



“Indiabulls Housing Finance Q4 Financial Year 2014 Earnings Conference Call”

April 23, 2014



ANALYST: MR. ISHANK KUMAR – UBS SECURITIES

**MANAGEMENT: MR. GAGAN BANGA - CHIEF
EXECUTIVE OFFICER – INDIABULLS
HOUSING FINANCE LIMITED**

**MR. ASHWINI KUMAR HOODA -
DEPUTY MANAGING DIRECTOR -
INDIABULLS HOUSING FINANCE
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Indiabulls Housing Finance Q4 FY 2014 earnings conference call, hosted by UBS Securities India Private Limited. 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 "*" 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 Mr. Kumar.

Ishank Kumar: Good afternoon everyone. Thank you for joining us today. We would like to welcome the management team of India Bulls Housing Finance Limited. We have with us Mr. Gagan Banga, Chief Executive Officer, Mr. Ashwini Kumar, Deputy Managing Director, and Mr. Pinank Shah, Head Treasury and Mr. Ramnath Shenoy, Senior Vice President, Investor Relation. I would hand over the call to Mr. Banga. Over to you Sir.

Gagan Banga: Good afternoon everyone. We continue to deliver well and Q4 has been in extremely robust quarter in otherwise fairly challenged macroeconomic environment. We continue to witness a situation where inflation continues to remain high even though it has come off marginally. Interest rates are stubbornly high and there is a general expectation in the market that inflations are not coming down in a hurry. We have in this tough economic environment been able to deliver on all the key parameters and most importantly have been able to perform well on the higher side of our guidance, which is given at the start of the year of 20% to 25%.

In such a tough economic environment to be able to grow at 24% and to stick to our guidance, I feel and it demonstrates our readiness to be able to do even better in financial year 2015. The company has also announced to fourth quarter dividend of Rs.9, which is in another way a statement of the confidence that the management has of being able to not only sustain these profits of over Rs.1500 Crores that we have made, but to be able to grow them at about 25% to 30%.

If the macroeconomic conditions are to improve as it is generally expected and after the May 16, there is to be a political scenario, which is stable and overall economic conditions are to improve, I am fairly hopeful that the management team will be able to deliver at the higher end of the guidance range, which is 25% to 30%. Our single product focus which is on home loans to the salaried segment for ticket sizes of below Rs. 25 lakhs has continued to pay off. It has started paying off disproportionate gains on the liability side also and I shall to elaborate on that. As a result of this focus and the success that we are achieving on

the ground around this we are actually upping our guidance from what we had done in financial year 2014 to financial year 2015.

The earning momentum very, very critically at this juncture credit quality and the profile of the customer all of them have held up. We have not had any particular issue in growing our loan asset book at a pace which is suitable for the given current environment and in a tough base which has kept interest rates being generally sticky the company has also been able to maintain its spreads. So while we have seen a marginal reduction of about 20% basis-points in the overall book yield we have also seen that be more or less offset by a reduction which is almost matched in our cost of funds.

The segment that we cater to which is the prime salaried home loan customer is a very, very competitive one. Fortunately it is also the only segment in the marketplace today, which on its core consumption theme continues to see volumes and which has allowed to continue to grow the book in an otherwise depressed economic scenario and in an otherwise depressed real estate transaction scenario also where one is witnessing that apartments of greater than Rs.1.50 to Rs.2 Crores are not selling. Fortunately, apartments of Rs.35 to Rs.40 lakhs where the borrower is buying these apartments and is borrowing to the tune of about Rs.25 lakhs continue to maintain robust growth.

On specific numbers at the end of the quarter, we have a networth of Rs.5709 Crores and our capital adequacy is 19.12% which is higher as compared to last year. Last year our capital adequacy was 18.47%. Through the last two quarters I have commented on how we are beneficiaries of both portfolios sell down as well as lower risk weight and despite growing the overall loan assets by around Rs.6700 Crores we have still been able to maintain capital adequacy, which is higher than last year and which also acts as a very, very good and solid foundation both on absolute as well as on competitive basis to be able to continue to grow the book. As per our internal projections basis this capital adequacy, we need not approach the capital market for at least next three financial years for fresh capital.

We are pleased to announce a dividend of Rs.9 per share which takes the total dividend up to a Rs.29 per share for FY 2014. On more specific numbers, the profit after tax has increased to Rs.1569 Crores which is a growth of 24% as compared to Rs.1266 Crores. PAT for Q4 is Rs.451 Crores, which is growth of 22.8% as compared to Rs.367 Crores. Loan assets have now increased to Rs.41169 Crores from Rs.34,425 Crores which is a growth of 20%. Disbursals for the year and this is a number that several of you track are at about Rs.14154 Crores and were 3800 Crores in Q4 as against Q3 of Rs.3115 Crores.

More specifically on Q4 numbers, the total revenue is at Rs.1569 Crores, a growth of about 18%. Fee income has grown from Rs.63 Crores which is actually 8.6 Crores lower than Q4 FY 2013 largely on the back of lower large ticket loan transactions. NII number and I will explain to you in detail as to how this time around we have to compute NII basis a change in the way that we have done our liquid mutual fund investments, so bear with me for a minute for that explanation. The NII number is at Rs.704 Crores which is a growth of 12.1%. As I mentioned earlier, the book continues to yield 13.6% and cost of funds for the quarter is at about 10.1%.

Cost to income ratio has been steadily declining and it is down from 18% where we closed last year to now 17.1%. As I have guided earlier for the next few years, I see this trending down the about 50 to 70 basis-points every year. Last year, we were extremely efficient, we were able to generate additional efficiency, because of the overall macroeconomic environment chose to open less branches than we would have normally done, so therefore the gain is about 90 basis-points. On a steady state basis, this will be more like 50 to 70 basis-points. On the borrowing side 92% of our borrowings are long in nature, so despite volatility through the financial year in terms of several RBI moves to defend the rupee, the yields curve going all over the place we have been able to stick to the regime of largely depending on long term funds for our borrowing, so at the end of the quarter 92% of our borrowings were long term in nature.

