"PNB Housing Finance Limited Q4 & Financial Year 2018-19 Results Conference Call"

May 9, 2019

Participants from PNB Housing Finance:

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

Moderator: Ladies and gentlemen, Good day and welcome to the PNB Housing Finance Limited Q4 & financial year 2018-19 conference call.

I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you.

Deepika Gupta Padhi: Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q4 and & financial year 2018-19 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 & Technology Officer; Mr. Anshul Bhargava – Chief People Officer; Mr. Sanjay Jain – Company Secretary & 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 risk and uncertainties that may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. A detailed disclaimer is on slide 2 of the investor presentation available on our website. With that, I will now hand over the call to Mr. Sanjaya Gupta. Over to you sir.

Sanjaya Gupta: Thank you, Deepika. Good evening everyone. Welcome all to our Quarter 4 and financial year 2018-19 earnings call. Today, in this call, I would like to invest some time and explain our business operations. Let me start with an update on our liabilities. The debt market witnessed high volatility post 21st September 2018. Amid this volatility and scarcity of funds, we incrementally raised only long-term funds at competitive rates. The company borrowed INR 30,858 crores during the financial year with over 55% mobilized post September 2018 more particularly through bank term loans, NHB re-finance, external commercial borrowings, and public deposits. The National Housing Bank (NHB) sanctioned INR 3,500 crores in Quarter 3 of 2018-19 which was fully drawn down in Quarter 4 of financial year 2018-19. In this regard, we thank the regulator for their support and belief in the company. Being the second largest deposit-taking housing finance company, we have a very strong and robust retail deposit franchise with over 150,000 deposit accounts. Progressively, our deposit mobilization during the financial year '19 grew over 4.5 times from INR 202 crores a month in April of 2018 to INR 1,032 crores in the month on March 2019. Similarly, deposit volumes increased more than 3 times from 3500 applications in the month of April 2018 to over 11,500 applications in the month of March 2019. Deposits outstanding as on 31st March 2019 are INR 14,315 crores reflecting healthy growth of 23.5% over INR 11,586 crores as on 31st March 2018. With the increased share of long-term borrowings during the year, the ALM gaps across buckets have also improved. As on 31st March 2019, as a prudent measure, we have maintained over INR 7,000 crores as cash and liquid investments on our balance sheet. In addition to the on-balance sheet liquidity, we also have INR 2,000 crores of sanctioned undrawn line. The excess liquidity helped us to maintain our operations in the business as usual most and immensely comforted our lenders/creditors. As a consequence, we disbursed INR 8,562 crores during Quarter 4 of financial year 2018-19 with focus on retail disbursements and an aggregate disbursement of INR 36,079 crores during FY18-19.

In a recent development on 29th April 2019, CARE rating has put our AAA ratings on credit watch with developing implications. Credit watch does not mean rating change or downgrade. CARE as mentioned in their release will continue to monitor developments with regard to capital raise, which is critical to maintain capital adequacy and gearing level while achieving targeted growth. They further mentioned that raising of capital is important in lieu of increasing share of corporate loan book in total loan portfolio and any impact of stake sale by PNB. CARE has further mentioned in their release that the current AAA rating continues to derive strength from experienced management team, PNB brand, consistent loan portfolio growth, profitability profile of the Company, well-diversified resource profile, comfortable asset quality, maintenance of adequate capitalization level, and liquidity position.

On capitalization, the CRAR of the company as of 31st March 2019 is 13.98% with TierI at 11% and TierII at 2.98% against the regulatory cap of 12% suggesting sufficient room to raise Tier-2 capital to further improve the CRAR even before we raised fresh TierI equity capital. The CRAR numbers are as per IGAAP and do not consider the positive impact arising out of IndAS adjustment. As planned during the IPO in November 16, the company does plan to raise primary capital in FY19-20 and plan for the same shall be tabled to the board over the next few weeks.

Now, let me talk about the corporate book. Market has been concerned with asset quality of the corporate book across players in this regard. We would like to reflect upon the resilience of our portfolio. As on 31st March 2019, in our corporate book, 30+ delinquency bucket is at 1.7% down from 2.57% as on 31st March 2018 and the gross NPA as on 31st March 2019 is 0.17%. Talking further, the corporate book as on 31st March 2019 is 21% of the asset under management. This represents 13% as construction finance, 4% as lease rental discounting, and 4% as corporate term loan. In terms of geographical contribution, West markets form 40% of the corporate book followed by South at 33% and North at 27%. Our lending in this space is primarily to marquee real estate developers and repeat customers. 70% disbursements made during FY19 is to repeat customers who are time-tested and with proven track record. As on 31st March 2019, we have relationships with 169 developers. 85% of our corporate book is from top 7 cities which are MMR, NCR, Bengaluru, Chennai, Pune, Hyderabad, and Ahmedabad. Top 20 developers with 59 loan accounts constitute 60% of the corporate book. Over 90% of developers as stipulated are rated by external rating agencies. The weighted average security cover as of 31st March 2019 is 2.2 times. Additionally, the cash-receivable coverage net of project expenses is over 1.5 times. The portfolio is continuously monitored by a specialized team that helps in identifying early warning signals to enable timely corrective action. As a part of our monitoring exercise, we have recognized 5 accounts which are not performing as per our estimation or projection. All the accounts are standard in our books. We are working on these accounts and are in the process of resolution. As an additional step, we have created a special task force focused on curing these accounts. However, on lines of conservatism and as a prudent measure, we have allocated sufficient ECL provision in these accounts. In addition to this, we continue to maintain steady state provision of INR 156.56 crores as a testimony to our portfolio curing during the financial year. We cured 3 accounts in the corporate book with a miniscule write-off of INR 2.14 crores and recovered INR 113 crores. Disbursements in the corporate book de-grew by 47% during Quarter 4 of 2018-19 as compared with Quarter 3 of 2018-19. We would continue to remain cautious on lending to this segment for the next few months.

