pnb Housing
Finance Limited
Ghar Ki Baat

August 10, 2017

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 Q1 FY2017-18 Earnings Call transcript for Earnings Call held on August 4, 2017.

This is for your information and records.

Thanking You,

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

"PNB Housing Finance Limited Q1 FY 2017-2018 Earnings Conference Call"

August 04, 2017

Participants from PNB Housing Finance:

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

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q1 FY 2018 Earnings Conference Call of PNB Housing Finance Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you, ma'am!

Deepika Gupta Padhi: Thank you, Margreth. Good morning and Welcome, everyone. We are here to discuss PNB Housing Finance First Quarter FY 2017 - 2018 Results.

With me, we have our leadership team represented by Mr. Sanjaya Gupta -- Managing Director; Mr. Shaji Varghese -- Executive Director Business Development; Mr. Ajay Gupta – Executive Director Risk Management; Mr. Nitant Desai -- Chief Operations and Technology Officer; Mr. Anshul Bhargava -- Chief People Officer; Mr. Sanjay Jain -- Company Secretary and Head Compliance; and Mr. Jayesh Jain -- Chief Financial Officer.

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

Please note this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve 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 statement to reflect our future events or circumstances. A detailed disclaimer is on slide #2 of the Investor Presentation, which is available on our Website.

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

Sanjaya Gupta: Good morning, everybody. I welcome you all to the Q1 results of financial year 2017 - 2018 of PNB Housing.

Let me start with the financial performance of the company for the quarter. The figures are compared with the corresponding quarter of the previous financial year. The company registered a double-digit growth during the quarter. The Net Interest Income has grown by 64% to INR 343.6 crores. The Profit After Tax recorded a growth of 93% to INR184.8 crores. The Spread on Loan Assets for the quarter expanded by 2 basis points to 2.14%. The Net Interest Margin or NIM on interest earning assets expanded by 42 basis points to 3.16%. The average cost of borrowing declined by 65 basis points to 8.09% per annum. In line with our focus on costs, the OPEX to ATA declined by 6 basis points to 0.66% during the quarter, vis-à-vis 0.72% in quarter one of financial year 2017. With ongoing branch network expansion, our OPEX to ATA includes the growth expenditure. If we only consider our business as usual, our OPEX to ATA will be around 0.63%. During the quarter, we operationalized 3 new branches out of planned 22 branches in the financial year 2017 - 2018. Our Cost-to-Income ratio declined to 18.19% during the quarter vis-à-vis 24.43% in Q1 of financial year 2017.

The Return on Assets expanded by 44 basis points to 1.66% in Q1 of financial year 2018 as compared to 1.22% in Q1 of financial year 2017.

The Return on Equity (ROE) is 13.01% for Q1 of financial year 2018 vis-à-vis 17.51% for quarter one of the previous financial year. The compression in ROE is due to expansion of net owned funds primarily because of IPO and internal accruals.

Let me now take you through the business performance. During the quarter, we registered 58% increase in loan applications login numbers, compared to Q1 of financial year 2017. Disbursements registered a growth of 54% to INR 7,794 crores during the quarter vis-à-vis INR 5,068 crores during the first quarter of the previous year. Disbursement for housing loans accounted for 66% and non-housing loans were at 34%. This is on account of few large LRD deals. The AUM registered a growth of 50% to INR 46,755 crores as of 30th June, 2017 from INR 31,259 crores as on 30th of June, 2016.

The Loan Assets on book are INR 44,003 crores as of 30th June, 2017 vis-à-vis INR 30,900 crores as on 30th June, 2016 representing a growth of 42%. Housing loans constitute 70% of the Loan Assets and non-housing loans constitute the rest of 30%.

In the housing loans segment, individual housing loans constitute 59% and construction finance constitutes 11% of the Loan Assets. In the non-housing segment, loan against property which is LAP constitutes 16%; LRD that this lease rental discounting constitutes 6%; corporate term loan constitutes 5%; and non-residential premises loans constitute 3% of the Loan Assets.

During the quarter, out of the total individual home loan disbursement around 19% was in the less than INR 25 lakh segment considered as affordable housing segment. On an absolute basis, the disbursements under the affordable housing increased by 48% to INR 821 crores in Q1 of financial year 2018 as compared to INR 555 crores in Q1 of the previous financial year. With increase in our branch network in Tier-II and Tier-III cities, we look forward to an enhanced contribution of the said affordable segment in our home loan portfolio.

In terms of our gross NPAs as a percentage of Loan Assets, it is at 0.43% as on 30th June 2017, against 0.27% as on 30th of June of the previous year. The gross NPA on

AUM are at 0.40% as on 30th June 2017. The net NPA stood at 0.33% of the loan assets as on 30th June 2017, against 0.19% as on 30th of June 2016. The increase is primarily due to five large retail accounts that moved into NPA. As a strategy in order to cure delinquent accounts, we let them flow into NPA so that we can invoke the SARFAESI and take legal action against these recalcitrant customers.

