Ghar Ki Baat

# "PNB Housing Finance Limited Q3 and 9M FY19-20 Earnings Conference Call"

## January 23, 2020

Ghar Ki Baat

**Participants from PNB Housing Finance:**

| | |
|---|---|
| Mr. Sanjaya Gupta | Managing Director |
| Mr. Shaji Varghese | Executive Director-Business Development |
| Mr. Ajay Gupta | Executive Director-Risk Management |
| Mr. Kapish Jain | Chief Financial Officer |
| Mr. Anshul Bhargava | Chief People Officer |
| Mr. Nitant Desai | Chief Centralised Operation & Technology Officer |
| Mr. Sanjay Jain | Company Secretary and Head Compliance |
| Ms. Deepika Gupta Padhi | Head - Investor Relations |

**Moderator:** Ladies and gentlemen, good day and welcome to the PNB Housing Finance Limited Q3 and 9 months FY 19-20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and 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, Aman. Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q3 and 9 months financial year 19-20 results adopted as per Indian accounting standards. You must have seen our business and financial numbers in the presentation and the press release as were shared with the Indian stock exchanges and is also available on our website that is www.pnbhousing.com.

With me, we have our leadership team represented by Mr. Sanjaya Gupta – Managing Director; Mr. Shaji Varghese – Executive Director, Business Development; Mr. Ajay Gupta – Executive Director, Risk Management; Mr. Anshul Bhargava – Chief People Officer; Mr. Sanjay Jain – Company Secretary and Head of Compliance, Mr. Nitant Desai – Chief Centralised Operation & Technology Officer and Mr. Kapish Jain – Chief Financial Officer

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

Please note this call may contain forward-looking statements which exemplify our judgement and future expectations concerning the development of our business. These forward-looking statements involve risk and uncertainties that may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. A detailed disclaimer is on slide 2 of the investor presentation available on our website. Now I will now hand over the call to Mr. Sanjaya Gupta for his remarks.

**Sanjaya Gupta:** Thank you, Deepika and good evening to everyone. Welcome all to our quarter 3 and 9 months financial results for the financial year 2019-2020. This year is a year of capital conservation and capital raise, liquidity management, asset liability management, resolution of corporate accounts and overall asset quality. During the year, the company continued to mobilize long-term resources through bank term loans, ECB, deposits, NCD, securitization via the direct assignment route, etc. In quarter 3 of financial year 19-20, the company raised NCDs from LIC amounting to INR 2,500 crores. It is a long-term NCD with a door-to-door maturity of 10 years. In spite of the challenging environment, the company during the year incrementally mobilized debt of over INR 33,000 crores.

The company enjoys a very strong deposit franchise supported by the highest rating of FAAA from Crisil Limited and is the second highest deposit mobilizer in the HFC sector. We mobilized over INR 7,500 crores during the 9 months of the financial year 19-20. These deposits are sticky in nature with tenure ranging between 30 to 36 months and a healthy high double-digit renewal rate. Deposits as of 31st December 2019 stand at INR 16,470 crores that is 19% of our total financial resources

With INR 17,103 crores of securitized book, as of 31st December 2019, the company has developed expertise in securitizing through the direct assignment route. As of 31st December 2019, our securitized book is of 35 months vintage with gross nonperforming assets of only 0.20%. With an objective to contain gearing, the company securitized INR 3,342 crores during quarter 3 of financial year 19-20 and 9,239 crores during the 9 months period of financial year 19-20.

We also sold corporate finance assets amounting to INR 1,963 crores during the 9 months period for FY19-20. With our continued focus on the long-term borrowing securitization and sell-down of corporate finance assets, the ALM gaps across buckets are further contracted with no negative gap up to 1-year bucket and significantly lower gap in the subsequent buckets as well.

On our resource profile, 23% is contributed by banks, 22% by the nonconvertible debenture, 20% by direct assignment, 19% by deposits, 7% refinance from the national housing bank, 6% through the external commercial borrowings and 3% by commercial paper. Our share of commercial paper reduced from 8,625 crores as on 31st December 2018 to 2,591 crores as on 31st December 2019.

The company has maintained excess cash and liquid investments to the tune of 9,258 crores as on 31st December 2019 along with undrawn and sanctioned OD lines from banks our liquidity position moves beyond 10,000 crores.

With all the measures taken, our CRAR as on 31st December 2019 increased to 17.06% with tier 1 at 14.09% and much beyond the minimum regulatory tier 1 requirement of 10%. This has improved from CRAR of 13.98% with tier 1 of 11% as of 31st March 2019. Please note the CRAR numbers are as per IGAAP, net own funds and does not consider the positive impact or net worth arising out of IndAS adjustment.

The gearing of the company is at 8.48 times as on 31st December 2019 which has improved from 9.66 times as on 31st December 2018. If we net off the surplus cash and bank balances excluding next 2 months of projected commitment from the outstanding borrowing, our gearing further improved to 7.7 times as on 31st December 2019.

As on 31st December 2019, we have assets under management of 86,297 crores with share of retail loans being 82% and corporate being 18% of the AUM. During 9 months' period of FY 19-20, the company sold corporate loan book worth 1,963 crores, the AUM reported is net off sell down portfolio.

We continued to focus on building our retail book. Geographically, West is our largest market with 41% of assets under management followed by North at 30% and South at 29%. We have limited presence in East with 3 branches, two in Calcutta and one in Bhubaneswar which forms part of the North zone.