Moving on to the retail business, in the last few months, there were news flow on the subvention scheme and our exposure towards the same. In this regard, we would like to reiterate that the company at all times has been fully compliant with the guidelines and circulars issued by the National Housing Bank which is our regulator. Further, as on 31st March 2019, loans granted under various subvention schemes amount to only INR 600 crores, i.e., 0.7% of the assets under management.

Let me now talk about the financial numbers for the quarter ended 31st March 2019 and financial year 2018-19. The figures are on a consolidated basis and are compared with the same quarter during the previous financial year. During the quarter, the company registered a healthy double-digit growth over Quarter 4 of financial year 2017-18.

The net interest income grew by 13% to INR 609.7 crores and the profit after tax expanded by 51% to INR 379.8 crores. The spreads on loans for Quarter 4 of 2018-19 is at 259 basis points. Excluding the assignment income that is as per IGAAP, the spread on loans for Quarter 4 of 2018-19 is at 214 basis points, an increase of 38 basis points as compared to Quarter 3 of 2018-19. The increase in the quarter-on-quarter spread is on account of increase in yields and reduction in cost of borrowings.Net interest margin for Quarter 4 of 2018-19 is 318 basis points.

The Company also registered healthy double-digit growth during the financial year 2018-19 over the same period 17-18. The net interest income grew by 24% at INR 2,063.5 crores and profit after tax expanded by 42% and is at INR 1,191.5 crores. The spread on loans for financial year 2018-19 is 235 basis points. Excluding the assignment income that is as per IGAAP, the spread on loans for 2018-19 is 198 basis points. Net interest margin is 293 basis points for 2018-19. The gross margin net of acquisition cost including fees for 2018-19 stood at 334 basis points against 350 basis points during FY17-18.

The OPEX to average assets for the financial year excluding ESOP cost being more of an accounting provision stood at 65 basis points. This includes employee cost of PHFL which is our 100% owned subsidiary which largely houses the in-house sales force. Further, with ongoing branch network expansion, the cost undertaken includes growth expenditure. If we only consider our business as usual, the OPEX to ATA is at 63 basis points.

The cumulative ECL provision as on 31st March 2019 is INR 438 crores. In addition to the ECL provision, we carry INR 156.5 crores as a steady-state provision for unforeseeable macroeconomic factors. As a prudent management practice, we added INR 11 crores to this pool during FY18-19. The return on assets for 2018-19 is 1.61% compared to 1.56% in the previous year on average gearing of 9.3 times against 7.6 times during FY17-18 resulting in a significant uplift in the return of equity to 17.44% for financial year 2018-19 vis-a-vis 14.2% for financial year 2017-18. The closing net worth as per IndAS as on 31st March 2019 is INR 7,543.9 crores. The board recommended a final dividend of INR 9 per equity share of a face value of 10 for financial year 2018-19.

Now, let me talk about the business performance.

During the financial year, we registered 14% growth in loan file logins compared to the corresponding period for the previous financial year. The disbursements registered 9% growth year-on-year at INR 36,079 crores vis-a-vis INR 33,195 crores during FY17-18. Assets under management registered a growth of 36% to INR 84,722 crores as on 31st March 2019. Geographically, West is our largest market with 39% of assets under management followed by North with 31% and South with 30%. We have limited presence in East with just 3 branches, two in Kolkata and one in Bhubaneshwar, which forms part of the North zone.

The Company during the financial year 2018-19 securitized INR 7,337 crores of its retail loan portfolio, both home loan and LAP through the direct assignment route. With consistently superior asset quality and a good proportion of PSL which is known as private sector lending. The company's portfolio continues to enjoy good demand from banks and HFCs for pool buyout. The total outstanding loans assigned amount to INR 10,699 crores as on 31st March 2019. This is a seasoned portfolio and is performing better with a gross net NPA of just 0.20% as on 31st March 2019. Net of the assigned loans, the loan assets are at INR 74,023 crores as on 31st March 2019 representing a healthy growth of 30% year-on-year. Housing loans constitute 71% of the assets under management and the non-housing loans being the remaining 29% reflecting consistency of product mix maintained over several years. In the housing loan segment, individual housing loans constitute 58% and construction finance for residential units constitute 13% of the assets under management. In the non housing segment, retail LAP, i.e., retail loan against property, constitutes 17% of the assets under management, Retail non-residential premises or NRPL, lease-rental discounting, and corporate term loans constitute the remaining in equal percentages.

As part of our geographical expansion, 18 branches were made operational during the financial year totaling to 102 branches with presence across 62 unique cities. The Company also services its customers through 29 outreach locations. The Company has 23 underwriting hubs as on 31st March 2019 catering to the branches and the outreach centers. During financial year 2018-19, out of the total individual housing loan disbursements, around 24% by value was less than 25 lakh category which can be termed as affordable housing. With geographical expansion in our branch network in Tier-2 and Tier-3 cities, we look forward to growing the contribution of affordable segment in our individual housing loan portfolio.

