



“PNB Housing Finance Limited Q3 & Nine Months FY16-17 Earnings Conference Call”

24th January, 2017



Participants from PNB Housing Finance:

Mr. Sanjaya Gupta	Managing Director
Mr. Shaji Varghese	Business Head
Mr. Ajay Gupta	Chief Risk Officer
Mr. Nitant Desai	Chief Operations & Technology Officer
Mr. Anshul Bhargava	Chief People Officer
Mr. Sanjay Jain	Company Secretary and Head Compliance
Mr. Jayesh Jain	Chief Financial Officer
Ms. Deepika Gupta Padhi	Head - Investor Relations

Moderator: Ladies and gentlemen good day and welcome to the PNB Housing Finance Q3 & Nine months FY6-17 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 for an operator by pressing "*" followed by "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.

Deepika Gupta Padhi: Thank you, Zaid. Good evening and welcome everyone to our Q3 and Nine months FY16-17 earnings call. With me, we have our senior management team represented by Mr. Sanjaya Gupta - Managing Director, Mr. Shaji Varghese - Business Head, Mr. Ajay Gupta - Chief Risk Officer, Mr. Nitant Desai - Chief Operations & Technology Officer, Mr. Anshul Bhargava - Chief People Officer, Mr. Sanjay Jain - Company Secretary & Head (Compliance) and Mr. Jayesh Jain - CFO.

We will begin this call with the opening remarks from the management, followed by an interactive Q&A session. Please note that some of the matters we will discuss today are forward looking including and without limitation, statements relating to the implementation and strategic initiatives and other affirmations on our business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors 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.

With that, I will now hand over the call to Mr. Sanjaya Gupta for his opening remarks. Over to you, sir.

Sanjaya Gupta: Thank you, Deepika. Good evening, everybody. I welcome you to our Q3 and Nine months earnings call for financial year '16-'17. During the quarter, the company successfully completed its IPO of INR 3,000 crore. The company got listed on the Indian Stock Exchanges that is National Stock

Exchange and the Bombay Stock Exchange on November 7th 2016. I thank you all for your whole-hearted support for our IPO.

Let me start with the financial performance of the company for the quarter and nine months period ended on December 31, 2016. The figures are compared with the corresponding period of the previous financial year. The company registered a double digit growth during the quarter, with net interest income up by 40% to INR 264.5 crores. The profit after tax for the quarter increased by 53% to INR 137.8 crores. The net interest margin and the spread for the quarter was at 2.99% and 2.10% respectively.

The nine months period for financial year '16-'17 also registered a healthy double-digit growth. The net interest income and profit after tax was up by 43% and 66% to INR 702 crores and INR 371 crores respectively. The net interest margin for the period was 2.82% and the spread was at 2.08%. During the period under review, the cost of borrowings declined by 37 bps to 8.81% vis-à-vis 9.18% for the corresponding period of the previous financial year.

In line with our expectations, the OpEx to Average Total Asset (ATA) declined by 13 basis points to 0.74% during the nine months period under review. Previous year for the same period, it stood at 0.87%. Similarly, the cost-to-income ratio for the first nine months period for financial year '16-'17 declined to 23.20% vis-à-vis 26.05% for the corresponding period of financial year '15-'16. The return on assets also enhanced by 11 basis points to 1.49% on an annualized basis for the nine months period of financial year '16-'17. The return on equity also increased by 0.75% to 17.03% on an annualized basis for the nine months period of financial year '16-'17.

Now let us talk about the business performance. During the nine-month period of financial year '16-'17, disbursements registered a healthy growth of 42%. We disbursed INR 14,592 crores vis-à-vis INR 10,307 crores during the same period of the previous year, which is financial year '15-'16. The disbursements towards housing loans accounted for 73% and non-housing loans at 27%. The asset under management registered a very healthy growth of 53% to INR 37,745 crores as on 31st December 2016

from INR 24,674 crores as on 31st December 2015. Your company sold loans worth INR 3,377 crores under loan assignment route during the nine months period of financial year '16-'17 with the total outstanding loans sold amounting to INR 3,415 crores as on December 31, 2016.

Net of this securitized amount, the loan assets on book are today INR 34,330 crores as of 31st December 2016, representing a healthy growth of 42% from December 31, 2015. Housing loans constitute 72% of the loan assets outstanding and non-housing loans constitute the remaining 28%. In housing loans segment, individual housing loans constitute 61% and construction finance constitute 11% of the loan assets. In non-housing segment, loan against property constitute 17% of the loan assets and has an LTV of 46%.

