pnb Housing Finance Limited
Ghar Ki Baat

August 09, 2021

The BSE Limited,
Listing Department,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 540173

National Stock Exchange of India Limited,
Listing Department
"Exchange Plaza"
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: PNBHOUSING

Dear Sirs,

**Sub: Earnings Call Transcript**

Please find attached herewith the Transcript for Q1 FY2021-22 Earnings Call held on August 04, 2021. The Transcript on Page 18 includes data on number of customers outstanding with more than INR 75 lakhs of exposure in the LAP book as it remained unanswered during the Earnings Call.

A copy of the same is placed on the website of the Company at www.pnbhousing.com

This is for your information and records.

Thanking You.

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance
Membership No.: F2642

Encl: a/a

# "PNB Housing Finance Limited Q1 FY 2021-2022 Earnings Conference Call"

## August 04, 2021

**Participants from PNB Housing Finance:**

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| Mr. Hardayal Prasad | Managing Director & Chief Executive Officer |
| Mr. Kapish Jain | Chief Financial Officer |
| Mr. Nitant Desai | Chief Centralized Operations & Technology Officer |
| Mr. Sanjay Jain | Company Secretary and Head Compliance |
| Mr. Rajan Suri | Business Head – Retail |
| Mr. Jatul Anand | Credit Head – Retail |
| Mr. Neeraj Manchanda | Chief Risk Officer |
| Mr. Saurabh Suri | Head- Remedial management Group |
| Ms. Deepika Gupta Padhi | Head - Investor Relations |

**Moderator:** Ladies and gentlemen, good day and welcome to the PNB Housing Finance Limited Q1 financial year 2021-2022 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you, ma'am.

**Deepika Gupta Padhi:** Thank you, Margaret. Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q1 Financial Year 2021-2022 Results. You must have seen our business and financial numbers in the presentation and the press release shared with the Indian stock exchanges and also available on our website, i.e. www.pnbhousing.com.

With me we have our management team represented by Mr. Hardayal Prasad – Managing Director and CEO; Mr. Kapish Jain – Chief Financial Officer; Mr. Nitant Desai – Chief Centralized Operations & Technology Officer; Mr. Sanjay Jain – Company Secretary and Head of Compliance; Mr. Rajan Suri – Business Head, Retail; Mr. Jatul Anand – Credit Head, Retail; Mr. Neeraj Manchanda – Chief Risk Officer; and Mr. Saurabh Suri – Head, Remedial Management Group.

We will begin this call with the performance update by the Managing Director and CEO, followed by an interactive Q&A session.

Please note, this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve risks and uncertainties that may cause actual developments and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statement to reflect future events or circumstances. A detailed disclaimer is in slide 34 of the Investor Presentation.

With that, I will now hand over the call to Mr. Hardayal Prasad. Over to you, sir.

**Hardayal Prasad:** Thank you, Deepika and thank you Margaret for introducing us. Good evening, everyone, and welcome to our Q1 FY22 results. On behalf of PNBHFL, I extend a very warm welcome to all of you and trust you all and your families are healthy amid the COVID pandemic. Especially the second wave that we have just gone through and the third wave which may hit us.

As I talk about our businesses and financial performance for the quarter, I would like to apprise that in line with company's philosophy of People First, during the quarter we started a vaccination drive which resulted in 81% of our employees currently vaccinated, each with at least one dose. This was essential as our staff interacts with the public at large and also the borrowers and the depositors visit our branches, and it was essential not only to protect our team, but also protect the customers who visit our branches or whom we meet.

The company had rolled out its agenda in January 21, as all of you would be aware, and I had shared related monitorable last quarter to help achieve strategic objectives of being a profitable and a retail-focused housing finance company which is what the company aspires to become as a very-very strong retail-focused company. The company also embarked upon its transformation journey last quarter and had named it as Project “IGNITE”. This is a long-term project with over 12 months and diagnostic phase of the project is complete. We are entering the second phase in which the implementation and other things will start. During this phase, we conducted in-depth discussions, analysis, and benchmarking to assess the current state and identify areas of opportunities across our verticals. We have identified a number of initiatives across functions viz business, underwriting collections, cost, etc., that would increase our digital footprints across, grow business with efficient underwriting and collection modules, optimize our costs to create value for all our stakeholders.

As part of our digital journey, we are introducing RPA’s (Robotic Process Automation) in our standard processes to reduce human dependencies, automate our credit decisioning for salaried customers to start with, and collection systems with rule-based engines and advanced analytics. It is an ambitious project, and it is far-reaching in terms of the way we are going to look at the business and the way we will deliver in terms of our digital footprints that the company would like to have.

The pan India COVID wave 2 lockdown created extreme restrictions during the quarter, which impacted business in collections. The company disbursed INR 1,759 crores during the quarter with 94% of the disbursements in retail segments in line with our corporate agenda. This is very critical from our perspective to make the company as a retail-focused company. Our focus on the affordable segment continues with Unnati business. This segment contributed 9% of the individual housing loan disbursements and it is currently at INR 2,986 crores of AUM. The company has created a separate vertical for this segment and has identified 13 locations in Tier-2 and Tier-3 city to be operationalized during the year. The first six centers go live by September and these centers are over and above our regular about 95 branches from where also we do business at different levels. The collection efficiency during the quarter stood at 95.4%, more because of the lockdown and major problems that India had encountered. The collection efficiency was the lowest in the month of May when the entire country was under lockdown. The efficiency improved in June and further in July. The collection efficiency for July 2021 improved substantially to 98%.

