"PNB Housing Finance Ltd. Q3 & Nine Months FY20-21 Earnings Conference Call"

January 27, 2021

Participants from PNB Housing Finance:

Mr. Hardayal Prasad	**Managing Director & Chief Executive Officer**
Mr. Ajay Gupta	**Executive Director & Chief Credit Officer**
Mr. Kapish Jain	**Chief Financial Officer**
Mr. Nitant Desai	**Chief Centralized Operations & Technology Officer**
Mr. Anshul Bhargava	**Chief People Officer**
Mr. Sanjay Jain	**Company Secretary and Head Compliance**
Mr. Rajan Suri	**Business Head – Retail**
Mr. Jatul Anand	**Credit Head - Retail**
Ms. Deepika Gupta Padhi	**Head - Investor Relations**

Moderator: Ladies and gentlemen, good day and welcome to the PNB Housing Finance Limited Q3 & Nine Months FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone 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: Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q3 & Nine Months Financial Year 2021 Results. You must have seen our Business and Financial Numbers in the "Presentation" and the "Press Release" shared with the Indian stock exchanges and are also available on our website.

With me we have a management team represented by Mr. Hardayal Prasad -- Managing Director and CEO; Mr. Ajay Gupta -- Executive Director and Chief Credit Officer; Mr. Kapish Jain -- Chief Financial Officer; Mr. Anshul Bhargava -- Chief People Officer; Mr. Nitant Desai – Chief Centralized Operation and Technology Officer; Mr. Sanjay Jain -- Company Secretary and Head of Compliance; Mr. Rajan Suri -- Business Head, Retail, and Mr. Jatul Anand -- Credit Head, retail.

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 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 #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 Faizan for bringing all of us together. Good evening, everyone, and welcome to our Q3 and Nine Months Financial Results for the Financial Year 2021. On behalf of the Company, I extend a very warm welcome to all of you. Thank you for joining us in the call today. And I hope that all you and your families are safe and healthy and taking due precautions from COVID.

Today, before I embark upon the financial numbers that you already have, I will start with our "Strategic Priorities" journey that we are embarking upon. And this is why I invite you to go through "Investor Presentation" that is shared with the stock exchanges and is also uploaded on the Company website, which will clearly give the journey that we are setting for ourselves.

I now take this opportunity to take you through the new agenda in three major areas which are strengthening the core, driving efficiency, and accelerating the growth which are the fulcrum of this new agenda that we are setting for ourselves.

The triumvirate consists of seven focus areas that will help grow business, strengthen risk management, increase profits, and create value for all of you as well as the stakeholders. The Company over the last few months have added members in its team either through internal movement or external hire and implemented long-term retention program for performers. For capital conservation, we have deleveraged our balance sheet with gearing at 7.33x. We have improved our CRAR to 20.06% as per IndAS as on December '20 and are well above the regulatory capital requirements.

Further, on the capital raise, while the RBI decision is awaited by the PNB, the Company approached its board to maintain optionality and the Board of the Company has approved the addition of QIP mode in the capital raise plan in addition to Rights and Preferential. The Company will prepare accordingly while ensuring that we have access to adequate capital within the next few months.

PNBHFL with the aid of advanced analytics, and new age technologies will further strengthen its underwriting and collection processes and efficiencies.

Considering the challenges faced by the real estate sector, we have created a remedial management group to focus upon the corporate accounts. The group actively engages with the developers, and works on various resolution plans, including allowing last mile funding, introducing new developers, inducting new developers, equity partners to complete projects, sale of additional collateral, ready inventory to generate liquidity for the project.

While the strengthening of the core is important for the long-term growth of an organization, driving efficiency is critical to get profitability. In the last few months, we have undertaken measures towards cost optimization that helped in reducing our Opex. With continuous focus on cost control strategies, we expect to maintain our Cost-to-Income ratio in the range of 15% to 17% and improve profitability.

COVID-19 has changed the way we look at technology, and this is expected to stay.

Considering the new normal and the feedback from various stakeholders, the Company has enhanced its focus on digitization. The Company will introduce new age technologies, which are artificial intelligence, machine learning and RPA to drive volume growth and efficiencies.

In the last nine months, we have introduced "Ace", our online sales platform and "Homie", our sales chat bot to make customer buying journey personalized and engaging. We intend to integrate our applications for end-to-end journey, and we have many applications which are in islands and these applications once they are integrated will significantly improve overall the way we work.

We feel that after strengthening the core and driving efficiency within the system, we will witness accelerated growth. The Indian economy is reviving from the impact of COVID-19 pandemic and several positive steps by the government, which are higher income tax incentives for first time buyers, reduction in stamp duty by certain state authorities, credit-linked subsidy schemes, allow extension and project timelines under RERA, etc., will fuel the revival of the real estate sector.

With our robust and scalable hub-and-spoke model, we will continue to leverage our expertise in the mass housing and merchant category. The Company overtime has created its niche in merchant categories wherein we hold a competitive edge over other mortgage players.

We have also decided to focus on retail lending, and therefore, we are rebalancing our portfolio mix and push for accelerated growth in profitable sectors where opportunities are many in our view. The Company plans to enhance its focus on the affordable housing segment, including high yielding Unnati segment, which helps the yield and profits wherein we have build capabilities.

The Company has a board approved policy on co-lending and is in advanced stage to enter co-lending arrangements with bank. To improve revenues, the Company is exploring cross-sell, and up-sell opportunities. All of these will help in improving our revenue mix.

The Company has also embarked upon a transformational journey with global consulting firm to re-engineer end-to-end processes, from sourcing to closure to increase efficiency, improve revenues, and to look at all the processes.

The measures undertaken by the Company under the transformation agenda will help bring efficiency in operations, enhance productivity, and augment growth to improve ROA and ROE. We feel that by strengthening our management team, which is pretty strong in terms of the mortgage lending, augmenting our capital base, reducing costs, improved risk management techniques, digitization, will help the Company in the growth journey.