Our total borrowings as on 30th of June 2017 stood at INR 39,564 crores. The company has diversified borrowing mix with 41% contributed by non-convertible debentures; 25% by deposits; 16% by commercial paper; 7% as refinanced from National Housing Bank; 7% bank term loans; and remaining through ECBs.

Our deposit portfolio grew by 35% to INR 10,025 crores as on 30th June 2017 from INR 7,436 crores as on 30th June 2016. The capital adequacy ratio of your company as on 30th June 2017 stood at 20.30% of which Tier-I capital is at 15.50%; and Tier-II capital is at 4.8%.

As a part of our geographical expansion plan, 3 new branches were made operational during the quarter totaling to 66 branches with presence in 40 unique cities. The Company also services its customers through 28 outreach locations.

The Company has 18 underwriting hubs as on 30th June 2017 catering to the branches and the outreach centers. We continue to look forward to our growth through focus on our distribution expansion, improvement in our cost, maintain robust asset quality, and an efficient borrowing mix.

Now let me spend some time on the recent government reforms impacting the overall sector. The government led actions in housing sector with the mission of Housing for All by 2022 and Pradhan Mantri Awas Yojana along with real estate regulatory authority (RERA) bill have inducted substantial positivity in the sector especially when viewed with a long-term perspective. Under the PMAY scheme, we received 4 claims including MIG-1 and MIG-2 schemes. In total, we have received claims of around INR 3 crores.

As far as RERA is concerned, there has been a slowdown in new project launches. The scenario should look healthier after 2 - 3 quarters when RERA will be effective throughout the country after 31st July.

As per the Knight Frank report of H1 of 2017 calendar year, the new launches in top 8 cities are down by 9% in Q2 CY2017 vis-à-vis Q1 CY2017. This is on account of demonetization and RERA compliance.

However, there is a structural change with 71% of new launches coming in the affordable segment of below INR50 lakhs rupees as the ticket size as compared to 52% in H1 of 2016. The sales as per the report have increased by 11% in Q2 CY2017 versus

Q1 CY17. This is due to a number of government schemes and the positive sentiments among the buyers.

With this, we would now open the floor for Questions-and-Answers.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.

Manish Oswal: Yes, my question is on our gross NPA levels currently and credit cost in the P&L especially in non-housing portfolio. Given the credit cost level currently reported in the P&L and our long-term expectation of credit, budgeted in terms of pricing of credit cost in that particular portfolio. So, what is the diversion numbers, sir from your expectation to the current levels?

Sanjaya Gupta: See, Manish, first and foremost, these are accounts which were troublesome in the previous financial year also. So, we knowingly let them flow into NPA, these are 5 numbers, so that we can take a legal action against them. And cure the portfolio of this menace of these five loans. You should also remember that your company carries a contingent provision where these accounts have a supplementary provision for any eventuality. Plus, on the P&L said, we do the mandatory provisioning, which is as per the guidelines of the National Housing Bank. So, I do not see personally speaking any impact because of these 5 loans on the P&L because of credit cost incurring on the P&L of the company.

Manish Oswal: And what is your expectation on the pricing of credit cost for that non-housing book, sir?

Sanjaya Gupta: It will remain the same because the portfolio is working out fantastically. There is no issue.

Manish Oswal: Yes. And second, coming to the growth number, we have shown very strong growth during this quarter again and compared to the Y-o-Y and the quarter-to-quarter numbers. And when you are looking to the other housing finance company, our growth is much stronger, although the base is relatively low. But in terms of geographical growth, could you take us through in terms of key geographical growth areas?

Sanjaya Gupta: I will answer your question limited to my company and not comment on the competition. Now, one is that your company's growth is mainly due to the geographical expansion that we are doing. So, last year, if you remember, we opened 16 more branches. So, they are now operationalized. Plus, in the previous year, we have operationalized 9 branches. So, the new branches are contributing pretty smartly and that is the reason why our growth rate is superior to the averages of the industry. And going forward, while I cannot give a forward guidance, I am not authorized to do so but our growth rate will be smarter than the industry growth rates. I hope I have answered both your questions.

Manish Ostwal: Yes. And one small data point on your Geography distribution.

Sanjaya Gupta: On geography, the geographical spread of growth, it is very much equal. Obviously, west which is the largest mortgage market of the country contribute the maximum for us followed closely by North and South.

Manish Ostwal: Okay. And last question on your individual housing loan book and construction finance and the non-housing book, what is the portfolio yield currently on these categories?

Sanjaya Gupta: Yes. So, on the housing loan at portfolio level, we have 9.45%. On construction finance, it is 12.95% and on loan against property, it is 10.98%.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Sir, I had 2 questions, both on the ALM bit, in the December quarter the assets more than 5 years were INR 14,000 crores they went down to INR 9,000 crores in the March quarter. Now, they are again back to INR 14,000 crores. Logically speaking, more than 5-year asset would be the slowest moving piece in the overall game, right? Maybe 2% - 4% - 5% per quarter a here or there, this is going from INR 14,000 crores to INR 9,000 crores; INR 9,000 crores to INR 14,000 crores. I am just trying to understand the nature of the asset which will move so much in the more than 5-year bucket?