The company has taken various initiatives during the quarter, which include cross functional allocation of cases and use of external vendors to increase customer interactions, addition of digital payment platforms to provide ease to the customers for making payments and updation of collections app etc.. I think this is one of the most significant things; the way the company has been able to bounce back in terms of improving its collection efficiency, especially after not only the lockdown of almost 45 days, but also lot of intervention that the courts have taken during this period.

During the quarter the restructuring scheme by RBI was extended up to 30th September 2021. As on 30th June 2021, INR 1,733 crores, which is about 2.9% of our loan assets has been restructured under the RBI resolution framework for COVID-19 related stress. This is OTR 1.0 and 2.0. There is no restructuring done during the quarter. Under the ECLGS for MSME customers, the company disbursed INR 315 crores upto 30th June 2021.

As highlighted by us in the last quarter on the co-lending opportunity we have tied up with Yes Bank and are under discussion with other banks for expanding our reach on the co-lending space. This we feel will help us in generating fee income and cross sell income along with expanding our customer base with minimal capital consumption. The model will also help us in onboarding prime customers at market competitive pricing for better retention. This is especially significant for HFCs whose borrowing costs are very high and it becomes little challenging for them to match the lending costs of banks who offer at rock-bottom rates these days because of their CASA and very-very low cost of borrowings.

The company has accelerated digital transformation across its value chain. During the quarter the integration of ACE, our online sourcing platform, and LOS went live, resulting in smooth file flow in the system. This is a significant step and the logins to our digital platform increased from 31% in Q4 FY21 to 46% Q1. We now have some branches which are 100% sourcing their applications through the digital platform. I think going forward for this company this is something that the company will continue to push and ensure that the digital footprints improves significantly. The company was also, as part of the NHB's automated data flow system project, which is currently under pilot phase.

The GNPA of the company stood at 6% as on 30th June 2021 on the loan asset basis. The net NPA as on 30th June stood at 3.6%. In a depleting loan book, which de-grew by 19% in the last two years, the GNPA looks further elevated compared to a growing book. The company, as a prudent measure has made adequate provisions and our total provision to total asset is at 4.47%. The retail GNPA stood at 3.8% as on 30th June 2021 as compared to 2.5% as on 31st March 2021. The increase in the retail book to gross NPA is primarily emanating from the self-employed moratorium book, which we had communicated during the Q4 results. And amongst all HFCs, we have the highest self-employed footprint. The team is closely monitoring the moratorium book to have faster and quicker resolutions. The corporate GNPA stood at 15.94% as on 30th June 2021 as compared to 12.7%. The increase in the corporate book GNPA is the movement from stage two and SICR accounts only which we had also discussed in our last presentation that we had.

On the corporate accounts, the Remedial Management Group that the company had created has yielded good result and is relentlessly working towards accelerated resolution of corporate accounts. The resolution in few of our corporate accounts got impacted due to the COVID-19 second wave and we expect few more resolutions within the calendar year. The three accounts, namely Supertech, Radius and Arena mentioned in the resolution hold aggregating ECL provision of around 70%. On an overall basis as a prudent measure, the company carries 15.6% provision on the loan assets in the corporate book with a coverage ratio of 55% in stage three accounts. As per our stated position, we continue to reduce our corporate book. During the quarter, the company has sold and received accelerated repayments of INR 479 crores. This is due to the continuous engagement that the company is having with all the corporate borrowers, especially because of our very clear laid down strategy of ensuring that we will reduce our corporate book and improve or increase our retail lending. The corporate book has de-grown by 39% in absolute terms in June 2021 from the March 2019 levels.

Talking about the liabilities, the company is seeing a downward trajectory in the cost of borrowings quarter-on-quarter. The company during the financial year has worked aggressively on pre-paying and renegotiating its high-cost borrowings. The company during the quarter received INR 1,490 crores as NHB funding and the incremental cost of borrowing for Q1 FY22 stood at 5.74%. This is the first time that we have actually reached below sub 6%. This has registered a decline of 52 basis points from Q4. The company has maintained liquidity of approximately INR 7,085 crores as on 30th June. I think the continuous engagement of the company and the treasury department, the CFO with all the lenders, has resulted into this kind of a reduction that we have experienced in our cost of borrowings.

On the capital raise, as communicated from time to time, the matter is at present sub judice before the Honorable SAT and the company is awaiting the final order. However, we continue to operate in a business-as-usual manner and working on strengthening our position with gearing, which has further declined to 6.4x . And with lower share of corporate, the CRAR has actually improved to 21.4% compared to 15% required by the regulator.

I think these are some of the things that I wanted to talk. But as we go forward, the presentation has already been uploaded on our website. And therefore, I would like to throw the floor open for your questions and answers. I have with me the whole top management team sitting over here and I would encourage you to ask questions and the respective Function Head would be in a position to respond to you which definitely would help you in soothe and actually help you in elevating your questions that you are asked. Thank you very much. And once again, thanks for joining us. As I see right now that are almost about 165 participants which is very-very encouraging for us that the interest continues to be extremely high in the company. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Khetan from Laburnum Capital.