With renewed focus on affordable housing, in particular, Unnati high quality sourcing, we will become competitive and profitable. The Company is gearing itself towards profits and growth.

You all have already seen the financial numbers, and I would not like to really take you through those numbers. I'm sure that many of you would have a lot of questions towards that, and I would welcome them. But a few things that I would like to actually explain to you how the results have panned out.

In the nine months, affordable housing sales segment has contributed 43% of the individual housing loan disbursement and is at 41% of individual housing loans AUM as on December '20. To give impetus, we have added a senior internal resource to focus on affordable housing and created a separate affordable housing vertical within the chief sales officer. The lending in this segment also helps in opening of various low cost borrowing avenues for the Company because there are some advantages when we go out for borrowing.

As on December '20, 79% of the corporate book is good; and 62% of the book is at zero DPD. The Company has seen recoveries in NPA book and resolution of three NPA accounts with nil haircut. The SWAMIH Fund has also recognized the benefits of conservative underwriting by the Company in its corporate book due to the net surplus in projects and have identified 12 projects where they intend to fund, and these were recognized in front of the Government of India Secretaries, when many of the top Indian banks and PNB Housing Finance was also present, and it was recognized that the book was one of the most attractive from the SWAMIH point of view. We are reviewing the accounts and expect few accounts to be resolved through this route. As a prudent measure, we have made adequate provisions in the book and our total provision to total asset is at 3.47% and the Stage-III provision coverage ratio at 47% as on December '20. The life to-date write-offs by the Company is 12 basis points of the cumulative disbursements.

The Company has also done COVID-related modifications which are allowed under the Reserve Bank of India regulatory framework of approximately INR 800 crores which is around 1.25% of the Loan assets. The Company till date has disbursed around INR 130 crores under the ECLGS Scheme in retail segment. These are some of the bigger steps that the Company has taken. It has also done significant amount of looking at its cost of borrowing and have brought down the cost of borrowing significantly in this quarter by repaying the high cost.

Let me also share some of the "Financial Highlights."

- Total revenue for the nine months in financial year '21 is at INR 5,790 crores as compared to INR 6,358 crores for the nine months of '20, registering a decline of 11%.
- Pre-provision operating profit for the nine months of FY'21 reduced by 6% to INR1,530 crores from INR 1,635 crores in FY'20.
- Profit after tax for the period is at INR 803 crores as against INR 888 crores in the nine months.
- The return on assets for nine months FY'2021 is 1.4% and return on equity for nine months is 12.8% on annualized basis on average gearing of 7.8x.

With this. I would like to open the floor for questions & answers. We have a whole management team sitting over here. Just like to remind that the management team has significant amount of mortgage experience in terms of what we are looking at and the way we are doing business. 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 Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: I just want to refer to slide #25 of your PPT wherein you've given details on yields and cost of funds, etc., I'm just trying to figure out how it is possible that our yield is higher in this quarter than it was two or three quarters back considering that none of the HFCs have reported stable or increasing yields, and also considering the fact that overall interest rates in the economy has gone down. What really has led to such an outcome?

Kapish Jain: So, Piran, one is that the securitization that we did in over the last couple of years in FY18 and FY19, the MCLR for these securitized books, they've been done linked to MCLR, that has actually come down, and it has come down in this entire fiscal by around 61 basis points, that has also helped us in having higher earning coming into the portfolio and given that book is not part of my Loan book, but the income comes to my P&L, has added to the incremental markup in my overall yield.

Piran Engineer: No, but, Kapish, if I look y'all have given the spread with and without securitization.

Kapish Jain: Adjusting for the same, Piran, it's around 10.43%.

Piran Engineer: Correct and two quarters back it was 10.23%. So it's very counterintuitive that persisted two or three quarters back, our yields were actually higher. So, have we jacked up our rates in say LAP etc.?

Kapish Jain: Piran, if you remember, we did mention at the end of Q2 or Q1 as well, that in the corporate book, somewhere around middle of Q1, we had increased our rate of interest on the entire book ranging from 1% to 1.25%. The full effect of that did came subsequently, didn't come in Q1 and that also ended up in the yield going up.

Piran Engineer: So how should we think of just a yield number say over the next few quarters once the corporate book runs down, shouldn't this reprice sharply may be to like 8%, 8.5%?

Kapish Jain: Piran, I would suggest that obviously in isolation, one just can't look into yield. What is also important for us to see how I further reduce my cost of borrowing to reach to the desired spread that is important for the firm, and that's precisely how we look into the entire portfolio. And we have given in this presentation as well that we intend to look for a spread of around 2.1% to 2.3% from the retail portfolio.

Piran Engineer: My next question is what is our Stage-2 loans number?

Ajay Gupta: We don't disclose stage 1, 2, 3 separately, we do it annually between retail, corporate, Stage-1, 2 and 3. So, we will continue with that.

Piran Engineer: Okay, but any qualitative sort of flavor that you can give us, would it be similar to the increase in proforma GNPAs, some idea of how that would have trended?

Hardayal Prasad: See, the thing is, RBI moratorium ended on 31st August. Thereafter, things are working up, the traction is taking place, but it is too short a period for large corporates and even for retail to recover from the pandemic and get back to original cash flows. So, this has impacted both retail as well as corporate, there has been instances of job loss, there has been instances of salary cuts in retail, business loss, cash flow impacted for self-employed retail customers and so is your corporate account. So, I would suggest wait for one more quarter, let things stabilize, and in March, we will come with the detailed stage 1, 2, 3 breakups.

Moderator: Thank you. The next question is from the line of Kunal Khudania from Mirae Asset. Please go ahead.

Kunal Khudania: Sir, my question was on the corporate book front, like in the slide number #8, we have mentioned that around 62% of the book is zero DPD. So, if you could just provide some more color on the remaining book, how that 38% of the book is behaving right now?