In our retail segment, individual housing loans constitute 59% of the AUM. Retail LAP, that is retail loan against property constitutes 19% and retail non-residential premises loans contribute 4% of the asset under management. In the individual housing loan segment, we do perceive there may be some delivery risks due to constraint credit flow to the real estate developers, hence conservatively staying away from funding retail home loan for under construction segment, we are focused on the completed properties. As a result, the under-construction portfolio as a percentage to individual housing loan has considerably come down from 31% as on 31st March 2018 to 20% as on 31st December 2019.

Our retail LAP segment consists of loans primarily disburse of working capital through the SME customer. Our LAP book has an average ticket size of INR 48 lakhs with loan to value of 49%. Majority of our customers are credit tested with average monthly income of INR 2.1 lakh. LAP portfolio includes 81% of self-employed customers in the age bracket of 40 to 55 years. The corporate loan book as on 31st December 2019 is 18% of the asset under management, down by 1% on a sequential basis. This comprises 12% construction finance, 4% corporate term loan and 2% lease-rental discounting. Our lending in this space is primarily to marquee real estate developers and repeat customers. During 9 months of FY 19-20, the corporate book witnessed a natural runoff of 15% annualized, not considering the sell down of INR 1,963 crores of LRD. As on 31st December 2019, our corporate book is spread across 150 unique developers, down from 156 as of 30th September 2019. Construction finance is spread over 114 developers and 153 projects. Corporate term loan and LRD are spread over 49 and 14 developers respectively.

During 9 months' period of FY 19-20, principal repayment started for 60 corporate finance loan accounts having total loan outstanding of INR 2020 crores. The amount collected in these facilities during the principal moratorium period was INR 483 crores. The top 20 developers with 62 loan accounts constitute 62% of the corporate book. As informed earlier too, as a part of our continuous monitoring, we had identified 5 accounts which were stretched. Initially, when we had identified these accounts, the loan outstanding as on 31st March 2019 was INR 908 crores which has further reduced by 9% as on 31st December 2019 to INR 819 crores. On lines of conservatism and as a prudent measure, we have created 37% ECL provisioning in these 5 accounts as of 31st December 2019. In addition to this, we have steady state provision of INR 168.5 crores.

Out of these 5 accounts, one account, Ireo Private Limited moved into NPA in quarter 1 of financial year 19-20 and two accounts, that is Radius and Supertech has moved into NPA in quarter 3 of 19-20. The developer, Ireo Private Limited has approached the company with a structured repayment plan. As a result, the developer paid INR 49 crores resulting in principal outstanding to be reduced to INR 101 crores. We continued to work with the developer on the structured payment plan and expect to resolve this account by end of the current financial year.

In case of Supertech, since the developer is running into multiple credit exposures, it was essential to ensure remoteness to bankruptcy and hence transfer the project. The company through vigorous followers along with legal actions on the developer have been able to get a favourable order from the Haryana RERA regarding cancellation of earlier project registration favouring Supertech and movement of the project and its registration to SARV, a land owning SPV. In the process, remoteness to bankruptcy was attained in SARV. RERA has also advised the existing lenders to rebook and restructure the loans in SARV.

With respect to Radius, the project has enough receivables and construction for the commercial portion has already commenced. The company is in close consultation and discussion with the co-lender and monitoring all events.

In the month of December, there were concerns raised against one more developer that is Omaxe. The company has disbursed INR 635 crores to the developers for 3 projects in Chandigarh and Lucknow. The outstanding as on 31st December 2019 is INR 418.5 crores with the security coverage of 2.3 times. The entire exposure is in stage 1 as on 31st December 2019.

Considering the external environment, the company has significantly reduced corporate loan disbursement and has also tightened its monitoring norms, restructured the entire team and heavily invested an IT enablement of the workflow to further make operations robust and world class. We would continue to remain cautious while lending to this segment till we see positive developments and improvement in the sector and macro economy.

Gross NPAs as of 31st December 2019 is 1.45% on the AUM and 1.75% on the loan assets. The NPA includes 3 large corporate accounts that we have mentioned as stretched in May 2019. Excluding the three accounts, the gross NPA would be 0.88% of the loan assets. In this regard, I would also like to mention that the live to date write-offs of the company is 7 basis points of the cumulative disbursements. As on 31st December 2019, our total provisions to assets stand comfortably at 1.52%. The provision coverage ratio for Stage-3 has moved up to 28.43% as of 31st December 2019 compared to 22.26% as of 30th September 2019. The financial results of the company as on 31st December 2019 are as under**.**

Profit after tax for the 9 months period stood at INR 888.3 crores as compared to INR 811.8 crores for the 9 months period of 18-19, a growth of 9.4%.

The Spread on loans for 9 month period in FY 19-20 is 256 basis points. Excluding the assignment income and other IndAS adjustments that is as per IGAAP, the Spread on loans for the 9 months period is 212 basis points compared to 193 basis point for the 9 months period of 18-19. The expansion in spread is due to healthy yield of the loan portfolio compared to the cost of borrowings. The net interest margin for the 9 months period is 311 basis points.

The Gross margin, net of acquisition cost and including fees for the 9-month period stood at 331 basis points against 326 basis points during the same period of the previous year.

