“Indiabulls Housing Finance Limited Q4 FY16 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Limited Q4 FY16 Earnings Conference Call hosted by UBS Securities. As a remainder, all participants' line 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 "*" and 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: Good Evening, Everyone and Thank You for joining us today. I would like to welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga – Vice Chairman and Managing Director; Mr. Ashwini Hooda – 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 the Results. Over to you, sir

Gagan Banga: A very Good Day to all of you and I Welcome You to the Fiscal 2015-2016 Earning Call. I am very pleased to announce that we are only the second private Non-Bank Housing Finance Company in the finance sector in India to cross Rs.20 billion in annual profits in the financial history of India so it is indeed a very-very proud moment for the Management Team of Indiabulls. I will first discuss the emerging macroeconomic landscape for the housing industry and brief you all on a few qualitative developments and initiatives which are specific to Indiabulls Housing.

What you will notice at the end of this macroeconomic commentary is that for all players involved in housing finance there could not have been a better setting as we get into fiscal 2017. And now including us if anybody comes back to stakeholders with reasons for not being able to grow as per what they have guided it will be more out of they being excuses than anything that the macroeconomic environment could have offered. So I have not seen better times as far as housing industry is concerned.

I will just run you through some key developments. In the 2016 Budget, 100% of profits from construction of Affordable Housing was exempted from tax. This one step has the potential to completely change the residential real estate market dynamics. Historically the Affordable Housing sub-segment operated at a margin of about 20% whereas the Premium Housing segment which saw most of the structured developers had a substantially higher profit margin of nearly between 25% and 30%. Complete waiver of income tax implies that profit margins from Affordable Housing will now shot up to approximately 30% equaling or even over taking the profit margins in Premium segments. This will obviously result is in the focus of organized developers and efficient finance being directed towards Affordable Housing. All of which should lead to an increase in supply and continued moderation of prices, buyers would also be further reassured of timely completion as the builder will have to deliver in three years of time to avail of tax exemption and the builder would generally have the financial and execution with all to also be able to deliver on these projects. So you would see a bunch of large developers coming in to the Affordable Housing market.

The real estate bill is also another very-very big positive. I firmly believe that the regulatory change has always promoted transparency, discipline and regulatory change always brings in scale to industry. Real estate bill will bring about welcome structural changes to the sector and will also help attract very efficient finance so; it should be relatively happy hunting ground for players such as us.

Guidelines around ring-fencing of collection from buyers and regulatory focus on driving timely completion and delivery will assure buyers. This will require developers to have more structured requirements around finance and will generally require all the large guys to also focus hard on efficiently financing their working capital.

The Budget has also increased the tax reduction limits for the first time buyer purchasing flat in the Affordable Housing market. The increase in tax deductions to Rs.4 lakhs now translates to reducing the effective yield to 4% for a 9.4% Housing Loan. I have several times in the past highlighted the importance of this narrowing gap between effective mortgage yields and the average rental yields as they exist. Average rental yields as per data provided NHB and other sub-sources is at about 3.1% for urban India. Thus, today with this revised additional tax advantage for only Rs. 1,800 more in interest expense in lieu of rent, a family can buy a house of their own instead of renting one.

Within the next two years average generally expected lending rate should further fall and my sense is that the Housing Loan yields will actually slip below rental yields. The last time this happened was in 2003 to 2005 and we are all aware of the bull market that that set-up for real estate in India especially on the sales side. So I expect a replication of that to happen in the course of the next 12 months to 24 months.

In other extremely positive development especially for Indiabulls Housing, is the removal of distribution tax on pass through securitization cash flows. We are one of the largest sellers of mortgage pools in the market. Clarification on tax on PTC structures will attract large monies from long-term investment seekers like insurance companies, provident funds as well as banks and the softening yields will result in our margins remaining steady to expanding and most imply we getting a access to a much larger source of monies which is perfectly asset and liability matched.

The Governor in the last Monitory Policy has also reiterated his focus on addressing structural liquidity especially at the long end of the yield curve. This is a very-very important development for us structurally because we have shied away from borrowing short and lending long. This should result in the flattening of the yield curve and in parallel what the government has also been doing is that it has been urging insurance companies, provident funds and pension funds to invest 15% of their corpus towards Affordable Housing and infrastructure development.

All of this put together should ensure that long-term rates should remain reasonably benign in a environment in which rates are anyways falling and that should enable a player like Indiabulls to not only pass on the benefits to existing borrowers but to also go with a very attractive proposition to new borrowers.

The key developments of the housing sector build-on pre-existing drivers such as favorable demographics of a young population, large unmet housing demand, rising urbanization and improving affordability with wage inflation steady at between 10% and 11% in India and now with falling inflation and wage inflation staying steady, I think the affordability will only go up in the next couple of years. All these factors and the governments particular focus on Housing for all should accelerate the demand for loans and should sustain the housing sector for the next decade or so.

The other point which is extremely relevant as a large HFC is that our market share is still growing and on incremental basis our market share stands at around 6% to 7% of the overall mortgage market including banks and housing finance companies. So while we are one of the most dominant housing finance companies given the modest market share that we still have and the overall nature of market in which there are several players occupying unique positions, our ability of being able to grow slightly ahead of the market remains quite strong and therefore, we are in a position to reiterate our guidance which we had given at the start of last year of being able to grow across financial parameters of between 20% and 25%. We believe that we will be in fiscal 2017 also be able to grow across parameters between 20% and 25%.