Bonds contribute to approximately 30% which is a stable number from last year, though as has been reported in the newspaper etc., the overall environment for bond issuance in the last three to four months has been extremely tough, but we have been able to get on with our regular bond issuance of approximately Rs.1000 Crores. This year in financial year 2014, we also had a very bulky repayment of bonds caused by the onetime repayment that we had done through the issuance in 2010. That is behind us and we have been able to maintain our bond book at about 30% of our borrowings and I am hopeful that we will continue to inch this up and eventually settle at a bond book of approximately 35%.

In keeping with ISFL's philosophy of maintaining adequate liquidity in an otherwise very tough macroeconomic environment the company had 7341 Crores of cash, which was invested in liquid schemes of mutual funds, fixed deposits and current account of banks. The way that we invested in liquid schemes of mutual funds has broadly changed and after running you, passed all the numbers I will come back how we have managed that. Our net leverage after deducting from total borrowings the above just mentioned cash and cash equivalence, our net gearing is at about 5.2 times which makes us one of the least levered housing finance companies in the country.

Now on provisions, at the end of Q4, our total substandard provision are Rs.194.4 Crores, general provisions are 114 Crores and specific provisions of Rs.80.5 Crores, standard asset provision are Rs.308 Crores thus making a total provision pool of Rs.502 Crores. The total provision pool over gross NPLs, covers our gross NPLs to the extent of 147%. Gross NPAs quarter-on-quarter have come down from 88 basis-points to 83 basis-points and net NPAs have come down also from 46 basis-points to 36 basis-points. We have generated some additional income in the last quarter and we have used 100% of that additional income to actually provide more and reduce the net NPA from 46 to 36 basis-points.

Just as a hygiene disclaimer in computing net NPA only provision against substandard assets are deducted from the gross NPA and standard asset provisions are amounting to 308 Crores are not deducted while computing net NPA. For the last two years now, we have been able to operate for NPAs within the range that I had guided which is 70 to 90 basis-points to gross NPAs, there is 30 to 50 basis-points for net NPAs and after having seen this reduction in both gross and net NPAs and also after having created very healthy buffers in quarter four, I am very, very confident now that we will operate well within the range that we have identified and quarter-on-quarter, which is quarter four to quarter one actually I am expecting further reduction in both gross and net NPA since we have provided extremely aggressively in Q4.

The quarter in general was depressed while in the capital market has witnessed a certain bounceback and are now trading at all time highs. I do not think the macroeconomic environment generally has changed so dramatically. There are some signs of hope, which one is witnessing and I hope that the events that will unfold over the next 30 to 45 days will actually ensure that the macroeconomic environment changes for good, but irrespective of what happens one would like to reinstate and use to this forum of annual results to reinstate the principles which we would continue to abide by for the next four years at least, in the same manner that we have lived with these principles for the last few years, we would continue to maintain liquidity of 20% of our loan assets. As on March 31, this was 20.7% and as the loan assets keep on increasing, we will have to ensure that this liquidity of 20% of loan assets is maintained.

I expect that through financial year 2015, we should be able to increase our asset growth base. We have been for the last few quarters growing in the range of Rs.1500 to Rs.1800 Crores. I am hopeful of being able to take this up through financial year 2015 to over Rs.2000 Crores, so number that we would like to peg ourselves to is a growth of between 2000 and 2500 Crores financial year 2015. We will continue to proactively and prudently manage NPAs which would include aggressively providing which we have already done through Q4.

The gross NPA range that we would continue to like to stick to is 70 basis-points to 90 basis-points and net NPA range of 30 to 50 basis-points. Today gross NPA are 83 and net NPA are 36 basis-points. Efficient management of capital is something which we attach a lot of importance to. We have undertaken to maintain capital adequacy level of over 17.5% which will then further have split between Tier 1 and Tier 2. Capital adequacy as of end of the year is 19.12% and I am hopeful of being able to end Q5 at a capital adequacy level of about 18.4% to 18.5%.

We would have gone from financial year 2013 to financial year 2015 and would have grown loan assets by about Rs.17000 Crores in these two financial years while maintaining our capital adequacy at the same level. Sell down continues to be an extremely important source of both liquidity as well as profitability. Sell down is something that the company has extremely well on through the whole financial year and especially towards the end of Q3 and early part of Q4. The sold down portfolio has increased to Rs.5724 Crores and this quarter itself we sold approximately 2000 Crores of loans which is very close to what we had sold in the whole of last financial year and the year before that. So, in one quarter we have done almost what we did in the full last two years individually.

This model is obviously very, very, highly ROE accretive. It is also the more stable source of financing since it is absolutely matched. As this amount continues to grow everyone tracking the company would have to understand the way that this is accounted for. This is annuity income. We do not do any up fronting of it, but there is a peculiarity in which it is accounted for and we will discuss the same in detail during the course of this call.

Going forward, my expectation is that on incremental basis. We will sell about 40% of what we incrementally originate if not more. So this year we have sold over 4000 Crores of loans and my sense is that next year also in financial year 2015 as we hope to grow about Rs.10000 Crores, we will do at least Rs.4000 Crores of incremental portfolio sales.

A lot of people have from time-to-time questioned our liquidity policy of maintaining around 20% of loan assets. Most of those people understood the strength of this policy through July 2013 to September 2013 period where the markets got extremely and completely locked. This is a discipline which we will continue to maintain. This discipline also allows us to generate closed to about Rs.150 to Rs.200 Crores of income. So usually what we do when we invest and this is the clarification that I wish to make. Usually when we invest in liquid schemes of mutual funds, we invest in dividend option of such funds. The dividend gets declared on a daily basis and therefore was traditionally getting added to the income from operation's line of our revenue.

This quarter, which is Q4 of financial year 2014, a lot of leading mutual funds Reliance, Deutsche, IDBI etc., changed their schemes from dividend schemes to bonus schemes. Now bonus schemes by their very nature generate capital gains. The benefit for the company is that the effective IRR is significantly higher. So, the gains generated from investments in liquid schemes of mutual funds, the effective return generated from liquid schemes of mutual funds has all been captured in the other income line and therefore the other income line has shown a sharp increase.