The OPEX to average total assets for the financial year excluding the ESOP cost of INR 24.41 crores being more of an accounting provision stood at 57 basis points. This includes employee cost of our wholly-owned subsidiary, PHFL which largely houses the in-house salesforce.

The cumulative ECL provision as on 31st December 2019 is INR 885 crores. The company also maintained steady state provisions amounting to INR 168.54 crores.

The Return on Assets for 9 months period is 1.44% compared to 1.51% in 9M FY 18-19. The Return on Equity for 9 months period is 14.99% compared to 16.22% in 9M FY18-19.

The closing net worth as per IndAS as on 31st December 2019 is INR 8,325.1 crores.

Our gearing was 8.48 times as on 31st December 2019 against 9.66 times as on 31st December 2018.

Now, let me talk about the business performance.

During the 9 months period, we registered a degrowth of 25% in loan file logins compared to the corresponding period of the previous financial year.

The disbursements degrew by 43% to 15,800 crores vis-à-vis 27,518 crores during the same period of the previous year. Retail disbursements degrew by 26% year-on-year to 14,506 crores and the corporate finance disbursements degrew by 84% year-on-year to 1,293 crores during the 9 months period of 19-20.

Loan assets, net of assigned loans, is 69,194 crores as of 31st December 2019 representing a degrowth of 2% year-on-year.

During the 9 months period of 19-20, out of the total individual housing loans disbursement, around 36% by value wasn't less than 25 lakh category which can be termed as affordable housing with stabilization of a branch network in tier 2 and tier 3 cities, we look forward to growing the contribution of affordable segment in an individual housing loan portfolio.

In order to implement various CSR programmes of the company, we have incorporated Pehel Foundation during quarter 3 of 19-20. We have a strong 1,614 full-time employees' team as on 31st December 2019. The company while maintaining muted disbursements for the rest of the current financial year would continue to focus on raising tier 1 capital maintaining adequate liquidity, resolve corporate loans and reduce gearing level.

Let me give an update on the capital raise plan of the company. As part of the capital raise program, we have a very positive update from our promoter that is Punjab National Bank. PNB has confirmed that they will maintain a minimum shareholding of 26% in the company while ensuring that the company has access to sufficient capital to meet its own growth objective. PNB has confirmed that its stated objective is to continue to hold 26% in the company and continue to be the promoter of the company. PNB further mentioned that they do not plan to sell any of its current holding. The company shall continue to use the PNB brand.

Further, during capital raise process, the company met investors and discussed about its growth plan. Over the next 3 years, that is financial year 20 to 23, the assets are expected to grow at a CAGR of around 15 to 18% per annum. The spread is expected to be anywhere between 200 to 215 basis points and the gross margin is expected to be 330 to 350 basis points. The OPEX to ATA is targeted to reach 56 to 60 basis points and the credit cost will be contained from the current financial year. The return on assets is expected to be in the range of 170 to 190 basis points. With the mentioned growth rate and post infusion of the planned equity in the current fiscal, the company is expected to maintain a steady state gearing of 7 - 7.5 times with no further equity envisaged up to financial year 2023. Please note that these are management estimates basis the current market conditions and subject to review and ratification by the board of Directors.

With this, we would now open the floor for questions and answers and thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

**Ritesh Gandhi:** I just wanted to know how much is the exposure to the Lodha group at the moment and the underlying projects

**Sanjaya Gupta:** INR 1,250 crores.

**Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** On the capital raise, do we have any indication from PNB or our any other existing shareholders or any timelines that you can share with us from the capital raise?

**Sanjaya Gupta:** One is Nidhesh that PNB very categorically has said that right away they are in midst of merger with two other banks, so they will not be able to invest in the company but the good thing about it is that they have said they will continue to be the promoter and they will maintain at least 26% stake in the company and the company will continue to use PNB brand and PNB is not going to sell a single share in the secondary market. So, that is why we have recalibrated our capital requirement, muted our growth rate for the next 3 years and with INR 1,500 to 1,600 crores of capital raise, PNB will have a cushion of about 1 to 1.5% depending on the share price of PNB Housing in the current capital raise. Going forward, we will be taking care for the next 3 years with this capital raise and I am sure that PNB after the merger will be in a very strong position and if after 3 years or something like that there is another round and PNB has mentioned without mentioning any time period that they will be the promoter, they will maintain minimum 26%, PNB Housing will continue to get the brand, then I think that eventuality is not to be sort of eclipsed, that in a good tomorrow, PNB might like to up its stake or maintain by putting new infusion into the company.

**Nidhesh Jain:** Any timelines for this 1500 to 1600 crores of capital raise that…

**Sanjaya Gupta:** Yes, this fiscal.

**Nidhesh Jain:** And sir, secondly with our steady state ROA guidance of 1.7 to 1.9% and leverage of 7 to 7.5x, our ROE will be broadly in the range of 13 to 14%?

**Sanjaya Gupta:** Basically, the current scenario is such Nidhesh that we cannot talk about leveraging our balance sheet this moment. We are going very conservative in our estimations, so what we are trying to do is basically have a better sort of return on assets, better portfolio quality, more retail oriented and expand ROTA (Return on Total Assets) compress our OPEX. That is the strategy going forward because I don't know when this entire sort of the critic behind levering more than 8.5 to 10 times, 11 times will go away from the rating agencies because the cost of borrowing is also very important and the rating of the company has to be strong rating of AA+ without any sort of qualification or a AAA and that will give us an advantage that going forward because there is a limit that you can forecast and personally speaking, I think 12 to 14 months is still there to get stability back into the housing sector, enhance the housing finance sector. So, we have projected this low lever on a very conservative basis and with this sort of a ROTA and this sort of a gearing, we will be in the vicinity of about 14-15% of ROE.