Sell down transactions which are representative of the most efficient utilization of capital for every Rs.100 of loans that we sell down the retention on the book is about 10% with a very high Tier-I. I think we are in a position where we can push sell down of our loans very-very aggressively and actually elongate the process for our next capital raise. Our estimation has been that for the next six years to seven years, we do not need to raise capital and the management team today sees to elongate that period from six years to seven years to about a decade while leading to a natural uptick in return on equity.

Besides efficient utilization of capital, the other important line to enhance earnings is fee income. We have spoken in the past about insurance cross selling being an important element of our fee income. To increase that fee income line we have also very recently tied-up with HDFC Life. We were already partnering with them for a couple of products and with this type of a relationship we hope to open up new fee income avenues and more cross sell of insurance to our customers also helps us minimize risk across whole host of risk like death, accident and even job loss. Now that sets the macroeconomic environment for us.

Moving on to more specific numbers for the quarter and the financial year. Our PAT for 2015-2016 has gone up to Rs.23.45 billion from Rs.19 billion for fiscal 2014-2015. This is an year-on-year growth of 23.3% and is exactly in the middle of the guided range.

In early March we had declared an additional fifth interim dividend of Rs.9 per share to help our shareholders realize their dividend income in a tax efficient manner so, we have not declared a dividend this quarter.

We continue to remain on our guided target on profits with PAT for quarter four fiscal 2016 at Rs.6.76 billion which is growth of 22.6% over quarter four FY15 in which we had made Rs.5.51 billion. Our loan book stands at Rs.686.83 billion as compared to Rs.522 billion which is a growth of around 31%. Our asset mix has also tended in favor of Home Loans with Home Loans now becoming almost 52% of the book.

Over the last two quarters our housing loan book as per our guided strategy has increased from 50% to 52% and we are poised to make the most of growth opportunities which I have articulated just a few minutes back and I am hopeful that through the course of fiscal 2018 we should be able to get our Home Loans to about 60% of our loan assets without disturbing our margins.

Revenues have grown to Rs.92.26 billion, as compared to Rs.72.53 billion in fiscal 2015 which is a 27% growth. For the quarter, our revenue stood at Rs.26.47 billion which is a growth of 25% over quarter four of FY15. NII most importantly has grown to Rs.37.94 billion which is a growth of 27.8% over FY15 where NII had been reported at 29.67 billion. I would like to reiterate that NII for us does not include fee and other charges. The NII for quarter four is at Rs.11.16 billion, which is a growth of sequentially a growth of 15% over quarter three NII which was at Rs.9.7 billion. NII has sequentially grown faster than the 10.3% growth in loan assets. This is largely on the back of our margins having inched up from 316 basis points to 318 basis points and not only do margins remain at the higher end of the guided range of 300 basis points to 325 basis points, it is also a demonstration of the company's ability of being able to manage the migration of Home Loan from 50% to 60% without making a dent on the spreads.

The total income for FY16 splits as income from operations at Rs.78.42 billion and other operating income at Rs.4.48 billion and other income of Rs.9.36 billion. We have already shared in the past that other income generally is a function of all the cash management that we have to do for the liquidity that we maintain on the balance sheet.

The income line split for quarter four FY16 is income from operations of Rs.22.33 billion other operating incomes of Rs.1.68 billion and other income of Rs.2.46 billion. The fee income for the full year has shown a very robust increase of 35% to Rs.5.23 billion and fee income for the quarter has shown an exceptional increase of 47% to Rs.1.9 billion from Rs.1.29 billion same time last year.

The disbursals for fiscal 2016 stood at Rs.263.58 billion as compared to Rs.203.04 billion for fiscal 2015 a growth of 29.8%. Home Loans is the bulk of this at Rs.135 billion, LAP is Rs.64 billion and corporate mortgage loans are Rs.64 billion, this does not include two loans which we underwrote and sold down within the same quarter. The disbursal number for quarter four fiscal 2016 is Rs.91.37 billion which splits as Rs.49.99 billion for Home Loan, Rs.21 billion for LAP and Rs.19.96 billion for corporate mortgage loans again not having two corporate mortgage loans which we originated and sold down within the quarter.

Our operating expenses of fiscal 2016 was Rs.5.98 billion compared with Rs.5.18 billion and is in line with what we have guiding that our operating expenses will grow much slower than our net interest income and our book. Our operating expenses have grown by only 15.5% as a result our cost to income ratio is down to 14.3%, a fall from 16.4% in fiscal 2015.

Despite being able to bring down our cost to income ratio to 14.3% we have been able to increase our man power by about 13% and also pay our people well so, our staff related expenses are up 27%. So we have been able to get greater efficiencies from our other expenses. We have continued to invest in both people and technology and we are currently staffing for fiscal 2019. We are fully capacitized for business that we need to underwrite till the end of fiscal 2018.

On NPAs, for over 18 quarters now we have remained in the range of 0.7% to 0.9% which is our guided range for gross NPAs and 0.3% to 0.5% for net NPAs. We have always invested in making buffers of all types and we have a very healthy cover over our gross NPAs and other provisions. We will continue to run with a conservative NPA write-off and related provisioning policies and we are fairly confident of being able to remain within the guided range of gross and net NPL that is a 70 to 90 for gross and 30 to 50 for net. Our gross NPA specifically stood at 84 basis points and net NPAs at 35 basis points. In computing net NPAs only provision against substandard assets is deducted from the gross NPA. Standard asset provision encounters cyclical provisions amounting to 4.92 billion are not deducted while computing net NPA. Including these provisions our total provisions are now inched up to a 144.1% of gross NPAs.