Gross NPAs on 31st March 2019 as a percentage of loan assessed is at 0.48% compared to 0.33% on 31st March 2018. The gross NPAs at AUM level is 0.44% as on 31st March 2019. We have a very effective and compliance recovery scheme which uses SARFAESI very efficiently. With continuous recovery efforts, the assets held for sale on the balance sheet as on 31st March 2019 degrew by 27% to INR 131.1 crores vis-a-vis INR 178.7 crores as on 31st March 2018.

On our resource profile, 28% is contributed by non-convertible debentures, 18% by banks, 17% by deposits, 13% by direct assignment, 10% by commercial paper, and 8% refinance from the National Housing Bank, and 6% through external commercial borrowings.

On the stake sale, PNB on 29th March 2019 informed the Company and the Stock Exchanges about their agreement to sell 13.01% to General Atlantic and Varde Partners in equal proportion. The transaction is under process and is subject to satisfaction of customary conditions including receipt of applicable regulatory approvals. PNB, in the same press release, clearly mentions that they will continue as a promoter and a strategic shareholder in the Company. In line with our philosophy to enable the marginalized community in becoming capable and self-reliant, we work in the area of construction labor skill enhancement training, daycare centers, education & healthcare for their children under our corporate social responsibility program known as Saksham. During financial year 2018-19, through our programs, we touched over 40,000 lives and tried to make a positive difference in their lives.

We are a strong 1609 full-time employee team as on 31st March 2019. Once again during the year, we witnessed an increase in the employee efficiency vectors which are loan assets per employee, revenue per employee, and profit after tax per employee. The Company continues to maintain a balanced approach to business and growth with a focus on asset quality and profitability.

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

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: A number of data points that I probably heard wrong, so one thing you mentioned is that you recovered INR 113 crores from 3 accounts. Was that in Q4 or was that the whole of FY19.

Sanjaya Gupta: It's in the whole of FY19. It is INR 113 crores that is recovered with a minuscule sort of a write-off of INR 2.14 crores.

Piran Engineer: The other thing that you mentioned was we have 5 corporate accounts that are stressed but classified as standard. So, what would our exposure be in these accounts?

Sanjaya Gupta: Yes. They are stressed as per our estimation. So, when we do corporate book monitoring, we just don't do on delinquencies. We do on multiple vectors like utilization, stage of construction, sales velocity, demand, collection efficiencies, and escrow discipline. And we continuously monitor these with different weightages at different project lifecycle stage and in case anything moves between from green to amber and then to red, before it becomes a delinquent account or before it becomes an NPA account, we have sort of a resolution in consultation with the developer, to resolve it before it becomes a murky account.

Piran Engineer: Okay, fair enough. But what would our exposure be across these 5 accounts?

Sanjaya Gupta: Across these 5 accounts, our exposure is INR 908 crores, but out of this, I would say that the main concerned exposures are basically of about INR 600 crores. The remaining is getting resolved already.

Piran Engineer: When you say 5 corporate accounts, it means 5 projects, right?

Sanjaya Gupta: No, they will also mean 5 different developers. In this case, they are 5 different projects also.

Piran Engineer: And which geographies if you could, is it more an NCR?

Sanjaya Gupta: It is not NCR. There is NCR also, there is MMR also, and South it is sterling.

Piran Engineer: You mean Chennai if you say South?

Sanjaya Gupta: No, not Chennai. Basically, we have exposures in Hyderabad and Bengaluru. Chennai long back we have been on the back foot. Remember, this team doesn't sort of wake up when a loan becomes delinquent. We have a very robust monitoring team and that continues to monitor on multiple vectors whether they are credit vectors, utilization, stage of construction, sales velocity, collection efficiencies, escrow discipline.

Piran Engineer: Speaking of escrow, when you say you have got INR 908 crores, is this net of the amount in the escrow or how much do you have in the escrow?

Sanjaya Gupta: This is POS outstanding. Today, in escrow you have to be RERA compliant. You cannot take out money from the escrow just because an account is delinquent. You have to be as conformist to RERA as a developer.

Piran Engineer: Just a last question for Kapish. If I calculate the cost of funds for this quarter, it comes to 7.95%, just simply doing interest expense divided by average borrowing, and that is down like 50 to 60 bps QOQ. So, I am just surprised what led to this sort of decline in cost of funds in such an environment.

Kapish Jain: This quarter we got the NHB funding which had a component of PSL refinance which comes at a considerably lower rate of interest from the Government of India. Our cost of fund for the quarter is around 8.28%.

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

Abhishek: A couple of questions. One is on provisions, around INR 10 crores. If I just look at your QOQ growth in loan book and just sort of approximately calculate 40 bps for home loans and 1% for construction finance, etc., an estimate that it would be around INR 30 to 32 crores. So, I just wanted to know if there is any writeback or how is it INR 10 crores?

