, the company since its IPO in September 2004 till date, a period of a little over 15 years, has delivered returns at an annual growth rate of 23% to its shareholders. The company is grateful to him for his invaluable contribution in making Indiabulls Housing one of the leading financial services companies in the country.

In another update, at the larger Indiabulls Group, Indiabulls Real Estate in its Board Meeting held on August 18, 2020, announced having entered into a definitive merger documentation process for merger with the Embassy Group, along with certain private equity investors such as Blackstone. On completion of the merger, Mr. Sameer Gehlaut, along with his promoter group entities shall be reclassified as non-promoter public shareholder in the company, and will be owning approximately 9.8% of Indiabulls Real Estate. The combined entity will be renamed as Embassy Development Limited. Indiabulls Real Estate's proposed merger is the final step in Indiabulls Group exiting the real estate development business. Indiabulls had earlier partnered with Blackstone for commercial assets, and now Blackstone will be owning

around 11% of this merged entity. Indiabulls intends to fully focus on the financial services businesses.

For Indiabulls Housing, we have charted out our business and growth strategy for the next four years. I will take you through the strategy in detail in the latter part of my speech. As a small but important step on this path, we had convened our AGM on 29th of July and received shareholder approval for raising equity capital of up to \$300 million. The company has already demonstrated its access to debt markets by raising \$1.3 billion in quarter one fiscal 2021. Successful equity capital raise in the midst of the NBFC sector issues in India will demonstrate IBH's access to equity markets and diversity in source of funding. This will support an upward revision in the company's rating trajectory, further easing access to liquidity at a lower cost of funds. This was demonstrated through our last two QIPs in 2009 and 2015 as well, where we had a steep path of upward revision of credit ratings.

I request you all to now refer to the earnings update sent across to you.

Getting straight into the numbers for the quarter. If you refer to Slide 3:

- Our loan book, which is loans on our balance sheet, at the end of the quarter stood at Rs. 73,129 crores.
- Net interest income was of Rs. 731 crores.
- Profit after tax was Rs. 273 crores.

We believe that the tough time for the sector as well as the company has passed. The loan book and the AUM will begin to grow from hereon as per the company's business plan, that blends co-origination with banks for retail loans and with funds for developer loans as two important pillars going forward. We have continued to stay extremely conservative, have created large provisions this quarter as well of roughly Rs. 300 crores, and now we are extremely well poised to recommence growth, as I had shared with you last time. H2 onwards, we are expecting to be fully back in growth mode.

Please now refer to Slide 4. We have presented here our funding plan for fiscal 2021, wherein we intend to raise liquidity of Rs. 28,000 crores in all. Of which, after accounting for scheduled and planned borrowings, pre-payments, we will have as much as Rs. 12,000 crores available as growth capital. We approach growth in H2 fiscal 2021 with both optimism and caution. And at this stage wish to ensure that we have the ammunition to grow.

We will continue to take a very cautious view on both the macro as well as micro level related to specific industries, companies, projects under development, owners of the companies of the projects under development, the underlying borrower, job loss rates and closure of businesses. As far as small business owners are concerned, after ticking the relevant boxes and ensuring

that we are very, very sure of the project in which we are financing a home loan, or the project itself, will we move forward. If we are doing a loan against property, we will make sure that the loan is being given under an industry which is still continuing to do well, a company which is stable, owners which are not caught up with any issue, and only then would we go ahead with the loan against property loan.

40% of the targeted borrowings for fiscal 2021 have already been done, and another 20% has been tied up. So while we approach the entire opportunity with cautious optimism, what we are focused on is that we should have the ammunition to grow since we believe that the opportunity going forward through the latter half of fiscal 2021 into fiscal 2022, 2023 and 2024 is an extremely large opportunity. We intend to fully focus on accumulating the ammunition, which is liquidity. The growth capital required for the rest of this year is only Rs. 12,000 crores, and we are extremely well placed in being able to collect that growth capital.