We continue to be prudent in our provisioning approach. Total excess provisions are at Rs.2.84 billion, up from Rs.2.2 billion. Our credit cost for the year is around 70 basis points at Rs.5.06 billion and is in line with my guidance that we will continue to run the next couple of years between 60 basis points and 70 basis points of credit cost.

At the end of fiscal 2016, the total substandard provision were at Rs.3.39 billion fiscal which general provisions were Rs.1.6 billion and specific provisions at Rs.1.8 billion. Floating provisions of Rs.0.69 billion and standard asset provisions of Rs.4.23 billion totaling to a total provision pool of Rs.8.31 billion.

In keeping with IBHFL philosophy of always maintaining strong liquidity position we had Rs.128.7 billion of liquid funds in the form of cash and cash equivalents and investments in Mutual Funds, an amount equivalent to 21.1% of our own balance sheet loan book.

Our net leverage after deducting from total borrowing the above cash and cash equivalents stood at 4.7 times. On the borrowing side bank borrowing now form sub 50% of our borrowing mix, capital market sources and sell downs have contributed to 66% of the incremental funding over the last 12 months.

Our spreads as I mentioned have inched up from quarter three to 318 basis points. Cost of fund is at 9.34% and on an incremental basis in the current quarter we have borrowing now at 8.82%. Borrowing flexibility has ensured that we have been able to maintain or spreads within the guided range despite managing the migration and without increasing the Zero Coupon Bonds stock.

Now moving on to balance sheet numbers, our net worth stands at Rs.106.94 billion partially impacted by two dividend payouts within the same quarter so, by the end of the June quarter it will normalize and grow in a more normal manner other than that there was no other one-off or anything else for an adjustment for net worth. Capital adequacy is at 23.33% as against 24.95% at the end of quarter three.

We continued with our engagement with both CRISIL and ICRA for the LAP sell down and ICRA has published its second report, CRISIL has published its fourth report and both of them have reported 99% of our loans to be amongst the top three categories of the grading scale.

Sell down continues to remain a key focus area and it has been an extremely important source of both profitability and liquidity. We have sold now loans amounting to Rs.39.71 billion for the full year. The securitized portfolio now stands at Rs.78.19 billion, as against Rs.61.95 billion at the end of fiscal 2015 and this was achieved despite the tax issues which only got clarified in the budget and will get applicable from the current fiscal. So last year we were operating the whole year with the tax issues yet, we have been able to sell down 40 billion of loans.

As briefly discussed earlier sell down of loans represents the most efficient use of capital and would remain a high area of focus for us. 70% of our Housing Loans and 40% of our loans against property qualify as priority sector for banks and banks remain very-very hungry for these assets. Now with the tax complications going, we also expect newer players to jump in like provident fund, the insurance companies, etc., so, on an incremental basis we estimate that close to about 25% to 30% of our incremental financing will come in the form of sell down. If we are able to achieve then our capital raising plans will get deferred for a long time and we aspire that the six years to seven years of capital raise which is the normal gap that the company should get enhanced by at least two years to three years. Sell down is also very-very ROE accretive and we hope to be back to around 29% between fiscal 2018 and fiscal 2019.

Fortunately for IBHFL despite having grown extremely well over the last five years to six years I think the favorable government and regulatory policy macroeconomic changes have come in at a very-very important time as the scale of our book and our operations have now gone into a new orbit with the balance sheet achieving new heights. We have always believed in being prepared ahead of the curve be it with respect to our financial capabilities, our operational capacity or our emphasis on technology. After our QIP in September 2014 in which we have raised Rs.40 billion IBHFL is very-very well capitalized for the next many-many years. We have also taken on board and trained manpower already for fiscal 2018 so we are in capacity for business that we need to underwrite in fiscal 2018 and are now preparing for fiscal 2019. We have made similar investments in technology. We are thus well prepared and perfectly poised to make the most of the growth opportunity in the housing sector for many years this will only build on our track record where over the last six years we have grown our loan assets by about 28% and our profits by 26% and it is with the confidence of performance of the last six years that I guide that we will grow through fiscal 2017 between 20% and 25% across financial parameters and while fiscal 2016 was a great and I am sure that with the support of all stakeholders in Indiabulls Housing Finance which is inclusive all of you who have logged in to this call we should be able to replicate the performance of the last six years.

And on this note, I would like to throw open the call to questions. So kindly go ahead.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: Just a couple of questions. One is on your NPLs I mean it is not a big number but in absolute sense it just increases a bit more than the last few quarters so anything to read in that? And secondly, on your fee income as you said Rs.1.9 billion versus Rs.1.3 billion last year again anything over there to understand? And finally, just if I can have the stock of your Zero Coupon Bond number outstanding? Thanks.