Ajay Gupta: Kunal, 79% book is clean and good book. 62% of overall corporate book is with zero DPD obviously, when there is large loans given and there may be temporary cash mismatch, etc., so, there could be a delinquency, bucket 1, 2, 3 etc. So 8% of the residual book I'm talking of, after 79%, 8% book we all already know the risk is fructified and it is sitting in NPA. Around 13% residual book, we are actively managing, monitoring and some of these accounts have moved into proforma NPA, and for rest, resolutions and for proforma also the resolution activities are going on.

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

Viral Shah: I have two questions. So, you have given that basically your proforma NPAs are 4.47%. Could you break that down into what is the proforma NPA in the retail segment and on the corporate segment?

Ajay Gupta: As I mentioned, the retail and corporate breakup we gave annually, so we will continue with the same process and in March we will segregate retail, corporate, stage 1, 2, 3 and come out openly on the performance and how the book is stacking up in various stages.

Viral Shah: But you actually give the retail and corporate break-up for the Stage-3 loans, which is your GNPA. My question is you've given the proforma GNPA on overall basis. If you could help give us the sub-segment of the proforma GNPA, would help us to understand where the slippages and expected losses could be coming from?

Ajay Gupta: As I mentioned, the proforma GNPA is coming from all segments, salaried, self-employed, HL, LAP and retail & corporate both. So, I would suggest that wait for two, three more months in March, we will be giving a detailed deliberation on that and out of INR 1,180 crores, let me also tell you that we have been able to resolve in 24-25 days about INR 400-odd crores. So, these cases have been rolled back. Either one EMI or completely full amount has been collected. And there are some resolutions which is taking place by way of COVID moratorium and other resolutions, which is taking place. So it is work-in progress. I would suggest that we wait for two more months, three more months, and with March numbers, we will be giving a dissected picture.

Hardayal Prasad: I think more importantly, if you could look at it 62% of the book with nil DPD, I think that is very significant, and we have been able to work pretty hard after September after the moratorium was over, working with the builders to see to it that actually everything is repaid. I think that's very, very significant. Now, all of us are aware that the industry is going through, and the economy is once in a century kind of an event, and therefore the restructuring and the regulatory framework came in. So, we have almost about 17% of the book where it has been invoked, but we have to complete the restructuring which will be completed. This is all based on the cash flow and everything is being taken into account straight away and we are not doing anything other than that. It's not just that it is being transferred. When there was no construction activity happening, there was no revenues that were being generated by any of the builders and therefore, obviously extension of time will be required. Ministry of Housing also came out with a suo moto decision, requesting all the state governments and the RERA authorities to extend the period by six months. All this has resulted into actually there is a little modifications and the extension in the time that are happening. In terms of the NPA and in terms of the stress book we are really working, around 9% stress book other than the NPA is something that we are working very, very hard to see to it that either we resolve them or some of it flows into the NPA, they can go either way depending on the way we are working with SWAMIH. We are working on all other fronts to ensure that things are done. Within the NPA also, we are actively working to resolve some accounts. And we are hopeful that as things go as we have planned and as per the discussions that we are having with all other builders and other players over there, we should be in a position to actually improve a little bit, but overall I'm not giving actually any of the guidance that where we will be, but I would like to actually reassure you that we are working pretty hard in terms of ensuring that the Company has a solid handle over the corporate book. Remedial management group helps tremendously in terms of structuring these kinds of deals where you bring in new builders, so that these can be taken over or it moves out of the book, it is down-sold and all those steps that are necessary to ensure that the book has improved significantly.

Viral Shah: Could you give us an indication of the extent of restructuring?

Hardayal Prasad: I did mention to you in my opening remarks on that about INR 800 crores we said that the COVID-related modifications are approximately INR 800 crores, which is 1.25% of the Loan assets. And secondly, that we have also disbursed almost about INR 130 crores under the ECLGS where you can give it up to 20% and that goes up to INR 500 crores of projects. There are a lot of things that we have done in terms of ensuring that these are taken care of.

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

Nidhesh Jain: Firstly, on the capital raise if you can indicate some tentative timelines and the possible structure of the capital that you have thought about?

Hardayal Prasad: On August 19th, the board had approved that the Company will explore possibility of raising the capital through rights and preferential. Before that the PNB had approached the Reserve Bank of India for permission to infuse equity into the Company. Since they had actually asked that the equity infusion can take place either through rights issue or preferential, we were awaiting permission from the Reserve Bank of India. Reserve Bank of India's decision is still awaited. While PNB remains very, very hopeful that RBI approval in some form will come through, but in order to maintain optionality and ensure timely injection of capital, the board in its meeting today approved addition of QIP mode in the capital raise plan in addition to rights and preferential subject to PNBs holding remaining above 27%, 26% is the minimum, but we need a little cushion over there. So, the Company is actually preparing itself accordingly based on today's deliberations to make a final decision on the fund raising mode in the next few months. And we also feel that going forward with this capital through the QIP or any other securities and mode that we can do it, we definitely will be able to continue to grow in the medium-term. And we are also very confident and we are hopeful that PNB would be able to get its approval. Once that approval come, we still can issue the rights or the preferential. So, I think we have started the journey in terms of the fund raise. So, little bit of doubt that was there, whether the Company would be able to raise money, I think they have been set today, the board has very, very graciously allowed the company to go ahead with the fund raise. In the next month we will be taking a call very quickly in terms of how we are going to raise it and what amount that we would be raising.

Nidhesh Jain: Secondly, if you can just give some color on the retail book on proforma basis in terms of GNPA, that would be very useful? We have already made 3.5% for provisions on loan assets, which may be one of the highest amongst the HFCs. But if we don't have any data on asset quality, then it will be difficult for us to take a call whether those provisions are adequate or how much additional provisions may be required, if you can just give some color on either Stage-2 retail GNPA, that would help us?