**Amit Khetan:** Two questions over here. First of all, on the senior management team, should we assume the team is by and large in place and that this will be the team that will drive the new strategy forward, or should we be expecting significant further hiring at the senior and possibly even the middle management level? So, it will be good to get Mr. Hardayal's perspective on how much is done and how much is left to do in terms of the overhaul of the team over here. The second question really has to do with processes and in any lending activity, it's only in a stressful situation that you actually understand how well the processes are working and what your cross-cycle returns are. If we look at our core borrower base, which is in both salary and in self-employed we gravitate to a slightly higher risk than the absolute prime borrowers that the banks would cater to, not massively higher but slightly higher. If we look at the yields, we are getting from these guys at the actual credit cost that we are getting and the operating cost it takes to service them, are we confident that we can get to a 15% or 17% ROE from this base? Or is that kind of unrealistic to expect where you look at yields given the competition, normalized credit cost across the cycle and realistic operating costs, it will be hard for us across 12%-13%. So, those were the two questions, it would be great to get your perspective on both of them.

**Hardayal Prasad:** Amit, in terms of the management team, the top team more or less the team is actually intact. We have had two exits from the company. The Executive Director - Risk had left in April and subsequently the CPO who is the HR Head, he also left because he got an opportunity to work in the Central Government and he decided that he needed to move. So, we are in the process of hiring a new CPO and we will actually onboard them as quickly as possible, probably in the next few months. Otherwise, if you look at the sales, the underwriting, the collection, the CFO, the CIO, the corporate team, this is the team which is going to drive the business, and there's going to be pretty good stability in terms of the way the business is going to be run. Obviously, we will continue to look for opportunities to augment wherever we find that there are either gaps or because of the environment, because of the conditions we need to actually strengthen it. For example, when we launched, and I mentioned to you on the Project IGNITE, the project that we started it could have been run internally also, but we decided that project running, project planning and everything is a completely different ball game. And therefore, we brought an experienced transformational leader who had proven ability to deliver in terms of project implementations and other things. So, that's one thing that we will continuously look at it whenever we find opportunities and we find that we have the right kind of people sitting over there, we will bring them. I think I failed to mention the CRO part also. We have a CRO who was appointed last year. He continues to remain with us, and these are the internal teams who did it last year. This is a strong team, which is going to be, in my opinion.

The second question was in terms of your lending processes. I think there is no problem in terms of our processes. We have done a fairly good job. We have tweaked our processes whenever there was a requirement. We have changed our standard operating procedure whenever there was a requirement, and it is not that we have done it recently. Whenever the company has realized that there were issues that were cropping up on the portfolio side, it has responded, and it has tweaked its business model. Whether it was on the sales side, the kind of business that we source, whenever we find that there are opportunities, new markets, we will enter over there. Wherever we find that there are stresses building up, we definitely will look at that whether it is a systemic problem or it is otherwise. Similarly, you look at the underwriting, the tightening of the underwriting processes, the collection mechanism, there is massive amount of IT interventions that are being done with new rule-based engines, automated engines, RPA is being brought in. Another one of the most important and significant thing that we have done is that we are actually building up a strong and a very powerful advanced analytics team. That team not only there will be people working under every vertical but will also be strengthening the arm of the CRO. So, the CRO will look at the credit risk part and the analytics part across the organization to push information back over there. There is one more thing that is important is that the IT now remains a very-very strong bedrock of the growth engines, digital IT, and the IT is not going to just provide an infrastructure. IT is going to support the business that is being run. So, in terms of repetitive processes and in terms of any other things, IT is going to come forward to re-engineering everything. I think all these things, if you look at it, should enable the company to actually do significant amount of savings in terms of the way we do business, recalibrate the strategies wherever it is, bring down the cost, improve the incomes wherever we find opportunities and that is the only way we can actually add value to all our stakeholders. And right now, we are in a midst where we have done the diagnostic process, the complete diagnosis has been completed and we are moving to a stage where we are in the implementation stage. All these questions that you talk about in terms of our business mixes, in terms of the way we deliver, in terms of the ROA, ROE, all these is part of the diagnostic, and the results are with us. Now, we are looking at setting up the vision statements and then what exactly are going to be the deliverables in the next three months, six months, and nine months' time. I think the reserves that are there are organic in nature the way we are looking at it, but the moment we put in place this implementation phase, you will find that the results will start delivering at a much faster pace. And obviously, right from the business growth to the revenue streams which is interest and other incomes, to the profitability and the ROE, ROA actually forms the complete cycle of the way we look at the business. Anything that you would like to add?

