

## “PNB Housing Finance Limited Q2 FY17-18 Earnings Conference Call”

**October 25, 2017**

### **Participants from PNB Housing Finance:**

Mr. Sanjaya Gupta	Managing Director
Mr. Shaji Varghese	Executive Director-Business Development
Mr. Ajay Gupta	Executive Director-Risk Management
Mr. 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:** Good evening, ladies and gentlemen and welcome to the Q2 FY17-18 Earnings Conference Call of PNB Housing Finance Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you.

**Deepika Gupta Padhi:** Thank you, Stanford. Good evening and welcome everyone. We are here to discuss PNB Housing Finance Second Quarter and H1 FY17-18 results. With me, we have our leadership team represented by Mr. Sanjaya Gupta – Managing Director; Mr. Shaji Varghese – Executive Director (Business Development); Mr. Ajay Gupta – Executive Director (Risk Management); Mr. Nitant Desai – Chief Operations and Technology Officer; Mr. Anshul Bhargava – Chief People Officer; Mr. Sanjay Jain – Company Secretary and Head Compliance and Mr. Jayesh Jain – Chief Financial Officer. We will begin this call with the overview and performance update by the Managing Director followed by an interactive Q&A session.

Please note this call may contain forward looking statements which exemplify our 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 obligations to publically revise any forward looking statement to reflect future events or circumstances. A detailed disclaimer is on slide 2 of the investor presentation available on our website.

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

**Sanjaya Gupta:** Good evening everyone. I welcome you all to our Q2 and H1 Financial Year 17-18 earnings call. We once again come back to you with a set of strong performance.

Let me start with the financial performance of the Company for the quarter and half year of financial year 17-18. The figures are compared with the corresponding period of the previous financial year. The Company registered a double digit growth during Q2 of financial year 17-18. Disbursements are up by 45% to INR 7,385 crores. The net interest income is up by 69% to INR 386 crores. The profit after tax increased by 51% to INR 208 crores. For quarter two of the financial year 17-18, the spread in loan is 2.42% and the net interest margin is 3.15%. H1 of the financial year 17-18 also registered a healthy double digit growth. The net interest income was up by 67% at INR 730 crores and the profit after tax was up by 68% at INR 393 crores. The spread in loans for H1 is 2.29% and the net interest margin is 3.16%. The cost of borrowing declined by 87 basis points to 7.92% during H1 of 17-18 vis-à-vis 8.79% for the previous year.

In line with our focus on cost, the OPEX to average total assets for H1 of the current financial year is at 0.64%. With ongoing branch network expansion, the cost undertaken includes the growth expenditure. If we only consider our business as usual, then our OPEX to ATA will be around 0.60% for the H1 period. Our cost-to-income ratio or CIR declined to 17.86% in the H1 period of this financial year vis-à-vis 25.34% in the corresponding period of the previous financial year. The return on asset on an annualized basis for the first half year of the financial year is 1.66%. The return on equity is 13.61% for H1 of 2017-2018 vis-à-vis 20.73% for the previous corresponding period. The decline in the ROE is due to an increase in the equity capital infusion post our IPO in November of 2016.

Let me now talk about our business performance. During the half year, we registered 48% increase in the loan file login numbers compared to the corresponding period of the previous financial year. The disbursement registered a growth of 49% at INR 15,179 crores in H1 of financial year 17-18 vis-à-vis INR 10,175 crores during the same period of the previous financial year. The disbursements towards housing loans account for 68.2% and non-housing loans at 31.8%. This is in line with our expectations post RERA implementation. The asset under management registered a growth of 47% to INR 51,320 crores as on 30<sup>th</sup> September 2017 from INR 34,896 crores as on 30<sup>th</sup> September 2016. The loan assets on books are INR 48,749 crores as on 30<sup>th</sup> September 2017 against INR 32,236 crores as on 30<sup>th</sup> September of 2016 representing a growth of 51%. Housing loans constitutes 70.6% of the loan assets outstanding and non-housing loans constitutes the rest of 29.4% of the asset book. In housing loan segment, individual housing loans constitute 58.8% and construction finance for residential units constitute 11.8% of the portfolio. In the non-housing loan segment LAP, loan against property constitutes approximately 16% of the assets. Lease rental discounts, non-residential premises, loan and corporate term loans constitute the remaining. Our deposit portfolio grew by 33% to INR 10,405 crores as on 30<sup>th</sup> September from INR 7,851 crores as on 30<sup>th</sup> September of the previous financial year.