Gagan Banga: The gross NPLs have increased from Rs.515 crores to Rs.577 crores, some portion of it has come from commercial vehicles. We have also been a little prudent in providing for some of our large loans and we would like to create provision buffers especially for our large loan portfolio which is in line with the access provision. So technically speaking to be able to do that you have to at times create technical NPAs while they may not be on papers NPA so it is largely to be able to create provisions of approximately 70 basis points of our loan book that there will be a margin tick-up in the NPAs there is nothing else which is anyways startling even on the basis of these numbers. And as I have shared in the past we will continue with a provision policy of between 60 basis points and 70 basis points for that we will recognize ahead of time, some loans which we may feel that could go bad or could give us stress in course of time. As far as fee income is concerned, a very small portion of that came from two large loans which we had underwritten and disbursed with a back to back arrangement of selling it down to some banks. These neither form part of our sell down portfolio nor were they included in our disbursements. They would be always in quarter four such opportunities which would exist which would result in an additional fee income of around Rs.15 odd crores for us besides that all, a fee income is largely related to increase disbursement so in this quarter disbursements have also been much higher than quarter three and everything else is in line with disbursements. Obviously, our costs do not go up in line with our disbursements and therefore, it gives us some ammunition of which we have use to set aside and create these provision buffers which are up over previous quarter by approximately Rs.100 crores. So as we have been saying for the last two years to three years, anything that we will get additional we will use to create more buffers. On Zero Coupon, our Zero Coupon stock stands at about 1,214 crores, this same time last year was 2,067 crores.

Vikesh Gandhi: So just to get this right, you just mentioned that nothing comes on your books these kinds of one-off opportunities. So it is what just purely it is a fee generating opportunity and that is it nothing so it does not come to your books at all?

Gagan Banga: We will underwrite a large, let us say a large lease rent discounting with consortium of banks which would take it off our books so, we will underwrite it, we will disburse it and then we will get refinanced in a span of 30 days to 45 days.

Vikesh Gandhi: So nothing stays on your book?

Gagan Banga: Nothing stays on our book.

Vikesh Gandhi: Okay. And you just get a fee and that is it?

Gagan Banga: Fee and interest income for 30 days - 45 days - 60 days.

Moderator: Thank you. The next question is from the line of Marc Smith from Charlemagne Capital. Please go ahead.

Marc Smith: Thank you. I did not quite understand on your comment about the dividend so, this fourth quarter there is no Rs.9 dividends and in which case what is the payout ratio for the fiscal year just completed.

Gagan Banga: So we have already declared a dividend, if you may have noticed we paid-out dividend in March so in quarter four we declared dividends in first in January and which got paid out to shareholders towards end of January early February and then again in March we declared a Rs.9 dividend which was basically pertaining to the operating quarter four profit. So last year, technically we paid out 45 Indian Rupees of dividend, 36 Indian Rupees of which pertains to operation of fiscal 2016 and Rs.9 was an additional which was paid out in advance.

Marc Smith: Okay. So for the fiscal year effective it was a 36 rupee out of roughly Rs.60 of earnings?

Gagan Banga: Yes, that is correct. And it is as per our dividend payout policy which has been kept at Rs.9 per share per quarter till the time we achieve a 50% pay out which I expect to achieve by fiscal 2018.

Marc Smith: All right, that is in place, it did not matter when it is paid but sure principle of nine per quarter continues until that point in time.

Gagan Banga: Yes, absolutely so now you will. So the management will recommend to the board Rs.9 along with the June earnings which will be declared in the third week of July.

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

Adarsh P.: Question regarding disbursements in growth on the mortgage side just wanted to understand within that mortgage piece how is the salaried part moving vis-à-vis non salaried I think once cost of funds is competitive these salaried bucket should be probably growing at a higher rate so if you can just explain that?

Gagan Banga: We have actually a very-very good experience with self-employed Home Loans I think between self-employed Home Loans and loans against property is what is the unique advantage that Indiabulls has we have one of the most stable credit teams which have years and years of experience now of appraising self-employed customers. It is an unique ability of being able to expand the entire market and therefore not grow on the basis of market share gain but actually grow on the basis of overall market gain. So as our cost of funds get better and we become more comparative we would much rather grow the overall Home Loan book but keep the mix within that unchanged. And therefore, our target for Home Loans even though salaried home loans were below Rs.2.5 million is now at about 9.5% - 9.6%, we are still able to get about 10% only because we have a 70% salary, 30% self-employer mix and that mix we do not intend to change in over a period of time also. So the near term goal is to get Home Loans to increase to 60% from the current 52 but within that we will maintain a 70-30 mix between salaried and self-employed. I was delighted just before I came into this call, I was hearing the Governor Dr. Rajan say that self-employed segment is one of the largest employment generators in the country today and is one of the most stable streams of employment. So I think the entire system today is in a position to recognize the strength and stability of the self-employed, small businessmen and we are very-very happy to do business with them.

Adarsh P.: So this share in FY16 for salaried would have remained stable or?

Gagan Banga: Yes, it has remained stable at 70%.

Adarsh P.: Okay. The second question was on the PTC and increase in the share that you are talking about now when we speak to the other NBFCs they broadly indicate their volumes continued as business as usual because the investors were picking up with the tax whatever the tax implication was so clearing of that may not add new player so, if you can just try and explain why that would be different for us?