Ajay Gupta: I can give some information which is, what are the type of accounts flowing into Stage-2 and I'm talking only retail since you asked retail, predominantly close to 90%-95% of proforma NPA of retail is coming from customers who have availed moratorium on 31st August 2020. Now, we had a book of INR18,500 crores which was there in retail moratorium, close to 4% have closed and close to 68% have paid all four EMIs. So, there are residual accounts, which either are in Stage-2, regular bucket one, two or three, and some accounts may have flown into provisional NPA. As I mentioned, in retail customers who were not delinquent as on 31st March 2020, close to INR 360-361 odd crores, are the customers who have moved straight into proforma NPA or the NPA. And these customers were non-delinquent as on 31st March 2020. The key reason again is because of job loss, salary cuts and cash flow business loss, they were not able to make the payments. And these are temporary kind of situation. We are working on it.

Hardayal Prasad: The higher buckets actually are directly correlated with the legal processes also. You are aware that for a long time, these things will continue. And therefore, the higher buckets are just to pick up, there is no doubt about it. But in the absence of very clear direction from the Supreme Court and accounts continue to remain frozen. And there's very little support that you get on the ground from either the judiciary or from the administration, it becomes extremely difficult for us to go ahead and do the recovery. However, I still would like to tell you that the company is fully aware, and it knows how to do the collection, which has maintained lower NPA continuously for a long time, the soft buckets are showing good traction, it's only the higher bucket and we need to immediately put in place the moment we have clarity from the Reserve Bank of India in terms of what we want to do. Some of these accounts are to second and third generation kind of businessmen. The one which are probably is showing a little stress are in jewellery segment, automobile segment, garment segment, which were badly hurt by COVID. And it is not that it is huge. What we have done is that we have been still able to recover significant amount, as Ajay mentioned that from INR 18,000, which was a residual book that was there on the morat book on 31st August, we have been able to recover amount either 1, 2, 3, 4. It's only the residual book where we have not been able to recover, is a stress book that we are looking at it, and this is where the provisioning has also been done. Secondly, because of the lack of very clear direction from the judiciary, the normalization may take some time. It's not that anybody has a magic wand and they can very quickly do. And the moment the SARFAESI and other things are open, we are back on track in terms of our ability to go and recover the money.

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

Anuj Singla: One question on the restructuring. You mentioned you have done INR 800 crores cumulative restructuring under the COVID-related scheme. Does it include the total retail plus corporate, is that the correct understanding?

Hardayal Prasad: Yes.

Anuj Singla: Secondly, you mentioned about 12 projects being recognized by SWAMIH for last mile funding. So, will you be able to share some more color what is the total quantum of exposure we have on these projects? And secondly, what are the key eviction going for SWAMIH fund, always that these accounts will automatically become GNPA and the IRR for SWAMIH was very high and they are last in first out, so, has the modalities changed for us in terms of favorably considering the SWAMIH fund? So, these are the questions.

Saurabh Suri: So on the SWAMIH fund, I like to answer that, what we were trying to show that SWAMIH recognizes that there is a lot of opportunity for them to resolve a lot of assets of ours, because there is considerable net surplus available in them. So, they have identified 12 assets wherein the developers have directly applied to them and these are assets worth INR 1,200 crores from the book. You are right that they are last in first out. So, we are very cautious in using this mechanism also. So, we don't want to overdo it. Only when there is merit, and we see that this is a probably last mile kind of a funding wherein the project gets delivered very quickly and we are back on track, and we can recover our money quickly, we are looking at this opportunity, if it's a nascent stage project, we are not interested. So, we've identified around three assets worth INR.350 crores, where we are actively engaging among these 12-projects to look at SWAMIH where we think that we can both quickly resolve those assets, though they may have identified more and they are more keen to work with us, but considering what we are keen on, we are working as of now on three assets over INR.350 crores, and this is mainly from the NPA / proforma NPA book. So, the risk is already enumerated.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: Can you please highlight the new strategy you have talked about, like what kind of ROE, ROA you are targeting, you haven't given any specific about it, so, what would be the growth you are targeting of loan book or say margins or ROE or ROA?

Kapish Jain: Like what we mentioned, the new strategy would be to build up a franchise in the retail segment, and taking the opportunity of the affordable strength that we hold where our book is already at around 41% at AUM level, we are going to leverage that further and focus a little more on the high yielding Unnati segment that we have to get up the upliftment in our yield. We already mentioned in the presentation that we are looking that the retail book should be able to give us a Spread of around 2.1% to 2.3%. And cost-to-income we said that we are currently at around sub-15%. There would be some investments which might just come in on the technology front, on the development that MD & CEO talked about with regard to AI, ML and RPA. But we are going to segregate the cost of investments towards technology and keep the BAU completely tight to ensure that the cost to income on aggregate basis remain in the range of 15% to 17%. Therefore, with focus on the retail side, we are looking for ROA which should be in the range of around 1.6% to 1.8% and from a growth perspective, we are looking for a muted growth of a single digit for FY22 with a larger focus on retail.

Hardayal Prasad: The growth will come. It's just a matter of time if we have all these things that I spoke about initially and at some point of time not today, we can go ahead on a little granular scale of what exactly we will do in terms of timelines, in terms of what will be the milestones under each focus area that we have enumerated. Obviously, the growth will come. We are rebalancing our portfolio. We are looking at areas which will provide higher yields. We are looking at affordable housing as I mentioned to you earlier, within the affordable housing we feel that there is a very big opportunity under the Unnati segment. These are very, very important areas. And if you really look at the report that came by one of the rating agencies a few days back, it very clearly points to a higher single-digit growth that the industry and the mortgage industry will grow. We are also looking at it that if we have everything in place with capital also, good liquidity position, control of our book, we should be in a position to start on our journey of growth. I think that's more important for us, because at the end of the day it is profit with growth, we will also grow and we will ensure that the portfolio is well managed, it is profitable and it is balanced properly, so it doesn't undergo vagaries of economic cycles.

Kapish Jain: I would like to just clarify what I mentioned earlier, the ROA that we gave as a guideline to the market in the month of July was around 1.4% to 1.6% for F20-21. We stick to that guidance; we are talking about a 1.4% ROA as of December nine months as well. And for next year, with all the improvement that we talked about, with additional opportunity which could commence through the cross-sell, we are looking for a ROA which should be in the range of 1.6% to 1.8%.