Sanjaya Gupta: One is certainly that in the Q1 of this year, we have done a lot of LRDs as I said in this non-housing segment. Those are long-term assets, right? So, because we are going a little slow for RERA and GST to really begin to start doing the construction finance piece. So, these LRDs have actually helped in moving the long-term assets to the current levels. Plus, the new housing loans are all long-term housing loans which has been acquired in quarter one. And that is why this movement has happened. The ALM profile shared for period ended as on 31st Dec 2016, included, in addition to asset and liability maturity profile, few other items like future net interest inflows, loan prepayments etc. This ALM profile is a detailed ALM profile prepared in line with NHB guidelines. The asset liability profile shared for period as on March 31, 2017 and June 30, 2017 is based on maturity of assets and liabilities without any assumptions. If asset and liabilities were to be bucketed on same lines, the maturity profile as on 31st Dec 2016, will be as follows:

INR Crores	Upto 1 Yr	1-3 Yrs	3-5 Yrs	Over 5 Yrs
Asset	11,531	11,052	5,908	9,649
Liability	7,123	9,081	9,056	12,883

Rahul Bhangadia: Okay. And the second question is as on the same ALM bit, it looks like the liability side of the balance sheet seems to be going on the shorter tenure. So, in less than one-year segment, now the liability is INR 15,000 crores and the asset is around INR 11,500 crores. So, now it is common that borrowing short and lending long is a good thing but in the one-year segment, what is the thought process.

Sanjaya Gupta: Yes, that is what strategically done by us and the board in conjunction because we were expecting some sort of a downward correction in the repo rate. And we were not borrowing long because then we get locked at a higher rate of interest. So, we were borrowing short and we will I think, continue to do so for 1 or 2 months more before we go to the bond market in a big way to let the interest rates settle down before we start making long-term commitments.

Rahul Bhangadia: So, you are suggesting that this is a strategic in the sense that this was well-thought-out thing basically?

Sanjaya Gupta: Yes.

Moderator: Thank you. The next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

Sameer Kulkarni: Sir, looking at the heightened competition in the affordable housing category. How do you see the margin spreading over next 2 years to 3 years?

Sanjaya Gupta: Margin. Well, in the affordable segment, we are not seeing any compression of margin. In fact, the margins are a little better because those are segments where a lot of players are still grappling of how to sort of enter that sort of a market. So, I don't see any issue on that segment when it comes to yields and margins at all.

Sameer Kulkarni: Okay. Sir, and regarding AUM, do you have any 3 or 5-year targets?

Sanjaya Gupta: Well, certainly, we have internal targets but I can't give a forward-looking statement.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Sir, I just had one question. I missed the remark that you made in your opening comment. So, there was some 5 accounts which slipped into the NPA category this quarter, is it?

Sanjaya Gupta: Yes, there are 5 retail accounts, they are not on the wholesale side and we knowingly did not sort of go through the route of moral persuasion and making them pay and stay at standard asset with it because they are a little troublesome from the previous year. We are carrying enough contingency reserve on our balance sheet. So, that we can now invoke the SARFAESI and go legal against these 5 cases.

Umang Shah: And so since all 5 are retail, I am assuming the quantum wouldn't be too large.

Sanjaya Gupta: So, if you shave this out, the principal outstanding of these 5 accounts, then our gross NPAs will be 0.33% on a coincidental basis, which is same in line with the last year.

Umang Shah: Okay, got that. And sir, just one last question. In our individual home loan book, 100% book would be floating?

Sanjaya Gupta: No. So, we have at a portfolio level 83% of our book is at a variable interest rate book.

Umang Shah: 83%. But in individual, we would have only floating rate products?

Sanjaya Gupta: We have 1 year fixed, 3 years fixed, 5 year fixed. When it comes to acquiring, we like people to lock in for at least 1 or 3 years.

Umang Shah: So sir, if you could share what quantum of loans would be locked into that kind of product?

Sanjaya Gupta: I do not think we would share these details.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Markets Securities. Please go ahead.

Ritesh Badjatya: So, sir, my question is on page number #8 in your presentation you have mentioned about increase in housing finance share in the overall home loan portfolio. That is from 31% to 37% from 2011 to 2017. So, during this period, sir, most of the nationalized bank is facing trouble in the term of mounting and NPAs and all. But in the last 1 - 1.5 years because of the demonetisation we see a lot of the liquidity come back to nationalized bank and overall banking sector. So, going ahead how do you see this market share for the housing companies continue to increase? Or we see more competition from the nationalized bank? And in the terms of margin, how do we see the profile will be there in the terms of margin going ahead?