**Nidhesh Jain:** Sure sir. And just lastly on the gross NPA and retail segment, I think there is also slight increase on a sequential basis?

**Sanjaya Gupta:** Yes, if you want to take away these three corporate accounts which are in NPA, our gross NPA on portfolio will be something like 0.88%, this will still be the most sturdy in the entire lending space and yes, the retail NPAs have gone up by 20 basis points but this is quarter 3 my dear friend and if you remember every year, in quarter 3 the retail NPAs do go up by 20 to 25 bps because the resolution from the SARFAESI courts only start happening in quarter 4. So, I will once again repeat for the interest of the entire audience which is joined on us, what happens is that the SARFAESI action takes 6 months to mature and by that time it is May-June of the financial year, the first two months, we start putting the recalcitrant retail customers into the SARFAESI court and by the time it is quarter 3 and December 31, they peak because once you are having a legal action you are not collecting anything other than curing an account and in quarter 4, the retail NPAs always come down.

**Nidhesh Jain:** And sir, lastly on the corporate book, so we have disclosed these 5 names. Outside of that, any changes do we see any other name which is in that bucket?

**Sanjaya Gupta:** I will be very transparent and truthful. There are 3-4 accounts which have moved from bucket one to bucket two, but all these projects are very bankable, solvent, the thing is that the macroeconomic indicators are not doing their due justice with these accounts. We because of our very tenacious team and because of our good IT enablement, we were able to bring these, I would say challenges much before the developer showed it in their propensity to repay the loan and we are in consultation with all these developers to help them, construct faster to deploy their funds only in those projects. Even in sales, our property services growth has been able to on a pan India basis sell about 55 dwelling units, etc., so we are doing everything and monitoring the escrow, also changing the escrow sharing ratio where the properties are getting completed, so that more funds come to retire the loan because the projects will now not be requiring funds as they near completion or are completed.

**Nidhesh Jain:** Will it be possible to share the quantum of these 3 to 4 accounts that you are mentioning or?

**Sanjaya Gupta:** Not really, there is nothing alarming, it will be like sharing confidential sort of information of our customer but yes, we will let you know if required. Business as usual sort of a thing, there are forward flows, there are backward flows. This is a business as usual. Your company gets about 2200 crores of recovery from its portfolio every month, natural, without repayment and I will give you a little bit of a flavour. So, on one side, there has been lot of gloom and doom. Now you realize that in the first 9 months, our corporate book was so sterling that we were able to sell down ~2000 crores of corporate loans in this market. I am not talking of quarter 4. Quarter 4, we would have done better because the bank especially, they like their assets to grow, but in quarter 3, right, plus you will be surprised to know that even on the 60 accounts which have moved from principal moratorium to principal repayment, outstanding of about 2020 crores. Then, 385 crores has got prepaid in construction finance and this has all happened in quarter 3 and this is when the seasonality of the business comes in and that is why when you talk to Ajay Gupta - Chief Risk Officer, he always says the biggest challenge is that this is not a quarterly rest business, this is an annuity business, let me complete a year at least, then I will give you a commentary, so this is all quarter three, 2000 crores of sell down, almost 480 crores of repayment during moratorium period of 60 accounts which moved to principal repayment and 385 crores of prepayment in construction finance per annum. So, everything is not bad, there are some good news also.

**Moderator:** Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

**Jignesh Shial:** I missed the initial part, you said there are 3 large accounts in the NPA, of which one is Supertech, right, one you talked about Omaxe?

**Sanjaya Gupta:** No, Omaxe is not an NPA, Omaxe is stage 1, we talked because lot of ruckus was created somewhere around mid of December, that is why we brought in Omaxe here that even on 31st December it was stage 1.

**Jignesh Shial:** And there you said it is 2.3 times the coverages there, 3 projects, Chandigarh, Lucknow and the balance right now is 418.50 crores, right?

**Sanjaya Gupta:** Yes.

**Jignesh Shial:** So, can you elaborate this, I am really sorry, I am requesting you to repeat this, but these three large NPA account, can you just give a brief about that?

**Sanjaya Gupta:** So, this is IPL**,** the Gurgaon one, Radius and Supertech and combined there are 604 crores, if my memory serves me right, not 603, not 605, 604.

**Jignesh Shial:** And Supertech would be, you said that it is already reduced of some 100 odd crores, right?

**Sanjaya Gupta:** No, not Supertech. That is Ireo which has come down by 49 crores in the first 9 months. In Supertech, we did remoteness to NCLT. See, I mean don't only look at delinquency, look at the status of the project. So, Supertech being Supertech with all large banks there and multiple NPAs, my first worry was that my project should not be driven into NCLT, why because this is a very cash rich project. I will reiterate the phase 1 has got 780 units, 85% completed, 650 sold, the receivables from sold alone are in the vicinity of 480 crores. Phase-2 again has 780 units, 45% completed and phase 3 is licensed land which if I was to sell, I can today get 140 crores. Now, I mean the genesis of creating this, I would say bastion around our project was to save a very much bankable cash with positive net worth project to be driven into NCLT because of the infamous Supertech. So, we devoted our 4-5 months, you can imagine getting an order from a RERA authority, to move the project from the parent company to the SPV which was the land owner, or which is the land owner and the land owner is stretched one. So, tomorrow if I was to become a developer, I can just walk into the shoes of the company. The shares are pledged.