The average ticket size of this portfolio is INR 50 lakhs and a large part of the customers are in the age bracket of 40 to 55 years, having an average business vintage of more than 10 years and maybe the second generation of business entrepreneurs. They all have income assessed with us on documented income proof and majority of the customers are having banking relations in terms of CC limits, OD limits and other line of credits from variety of banks.

Coming to gross NPAs; as a percentage of the loan assets, it stood at 0.37% as on 31st December 2016 against 0.35% on 31st December 2015. The gross NPA on AUM were at 0.33% as on 31 December 2016. The gross NPAs as on 31st December 2016 are calculated considering the additional 60 days' time given by the National Housing Bank in recognition of the substandard assets. The net NPA stood at 0.27% of the loan assets as on December 31, 2016 against 0.21% as on December 31, 2015. The gross NPAs without considering 60 days grace or relaxation would be at 0.43% of the loan assets on book.

Coming to borrowings, the total borrowings as on 31 December 2016 stood at INR 30,906 crores. The company has diversified borrowing mix with 44.1% contributed by non-convertible debentures, 28.3% by deposits and 9.2% as refinance from National Housing Bank. 8.1% is commercial paper and 5.4% are bank term loans and remaining through ECBs, External

Commercial Borrowings. Our deposit portfolio grew by 26% to INR 8,760 crores as on December 31, 2016 from INR 6,934 crores as on December 31, 2015. The capital adequacy ratio as on 31st December, 2016 stood at 24.62%, of which Tier-1 capital was 18.80% and Tier-2 capital was at 5.82%. The increase in capital adequacy ratio was due to increase in the equity capital on account of the IPO.

As we have mentioned in the last quarter, the infusion of equity in the company will allow us to spread our branch network further and grow our loan book in a healthy fashion. During the nine months period which has gone by, 11 new branches were made operational, totaling to 58 branches. The company also services its customers through 25 outreach locations. With the expansion of the branches in Tier-2 cities, we have seen major traction on mass housing segment. During the nine months period out of the total individual home loans disbursement, over 20% was in less than 25 lakhs category, which can be termed as affordable segment. With increase in our branch network in Tier-2 cities, we see the contribution of the said affordable segment to increase rapidly.

Over the last two months, we were asked a number of questions on the demonetization and its impact on our business. We believe post the demonetization exercise of the Government of India, it will give tremendous boost and opportunities in the real estate sector in the long run. This will bring in more accuracy to valuations and the transaction velocity is expected to gain pace over the next quarter or two.

With respect to our business, we noticed a reduction in the incremental flow of loan applications during the months of November and December 2016. However, in January of 2017, we are seeing signs of improvement in the loan enquiries and loan applications. We have realigned our lending rates for incremental acquisition with effect from January 6, 2017, which will help us to contribute mobilized incremental business.

With this, I end my review and open it for question-and-answer session. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from Kushal Singhania from Samriddhi Securities. Please proceed.

Kushal Singhania: Sir, given the developments that have occurred post the demonetization and the boost given by Modi on 31st December, sir, what do you think, how much can we grow for the next two years?

Shaji Varghese: While we are not in a position to put an exact number what will be the growth that of course will lead also to a forward-looking statement, the only thing I wish to talk about is the opportunity which we are foreseeing. Currently, as MD just articulated, we have 58 branches and this year our focus has been expansion. We have an approval for 18 branches this year, out of which 11 branches we have put up. Now the point to note is, these 58 branches are just covering 35 large cities in India. A country like India having more than 80 cities with more than a million population, it's clearly an opportunity for our future expansion. So, the point which you mentioned about the demonetization or whatever is happening, our growth opportunity is not limited only by deepening into the markets we are present, because we are yet to cover many markets. So we have an equal opportunity or better opportunity by expansion waiting for us. So we hope that should be playing in our favor for expansion, so not in a position to put a specific number.

Kushal Singhania: Yes, sir. So, given that you have been improving ROE and ROA for quite some quarters now, so what do you think of we can achieve for financial year '18? Can we achieve 1.8% in ROA and 21% in ROE?

Sanjaya Gupta: I am sorry, it's a forward-looking sort of a statement that you're asking for. We will not be able to honor that question.

Kushal Singhania: Okay. And sir, we are raising INR 6,000 crores of NCD, so is that to retire old cost debt and/or is it for current lending?

Sanjaya Gupta: Well, that INR 6,000 crores of NCD is not going to be borrowed on a single day, it's for a period of time. And as you are aware, the Board sort of gives us an enabler and Board approval comes every six months. So gradually, as and when we are requiring funds, we will be utilizing this limit.

- Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please proceed.
- Manish Ostwal:** Yes, sir. Within a non-salary class customers, how do you see the trend post November 8th in terms of number of check bounce or all other indicators where you see the stress is building up in those categories?
- Ajay Gupta:** In terms of check bounce rate, impact of demonetization for non-salaried customer, we have seen in the month of November particularly the check bounce rate has increased by 3% points. However, when it came to December, check bounce rate, we are also looking a trend of correction. Although it is early days, but we see that there is some amount of correction happening on the check bounce rate.
- Manish Ostwal:** Secondly, sir, have we used RBI dispensation for NPA recognition during the quarter?
- Sanjaya Gupta:** Yes, we have. We are actually regulated by National Housing Bank, which is 100% owned by Reserve Bank of India. They also given us dispensation of 60 days to recognize substandard assets up to INR 1 crore, which is INR 10 million and that we have used and that is how our gross non-performing assets are at 0.37%. If we were not to consider that 60 days grace period, it will be 0.43%.
- Manish Ostwal:** And what is your current housing loan rate on incremental acquisition?
- Shaji Varghese:** The loan rate currently is 8.8% is what we lent.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please proceed.
- Nischint Chawathe:** Yes. Sir, actually one or two data points that I had, I think you already shared in the call. But just wanted to get your sense at your comments on the competition in the industry, specifically the rate wars that has been integrated by the PSU Bank?
- Shaji Varghese:** You rightly said, you used the right word that the rate war and competition, that's the way of life. It is not only today, the rate pressure and the rate competition exist for a long while. Just that many banks have reduced the

interest rate. We have also responded to that in a calculated manner. We also reduced our interest rate from 9.1% to 8.8%. We are hoping that should be good enough for us to get the momentum going. And even if you look at our last 6 years, we were not very aggressive in the pricing or being positioned at the lender which has the lowest rate that is not our brand and product positioning at all. So we hope we are able to continue to do this as we going forward.

Moderator: Thank you. We will take our next question from Kaushal Kedia who is an Individual Investor. Please proceed.

Kaushal Kedia: Yes, could you throw some light on your net interest margins going forward? What do you foresee them to be?

Sanjaya Gupta: See, going forward, again, would be something which is a forward-looking. But we are able to register about 2.99% in the last quarter. And going forward, we will try and maintain at least 3% or 3.10% as net interest margin.

Kaushal Kedia: This is despite of facing pressures from your competitors?

Sanjaya Gupta: Well, because the marginal cost of funds have come down. So it is that we are giving in to the hyper-competitive environment, which is in existence in quarter four. But we are also managing our treasury very well and doing it very keenly. So we think we can protect it.

Kaushal Kedia: So, on one side looking at data points, I think real estate activities are coming down whereas housing finance companies are not slowing down as to what the real estate players.

Sanjaya Gupta: Well, housing is a generic sort of requirement of the Indian citizenry. As we all know about 2.3 million dwelling units are to be delivered only in the urban centers. So it is an inherent demand, it's a pent-up demand, and I think this is the right time and judiciously now end home users are making the decision to buy a home for themselves. That is why the pace or the growth of housing finance companies is not getting so much impacted.

- Kaushal Kedia:** My last question is that do you plan to take the advantage that our Prime Minister had announced on the 31st of December? Do you plan to take advantage of the SOPs?
- Sanjaya Gupta:** We are doing affordable housing. Our expertise lies in mass housing. So we cannot change our target operating model only to hone our skills onto that segment, that's a part of our business as usual, so we do it.
- Moderator:** Thank you. The next question is from Disha Sheth from Chanakya Capital Services. Please proceed.
- Disha Sheth:** Sir, couple of questions. Firstly on Slide #14, you have given the breakup of loans customer wise, that is how much is salaried, self-employed and loans to corporate. Sir, can you give me the similar data for Q1 and Q2 FY17?
- Sanjaya Gupta:** Well, ma'am, as I have been saying even in my roadshows, this company believes in a stable strategy and vision. These type of macro level information do not change on a quarter-on-quarter basis because our strategy does not change every quarter. So it would be more or less the same on each quarter.
- Disha Sheth:** And sir, secondly, can you please help me with the data for average yield of housing and non-housing loans?
- Shaji Varghese:** The overall acquisition yield for last quarter is 10.52% and the home loan is 9.58% and construction finance is 13% and the non-housing is at 11.48%, the average of this is 10.52%. Thank you.
- Disha Sheth:** And sir, what's the employee strength as at the end of this quarter?
- Sanjaya Gupta:** On an average 847 people, including me.
- Disha Sheth:** And sir, lastly, your cost-to-income ratio has reduced from 26.05% for nine months FY16 to 23.2% for nine months FY17. So how do you see the trend moving forward on cost-to-income ratio?
- Sanjaya Gupta:** See, the economy of scales are playing up and certainly we are expanding, so there is a CAPEX, OpEx which is involved. But we think that we will level

out one of the finest ratios in the industry given the time frame that you are talking about.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please proceed.