Gagan Banga: I do not know who these NBFCs are because clearly what rating agencies have indicated is that the market which was about 40,000 crores had dipped to 23,000 crores so that was when market should have possibly increased by now from 40,000 crores to 60,000 crores so instead of growing it fell. So it is as we speak operating at a third of its capacity and other then some specific banks which are happy to buy loans for priority sector at a cheap discount and therefore the only route available for them was PTC there were no market transactions happening. So I am not aware of a single Mutual Fund or a single insurance company having participated in the pass through certificate market for the last two and half years. Two and half years ago insurance companies were definitely active some Mutual Funds were also active, we have sold down some pools to both parties so we know that they are active and significant pools were single pool of a thousand crores is significant in size and those players have been completely absent. Even for us almost about 95% of what we have sold down last year, 90% of what we have sold down last year has been through the direct assignment route and I am very-very clear about this that the PTC market apart from select few transactions which were strictly happening for priority sector and that also within very specific segments which operate so may be loans which would qualify for Agri lending or for lending to weaker sections those type of loans which get sold really-really cheap those may be happening in the pass through certificate, the entire market have moved to the Direct Assignment model and the market will move back through pass through certificates and in this for me the lesser exciting part is the priority sector part, the more exciting part is to see new players coming in. So there is going to be a very wide spread diversification of players participating in the portfolio buyout market and you have to read both this securitization, tax removal and the urge of the government for provident funds and insurance companies to invest 15% of their corpus in paper of housing and infrastructure together. So today there are several insurance companies and Provident Funds which are anyways taking our paper and then they get constrained by what are normal investment caps of not being able to invest more than 25% of our net worth and our net worth is still very-very large compared to other players in the market, it is the second highest everybody else is operating at a fraction of our net worth. Now they do not get constrained by this, if the originator is able to attain a AAA rating its pool they can buy without the constraint of this net worth. So those guys will come in and the will be able to price these assets at a very small premium to AAA Corporate Bonds and this will be a big-big boost specifically to Indiabulls Housing from a cost of fund reduction perspective without disturbing our asset liability matching. About this I am very-very convinced.

Adarsh P.: Perfect. And so your cost there would be what, if 880 is the bond pricing you think if you do a transaction today what could be the cost?

Gagan Banga: So today a AAA would be playing something like 840 annualized which works to about 8.5 monthly, this would happen at about 850-860 annualized which will work at about 8.15 odd monthly. This against an 8.6 monthly that we are paying so we will land up saving on our bonds, we will land up savings about 50-55 basis points even over and about what we pay for our bonds and this can become a very meaningful source of financing hereon.

Moderator: Thank you. We have the next question from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Just wanted a number for disbursement for the full year in terms of product segments.

Gagan Banga: Yes, so for the full year we disbursed Rs.26,358 crores of which Home Loans were Rs.13,540 crores, LAP was Rs.6,436 crores and commercial credit was Rs.6,380 crores.

Sameer Bhise: Secondly, you spoke about incremental market share is it fair to assume that we are largely gaining in the sub-2.05 million segment and primarily in Tier-II and Tier-III geographies?

Gagan Banga: So we are gaining there, we are also gaining in the suburbs of Tier-I so be it Bombay or Delhi, Bombay especially the ticket size would not be 2.05 million it will be more like 4 million but that clearly is an area of interest for us and in NCR it will be more like 2.5 million to 3 million and that also is an area of interest for us. In Tier-II, Tier-III we will be able to get away with about 2 million and get an average of about 2.3 million - 2.4 million.

Sameer Bhise: Our turnaround times were slightly longer then the leading players in the industry when we started probably a couple of three years back on the Prime side. Is it that our turnaround times have improved materially?

Gagan Banga: I do not know where this turnaround time point is coming from. Our issue always used to be that we use to peg our home loans to the most prime pricing being adopted by players and therefore we always had a limited budget around which we could do prime mortgages and that was more constraint coming out of our liability strategy. As far as stats are concerned if we look at a 70 to 30 salaried our salaried guy will be able to get a loan out of us in a day or two I think we should be today faster than most other industry players and being able to give a hard approval not a soft approval. Self-employed would always take a bit longer than salaried but within the people who are looking at a self-employed guy, our ability of being able to take a decision on that would still be amongst the fastest. So we do not take pride in calling ourselves the fastest, I do not think that in a technical product like a mortgage where there is not only income appraisal but also property appraisal required there is any point of trying to be the fastest but Yes, we should be very-very comparable to the best. And I do not think that this has ever been an area an issue for us.

Sameer Bhise: Okay, fine. Just finally, a data point, the pure income from loans bit including the securitization income for the quarter is roughly 22.05 billion?

Gagan Banga: 21.53 billion.

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

Saurabh Kumar: I had two questions, one is on the LAP. So clearly there is a lot of pressure we are hearing about on yields in the LAP market. So your yields are actually low but is there a risk that if banks get aggressive in this space that yield could be under pressure?

