pnb Housing
Finance Limited
Ghar Ki Baat

16th August, 2018

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

Scrip Code: 540173

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

Symbol: PNBHOUSING

Dear Sirs,

Sub: Earnings Call Transcript

Please find attached herewith the transcript of Q1 FY 2018-19 Earnings Call held on 9th August, 2018.

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

This is for your information and records.

Thanking You.

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

Encl: a/a

“PNB Housing Finance Limited Q1 FY18-19 Earnings Conference Call”

August 09, 2018

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. Kapish Jain	Chief Financial Office
Ms. Deepika Gupta Padhi	Head - Investor Relations

Moderator: Good evening, ladies and gentlemen, and a very warm welcome to PNB Housing Finance Limited Q1 FY18-19 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you, ma'am.

Deepika Gupta Padhi: Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q1 Financial Year 18-19 results adopted as per Indian Accounting Standards.

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 of Compliance and Mr. Kapish Jain – Chief Financial Officer.

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

Please note this call may contain forward looking statements which exemplify our 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 publicly revise any forward-looking statements to reflect future events or circumstances. A detail 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: Thank you, Deepika and good evening, everyone. Welcome you all to our Q1 financial year 18-19 earning call.

As per the notification issued by the Ministry of Corporate Affairs and the National Housing Bank, the company has adopted Indian Accounting Standards that is IndAS from April 1, 2018. Hence, all the financial numbers for Q118-19 and corresponding numbers for Q1 17-18 are based on IndAS.

Before we get into numbers, let me take some time to explain the key changes under the IndAS and its impact during the first quarter of the previous financial year that is Q1 of financial year '17-18:

#1. With respect to amortization of non-fund-based income on interest earning assets and acquisition cost under Effective Interest Rate (EIR) method. Under this method, the variable cost and the receipts viz servicing fee, acquisition cost, expense related to borrowings, etc., are amortized over the life of the assets. Since the Company was following a similar pattern earlier too, where the acquisition cost and the processing fee were amortized on a straight-line method over expected lines of loan assets, the impact is miniscule. In addition, interest income on (NPAs) Non-Performing Assets, which was not recognized earlier is now considered a part of IndAS adjustment. With the above changes under IndAS, we have not witnessed substantial impact due to EIR on an overall basis. There is a positive impact of just INR 3.58 crores in Q1 figures of financial year 17-18.

#2. With respect to the recognition of income earned on assigned portfolios under IndAS. The present value of the income earned on the assigned portfolio, net of related expenses is to be upfronted and taken into the profit & loss account in the period and assignment is executed. There is a negative impact of INR 10.5 crores in Q1 figures of 17-18 due to upfronting of income already considered in the prior year.

#3. Further change is with reference to provisioning under Expected Credit Loss that is ECL. Under ECL, companies are required to consider historic, current and forward-looking information including macroeconomic data for assessing and reporting risk parameters instead of rule-based provisioning. This will result in the earlier recognition of credit losses as it will no longer be appropriate for institutes to wait for occurrence of an event of present loss. The ECL computation draws upon a three-state impairment model based on Probability of Default (PD) of an asset which is in initial recognition, Exposure at Default (EAD) and Loss Given Default (LGD). This has resulted in a negative impact of INR 21.37 crores in Q1 figures of 17-18.

#4. With respect to the ESOP valuation. Under IndAS, the share-based payments have to be mandatorily accounted as fair value and the same has to be recorded in the statement of profit & loss over the vesting period from the grant date. As a result, in Q1 figures of 17-18, there is a negative impact of INR 3.5 crores.

#5. Change refers to the reversal of deferred tax liability, (DTL):As per the earlier NHB notification, HFCs were required to create DTL or reserve created on account of Section 36(1)(viii) of the Income Tax Act. With the introduction of IndAS, HFCs are not required to maintain the same. As a result, the DTL created by the Company is to be reversed to profit & loss account. This has resulted in a positive impact of INR 11.18 crores in Q1 figures of financial year 17-18.

#6. Change refers to the fair value of investment: As per IndAS, the investments held for trade is to be recorded on the fair value. As a result, the revaluation of investments resulted in a negative impact of INR 6.3 crores in Q1 of financial year 17-18. The negative impact is due to the reversal of gains recognized in the prior year on sale of such investments during Q1 figures of financial year 17-18.

In addition to the ECL provision, the company has maintained INR 145.54 crores as a steady state provision for unforeseen macroeconomic factors as on 31st March 2018 as permissible under the IndAS. With the reinstatement of financial numbers considering the impact under IndAS, the net worth of the Company stands at INR 6,600.6 crores as on 31st March 2018 vis-à-vis INR 6,305.5 crores under IGAAP.

Let me now talk about the first quarter numbers for the financial year 18-19:

The figures are on a consolidated basis and are compared with the previous quarter during the same period. During the quarter, the company registered healthy double-digit growth over Q1 of financial year 17-18.