Onkar Ghugardare: Okay. Sir, the second question is on the trajectory of NPAs, how do you see the trajectory of NPAs in upcoming quarters, now that the revival has started taking place?

Ajay Gupta: So, obviously, the economy is opening up, the COVID vaccine is also launched. There are various segments which is basically coming to the normalcy and this will give positive impact on the portfolio performance for sure. If we look at retail, we are already seeing the uptake. MD & CEO just mentioned, in the softer buckets we are close to pre-COVID level resolutions; and the hard bucket, once the legal options are open, SARFAESI is open, we will see the resolutions coming from there as well. For corporate loans also he mentioned that there are some green shoots which are visible in the demand side of the economy. We see that there is demand for housing from various segments, off late this may be an initial time but affluent segment and the premium segment also there is a demand coming in that particular segment also. With all these things, the resolutions rate coming back to COVID, etc., the numbers should be moderate. But immediately one or two quarters, there may be some forward flows, but we expect that in mid term it will normalize.

Moderator: Thank you. The next question is from the line of Vishnu Soni from Bharti AXA Life Insurance. Please go ahead.

Vishnu Soni: Sir, just I have two questions, one is on liquidity. So how much liquidity we have as on quarter end, as on 31st of December?

Kapish Jain: As of 31st of December we had liquidity in the range of INR 7,000 crores to INR 8,000 crores, but then we are working to bring it down. As of now we have brought it down by around INR 1,500 crores to INR 2,000 crores. And with the way the situation has been improving and the comfort is getting built in, we are bringing it down further and we will be getting us to a range where the liquidity is there for around 45 to 60 days in the near future, and then taking to around maybe 30 to 45 days liquidity in the mid to long-term.

Hardayal Prasad: There is huge amount of effort to actually bring this down. Definitely, because of COVID disbursements were not there, the liquidity position had improved, or I would say we were slightly higher on the liquidity side. In the last three months itself we have repaid high-cost borrowings, we are continuously talking to our banks to ensure that the high cost is either replaced with the low cost or we will repay it. So, at the end of the day, as Kapish mentioned, we will ensure that 30 to 45 days is a liquidity that we will maintain. And we will be clearing off all high-cost borrowings that we have. I think in the long run, it is going to help the Company significantly. Even in this quarter if you look at the incremental borrowing, it is down significantly to I think 6.71% it is down to, which is in our opinion that given our rating and everything, we have been able to bring it down and we will continue to strive to bring it down.

Vishnu Soni: Okay. So, this INR 7,000 crores to INR 8,000 crores include both undrawn credit lines also?

Kapish Jain: Yes, it does, yes.

Vishnu Soni: Okay. One more thing, sir, just I wanted to ask, how much percentage of AUM we have in the wholesale developer book as on 31st of December? The percentage of wholesale developer book.

Hardayal Prasad: 17% is the book. But if you look at from March, we have brought it down by 9% either by down selling it or by accelerated pre-payment and other things we have brought it down by almost about INR 1,000 crores, and we continue to work with a lot of builders and we have a very clear mandate that we are going to not get into the corporate book, corporate financing, the construction financing. So, these are some things that we will continue to see that will keep on coming down.

Vishnu Soni: So, any target you have for this corporate book in terms of facility given?

Hardayal Prasad: We had earlier given INR 1,500 crore target to bring it down, I think we have already done INR 1,000 crore, so this quarter we will ensure it. Going forward, it is the retail which is going to be the engine of the growth. And in retail whole focus will be, if you really look at it in this quarter, 97% of our sourcing has been purely from the retail, and the retail will continue to be a major source of the growth, the revenue stream, the yields, and everything that we are going to work is going to come back by looking at the revenue streams, increasing our revenue stream as cross-sell, up-sell, by increasing the yield in areas where there are opportunities, where they are better yielding, where the credit cost is low, the credit default premiums are low, I think everything we are going to look at it so that the retail becomes the engine of growth for this Company.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: My first question is, what's the quantum of liabilities coming up for re-pricing in the fourth quarter? And the incremental bank liabilities that we are sourcing, how are they priced at? Is it priced at T-bill or repo? And what are the premium on each of them? That's my first question.

Kapish Jain: Okay. So, we are gradually moving towards repo-linked borrowing. If you will notice then you would have known that public sector banks have still not moved into a repo-linked lending for institutional, they are doing it for the home loan and the retail segment, but not for the corporate. So therefore, there nobody is having that success. Some minor success is coming in, in the form of T-bills and then from the private sector banks, yes, they are repo-linked borrowings which is coming in.

Hardayal Prasad: State Bank of India started the repo-linked to corporates, but then they have withdrawn it. Treasury related option is still there, and we are working on it. Only last week SBI was with us and there are other private sector banks which are lending at repo-link, and we are aggressively interacting and bringing and talking to them to bring down the cost of borrowings.

Shubhranshu Mishra: Right. What is the premium on the repo that we are getting charged?

Hardayal Prasad: That depends on the rating and other things.

Kapish Jain: Premium on the repo ranges between 150 to 200 basis points.

Shubhranshu Mishra: Right. Thank you for that. And what is the FOIR that we have on the outstanding HL portfolio and the outstanding LAP portfolio?

Jatul Anand: See, how we monitor is that we monitor the FOIR which we give today for the incremental portfolio, because on the existing book, of course, it is not possible to monitor on the portfolio basis. FOIR at the time of sanction is sure something which we can look at. And just to give you an idea that post-COVID once we reopened, so we realigned all our internal credit guidelines with respect to keeping this unprecedented time and the lockdown stuff into mind, and so FOIR etc. have been tightened.

Shubhranshu Mishra: Sir, how much was it on the incremental basis?

Jatul Anand: Incremental, it depends upon between salaried and self-employed. To just to give you an idea, around 50% to 60% of the salary income is what is allowed today. Even on the retail book it ranges between 50% to 60%.

Shubhranshu Mishra: Got it, sure. And sir, what has been the quantum of balance transfers? And what is our strategy to slow down the attrition?