Digant Haria: Sir, my question is that I think maybe three months or six months back, we used to have our lowest lending rate which was, say, 15 bps or 20 bps higher than the SBI. But I think now, as I see that, that spread has increased. So like, are we signaling that we would probably prefer to protect margins rather than chase growth and then do we not want to compete in the same segment as SBI or maybe you want to look somewhere else for growth?

Shaji Varghese: The way we understand is, this rate cut is a temporary and a sudden impact. Our focus has been on implementation and execution. We are hoping over a period of time this will level out to an extent. So, because of the excess liquidity, banks have taken an aggressive call. So we will wait for some more time for this to settle down, then we will take a call.

Digant Haria: And I just wanted two data points. One is what was your loan book in the previous quarter? Because that quarterly data is not available, so loan book as of September 30th?

Sanjaya Gupta: Loan book as of 30th September would be INR 32,239 crores.

Moderator: Thank you. Next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please proceed.

Dhaval Gada: Sir, just I had one question actually related to, what would be the growth in our centers vis-à-vis some of the relatively mature branches like three- to four-year-old branches? So, what would be the growth differential? And a related question to growth, how are you seeing growth from existing geography and new geography, what would be the differential? What would be the mix contribution?

Sanjaya Gupta: So, sir, let me first break up your question. One is growth in quantum and the other one is a growth rate. Now, obviously the new market, the growth

rate is going to be phenomenal. But the quantum of loans that will come from the six metropolitan and semi-metropolitan cities will constitute 65% to 70% of the total disbursements because the industry is like that. So, how we sort of go ahead and plan is that, yes, even in these macro markets which are large cities, our growth rates will be a little smarter than the industry average because we are a new player, we are still opening branches etc. And our growth rates in the new markets will be far higher. And the combined growth rate translate into this sort of a growth that we are showing you in our results.

Dhaval Gada: And in terms of growth rates from centers, which eventually turn into branches versus what a three- or four-year-old branch would deliver today, how would be the difference, sir?

Sanjaya Gupta: It all depend on the city, it will not be the vintage of the branch, it will be more of the city potential.

Moderator: Thank you. The next question is from Shiv Kumar from Unifi Capital. Please proceed.

Shiv Kumar: Sir, I was requesting for the debt-to-equity ratio at the end of Q2 and Q3, sir.

Sanjaya Gupta: Debt-to-equity ratio in a financial institution, okay. I can give you that figure, it was astronomical in Q2 end. I think it was 1:14 or something. And now it is, as you see our gearing is only five times. So it is 1:5.

Shiv Kumar: Right. Sir, how does the ROE change from Q2 to Q3, sir?

Jayesh Jain: So, ROE for the nine-month period has been shared in the press release as well as the investor presentation. We don't break the ROE for the quarter and it would not be correct to monitor the ROE in the quarter when we had gone public and raised money. So the ROA and ROE to that extent will be little skewed.

Shiv Kumar: Sir, what is the strategy for securitization? We were under the impression that you had enough leeway in your books to hold on to the assets. So what is the in-house strategy behind securitization of INR 3,300 crores?

- Sanjaya Gupta:** It was just to manage the leverage, because of the IPO, the timing of the IPO and our growth, we never wanted to stunt our growth, so we kept on doing business, but we were very cognizant of the fact that we have to manage the leverage, it should not go beyond 16 times of our Net Owned Funds (NOF). So that is why we did this securitization.
- Shiv Kumar:** So, it's not going to be a long-term strategy of securitizing a percentage of your assets, right?
- Sanjaya Gupta:** So, it was purely a capital structuring that was required. But now coming to this part of your question, we will not like to comment or tie ourselves down that we will not securitize. If we get good opportunities, if our growth is healthier than expected, we will securitize.
- Shiv Kumar:** Sir, and finally, your comments on this loan spread which has been declining, say from the 2.15% FY16 to 2.08% at December. Will you be able to stop that slide and is there any ballpark number towards which you are working?
- Sanjaya Gupta:** See, that sort of spread is also an outcome of the over-leverage that we were sitting on at the end of Q2. And if you only see Q3, that spread has bounced back to about 2.1. So we expect that with the right product mix and with the right sort of treasury mix and the right yields that we are doing our incremental business on, we should be able to protect our spreads going forward.
- Shiv Kumar:** Right, Sir, and do you maintain the breakup between the top five cities and the next five cities in terms of your AUM? Will you be able to share that?
- Sanjaya Gupta:** No, that is not required for any purpose. But we do maintain a geographical distribution and all three major because in East there is hardly any sort of opportunity. So they are very well balanced between north, which includes east, south and west.
- Moderator:** Thank you. The next question is from Rakesh Shinde from Asian Market Securities. Please proceed.