On a going forward basis, if the company where we invest in dividend schemes of mutual funds it would continue to get added in income from operations, if the company will generate capital gains through investments in bonus schemes it will get added in other income. Since we were reclassifying our yields from mutual funds, we also reclassified our other income lines. The other income line which some of you may refer to our stock exchanged file disclosures last year, so last year in Q4, our other income line was Rs.10.4 Crores, which has been reclassified to Rs.94 Crores and in Q3, it was Rs.8.7 Crores which has been reclassified to Rs.88 Crores. Now, please do remember that the company when a mutual fund is returning the usual 9.5% to 10%, we are investing about 50% of what we invest as what we completely invest in mutual fund and balance 50% is invested in bank CDs and other such instruments.

This quarter because our return from mutual funds was very high, a substantial portion of what we would have normally invested in other instruments, so is also invested in mutual funds and therefore the overall return is also high plus bank CDs for sell-off and we booked some capital gains at the start of the quarter, CP rates fell down dramatically and we were beneficiaries in that also and therefore our spreads increased on the short end of the curve increased dramatically. So, there is absolutely no one time income or anything else that the company has seen, this will be a regular Q4 phenomena. We have taken this Q4 phenomenon through other income. The option before the management was that whatever higher IRR was being generated either through capital gains or through reduction in CP or through benefits from the bank CDs sell-off we can either take it into our profit before tax and profit after tax line and increase our profits by about Rs.100 Crores or we provide additionally, so the company chose to provide additionally approximately Rs.120 Crores, which is how our expense line has also gone up and neutralized the impact to show a very regular profit growth of approximately 22% to 23%.

So, I am repeating this is a completely one of phenomena. It is an opportunity which as of right now seems to be every fourth quarter opportunity and if it is to come again in Q4, we will definitely take benefit, so this is clarification number one. Clarification number two is around sell down. As I said, the pool of sell down and has now increased to Rs.5700 Crores

between the month of December 2013 and January 2014, the company sold close to about 3100 Crores of loan assets, 1900 odd Crores was sold in January and 1200 odd Crores was sold in December. The 3100 Crores would have in normal course been recognized at a level of 13.7% income in the revenue line and 10.7% expense in the expense line. I have explained this in the past also that the way that the accounting guidelines require us to account for sold down portfolio is that we do not individually run the revenue and the expense line, we net off, so the spread of approximately 3.1% which we disclosed every quarter as to what the pool of sold down loan is and what the spread is, I think the spread at the end of the quarter is 3.4% that only 3.4% gets added to the revenue line.

So as against 13.6% being added to the revenue line, 3.4% is getting added and there is 80 odd Crores. If one is to adjust for that, then the Q4 core loan book income leave aside the treasury income and everything else stands at 1324 Crores as against 1082 Crores in Q4 FY13. So I hope this clarifies one why has other income jumped up? Some of you are of the impression that quarter-on-quarter, which is Q3 to Q4, the growth has been slow, the slow growth is reflected in the income line largely because of sell down which we did towards the end of Q3 and because there are a lot of loans that we sell down are priority sector loans which we generally hold on till Q4 and because this year the overall banking markets saw a mad rush for priority sector loans most of these loans were sold as early as January, so between December and January we sold down Rs.3100 Crores.

On Rs. 3100 Crores, we would have normally booked 13.6% in the revenue line and 10.1% in the expense line, this time we have booked on Rs.3100 Crores, 3.4% in the income line. So, if you adjust for all of this all the number will be regular and we would have seen a regular type of growth Q4 FY 2013 to Q4 FY 2014. The company as I have said continues to remain extremely optimistic about its future. I am raising the guidance on behalf of the management from 20% to 25%. I am increasing that to 25% to 30%.

The dividend that we have paid out off Rs.9 in the quarter and Rs.29 in the year is a proof of the confidence that the management continues to have on its growth prospects. All the necessary tools, be at on the liability side or on the asset side are in place. At some point in time two to three years ago, people could also worry about very rapid scale up. I think that is also behind us. We have seen a pretty significant slowdown through the period 2011 to 2013. We have also seen a very sharp correction in 2008. The company has come through I would say flying colors through both of these cycles. The company is now focused home loan player.

We have also been able to, today we can boast of being able to generate good healthy spreads in each and every micro product that we operate in and on the liability side

extremely importantly, we have been achieving every milestone, so the first milestone which was very important was to get an NCD breakdown of 30%, we got into that. I think now we can slowly inch up to 35%, portfolio sell down is already close to 15% and this will also over a period of time to come 30% to 35% of our overall source of funding. Incrementally I expect as high as 40% of incremental funding coming from this route. I think overall we are extremely well-set and very high on confidence to take on financial year 2015. I am open to questions now.

Moderator: Thank you very much. The first question is from the line of Ishank Kumar from UBS Securities India Private Limited. Please go ahead.

Ishank Kumar: Sir, if you can throw some light on gross NPL in this quarter this account that slipped in this quarter and outlook on that going forward?

Gagan Banga: Gross NPLs are at about 83 basis points. If you look at our credit cost, credit cost through financial year 2013 and 2014 are more or less stable. So as I had guided earlier, we are now at about 83 basis-points. My sense is that we will through Q1 of next year remain largely stable and I hope to be able to reduce this gross NPL number by three, four basis-points by the end of the year. A very important number is that our total credit costs are in the range of 68, 70 basis-points, which I expect should drop to about 50 basis-points next year.

Moderator: Thank you. The next question is from the line of Mr. Aman Jain from Parasnath Securities. Please go ahead.

Aman Jain: Good afternoon Sir. I just wanted to know two questions. The tax outgo seems to be lower than usual, for the year it comes out to almost 20%, so why is it so low and secondly is there any dividend policy which the company following? Thank you.