Sanjaya Gupta: See, it is my firm belief that housing finance companies are far more efficient doing housing finance than the banks because we are a monoline company, a single product company. And hence, our efforts go to acquire, underwrite, monitor and manage customers is far superior to a bank. So, I will as a housing finance company veteran, I would always hope and pray that the housing finance companies share in housing finance grows and keeps on growing because they are far more efficient whether it comes to OPEX, whether it comes to NPA, whether it comes to acquisition, underwriting, everything. I mean, those are empirically proved and you have enough of data in the industry. So, that is my vision for housing finance companies. When it comes to NIMs, I am a guy who likes to talk about spread and not NIMs because NIMs are outcome of your Tier-I equity or capital also. So, spreads I have been maintaining across board will be around 210 to 215 basis points for housing finance companies if they are doing majority home loans, about 25% - 26% non-home loans and about 11% -12% of construction finance on the portfolio. So, Spread and NIMs is also an outcome on your portfolio mix, on your product mix and your segment mix.

Ritesh Badjatya: Sir, second question is on the NCD portfolio as of now 41% is coming from the NCD side. Now repo rate is also coming down and interest rate is also closer to the bottom. So, in the next 1 - 1.5 years, how do you see that NCD will contribute going ahead in your volume?

Sanjaya Gupta: The monetary policy review happened only a day before yesterday. I would say, let us give ourselves some time before these reductions in the rates sort of get absorbed in the market. Let us look at the capital markets and obviously, as I also answered in the previous question, we will be going short in the short-term when it comes to borrowings so that, we do not lock in at rate of interest which are higher in the near future. So, I would say in a medium-term, NCDs should be about 50% - 52% of the total borrowing basket.

Ritesh Badjatya: Okay. And the last question is on the NCD rate. At present what rate we are able to raise the funds?

Sanjaya Gupta: Well, it all depends on the terms you know so about whatever is the corresponding G-Sec plus about 65 - 70 bps is what we raise.

Moderator: Thank you. The next question is from the line of Vishal Singhania from Riddhi Securities. Please go ahead.

Vishal Singhania: Sir, you made a comment that affordable housing units are coming up faster than the normal units now. And whose ticket sizes are typically lower than our mass housing statement? So, do we see that as a challenge to maintain our growth rates going forward?

Sanjaya Gupta: Not really. We are building our capacity much ahead of time. So, today, just to give you a flavor. Last year, same time we were underwriting about 7,000 odd loan applications a month. Today we are doing about 10,000 to 11,000 loan applications a month. So, we invest a lot in people, processes, technology before we reach out to the market.

Vishal Singhania: Okay, sir. So not asking for the guidance but do you see these kind of growth rates are kind of possible for the next 2 to 3 years? I mean not just numbers I am just asking for a vision as in that.

Sanjaya Gupta: Well, I would say your company should grow at least 1.5x of the industry averages in the medium-term.

Moderator: Thank you. The next question is from the line of Jahnvi Goradia from Motilal Oswal Securities. Please go ahead.

Jahnvi Goradia: Sir, just on these 5 accounts that have become NPA, you mentioned that these were certain borderline cases. Are there any more such accounts which you are watching?

Sanjaya Gupta: See. As of now, let me assure you that whatever I mean, were recalcitrant as of 31st March, we have let them forward flow. I am not seeing immediately any sort of a forward flow from these type of accounts of the previous year. I mean, knowingly, in quarter one we have done it and not staggered it over quarters so that we get clear 3 quarters to cure these accounts.

Jahnvi Goradia: Okay. And most of these accounts would be pure housing or from LAP

Sanjaya Gupta: That is a mix. I mean, I can't be giving the individual confidential information on our customers. They are from retail segment. They are a mix so far.

Jahnvi Goradia: Okay, sir. And just something on the OPEX. The OPEX to average assets are down from 70 basis points plus to 66 and we also need to expand branches as you said 22 for the year. So, these for the year would be setting down? Or do you think every quarter, there would be operating leverage coming in?

Sanjaya Gupta: Well, I think, with our expansion, we can see even a northward movement in 1 or 2 quarters on our OPEX and CIR because as I have been saying, we opened our infrastructure with about 2.1 lakhs square feet of useable office space, and we are going to add about 1.05 lakh square feet more in this financial year. So, let us see how we are panning out and very educative question that you have asked for the entire investor community. In quarter one, we have just opened 3 more branches. We are staggering our branches and our infrastructure and our spent on our technology, etc. evenly throughout the financial year so that we can give you a better OPEX for the entire year than the previous year and a better cost-to-income ratio than the previous year.

Moderator: Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth. Please go ahead.

Umesh Gupta: Since yesterday, after your numbers have got released, there have been concerns raised by investor community on your high growth and there are people associating your high growth with the speed of a reckless driver just waiting to be crashed or house of cards and stuff like that. So, I just thought that on behalf of maybe investor community and personally also just to get a feel of some of the contours of your high growth if you could elaborate. Are you growing in a high growth manner, at the cost of some prudent lending practices or to say that since the industry isn't growing at this rate, are you aggressive on gaining market share? And could you elaborate more on your high growth?