The net interest income was up by 28% at Rs.433 crores and the profit after tax was up by 50% to Rs.256 crores. The spread on loans for Q1 of 2018-19 is 211 basis points and the net interest margin is 274 basis points. The gross margin net of acquisition cost for Q1 of ’18-19 stood at 321 basis points against 346 basis points in Q1 of financial year ’17-18 on an average gearing of 8.66x against 6.46x during Q1 of financial year ’17-18. The cost of borrowings declined by 34 basis points to 7.73% during Q1 of 2018-19 against 8.07% in Q1 of ’17-18. The OPEX to average total assets for the quarter is at 66 basis points compared to 62 basis points in Q1 of 2017-18. This is not withstanding the fact that with ongoing branch network expansion, the cost undertaken also includes gross expenditure. If we only consider our business as usual, (BAU) the OPEX to ATA further dropped to 64 basis points. The return on assets for Q1 of financial year ’18-19 is 1.54% compared to 1.54% in Q1 of ’17-18 on average gearing of 8.66x against 6.46x during Q1 of ’17-18, resulting in an expansion in return on equity to 15.75% for Q1 of ’18-19 vis-à-vis 11.85% for Q1 of ’17-18. The closing net worth of the Company as on 30th June 2018 has risen to INR 6,883 crores.

Now, let me talk about the Business Performance:

During the quarter, we registered 16% increase in loan files numbers compared to the previous quarter during the same period. The disbursements registered 25% growth year-on-year to INR 9,767 crores vis-à-vis INR 7,794 crores during Q1 of 2017-18. The assets under management registered a growth of 47% to INR 68,578 crores as on 30th June 2018. Geographically, West is our largest market; 39%, followed by north at 31% and south at 30% of assets under management. We have limited presence in east with just three branches; two in Kolkata and one in Bhubaneswar which forms the part of north zone.

The Company has in the past securitized a part of its portfolio through direct assignment route. The total outstanding loans assigned amounts to INR 4,672 crores as on 30th June 2018. Net of this assigned portfolio the loan assets on book are INR 63,906 crores as on 30th June 2018, representing a healthy growth of 45% year-on-year. Housing loans constitute 70% of the assets under management and non-housing loans constitute balance 30% and is in line with the business mix maintained in the previous year.

In the Housing Loan segment, individual housing loans constitute 58% and construction finance constitute 12% of the assets under management. In the non-housing segment, LAP, that is loan against property constitute 16% of the loan, assets, lease rental discounting, non-residential premises loans and corporate term loans constitute the remaining.

As part of a geographical expansion, one branch was made operational during the quarter, totaling to 85 branches with presence in 48 unique cities. The Company also services its customers through 34 outreach locations. The Company has 21 underwriting hubs as on 30th June 2018, catering to the branches and the outreach center.

During Q1 of financial year '18-19, out of the total individual housing loan disbursement, around 22% by value was in less than INR 25 lakh category which can be termed as affordable housing. With increase in our branch network in tier-2 and tier-3 cities, we look forward to increasing the contribution of the affordable segment in our individual housing loan portfolio. Part of this portfolio also qualifies as priority sector lending (PSL) which can be sold off to banks at attractive price post they attain the minimum seasonal requirements of 12-months.

Preempting, rising interest rate scenario and to maintain a profitable growth, the Company increased its lending rate by 25 basis points in April of 2018 across its entire floating base portfolio. Further on 1st of July 2018, we increased the rates by another 15 basis points; however, the uniqueness of this increase i.e. the second increase is that it is under a separate PNB HF reference rate series and is applicable only for businesses acquired post July 1, 2018. This also insulates our old loyal customers from similar increase in the interest rates of their existing loans.

Gross NPAs as a per cent of loan assets is at similar level at 0.43% as on 30th June 2018 compared to 30th June 2017. The gross NPA from housing loan is 0.44% and non-housing loans is 0.41% of loan assets. The gross NPA at AUM level is 0.41% as on 30th June 2018. In loan to corporates, we maintain negligible NPA which is due to the stringent norms for customer selection, credit underwriting and monitoring mechanism.

There is a specialized and dedicated team for this business line with centralized functions like underwriting, technical evaluation, legal rating, operations and project monitoring. For corporate proposal, along with the real estate developers credential, financial standing and previous delivery track record, we also do an in-depth study of the micro market, target customer segment, etc., Developers rating, their equity in the projects, stage of the projects to be funded, sales and collection efficiency, etc., are a few other important vectors which are considered before extending such facility.

The Company has a resource profile with 35% contributed by non-convertible debenture, 18% by deposits, 16% by commercial paper, 16% by banks, 6% by refinance from the national housing banks, 7% direct assignment and remaining through ECBs. The capital adequacy ratio (as per IGAAP) as on 30th June 2018 stood at 14.87%, of which tier-I capital is 11.41% and tier-II capital is 3.46%.