Rajan Suri: Yes, we have witnessed net Balance transfer out of around 7% during the quarter. So, we are seeing attrition, because, obviously, there is attrition which is happening in our portfolio, but we are aggressively monitoring that, and we have given a lot of empowerment to the people on the ground to take decisions and retain the customers. So, that is one that is happening. And secondly, we have again repriced our book which is there, and we have given the existing customers the benefit of whatever the repricing that is happening on the liability side. So, that is also happening, and we are passing on that benefit to the customers. Going forward also, we will maintain this strategy and we will be able to control this attrition which is happening in the book.

Hardayal Prasad: The reduction in the cost of borrowing has helped us tremendously in terms of aligning our interest rates. In the last quarter, there were three occasions when we brought down our lending rates and now we stand almost at about anything from about 40, 45 to about 60, 65 basis point differential from the best in the market. This is a time when everybody has become very aggressive because there is no corporate lending that is taking place from any of the banks. I think with this last reduction in the interest rates on 24th Dec, in some of the areas we are quite close to our pre-COVID level when we used to quote about 30 basis points to about 45 basis points differential. And we are almost over there in some of the buckets that we are lending. We feel that in case the interest rates will go up, I don't think that we will get affected. But because the interest rates are being quoted at repo-linked rate by the banks, they will have to increase the interest rate. And it is going to help us significantly in getting back the zing and getting back the business with a differential of about, say, 20, 25, 35 basis points. I think that's what we are doing.

But very importantly, I also want to bring to your attention that our sourcing quality has improved significantly. We are concentrating continuously by upgrading, improving, and we have tightened our underwriting standards. And despite the underwriting standards being tightened, we still see good growth that is coming in because of the overall market, the way it is shaping up. The logins have improved, the disbursements will follow, the sanctions have almost moved up. I think those are very good green shoots that one would look at it. And that is important from any of the company's perspective, that whether it is still despite the fact that it quotes a little higher interest rates, whether it still attracts at a fantastic TAT of almost two, two and a half days for a salaried, and almost about four days for a self-employed. I think that sets us apart completely.

Shubhranshu Mishra: Sure, sir. And my last question is, how do we look at the cost of collections in FY 2021 and FY 2022, what will be the absolute number?

Ajay Gupta: We can come back on these numbers; we don't have right now.

Hardayal Prasad: There is a very important thing that has happened, I mean, as a summary we will actually take out those numbers and we will give it to you. But the collection efficiency, including overdue, has gone up to almost about 95% to 96%, which is a pre-COVID number. I think that is very, very significant with especially the soft buckets showing very good traction in terms of the recoveries whether we are able to resolve. And in the soft bucket, the resolution percentage are also completely pre-COVID levels.

Kapish Jain: If I got your question right, the recovery cost has been around INR 4.5 crores for 9 months FY 2021.

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

Nishant Shah: Just one question and one follow-up from my side. So, in one of the replies to the earlier questions you said that you are considering only about INR 350 crores of being referred to the SWAMIH fund out of a total identified pool of INR 1,200 crores. Could you just elaborate on that again?

Saurabh Suri: So, what we have referred is that of all the projects that SWAMIH had given a prelim approval on, we are deciding to move forward on three transactions of INR 350 crores for final sanctions and resolution through the SWAMIH mode, is what we were mentioning.

Nishant Shah: Yes, right. So why not go in for the entire INR 1,200 crores was the question? Like, if these are all NPLs already, and if this fund is giving us last mile funding to go and complete them and then get sold, what's the reluctance here? Should we like read that probably the saleability or the likelihood of completion here is going to be low or how should we interpret this?

Saurabh Suri: No, so it's not plug and play like that. What happens is, basically we look at several other resolution mechanisms, including joint development agreements, project takeovers, wherein we look at an outright solution there. So, I will give you an example that if there is a project and a stronger developer comes in and takes over that project and resolve the account, that is a much cleaner and faster way of resolution than a SWAMIH. And it ensures that going forward also I will face no issue, because that's a stronger developer, has the ability to quickly monetize the asset, and at the same time has a balance sheet to service my loan on a smooth basis. So, SWAMIH is one kind of a solution, but it has pitfalls, because it puts the existing lender at an inferior position for probably a different duration of time. And SWAMIH is ideal only for assets, which are near completion so that they can just come in, make sure that the project gets completed and exit quickly. If they happen to disburse a large line for a project and they take, let's say, two years to exit out themselves, I will be in an inferior position for next two years. So, that is something that I am not looking at, we are looking at how to quickly and best way of coming out of the NPA positions.

Hardayal Prasad: Nishant, long and short is that we look at all options. This is what actually they have said that this is what they would like to look at it. But from the Company's perspective, it is important that we ensure that we get the best out of that account. And therefore, we will exercise all options and see that whether the options that we have in terms of JDA and anything else that we can actually work, shifting it from one builder to another. If they are attractive options, there is no reason that I would do. So, it is one of the resolution mechanisms, but there are other resolution mechanisms that we have. And they will continue to explore those resolution mechanisms, because we have had some successes also in the resolution mechanism, which gives us very, very clear and clean way of getting the money back. I think that's what is the ethos under which we are working on the SWAMIH front, on the resolution front and on the JDA. So, everything is being looked at to ensure that the portfolio is much better as we go forward, despite whatever is happening on the real-estate side.

Nishant Shah: Okay. And just one quick follow-up. So, on slide 20 you have given a list of developers which are NPL resolved and NPL which are still under progress. Anything apart from this, like in your currently standard pool where you are still eyeing them closely, monitoring the stress, could you give any kind of color on those funds?