**Jignesh Shial:** Sir now, your coverage right now is 28.4%, right, so if you assume that is on your Stage-3 and you are expecting the collections to happen on all your large 3 accounts of 604 crores which is again part of Stage-3, you see this credit cost momentum to remain somehow subdued or do you think the credit cost will remain elevated going forward as well. My thing is recoveries would be sufficient enough. That is what I wanted to know?

**Sanjaya Gupta:** You are bang on, now the thing is this company, let us not look at the AUM today of approximately 86,000 crores, let us look at the history of the company. The company would have disbursed somewhere like 1.5 lakh crores of loans. What is the credit loss, its 7 basis points? What is the ECL for Stage-3, it is 28%. What is the ECL for these 3 large accounts is almost 40%. I have to be sensitive to the report writers, to the rating agencies, to my board and to my colleagues. I am of the same view as you are. So, this is actually providing for a better future and I am very confident if given time and if things stabilize at a macro level, this ECL will actually I will never bring it back into P&L. That is my promise. Stats will speak. I will probably roll it into my steady state provisioning because if you were to trace the history of housing finance and housing sector, every 7 to 10 years this cycle comes, and the company is here for eternity. PNB which is the second largest bank and is 140 years old, has committed that it will maintain 26%, company use my brand, I am the promoter, so I cannot be thinking about 2 years, 3 years, I have to think for eternity, right, so this is a long-term game plan.

**Jignesh Shial:** Now, most of these accounts are in the NCR, we see that is happening and this is cyclical. That is obviously good. Apart from this, any other geographies, I don't want to know the name of the developers, any other geographies whether you are seeing that the pain might stay or might remaining little alleviated for a while or you think more or less as far as PNB Housing is concerned, more or less, now we have done?

**Sanjaya Gupta:** See, I will be very frank, the flow of funding to the developer, we are not the only players, right, we have only 7-8% market share. The flow of credit to under construction properties is becoming a very big question and if you were to ask a person like me who had spent 35 years in this sector, my biggest fear will be under construction retail home loans. Lot was said about us when we fully withdrew from under construction home loans in quarter 3 that they are out of the market, they are insolvent, they are illiquid, all, everything was there. If you want to see by earnings call of H1 of 17-18, somewhere in November 2017, we had harping that they were going to be liquidity crunch, now that is on the treasury side. How do you relate it or correlate it to the business? So, from there, from December of 2017, when we used to have 40-42% of under construction in retail home loans, then we had 31% as of March of 18, it slowly and gradually came down to 20% because today we are talking of 3 corporate accounts and similar number is sitting with our retail as a POS outstanding in NPA but if you were to talk about NPA under construction, one third of the retail is under construction which has gone NPA because the flow of credit is not happening, right. So, the thing is if the average loan of this company is, let us say, 25 lakhs because these are not fully disbursed loans, so each crore will have 4 loans, 250 crores of under construction, will have 1,000 loans. Is it easy to monitor 3 accounts of your developer front or 1000 retail customers spread pan India and this will happen at a sectoral level. I can prophesies it.

**Jignesh Shial:** Unless the revival happens, this is the retail NPA cycle?

**Sanjaya Gupta:** Unless the credit flow happens on the developer side, because there are no advanced disbursements can happen, no front end disbursements can happen, it has to be CLP (Construction linked plan) plan as per the RERA registration. So, if they say on 7th floor of a condominium**,** you can take 40% disbursement, on 5th floor you can't take 40%, even if the lender, the customer and the developer are all in sync.

**Jignesh Shial:** It needs to be resolved as such necessity unless it starts moving into retail, understood.

**Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani:** Sir, at the start of the year, you gave the estimate of stress through 5 accounts, while now you are bit reluctant to share the estimated stress of these 3 for new accounts which have come up, what has changed? Is the quality of these 3-4 accounts much superior and you are not really worried? What exactly has changed?

**Sanjaya Gupta:** Nothing has happened, so as you will remember, we also said in our annual earning call of FY19 that we will disclose annually the stressed accounts. So, once we do annual sort of a review at the end of this fiscal and we get to your earnings call somewhere around the first week of May, we will make a disclosure and the quality of these 3-4 accounts which we are saying are far superior, then the 5 that we mentioned in our FY19 annual earnings call.

**Amit Premchandani:** And the guidance that you gave of 1.7 to 1.9 ROA includes whatever potential stress you may guide for in the May call?

**Sanjaya Gupta:** As I said to the earlier sort of question, we have been very conservative in our 3 years' projection to our board and large investors. We are saying that such situations or conditions will prevail.

**Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

**Shubhranshu Mishra:** Just two questions. One is that, you have got this retail asset breakup and you have given out the ticket size there, so I see almost like 6% to 7% of your loan book is upwards of 10 Cr. So, it is fair to assume that these are all…5 Cr, I am sorry.

**Sanjaya Gupta:** You have mistaken it. Above 10 is only 0.6%.

**Shubhranshu Mishra:** 5 Cr and above sir, it is around 6%. So, is it fair to assume that these are LAP or there is HL over here as well sir?