In line with our philosophy to enable the marginalized community in becoming capable and self-reliance, we work in the area of skill enhancement training, day care centers, education and healthcare under our Corporate Social Responsibility program known as 'Shaksham'.

Before we move on to Q&A Session, would like to update on the stake sale by our shareholders. The board of directors of the Company received joint intimation from our promoters that is Punjab National Bank and our second largest shareholder that is Quality Investment Holdings, The Carlyle Group about their intention to sell controlling stake in the Company. In this regard, the Expression of Interest was published in leading newspapers on 24th July 2018 and the last date to submit the Expression of Interest mentioned in that advertisement is August 24, 2018. Post the EOI, selected bidders will have to submit the non-binding bids, followed by binding bids. Both PNB and Carlyle have appointed their investment banker and they are working on the same and as a good corporate governance practice the stakeholder committee of the Company has been expanded with an additional independent director and this committee will overlook the stake sale process to safeguard the interest of the minority shareholders.

We would like to focus this call on the operational and financial aspects of the Company.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Aayushi Mohta from CD Equisearch. Please go ahead.

Aayushi Mohta: My question is how are you managing 38% growth in individual housing loans like what sets you apart?

Sanjaya Gupta: One is that we work hard, so we get our growth. Second is our growth is backed by our expansion program of distribution, so we create capacity and capacity creation is not only infrastructure, it has people training skills, vendors, technology, everything and we have added last year itself 21 branches, this year already we have added one more branch, yes, additional cost do come, but is also the engine of growth of this Company. Just to comment on your question, our new branches and the definition of new is any branch which is opened from 16-17, they are contributing about 30% of incremental business.

Aayushi Mohta: What is your competitive advantage, because there are so many other players also in the same segment?

Sanjaya Gupta: One is our communication, our turnaround time, our technology, our people, our product, which are marked to the market and we are one financial institution which even advertises its turnaround time on a website and every week the entire leadership team across the Company that means, the central support office (CSO) and our 21-hubs, analyze our quality vectors for about half a day every week of what has happened in the previous week and we do take corrective action. Our Enterprise System Solution, which is known as Kastle cuts across the organization right from lead management to retirement of loans, asset/liability management, loan appraisal, property documents, digitization of document, etc., So, we together have common faith in God but we only trust data. Point of truth comes from a system, our MIS are generated from the system through a BI tool, so there is no human intervention, we believe in them and we monitor our processes very well.

Aayushi Mohta: But if you see loan book growth of say other housing finance companies, they are not growing at such a pace, so just wanted to understand that?

Sanjaya Gupta: You have to have faith in our growth and our portfolio quality now for last 32 quarters is consistent. So, we are doing things in a wise manner with I would say tactical sharpness and head on our shoulders. That is the difference.

Aayushi Mohta: Do you kind of see similar growth going forward as well?

Sanjaya Gupta: If the macroeconomic situation is stable, I do not see why we cannot penetrate deeper into the inherent demand, internally, I always say that housing finance is like a toothpaste, so every Indian family at least in the urban center uses this service twice in a life time. So, we are on the top of the mind recall or in the list of preferences. It is all about organization, how they are positioning. Service is a cornerstone of a promise to our customers and communications. We do not sell discarded products at a discount. We are at least 25 bps more expensive but we are not costly.

Aayushi Mohta: But sir if you see for instance RERA, it did kind of slowed down the loan book growth of other companies also. So, how did you sort of manage that, your growth has not slowed down at all?

Sanjaya Gupta: I think RERA is a very positive thing and it will bring back the confidence of a home buyer in the real estate sector. Let me again emphasize that organized developers are not the only source of supply, that may be true in a place like Bombay or Delhi, but it is not even true in Bangalore or Hyderabad or Pune, or Lucknow or Calcutta or other places. So, they have other sources and it is all about how focused you are and how I would say nimble-footed you are to change your gears.

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

Sunil Tirumalai: On the Ind AS transition, most of the housing finance companies have actually had a positive impact from the ECL or at least they seem to have had higher provision and then retain it into the model. In your case, we see a negative impact from ECL in the reconciliation that you have given, I am wondering the surprise or the change from your previous model come from PD or from LGD?

Sanjaya Gupta: Let me tell you that there was a release of INR 45 crores due to the ECL, but we have taken that INR 45 crores in the contingency reserves that we used to carry at INR 101.5 crores, if you see that figure has grown to now INR 145 crores. So, we have not added it to our NOF or taken it to the P&L. So, we have been conservative. Let me be very frank, any positive which occurs to us through EIR that is operation has gone to the NOF and that is why the impact of IndAS on the NOF is INR 294 crores as on March 31, 2018, but any release of provision, I have not taken it to the NOF, but I have further credited into my contingency reserves, which today we are calling it as a steady state provision for economic aberrations in the future.

Sunil Tirumalai: I am trying to understand slide #17, the profit reconciliation, where ex-ECL provision had a negative INR -21 crores impact?