Gagan Banga: Thanks and what makes you think that banks are already not aggressive? As per whatever concerns several analyst have articulated in the last 12 months - 24 months it seems that the whole world only wants to do LAP and nothing else but that said I strongly believe that despite all of the clarifications and the data points that we have been sharing LAP continues to be a pretty confused asset class as it may so what we are going to be doing is that over the course of the next two days we will be putting up a very interesting presentation on LAP to kind of further clear and that presentation is based on a very unique position that Indiabulls Housing has today where 60% of our loan against property book is in some way or the other directly validated by third party rating agencies and they put our stuff in public domain around those. So we have cited data in that presentation and we would also not only put it up but also circulate it to our investors and our stakeholders so you will get a copy of that in the next day or so. As far as your specific question on yields is concerned, so what is clearly seeing enhanced competition are two segments of the market so there is a segment of the market which is doing loans of up to about 2 million to 3 million which is generally occupied by a bunch of public sector banks and the likes of some housing finance companies also which are even doing half of that. Now there is a lot of very aggressive business happening there. There are players who are growing by almost 10 billion type of numbers per quarter and therefore, one can estimate that if thousand crores of growth is happening in a quarter how much of disbursement is happening and what is the level of competition in this Rs. 12 lakh to Rs. 20 lakh type of LAP which is largely giving a secured personal loan to fund some sort of consumption of financing their kids' education or getting their kids married or something that is a product that is of no interest to us. But there the yields have dropped to between 11.50% and 12%. And the other area of hefty competition is this entire 1 crore to 5 crores type of market even extending to 10 crores to 15 crores where there is a largely asset-based lending happening there again because of competition a lot of new age players who are largely being able to financing themselves by borrowing short and lending long those guys are again driving down rates to somewhere between 11% and 12%. This market where there is a lot of cash flow based lending where the players who are active are actually doing cash flows appraisal and are migrating customers from public sector banks that product still is being priced between 12% and 13% and we continue to price our product between 12% and 14% in that range depending on what is the collateral, what is the loan-to-value, what is the cash flow, how old is the business and other such inputs. So that market I would say is comparative. It was always comparative. It has not seen too many new players coming and operate at scale or players who are going completely berserk. There would be an odd players which is operating 2x - 2.5.5x of our scale more like 2x our scale there given the scale they have no option but to do templatebased lending, credit score based lending, so when you are operating at that scale at some level you are gaining from our cost income but you may be losing 0.5% or so on your yield so it all complements. And for players who are doing about 500 crores - 600 crores of business a month those type of players are all operating in this 12% to13% and we are pretty comfortable between this 12% to 13%. I would say the last 60 days - 90 days, I actually seen a little less of competition, our short-term yields hardened up in the market in the last quarter, I actually witnessed a lot of players, de-accelerating from this product especially the new players and overall LAP market started looking more sane. My sense is that in the next 6 months to 12 months you will actually see a lot more of sanity coming back in the larger LAP market.

Saurabh Kumar: Okay, that is very clear. The second one is just can you give an update on the Deccan Chronicle and Palais Royale? And one last question, if you can address additionally will be the CRISIL AAA like when do we expect the other two rating agencies to give you AAA?

Gagan Banga: Okay. So on Deccan we have not been able to make much headway in the courts this quarter and so the matter is still going to be led by the courts and we are in the court we have been able to dispose-off two assets. The next asset sale has to get confirm by the Board so, in the next hearing we should be able to get some movement hopefully but it will move at the pace at which the courts will allow. Those properties continue to be under our possession and we have three more properties to sell to be able to completely recover. We have five properties, so we are very-very well-covered. On Palais Royale there has been a court judgment, the optics as they appeared in the newspapers were reasonably scary but fortunately as and when the High Court gave the order which was only in the month of March, the order has turned out to be actually very-very positive for the developers. So the matter basically to put it all in one line has been referred back to the BMC for their approval and the court more or less told the BMC that you cannot basically go back on approvals that you have already given and they have sent it back to the BMC for consideration. So I think between the good case and the best case hopefully some outcome should come in the next five months. The High Court has also given time of five months from the date of receipt of the order which was 3rd of March of 2016 for the submission of revised plan and resolution of all issues related to parking, refuge area and other area so there is a time bound activity which has been given. In the meantime, BMC cannot do much because the precedence for such cases in the very-very recent past indicates that when such a matter gets referred to BMC they tend to impose some sort of penalty and have favorable resolution. The Raymonds building in Breach Candy which was facing the exact same issues with respect to refuge area and passages has received very recently all permissions from BMC. The court has also allowed these guys to go in for a part occupancy certificate. These guys will obviously have to wait for the High Court to decide. So we continue to remain proactive and conservative in our approach as far as this particular loan is concerned and continue to provide for it and we do not create interest charges, so we create adequate provision buffers for the interest also which is due. So we are providing for this particular loan, we continue to remain hopeful that in the next five months there should be complete resolution of this particular loan. But at the same time this loan today as our provision stand and our capability of being able to handle it stands, even in the worst case will not disturb our guidance of 20% to 25%. The third question was around AAA, unfortunately, it did not happen. I was very optimistic about it happening given the capital raise and the overall strong performance of the company through fiscal 2016. We have completed fiscal 2016 we have now a full set of financials and an annual report to go back to our rating agencies. The push back that I generally felt came less from our micro performance more from the fact the macro while we were going through the review in January and February was it was not exactly favorable all of us know that. There was more bad news coming out of the Indian financial system than ever before with banks reporting as high as 2000-2500 crores of losses and the overall system looking at the financial players with a lot of disbelieve, I think a lot of that dust would settled in the next month or so by which time I intent to re-engage with rating agencies and with this type of performance, capital base, technical and human capacity I am still very-very optimistic. So that is a specific update on AAA and we are not one for giving excuses so clearly it is something that we were optimistic of and it is something that has not happened and I am hopeful that it will happen. As far as the financial implication of that is concerned to a large extent I think at least for fiscal 2017 and fiscal 2018 we are sorted because of whatever has happened on the pass through certificates so it will have no financial implication whatsoever whatever additional bonds that were expected to do, we will still be able to achieve the pricing that we were hoping to achieve for our additional bonds more or less through the very-very positive impact that pass through certificates will bring in which is why one is in a position to reiterate the financial performance. That said AAA by CRISIL and ICRA would be a very important event and we are all fully focused on achieving that hopefully the macro will support us.