Sanjaya Gupta: Well, very nice question, I would say. And your question also answers partly what you have raised as a concern. So, I would just say we are not a reckless driver. We invest in our capacities, in our people, in our processes, in our monitoring mechanism and we do not bite more than what we can chew. So, this is a story of this company my dear friend that we have been heavily investing for the last 2 - 3 years in all the fundamental operational robustness that we have created and now, yes, we are using it to our benefit. So, I am not concerned and neither are we reckless player.

Umesh Gupta: No, sir. Just to drill it further. So could you tell us I mean, your growth how much is it coming from the existing markets? And how much is it coming from the expansion of the markets?

Sanjaya Gupta: 80% - 20%.

Umesh Gupta: 80% you are growing in the existing markets?

Sanjaya Gupta: Yes.

Umesh Gupta: Okay. And what is your coverage, let us say on the Pan India basis right now?

Sanjaya Gupta: 40 unique cities.

Umesh Gupta: 40 cities. And these are like top cities?

Sanjaya Gupta: In the presentation, you can see our branch network. It is mentioned in slide 14 of our August Investor presentation.

Umesh Gupta: Okay. And what do you think, in the next 3 - 4 years how many cities you will be present in?

Sanjaya Gupta: I think in the next 3 to 4 years; we should be in about 80-odd unique cities.

Umesh Gupta: Okay. And secondly, again coming on the seasoning of the book? What is your view in terms of how seasoned your book is? Or is it like very early in the cycle? And while the growth is too high, the NPLs are looking much lower because the top-line is growing much faster. So, could you comment a little bit on the seasoning of the book?

Sanjaya Gupta: Now, so even with our high growth rate, our book is seasoned for 18 months. So it is not a new book, it is not a fresh acquisition, we are not a warehouser. We are a lending institution, which manages our accounts very well.

Moderator: Thank you. We will move to our next question which is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Hi sir, a quick question on DSA. Have you any time in the past or in the call today reflected on the cost of DSA; is it going up or down and separately where do you use these DSAs mostly, in the Non-Individual segment I presume.

Sanjaya Gupta: Right, first and foremost, our DSA costs are at around 0.9% to 1%. We do not use DSAs for our wholesale book at all. Our entire wholesale book is self-generated or self-acquired. So, we use DSAs primarily in retail and non-housing retail business.

Nilanjan Karfa: Okay, and you have not seen the DSA costs go up?

Sanjaya Gupta: No. We will not let the cost go up. Anybody wants a higher payout can go elsewhere.

Nilanjan Karfa: Right, okay, great, sir. And the second is have you revealed on a quarterly basis what is the portfolio yield on the securitized book?

Sanjaya Gupta: We cannot do that because that book now belongs to somebody else.

Nilanjan Karfa: Okay. But it will be flowing into our NII, right?

Sanjaya Gupta: No. It will come as a servicing fees in other operating income.

Moderator: Thank you. The next question is from the line of Sreesankar R. from Prabhudas Lilladher. Please go ahead.

Sreesankar R.: My question is regarding your DSAs, etc. How much of our incremental new book is actually sourced by ourselves or by our DSAs?

Sanjaya Gupta: 66% is self and 34% is via third-party, standalone DSAs or DMA. Different people call it by the different names and so 66% and 34% and that is on basically Slide #24 of the Investor presentation. So, on the right-hand side where we say in-house and DSA.

Sreesankar R.: Okay. And how do you see this, you mentioned that you are going to be present in 80 cities in the next 3 years. What is your expectation that your own sourcing will be increasing or will it be more by third party?

Sanjaya Gupta: I think this mix already is pretty ambitious mix and I will be happy even if we are 60-40 going ahead.

Sreesankar R.: Going ahead, 60-40. So, how much is the commissions that we pay to the third-party?

Sanjaya Gupta: Well, I cannot reveal the commission rates but I can tell you all our agents, whether they are in-house or they are third-party get paid universally. So, we do not make distinction in payments.

Sreesankar R.: Okay. And of this MTM, your growth has been commendable. But my question is in this growth, how much is new origination, how much is takeover from existing lenders, etc.?

Sanjaya Gupta: Well balance transfer and top-up is not my cup of tea. So basically, this is new credit that we have brought to the market.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Just a few data questions I will go one by one. So firstly, with respect to the new business this quarter, if you could give me the incremental yields by product in terms of home loans, loan against property, and construction finance?

Sanjaya Gupta: Yes. So the home loan came at 8.76%; construction finance is 11.87%; and non-home loan at 10.68%.

Subramanian Iyer: Sure, thank you, sir. And the next question is basically on the split of your fee income into housing and non-housing, if that is possible.

Sanjaya Gupta: I do not think we would share these details.