The plan that we have put forth in the earnings deck is very conservative. For example, on the developer loan refinance, we have kept a buffer of between 30% to 40% of the firm pipeline of portfolio sell down to various counterparties, where they have already completed their due diligence and currently the paperwork is going on, even there we have kept a 30% to 40% buffer.

Conservatively, 60% of the borrowing plan for fiscal 2021 has already been achieved. Through the growth capital we raise, the company plans to grow its on balance sheet loan book by 7% to 8% in the current fiscal. As is the characteristic of our proposed business model, the AUM will grow faster than the balance sheet as we retain only about one-third of the loans we source on our balance sheet, but continue to earn on the entire AUM. AUM growth for the current fiscal would be marginally higher at around 12%.

As a very important step in shifting to our proposed business model, we have recently executed an agreement for co-origination with a mid-sized private sector bank for our LAP and MSME loans, in line with the commercial terms mentioned in our co-origination model. Active sourcing of loans under this agreement shall begin from 1st September 2020. For home loans, we had already signed a co-origination agreement and started sourcing. This is the second agreement. By September 2020, we would have entered into arrangements with at least five banks, two for home loans and three for loans against property for co-origination.

Access to debt markets has been normalizing, aided by various schemes announced by the RBI and the government to restore liquidity to the sector. The RBI in their MPC meeting in the first week of August further allocated Additional Special Liquidity Facility of Rs. 5,000 crores to the National Housing Bank. On Monday this week, the government also relaxed the norms of Partial Credit Guarantee Scheme for purchase of bonds and CPs by public sector banks by increasing the cap on purchase of AA and AA- rated papers from the earlier 25% to 50%. This

will incrementally make Rs. 11,250 crores of liquidity available to AA rated players. All of these schemes will definitely be very helpful in helping us raise our targeted monies.

We now await the final guidelines on securitization and sale of loan exposures, for which the draft guidelines were proposed and put forward for public comments on June 8th, 2020. Implementation of the proposed guidelines will result in an increase in the supply of assets eligible for securitization and also help generate greater liquidity for the originator from the same quantum of asset pool through sale of loan exposures. Securitization and loan sell down have always been a core element of our business model, and will be a centerpiece of our proposed asset light business model, contributing to an increasingly larger proportion of our funding mix.

Now I request you to please turn to Slide 5.

- Our net debt to equity remains low at 3.9x.
- At 27.9%, our total capital adequacy is extremely comfortable.
- Our book spread is at 2.6%, with yields at 11.3% and cost of funds having declined from the previous quarter are now at 8.7%.
- Our cost to income ratio, which is a very, very big achievement for quarter one stood at 14%, down from 16.2%, supported by steps taken to increase cost efficiencies, which I had described in my quarter four fiscal 2020 earnings call. We expect cost-to-income ratio to further declines to 12% levels by the end of this year.
- Our NPA levels are moderate, with the Gross NPAs at 2.2%.

If you now refer to Slide 6, we have shown our ALM as at end of June 2020. The ALM is shown on a cumulative basis up to each bucket. As on June 30th, 2020, we had on balance sheet liquidity of about Rs. 11,925 crores in the form of cash and investments, which is roughly 16% of our loan book. As you may notice, we are positive across all buckets and we will have a net positive cash of Rs. 12,832 crores at the end of the first year. This ALM takes into account the EMIs impacted for the period of March to August 2020 due to moratorium extended to our customers. So those monies that we have not received, we have taken those out.

The RBI announced moratorium will be over by the end of this month. As at the end of July, about 16% of IBH customers had availed of moratorium. This is down from the peak of 35%, supported by our efforts to educate customers on the economics of moratorium. Collections have picked up strongly month on month and we are back to our pre-COVID collection efficiency numbers for non-moratorium loans. Our detailed 10 year quarterly ALM is in the appendix slides of the earnings update on Slide 17.