Gagan Banga: The dividend policy of the company, I had mentioned last quarter for financial year 2014 was that we would payout 60%. I think we paid out 61% of our profits as dividend. For financial year 2015, the company would continue to remain with a dividend policy of 50% to 60% of profits being paid out as dividend. If our portfolio sells down piece continues to remain as robust as it is, I think we would be operating at the higher end of the range as far as dividend payout is concerned. So, if all goes well we should be at about 60% of profits being paid out for dividend and when I said that after the growth we expect 18.5% of capital adequacy this was factoring in about 60% of profits being paid out as dividend. As far as tax is concerned, I will just hand this over to my colleague Ashwini Hooda, who is the Deputy Managing Director, he will explain how the tax rate is lower.

Ashwini Kumar Hooda: Essentially there are three components where we get tax breaks in our business. One is under Section 36(1)(VIII) where 20% of my loan from housing business is tax exempt. The second is for three quarters, I was investing in lot of dividend schemes of mutual funds, the entire dividend the tax gets paid gets deducted at distribution level only and I do not have to pay any tax on that, so that is tax-free income in my P&L and the third is there was these bonus declared on some of the mutual fund investment I had made, with which technical there was a short-term capital loss so whatever mutual fund investment I do in growth schemes that qualifies for capital gain that income was tax exempt. So, vis-à-vis the 23.5% tax rate that I had last year, the tax rate this year is 20.85%, so there is 265 basis points of additional benefit that I have got by the bonus schemes in particular. So these 265 basis points plus the capital gains that we generated of approximately 70 to 80 Crores where the additional profits that I had mentioned which we have used to accelerate provisions and therefore additionally provided in the quarter 120 Crores.

Aman Jain: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Sunesh Khanna from Motilal Oswal Securities. Please go ahead.

Sunesh Khanna: I just wanted to know what is the status of loan to **(indiscernible) 33.33?**

Gagan Banga: Loan to **(inaudible) 33.37** the matter has finished arguments in the courts. The judgment is currently reserved. As has been observed during the course of the arguments in all likelihood, there is going to be no negative fallout. I had gone to the extent of personally attending one of the hearings, which was concluding hearing, so I am reasonably confident and hopeful that there will be no adverse hearing. There has been a couple of judgments in related matters in which the Supreme Court has taken a view that unless the BMC had a stated policy at the time of giving their approvals and that policy has been implemented. The decision cannot be reversed due to some change in policy on a later date. So, therefore, if the Supreme Court which generally has a generalized principle on how it wishes to give order goes with the same principle in this particular matter then the building has 100% approvals everything is approved by the BMC, all plans are approved by the BMC, the refuge area question is approved by the relevant authority which is the Chief Fire Officer and therefore, there should be no issue, even if there is an issue as I said earlier both on cash flow which is for me the most important aspect of the loan as well as on security value, we are completely secured. If one is to take the worst, worst case scenario also, just the land value of that property today basis transactions which has been happening in the vicinity will be north of Rs.2000 Crores, so be it on cash flow which is receivable from sales which have already happened or on security value or on legal position or on from what I could estimate

from the court I cannot be 100% sure, it seems that there should be no problem, but we will have to wait a few more days before the judgment comes. I expect the judgment to come in the next 10 days or so.

Sunesh Khanna: Our exposure would be how much around Rs.600 Crores?

Gagan Banga: The same number as last quarter, the loan continues to be a standard asset and it is being serviced as of March 31.

Sunesh Khanna: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: I just had few questions. One is, this is some housekeeping questions. Can you just break down the provisions for the quarter because here you have said a couple of times additional 120 Crores, but is that the only provision that you made or is it like that number is outside of some other provisions?

Gagan Banga: In total we have done Rs.152 Crores of provision of which in normal course we would have possibly done Rs.32 to Rs.33 Crores. In Q3 FY 2014, we had done Rs.32 Crores, so normal course we would have done Rs.32 odd Crores which we have chosen to provide additionally, some portion we have used to write off, the other portions we have used to reduce the net NPA.

Vikesh Gandhi: So, can I get the breakup of this 150?

Gagan Banga: So, total substandard provisions from Q3 where they were Rs.156 Crores have increased to Rs.194.4 Crores, so that is the jump of approximately 40 Crores and the balance Rs.80 Crores, we have chosen to write off.

Vikesh Gandhi: For the full year how much is the write off?

Gagan Banga: One second, Vikesh I will just come back to you. Can you move on to your next question?

Vikesh Gandhi: The other thing I just wanted to check with you is that on your zero-coupon bonds, is the status is the same in terms of outstanding and all that?

Gagan Banga: The total zero-coupon bonds remain at Rs.1460 Crores, which is down by almost Rs.500 Crores. In Q4 FY 2013, this number used to be Rs.1800 Crores, so we have down from last

year by about Rs.217 Crores and residual maturity for zero-coupon stock is 1.3 years. The pass through including other expenses on a post tax basis is Rs.41 Crores as against Rs.69.7 Crores from reserves last year. This quarter it is Rs.41 Crores as against Rs.69 Crores, Rs.69.7 Crores in Q4 and Rs.44.7 Crores in Q3.

Vikesh Gandhi: The other thing I just wanted to check with you as in your footnote somewhere in earlier as you mentioned that 83 basis-points gross NPLs is a percent of total loan assets. Is it the same like-to-like versus total loans that you used to mention or is the something different?

Gagan Banga: Sorry, can you repeat the question?

Vikesh Gandhi: This quarter you have said that your gross NPLs are 83 basis-points of total loan assets, 88 basis-points which was last quarter was a percent of total loans, is there difference between percent of total loans?

Gagan Banga: No, same thing. There is no change in that.

Vikesh Gandhi: What would be the fee income for the quarter and full year? I was just saying, what would be the fee income for the quarter and the full year, the normal fee?

Gagan Banga: Fee income for the quarter is Rs.67 Crores, Rs.63 Crores, Q4 last year was Rs.70 Crores for the full financial year it is Rs.270 Crores as against Rs.240 Crores last year.

Vikesh Gandhi: This is only from the lending activities right?

Gagan Banga: No, this is combination of lending and insurance.

Vikesh Gandhi: I mean in your third party types?

Gagan Banga: Yes.