**Sanjaya Gupta:** There will be HL and LAP, both.

**Shubhranshu Mishra:** Right. In this specific category what is the LTV that we have lent at?

**Sanjaya Gupta:** Relatively in LAP it is 48%.

**Shubhranshu Mishra:** No sir. In this specific ticket size. I am just checking for this specific ticket size.

**Sanjaya Gupta:** It is about 40%. In above 5, it is 40%.

**Shubhranshu Mishra:** Sure sir. And sir in your stressed accounts, the fourth case that you are mentioning is it loan to a corporate entity or to a particular project sir. Is it at a corporate level or to a project, the exposure for sir? Earlier you were saying that it is under litigation.

**Sanjaya Gupta:** In the presentation, that is a construction finance loan.

**Deepika Gupta Padhi:** No sir, this one is IPL.

**Sanjaya Gupta:** This was the IPL; it is a corporate term loan.

**Shubhranshu Mishra:** And is it at the corporate level or to a project?

**Sanjaya Gupta:** It is at a corporate level; it is at a Holdco level.

**Shubhranshu Mishra:** Sure, and it is pari passu?

**Sanjaya Gupta:** No, we are the exclusive lenders. And 101 crores are outstanding.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

**Abhishek Murarka**: I have 3 or 4 just you know basic data keeping questions. One, I just wanted to cross check, when you said that the retail GNPAs have gone up 20 bps, is that in Q-o-Q and last quarter you had mentioned the retail GNPAs at 0.84. So, it should be 1.05, is that correct?

**Sanjaya Gupta**: It is 1.06.

**Abhishek Murarka**: Okay, perfect. Sir, secondly for these 5 or 6 accounts that you had mentioned between last quarter and today, in the last quarter you had also given us ECL along with the outstanding in these accounts. Can you give us the same data please?

**Sanjaya Gupta**: Yes, I will. So, IPL 101 crores, the ECL provision is 37%; Supertech 244 crores, ECL provision is 38% and Radius 259 crores, ECL provision is 39%.

**Abhishek Murarka**: Okay. So, incrementally there has been too much provision in these accounts

**Sanjaya Gupta**: No. There has been a 5% upside between Q2 and Q3.

**Abhishek Murarka**: And sir, what about Ornate and I think

**Sanjaya Gupta**: Ornate, we have an ECL provision of 36%.

**Abhishek Murarka**: And the exposure is still at 181 crores?

**Sanjaya Gupta**: Yeah. Till we don't get a resolution in this account, we are not going to disburse more.

**Abhishek Murarka**: Sure. And what about Waterfront sir, is that also static as last quarter?

**Sanjaya Gupta**: No. Waterfront is not an NPA account and the outstanding amount has come down to 34 crores and the ECL provision is 16%. I don't want to really commit myself but god willing both Ireo Waterfront and IPL Gurgaon should get out of our book well within quarter 4 of this fiscal. You will have to play along with us. You will work hard. The players will work for us.

**Abhishek Murarka**: Sure. Sir, in your new business plans let's say going forward which is like a more moderate growth, what is the AUM mix you are looking at? Is it likely to remain the same or are you looking to increase this?

**Sanjaya Gupta**: So, what will happen is that going forward gradually, because let me be very candid after this capital raise we are going to put a stop to securitization for at least 2-2.5 years, I will do 1000 or 2000 but that will be just a, I would say an ornamental securitization and the idea behind that is because my portfolio has degrown and this is annuity business. The NII flows with a lag and we will have to build a book to get back to our efficiency ratios of FY'19 throughout FY'21 because I don't want to surprise anyone of you in FY'21. I am a long-term player. And gradually my corporate book will be in the vicinity of 15% and my retail book hence would be 85%.

**Abhishek Murarka**: Retail you mean including construction finance, the way you disclose it?

**Sanjaya Gupta**: Retail, would be, retail loans to individuals. Corporate will have construction finance in it.

**Sanjaya Gupta**: So, 85% would be retail. The breakup of the retail would be somewhere between 57% to 58% pure home loans, alright? Around 20% retail LAP, which makes up to 78%. 5% to 7% will be non-residential premises loans to self-employed professionals like doctors, engineers, architects, right? So, that makes the retail book. In the corporate book slowly and gradually, so LRDs we are getting rid of them because they are a sponge on my capital and the lowest yielding book, though it is a zero DPD book. All of you should also appreciate that whatever is the gross NPA number is on a degrown book and on a sold down book and on a securitized book. 20% of our AUM is securitized today, right? So, the construction finance will be 15% which will be the remaining book.

**Abhishek Murarka**: Okay. And what would be the yields on this?

**Sanjaya Gupta**: That is market driven my dear friend. I cannot keep harbing The Reserve Bank.

**Abhishek Murarka**: No, I am asking for the current yield sir. So, in HL…?

**Sanjaya Gupta**: The current yield on portfolio is 10.86.

**Abhishek Murarka**: And for the individual segment?

**Sanjaya Gupta**: For the individual segment, it is about, I mean incrementally for 9M FY20 it is very healthy at about 10.44 is for LAP, home loan is 9.52 and retail is 9.84. So, it is a combination of IHL and LAP, gives me 9.84. The corporate yield is 12.15. CL is today sitting at 12.33 and LRD is sitting at about 10.44.