Moderator: Thank you. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Just couple of questions actually. On the Palais Royale if you could clarify the provisions that you have made it is part of the specific provisions or part of the floating?

Gagan Banga: It is a part of both actually, so it is a part of specific, it is a part of to create room for those we have written-off some other loans and a part of it is also in the countercyclical. So it is a part of all three.

Sunil Tirumalai: Would you be able to quantify what percentage of the exposure has been provided for?

Gagan Banga: Approximately 30%.

Sunil Tirumalai: Okay. And secondly just a data point, for the quarter what was the credit cost in rupees crores?

Gagan Banga: I think it was 215 crores.

Sunil Tirumalai: Yes, so that is the number that I actually read. So it seems like a fairly high jump from year ago was 155 crores odd?

Gagan Banga: Yes, one year ago was 155 and the previous quarter was 115 so we got about a 100 crores of additional income this quarter which we have used to provide.

Sunil Tirumalai: Okay. And the other income I mean was a bit is that do with an early dividend or?

Gagan Banga: No, other income was actually not so weak, it was I think quarter-on-quarter it has gone up by approximately 26 crores odd and fee income has gone up by some 60 odd crores so both of those actually give us a bit of ammunition to be able to provide extra and the net interest income also grew a bit ahead. So largely because of net interest income and partially because of fee and other income we were able to create provision for 100 crores.

Sunil Tirumalai: Okay, thank you. And just a last question on OakNorth, so I mean your presentation talks about roughly about a half billion dollar of business within 12 months so, I am just trying to understand what is the strategy, what is the traction you are seeing in terms of meeting these targets? Thank you.

Gagan Banga: So the traction is what is already demonstrated in terms of they have been able to get to with the numbers which I mentioned of known assets of about U.S.$70 million and deposits of 22 million they need to currently raise lesser deposits because they have equity, they also have £100 million lines from the Bank of England available to them at 0.25% so the deposit growth that they would do they will need to do but it will happen more towards I think the second-half after they have run down about $150 million - $160 million that they have either through a line or through equity. So from a monthly run rate perspective that is how this number has been calculated. We will again report these numbers in September but one is reasonably confident that we should be able to get USD69 million to about to grow by about USD200 million. So we should be somewhere around USD230 million - USD250 million by September.

Moderator: Thank you. Our next question is from the line of Siddhesh Mahatre from Diamond Channel. Please go ahead.

Siddhesh Mahatre: I just wanted yields for FY16 housing, LAP, commercial credit, and the securitized income.

Gagan Banga: Yes, so for the portfolio as we speak the yields stands at 12.52%, Home Loans for book is at 10.4%, LAP is 14.2% and large loans is at 15.2%.

Siddhesh Mahatre: Housing is how much?

Gagan Banga: On book basis it is 10.4%, on incremental basis Home Loans is getting us just under 10%, LAP just under 13% and large loans is at 15.2%.

Moderator: Thank you. Our next question is from the line of Nishchint from Kotak Securities. Please go ahead.

Nischint: Hi, Nischint here. Just wanted to know if you could just give some clarification on how your tax rate has worked out?

Gagan Banga: Our tax rate basically has an element of we having being able to accumulate notional capital losses over a period of time because of the 12,000-odd crores of book that we have which through the quarter runs at more like 15,000 crores to 16,000 crores so, we have invested it in instruments which over a period of time have in Mutual Funds schemes which have been able to give us notional capital losses and now bulk of this is invested in schemes which are giving us capital gains. So most of that income becomes tax free and therefore our tax rate drops from 34%-odd to 25%-odd. We have notional capital losses where we could have actually been paying only MAT but because we do not want volatility in tax rate so we had guided our stakeholders that we will maintain our tax rate between 25% and 26% for full year till the time that the Government of India, reduce its tax rate to 25% as was guided by them two years ago. So we have been able to maintain our tax rates between 25% and 26% for the next three years and we also will utilize whatever capital loss generation opportunity will come in the market from time-to-time.

Nischint: What was the credit cost or provisioning number for the year?

Gagan Banga: Total credit cost for the year stood at 506 crores.

Nischint: Okay. And just finally one question, how many LAP borrowers do you have?

Gagan Banga: How many LAP borrowers? That number I do not have off hand. Give me some time I will give it to you.

Moderator: Thank you. Our next question is from the line of Ajay Vora from Reliance. Please go ahead.

Ajay Vora: I just missed your comment on the dividend part, so just to get it right, you said 36 was for FY16 and Rs.9 was paid in advance which is pertaining to FY17?

Gagan Banga: Which would have been paid out for quarter four in fiscal 2017.

Ajay Vora: Right. Then you said some Rs.50 number which you want to take it too so I just missed out on that number…

Gagan Banga: 50% payout is what we long-term have. So we have guided two years ago at that time we were running at Rs.9 per quarter dividend that we will continue to run with Rs.9 per quarter per share dividend till the time that we do not reach a 50% payout policy. 50% payout policy based on the growth estimates of the company we should be doing in fiscal 2018. So fiscal 2018 our

EPS should be north of Rs.72 so once it crosses Rs.72 we will start increasing our dividend from Rs.9 to further.

Moderator: Thank you. The next question is from the line of Sneha Ganatara from Shubhkam Ventures. Please go ahead.

Sneha Ganatara: Sir, there is a substantial increase in the other OPEX by quarter-on-quarter anything to read on that?