Vikesh Gandhi: One final thing, is there any material change between your yields on, can I have it on outstanding basis according to with loan assets that you have and on incremental basis and the cost?

Gagan Banga: Total yield is 13.6%.

Vikesh Gandhi: This is for the quarter or the full year?

Gagan Banga: For the full year as of end of Q4 2014.

Vikesh Gandhi: It is higher?

Gagan Banga: As of end of quarter four, total yield is 13.6%, home loan is 11.5%, LAP is 15.5%, CV is 14.6% and commercial credit is 15.7%, large loan is 15.7%. In Q3, it was approximately 13.7% in which mortgaged loans was 13%, home loan specifically was 11.6, LAP has fallen from 15.6 to 15.5, CV loan is static and large ticket loan has fallen from 15.9 to 15.7.

Vikesh Gandhi: LAP would be how much now?

Gagan Banga: LAP yield for this quarter is 13.4%.

Vikesh Gandhi: LAP yield is 13.4?

Gagan Banga: For this particular quarter, the book yield is 15.5 for this quarter will be around 15%, sorry incremental LAP yield is 14.5%, so incremental for this quarter please note down home loan is 11.5, LAP is 14.5, CV we have not done and commercial credit is 15.6.

Vikesh Gandhi: This is for the Q4 incremental and for the full year it is 11.5, 15.5, 14.6 and 15.7 as on at the end of exit?

Gagan Banga: March 31, 2014.

Vikesh Gandhi: On the cost side?

Gagan Banga: On the cost side, our cost is 10.1%. This is not netting off sell down, if we net off sell down it will be lower. The loans on book would be costing us 10.1%.

Vikesh Gandhi: Between the banks and the bonds?

Gagan Banga: Term loans are at about 10.35%, bonds are at 9.9% and CPs for the quarter would be around 9.2% to 9.25%.

Vikesh Gandhi: Sorry, this is for the quarter you will be right or as of exit 2014 full year?

Gagan Banga: End of quarter.

Vikesh Gandhi: So did you manage to get the write off or anyway you can I can check with you again later.

Gagan Banga: There is some number here. I will just come back to you.

Vikesh Gandhi: So your total provision was Rs. 286 Crores for the full year right?

- Gagan Banga:** Vikesh we have a total credit cost of Rs.152 Crores for the quarter in which we have written off Rs.116 Crores and provided Rs.38 Crores. So provisions for substandard assets have increased from Rs.156 Crores to Rs.194 Crores and we have done write off so far Rs.116 Crores.
- Vikesh Gandhi:** So that Rs.80 Crores that you tell me was not the right number right?
- Gagan Banga:** No, this is the right number.
- Vikesh Gandhi:** Full year you said credit cost was Rs. 286 Crores?
- Gagan Banga:** Full year the credit cost is Rs.286 Crores of which Rs.162 Crores is write off and Rs.124 Crores is incremental provisions. On Rs.286 Crores on an average asset basis, this works to just under 70 basis-points of credit cost which is comparable to what we had done last year from 82 basis-points of credit cost in financial year 2012.
- Vikesh Gandhi:** I will circle back if I have any other questions. Thanks a lot Gagan.
- Moderator:** Thank you. The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** I joined in a bit late Gagan, so if you could just help me to understand. I understood the other expense part where you mentioned that you provided Rs.120 Crores more which is in the form of write off as I understand. Just to understand what is the filters that we used for writing off and just broadly historically what has been the recovery runrate on written off pool or if you can give me a stock of written off pool that will be helpful?
- Gagan Banga:** We recover close to about Rs.50 Crores to Rs.60 Crores every year from the written off pool. If you will look at financial year 2013, we have recovered around almost Rs.50 Crores in financial year 2014. We have recovered close to about Rs.70 Crores. So that is on the recovery runrate. The way that we would do it is typically and largely in commercial vehicles, because the portfolio is in a runoff mode, we have chosen to you know over a period of time you would recognize NPAs at 90 days pass due and then you are supposed to write them off 360 days pass due, but since we want to get rid of the CV portfolio early we have written off somewhere between 90 and 360 days whatever was the pool available with us that is one part which is close to about 60% of the write off, the balance would be from loans which were already setting in the NPA pool and you write them off, write off is a very technical thing, very simplistically putting it as 100% provisioning. So, you overall increase your provision pool and whichever our loan assets which you feel are doubtful in which you

have security, but you feel that the party is slightly weak; you are in a position to classify them as NT and start SARFAESI proceeding even if it is not the 90 days pass due.

Shrey Loonker: What will be the stock of the written off pool as of date out of which kind of recover a runrate of Rs.50, Rs.60 Crores? Would you be in a position to share the total written off pool number? What is the total written off accounts that have still there which you still have the potential to recover over a period of time?

Gagan Banga: I think that number to the best of my memory and we are just calculating will be something like Rs.400 Crores. So, even in this financial year my sense is that we should be able to recover something around Rs.100 Crores and there are loans which are already identified on which recovery will happen at least about Rs.100 Crores of recovery will happen. Rs.393 Crores is the written off book as of right now. Apart from the original STPL loan book from which nothing is going to come. From loan assets which have been written off where we have security where some of the other proceeding is going on that pool is about Rs.393 Crores. On which in due course of time, we will recover all at least 60% to 65%

Shrey Loonker: Thank you Gagan. Moving onto the second question Gagan, if you could just help me reconcile your NII number which you put out in the presentation somewhere north of Rs.700 odd Crores, if I was to reconcile it with this statutory disclosure, so I will take it from my calculation please correct me where I am going wrong. So, Rs.1322 Crores, this is for the quarter alone, this is income from operations, if we deduct interest expense Rs.852 odd Crores, I will get Rs.470 odd Crores of net interest income to that if I add the other income of Rs.246 Crores, I get the total income of Rs.716 Crores. How do I get to that number of NII that you have given in your presentation from the statutory release?

Gagan Banga: So, Rs.716 Crores will have about Rs.11.6 Crores of recovery, so there will be Rs.705 Crores of Rs.704.8 Crores of net interest income.

Shrey Loonker: So historically whatever the difference between this outcomes versus the NII as you report it should be the recovery?