**Kapish Jain:** Amit, your question was on the ROE that we would like to look for and in terms of about the number of 15%. MD mentioned when he was speaking earlier on that we are operating in a BAU manner, but the environment in itself is not a conducive environment. We had lockdowns last quarter, we had lockdowns in the same quarter last year as well. So, this is creating some challenges on the road. But our endeavor is, and as you have noted, we have reduced our loan book share on the corporate side from 21% as of June of 20 to around 18% now. And we reviewed our share of corporate book, we would be in better position to enhance our gearing. And with enhanced gearing I'll be able to then have a better ability to get capital expanded. The opportunity for us to get to that 15% ROE is definitely there in a steady-state normalized environment where the credit cost do not really come and hit you hard. It's something that we will look for and our objective in a medium term perspective would be to touch upon to that ROE of 15% with a larger share of retail and maybe a single-digit corporate share to touch when a gearing of around 7-8% and with around 1.6to 1.8x like what we mentioned earlier we should be able to get to that 15% ROE, but I am not saying that this is something that we can achieve this year. This is something which we are going to plan for ourselves over the next couple of years to achieve to that number, because the book will also take some time to build in. We have got to a gearing of around 6.4x. So, as we move higher with a larger retail book, that's what we are going to endeavor ourselves to reach. We are looking into other opportunities to enhance our avenues in the form of fee income, in the form of co-lending opportunities as well which gives an addition on our fees without stepping on our capital, are other avenues which will enable that to possible.

**Hardayal Prasad:** Just to take you a little back into the financial year 2019 the company had an ROE which was beyond 15%. I think the company has demonstrated it previously. It is a cycle in which it all started that the company had some issues in terms of its corporate book, and then the stresses that come up, but we can tell you with a lot of commitment and a lot of authority that the way the company is actually shaping up, there is a strong possibility that going forward in few years we should be able to reach that level.

**Amit Khetan:** If the deal gets approved Mr. Puri coming and joining the Board. You have been a CEO before; he has been a CEO before. What kind of guidance would you expect from him, which areas do you think he's likely to add the most value? And from what you have said, I assume you don't expect to shake up the senior team very much. So, it's still going to be very much this senior team. Have you had discussions around a potential change in strategy and how are we going to leverage this individual who clearly brings a lot of experience and a strong track record to the table?

**Hardayal Prasad:** Amit, the matter is sub judice. We would like to wait for the SAT results to come in and then we would go to the Board and sit down together to review what exactly is the SAT verdict and I would like to comment only after that. These are conjectures. These are forward looking, and I would not like to comment anything on either any individual or anything that the company would do. The company has a plan, it's been doing on it, and that's the way it will continue to do, obviously with the guidance of the Board, it continues to actually operate, and that's the way we are going to do it.

**Moderator:** The next question is from the line of Amit Ganatra from HDFC Mutual Funds.

**Amit Ganatra:** Just a couple of questions from my end. One is your cost of funds have come down over the last one year. Have you passed on any lower interest rates to your customers? Because on reported basis or even on calculated basis your yield on advances continues to remain where it was one year ago. Whereas for many of your peers it has come down very sharply. So, can you highlight what it has been, has there been any reduction in the lending rate for you on your back book also? And what is the current interest rates on the back book on retail?

**Hardayal Prasad:** CFO will cover in detail. But let me tell you, in terms of the lending rate and in terms of calibrating the lending rates, the company is continuously going to look forward. The company looks at that and we are going to quote the rates that we are going to borrow, add whatever costs are required to be added to it, on the borrowing costs, the cost of borrowing, and then the lending rate is arrived at. The company continues to look at those things. In the last about 6-7 months, the company has brought down the interest rates on four occasions. And these have been pretty well received because if you look at when the business was completely normal and we got the 90 days in the fourth quarter of FY21 which is January to March, the company did significant amount of business. And therefore, there is a big scope for doing good business. We will continue to do good business at the cost at which we are offering the lending rates. So, in terms of the rates we look at it, the ALCO sits, the ALCO decides on the rates, and we see what is the best that we could do. This is on the cost. On the cost of borrowings also the company has in terms of the cost of borrowing if you look at it, and cost of fund and other things I leave it to the CFO to cover it. In terms of the cost of borrowing, we have renegotiated everything. Every bank and every lender we have gone, and we have spoken to them, and we have told them that there is a significant, whether if it a 100-basis points reduction in the REPO and other things, if there is a reduction of about 70-80 basis points in the MCLRs of various banks that you look at it. We have continuously got ourselves engaged. It is not just actually bringing down the interest rates on the MCLR. Just because the MCLR has come down but it is renegotiating the spreads over the MCLR. I think that is one of the reasons that we had engaged with every bank and fortunately, for us that everybody realized that yes there is a big opportunity to reduce the interest rates and keeping in view the way the company operates, it operates under the umbrella of PNB name. So, we have been able to negotiate. That's one of the reasons why we have been able to do it. I think it can also cover on the spreads and NIMs and other things on the cost of funds etc.

**Kapish Jain:** So, Amit, there are two parts of this. So, one is on the new acquisition, yes, on the new acquisition we have reduced our rates. Like our MD mentioned four times we have done this and as and when we get benefit on our cost of borrowing on the incremental long-term money that I'm borrowing, we try to see how we can be more cooperative on the offering with regard to pricing to our customers and also maintaining a reasonable spread on the new acquisition. So that's something we have done. Our new acquisition pricing has come down from what it was in last year same time to what it is today. On the old book as well, we have a board driven repricing policy, which helps us in working with our customers, considering factors on their credit profile to pass on them on repricing benefits that they can take in under a defined policy, which is approved by my Board and in line with what the regulator prescribes. With taking them into consideration we do offer repricing opportunity to our existing customers from a retention perspective and on the new acquisition we have reduced our rates when I'm acquiring customer what it was last year to what it is now. On overall book with regard to old book, we have not done any realignment across the board on the pricing.