As a part of our geographical expansion plan, 10 new branches were made operational during H1 of the current financial year totaling to 73 branches with presence in 41 unique cities. The Company also services its customers through 29 outreach locations. The Company has operationalized 3 new hubs in H1 of the current financial year, totaling to 21 underwriting hubs as on 30<sup>th</sup> September catering to the branches and the outreach centers. During H1 of current financial year, out of the total individual housing loan disbursements, around 21% is in the less than INR 25 lakhs segment which can be termed as affordable housing segment. With increase in our branch network in Tier-II and Tier-III cities, we look forward to increase the contribution of the said affordable segment in our individual housing loan portfolio. In terms of our gross NPAs as a percentage of the loan assets, the gross NPA is today at 0.34% as on 30<sup>th</sup> September 2017 against 0.26% as on 30<sup>th</sup> September of the previous financial year. The net NPA stood at 0.26% of the loan assets as on 30<sup>th</sup> September 2017. WRT the 5 large retail

accounts that moved into NPA in quarter one of the current financial year, four accounts have rolled back from the NPA bucket.

Our total borrowings as on 30<sup>th</sup> September 2017 stood at INR 45,072 crores. The Company has a diversified borrowing mix with 46% contributed by nonconvertible debentures, 23% by deposits, 15% by commercial paper, 7% by bank term loan, 6% refinanced from the national housing bank and the remaining through ECBs. The capital adequacy ratio as on 30<sup>th</sup> September stood at 18.38% of which Tier-I capital is 13.99% and Tier-II capital is at 4.39%. We continue to look forward to a growth through focus on our network expansion, improvement in our cost and maintaining robust asset quality at an efficient borrowing mix.

With this, we would now open the floor for the question and answer session. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

**Digant Haria:** Sir, my question is regarding RERA because you were present in most of the states, how has been the acceptance of RERA and the subsequent launches. If you can just give some color state by state because we know that Maharashtra has implemented it in true spirit and things are moving better here, but how are we seeing this in some other key states of yours?

**Sanjaya Gupta:** Okay. So out of 29 states, 21 have actually started RERA registration etc. and certainly Maharashtra is one which is quite proactive and efficient. So across the country to be very frank in suburbs, what we are seeing is that the projects have started getting their registration and sales have started but to be candid new launches under RERA are few and far. I mean, they just spread very widely. We see a few in Gujarat, we see a few in Maharashtra, but we are not seeing many in Karnataka, Tamil Nadu, UP etc. But I think that RERA will get absorbed, I mean the nuances of it. The state governments and the competent authorities will become smarter and towards the calendar year end this year or beginning of quarter four of the financial year, we should be able to see some new launches. Green shoots are already visible.

**Digant Haria:** Okay sir. And sir one more related question is that because of RERA the new launches are slow, but we have still managed close to 50% kind of growth. So I know I shouldn't be asking this, but do growth rates improve if things actually start improving in terms of project launches and RERA being implemented in more states?

**Sanjaya Gupta:** See, what I would say is that especially with people like us who are located in metropolitan cities, we think that the builder or the developer supply is the only supply element, but in Tier-II, Tier-III cities self construction, extension, improvement, these are also quite in fashion and in vogue. I am going to be very frank and you people have

the numbers, Quarter two was 5% lower in disbursements then quarter one. So I think we will be able to post at the same level if we are not even going to grow quarter on quarter, I am pretty comfortable on that. And which would mean that the annual growth rate will be pretty smart.

**Digant Haria:** And sir, one is just a data point question. What was the housing loan book in September 16?

**Sanjaya Gupta:** Our housing loan book including Individual housing loan and construction finance as on Sept 16 was INR 23,160 Crore. Housing loan as a percent to Loan asset was just 1.3% points higher in Sept16 and that I have also said in Q1 since we are building capacities, competencies, infrastructure, we will not put them to rest, but we will use them. So little bit of LRD went up in quarter one, it came down in quarter two, but beyond 2%-3% of the portfolio mix you are not going to see much change even towards the year end because our strategy and vision is not going to change.