Subramanian Iyer: Okay. And finally, just one clarification on the affordable housing disbursements that you mentioned for the quarter of INR 821 crores, so how do you define affordable here?

Sanjaya Gupta: See, the government definition of affordable is also linked to the square meter of carpet area. Now, we do not go ahead and sort of primarily when we call it as affordable, well, for PMAY, we have to give the data as for the government requirement. But generally, in our own set of understanding, loans below 25 lakhs, pure home loans, we qualify as affordable and mass housing because that is where the demographic bulge is and that is what my target audience is irrespective of whether that is falling under the government definition of PMAY subsidy or not.

Moderator: Thank you. The next question is from the line of Sweta Daptardar from Dolat Capital. Please go ahead.

Sweta Daptardar: Sir, my question is can you provide the prepayment rate that happened in Q1?

Sanjaya Gupta: Not really prepayment. But yes, the sort of attrition rate is coming to annualize about 23%.

Sweta Daptardar: Okay. Sir, secondly, in terms of bank borrowings currently, we are at 6.8% of the overall borrowing mix. And given the lower interest rate scenario, I mean, you would not like to comment on other housing financials. But is it like most of the housing financials would lose out on funding cost benefit because the borrowings from bank side is a little on the lower side?

Sanjaya Gupta: Really, I did not get your question, but I will try and answer it. Now the figures that you see are on a date and not average for a quarter. So, frankly speaking, these bank borrowings come down to about 3% on an average because banks are the most expensive source of funding. But at a quarter end, we do try and square off a few positions that we have taken and use the overdraft facility, right? What the others are doing, I do not know.

Sweta Daptardar: Okay. So, where do you see this number as percentage of overall mix around similar levels because year-on-year, it is only declining.

Sanjaya Gupta: So year-on-year, it is declining. But quarter-on-quarter, the new people will see this number, it will be around this percentage.

Moderator: Thank you. The next question is from the line of Dr. Allen Baby, he is an individual investor. Please go ahead.

Participant: Sir, this is Dr. Allen Baby**.** Mine is kind of a broad question and it is more of a big picture question. Do you see the industry growth rates and the opportunity of growth for all the players in the industry improve another 2 - 3 quarters down the lane once RERA stabilizes? I mean, it is a big opportunity ahead of us.

Sanjaya Gupta: So, that is actually 2 questions. One is if you look at the macroeconomic indicators then housing finance for decades to come is going to grow the smartest against these all asset categories. Why? Because one is that the nuclear families are increasing. Urbanization is increasing very rapidly. There is a shortage of dwelling units in urban centers is about 4.2 million. The penetration of mortgage to GDP is only at 9%, our neighbors are sitting at 18% to 20%. So, I think all the macroeconomic indicators are telling us that this is the focal point for the economy to grow or it can become the engine of growth. When it comes to what will the industry grow at? After RERA and GST gets settled down, I think we should look at something positive than the previous year and the industry growth rate should be in the vicinity of about 17% to 18% against the 15% - 16% in the previous year. And the sentiment of the customer is going to come back because till now the customer used to think, the home buyer that the laws were not there to protect his or her interest. With the advent of the RERA and the implementation of RERA I think that transparency and confidence is going to return in the probable home loan buyer.

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

Piran Engineer: My question is a little qualitative. I heard you said that your incremental yields in construction finance are 11.87%. So, do we feel we are pricing risk appropriately? I just want your thoughts on that because 12% is probably the lowest I am hearing from any HFC as far as construction finance loans are concerned.

Sanjaya Gupta: Well, that is the difference. We are over conservative when it comes to biting the bullet of more riskier products. So, we do not do any construction finance where the project is not launched, where all the permissions are not in place and licenses, where the land is not aggregated, the title is not transferred. So, we add our terms of reference on things like debt-to-equity, the security coverage, the cash coverage, the DSCR, which we call it are very stringent and we do monitor these projects like a project management agency on a quarterly basis. And hence, we have to sacrifice a little bit on the yields. But that is worth it.

Piran Engineer: A qualitative commentary on the real estate market in North India would be appreciated. It has been slow for the last couple of years. How is it off late?

Sanjaya Gupta: We are seeing some green shoots, especially in Gurgaon off late. We are also seeing a positive price movement after a long haul and we think the developers have gone back on their drawing boards and are busy in designing and launches of more affordable housing. When I say affordable, affordable in that micro market not in government definition of affordable.

Piran Engineer: Okay. And so just one last question, if I may. Since the SBI cut the affordable housing rates to 8.35% just this quarter, have we also cut rates to that extent?

Sanjaya Gupta: I would not like to take name of any competitor or an institution. Rate cuts in isolation are not getting credit growth or better credit quality or better portfolio quality. So in isolation, if you keep doing rate cuts, it is not going to help you.

Piran Engineer: Okay. So, I take it that our lowest interest rate is 8.65% monthly, of course?

Sanjaya Gupta: No, this is mix. This is not the lowest. The lowest is 8.50%.