Sanjaya Gupta: That was last year that was not this year. If you see on 31st of March 2017, we were at 0.22%, but on 30th June 2017, we were at 0.43%, we doubled our NPA because we allowed forward flows because there were certain customers who were painful in the previous year, we said, we will take you to the court now, we will not come and collect. That is why we had to do additional provision in that quarter in the ECL methodology. Another thing I would like to emphasize here to the larger group is that we have not done the ECL or the PD, LGD or EAD at pool level. We have done it granular and at account level. Because of our systems and our MIS and our data accuracy, our empirical evidence is so solid that it gives us that conviction that we can do it at an account level.

Sunil Tirumalai: My second question is, I am assuming that your spread numbers would have also been restated under IndAS. So, just wanted to get a like-to-like 4Q to 1Q, what was the spread movement, basically that 211 basis points that you have shown for this quarter, what was the comparative number last quarter and what is the guidance against that?

Sanjaya Gupta: My guidance will always be candid. There are headwinds and there is a liquidity crunch in the economy. So, guidance would be still the same anything between 205 to 210 is the spread. I will not change my product mix, I will not change my segment, I will not change my method of doing business because that has made us proud, but the impact of EIR, it is not so much when it comes to the ratios. Last year if you were to say it was 214 basis points in the same period and this year it is 212 basis points under IGAAP. These numbers when reinstated under IndAS comes to 211 basis points this quarter and 215 basis points for Q1 2017-18.

Sunil Tirumalai: And last quarter sir?

Sanjaya Gupta: Yeah it was 2.29 basis points as per IGAAP.

Sunil Tirumalai: Okay from quarter-to-quarter we have seen a sharp drop.

Sanjaya Gupta: Well it is not a sharp drop this is an annuity business and in fact I think we should not have quarterly earnings call. We should have an annual call. This is too much over engineering in an annuity business.

Moderator: The next question is from the line of Dhimant Kothari from Invesco Mutual Fund. Please go ahead.

Dhimant Kothari: Sir I wanted to understand how to look at your OPEX going forward?

Sanjaya Gupta: Let me tell you the OPEX is about 66 basis points and the ATA got shaved off by about INR 3,100 crore as of 31st of March so that was one thing which resulted in a lower base and that was desirable because we are going to use securitization via direct assignment route as an effective liquidity management tool. The second is last year when we opened the year 17-18 we had something like 63 branch operations with 18 hubs. We added in a single year 21 branches which is one-third of the opening stock and we also added three large underwriting hubs. Now obviously last year the expenses of those hubs and the branch is most partial because everything never got opened on first of April 2017 but gradually they came into existence. So, this year impact is full, they are still building up their businesses and as I keep saying give a branch at least 18 to 24 months to stabilize and do sensible sustainable business and that is why I made that statement that any branch which has been opened in the last 24 months if pooled together they are contributing to about 30% business by volume. So, while our model does work obviously the cost will come upfront. Another change this year is because of IndAS is that ESOP valuation has come into OPEX which was not there in the previous year. So, yes, you know that we are very, very keen on managing our cost but as I keep saying this Company with so much of robust operations need to expand to optimize economies of large scale and to upscale that we have to go to new markets. While if what is happening in the micro economy which is liquidity crunch and interest rates and what is happening internally with us if that was to not happen I think what we are doing we are doing fine, but I do not want to be tactical in managing my cost I want to be rather strategic because we want to give a long term return to our investor and we want to leave behind a legacy which the country will enjoy for eternity, but my unit cost believe me my per GL line cost are not bursting last year in fact they are improving, but these are certain elements which we design and we have to put our arms around and I will be frank even this year I am going to expand a lot, I am going to invest a lot in technology we are internally bringing the type of digital technology which can wow anybody. It reduces turnaround time, it reduces error, it reduces boredom, it eases the way we work and I think these are investment year and they will give us good dividend in the future and that is the reason when people ask me what is the differentiator I keep saying it is a generic product, but the way we do this is very different from the way others do.

Dhimant Kothari: Secondly I wanted to understand on the technical aspect the assignment or the sell downs are out of the balance sheet they are off balance sheet and whatever you sell down the fees on the same would be then according to IndAS accrued in the quarter where it is sell down?

Sanjaya Gupta: See what has happened in IndAS that is difference. The event besides the date of up fronting the NAV of the assigned pool and as the loan amortizes every quarter you have to expense it out against the actual income received during the period. So, for example in last year in 17-18 we had an upside of INR 141.2 crore because of our previous assignment but in this quarter we have about INR 11 crore which get amortized because of that upfronting and conversion from IGAAP to IndAS.

Dhimant Kothari: Okay anyways my understanding was different that when you assign, IndAS allows you entire up fronting because it anyway off-balance sheet?

Sanjaya Gupta: Up fronting is allowed that is what I am saying. For example, this quarter we will do some assignment, so we will up front something the total, but from the following quarter I will have to amortize it also as the run off happens so that is zeros eventually. So, any quarter that you do an assignment there will be big block of NII and then over the tenure of the portfolio it will keep on getting adjusted with the interest income on assignment received during that period.