**Moderator:** Thank you. We will take the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

**Sagar Karkhanis:** So if you could sir, provide some granular details of the disbursements during this quarter geographically like which cities or if not how much of the disbursements happened in the Tier-I cities etc?

**Sanjaya Gupta:** I cannot go granular but let me tell you, today the Company is geographically diversified and de-risked. The largest zone is the west zone which is also the largest mortgage market followed by north, followed by south which is in tune with the industry.

**Sagar Karkhanis:** Okay. And just some outlook on the yields going forward?

**Sanjaya Gupta:** I don't give forward looking statements. I am not authorized by my Board.

**Moderator:** Thank you. We will take the next question from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

**Shubhranshu Mishra:** Sir in your notes to the financials, you have mentioned the subsidiary PHFL home loans which was incorporated on August 22<sup>nd</sup>. So just want to understand the rationale and the strategy for the same going forward, sir?

**Sanjaya Gupta:** It is basically a hygiene factor for our off-roll employees who are today on Ikea and team lease plan rolls. So if you were to see our peer group, they have a subsidiary to have these sales people and I would say the lower segment of the administration department to be there. So we have also incorporated a subsidiary.

- Shubhranshu Mishra:** Sure sir. If you can let me know what could be the concentration of Delhi NCR in both your home loan and LAP books?
- Sanjaya Gupta:** There is no concentration of any particular city or region. We are now very well balanced.
- Shubhranshu Mishra:** Or say what percentage does it contribute to?
- Sanjaya Gupta:** Let me address this question in a different manner as Delhi NCR is not giving me any extraordinary pain on recoveries.
- Shubhranshu Mishra:** Sure sir. And sir, I see that construction finance has been growing very smartly. So any particular strategy that you have for construction finance?
- Sanjaya Gupta:** So what you people see basically is the disbursement growth, but the run off rate is also 40% per annum. So as a percentage in the portfolio it has not increased and as I have said right from the beginning and this is the fifth quarterly earning call, beyond two to three percentage points, the portfolio mix is not going to change.
- Shubhranshu Mishra:** Sure sir. And sir if you can just let me know what would be your yields on securitized assets?
- Sanjaya Gupta:** Yields on securitized assets are of no meaning to me. My fees is protected and that fees is coming.
- Moderator:** Thank you. We will take the next question from the line of Kalpesh Mehta from KSM Finance. Please go ahead.
- Kalpesh Mehta:** Can you just give us some breakup on the new loans which you have been disbursing between the loans through sale of developer and the secondary market sale?
- Sanjaya Gupta:** Well, it is the same as the industry mix. Let me tell you, I mean this data is not available at an industry level but our guesstimate is about 26%-27% is primary sales of developed apartments.
- Kalpesh Mehta:** Okay because in light of this RERA coming in, the general market feel is not many projects are getting launched?
- Sanjaya Gupta:** Yes, but there is lot of ready inventory and this is the right time to buy. So for home buyers it is the best time. In fact just before the investor call, amongst the 7-8 of us, we were all discussing that. For us to buy a home or upgrade the home, it is the best opportunity and that I will also tell the investor community.
- Kalpesh Mehta:** Okay. And one more question, what is your call on going forward the interest rate scenario?