Now please refer to Slide #7. Our gross NPAs are at 2.2%. Had the company not chosen to degrow its book in the past one year, and thus decrease the denominator, the gross NPAs would have been at 1.8%. The NPA numbers given the contraction over the last two years are practically static numbers, and thus have gone through a severe stress test like no other. One should also appreciate the fact that in mortgage loans the underlying value of land is always there as security. For IBH, most of our underlying loans, both retail and developer, have built up homes or land, etc., as collateral. Moreover, as a housing finance company, we have access to SARFAESI, which is a fairly potent recovery tool. Our NPA numbers have held up even during these difficult times, and our strong demonstrated recovery capabilities will ensure that the asset quality will be maintained.

On Slide 8 and 9, we have updated our proposed asset-light business model, incorporating the prevalent market interest rates. This model is the core of our business plan for the next leg of our growth. And we have already taken huge strides towards achieving our model portfolio. We have been running down our developer loan book for the last five to six quarters and as I mentioned in Q4FY20 earnings call, on a gross basis we have already refinanced or sold down around Rs. 18,000 crores of our developer book. Like our transaction in quarter one, we are in the process of executing three more such transactions this year, and have visibility of generating close to \$1 billion of liquidity, though in the funding plan we have conservatively counted only Rs. 5,000 crores. While we will definitely have to incrementally disburse developer loans for ongoing projects to achieve completion, on a net basis we expect to reduce our developer loan book to almost half by the end of the fiscal year.

As we reduce our developer book at our own balance sheet level, we would be primarily a retail focused player, sourcing loans through co-origination and onward-lending lines to finally selling it down to banks and financial institutions. Under this model, only about a third of what we originate will stay on our books. So while the AUM will grow at a higher rate, the on balance sheet loan book and hence the balance sheet growth will be slow.

As our co-origination tie-ups get established, our disbursals will start gaining traction. In the current fiscal year, which is fiscal 2021, we aim to disburse around Rs. 15,500 crores of loans, which we shall increase to nearly Rs. 35,000 crores next year, and over Rs. 60,000 crores by fiscal 2024. These disbursement targets are reasonable considering that the company disbursed over Rs. 48,000 crores of loans in fiscal 2018, and we have maintained the core capacity to be able to originate these loans. While we increase the pace of our disbursals, we will continue to follow strict underwriting principles to maintain the asset quality of highest degree. As our disbursals pick up pace, our AUM too will grow steadily. We expect to cross the 1 trillion mark by the end of fiscal 2021 and reach close to Rs. 1.25 trillion by 2022 and around Rs. 2 trillion by fiscal 2024.

The balance sheet, however, will grow at a much, much slower pace as we sell down a large portion of these loans. Our profits too shall re-track its growth trajectory from fiscal 2022 onwards, clocking over Rs. 2,200 crores next year and Rs. 4,200 crores by fiscal 2024. Profit growth will be much higher than loan book growth as we would be earning significant income from fee.

As we start clocking higher profits, our dividend distribution, which is a core part of our business model, but is on a temporary pause currently, will also start increasing. We will resume our dividend distribution policy of distributing 50% of profits, and by fiscal 2022 on achievement of targeted profits, we aim to distribute a dividend of Rs. 31 per share.

To put all these numbers in perspective of our growth from fiscal 2020 to 2024:

- Our AUM will grow at a CAGR of 23% over the next four years, and in fiscal 2021 will grow by 12%
- Our balance sheet and loan book will compound relatively much slower at 3% and 4% respectively during this 4 year period and will grow by 4% and 8% respectively for FY21
- As we retain only one-third of the sourced loans on our book, it will be a low leverage model requiring borrowings to compound at only 3%
- Our earnings will compound at 17% growing to about Rs. 4,200 crores in fiscal 2024
- Our ROEs will also start its upside trend to be at 20% by fiscal 2024.

Our AGM, which is on the 7th of September, is going to be the first AGM being chaired by the new non-Executive Chairman. I request all of you to please try and attend the AGM to hear Mr. Mundra's views as he takes the chair. And he would love to meet all the stakeholders.

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

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhiram Iyer from Deutsche CIB Centre Private Limited. Please go ahead.