Moderator: The next question is from the line of Darshan Deora from Indvest Capital Advisors. Please go ahead.

Darshan Deora: I had a question regarding the concentration of loans and advances, I was looking at the annual report and it said that the top 20 borrower represent about INR 7,700 crore which is about 13% of I think total advances and I find that figure little high given that our entire construction finance business is about INR 7,700 with 180 accounts approximately. Can you throw some light on this top 20 borrower?

Sanjaya Gupta: I will comfort you. We do not like to create things when it comes to choosing the developer so if a developer has built that confidence so I am not trying to say that my check and balances or my guard will come down for a known customer, but I like to do repeat business with the customer who have good credentials, have got a good rating, have delivered in the past, are compliant to RERA, have maintained escrow discipline, their cash collection efficiency are good, their sales velocity are good. We are pretty comfortable they are not giving us any sort of grief and this is mainly because of less risky products like LRD or the corporate term loan. So, if I can take name then it is CRISIL A rated, they have sort of pedigree in this industry for 30 years, they have demonstrated there robustness and now their commercial real estate which is lets say A rated commercial space in Bangalore or Bombay or Delhi is getting leased out to a globally rated AAA company like an IBM or Lucent or research center of Mercedes Benz. Now that customer due to their comfort with us; comfort because of fairness am I supposed to refuse it, certainly not. In fact, at a group level that LRD brings down the risk because LRD is a self-liquidating asset. Now obviously if you just in isolation look at the concentration risk it goes up, but so have our I would say methods of monitoring these accounts have improved and are proving us right, but we are never complacent that I can assure you.

Darshan Deora: Your LRD is about INR 2,700 crore as of March 31?

Sanjaya Gupta: Yeah.

Darshan Deora: So, this INR 7,700 crore to top 20 customers would be LRD, would be corporate term loan which is also about INR 2,600 crore and the balance would be coming from where?

Sanjaya Gupta: There will be Construction Finance and things like that. So, they are using the entire menu card of this organization.

Darshan Deora: The second question I had for you is the outstanding loan book is it fair to assume that all of it would be a floating rate?

Sanjaya Gupta: No not at all. At any given point of time we will have floating rate and fixed rate that can be as short as one year, two years, three years and five years.

Darshan Deora: But not more than five years.

Sanjaya Gupta: Not more than five years and let me tell you I know what is the question which is behind your mind what is the impact of the revision of the reference rate. There will always be a lag of the reset frequency and the reset date because every customer i.e. 2 lakh do not pay on the same day. They pay between the first of the subsequent month it was 15 of the subsequent months. So, on 9th of April I still remember when we raise the first time and then the first impact will come on 9th of May because there is no demand between 9th of April for that those customers who have a cycle date of 9th till 9th of May. So, this is really a period of patience and faith and belief, trust.

Moderator: The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Just following up on this developer book and construction finance so what would be the yield on this book and the LRD book?

Sanjaya Gupta: So, the incremental yield on the construction finance book is about 11.94% and on the LRD it is about 8.93% as of first quarter of 19.

Saurabh Kumar: So, the LRD 9% seems to be very high grade developer but 12% would be essentially more like tier two developer right.

Sanjaya Gupta: Not at all and that is what I say I do not sell discarded products at a discount.

Saurabh Kumar: Just a clarification on this PNB so once PNB sells down the stake you can still use a brand name, but you will probably have to a pay a royalty to them or is there any agreement?

Sanjaya Gupta: The current brand agreement between the Company and the promoter is that we get a free look period for 6 months extendable by three months. Let's see what happens in the binding bids, the brand is there. They might agree at a royalty or they might not agree for any brand, so that sort of clarification will come with the passage of time.

Saurabh Kumar: Let say the PNB brand is not associated do you see any risk to your deposits is my simple question?

Sanjaya Gupta: Still we are the second largest deposit taking HFC. 19% of our resources are still coming from deposits. On volume on average we do about 6,500 new deposits a month. Yes, there is a lot of significance in this brand, but I think it is also as I was saying for loan that people ask me if that analogy was to be true then nobody will come to a public sector company for loan so why do they come to us. So, we have repositioned this brand in the customer mindset as a different brand. We have invested a lot, if I was to take you through the history of this company over the last seven years in brand building alone we would have spent about INR 100 crores. We like to protect it, we love the brand. We will negotiate with the whoever sort of consortium who buys or is the winner to maintain it. **L**et us see you will cross the bridge then we come to it.

Saurabh Kumar: One final question sir is the commercial paper share of 16% odd on your liability side that is a comfortable number for you?

Sanjay Gupta: It is a very, very comfortable number and let me tell you that they are all backed up by approved sanctioned OD lines of banks. Today, we have about 32 banks in our portfolio who support our CP program and the beauty is that the banks are also investors in our CPs and they backed it up with their own ODs. So, I think I am not being a cowboy, but I think in this increasing interest rate scenario, it is better not to lock up on higher rates for long term, but we are maintaining our RSA, RSL and liquidity. In fact that is why I am carrying about INR 1,700 crore of excess liquidity because liquidity is the main thing.