Sanjaya Gupta: I will tell you. One is that as an HFC, we have moved to IndAS. So, the ECL provisions are as per Stage-I, Stage-II, and Stage-III. The ballooning of Stage-II on Quarter 3 will always happen. It is a seasonality factor. The SARFAESI, which is the law which helps us to resolve and cure, takes about 8 to 9 months and the tapering off always happens in Quarter 4. So today in ECL regime it is not only standard asset and then NPA it is also stage one and stage two. So stage two certainly got lot of resolution during quarter four and that is why there was an additional sort of provision cost of only INR 10 crores in Q4 FY18-19.

Abhishek: Okay. So basically, you are saying the mixed changed and there was more.

Sanjaya Gupta: Yes, the resolution rates were far better and I am telling you that housing finance companies are annuity based and what you see at an year end cannot be a replica of third quarter and quarter three always bulges when it comes to income and also the NPA (non-performing assets).

Abhishek: Sure. And the second question sir is on ALM, if I want to look at your ALM as a time series so just going back and aggregating all the disclosures over quarters. So now consistently in the less than one year and one to three year anyway we are running negative gaps. For the last two quarters we are also running negatives gaps in the three to five-year bucket as well and compensating all of that in the greater than five years. So by when can we sort of see some sort of correction in this position and what is the way let say in the next let say two to three quarters do you think this position gets corrected, how will this position get correct?

Sanjaya Gupta: Okay. Now my answer would be, if you really see in terms of value, these sort of gaps tget mitigated when it comes to year or more than five years because securitization as a bilateral tool to fill in gaps in case the liabilities are not replaced has become a very big measure because now banks are hungry for credit growth. So, there is nothing to worry much and in the one to three bucket the ALM mismatch has reduced by over INR 2,000 crores in March 19 versus March 18 on an account of a continuous focus on long term borrowing. So, I won't say that there is a sort of a concern after all the management is robust, the portfolio quality is very robust and I do not want to sort of brag much but there is always askof banks and financial institutions who are lined up to buy our portfolio. So these time bucket mismatches can be very well matched from the excess assets that we have with maturity more than 5 years.

Abhishek: Sir just, quickly just looking at the numbers the ECB has sort of gone up by INR 3,200-3,300 crores over last one year. And that is approximately the amount that has increased in the greater than five-year bucket so it's basically because of the long tenure of the ECBs is that correct?

Sanjaya Gupta: Those are liabilities but if you see the assets have also gone up significantly. Right, so then ECB yes, as Kapish said and as I said in my script also today we are only borrowing long, we are not borrowing short anymore, even our deposits, our retail deposits are coming within average tenure of four years and seven months and 50% of our deposits month-on-month which are due for maturity are getting renewed. So it is I think a good tactical and a strategic intend to keep our buckets in the shorter period with a little negative gap and then manage them through the long term assets the business in which we are.

Abhishek: So this is likely to remain this way?

Sanjaya Gupta: I think so, I cannot forecast in how many quarters it will be totally sort of wiped out because it is also availability of funds from variety of sources.

Abhishek: Understood and sir just on cost, One is what is the incremental cost in 4Q, the second is the ECB that you raised last what was the all in cost as in fully hedged cost and was it a fixed tenure ECB or as in a fixed rate loan versus a floating rate?

Sanjaya Gupta: Okay, the fully hedged ECB costed us 8.60%. It becomes the fixed rate borrowing because we have also hedged the LIBOR, the spread and the loan amount. This is the all in landed cost in my shop.

Abhishek: Yes, sure. And what about the incremental cost for total borrowing sir?

Sanjaya Gupta: That is about 8.28%.

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

Nidhesh Jain: Sir, first question is on corporate book, so we are hearing pretty negative commentary from lot of industry visionaries on the real estate sector. On the other hand we are not seeing any signs of stress on your book or books of other wholesale financiers and on the third point that most of the financiers are saying that they will be going conservative on this book on an incremental basis. So how should we connect all these three points, are you seeing any signs of stress on your book and that is why you are changing your narrative on the corporate book from the near term perspective?

Sanjaya Gupta: Nidhesh, let me tell you one thing. That, I am a realistic sort of a long term player and so is our team and so is our Company. So if you know, we are seeing that the good developers are not or the marquee brand developers are not doing new launches. The opportunities of good credit automatically condense, that is one fact. So, it is not that the opportunities are there and we are shying away from it. Since the opportunities are not there, we are telling the world that look, this area is getting contracted and hence do not expect that the corporate loan disbursements and loan book will grow at a rapid pace. Let me also share with you one

thing, that the corporate book growth of FY19 is actually backed by the loans which were sanctioned and partly disbursed in FY17. If you want to take a new loan sanction of FY19 and compare them with loans sanctions of FY18 they are 37% down. And all the loan sanctions of

FY19 are to repeat investment grade and most of them are listed companies. So, the impact of that I would say reduced loan sanctions will impact FY20. So, it is not that we are saying that our robustness has got extra ordinarily challenged or we are not able to sort of manage it but the opportunities have actually condensed and I think more and more good brands with whom we deal with are going to get into more and more joint ventures and which will not have huge requirement of credit because the land cost gets paid over the tenure of the lifecycle of a project at a revenue sharing model. Most of the marquee brands are today not even doing aggressive sales during the initial stages of project lifecycle, they are always sort of trying to build first and then sell so that the fear of RERA non-compliance is moderated. So its a overall sort of change of environment which is actually making us say all this.