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

**Kunal Shah:** So, firstly in terms of the declining yields, as you highlighted the incremental yields compared to that of last quarter they have been more or less similar or it has gone up, so this decline in yields, is it largely on account of interest income reversal, whatever margin decline we are seeing and how much would we need that at?

**Sanjaya Gupta**: I will address it very frankly. One is, the NIM has got a little compressed because of two reasons. One is that we are carrying excess liquidity. Generally, we used to carry liquidity for 60 days. Today we are carrying liquidity in excess to somewhere like 130 days, right? So, whenever you carry excess liquidity, you incur a negative yield on that portion. So, on a 70,000 crores portfolio on balance sheet, we are carrying 10,000 crores of liquid cash which is approximately 14% and which is giving me a negative return. That is one. The second thing is that the NII has got compressed because of the true up of securitized pool, right? So, what happens is whenever in Ind-AS you are securitizing, you upfront the spread and discount it at your borrowing cost and balance sheet and you true up the behaviour of that tool every quarter. So, supposing, at the time of event of securitization under Ind-AS, my pool behaviour said that this pool is going to remain the residual maturity is let us say 72 months. When it comes and this is also seasonal, like the cash flows in construction finance, there is a high propensity of people in quarter 3 to prepay loans. So, when quarter 3 when we trued up, the behaviour pattern of the pool there was a sharp decline in the residual tenure of that pools and there was reversal of income of 44 crores. So, these two elements, excess liquidity we got the negative carry and truing up of my securitized pool condensed my NII or compressed my NII.

**Kunal Shah:** Sure. And secondly in terms of the incremental GNPLs, so I presume there were two accounts which slipped during the quarter, Supertech and IPL. So, this happened in this quarter along with 20 bps rise in GNPL. This is what is leading to the entire rise in overall GNPLs?

**Sanjaya Gupta**: Yeah. And also, degrowth of the portfolio. See, I will make you understand the behaviour of the management. So, what was the situation? We were highly levered. The rating agencies and the research houses put us on watch. The capital raise and the position of PNB vis-à-vis PNB Housing was not getting asserted. So, the management could not have continued to have grown at the same pace. So, what did the management do? A) Sell out the corporate loan book, because there is nothing like a securitization of a corporate loan book. So, zero DPD book of somewhere close to 2000 crores we sold down, another 1100 we will sell down in quarter 4. I mean, already the bankers are lining in front of us. Then heavily securitized in the first two quarters, we brought down our level so that we gave ourselves a window of time to let this capital raise get crystallized and not kept on celebrating for growth. So, this is how a mature and a conservative management knows how to manage an institution in given situation and the macro economy is not supporting in any which way.

**Moderator:** Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

**Ritika Dua:** Firstly on the yield front, the incremental, when we hear from most of the other HFCs or other wholesale financiers who have exposures to developer, so they have been able to pass on the increase in cost of funds or rather they have been charging higher through the developers, but when we see your yield on the wholesale side, I mean if I have the numbers correct, the numbers in second quarter and third quarter has always been the same. Sir, what is your take on the same?

**Sanjaya Gupta:** So, I mean, you are talking about pricing of the corporate or the wholesale book?

**Ritika Dua:** Yes sir.

**Sanjaya Gupta:** Now, we are not doing land aggregation; we are not doing conversion; we are not doing legal arbitrage; we are not doing inventory funding. So, we are entering into a project in Stage-IV as per our investor presentation and there these are the type of yields which gets sold in the market. We also did transfer the expansion of cost of funds to a developer friend because there is also a question on, I would say the financial viability of a project to observe a financial cost. Now I don't want the PNB Housing becomes the, I would say the catalyst to make a bankable project to a not viable project by increasing the cost of funds by let us say 500 basis points-600 basis points. So, whatever happened in our treasury, we did pass it on and that is why the demonstration of that is, that the spread on our portfolio has gone up between YTD FY'19 and YTDFY'20, from 198 basis points to 212 basis points.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni as an Individual Investor. Please go ahead.

**Omkar Kulkarni:** So, the fund raising will happen in the next two months, you mean to say that, this financial year? And what would be the quantum approximately and mode of fund raising?

**Sanjaya Gupta:** It is going to be a Tier 1 capital raise. It will not be complicated. The quantum will be around 1500 crores to 1600 crores because we will maintain a cushion for PNB as a promoter not to come down below 26% because that is a mandate.

**Omkar Kulkarni:** Okay. You have said that, they won't be coming below 26%, their current shareholding is around 30…

**Sanjaya Gupta:** In all our communication to all our press releases everything.

**Omkar Kulkarni:** Okay, but in the current shareholding of PNB is around 32% and you have said that they won't be selling any single share in secondary market. So, how does this work, I mean, they are willing to hold on to 32% or 26% or they are planning to sell it?

**Sanjaya Gupta:** When I will raise Tier 1 capital, they will get naturally diluted, that is why.

**Omkar Kulkarni:** Okay, so anything on, will it be a QIP or right issue or something?

**Sanjaya Gupta:** That my BRLMs are going to decide now and the structure of that will get disclosed very soon.

**Omkar Kulkarni:** So, it should be before March only, right?

**Sanjaya Gupta:** Yeah, I said this fiscal.

**Moderator:** Thank you. The next question is from the line of Abhijeet Sakhare from Goldman Sachs. Please go ahead.

**Abhijeet Sakhare:** My first question was on growth. Assuming the capital raise comes through next quarter, what kind of balance sheet growth are we targeting over the next two years?