**Hardayal Prasad:** It’s very important that the CFO mentioned that this is regarding actually incremental long-term borrowing. I think we look at it pretty differently. I mentioned to you the incremental cost of borrowing has come down to 5.74% but when we look at the lending rates and the stability of before and the long-term product that we have, we always look at the incremental long-term borrowings rate that what is it that we are doing it and that would always be different than incremental short-term rate that we would sometimes get one of the best rates we could get it. I think those are very important things from the point of view for profitability point of view that the yields on advances as well as the spreads or other things we are able to control, net interest margin is maintained. I think these are some of the things that we are continuously looking at it.

**Amit Ganatra:** My second question is that, now what we've seen in last 1 year is the mix that you have and the return ratios and NIM and all you're delivering, is based on a book which has gone down. Now I am assuming that you will get growth capital soon and once you get that and you start growing, I just wanted to know that the future growth when it starts happening, will the mix be similar in terms of your LAP as well as housing loan and also the mix between salaried and self-employed, I mean the future composition of AUM will it look similar to what it is currently or that is going to change meaningfully going ahead?

**Hardayal Prasad:** Actually, the portfolio has been rebalanced, so if you look at it, with the down-selling and the faster repayment of the corporate book the book as such is actually showing a completely difference. So, the rebalancing will continuously take place, when we said January that we are going to rebalance the whole portfolio by becoming a retail focused organization then we very clearly mean that and that's the way we are going to do it. In terms of actually anything that we are going to do for a building a new book and other things, we will continue to actually focus on that book. The corporate can give me a higher rate but we are looking at a very stable book, extremely stable book. These are the books which will enable us to actually take care of the when there is an economic bump that keep on coming in and that's the way we are going to actually respond to the whole business.

**Kapish Jain:** Amit before I forget, one more element why my yields are staying where they are, maybe a year prior though my new acquisition was at a lower rate. It is also because I repriced my corporate assets in Quarter 1 of last year. We across the board increased our rates by around 1% to 1.25% for my corporate assets. Benefit of that kept on coming into my book and therefore while I have reduction in the retail assets, the incremental new earning that I got from the corporate kept that blended yield at a similar level with 10-20 basis points reduction.

**Moderator:** The next question is from the line of Shubhranshu Mishra from Systematix.

**Shubhranshu Mishra:** Given the fact that we are increasing our digital foray, what life stages of the credit is going to affect and what are the budgeting exercises done for the OPEX decrease if you can guide for that, that's point number one. Point number two is, the LAP I see a large portion of the book being more than 70 lakhs. So how many customers do we have outstanding for that particular book and given the fact that we are talking about granularising the book, what kind of proportion we can look at maybe in 2-3 years' time, what could be retail, what could be LAP and what could be non-retail if you can?

**Nitant Desai:** On digital footprint can you please repeat your question so that I can give pointed response?

**Shubhranshu Mishra:** Sure. What kind of OPEX decline are you looking at the digital sourcing increase and which all parts of the life stages of credit is digital going to affect? Has it only sourcing or there are various other life stages that we've also planned out because we also spoke about analytics, so one is with life stages of credit digital foray going to affect? Second what is the OPEX decline one can look at given the fact that digital foray is increased?

**Nitant Desai:** First of all, the digital footprint will be implemented across the life cycle of the loan and it is not only restricted only to the underwriting process or a collection process, it is end to end. As you see our direct initiatives that we have just taken on digital sourcing and digital applying for a digital application for the customer to apply for the loan, it is gaining momentum. However, it is too early for any initiative to come out with a targeted OPEX reduction upfront because this increase into productivity also results into some kind of an augment of the staff required to process a similar amount of number. So those calculations will fructify only probably when the digital initiative reaches to its peak or it reaches to a stabilize mode.

**Hardayal Prasad:** Shubhranshu, on the digital side, right from the acquisition which is I spoke about 46% is the acquisition and then what we are saying is, I mentioned to you about the rule engine, I mentioned to you about the business rule engines which are important. The salaried will go through the complete automated processes with completely new rules being written, automating the whole processes, duplicacies being removed, redundancy being removed, RPAs taking over the repetitive work. Similarly, as it moved forward is moved towards the disbursement leg and then it finally goes through the collection leg and papers filed, e-KYC. A lot of work which is the repetitive and which is very expensive. The acquisition cost comes down, very critical for us. Sometimes it becomes self-servicing. Actually, the underwriting cost comes down significantly. The collection is already we are working on it but at the moment we integrated fully with our tiger app that we call for the collection. All these things are significant in terms of bringing down the cost to income. We are looking at that in case or I would not say in case, when we go ahead and fully implement it, the acquisition is fully, so similarly the whole cycle is actually integrated but the rule engine is going to come only after September-October. Once we have done it, it's a volume game that we are looking at it. We should be in a position to improve the volume. Therefore, instead of saying that how much cost I will be able to reduce. I think a good measure would be to understand that we should have a very controlled, calibrated cost to income basis. The income can go up with the business volumes that we will generate and the cost will not go up in the same proportion as the other things will actually grow. I think those are some of the very important things in terms of the digital push that the company is having. We'd like to be called a strong digital company. On the LAP and other things would you like to respond?