- Sanjaya Gupta:** I think we are at the bottom of the curve.
- Moderator:** Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** Sir just, you made a commentary on some of the NPA resolutions. I think you said there are some four resolutions or something. So I didn't fully catch the comment. So maybe if you could repeat that?
- Sanjaya Gupta:** See, quarter one our NPA number had shot up and the reason was that five of our large retail accounts, I mean knowingly or voluntarily did not collect because we wanted SARFAESI to be invoked. So we have been successful. Four have rolled back from that NPA bucket, one is still there and we think in 2-3 quarters we should be able to resolve that also.
- Nishchint Chawathe:** But there is no significant reduction in the GNPL number.
- Sanjaya Gupta:** There is a 20 crores reduction so INR 187 crores had come to INR 166 crores.
- Nishchint Chawathe:** That is right. So this would be because of all the four accounts?
- Sanjaya Gupta:** No. See, NPA bucket is not a static bucket. There will be forward flows, there will be backward flows. This just has indicated that in this quarter the backflows are more than the forward flows. So quarter-on-quarter it has changed and it is business as usual for the recoveries people because they work hard, so there are back flows. There are some delinquent accounts which are forward flows.
- Nishchint Chawathe:** Sure, I got it. Just one more question what is the book yield on individual home loans?
- Sanjaya Gupta:** That is I mean, look at a portfolio and not at a product or at a segment level, because this is a monoline Company, not only an individual home loan Company.
- Moderator:** Thank you. We will take the next question from the line of Ritika Dua from Elara Capital. Please go ahead.
- Ritika Dua:** Sir, two questions. Carrying on from the previous question, the yields have been pretty much stable on a quarter-on-quarter basis. So how should one read this, is it because like obviously we have been growing on a very balanced basis housing, non-housing growing on a similar pace like 50 percent kind of a growth for both. So how should we see this stability, generally for most of the players have come down?
- Sanjaya Gupta:** Ritika, even our yield has come down on a portfolio basis by 76 bps, but borrowing cost has come down by 87 bps. Now what has happened is and you are very right in your observation, our vision and our strategy has not changed and as I keep saying in each

quarterly earning call, beyond one or two percentage point at a portfolio level our product mix is not going to change and that is why with confidence I am able to every time say between 210 to 225 bps is what is the spread we will be earning with this product mix and we will continue to do that.

**Ritika Dua:** Sure sir. Sir, second question is a data related one. Sir, can I get the outstanding stock of repossessed assets which just for my clarification was roughly INR 170 crores last quarter?

**Sanjaya Gupta:** Well, that is again you know something which we are not calling out on the earnings call. But let me assure you that is also like an NPA bucket. There are resolutions, there are sale of properties and there are new repossessions which add to it.

**Ritika Dua:** Sure sir. Sir just one last question if I may. Of the outstanding employees which you have reported so that includes the subsidiary?

**Sanjaya Gupta:** No. These are FTEs in your Company.

**Ritika Dua:** I am sorry. I didn't catch you.

**Sanjaya Gupta:** See, the full time executives of 1,213 are full time executive of PNB Housing. They are people like me and then there are people who are on third party roles for whom we are creating this subsidiary to create a better work life balance and a better I would say ownership of the Company and to reduce attrition levels in those. So once the subsidiary is incorporated and we transfer them from third party, it goes onto the subsidiary and also in the consolidated number you will start seeing.

**Ritika Dua:** Okay. Sir just connected to this, obviously we have been growing our branch strength which you highlighted in the beginning also. But then the employee growth has been very sharp. Why is that so?

**Sanjaya Gupta:** Because we are expanding. I mean, just to give you a flavor this year we will be opening 23 new branches and 4 hubs. We are expanding our CPC and COPS in creating a load balancing unit in Bombay. So that is why our number of people will increase primarily because of our geographical expansion and enhancement of our capacities and capabilities of our central processing units.

**Moderator:** Thank you. We take the next question from the line of Nidesh Jain from Investec. Please go ahead.

**Nidesh Jain:** My question is on the provisioning for standard assets. There was a relaxation provided by the NHB during the quarter. So how we have treated that? Are we doing it on incremental basis?