Moderator: The next question is from the line of Piran Engineer from Motilal Oswal Securities Ltd. Please go ahead.

Piran Engineer: I have got a couple of business related questions and a couple of IndAS questions. So, firstly, on IndAS if you could just explain to me the reclassification for Q1 FY18 on the other income line and the other OPEX line?

Sanjaya Gupta: Just a second. Go one by one go slow because this entire thing is also new for me. So, what you are saying is the other income.

Piran Engineer: Other income for last year Q1 under IGAAP it was INR 96 crore and under IndAS it is INR 72 crore.

Sanjaya Gupta: Yes, because the income which is basically fee income under IndAS actually part of it goes to your NII and so does part of your COA that is why the fee income comes down.

Piran Engineer: The other OPEX under IGAAP last year if I open up last year BSE release it was INR 74 crore in today's BSE release for last year it has been reclassified to INR 59 crore, so I just want to know what has changed under IndAS for such a big reclassification?

Sanjaya Gupta: The part of the cost of acquisition has also gone up as negative to NII. Cost of acquisition is a big change which has happened with both cost of acquisition and the fees income of loan will be on EIR method in the NII.

Piran Engineer: By that thing if I look at my NII number under IGAAP and IndAS it has not changed so much. So, under my interest income number was INR 1,097 crore under IGAAP and it is INR 1,088 crore under IndAS. So, it is just a 7 crore delta.

Sanjaya Gupta: The entire theory thing actually gets broken up into variety of things. So, this IndAS has actually classified these two components which are income and expenses in different categories. So, directly only one GL line will not be able to give you the entire delta explanation. There are two, three things where it gets clubbed or it get neutralized.

Piran Engineer: It is on your ECL thing so our stage one and stage two ECL has increased quite a bit from 26 to 41 bps despite the overall gross stage one and stage two number remaining the same so that means our LGDs have increased YoY is that because of some particular accounts like IREO what is it that causes you to believe that our ECL is higher this year versus last year?

Sanjaya Gupta: In IndAS actually there are three variables which come. PD, LGD and EAD. In the Indian GAAP it was just a prudential norm of the minimum standard asset provision and not a forward flow provisioning. So, from a zero day so let's take a housing loan which has a 0.35% which is lowest will remain from 0 day to 89 or 90 days at 0.35%, but in the IndAS it's a dynamic.

Piran Engineer: I get that my point is that my exposure at default has remain the same YoY, but my ECL has gone up. So my PD or LGD has gone up on a YOY basis that is my question what has caused such an increase because it is going from 26 bps to 41 bps?

Sanjaya Gupta: So, that is what I am saying in the prudential norm it is a static provisioning irrespective what is happening whereas in IndAS or ECL environment as this moves forward from bucket one to bucket two you know you have to create more provisions.

Piran Engineer: Lastly how many branches do we expect to open this year because the first quarter was quite tepid?

Sanjaya Gupta: Obviously it takes time as I keep saying capacity building also has a capacity. You have to first hire people, train people, go ahead in the market, test out the vendors, look out for lease premises. So, first 90 days yes, the work has started in all 23 branches, but they will eventually over the time period keep on getting rolled out during the year.

Piran Engineer: Okay we expect to open 23, 24?

Sanjaya Gupta: 24 to be precise.

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

Nidhesh Jain: My question is on interest paid, so I noticed that our interest rate is almost 50 basis point higher than SBI and around 25 basis point from others?

Sanjaya Gupta: Not really it is now 30 basis points. They increased 20 bps in the last 10 days yes SBI has not but we have other leaders with whom we compete have.

Nidhesh Jain: Does it have any repercussion or our incremental growth rate or the quality of business that we are sourcing because of high interest rate?

Sanjaya Gupta: If you were listening to me intently I said on quality I will not comprise, but if on volume my services do not get a response well that will be hard luck for us, but our people are very well-motived also in the past we got not the lowest price service providers. We were about 15-20 bps higher and we are watching the behavior pattern of our portfolio and since we are the only housing finance company which has different series of reference rate, if we have the luxury we might tweak them down also to match the expectations of the market. So, as I said this is a period of patience, have trust, have faith. The management team is 24/7 watching the new dynamics of the macroeconomic environment.

Nidhesh Jain: Secondly sir the expected change in shareholding, do you expect any change in the employee morale or the change in the management level?

Sanjaya Gupta: Do you find a difference in my tone. Well that's the leader of the Company. Whenever M&A happens the top brass get shunted out first, but this is a performing top brass. So, will people come for the management team or will they come for all offices that we have on rent and pay an OPEX and do not know how to run it because our technology is different, our target operating model is different, our go-to market strategies are different. So, it can be a spacecraft without an astronaut.