**Jatul Anand:** Yes. See loan against property if we see that up to INR 75 lakhs segment there is an increase in portfolio and which you mentioned beyond that you see a decrease because incrementally and this is not recent, last 4-5 quarters incrementally the focus has been to funding of the LAP cases around 30-40 and even 75 not more than 75 lakhs. When we see this our average LTV is less than 50% when we speak and then on the LAP, we find that the predominantly self-employed portfolio with an average age of 40 years plus, these are second or third generation business profiles. So, I hope I have answered it.

**Rajan Suri:** On NHL piece where we are talking about ticket size, our ticket size we have considerably reduced in more than 75 lakhs. If you talk about 75 lakhs earlier, some 1 or 2 years back we were at somewhere around 14%-15%. Now we're come down to 14% there. Our INR 2 to 5 crores ticket size come down from 20% to 9% and similarly in 5 crores, we have come down to 16% to 3%. That's where we are moving to a granular ticket size in terms of NHL business. As Jatul mentioned, we are very careful in sourcing these kinds of business because almost every month we get these advisories from underwriting team to pick up those cases which have a good CIBIL record and all those things. In CIBIL also we are very careful. We're not picking up good CIBIL cases also. So that's where we are currently.

**Shubhranshu Mishra:** The number of customers outstanding with more than 75 lakhs of exposure in the LAP book, that was my question. I understand the granularity part of it. If you can give me those numbers.

**Deepika Gupta Padhi:** Shubhranshu as of now we would not have those numbers handy. We will come back on that.

**Hardayal Prasad:** During the course, if we are able to get that we'll just give it to you. Otherwise, we can go to the next question.

**Moderator:** The next question was from Nidhesh Jain from Investec.

**Nidhesh Jain:** Just one question on our credit rating update and any interaction with the credit rating agencies. Since our performance has been reasonably good, we have cut our gearing, our book seems to be very well provided. I think we are carrying the highest provision as percentage of the loan book amongst all the HFCs. What credit rating agencies are waiting for to upgrade our credit rating?

**Kapish Jain:** Nidhesh, actually we did have one conversation round with the rating agencies in the last quarter. One thing is that capital is not coming in as a real demand because they are drawing some comfort on the gearing side and they are now looking into the other aspects of the business as well to build a case for rating. They could see that our gearing has come down. They could also see that we have reduced the mix between retail and corporate. So those are the comforting factors. There similar conversation has moved to other aspects of the business to enable us to build that case or a twostep process. The first step would be to see our outlook change from current status to a stable or a positive stage and then to have the next level conversation on the rating improvement as well. COVID wave 2 does brings in some stop to that process because they would now like to wait and watch to see how things are stabilizing for players in the market to start any further conversation on the ratings improvement.

**Nidhesh Jain:** But the current gearing from their perspective, so I want to understand that on a sustainable basis is the current gearing a sustainable number from credit rating comfort or they want much lower gearing from these levels also.

**Kapish Jain:** Yes. They're using words like the current gearing is reasonable. The current getting is fair, so they're not giving us a very strong thumbs up kind of a statement because of the environment but they are not raising anymore concerns on the gearing because the corporate book has also come down and the gearing otherwise has also improved with internal accruals coming in as well.

**Hardayal Prasad:** There is a disconnect between the gearing that they are looking at it and the gearing that NHB looks at. We have told NHB also to reconcile with them that why they are looking at differently. But anyway, they obviously are looking at and everybody because of the lot of capital that has been infused in many of the HFCs they are looking at lower gearing. There is no second thought about it. However, 6.4x that we have achieved is a good gearing in terms of the risk and the reward and other thing.

**Nidhesh Jain:** Yes, because if we are required to further bring down our gearing that will mean that our ROEs will always be suppressed. That is a bit of a concern. Second in terms of yields, if you can share what are the yield on our current book on the retail portfolio and on the housing portfolio.

**Rajan Suri:** Yield on retail book for this quarter i.e. incremental for Q1FY22, is 8.73%,

**Nidhesh Jain:** And on the housing portfolio, housing loan book?

**Rajan Suri:** Incremental yield for Q1FY22 for housing its 8.41%.

**Kapish Jain:** Nidhesh he's talking about new acquisition.

**Nidhesh Jain:** These are the incremental yields.

**Deepika Gupta Padhi:** Yes.

**Nidhesh Jain:** Can you share the book yields also that would be useful?

**Deepika Gupta Padhi:** So, book yield for retail segment, Nidhesh, is 9.58%, within that individual housing loan book yield is 9.19%.

**Moderator:** The next question is from the line of Onkar G from Shree Consultancies.

**Onkar G:** Once this project is implemented what kind of growth are you looking at?

**Rajan Suri:** We have clarified in the last conference call also where we mentioned that we will be targeting around 50% to 60% of growth on disbursement, so we will be carrying on with that. That's where our endeavor is to reach. We are focusing on that number currently.