Gagan Banga: So which for last year, if you will go back to our statutory filing of this last year, this number was in Q4 Rs.10.4 Crores and in Q3 Rs.8.7 Crores.

Shrey Loonker: Third one, it is on the bonus part, which I could not quite get it very clearly, if you can please pardon my ignorance, but if you can help me understand that better?

Gagan Banga: It is a typical bonus stripping product, so you generate capital loss by getting bonus units and then you invest in capital gains product instead of dividend product get capital gains

income and because you have already generated capital loss, capital gain minus capital loss becomes tax free.

Shrey Loonker: So, today in this quarter, the capital loss where would that be reflected in the P&L?

Gagan Banga: No, that would not reflect in P&L.

Ashwini Kumar Hooda: It is technical avenue. You got bonus in it. On an actual basis, you have not incurred any loss, but for tax purpose, tax book, bonus units will be at cost price zero and the original units will be whatever is the bonus amount that will be less.

Shrey Loonker: What was the total capital loss as per tax loss that we would have availed the benefit of from a tax standpoint? Basically I am just trying to get two things. One is, I am just trying to understand that I want to get bit to granular on the tax part and how much is the tax break you are getting because the capital loss absolute amount of capital loss?

Gagan Banga: We are getting about 2.7% of tax break because of capital loss. So last year we would have been at 23.5%. This year we would have been at about 24.5%, but we are at about 21%, so that 3.5% is the benefit that we have got through this capital gain capital loss adjustment. 23.5 would have increased to 24.5 because of surcharge. Assuming that our housing finance portfolio is remaining the same, our effective tax rate should have been 24.5, but it is 20.85%, so that three point whatever percent is the tax break that we have got through this plan.

Shrey Loonker: What could be the total amount of capital loss that we would have for the tax benefit of availed?

Gagan Banga: Give me one minute. I will just compute that for you.

Shrey Loonker: Second was the total amount of dividend income that we would have had in this full year's PBT, which would be again tax free, if you can quantify that will also to help us?

Gagan Banga: Last quarter the dividend income was Rs.84.5 Crores. In Q3 it was Rs.80 Crores, so it is in the broad range of Rs.80 Crores is what we make every quarter.

Shrey Loonker: So, Rs.320 Crores is the total income from dividends?

Gagan Banga: From dividends and then you will have additional Rs.320, Rs.350 Crores of income that we will make through either interest earned on fixed deposits or from bank CDs or from tax free bonds or from G-Secs.

- Shrey Loonker:** But that is taxable, the interest from FD and all is taxable. I am just trying to look at tax free income, sources of income right now. So that is Rs.320 Crores for the full year of FY 2014 that we would have which reflected in your PBT which is tax free plus on top of it there was some capital loss, which the amount you give to me in sometime that again has given you an absolute amount of the tax break?
- Gagan Banga:** Yes.
- Shrey Loonker:** Third is, if you can just help me to understand. Sir today if I heard you correctly you mentioned that book yield is 13.6% and the cost is around 10.1% that would mean is 3.5% spread?
- Gagan Banga:** That is correct.
- Shrey Loonker:** Broadly which is very similar to a sell down spreads, so essentially by selling down we are not getting any funding benefit?
- Gagan Banga:** We are getting benefit because this 13.6% comprises of 50% of assets which are at about 11.5% and this is again something that during my introductory comments I have said that we are perhaps one of the few housing financing company, which on micro, subsegment basis is also making money. So on a 11.5% home loan asset I would have a normal course made 1.4% spent 20 to 30 basis-points on cost of operation done 25 basis-points of provisioning, so my spread would have been sub 100-basis points. Now, on that 11.5% I am able to secure financing at 8%. Similarly on commercial vehicles, which is 14.6% spread product till the time that I was originating it and selling down 70% of that, my cost of fund against 10.1% would drop to 8%, so against a 3.5% spread, I would make a 6.6% spread. So it is a very definite spread expander. You will not be able to optically appreciate it, because commercial credit loans which are the large ticket loans which are a massive yield kicker for us; get us a yield of 15.7%, so commercial credit cannot ever be funded through sell down.
- Shrey Loonker:** The only thing that I am trying to still comprehend, in that case if you can just help me with what is the total accrual on the sell downs that we would have had for this full year FY 2014 as an absolute amount?
- Gagan Banga:** So you can say 3.5% on an average we would have had Rs. 3500 Crores of loans?
- Shrey Loonker:** If we eliminate this Rs.100 odd Crores from the interest income line, from the NII line, logically that should give us actual margins on your on-book balance sheet?

- Gagan Banga:** If you deduct it from the net interest income line then you will get the actual margins.
- Shrey Loonker:** Which would again not be too different?
- Gagan Banga:** If you would not make a very significant difference because Rs.3500 Crores on Rs.35000 Crores that we started the year with or on an average Rs.38000 Crores is only 7% or 8% of borrowings. By end of the year, because we did additional Rs.3100 Crores in December and January, whose impact has started coming in Q4 and will get even higher in Q1 that is the time that you will start seeing a greater impact both in percentage terms and value terms.
- Shrey Loonker:** Second is on the cash in the cash equivalence, you would be holding 20% or a little about 20% of total assets as that will be in average figure through the quarter or through the year?
- Gagan Banga:** Last quarter, through the quarter I had a higher book, because I have to generate higher capital gains, so through the quarter and CPs are very high were very cheap, through Q3 I ran a slightly lower amount which was Rs.6000 Crores through Q4 I ran a amount which was closer to Rs.9000 Crores, but the discipline that one has to maintain is basically on two fronts that we will have at least on any given point in time leave aside treasury options, which may or treasury arbitrage which may get created from time-to-time. One will not move below 20% of loan assets on book and one will not go below six months of obligation.
- Shrey Loonker:** But the question was really on the composition of this cash and cash equivalent and specifically the money that is lying in the current accounts, what will be the average amount?
- Gagan Banga:** Current account is only last phenomena, the last two day in this quarter it was the last three day phenomena, because year ended on 27th, but that apart it is generally last day phenomena.
- Shrey Loonker:** So, what will be the average if you can give me a current account?
- Gagan Banga:** Current account, if we keep more than Rs.10 Crores there are people in the organization who gets fine.
- Shrey Loonker:** So it is fair to assume that our entire cash and cash equivalent is only for the year end phenomena which it is reflected in the current account, otherwise for the full year?
- Gagan Banga:** Quarter end phenomena. Every quarter end we will keep close to around Rs.3500 Crores in current accounts, which will move into paying off our cash credit facilities, because cash

credit facilities are relatively expensive source of money or would get invested into liquid schemes of mutual funds.