Gagan Banga: Other operating expenses in the filing include credit cost since our credit costs are higher by about 50 crores to 60 crores over quarter four last year therefore the other expense line is higher.

Sneha Ganatara: Okay, got it. And on this you mentioned on the LAP front being rated by the rating agencies overall book or some proportion has been rated by the rating agencies?

Gagan Banga: What we do with ICRA and CRISIL if you will go through our earnings update is all the incremental loans that we do. We also participate in the sell down market actively so, there are a bunch of loans which are either credit rated by rating agencies or there is a credit opinion outstanding of rating agencies. So all of these put together where either a pool has been sold down or where incremental lending has happened in the last year and half and therefore one of the rating agencies has commented on it that put together today 60% of the loan against property portfolio is rated by rating agencies.

Sneha Ganatara: And sir, just last comment on your guidance on the cost to income ratio we would like to maintain.

Gagan Banga: Cost to income ratio this year will be down by another 70 basis points so we are targeting 13.5% for fiscal 2017 as a target and by fiscal 2018 we want to get it down by another 60 basis points to 70 basis points so the idea is to get to a handle of between 12% and 13% by fiscal 2018.

Sneha Ganatara: And what is the branch expansion on that?

Gagan Banga: We will grow our branches by about 10% every year. So we should cross 250 branches by the end of this year.

Moderator: Thank you. Our next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: So just to get it clear the credit cost for the quarter was Rs.215 crores, right?

Gagan Banga: That is correct.

Rahul Ranade: Okay. And the standard provision would be around Rs.60 crores over and above that?

Gagan Banga: No, that included standard asset provisions.

Rahul Ranade: Okay. So the total provisioning figure would be 215, all right.

Gagan Banga: That is correct.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: You mentioned about some accounts which you recognized technically as NPLs. Is there any singular large account in the commercial pool or it is probably some what you list smaller accounts that you have recognized as NPLs for the quarter?

Gagan Banga: Besides the commercial vehicles pool we basically have to create provisions keeping in mind that we are targeting a specific loan of Palais Royale so whatever our smaller loans that we can take in the suspected list which may actually never become NPAs we will classify them because we cannot classify one big loan as an NPA and that will upset a lot of these. So those are loans which are generally paying but there may be 60 days - 65 days past due which will classify and then over a period of time we will classify them back.

Sameer Bhise: So that kind of pool has led to a small spike we see in the quarter?

Gagan Banga: Yes, the 50 crores spike, which I think is meaningless, Yes. Just before that for the Kotak Securities question, the approximate number is between 44,000 and 45,000. If you need the exact number, I will let you know by end of day for the number of LAP customers.

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

Prakhar: Hi, this is Prakhar from Edelweiss. Sir, a couple of questions. First on your repayment trend, both on Home Loans and LAP how has that been shaping up over a period of time? Could you throw some light on that?

Gagan Banga: So our monthly repayment stands at about 1.5% which use to be the same time last year 1.6% and in quarter 3 1.4%, for the whole of last year it was 1.9% within this Home Loans are at about 1% and loans against property are at 1.8% large loans are at 1.7%.

Participant: Okay. And sorry to repeat it again. Sir on this Palais Royale, we have not classified as NPA so what sort of provisions have we made and where is that right now?

Gagan Banga: So it will be a combination of accelerated write-offs that we have done in other loans which need not we have written-off, we have also created some countercyclical provisions of about 68 crores and we have provided some loans as NPA which need not have been provided as NPAs and are therefore provided for those. So between those three, we have created additional buffers in the system of approximately a little more than one-third of our exposure and we feel at this stage we are adequately provided so we can set right all of this. We will continue to provide through the next couple of quarters incrementally on Palais Royale.

Prakhar: Sir, can you tell me that one-third of exposure, what is the absolute amount of exposure that we have?

Gagan Banga: About 600 odd crores.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you.

Gagan Banga: Yes, so as I stated in my opening remarks that the company has had a solid fiscal 2016, we continue to be very optimistic about fiscal 2017 and not only fiscal 2017 over the next two years to three years we are hopeful of being able to maintain our trajectory of 20% to 25%. Obviously, we will remain sensitive to the macro and reiterate the trajectory at the start of every year. So formally I would like to guide that we will be growing across financial parameters between 20% and 25% for fiscal 2017 and the macroeconomic environment, the regulatory environment as well as the Government's push have all given me a lot of confidence that we should be able to achieve this. Beside this despite the credit environment being reasonably stressed for the rest of the system our portfolio has held up and the management continues to have a conservative policy as far as provisioning ahead of the curve, writing-off ahead of the curve to be able to build buffers. We believe in building buffers, we have to use these buffers strategically, so we will continue to invest in buffers and we will therefore have credit cost in fiscal 2017 also up between 60 basis points and 70 basis points and use that opportunity of being able to build on our approximately 250 crores buffer over regulatory provisions that we have created to get that number between 500 crores and 600 crores over the next couple of years. So that investment we will continue to make in our business because we strongly believe that the entire stage is now set up for a decade long growth for Indiabulls Housing and we have to invest in all the building blocks that we need to put in place to be able to get what we have done over the next six years replicated for the next 10 years. So I see your support for helping us through the growth that we hope to get in the next 10 years and I can assure you that the entire management team is out there working day and night to make sure all stakeholders interests are protected. Thank you so much for your time and support. Thanks.

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