**Abhiram Iyer:** Sir, first I had a couple of housekeeping questions. So, could you let me know how much is the cash and bank balances amount on the balance sheet that the company holds? And the second question would actually be tied to that, could you give us an idea of your debt reduction plans going forward?

**Gagan Banga:** So we have roughly Rs. 11,900 crores of cash and liquid investments and there are no further debt reduction plans. Our sense is that the reduction in the balance sheet that we had to achieve bottoms out in quarter two fiscal 2021, which is the ongoing quarter, so ( $\pm 5\%$ ) of where we ended quarter one, which is at a loan book of about Rs. 73,000 crores, we will stay there. So

accordingly borrowings also stay at about the same levels, ( $\pm 5\%$ ). And from next quarter onwards, the balance sheet starts growing by the end of the year, from where we started we should have grown the balance sheet by about 8%.

**Moderator:** Thank you. The next question is from the line of Craig Elliott from NWI Management. Please go ahead.

**Craig Elliott:** Congratulations on the solid results in, what I am sure we are all hopeful is, one of the toughest times that we will see or have seen. Two quick questions. With the moratorium ending on 31 August, and this positive development in your own base with the moratorium rate coming down at 16%, what is your best guess looking into that 16% of the loan quality that you will start to see in September, October, November, please?

**Gagan Banga:** Thank you for joining in, and for this question. It's extremely difficult to say. All I can say is that I myself am positively surprised that up from 35% the borrowers have voluntarily given up moratorium. We are engaged with each and every borrower who comprise the 16% lot. Fortunately, we have two tools with us as per the National Housing Bank guidelines, for developer loans we are allowed a one-time reschedulemeant. The company has not in the past, up until fiscal 2020, we have not resorted to reschedulemeant, but that's a one-time reschedulement which is allowed, which does not even attract higher provisioning. But it shall be only prudent to do some sort of provisioning should we resort to that.

The second tool is what RBI in the Monetary Policy earlier in August has proposed, which is a restructuring. So, between these two tools and the customers being able to repay themselves, and all the provisioning that has been created, I think we are in a pretty good place as far as being able to manage our asset quality is concerned. I am further comforted by the fact, as I shared, that if I look back at the denominator of two years ago and look at the current NPA, then our NPA levels would be all of 1.8%. And the last two years has been tough, not only for NBFCs but also for small and medium businesses, for the real estate sector, etc. And at the end of it, we are at these numbers. So all in all, I am comfortable. But to be able to guide on that would be a little premature. Perhaps by end of September or early October, probably around the time that we give our second quarter results, it would be more prudent for me to give you a more specific answer.

**Craig Elliott:** Thank you. And just a quick question on asset liability. The US dollar bond due in 2022, is this something that you have hedged back into rupees or are you planning to do so?

**Gagan Banga:** Yes. All of our rupees, all of our dollar bonds and our external commercial borrowings are all fully hedged. That is not an option, it is also what the regulator requires of at least NBFCs, I do not know about other companies. But at least for NBFCs, it's a mandatory requirement and we have followed that. Every dollar is fully hedged and perfectly hedged. We have no open positions, we will not run any open positions ever on the currency.