Shrey Loonker: In that case, if one more data point if you can help me Gagan, what will be the total income, we would have made on this average cash and cash equivalent amount for the full year FY 2014? What would be the total income either in the form of dividends or in the form of bonus or in the form of accrual that you would have generated out of on this cash and cash equivalent amount for this year FY 2014?

Gagan Banga: It will be broadly in the range of Rs.500 Crores. I am just working on the exact capital gain number, I am just computing it. It will be largely in the range of Rs.500 Crores.

Shrey Loonker: This Rs.500 Crores on an average of Rs.6500 Crores for the full year?

Gagan Banga: Yes.

Shrey Loonker: That makes it roughly in a yield of 7.7%.

Gagan Banga: Pretax.

Shrey Loonker: But most of it I am presuming will be 50% three-fourth of it is tax free. On a post tax basis it kind of adds up. Second question is what will be the long term ROAs that we should look at because just two things, one is that we are talking about operating leverage coming through at the same time our loan book with CVs absolutely running off will have some negative headwinds on the margin front and plus your LLPs given that we have been a little more aggressive on the provisioning front, how would you guide us towards the ROA trajectory over the next three years?

Gagan Banga: Our pretax ROA has been steady in the range of 4.8, 4.9%. I would anticipate that it would remain around here. Why I will tell you? One is the rate at which we have been increasing our operating cost as resulted in improvement of about 90 basis points of cost income ratio this year and a very similar amount last year. That improvement in cost income ratio will continue, but will continue more at a rate of 50 to 70 basis point as against 90 basis points. I expect that our cost of credit which is at about 68 to 70 basis point to come down to about 50 basis points, but I also expect spreads on the incremental basis to be lower by about 20 to 30 basis points. So I think between the savings that we will have from cost income and cost of credit they will be more or less offset by reduction in spread of about 20 to 30 basis points therefore more or less return on asset will stay the same.

- Shrey Loonker:** Just on LAP for the full year we are generating 15.5 on LAP and 15.7 on the commercial credit. Does not that make LAP extremely ROE accretive versus the commercial credit?
- Gagan Banga:** It does but then it is also a very complicated product. The average ticket size is 60 to 70 lakhs. So you have to do so many more loans to be able to build a book. It is also an extremely competitive product. So you cannot really do much of structuring. It is a straight jacketed product and incrementally the yields are 14.5% as against the incremental yields on commercial credit being maintained at 15.5% to 15.6%, so both of those products are good. We cannot really scale up either commercial credit or LAP, so we have to maintain this balance. If we where to take away CV for a minute we are broadly a 50% home loan, 25% to 25% of LAP and CC. Incrementally we will continue to maintain this ratio. So ones CC runs down by middle of financial year 2016, end financial year 2016 you will see that our mix will be 50% home loans, 25 LAP and 25 CC.
- Shrey Loonker:** How would you suggest us to read the FY 2014 average yield on LAP of 15.5 and the incremental coming down to 14.5? Is that a trend or is there some how do we kind of see it going forward over the next fiscal year?
- Gagan Banga:** Going forward on the overall book the yield will be 13.2% and the book yield is 13.6%, so as the new book keeps on increasing the yields will come down over a period of time by about 20 basis points which is what I said the yields will come down by about 20 basis points to 30 basis points and I will offset that to maintain my return on asset by reducing my cost of credit by about 20 basis point and my cost of operation by about 10 basis point.
- Shrey Loonker:** That is very helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.
- Aditya Singhania:** I just wanted some sense on the terms on which you doing securitization. I was just trying to understand the capital benefit you are getting?
- Gagan Banga:** 50% of what we sell down is in direct assignment in which as per RBI guidelines there is a minimum retention of 10% and risk is adjusted on pro-rata basis, but I do not have to give any credit enhancement. Imagine a loan which I have done of Rs.100 after one year of seasoning in normal course I would have had to keep as per guidelines 12% of capital minimum. Today I have to keep only 1.2% of capital, because only 10% is on my books, so on a capital of 1.2%, I am earning a spread on Rs.100.
- Aditya Singhania:** The spread you are getting on direct assignment is also 350?

- Gagan Banga:** It is approximately 350.
- Aditya Singhanian:** What about the balance?
- Gagan Banga:** The other structure is about 50% is passthrough certificate. The passthrough require us to do a credit enhancement basis the credit rating that we get for the pool. We generally opt for double AA+ or a AA rated pool and all of these pools and for people who are interested in knowing our individual credit performance may actually want to go on to the websites of CRISIL, ICRA, CARE there would be pools of over now in today's market I think over 15000 Crores whose individual credit performance is available on static basis today. So on these pools, we will give a credit enhancement say today on a home loan pool of 6% to 7% on the LAP pool of 7% to 9%, and so to that extent there is a fixed deposit that we maintained of 6% to 9% depending on what asset class we are selling. The first loss of up to 6% to 9% will get adjusted out of fixed deposit, and after that there is a risk on this thing. On this what is that capital that we will have to keep aside?
- Ashwini Kumar Hooda:** Essentially whatever credit enhancements we give that is considered as contingent liability on my balance sheet and I have to provide 50% risk weight to a contingent liability.
- Gagan Banga:** So your risk weighted asset which in normal course would have been 100%, now drops to around Rs.3.5 to Rs.4.5. Your risk weighted asset would have been Rs.100 on your book.
- Aditya Singhanian:** I thought the entire credit enhancement has to be knocked off from capital?
- Gagan Banga:** For housing finance companies it is to be treated as a contingent liability and 50% has to be provided as a risk weight. While we do our networth computation, we provide for 100% of credit enhancement, so we do our 100% risk weight on our credit enhancement.
- Aditya Singhanian:** On the FDA? This 6 to 7 and 7 to 9 is the credit enhancement? Liquidity is separate and how do you account for charge to the fixed deposit in the sense in the income statement?
- Gagan Banga:** In the income statement the fixed deposit will accrue regular interest. I think today we will have 500 to 600 Crores of lien mark fixed deposits which will be generating on an average of about 9.5% to 10% and getting us 60 odd Crores annualized.
- Aditya Singhanian:** What I meant is let us say there is a 5 or 10 Crores use of the fixed deposit because of the first loss that 5 to 6 Crores is knocked off from the P&L in that quarter. You do not do upfront any sort of credit estimation or something? So I just to understand how do you get the 350 basis points spread overall in the sense on the direct assignment how does the bank give you 350 basis points spread because they cannot do less than base rate right?