Hardayal Prasad: The remedial management group is continuously looking at the portfolio, anything that has come up. Because you don't know, today the account is good, suddenly there could be some issues or if there is a stress. So, these are some of the larger accounts that we have given to give a flavour of what is happening. We are looking at the complete book to ensure that the book becomes much more vibrant and much better in terms of the way we are looking at it. So, there are accounts which are resolved, we wanted to send that message across that the remedial management group has been able to resolve the accounts. Simultaneously, there are resolutions that are underway. These are resolutions which probably will either fructify in this quarter or in the next quarter, hopefully, I mean, something can go wrong also. But the way we are proceeding with them and the way we are engaging with not only these accounts, but with other parties also which are coming on board to bring in certain amount of either equity capital, taking over JDAs, everything is possible under the sun. So, these are the ones that we showed it to you. There may be small accounts also which are being looked at. So, keeping in view the space, the time and everything, we have given you these accounts.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead

Nischint Chawathe: Just two questions, one was on the assignment income of INR 35 crores. Just trying to check, this is the entire income that you have booked on the assets that have been sold during the quarter.

Kapish Jain: Yes.

Nischint Chawathe: Sure. And I think what you said is the benefit that we got because of decline in MCLR, that flows through the interest income line item?

Hardayal Prasad: Yes, benefit is because of the MCLR coming down in the securitized portfolio.

Nischint Chawathe: Sure. And just if we could give some color in terms of the NPLs of 4.47% in the proforma numbers, does this all pertain to the retail book or has there been any increase on the developer side as well?

Ajay Gupta: So, as I mentioned, this comprises both retail and corporate. Within retail it comprises of HL, LAP, salaried segment. The COVID has impacted one and all, and this proforma NPA is also comprising of retail and corporate. I can further mention that for corporate accounts there are few accounts which slipped, but all these accounts were pre-identified, either we have placed them in SICR or they were in Stage-2 earlier, adequately provided for. Retail increase, as I mentioned, is from the portfolio, which was in moratorium, predominantly from there.

Nischint Chawathe: We are just trying to kind of get a broad sense in terms of how much the rise on the retail side has actually been. I guess, on the wholesale side or the developer side we have discussed some very specific names in the past. So, assuming that we take those steps, just trying to understand that on a like-to-like basis how much is the increase?

Hardayal Prasad: Nischint, my suggestion and request would be, wait for another two months', three months' time, give us time for these things to settle down. And I mentioned that we are able to recover and cure close to 200-250 odd retail customers which were in proforma NPA. So, things are shaping up. To draw any conclusions from this quarter number, I would say that it will be premature and very early.

Nischint Chawathe: Just one last question. What is your yield on retail home loans?

Rajan Suri: On AUM basis, it is 9.43% for individual home loan and on incremental basis i.e. for nine months it is 9.09% and fo Q3 FY21 it is 8.88%. For retail book, it is 9.78% on AUM and on incremental basis for nine months it is 9.43% and for Q3 FY21 it is 9.28%.

Moderator: Thank you. The next question is from the line of Anuj Sharma, individual investor. Please go ahead.

Anuj Sharma: My question is that when you talked about the INR 800 crores of restructuring related to the COVID, so can you tell us how much is pertaining to retail and how much pertains to corporate side?

Ajay Gupta: So, corporate, we have done restructuring in two accounts which is about INR 146-crores and retail is INR 661 crores.

Anuj Sharma: Okay, thank you. So, another question would be, when we talk about the liquidity, the INR 7,000 crores to INR 8,000 crores that we have, it includes undrawn lines. So, how much will it be the cash and cash equivalents, the investment? And how much of it will be the undrawn line?

Kapish Jain: See, the undrawn lines, including the ODs and all that I hold, would be in the range of around INR 1,500 crores to INR 1,800 crores, and the rest would be liquidity.

Anuj Sharma: Okay. Sure. And another question is, can you tell us like what would be the write-off figures, the write-off that we have done during the nine months?

Kapish Jain: So, the write-off for the first nine months is INR 34 crores.

Anuj Sharma: Okay. Sir, last question would be, can you tell us like how much incremental borrowing that you have raised during these nine months, and like the sources of it?

Kapish Jain: So, the incremental borrowing that we raised in the first nine months, if I have to say pure, not talking about the churn that comes in the short-term borrowing, but purely on the long-term borrowing perspective we would have churned around INR 16,000 crores of our borrowing. And the incremental borrowing has come at a blended cost at around 6.91% for the first nine months. And like what MD & CEO articulated earlier, for the quarter it is 6.71%. So, our incremental borrowing every quarter is coming down.

Anuj Sharma: Sir, one more thing, like the last quarter we showed an income of INR 105 crores because of the reduction in the buying bank's MCLR, and what would be the number this quarter in accordance to that?

Kapish Jain: Okay. So, this quarter, because of MCLR movement, this amount is around INR 50 crores.

Anuj Sharma: Sir when we say that INR 50 crores because of the decrease in the buying bank's MCLR, now when we say it's a quarterly income and if we brought it down to the yearly income, suppose yearly, it will be roughly around INR 200 crores on a securitization pool of around INR 120-odd billion. So, it comes to around 2%, 2.5% of change in the MCLR.

So, is it entirely because of that, is the calculation correct? Or is there something that I am missing in it?

Kapish Jain: No. So, as you know, under IndAS we need to reset the spread and the profit from the securitizing portfolio. So as on 31st of December, on the securitized portfolio I have, due to the impact of MCLR change at a present value, the number comes to around INR 50 crores for the quarter. But the net effect because there is unwinding, negative impact which comes because of runoff as well, and income from the fresh pool securitized during the quarter is around INR 32 crores for the quarter as an absolute amount.

Moderator: Thank you. The next question is from the line of Simranjit Singh Bhatia from SMC. Please go ahead.

Simranjit Singh Bhatia: Sir, I want to understand that you have said that you are going to raise the capital and you are waiting from the RBI permission. What is the motive behind raising the capital going forward? Is it for the provisioning purposes or for the growth purposes? Can you throw some light on that?

And secondly, I was seeing your net interest margins, you have reported 3.18% from 3.50% from Q-o-Q, which I believe that can you give some guidance on that? And what's the reason for this low NIM percentage in this quarter when all other financial players are, at least, giving very strong sort of NIM percentage, even in Q3 also? And what is the percentage of the total corporate book as a percentage of your total loan? Means, out of 100% what is the percentage of the corporate book you have right now at this present time?