Piran Engineer: 8.50%, okay. Got it.

Moderator: Thank you. The next question is from the line of Preeti RS from UTI Mutual Fund. Please go ahead.

Preeti RS: Sir, I had one question on the provisioning. So, if you could just give us what are the cumulative provisions that we are carrying for NPAs and for standard provision and for contingent, if you have.

Sanjaya Gupta: Okay. So, the total provisions, which are basically we are carrying for the NPAs today are INR 41.7 crores. And the NPA provision coverage stands at about 22.3% and if we add this existing provision for contingent, which is also contingency reserve of about INR 39.48 crores the coverage ratio will jump to 43.40% besides that there is standard asset provisioning.

Preeti RS: Yes. So, what would that number be?

Sanjaya Gupta: The standard asset provisioning is about INR 225.5 crores.

Preeti RS: Okay. Sir, but as an industry norm, we would be happier to have more provisions for let us say, either NPA or contingent, right? So if you put together, if you take the contingent provisions and NPA provisions, at 48%. So, is it not on the lower side of probably what you intended to take it to?

Sanjaya Gupta: Not really, because we are also then knowing what these accounts are in the NPA bucket. We are very much, I would say, comfortable. After all, there is bucket 1, bucket 2 and we have already provided 45% odd.

Preeti RS: Sir, then would it be fair to say since these accounts you are going to invoke SARFAESI on these accounts

Sanjaya Gupta: We have invoked SARFAESI in all our NPA accounts.

Preeti RS: Right. so with aging, we could expect this provisioning to improve?

Sanjaya Gupta: Certainly. I mean, that is the regulation also. If the NPA buckets are moving and the seasoning is increasing of NPA accounts, then obviously, the provision increases.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: We did disbursements of about INR 28,500 crores in the last 5 quarters including this one. But we have only about INR 14,500 crores sitting in that fifth bucket in more than 5-year ALM bucket. How do I understand this discrepancy?

Sanjaya Gupta: Okay. So the thing is that we are also seeing maturities of assets as all loans are not booked for 20 years, my dear friend some loans are 3 years also.

Roshan Chutkey: So, what portion of your book is 3 years then?

Sanjaya Gupta: Well, the entire CF book will be door to door about 3 years.

Roshan Chutkey: Construction finance is a small portion.

Sanjaya Gupta: Yes.

Roshan Chutkey: It is only about INR 5,000 odd crores in the book side

Sanjaya Gupta: Corporate term loans are also to be added. They are also not 20-year loans. LAP loans on average are 5 to 7 years' loans.

Roshan Chutkey: All right. But if you can just give us a break-up of this disbursement I mean, disbursement by product mix, if you can, that will be useful.

Sanjaya Gupta: I do not think we would share these details.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Axis Mutual Fund. Please go ahead.

Deepak Agrawal: So, I just wanted some color on these 5 accounts, so if I see Q4 to Q1 roughly our absolute GNPA would have gone up from say INR 90 crores to about 200 crores, right from 0.22 to 0.43. You said that this is largely by 5 accounts between home loans and LAP. Typically, the ticket size would be INR 20 crores type rate for these 5 accounts roughly?

Sanjaya Gupta: No, the entire growth is not because of these 5 accounts. There is a normal progression from early buckets to cure the people defaulting accounts. So, the entire rise in gross NPA is not because of these 5 accounts. 5 accounts form a majority portion of this growth, right.

Deepak Agrawal: And is it fair to say that this will be in different localities and not, say, only particular say in NCR and all?

Sanjaya Gupta: Yes. They are spread across the country.

Deepak Agrawal: And in terms of invoking the SARFAESI, we would be in the process of invoking the SARFAESI and issuing the public notice and all on these accounts?

Sanjaya Gupta: Yes. That is the normal process.

Moderator: Thank you. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek: Just wanted to understand the USP for our company because 5 - 6 years back performance of the company was not that great. Now it has improved and what role is the IT playing in it, sir IT infrastructure of our company?

Sanjaya Gupta: I will answer your question but on the Investor Relations section of our website, there is a very detailed presentation of our Project Kshitij, which was a Business Process Re-engineering initiative. You should go through that and your question will be answered more in detail than what I am going to do now. So, this entire company has undergone a very massive business process re-engineering exercise way back from 2011 and 2012 where technology is the cornerstone to enable our target operating model to bring in efficiency in our people's productivity. And our SOPs are standardized across the company. Your company also has 3 ISO certifications by the way. So, central operations and central processing center is ISO certified. Our contact center which is the first touch point to a customer acquisition, is ISO certified and our branch operations are also ISO certified and we work on our target operating model of hub and spoke, which brings in the elasticity and the efficiency. That's my answer to your question.

Moderator: Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Sir, just one quick question. Maybe forward-looking from an industry point of view, just trying to understand the overall growth opportunity, government is focusing in all the side try to control the real estate price per se by bringing variety of rules including RERA and also Housing for All. So, I am not questioning the opportunity in terms of volume. But in terms of the value per unit, do you see that getting a downward slide on a total Pan India average business? Is that a possibility or that is too much to think about as of now?