- Sanjaya Gupta:** It is only on incremental basis. So it will not give relief on the past book.
- Moderator:** Thank you. We will take the next question from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.
- Omkar Kulkarni:** As far as yesterday's announcement is concerned, how would it impact the housing sector per se and PNB Housing especially?
- Sanjaya Gupta:** See, I would always say there is history to trace the efficiency between a bank and a housing finance company. We have 40 years of history where both have coexisted in a crowded, mature and a commoditized market. So it is for the banks, I mean to utilize this capital in an efficient manner.
- Omkar Kulkarni:** No, because the competition has been very intensive.
- Sanjaya Gupta:** We are in a competitive world. Capital infusion is not going to change the culture and the personality of the organization.
- Omkar Kulkarni:** Okay and what would be the industry growth as of September?
- Sanjaya Gupta:** I am expecting this year at an industry level of about 16%-17%. Housing finance company should grow at 18%-19%. Bank should grow at about 15%-16%.
- Omkar Kulkarni:** Okay and as far as PNB Housing is concerned you said last time it will grow at 1.5 times the industry average
- Sanjaya Gupta:** So I will hold to that and I have demonstrated it.
- Moderator:** Thank you. We will take the next question from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.
- Shubhranshu Mishra:** Just a small question. This is with regards to your dividend policy. Given the risk weights on the affordable housing has come down and your incremental lending would be in affordable housing. So your capital consumption incrementally would be lower. So how do we look at your dividend policy going forward sir?
- Sanjaya Gupta:** It will remain constant because I have to also make sure that I don't come to the capital market very quickly.
- Moderator:** Thank you. We will take the next question from the line of Vishal Singhania, an Individual Investor. Please go ahead.
- Vishal Singhania:** Sir, can you please elaborate more on RERA, what is the operating situation on the ground, how many states have implemented?

- Sanjaya Gupta:** As I said the states and the developers are absorbing it, they are getting resolution. We are seeing RERA compliant projects coming on table and it is not a static situation and I am very sure with passage of time the efficiency of the RERA compliant project is going to increase and one big thing that we are seeing is that the developers who are getting the projects registered under RERA are far more serious on the delivery schedule than they were before. So I think even the customer confidence after a while will come back when the developers are able to demonstrate their seriousness.
- Vishal Singhania:** So sir when do you think the environment will be completely normalized after GST and the RERA thing, you think quarter four of this year and quarter one of next year?
- Sanjaya Gupta:** I think so. But I don't know for sure because these are culture changes and I think they will take time by quarter 4, quarter 1 of next year is the right time that one can expect.
- Moderator:** Thank you. We will take the next question from the line of Disha Sheth from Chanakya Capital Services. Please go ahead.
- Disha Sheth:** Sir, can you please help me with the data for average yield of housing and non-housing loans?
- Sanjaya Gupta:** As I said please look at the portfolio as a homogenous portfolio. It is a monoline Company. We only do 4-5 products and as such you don't have to worry much at a product level because when we do borrowing it is all fungible. So the cost of borrowing is also not bifurcated. Hence it would be wrong to have yields separately and cost of borrowings is common.
- Disha Sheth:** And sir can you provide the segment gross NPA ratio? Between housing and non-housing loans, the gross NPA figure?
- Sanjaya Gupta:** Again the same answer. Look at a portfolio level it is one Company and we are not running SBUs within the Company. It is a monoline homogenous Company.
- Moderator:** Thank you. We will take the next question from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta:** Sir, Aadesh here. Sir just one query. Sir stock of acquired properties, we disclosed that number in our annual report.
- Sanjaya Gupta:** Yes, annual report we do. So it is an annual feature, we will do it at an annual report.
- Aadesh Mehta:** Okay. We won't be disclosing it quarterly?
- Sanjaya Gupta:** No. As I said this is not a static pool.
- Aadesh Mehta:** Any qualitative assessment like whether it has gone up?