Nidhesh Jain: And lastly on the deposits the growth has been quite muted for last two, three quarters?

Sanjaya Gupta: We are engineering a few things on the Independence Day, you will find some independence coming for our depositors, our brokers, our channel partner, our relationship managers. We are working out a pleasant surprise for the market.

Moderator: The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Just a couple of questions firstly if you could give the breakup of disbursal between individual, construction and non-housing?

Sanjaya Gupta: The AUM if you see in the portfolio is very stable. When we say 70% is housing, 70% is housing year-on-year from last 32 quarters. When we say 30% is non-housing 30% is non-housing. In my past guidance also I have said such a large operation where we process something like 13,000-14,000 loan applications a month. Give me elbow space of only (+/-2%) and we have been consistently delivering that.

Bhaskar Basu: In terms of actual disbursal growth, obviously it continuous to be quite strong but it is come off from 45% to about 25%?

Sanjaya Gupta: The disbursal growth always take-off a little bit in the second and third quarter. So, this is also little seasonal business and you know that this sector has a little bit of sluggishness. So, we are not working in isolation and we are large today, so it will have an impact, but as I keep saying take our growth and take the average growth of the industry we will be at about 1.5x to 1.75x the industry average and we have delivered that.

Bhaskar Basu: Secondly on the impact of IndAS, is it possible to get some colors how would the IGAAP numbers look like versus IndAS number Q1 FY19?

Sanjaya Gupta: There is a INR 7 crores positive impact on PAT due to IndAS, that is all.

Bhaskar Basu: Finally, when you give out your cost of borrowing number of 7.73%, does it include zero coupon bond which was there?

Sanjaya Gupta: Now, under the IndAS it is included. There is no more offset from the NOF.

Bhaskar Basu: But when you are disclosing in terms of your yield and cost of borrowing number?

Sanjaya Gupta: It is included till now. There is no ZCBs sort of a concept.

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

Abhishek Murarka: So, sir couple of questions. One is on these reference rates, can you just tell us what is the reference rate for the new series and what is it for the old series?

Sanjaya Gupta: Well, the reference rate for new series the lowest is 885 basis points.

Abhishek Murarka: And the old series?

Sanjaya Gupta: Old series was I think, 875 basis points.

Abhishek Murarka: The starting rate?

Sanjaya Gupta: Yes. The rest is IPR, that is intellectual property right of the Company. I am not going to disclose my technology and my product pricing methodology in a public call.

Abhishek Murarka: No, I will not go to that. So, the other data point which I want is can you just share the yields of the individual home loan and LAP on a blended basis.

Sanjaya Gupta: Yes, home loan at portfolio level is 9.30%, construction finance at portfolio level is 12.52%, non-housing loan is 10.51% out of which sub section, LAP is at 10.43%, and LRD is 9.49%.

Abhishek Murarka: So, the earlier yield that you gave for construction finance of 11.94% that was incremental?

Sanjaya Gupta: That is incremental this quarter.

Abhishek Murarka: And sir, the last question I wanted to ask is was just asked a little while earlier but the disbursement number INR 9,767 crores, can you give the breakup in housing, construction finance, and non-housing?

Sanjaya Gupta: Sir, basically the entire thing is reflected on the portfolio mix and why I am holding back this is because you people do not realize that different products have got different life cycles, right. So, you have to actually work your methodology to maintain that portfolio mix in a much calibrated manner, right. So, there is actually no need for any sort of a further breakup.

Abhishek Murarka: So, if I just look at the headline disbursements growth of 25% that is much slower than what we have done for a number of quarters going back even if I go back to 9 quarters. I just want to know what happened this quarter? It may be a timing difference I do not know. So, I am just asking you that.

Sanjaya Gupta: Yes, so let me also tell you very frankly that whatever we estimated we just met the estimate. We were anticipating and that is the leadership of this team. When we build our strategy plan for the year, we did envisage a lower growth. And that is a rub-off effect of the macroeconomic factors. It has nothing to do with 'Capability, Competency, Capacity'.

Moderator: Thank you. The next question is from the line of Miyush Gandhi from Canara Robeco Mutual Fund. Please go ahead.

Miyush Gandhi: Sir, just wanted your thoughts on the capital, we consumed a lot of capital this quarter, we might probably need to raise something. If you could just share your thoughts at what level you will look to raise and how much, anything that you can just speak your thoughts?

Sanjaya Gupta: So, the thing is, as I keep saying, we are prudent capital I would say users. Our balance sheet, P&L does not irrigate other subsidiaries or associated business. Hence, our steady state level as per the Board policy is 10x to 11x for go-to market. I am talking about gearing and at about 12x hit the capital market. So, still there is headroom to grow. Plus, this year because of the liquidity crunch we will be using securitization and we only do true sales to manage liquidity. And as a strategic intent we will have 7%-8% of our AUM as an assigned pool. Hence, I think and let us be candid, this is also a time for a controlling stake sale. So, I do not want to be seen in the capital market raising capital. The entire, I would say equations will go haywire. I still feel that I can manage these sort of levering level till about as I have been maintaining the last quarter of calendar year 2019 or the first calendar quarter of 2020.