- Moderator:** Thank you. The next question is from the line of Jyoti Sawal from Nippon India Mutual Fund. Please go ahead.
- Jyoti Sawal:** Sir, I had two questions. One is, we were trying to match the liquidity numbers of March 2020, which was given in the PPT and the annual report. So, as per the PPT it was given that the liquidity number is around Rs. 13,410 crores. And if I add this cash and cash equivalents, and net investment, G-Sec and debt security number, it comes around Rs. 22,900 crores. So, can you just tell us that why does the gap exist?
- Gagan Banga:** Ma'am, I wouldn't be able to react on that off hand. As I shared for all these finer details, you can please talk to our Investor Relations team and they will be able to answer. The good thing is that, against what we reported as Rs. 13,000 crores, the balance sheet reports it as Rs. 22,000 crores. At high level, I can answer that we consider more liquid investments and some of these investments would be classified under the head investments, but may not be liquid and therefore would not be classified as liquid investments. So that's the high level answer. But the more specific reaction to the positive gap of around Rs. 8,500 crores, my colleagues will be able to help you with the specific answers. Thank you.
- Jyoti Sawal:** Okay. And the second question was that in the annual report we saw under the loans heading, there was an unsecured loan book of Rs. 4,000 crores, which was around Rs. 339 crores in March 2019. So, what is that unsecured loan, like, can you give some colour on that?
- Gagan Banga:** Right. So, there would be some reclassification of some loans where the security may not have been created. We went through a major scrub exercise where wherever the security was not perfectly created, we would have put it under the category of unsecured loans. Also, during the course of last year, as we were preparing for the merger, which we had proposed with Lakshmi Vilas Bank, as per the advice which was given to us to diversify out of just the housing finance business, we had started acquiring pools of personal loans. Those pools have continued to do extremely well and have run down through the course of the year etc. So, there would be, I think, a couple of thousand crores which would be there.
- Jyoti Sawal:** Okay. So these Rs. 1,000 crores are directly acquired personal loan or is that originated by Indiabulls?
- Gagan Banga:** These would not be originated, these would be acquired after seasoning. But that is a smaller number. The larger number, as I have been informed by my colleagues is essentially loans that we have reclassified where the work on security creation is going on.
- Jyoti Sawal:** Okay. So those will be reclassified you mean to say, again?

**Gagan Banga:** Yes, during the course of the year or perhaps already the security would have been created. We can update you again maybe during the next call as to how much of security creation has already happened.

**Moderator:** Thank you. The next question is from the line of Abhiram Iyer Deutsche CIB Center Private Limited. Please go ahead.

**Abhiram Iyer:** Sir, one thing I noticed was, the yield has actually come down drastically from the same time last year. So, could you just throw some colour on that and why that has been the case? It's close to 70 basis points, 75 basis points it has come down. Are you originating much more safer loans, is the risk profile going down?

**Gagan Banga:** Yes. It's that classic of desire which I have where I want to have a derisked balance sheet but I want higher rates, but that practically is not possible. As I have been speaking about in the last four or five calls now that we continue to decrease our developer book, and as that happens, and we continue to securitize our LAP loans as well, the yield is bound to go down. And the granularity of the book is slowly increasing, the wholesale nature of the book is slowly decreasing. But that won't have an impact on the yields and on the spreads in the interim. What we have to try and do is create a very sustainable sort of a model. At a AA sort of a credit rating we can't expect that we originate low yield loans and still be able to generate a return on equity which is attractive for stakeholders. Which is why we have, among several reasons, asset liquidity management, capital management. This is another reason why we have opted for the business model that we have opted, which is an asset-light business model. So, we cater to prime loans, but then we don't hold them on our balance sheet. We essentially do those originations through co-origination and onward lines and then sell them down. So, the short answer to your question is, yes, as we derisk and do away with these developer loans, the yields are bound to come down. But on a risk adjusted basis, we will still continue to have a return on asset which will be north of 2%. And a return on equity which we hope to get to 20% by fiscal 2024.

**Abhiram Iyer:** Got it. Thanks a lot. Just follow-on question, sir. Last time we spoke, I believe the developer loan book was around 20%. What has it come down to now? As it drastically changed in terms of the asset composition of your loan book?

**Gagan Banga:** It would not have changed very significantly, apart from the transaction first quarter was largely impacted by lockdown. So whatever further reduction will happen, will happen through the Rs. 5,000 crores to Rs. 7,500 crores sort of a reduction that we are looking at doing between now and December around the developer loans.

**Moderator:** Thank you.



*Indiabulls Housing Finance Limited  
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**Gagan Banga:**

I think there are no further questions, so we can end the call. Thank you so much. Thanks everyone. And as I said, we do look forward to seeing you on the 7th at the AGM, the invites have been sent out. Thank you and see you in October.

**Moderator:**

Thank you. On behalf of Indiabulls Housing Finance Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.