- Sanjaya Gupta:** Nothing. As I said it's a transparent compliant Company and what we have disclosed is the true statement to the best of our knowledge and competency.
- Moderator:** Thank you. We will take the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.
- Sagar Karkhanis:** Sir on this online platform for sourcing and originating loans, can it help in reducing our cost to income. Some peers have done that and they claim that it does have something. Can you throw some light on that?
- Sanjaya Gupta:** Let me answer that question. So, mortgages will always have a touch and feel and brick and mortar model because of the transfer of property act and the physical documents. So we also acquire lot of leads, enquiries etc. on our website, on our portal, through our aggregators, through our contact center. We use 5-6 mediums to acquire new customers. But the eventual transaction closure will be physical. Let me also give you a fact of life and that is the law of the land. The law of the land says the mortgage can be created only in a notified office of the lender. We don't need license to open new branches, but we always need to notify our offices so that the mortgage is valid and till such time that the property documents are not digitized and institution like HUD (Department of Housing and Urban Development) in the US is not created to create mortgage and to release mortgage till that time if people are thinking they can go virtual, then I think they don't know the mortgage business. I am making that bold statement. So there will be a combination and brick and mortar and touch and feel will remain till the law and most of the property related laws are state laws. So till the time there is a physical title delivery at a contract we signed in notified office say of lenders, that does not say virtual acquisition and I would say transaction closure will not happen.
- Moderator:** Thank you. We will take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.
- Abhishek Murarka:** Sir, the question I have is on your capital consumption. Now, this quarter I think your Tier-I went down by about 200 basis points QoQ and on the whole in the half year you have consumed almost 300 basis points or so. The thing is at what level would you need additional infusion and is there any way or plan in which you can slow down this consumption?
- Sanjaya Gupta:** So, there are 2-3 things. One is in quarter one and quarter two there is also a dividend payout which was pretty handsome. So the internal accruals to the extent that we have earned have not been added. The second thing is that now because our economies of scale are panning out, our OPEX to ATA is coming down, our CIR is coming down, our productivity levels per person are increasing or are stable, I think our internal accruals are going to be far more smarter. The second tool will be obviously securitization which we can use and I think with incremental risk weightages on incremental loans coming down, the consumption will slow down. So when we grow faster historically whatever

capital we have consumed, we will consume far lesser because around 60%, plus minus 2% to 3% of the portfolio is going to be housing. So we are utilizing the capital pretty prudently. On the portfolio as I keep saying that look at the Company as one and not as SBU, our risk weightage is on an average about 70% for last few years. So I think I am pretty confident that we are in no hurry for going to the capital markets in the near future.

- Abhishek Murarka:** Up to what level of leverage would you be comfortable before you go to the market?
- Sanjaya Gupta:** See, historically last September, October we had even crossed 15 and we were lower than 16, but at around 12-13 is the time when we will go to the capital market because by that time the ROEs will improve, the ROTA is already improving, but because of high level of Tier-I capital, the ROE is in the mid-teens, right? So we want it to be by the time we go back to the capital market it should be 18%-19%.
- Abhishek Murarka:** And sir the other questions is, I can understand that you have been growing fast and basically it is a productivity improvement which is helping your cost to income come down as well. But there will be some level at which you would rate your peak productivity and then you would again need to add branches or people?
- Sanjaya Gupta:** So I mean, even if you are following us intently, our IPO mandate also says that in 2017-2018, 2018-2019 our emphasis will be on branch expansion. Like this year, we are adding 23 branches, 4 more hubs, expansion of our CPC, COPS etc. Next year again, we will replicate it because if you want to compare us with a INR 51,000 crore AUM and it is about 200,000 customers on board, our branch network is only 73 branches and 41 unique cities. So we are the smallest branch network and that is also a challenge and an opportunity for us to make sure that we are growing faster than the others and as I keep saying, "do the right thing the first time and a million times over" is what we are going to do for this year and next year at least.
- Abhishek Murarka:** Sir, just to clarify this. You already added 10 branches in the first half. You are going to add 23 more?
- Sanjaya Gupta:** No, 13 more.
- Abhishek Murarka:** Okay. And similarly you have added 3 hubs, so you are going to add one more.
- Sanjaya Gupta:** One more.
- Abhishek Murarka:** And what is the hiring plan for the rest of the year?
- Sanjaya Gupta:** You will come to know from our website, the career section talks about all the openings. But we have to staff our branches much in advance than the branch opening.