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

Nischint Chawathe: Just wanted to get a sense in terms of ESOP expenses if you could give us guidance as to what the number will look like?

Sanjaya Gupta: Yes, it is about INR 4.5 crores which has hit the quarter.

Nischint Chawathe: And can we sort of broadly annualize it or there be any swing or any seasonality in this?

Sanjaya Gupta: Well, if the movement it all depends on the movements of stock price.

Nischint Chawathe: The other thing I just wanted to check was on the bank borrowing side I think there has been fair amount of increase on a quarter-on-quarter basis.

Sanjaya Gupta: Yes, it has been because the banks are today liquid, the wholesale debt market is not, hence, the NCDs have come down by almost 3% and the bank lines have gone up. We have been prudent in maintaining very good relationships. We are still expanding, and I think that is the right way to go about doing things in this situation.

Nischint Chawathe: And what could be your cost of borrowings from bank as we speak?

Sanjaya Gupta: Banks everything is, Nischint related to different reference rates. It can be the MCLR, it can be T180 day rate. It can be an FCTL, there are different things. There can be a one-year MCLR, some banks give us a 3 months MCLR. So, they are basically related to internal reference rates for the bank or an external.

Sanjaya Gupta: So, it would be say between 8.5%-8.30% to about 8.60%**.**

Nischint Chawathe: Just one thing and I think, you sort of already maybe mentioned this but incrementally when you are going to sell down loans this is going to be assignment and not securitization.

Sanjaya Gupta: This is true sale.

Nischint Chawathe: True sales, I think essentially it has to be an assignment.

Sanjaya Gupta: It is not a PTC.

Moderator: Thank you. The next question is from the line of Ronak Raichura from Asian Market Securities. Please go ahead.

Ronak Raichura: So, my questions are two of them. The first is you said that you have still in terms of charging the interest rates, you kept separate rates, you have not raised the rates for the old customers. But you have done so for the new ones, is it so?

Sanjaya Gupta: There are, it is in two phases. So, the first reference correction which we did on 9th of April, we did it for the entire portfolio. And then we packaged it as an old portfolio that happened on 30th of June. Any acquisition which is happening from 1st of July is on new reference rate series and they had a 15-bps upside in comparison to the old customer.

Ronak Raichura: So, my question is sir, in the scenario of a falling NIM and spreads, why would you not want to extend it to the old customers as well?

Sanjaya Gupta: Because I will be frank, my loyal and my customers should not be paying for my incremental growth that is what is gone wrong big time in the industry. And it is that sort of insulation which excites the customers to do balance transfer. I am a fair service provider and that is one of my differentiators.

Ronak Raichura: So, then considering this step we will have a substantially lower balance transfer this year as compared to what we have witnessed?

Sanjaya Gupta: Certainly. So, my attrition rate should be far better controlled this year than the previous year.

Ronak Raichura: And sir my second question is regarding this assignment of securitization. Now, so effectively the loan gets off your loan books. But what about the risk of the loss in case of default?

Sanjaya Gupta: There is nothing. So, supposedly it is a true sale, so if I do INR 3,000 crores true sale I have to have 10% of each account on my book. And 90% is a true sale and if it goes delinquent or if it goes NPA, the 1/10th impact is on my balance sheet and 90% discount go to the buyer.

Ronak Raichura: My third question sir, when you said you are talking something about the gross NPAs and you said that some of your customers that you found difficult, you said you decided to take action against them in the court. Now my questions is because the gross NPA definition is very clear that if a customer defaults for more than 3 months.

Sanjaya Gupta: No, number of days, (+90). 91st day comes under the SARFAESI Act 2002.

Ronak Raichura: So, if this definition is extremely clear then why does, when you say that some customers who are painful and we decided not to give them any leeway and just initiate action because if a person is (+91) days. You simply have to go and take action against them in the court, right? So, whether discretion comes into play, that is my question?

Sanjaya Gupta: We are a solution provider, we are a home provider. We are not in the business of selling homes, right. First, we use our moral persuasion tools. But if a customer gets into the habit that every time we have to cajole and visit, send letters etc. and they become incalcitrant. Then it is also a time which comes when we say okay if you are so stubborn that you would not pay voluntarily on your own which is a due and this is a public due, then we will go to the court. And we have been very successful. We are able to cure accounts which move into SARFAESI in 6 months for 74% of our customer base.

Ronak Raichura: My question is that if a customer is defaulted by the 60 days would you be able to take action against him as well or it is only that 90 days.

Sanjaya Gupta: You have to make that customer flow once at least to 90 plus DPD and you can use section 138, etc., before that.

Moderator: Thank you very much. That was the last question, I now hand the conference over to Mr. 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 that is www.pnbhousing.com, thank you.

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