Nidhesh Jain: Sure. So on your book are you seeing any changes with respect to sales velocity or the expectation that you are having. So, you have disclosed 30 day DPD which has actually come down Y-o-Y but on the remaining which is standard are you seeing any stress or any change versus what you are expecting on sales velocity, sales price.

Sanjaya Gupta: Not really, but I will say we have to be very vigilant because after all it's an environment and as I keep telling my internal teams we are not working in a vacuum. We are working in an environment and if it becomes a little toxic it can and sort of hurt everybody. So we are very-very careful, we have a huge project by the name of Galileo for corporate book, we are investing heavily in enhancement of technology, in inter linking acquisition, underwriting operations, monitoring, technical services growth, legal, all SMEs onto one platform. So the outcome of the quality of this portfolio is not because we were operating in good times, because yes that is also a fact but we were having very good practices internally. And with each disbursement that we do, we check the credit covenants, we do check on litigations, we do check on utilizations, stage of construction, on sales velocity, on demands, collection efficiency and escrow discipline. So it's a rather very rigorous sort of a portfolio to manage, it is not fill it, shut it and forget it.

Nidhesh Jain: Yes, so with this thing the loan growth on the overall basis should decline and what will happen to our spreads with our cautious stance on corporate book?

Sanjaya Gupta: Well let me also remind that if you look at a spreads our corporate book and specially construction finance, they are not significantly higher than the retail because we are not going for land acquisition, we are not going for aggregation of land, approvals of land or regulatory arbitrage, we are going at stage four which is when a project has got all approvals, land is non-encumbered, is converted to non-agriculture, the project is launched some sort of sales are visible, etc. So, I do not think it is going to impact much on the spread and certainly it's a time that efficiencies have to be improved, costs have to be better managed but certainly you cannot be riding a tiger in a challenging environment where everybody is shying away.

Nidhesh Jain: Yes. And lastly on the cost to asset ratio. So, you mentioned that ESOP is one of the issue by which the OPEX to ATA is looking high but ESOP will be a recurring expense right, every year or every two years you will be showing ESOPs.

Sanjaya Gupta: Yes, that is true it will become a sort of a recurring cost and as I was telling my board also it is going to take everybody some time to get used to the figures in ratio analysis under the IndAS system and I think the dynamics of business and the way we look at efficiencies between us will require a sort of a marginal change of a thought process. And we will have to start getting used to these things. And I am sure, and it's an experience and wisdom which comes over time and we will sort of look at it very closely.

Nidhesh Jain: So earlier I think our expectation was around 10 basis point reduction in OPEX to ATA, so that is on an annual basis.

Sanjaya Gupta: Yes. And let me be very candid because these are also very challenging, these are things which keeps a guy like me going and I do not mince my words I do remember that during the IPO also I had shared when a OPEX to ATA in Indian GAAP was more than 1% that by the time I come back to the primary market it will be 65 basis point. I do remember and my loan book will be INR 75,000 crores. Now the thing is unfortunately God didn't wish it that way and the accounting principles got changed and because of that this impact is coming and for example when we were not having a subsidiary for our sales force and they were on a third party as a whole, under the Indian GAAP we were allowed to amortize the cost of acquisition. Today because it has become a sort of subsidiary and there is a fixed component to their incentive that fixed incentive cannot be amortize so it hits my salary cost. Now that also becomes quite a sort of a blinding spot where we look at a P&L and our ratios ourselves. But then you sort of peel it off you really compare Apple to Apple from the erstwhile regime to now. It's not that it makes us happy or content but it satisfies us that we are there. Actually, if you were to take the ESOP cost out and the salary cost of our sales people out, our OPEX to ATA is not more than 61-62 bps to ATA. And so we have bettered it than what we had projected in our conversations during the IPO time. But yes, it is not that the figures are figures, data is data and we have to live with that. And ESOP cost move to fee reserve hence it is just an accounting sort of a change and therefore we said that why add it to the OPEX, take it out of the OPEX.

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

Saurabh Kumar: Sir just two questions from my side. Sir one is this Stage-III if I look at the coverage that has come down what would explain that. Have you revised your PD and LGD assumptions this year?

Sanjaya Gupta: The security cover is better. So in ECL you also have to take the valuation of the properties and we do valuation of our properties in March of every year. So the valuation covers better.

Saurabh Kumar: Okay. And this INR 900 crores would be I am guessing mostly in Stage-II so it will be nothing?

Sanjaya Gupta: No, so basically what has happened out of this, INR 712 crore is in stage one but we have used significant increase in credit risk and hence for provisioning purpose considered them as stage 2, that is the type of conservatism we have done in our provisioning. Hence you know the ECL has moved from 12 months to lifetime the moment you take it to Stage-II.

Saurabh Kumar: Okay, but there is no revision on the PD and LGD assumptions?

Sanjaya Gupta: No.

Saurabh Kumar: Okay. And secondly sir if I just look at your repayment rates that is like something still running at 30% if you kind of look at the disbursement and the change in AUM through the year. So, what would explain that normally with other HFCs number of 10 to 12% and why I am asking is basically your disbursement growth this year has come down to 9% so I am just wondering does it impact your forward loan growth because of this, if this is the repayment.

Sanjaya Gupta: No, there is also a securitization between AUM and loan book. The securitization has gone up, in fact let me tell you the attrition rate has come down this year to about 18.6% on the portfolio because of interest rate volatility, the balance transfer menace has been rather muted in the retail portfolio.