- Rakesh Shinde:** Yes, I just want a few data points. First is, can you share segment wise NPA details, like in individual housing, non-housing?
- Sanjaya Gupta:** There is not much difference either on segment or own product.
- Rakesh Shinde:** Okay. So more or less, it is seen in every segment. And I think in the earlier quarter you have shared the GNPA on a two-year lag basis. So you have that data for this quarter?
- Sanjaya Gupta:** Two-year lag, actually we get CRISIL to write that for us. So, we have already sent our data. And once that issue of profile, we call it as the issue of profile, gets published, you will get a copy of it. Because it will not be right that I compare my two-year lag with the industry, it is better to get it vouched from an outside agency.
- Rakesh Shinde:** True. And one more thing on going ahead what will be your branch addition plan, because this quarter you have added almost nine branches you have added. So going ahead, what will be your strategy?
- Shaji Varghese:** Yes. As I told that, we have approvals from the Board as part of the business plan of '18 for this year, in that 11 we have opened. So the remaining seven are the opportunity for this financial year, that's the approval in place.
- Rakesh Shinde:** And for the next year?
- Sanjaya Gupta:** Again, this is a forward-looking. We cannot tell.
- Rakesh Shinde:** Okay. And going ahead, overall this loan mix of like 73% housing?
- Sanjaya Gupta:** Yes, so the loan mix is not going to change overall, and it's going to stay. 1 or 2 percentage points, yes, but otherwise, there is going to be no drastic change.
- Rakesh Shinde:** And the same with the customer mix also?
- Sanjaya Gupta:** Yes. That will all remain. As I said, our strategy and vision doesn't change very often.

- Rakesh Shinde:** Okay. And one, lastly one, sir, your OPEX to AUM, I think it is around 74 bps as of now. So the thing you have given in the guidance, in that, every year it will come down by 15 bps.
- Sanjaya Gupta:** It will be in line with the industry bps, it is already in line with the industry bps.
- Moderator:** Thank you. The next question is from Jignesh Shial from Quant Capital. Please proceed.
- Jignesh Shial:** Just wanted to confirm the number. You said INR 3,370 crores has been securitized, is it for the nine months or for the quarter?
- Sanjaya Gupta:** The total securitized book, outstanding book is INR 3,415 crores, right. Out of this, INR 3,377 crores has been done in these nine months. Now a part of it was done in quarter two, a part of it was done in quarter three.
- Jignesh Shial:** Okay, and can you give some color on your construction finance business, probably you are supposed to be taking a hit on the demonetization side. So what is the scenario right now? How you are seeing the demand or probably the scenario building about that? What has happened and what you are seeing it now as on date?
- Sanjaya Gupta:** See, again, when we do construction finance, it is very important to choose the developer and to choose the product of the developer. We never go at the bottom of the pyramid, we never go at the top end of the pyramid. We always focus on mass housing and that is why we have a zero NPA on our construction finance book as of 31 December 2016.
- Jignesh Shial:** So, I mean, do you see a further demand coming out there or there is a sluggishness which is visible in the last quarter?
- Sanjaya Gupta:** Yeah, New launches are not happening. But the other thing that you should be aware of that, once the RERA comes, lot of regulations will come. So developers today are using the process to complete their ongoing projects and hence they are borrowing in the market. So, but one has to be careful in making the choice, as I said in the beginning also.

- Jignesh Shial:** You said average yield for construction would be close to 13%. So any specific geographies where you are present or it is also spread across the country?
- Sanjaya Gupta:** So wherever we are available, we only do construction finance there. Obviously in large cities, there are more developer finance accounts than in the smaller cities because in smaller cities, the opportunities are far lesser.
- Jignesh Shial:** Because the margins are coming gradually because of the competition, I think, margins are likely to coming under pressure. Do you see that construction finance which is a better yield product? The share of that inclined to rise or any such plans that you will be having?
- Sanjaya Gupta:** As I said, not major change in our strategy you are going to see over the next quarter or the year going forward.
- Moderator:** Thank you. The next question is from Ritika Dua from Elara Capital. Please proceed.
- Ritika Dua:** Sir, firstly, two data point questions. Can I get the absolute borrowing number for both the quarters, second quarter and third quarter?
- Jayesh Jain:** The outstanding borrowing as on 30th September 2016 was INR 31,479 crores and the outstanding borrowing as of December 31st 2016 is INR 30,906 crores.
- Ritika Dua:** Alright. Sir, second question is, what are your incremental ticket size in both housing and non-housing?
- Sanjaya Gupta:** It's not changing, so in housing it is approximately INR 3 million and in non-housing it is around 7 million.
- Ritika Dua:** Sir, thirdly, this dispensation which we have taken, which obviously has been allowed by the regulator. So like you said that, had the dispensation not been taken, the GNPA would have been 0.43%. Sir, can we get some color? Has the dispensation been taken for which category of loan?
- Sanjaya Gupta:** Retail customers because it is only up to INR 1 crore, loan amount.