- Moderator:** Thank you. We will take the next question from the line of Hitesh G, an Individual Investor. Please go ahead.
- Hitesh G:** I am a very small investor but...
- Sanjaya Gupta:** Not at all sir. Nobody is small sir.
- Hitesh G:** But I want to partner with your business at least for the next 10 years. So my question is a little different and first of all I also thank you that you have all the senior management also present on the call, Mr. Shaji Varghese, Ajay Gupta, Nitant Desai, Anshul Bhargava, Sanjay Jain, Jayesh Jain all these names I heard, I am really grateful that all of you have made the time.
- Sanjaya Gupta:** This is a professional Company, it is not my Company.
- Hiten G:** Thank you so much. What I want to know from you is little more strategic. Nothing really related to financials or nothing forward looking but if you can let me know what are the top three risks that keep you away, that could possibly have to be watched out for carefully over the next 5 years?
- Sanjaya Gupta:** One is, that my peers should not go belly up, so in fact in the morning when I pray and I pray every day, I pray for my competitors. Second is my people. We should continue to hire good people, train them, nurture them and you know put our arms around and they should stick with us because we are in the business of selling services for 20-25 years. So people is my only asset and the third thing is happiness of the country, why do we have such a lot of negative sentiments. So these are the three worries I sleep with, I live with and I bother about.
- Moderator:** Thank you. We will take the next question from the line of P.V. Bhatt, an Individual Investor. Please go ahead.
- P.V. Bhatt:** Sir, expansion, new branches, new employees, so looking forward what will be the cost to income ratio like will it be content at the current levels or is it going to increase?
- Sanjaya Gupta:** Sir you have asked a very nice question. So the CIR and the OPEX to ATA has come down. Now what will happen and this is again a thumb rule sort of a thing and the wisdom and the observation over the last 32 years. So whenever you are expanding and expanding fast, then I will give you the figures because this is also in public domain. So we open the year with about 2 lakh square feet of office usable space and we are adding about 1,15,000 square feet and this is only office facility space. Then comes technology, then comes people as you very rightly identified. By the time you invest and put this infrastructure capacity, competency to economic use, it is more than 9 to 12 months, right? So you have to be able to observe and nurture the cost because about 33% to 35% of your capital cost comes into your P&L by way of depreciation, salary,

rent rates, taxes etc. So I think for this year and this is also a question mark and I would be sitting alone and doing this, simulation for myself. I think for this year even if you take a OPEX and our CIR at this level, we will be able to cost comfortably because my ATA is going to expand and my incomes are going to expand.

**Moderator:** Thank you. We will take the next question from the line of Gitanshu Buch from Jupiter Trading Advisors. Please go ahead.

**Gitanshu Buch:** I just have one question. Most of the others have been answered. In the branch expansion strategy, are you looking to expand your average ticket size above INR 30 lakhs, stay at INR 30 lakhs or go down?

**Sanjaya Gupta:** See, already about 21% of our home loans are at about less than INR 25 lakhs and expansion is in new geographies which are Tier-II, Tier-III cities and are the engine of growth. So I think our average ticket size which has come down by about INR 2 lakhs over the last 1.5 years from INR 33 to INR 31 lakhs will further recede and will be in the vicinity in 2-3 years' time to INR 26 lakhs – INR 27 lakhs. We are mass lenders by attitude, by strategy, by vision statement and we are going to service the masses where the demographic dome bulges.

**Moderator:** Thank you. We will take the next question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

**Piran Engineer:** Just on the previous question only. You mentioned that your average ticket size could go down in the next 2-3 years, I was just wondering if there could be any sort of operating deleverage that could happen you know with ticket sizes going down you need the same number of people for lower volumes, for the same AUM growth you will need greater volumes, lesser value and thus the same sort of cost infrastructure?

**Sanjaya Gupta:** Our capacities are also better utilized. So I will just give you a flavor. So suppose like a loan is above INR 50 lakhs, I need two technical valuations. So that sort of credit cost and all will not be incurred if the averages come down. The lower the loan, it is not that the workflow changes, but the intensity of underwriting certainly comes down.

**Piran Engineer:** Okay and what about yields because generally in the affordable housing segments the yields are about 20-30 bps lower than the mass?

**Sanjaya Gupta:** It is the reverse.

**Piran Engineer:** Okay. So you are not expecting any sort of negative effect on finance?

**Sanjaya Gupta:** I don't care about yields. I don't care about cost of borrowings. I should get 2.10% to 2.25% spread.

- Piran Engineer:** And sir what is the timeline of a potential rating upgrade, if any?
- Sanjaya Gupta:** We are talking to our rating agencies.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to 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 and answers, please feel free to get in touch with investor relations. The transcript of this call will be uploaded on our website that is [www.pnbhousing.com](http://www.pnbhousing.com). Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of PNB Housing Finance Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.