Saurabh Kumar: Sir, in retail you are seeing a 18.6% attrition, right?

Sanjaya Gupta: Not in retail of the portfolio, on the entire portfolio.

Saurabh Kumar: And what will be on the retail side sir?

Sanjaya Gupta: It is about 16% and on the corporate side it is 23.5%.

Saurabh Kumar: Okay. And most of the refinancing would have been on the retail side, also right?

Sanjaya Gupta: It used to happen; it still happens but it has certainly come down.

Saurabh Kumar: Okay. And sir last question on this INR 900 crores I think somewhere in your presentation you have mentioned that you were able to refinance this exposure to someone. I am just wondering why would the other party be interested in refinancing this.

Sanjaya Gupta: No, so what we have done is I will clear to you, we have also sold down certain assets and which were at a lower yield and especially that was in our corporate loan book and they were actually very marquee brands and we were negotiating with them for a higher yield which did not happen. So about INR 1,600 crores of corporate loan books we sold down ourselves.

Saurabh Kumar: Okay. And you sold it down to like another financial institution right I am guessing?

Sanjaya Gupta: Yes, basically them, see in HFC and NBFC space our cost of borrowing is one of the finest. Banks are ones who are always hungry for assets and in the corporate book you actually don't' do a Direct Assignment You do sell down.

Saurabh Kumar: Okay. So for the difference you book a loss or how did it happen or you just sold it out at par?

Sanjaya Gupta: No. As you can say it was a voluntary sort of a balance transfer. I will word it a little differently.

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

Nischint Chawathe: Sir how much was the ESOP expense during the quarter?

Sanjaya Gupta: It is INR 11 crores for Q4 FY18-19.

Nischint Chawathe: Okay. The other thing is how should we really think about margins from here on. So first of all, the margin expansion this quarter was because of you have raised the PLRs or what is exactly the driver and how should we see this playing out over the next two to three quarters?

Sanjaya Gupta: I would still say that we will be able to manage a sort of a spread because margins when it comes to NIM, etc., are also factor of how much liquidity you are carrying, what is your capital adequacy, how many times you are geared. Our endeavor will always be to manage on an annualized basis a spread of more than 200 basis points to 210 basis points.

Nischint Chawathe: No, so the point was what exactly happened this quarter. Was it something that you increase lending rates or you increase benchmark rates or what is that?

Sanjaya Gupta: I have been saying that for very long time. When 80% of the portfolio is on floating rate of interest and you revise your rates either upwards or downwards. It does not happen before you say Jack Robinson. Now we were always calibrating the revision in the reference rates and we never wanted to shock our customers in one go because whatever costs were building on our liabilities only that we were passing to maintain that the calibrated 200-210 basis points of spread, but as I said the impact of it takes time because all loans are not booked on the same day of the quarter and every month certain loans complete a quarter and the impact of the revised reference rate comes on to them, but every loan is an EMI loan and has an arrear payment and the demand of the arrear payment varies from first of the subsequent month till the 15th of the subsequent month. So whatever compression that you people were seeing in Quarter 3 and were getting a little anxious and nervous was completed and had a complete impact and hence in Quarter 4 what we were suggesting and we were sort of forecasting, that spread came back. So as I keep saying this is annuity business this is not manufacturing, IT/ITS or trading business that on a quarter basis see the book, the orders, the products manufactured, sales credit and all those things. Its actually the year gets little well defined towards end of Quarter 4 and that is what has happened in our case also.

Nischint Chawathe: Are we kind of done with this is this the full quarter impact or is this something which we should still see next quarter or you kind of looking at raising rates hereon, are we kind of broadly there right now?

Sanjaya Gupta: No there is one more sort of reference rate change that we have done very marginal in the month of March and the impact of that will come towards end of June.

Moderator: The next question is from the line of Kaushal Kedia from Avenue Partners. Please go ahead.

Kaushal Kedia: My question is on the INR 900 crores how much haircut do you perceive you will be taking?

Sanjaya Gupta: Well, I have never taken a haircut, but if you were to go by what happened in the year on INR 113 crores we took a haircut of about INR 2.14 crores and let me confirm the entire audience these loans are having security cover or tangible security worth at least 2x-2.5x, all of them.

Kaushal Kedia: And the second question is after Punjab National Bank sells the stake to GA and Varde, what happens to the brand because there share will go below 30%?

Sanjaya Gupta: Basically, I mean if you see the notification to the stock exchanges and also to us and which is also on our website they say we are the promoters and we are strategic financial investors and till date we have not heard anything from PNB about withdrawal of the brand and I am sure that the buyers must have also negotiated something in their agreement though I am not privy to their documents but I guess so because this brand is a very cherished brand by the Company.

Moderator: The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Just first question this INR 900 crores pertains to the Slide #45, is it the total exposure of INR 900 crores in all these categories. Secondly, apart from this, looking at the situation, do you foresee any more exposures getting added to this list because most of the financers over the last two quarters have done a lot of deep dive into their book and after that they have come out with some of the worst-case estimates about the corporate loan book, do you see any more exposures getting added to this list?

Sanjaya Gupta: Not as of now because as I said we have built a special taskforce also to look into portfolio quality management and our monitoring team is very vigilant and in fact we have enhanced the robustness and our tolerance limits and as of now truthfully speaking we are not seeing any forwards flows into this pool.