Hardayal Prasad: I think we gave you earlier, 17% is the book. Coming back to the raising of capital, it's obviously for the growth, it is very, very important that the growth has to be there, we will require capital. It also helps us significantly in terms of improving our rating, which is very, very critical. And the moment the rating and the other thing goes up, we should be in a position to bring down the borrowing cost. Now, all these things are related to one of the most important things for the Company to raise the capital. Now these are the most significant things which is important for us, as a Company when it actually starts growing in and it has the required capital, it has the required wherewithal to withstand, and especially when we are going to rebalance the portfolio, the growth opportunities that are there in terms of the affordable housing. And the changes that the various governments are bringing in in terms of the affordable housing, one of the state government has increased the overall area for development from 10 acres to 30 acres, they have made from 4% to 8% is what you can actually build on the commercial side, the car parking now is being allowed. This gives a huge opportunity to a lot of people to start owning these kinds of homes. And therefore, these growth opportunities will come up. We have the underwriting capabilities, we know the business, we have a sound book, which we have built in the last few years. Now, these are very, very ominous signs for us to have the right capital over there to ensure that the Company grows very, very profitably. Profit will remain the most important thing, that's what I would like to bring it to your attention, continuously that we will bring in efficiency of operations, we will reduce costs, we will increase the revenue stream, we will rebalance the portfolio and we will see to it that actually the company is quite robust in terms of the way it is performing.

Simranjit Singh Bhatia: Great. Another question was on the NIM.

Kapish Jain: Yes. So, the NIM that you see in the presentation on Slide 25, when you talk about 3.5% moving to 3.18%, you will notice that we also talk about spread with and excluding securitization. So, the last quarter was an aberration where we got up-fronting income because of MCLR movement, which all came in the second quarter. And therefore, we showed Spread with and without securitization. If you revoke that number, the NIM for quarter two is actually 2.96% and the NIM for this quarter is 3.01%. And historically, if you notice Q3 last year, it was at 2.69% (excluding securitization income). So, our NIMs have been in the range of around 3%. And we see this potentially moving up by the additional effort that we are putting with regards to cross-sell and up-sell and other elements of fees. But the NIM is fairly stable at around 3% range.

Simranjit Singh Bhatia: Great. Sir, my last question is, can you tell me what is the percentage of the developer loan you have in the portfolio at this present in the real-estate side?

Hardayal Prasad: 17% is overall the corporate book. It's all developer loan, it is either construction finance or it is corporate term loan.

Saurabh Suri: It is all developers; we don't do anything apart from developers.

Moderator: Thank you. The next question is from the line of Radhika Lohia from Mirae Asset. Please go ahead.

Radhika Lohia: Sir, a few questions from my end, first on the follow-up question. So, you had said that INR 18,000 crores of moratorium which was there in the retail side, so 68% had paid the EMI, so the remaining INR 6,000 crores which you are looking at is in Stage-1, 2 and 3, is that what you had mentioned?

Ajay Gupta: No, I also mentioned 3.75% is pre-closed. So, the residual accounts are accounts where either one EMI, two EMI, three EMI are overdue, which is close to INR 4,400-odd crores.

Radhika Lohia: So, INR 4,400 crores are the residual which you are looking at, might be in Stage-1, 2 and 3, right?

Ajay Gupta: Yes. Stage-1 and 2 because we can't classify these accounts into Stage-3. What I said, bucket 1, 2 or 3.

Radhika Lohia: Okay, got it. And also on the loan book side. So, there has been a de-growth of like 4% on a Q-o-Q basis, and we are seeing an interest income down by 10%. So could you please explain on this?

Rajan Suri: See, as we were talking about, the loan book has de-grown majorly because there has been some attrition in the book, though. And we are growing very, very cautiously. And that's the route that we have taken as of now. But going forward, yes, when we are talking about accelerating the growth, this piece will be covered, and we will grow very smartly from here. Yes, currently, the book has de-grown, but like I said, we will grow very smartly from here.

Kapish Jain: We actually clarified to your second part of your question where the interest income is down by around 9% on a sequential quarter-on-quarter. So, last quarter, as we mentioned, we had the impact on the entire MCLR movement which happened, across banks for our securitization portfolio, which has come as up-fronting of income for the additional spread that came in for the remaining portfolio, till its maturity, because of which the yield was added in and therefore the yield was showing 11.30% in our presentation, as you noticed, on page number 25. So that's one reason why the yields show a sharp increase and the interest income show a sharp increase in quarter two. Adjusted for that, our yields are fairly smart, both for quarter two and quarter three, and there has not been any downward movement.

Radhika Lohia: Okay, sir. And just on the last question. So, what is the amount of payment that you are expecting one year from now? Like, a little light on your ALM profile.

Kapish Jain: Yes. So, the repayment that we expect from now, including all borrowings it is around INR 18,000 crores. And then there is around ECB payment which is also coming in of around INR 4,000 crores.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: Just one last question. How much have you reduced your benchmark rates over the course of last six to nine months? Both within home loans and LAP.

Rajan Suri: So, we have reduced our rates by 65 bps over last nine months. So that's what we have done.

Viral Shah: This would be the benchmark reduction, right?

Rajan Suri: 65 bps is new acquisition I am talking about. On the benchmark we have reduced rates by 15 basis points.

Viral Shah: Okay. And have we reduced them anytime in the last quarter?

Rajan Suri: Yes, in the last quarter also we have reduced the new acquisition rates, that we have reduced by almost 45 bps.

Viral Shah: But sir, this would be new acquisitions, have we reduced the benchmark to which all the existing loans are benchmarked to?

Rajan Suri: So that we have not done in last quarter. But yes, in last nine months we have again reduced by almost some 15 bps.

Moderator: Thank you. As there are no further questions from the participants, 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, i.e www.pnbhousing.com. Thank you and good evening.

Hardayal Prasad: Thank you very much.

Moderator: Thank you. 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.