- Ritika Dua:** We would be having even our mortgage, which is both housing and LAP that would be sub INR 1 crore.
- Sanjaya Gupta:** It's a mix, it's not in a particular, I would say, product segment.
- Ajay Gupta:** There is no major difference between various segments or various product lines.
- Ritika Dua:** So just for understanding it technically, if a person couldn't pay in the 60 days leeway and post that if he still do not pay that would turn into NPA. So this increase which we've seen of roughly 6 basis point, if they still don't pay in fourth quarter, they will turn into NPA?
- Sanjaya Gupta:** Yes, they will turn into NPA and just to comfort you, we have already provided for provisions on 0.43% and not on 0.37%.
- Ritika Dua:** Right, sir. Sir, my last question is actually on the spread. Sir, how should we see the spreads going forward? Because whichever way you want talk on, we had a very big equity infusion for raising per se. So we were expecting that going forward, at least the spreads should benefit out of that. So when do we see this playing out for us?
- Sanjaya Gupta:** Yes. When we will be fully leveraging that, right away, we are underleveraged, so you are not seeing the interplay of that infusion of fresh capital and the NIM so you will over time see the interplay.
- Ritika Dua:** Sir, if I may know sir, what kind of growth rates would actually help you?
- Sanjaya Gupta:** I will not be able to tell you any forward-looking statements, madam.
- Moderator:** Thank you. The next question is from the line of Roshan C from ICICI Securities. Please proceed.
- Roshan C:** So what is our two-year lag GNPA number?
- Sanjaya Gupta:** Data has been sent to CRISIL. It comes as an issue of profile, a published report, because it compares us with the industry. Once that report is published, we will supply it to you.

- Roshan C:** What proportion of our disbursements are balance transfers?
- Sanjaya Gupta:** Not significant because we don't believe in disturbing or creating a disruption in the industry. So as a strategy, we don't have a balance transfer product, let me tell you that.
- Roshan C:** Just wanted to understand how your growth is higher vis-à-vis other larger players, what is the reason for that in that case?
- Sanjaya Gupta:** There are two three things which makes that differentiator. One is obviously our people. Our operating history is only five-years-old, but our mortgage experience on the table is far larger. It runs into hundreds of years. The second thing is our technology. This company sits on an enterprise wing-to-wing system, which cuts across all functions and all geographies. And the third is our target operating model, which brings in the efficiency. Obviously, our brand. Our brand under the umbrella, we utilize a very strong brand of our parent.
- Roshan C:** Okay. And if you can share the incremental yields on housing and non-housing books, please?
- Shaji Varghese:** The last quarter is 10.52% is the total, with the breakup is home loan 9.58%, construction finance 13% and non-housing, which is predominantly loan against property at 11.48%. And the blended yield is 10.52%. Thank you.
- Roshan C:** Sure, thank you. And just one last question, if I can take that. Our recognition as login fees is on an upfront basis. While we amortize the cost, what would be the approximate impact on ROA if we were to follow a more conservative policy as we are probably required to do from FY19 onwards?
- Jayesh Jain:** We recognize the login fee on an upfront basis however wrt processing fees which is a substantial part, we amortize it over a period of 3 or 7 years.
- Sanjaya Gupta:** To quantify, the delta between unrecognized fee and unrecognized COA on our size of a balance sheet is around INR 127 crores.
- Roshan C:** You mean, if you were to amortize the fees

Sanjaya Gupta: If we were not to amortize, let us say we have to incomize the processing fees and recognize the cost, the expense will be around INR 127 crores more than the fees.

Moderator: Thank you. Next question is from Sanjay Parekh from Reliance Mutual Fund. Please proceed.

Sanjay Parekh: Sir, only simple question is, while you have grown very well and I don't want a number, but in case competition were to constrain your growth, then what will be your priority? Would it be NIMs or AUM growth? And related part is, do you think you can still profitably grow at the rate you have been growing? And I'm not getting to a number, I'm just saying directionally the way you all are going?

Sanjaya Gupta: Okay, I get your question, it is a very fine question. So I think as the management team, we are not empowered to make that sort of a decision, so certainly we'll go to the board. And as a management team, we will always recommend to run a profitable organization rather than an organization which is just growing and not making profits.

Moderator: Thank you. The next question is from Kunjal Punamia who is an Individual Investor. Please proceed.