**Hardayal Prasad:** Just give a flavor of the disbursement that you made last year so that they can understand.

**Rajan Suri:** We are pretty sure that we will be able to achieve these numbers because if you see in the last year quarter of Q4 we were able to get around INR 4,000 crores of disbursement in the quarter where in the month of March we were able to do almost INR 1,500 crores of business. If you see going forward, we have got all wherewithal.

**Hardayal Prasad:** Onkar, we did approximately INR 10,000 crores of disbursements last year.

**Hardayal Prasad:** I think that is what they are looking at. When he says 40% to 50% we would look at this kind of growth. It also comes from on the assumption that there will not be lockdowns and other thing that is one part. And that is one we are going to bake it into us, the MOU or the budgeting that we want to do. However, your question is beyond that and I will let you know. What you are saying is that when I'm going to be done with this project IGNITE with my consultants what is the kind of growth I would be looking at it? Now this is something that will also flow in, some of it will flow in this INR 14,000-15,000 crores that he's talking about. Some of it will flow in because of the changes in the processes into the territories, into the system that we are going to introduce and some of the business is going to come because of those changes in the 1 year that we are going to have. However, the changes are going to be significant once we have stabilized the whole operation. That is, it's a 1-year project. So, I would assume that after about 9 months and about 6 months from now we should see some good traction coming in into the whole and Rajan just mentioned that we are looking at that kind of disbursement improvement which is I think in my opinion we can very easily take it up over there assuming that the COVID-wave 3 is not there. There are no more lockdowns across India and we are in a position to have business as usual.

**Rajan Suri:** Because Project IGNITE is just not about as MD mentioned. It’s just not about generating our numbers. It’s about having complete overhaul of the systems, overhaul of the processes, increasing our digital footprint across the organization. There are many things which will be taken care by this Project IGNITE and obviously we are foraying into big time into now into affordable housing so that’s also a part of Project IGNITE and we are taking it up very seriously and all this thing will add value there.

**Onkar G:** I was saying that just from the first question which I asked, I was saying that whatever you have said it means that from the next financial year the project should start giving its results right?

**Hardayal Prasad:** Yes, absolutely.

**Onkar G:** The second question is on the capital adequacy. Since you already have a 21% and with the new capital coming in what would be your target areas for the growth?

**Kapish Jain:** Onkar within our target areas for growth, we would so obviously we have made that statement that our endeavor would be to grow into the retail segment. There's a stated NHB directive as well that you need to maintain home housing at around, the individual housing at around 50% and overall housing at around 60%. That's the broader framework for us with regard to business mix. So, nothing really changes with regard to our new opportunities in terms of product segments. It would be retail driven, it would be individual housing and the LAP mix, the mix here could be in the range of around 70% to 75% of individual and 25% to 30% of LAP. That's the kind of mix which we have always maintained. In the housing portfolio, we have the product Unnati which is our focus area as well which we want to build up in a calibrated manner and MD just mentioned that we are talking about moving into 13 new locations as well. That will give us an additional uplift on our overall yield as well. But this is not as we want to drive them in a reckless manner entering this portfolio. It will be a very good gradual progression to making sure that we have the set infrastructure available with regard to collection recovery as we build the asset base. So, the focus would not change, anywhere it would be retail, it would be individual home loan, LAP driven, some bit by Unnati as well. Other aspects of the business which will come into grill, bring in further revenue for us would definitely be aspects like co-lending and as MD mentioned in the statement as well that co-lending gives me an opportunity to get there additional ROA uplift because I don’t invest my capitals. I get upfront income in the form of other fees and revenues as well. I am able to target customers whom I otherwise may not have been able to if they are really very prime segment customers. With this that kind of customer I do make a decent spread as well as I do co-lending. So that's additional aspect of business that we want to work on.

**Onkar G:** Whatever you have just said this is irrespective of the Carlyle deal you are talking about, right?

**Hardayal Prasad:** We are talking about business as usual, that is one part and we don't know, the matter is sub judice.

**Onkar G:** Yes, whether that goes through or it doesn't?

**Hardayal Prasad:** Anything on the capital or anything we would like to wait for it and we will be ready with it, once we have some kind of a clarity that comes from the SAT and we will go back to the board, discuss it extensively and come out with our strategy in terms of whatever the direction that we would like to make. As part of our business, it's a large organization, it's an organization with about INR 70,000-75,000 crores of business. It has its own way of doing it and it has those strategies in place to grow. It knows what exactly it wants to do it. It's just a question of whatever new things that you have you would like to tweak your strategy for optimum results. I think that's one thing that we would like to look at it, given the circumstances that we operate in.

**Moderator:** The next question is from the line of Sumit Jain from Sumit Associates.

**Sumit Jain:** You have mentioned that you have raised the NHB refinance of nearly 490 crores in Q1, right?

**Sumit Jain:** Your incremental cost of and for the Q3 is 5.7% something, right?

**Kapish Jain:** Yes.

**Sumit Jain:** Total borrowing, how much total borrowing we have done in Q1?

**Kapish Jain:** So, it was a mis-statement. The amount is INR 1,490 crores not INR 490 crores. We did INR 1,490 crores from NHB in Quarter 1 and the total volume that we did in Quarter 1 its around INR 5,500 crores is what we raised in Quarter 1.