**Sanjaya Gupta:** In the next year and, I would say a CAGR of anything between 15% to 18% for next 3 years starting from FY21.

**Abhijeet Sakhare:** This is on the balance sheet basis, right?

**Sanjaya Gupta:** This is on the balance sheet basis because I also qualify that we will not be vehemently doing securitization in the next 3 years because the lever will be very respectable much under 8x in all the 3 years.

**Abhijeet Sakhare:** Alright. So, just a follow up on that would be, that would then impact our P&L because the fair value gains almost now contribute about 20% of operating profits. So, that would essentially go away from the P&L starting next year?

**Sanjaya Gupta:** Yeah, we have made good of it because the fair value of spread or gain also has a negative connotation which has happened in quarter 3 of this fiscal.

**Abhijeet Sakhare:** Okay. But the entire gains would not flow through from next year onwards, right?

**Sanjaya Gupta:** Well, we would be able to sort of moderate and mitigate that. Fee incomes will go up, I mean if you see, if you were to really see the numbers the fee income or the non-fund based income which used to be a healthy 45 bps to 50 bps has got condensed to 20 bps. So, that will also commence.

**Abhijeet Sakhare:** Okay. And second was on the quarter-on-quarter decline on cost of funds, almost around 13 basis points-14 basis points. So…?

**Sanjaya Gupta:** Well, in the last quarter, to be very frank, the cost of fund if you were to see incrementally has come down to about 25 basis points but yes on a nine-month period which has come down by about 13 basis points.

**Abhijeet Sakhare:** Okay and this is because of refinancing of earlier high-cost loans, is it?

**Sanjaya Gupta:** No, that we will do it quarter 4.

**Abhijeet Sakhare:** Okay. So, what kind of cost of funds are we looking at for the next 12 months or so, what kind of reductions are we targeting?

**Sanjaya Gupta:** Well, it is the confidence of the institutional investors refinance from National Housing Bank. So, we really sort of negotiate on the cost of borrowing especially when they are long because you get the, I mean the re-pricing of that becomes difficult during the tenure.

**Abhijeet Sakhare:** And sir, just a couple of quick clarifications, from the 5 accounts if I am not wrong, Ornate Group is still stage 1 or Stage-II, right, still not NPA?

**Sanjaya Gupta:** It is Stage-II.

**Abhijeet Sakhare:** Okay. It moved from Stage-I to Stage-II, right?

**Sanjaya Gupta:** Yes.

**Abhijeet Sakhare:** And just lastly in terms of the retail NPLs, what is the breakup between home loans and LAPs?

**Sanjaya Gupta:** They are almost same. The behaviour pattern is not segment or product driven in retail. As I said, and I voluntarily said the biggest shocker was charging home loans under construction. So, people who are selling home loans at 7.98% and all, that is where one has to be careful.

**Abhijeet Sakhare:** And just lastly, what is the steady state PCR we are targeting on Stage-III and Stage-I and II?

**Sanjaya Gupta:** Well, it depends; see ECL is a combination of behaviour of the portfolio. So, loss given default, probability of default all those things go into it. So, we have a very versatile portfolio analytics team which works very closely with the CRO and the behaviour will determine the ECL provisioning. And yes, when the sort of the credit cycles in the economy improves, I am certainly sure the LGD has not gone up dramatically, but the PDs will come down.

**Moderator:** Thank you. The next question is from the line of Preethi RS from UTI Mutual Funds. Please go ahead.

**Preethi RS:** My question is on the retail disbursements, slightly surprised by the extent of decline. So, is this driven by the lack of demand or it is restrained by the capital or the organization has spoken a few more on recoveries and collections?

**Sanjaya Gupta:** No. So, other than in the last one, it was a combination of all. So, one was that we had a scare, I will be truthful of liquidity somewhere in October-November. So, we detained ourselves plus and I have been saying, the majority of home loans in the sector and as a guess I am saying that 45% is under construction we kept out of it, 100%. So, we were very conservative, and I am sure we will rebuild our franchise in quarter 4 of this fiscal and quarter 1 of the next fiscal and get back to our retail disbursements upwards of 1700 crores-1800 crores a month.

**Moderator:** Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

**Viral Shah:** I had just one question. I was comparing the collection efficiency that you have given out in your PPT. I notice that in the nine month ending December 19, collection efficiency has dropped to 97.8% vis-à-vis 98.4% in the first half. So, could you give the collection efficiency number quarter wise seems like there was actually a dip in the 3Q and if you could give any reasons behind the same?

**Sanjaya Gupta:** See, basically Q3 is a time for vacation and festivals and that is why, this is billing versus cash collection, right? But I am very sure that it will come back in quarter 4, plus our resolution rates are very healthy and what is happening is, as I said, the SARFAESI decisions take a 6 months period and that ends if you were to see the nine month period somewhere in December. So, I am very sure by quarter four end this graph will again get into a close to 98.5%-99%.

**Viral Shah:** Could you breakup that number quarter wise?

**Sanjaya Gupta:** As I said this is annuity business, let us do it once in a year. It is not a manufacturing thing sir.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that would be the last question for today. I now hand the conference over to Ms. Deepika Gupta Padhi for closing comments. Thank you and over to you ma'am.

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

**Sanjaya Gupta:** Thanks a lot. Good night and Happy Republic Day to all.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of PNB Housing Finance Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.