Alpesh Mehta: The second question is related to while there have been lot of discussions about the cost of funds during the quarter, etc., but if I just look at the absolute number of interest expenses on a sequential basis the growth is hardly 1% versus the borrowing growth of almost 5%-6% on a quarter-on-quarter basis, so are the borrowing more towards quarter end, what are we missing here because the fall in the cost of funds seems to be very sharp in the quarter?

Sanjaya Gupta: It is also the fact that you know in this quarter we got the NHB funding which had a huge component of PSL refinance which comes at a considerably lower rate of interest from the Government of India.

Alpesh Mehta: And did that happened towards the beginning of the quarter wherein the full benefit happened?

Sanjaya Gupta: The PSL portion came in the first month of the quarter so it had an equal impact.

Alpesh Mehta: So should we assume the current quarter, cost of fund should be apart from the whatever market linked drives this should be largely the trend rate going forward?

Sanjaya Gupta: I do not think so that would be a good assumption.

Alpesh Mehta: So there may be some rise from the current level.

Sanjaya Gupta: Certainly. If I am doing my estimation, I would not take this NHB thing. I mean it is a windfall.

Alpesh Mehta: Lastly, of the assigned portfolio what would be the proportion between retail and the corporate?

Sanjaya Gupta: 100% retail book.

Alpesh Mehta: And how do we project now this seems to be a big component of the profits this year almost INR 300 crores assignment income?

Sanjaya Gupta: Thanks to IndAS and that is why we are segregating our spread between IndAS spread and Indian GAAP spread, so that you people are comforted.

Moderator: The next question is from the line of Subranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

Subranshu Mishra: I just want to understand your confidence of maintaining the spread given that you have eluded of the fact we will be going slow on corporate lending and incrementally we would be borrowing long-term, so how does this Math work out sir?

Sanjaya Gupta: Well as I said that this is a temporary phase and if the markets improve, we have got no sort of grouse to or we have not bad sort of experience, we will go back and be as firmas we would.

Subranshu Mishra: When do you expect that to recur?

Sanjaya Gupta: I do not estimate that things are going to dramatically or significantly improve before October-November.

Subranshu Mishra: One specific that I looked at your presentation your ticket size for construction finance in the last quarter was INR 79 crores and in the fourth quarter it is INR 128 crores is that correct?

Sanjaya Gupta: Yes.

Subranshu Mishra: How do we have this dramatic change?

Sanjaya Gupta: Because we are doing only very marquee listed developer construction finance. Further, the ATS shared in Dec 18 were on loan account basis. This time the ATS shared are on a unique corporate level and hence increase in ATS. If ATS calculated on the same basis for Dec 18, the numbers will be broadly the same.

Subranshu Mishra: You got 70% construction finance under construction so what is the split between NCR and MMR in this 70% sir under construction?

Sanjaya Gupta: for the 70% under construction book, West is largest at ~50%, .NCR is only the reminder which I think will come to about 21%, 22%.

Subranshu Mishra: And just two data keeping question, sir what is your specific exposure to Supertech and Lodha?

Sanjaya Gupta: Supertech outstanding is INR 272 crores and these are two facilities. One is corporate term loan and one is construction finance and Lodha we have about INR 1,200 crores and let me tell you Lodha is zero DPD ever, this is the sixth facility split into two and it is not a new sort of relationship. It is a very old relationship right from I think 2011 and this is the sixth time we are giving them the loan.

Subranshu Mishra: All your construction finance is single lien on or pari passu sir?

Sanjaya Gupta: Most of our loans, we are absolute mortgages.

Subranshu Mishra: What proportion would be pari passu then?

Sanjaya Gupta: Hardly there are four, five cases which are pari passu.

Subranshu Mishra: And what would be the amount for that sir?

Sanjaya Gupta: I think the total amount which is pari passu and unfortunately, I think I am really searching my memory Supertech is Pari Passu, Ornate is Pari Passu, Radius is Pari Passu; these are the four pari passu that we have done otherwise we have absolute charge in the project.

Moderator: The next question is from the line of Manjit Buaria from Solidarity Investments. Please go ahead.

Manjit Buaria: I do have basic question sir when we think about construction finance, how do the real estate players categorize taking loans from banks vis-à-vis NBFCs and what are their parameters within NBFCs given that many of them are now telling we will go to marquee real estate guys so they have many more options to look at?

Sanjaya Gupta: Corporate book is a structured loan product and there are no standard norms between players. Everybody has their own nuances. So I will not be able to comment what banks are doing, what are other NBFCs doing, what are other HFCs doing. I only know what are our norms, parameters and how we are monitoring. So how we are acquiring, how we underwriting is the risk mine part, how are we doing the risk purchase which is operations where the legal, technical operations everybody gets involved, how are we disbursing, how are we monitoring.

Manjit Buaria: I appreciate that sir. Sir my question was on the lines of when real estate just come out seeking loans everybody is competing for the same set of loans, so I just wanted to understand like what drives the decision of the real estate to take a loan from someone especially when they are marquee and they have all options available?

Sanjaya Gupta: Yeah it is the service standard, it is pricing, it is structures, who is able to understand and partner the developer better so it is a plethora of attributes which decides a marquee real estate developers choosing the lender and you are right a marquee real estate developer will always have the options to make a choice.