Kunjal Punamia: Sir, two questions. One is, during the quarter provision for contingency of INR 12.5 crores is created over and above the provision required. So is this the difference of the GNPA that 0.43% and what actually you.

Sanjaya Gupta: No. So I will answer that. Now what happened is, if you see our last year published annual report, there is a contingency reserve that we were carrying of INR 24.5 crores. Now we had to reverse this in quarter two end because of our leveraging, as our IPO was getting delayed. So now that was my promise to my investors that we will reinstate it once the capital infusion happens. So we are reinstating INR 12.5 crores this quarter. And in the next quarter, we will reinstate another INR 12 crores and make it as INR 24.5.

Kunjal Punamia: Understood. And second question sir, as you said that your incremental lending rate is 8.8% for new loan acquisitions. So can you just share a

number wherein what is the incremental cost for the new fund, which you will be borrowing?

Sanjaya Gupta: Cost of fund incrementally is not too high, so even our deposits are very smartly managed today at about 7.6% and all, and we had the opportunity of utilizing more than INR 5,500 crores as proceeds of securitization and IPO. And equally, we would be going to the debt capital market and I think in a day or two, you can see as a keen investor what this company does on its incremental cost of borrowing.

Moderator: Thank you. The next question is from Ritesh Badjatya from Asian Market Securities. Please proceed.

Ritesh Badjatya: So sir, my most of the question is answered. Just one question is like, next week is budget and everybody is hoping a lot from this budget for the housing purchase. Say in your perspective as an industry leader, what schemes for incentives are good for the industry and for the economy per se?

Sanjaya Gupta: I think implementation of GST and RERA are the far most impactful regulatory changes that personally I am expecting. And obviously, they will not form the part of the budget, but it is more of an administrative implementation. And if that happens, it is really going to help the real estate sector in a very, very profound manner. So I've been in the industry for about 32 years now and I think that will be a very big game changer.

Moderator: Thank you. Our next question is from Kushal Singhania from Samriddhi Securities. Please proceed.

Kushal Singhania: Sir, with respect to the new interest subvention schemes that have been announced, so you think the interest subsidy will be available only for a INR 12 lakh loan or also for loan amounts of higher amounts or also for a higher loan amount, but only up to INR 12 lakh?

Sanjaya Gupta: We cannot comment on the government schemes. We are a lending institution and not a policy-making department of the Government of India.

Kushal Singhania: But you still should have some sense as in already you have a CLSS scheme which is available?

Sanjaya Gupta: Whatever will happen will happen, we are a recipient of it.

Kushal Singhania: Okay. And sir, if you saw the Indiabulls Housing Finance investor presentation, they have gone for LAP upgradation from CRISIL and ICRA. So are you planning something like that in order to allay the fears of our investors with respect to LAP?

Sanjaya Gupta: No. So our issuer profile is something like that, which we get it done from CRISIL of the entire portfolio, not only LAP that we do, and we do issue a profile twice in a year.

Moderator: Thank you. Our next question is from Anand Jain who is an Individual Investor. Please proceed.

Anand Jain: So some of my questions have been answered and some questions that are remaining are, so these construction loans that we have, are these loans given to large builders? And what is the average ticket size here?

Sanjaya Gupta: Yes. Primarily they are given to developers who have a delivery traffic and who are developing in the mass housing segment. As I said, we keep away from bottom of the pyramid projects and the luxury segment. So these are very sort of respectable names to whom we lend. Our CRO wants to add something, he will add.

Ajay Gupta: Just to add, more than 75%-80% of these lenders would be investment grade developers. As regard, average ticket size for construction finance is INR 51 crore.

Anand Jain: And sir, when you talk about affordable housing, do you mean that these are like projects which are like government projects or all these slum?

Sanjaya Gupta: They can be anything, they can be anything, private sector, government whatever. They should be legally and technically viable.

Anand Jain: Okay. Sir, the next question is on the LAP portfolio, loan against property. I was hearing a lot of commentary from NBFCs and some of them have

actually started taking a cautionary approach on LAP. Do we see any stress developing on our LAP portfolio?

Ajay Gupta:

Yes. So if I give you a number, you'll be surprised that our LAP portfolio is performing better than home loans. If we look at home loans NPA number, it is 0.46%. If I look at LAP NPA number, it is actually 0.37%. The LAP selection of customer is very different from a couple of peer group or NBFCs. Our average ticket size is very healthy there, it is about INR 50 lakhs. Weighted LTV is 46%, LAP residential would be 70% and balance 30% would be commercial. Almost 70%-75% of these properties are self-used properties. 90% of our customer segment is credit tested and marginally 15% customers historically are balance transfer, which every month is coming down. So these customers are credit tested customers. We do assessment based on income, the average monthly income of these customers would be upward of INR 3 lakh. Age bracket of these self-employed people would be 40 years to 55 years, would be in business for last 8 years to 10 years or maybe in the second generation of business. So the segment is very different where we are operating. And we don't anticipate with vintage portfolio may see some rise in NPA number, but NPA number does not mean a loss. We don't anticipate a capital loss from this portfolio.