- Gagan Banga:** So a bank will generally buy loan against property pools and commercial vehicle pools on direct assignment basis and home loan pools it will buy on PTC basis.
- Aditya Singhanian:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Neha Kothari from Subhkam Ventures. Please go ahead.
- Neha Kothari:** Regarding the recent notification on the debenture redemption reserve what will be our strategy on the liability side and will it be driving of a cost of fund?
- Gagan Banga:** Our strategy on liability side as far as bond is concerned is evolving. In the Old Companies Act there was a provision on debenture redemption reserve with a specific exemption for housing finance companies and non-bank finance companies. From what I gather from MCA that exemption is being renotified for the current Companies Act also and since this impact quite a few other bond issuing entities which have very significant bond exposures they are also actively involved. Anyway this is for prospective basis and not retrospective basis, so we will have to see how much for bond issuance we have to do basis once the clarification coming. If the clarification does not come then we will obviously have to take a call on the effective cost of a bond because it will impact several facets of our business. I will be able to probably answer that question the next time we do a conference call after Q1 earnings. My sense is that this clarification and denotifying housing finance companies and non-bank finance companies is expected to come within this quarter. I believe Mansi from SBI Funds had also asked the same question on DRR and additionally does it answer your question?
- Neha Kothari:** Yes Sir.
- Gagan Banga:** Mansi's other question was the future of IICL. Since we have not received the bank licence the future of IICL at least for the near-term is that we will continue to maintain the license of an NBFC. As you are aware that RBI has stopped issuing licenses of NBFCs temporarily we are in discussion with RBI as to whether this is a temporary move or a permanent move. If it is a permanent move it will be advisable. If it is a temporary move once it opens up then we will take a call on whether to merge India Bulls Infra Credit Limited and India Bulls Finance Company Private Limited or not, so for right now till the time that RBI does not clarify on whether it is a permanent or a temporary move we would like to hold on to all the licenses that we have.
- Neha Kothari:** What would be your guidance on the spread fronts and margin fronts?

- Gagan Banga:** As I said spreads would come down by about 20 basis points. Return on asset will be maintained at about 4.8% to 4.9%, so whatever is the reduction in spread will be offset by the reduction in credit cost and operating cost, so overall spreads on business will continue to remain the same.
- Neha Kothari:** Thank you Sir.
- Moderator:** Thank you. The next question is a followup from the line of Vikesh Gandhi from Bank of America. Please go ahead.
- Vikesh Gandhi:** How much was your disbursement in the quarter?
- Gagan Banga:** 3800 Crores.
- Vikesh Gandhi:** This number last quarter would have been?
- Gagan Banga:** 3100 Crores.
- Vikesh Gandhi:** Can I have the breakup of this 3800 in terms of home loans, LAP?
- Gagan Banga:** 3100 of home loans, 1125 of LAP and 637 of large loans.
- Vikesh Gandhi:** Would this 637 Crores of large loans be like concentrated or would it be like many?
- Gagan Banga:** They would be about three to four in number, so 150 to 200 Crores of ticket size.
- Vikesh Gandhi:** These would be to like developers?
- Gagan Banga:** Same ratio 70% or so of lease rent discounting, 25% of construction finance. I do not think we gave any corporate loan. It will be about 70% to 75% of LRD and 25% of construction.
- Vikesh Gandhi:** This kind of a ratio will be maintained at least for the next few quarters, right? Not too much of breaking down into your commercial credit the way you said it, but I am saying between home loans, LAP and commercial credit put together and so there was a step up which is typically a fourth quarter phenomena, but your disbursements obviously have gone up from 3100 to 3800, but steady state basis what average should be 3500 that you could be doing every quarter?
- Gagan Banga:** Vikesh, they will go up slightly because this year we have grown the book by about 6700 Crores. We have also witnessed on relative basis reasonably high prepayments. I think that

the prepayment rate is slowly now coming off because originally when we have started doing home loans we were slightly higher yielding and more self employed focus so all of that is now played itself out. My sense is that again 6700 Crores we will grow the book by about 10000 Crores. So we will actually disburse a little more. I think we will disburse more like 15000 Crores this year, if need be even 16000 Crores.

Vikesh Gandhi: Split would be the same broadly right, home loans, LAP and...?

Gagan Banga: Yes.

Vikesh Gandhi: Great. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Jonathan Du Toit from Truffle Asset Management. Please go ahead.

Jonathan Du Toit: Congratulations on another good set of results. If I can just try and understand your tax rate, I see it is only 3.8% in this last quarter and I understand that is because of bonus schemes and the LAP. What is your tax rate going to be going forward? Is there a change in your tax rate?

Gagan Banga: I think it will be closer between 22% and 22.5%. You can say 22% to 23% is going to be our tax rate for financial year 2015.

Jonathan Du Toit: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Ishank Kumar for closing comments.

Ishank Kumar: Thanks Mr. Banga and the management team for taking out time for this call. Thanks all to all of you for participating. Thanks a lot.

Moderator: Thank you. On behalf of UBS Securities India private limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.