Manjit Buaria: And are we always competitive on cost vis-à-vis banks when it comes to pure construction finance or not necessary like how does the dynamic work?

Sanjaya Gupta: See there are two, three things which are in the DNA of this Company. One is we have never worked for market share. The word market share is not in our dictionary when we do our strategy planning. We build competency, capacities, technology, SOPs, back office, etc., and took them to economic use. The second thing is I right price my credit and temptations never become lust for us. So if I am losing a good deal for 10-15 bps I might relent, but if I am losing a good deal for 100 bps I will say I wish you all the very best this is not my cup of tea. I will walk away and search for a new opportunity. Why did we demonstrate by selling down a zero DPD book in the corporate book when there is so much of talk of INR 1,600 crores in a single year because at the revised cost of borrowing they were not making the good spread and they were highly rate sensitive customers and product both. So, it is better that you find them a good home and you get them adopted there. On one side just preceding to you there was a drill down on OPEX to ATA while my ATA would have been higher by INR 1,600 crores. I would have saved about 2 bps of OPEX to ATA, but when you are making business decisions you are not making decisions for your ratios, but you are making decisions to make your Company more robust. It is a long play game; it is an annuity business.

Moderator: The next question is from the line of Anurag Goyal from Ampersand Capital. Please go ahead.

Anurag Goyal: Sir, the board proposed the fund raising through the NCDs and the ECB, so just wanted to understand is there any plan to increase the Tier-1 capital, if yes so what are the timelines that we are proposing or you have in mind?

Sanjaya Gupta: I also said it in my script right from 2016, 2020 was the target date and INR 75,000 crores of portfolio was the target. We have achieved this, as I said in the couple of weeks we will go to the board with options. We will seek their guidance; we will go through the Stakeholder Committee, from our bankers and modus operandi in process and we will come back to you people. There is no I must say diversion or diverse thoughts between the management and the board and the shareholders. Capital to a financial institution is like a fuel.

Moderator: The next question is from the line of Bharat Shah from ASK Investments. Please go ahead.

Bharat Shah: Two questions, if INR 308 crores of assigning income were if the assets was not booked and this income were not be earned by assigning, what would be the drop in the profits for the year?

Sanjaya Gupta: Well then you should also nullify the cost of acquisition which gets up-fronted as a cost. So Bharat that is why voluntarily as a good management we told you both the spread. Spread with assignment income, spread without assignment income and I mean let me also tell you and that is why I was saying that today we are and I like these questions because it also opens up my mind. Over a timeframe those analyst investors and the management teams will get used to IndAS. It will become a regular feature. There is another component, securitization used to also happen in the previous Indian GAAP regime, there was a service charge which used to be charged because GST was also not there, nobody asks that how much of OPEX you are getting reimbursed because of securitization. So let us have a sort of a little bit of patience and over the timeframe we will both of us and everyone one of us will get used to this regime.

Bharat Shah: You see I do not have full data to judge what are the relevant cost and other things which need to be adjusted, so at least say the broad number and I quite appreciate what you are saying in terms of aligning to the new regime that we are moving on to, but if we had to understand some amount of impact that has additionally come because of these assignment income what could that number be ballpark?

Sanjaya Gupta: I think at a PAT level between IGAAP and IndAS, it will impact by about INR 150 to 155 crores full year.

Moderator: The next question is from the line of Ashwin H from A&S Investments. Please go ahead.

Ashwin H: I think one of my question is answered about raising Tier-1 capital. The next one is slightly more broad-based. We are hearing there is quite some talk about more regulations coming in place maybe post-election that coupled with a current kind of liquidity crunch and then you know interest rate expected to move down, what are some of the big forces that we anticipate in the next 6 months to 1 year and how are you geared up to face both the regulatory and the market related changes?

Sanjaya Gupta: So one is that this is a very seasoned management. Now this is where the qualitative vectors of a Company really play out. It is a very seasoned management amongst the six of us at the top end and then the second run we have 100 of years of domestic mortgage experience and as I have been saying for 32 quarters consistently this management has been seeing a lot of changes external, internal at all times and I am very confident that we will be able to cross the bridge when we come to it. We are very well aware of what is in the wings as a thought process to change the capital adequacy ratios, what may happen in case there is an interest rate volatility. These are macroeconomics sort of factors they have their own inputs, they have their own weightages and we will address them as they come by and we have been demonstrating our agility, nimbleness, our ability to change gears, change our course in variety of manners right from 2013 when there was a liquidity crunch, then you know the IPO got preponed by almost 2 years, then post-IPO what happened last year at our parent’s end that we handled very well without a run on our deposits and our reputation loss, then the stake sale. So these are spices of life and that is why you need human beings to run companies and you cannot replace human beings by robots and machines because we are sensitive people and we gaze situations, challenges, yet get weight and objectively they are prioritized and are converted into opportunities to once again prove your girth and rigor.

Ashwin H: And most specifically on the regulatory changes do you expect anything which can fundamentally make the HFC and more specifically PNB Housing Finance proposition less attractive?

Sanjaya Gupta: I do not think so because these changes are certainly not going to come as a shock one time and even in their sort of paper which they ask public opinion, etc. They have suggested that it will come in a staggered fashion over 3 years and as I said for IndAS we will get used to it.

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

Deepika Gupta Padhi: Thank you everyone for joining us on the call. If you have any questions 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.pnbousing.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.