Anand Jain:

Great, sir. Thanks. The next question that I have is that, would it be safe to assume that 100% of loan portfolio is asset-backed?

Sanjaya Gupta:

Yes.

Ajay Gupta:

We are not into unsecured lending.

Anand Jain:

Okay. Great, sir. The next question is so when I look at housing loans, the housing part of it, there is something called as a residential plot loan, how is it different from LAP?

Sanjaya Gupta:

So this is a purchase of a residential plot. So these are like government allotments, they happen in Tier-2, Tier 3 cities, like a development authority housing board or plotted developments by private real estate developers. So these are actually for purchase. They cannot be used for any other thing, but for construction of a residential house, unit rather.

Anand Jain: So it's like a mortgage. You have a mortgage against a different property?

Sanjaya Gupta: Oh yes. In fact, let me demystify everybody on this call. In India, only land is mortgageable. So the language is even in a high rise building where you people sit in Bombay, it is undivided proportionate land area and building there on. So eventually, every mortgage is only backed by mortgageable land.

Anand Jain: Sir, the other question is, sir, I also see a corporate term loan. So how does this corporate term loan fit in our entire portfolio?

Sanjaya Gupta: This forms a very small portion of only about 3% of the entire portfolio. And these are given to large corporates for their working capital requirement. And these are all AAA rated or, I mean, at least investment grade rated companies and these are mortgage-based and it's a balance sheet exposure on these large corporates.

Anand Jain: My question is more in terms of, sir, we are a housing loan provider company, but suddenly, like, why do we have this kind of distraction?

Sanjaya Gupta: Because that's an opportunity and even a housing finance company, the regulator says 25% of your total portfolio you can do whatever you feel like. We can even give unsecured loans. We choose not to do that.

Anand Jain: So even this corporate loan is all asset-backed?

Sanjaya Gupta: Obviously.

Anand Jain: Okay. Sir, one thing that I want if you can do going ahead, instead of giving an average number or average ticket size, can we have a breakup that this is a percentage that lies in this band like, 0 to 25 etc.

Sanjaya Gupta: I don't think so. I mean, that would be just putting in too many figures on to one slide.

Anand Jain: The last question that I have is, sir, how do you see your entire loan portfolio moving ahead in terms of housing versus non-housing, corporate?

- Sanjaya Gupta:** As I have been saying, our vision and our strategy is not going to see a major change. One or two percentage points in such a large balance sheet can happen, but no drastic change in our vision statement.
- Anand Jain:** And sir, last question here, which is we have an asset-liability mismatch depending on the years, right, so like, one-year, three-year, five-year?
- Sanjaya Gupta:** Yes. So everybody will have it. And these are actually at a contractual level. If you were to take the effective term, then there is no mismatch. Or you want to take a behavioral sort of a term of a loan, then there is no mismatch. I'll give you an example. Today, housing loans can be given for 30 years, but there is no liability product, which is available for 30 years. Right? That is what it is.
- Moderator:** Thank you. Our next question is from Rajiv Pathak from GeeCee Investments. Please proceed.
- Rajiv Pathak:** Sir, just one question on the asset quality. I believe we had a gross NPA of at around 26 bps in September, which is now around 37 bps. So if you can just explain what has been the main contributor to this rise in NPA and in which segment?
- Sanjaya Gupta:** So this is also a part of our strategy to cure a delinquent account, we let it flow into an NPA, so that we can invoke the SARFAESI, which is very effective. So I would say at an industry level if you will see, every year quarter three gross NPA figures are always higher than 1st of April and 31st March of the same financial year. It is a strategic move by all the lending community.
- Rajiv Pathak:** Okay. So this nearly INR 80 crores that we see quarter-on-quarter in absolute amount, so can we have a sense of which segment it is coming from? Is it the core mortgage or the LAP or the construction?
- Sanjaya Gupta:** It is all from retail loans that they are for. As Ajay said, LAP and housing both are contributing equally. It's also a manifestation of portfolio maturing and the huge portfolio that we are today carrying on our books.
- Rajiv Pathak:** Okay. So nothing chunky from the builder loan portfolio?

Sanjaya Gupta: No, zero NPA as of 31st of December 2016 in the wholesale book.

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

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 www.pnbhousing.com. Thank you.

Sanjaya Gupta: Thank you.

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