**Sumit Jain:** Out of 5,500 crores you have raised 1,490 crores something from NHB refinance, right?

**Kapish Jain:** Yes. 1,490 crores.

**Sumit Jain:** NHB refinance is basically short-term liability or long-term?

**Kapish Jain:** It's a 1-year money.

**Sumit Jain:** Special refinancing.

**Kapish Jain:** It's a 1-year money but I would also like to assume that NHB has been supportive of us and every year we have been able to draw new sanctions so we should be able to get this refinance as well. We should be able to get it refinanced and further extend it once this money comes to maturity.

**Moderator:** The next question is from the line of Qazi Saifur Rasool from ICICI Bank.

**Qazi Saifur Rasool:** I just have a quick question here. I am trying to understand the rationale behind making it a retail centric portfolio by January because as far as I can think increasing the exposure towards the retail segment will definitely increase the risk of the portfolio as well. So, until the economy is performing perfectly, in the distressed times I think the loan to value ratio will decrease significantly because the probability of a decline in the value of Grade A properties which are in the case of corporate borrowers is very low when compared to individual housing. I just want to understand the rationale behind making it a retail focus portfolio by January.

**Rajan Suri:** Qazi, I mean if you understand this total break up of how things are panning out and how things have been for us in the past also. So, the corporate portfolio was not doing that great for us and we categorically we have started moving towards, shifted our focus towards retail business. The main purpose is that we were not getting too much into a bulk size business in a corporate where we want to spread; we don't want to have a concentrated risk in our book. The main purpose is to have a well spread-out book and the risk is obviously been split out in that ways. You understand that the risk weight associated with that book, there is risk weight associated with the book of corporate is pretty high in terms of. Its 100% is a risk weight associated with the book and if you talk about risk weight associated with the retail book it is in the range of 50%. There also we are able to deploy our money in a much more efficient manner where we will be able to get much more returns. If you see all those aspects putting together the risk, the capital, the return, everything I think this makes a much more sensible proposition for us to be in a retail book.

**Saurabh Suri:** Adding to what Rajan has said, real estate is quite a cyclical business and it has its own nuances. So management here very well understands when the risks are enumerating in certain kind of a portfolio and we are very proactive to understand that when to start and when to stop and that's the most important aspect. We were quick enough to realize that there are systematic issues and we were quick enough to react to it, bring down that part of the book very quickly. Somebody was holding on to this book in the COVID times, this is one of the most impacted part of the books, specially LRDs and everything. We were very quick enough to shut off this part of the portfolio and save on our capital. Again, it's a cyclical business. As of now our thought is that till the economy stabilizes, till the situation stabilizes we would want to diversify our risk, be more on the retail side and we will see as and when the situation improves. As of now we will be within the absolutely correct strategy.

**Hardayal Prasad:** Qazi, the one thing is this on the consumption of the capital and obviously corporate ask for massive capital. It's a capital-intensive business also that's one part of it. But please remember that whenever we are talking about the retail, we are simultaneously talking about creation of verticals, affordable housing and I think the Government of India is also very clear in terms of the affordable housing and they are promoting it. Secondly, if you talk to any of the builders you realize that everybody is concentrating on building affordable housing flats. There is massive opportunity that is going to come up in India on the affordable housing side as well as loans which are less than 2 crores also. I think it gives you a very a large portfolio which will become stable as we grow. A minimum mass of portfolio is going to be very stable portfolio and it is not vagaries of the economic cycle. It's not the cyclical business that took today, suddenly you know one INR 500 crores account, it can actually create some little bit of a turmoil in the company, those kinds of things. I think retail, it gives you very good stability and the moment you enter and perfect and you start doing good amount of affordable, the overall yields on advances improves. I think that is very critical from our perspective and that's what we are looking at it that how do we manage it and how do we ensure that these NIMs and others are actually improving continuously? I think that's one of the ethos and on which we are moving and we are going to build on it.

**Moderator:** We will take one last question which is from the line of Deepak Lalwani from Unifi Capital.

**Deepak Lalwani:** I think you may have discussed it earlier briefly but if you don't mind repeating. You have done a disbursement of around INR 10,000 crores last year. What is the target you are looking for this year and maybe the following year?

**Rajan Suri:** So, Deepak I think I am just repeating it. I have done it again previously also to, we are just targeting almost 40% to 50% growth over INR 10,000 crore. So that's the number that we are targeting currently.

**Deepak Lalwani:** For this year and maybe next year do you have any targets or is it still?

**Rajan Suri:** Next year, we would see, we will get back to you on that.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints, that was the last question. I now hand the conference over to Ms. Deepika Gupta Padhi for closing comments.

**Deepika Gupta Padhi:** Thank you everyone for joining us on the call. If you have any questions unanswered, please feel free to get in touch with Investor Relations. The transcript of this call will be uploaded on our website. Thank you.

**Moderator:** Thank you. On behalf of PNB Housing Finance Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

**Response to the unanswered query:**

1) **Number of customers outstanding with more than INR 75 lakhs of exposure in the LAP book**: 2,886 loan accounts as on 30th June, 2021