Sanjaya Gupta: I think you are worrying too much. I would say, what I am estimating, there will be a lot of starts but there will be fewer launches. There would be sort of green shoot of new project launches in quarter 3 and quarter 4 because the entire I would say, evolution of the ecosystem because RERA and GST have really made the developers go back to their drawing boards and redo their projects. So, even if at the start, they will not launch till they are not 100% sure that they are RERA compliant or they will be able to deliver on time.

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

Bhaskar Basu: Just 2 questions from my side. One, would it be possible to get a break-up in terms of the disbursal, the 54% disbursal? What would be the growth in the core home loan business?

Sanjaya Gupta: Yes. So, in quarter one, we disbursed INR 4,145 crores of home loans against INR 2,855 crores of home loans in the previous year, growth of 45%. In non-housing loans, we disbursed INR 2,683 crores a growth of 85%. In our construction finance, we disbursed INR 965 crores against INR 759 crores, a growth of 27%.

Bhaskar Basu: Second question, essentially what would be the average ticket size of your lending till then? And what would have been the average ticket size for this quarter?

Sanjaya Gupta: It is remaining the same. The average ticket size for the retail portfolio is around INR 35 lakhs, in which home loan is around INR 31 lakhs, non-home loan retail is around INR 54 lakhs and incremental overall retail portfolio is at about the INR 35.2 lakhs where home loan is INR 32 lakhs and non-home loan retail is INR 51 lakhs.

Bhaskar Basu: Okay. So just to clarify, the entire growth, the ticket size has not really gone up in this case?

Sanjaya Gupta: No. So, whether it is the product mix, it is a segment mix, it is the average ticket size our strategies are not going to make flip-flop. It is a very stable company with a stable vision and strategy.

Bhaskar Basu: Okay. And finally, in terms of the GNPA, I understand your developer book GNPA, there is no GNPA rise what I understand.

Sanjaya Gupta: Zero.

Moderator: Thank you. The next question is from the line of Omkar Kulkarni, he is an individual investor. Please go ahead.

Omkar Kulkarni: You have mentioned that repeatedly that you will be growing 1.5x to 2x of the industry average, right?

Sanjaya Gupta: I said 1.5x, not 2.

Omkar Kulkarni: Yes, 1.5 times of industry average?

Sanjaya Gupta: Yes.

Omkar Kulkarni: Yes. So with this kind of growth rate, what will be the number of net NPAs? Like can you manage it below 1%?

Sanjaya Gupta: We can. We will be much lower than the industry average.

Omkar Kulkarni: Okay. So it is 1% gross NPA can be manageable in the long-term?

Sanjaya Gupta: 1% is 2.5x of the current level. You are giving me a very loose target, I would say.

Omkar Kulkarni: Okay. So around 0.6% - 0.7% can be managed?

Sanjaya Gupta: No guessing game, sir.

Omkar Kulkarni: Okay. So 1% will be too much, right?

Sanjaya Gupta: I think so.

Moderator: Thank you. The next question is from the line of Rohit Goyal, he is an individual investor. Please go ahead.

Rohit Goyal: I have a couple of questions. One, your housing loan share in the overall loan has gone down to 66% from 70%; and non-housing loan to 34% which is highest ever in the last 5 years. So, I just wanted to take your views is your company pushing more into the non-housing loans to maintain the similar growth rates? What percentage would you want to maintain going forward?

Sanjaya Gupta: Okay. So let me confirm you. 60% of the portfolio, we are always targeting to do pure retail home loans. Now the play comes in the remaining 40%, which is non-home loan and non-home loan has a variety of products and construction finance. Construction finance, we are authorized by our board to go up to 15%. But today, we are at about 11.5%. We have gone a little slow on CF which gets qualified as home loan when it comes to the regulations because the new regulations we want them to sort of get absorbed in the market before we start doing our business again. And therefore, to get the right spread and to get the right profit, we did a little bit of more non-home loans. But going forward, if the developer funding again becomes more I would say I mean settle down because either way even the developer community is not knowing what sort of shape the combination of RERA and GST will take. Then we will start doing construction finance more, I would say, aggressively than we have done in quarter 1. So, it was sort of a call that we did. And we stuck to our 60% portfolio of pure home loans. So, it is not that your company is not going to do home loans.

Rohit Goyal: Right. And in terms of the growth rate, expected growth rate of 1.5x of the industry growth in the medium-term, we have seen over the last few years almost 70 - 80 housing finance company coming up, especially with the government push on the affordable housing. In your opinion, would it not dent or make it difficult for the company to grow at that pace?

Sanjaya Gupta: I do not think so because the housing finance companies which are now coming are actually flourishing in the non-asset or the informal income segment. We do not enter that segment. So almost they are mutually exclusive to us.

Rohit Goyal: All right. My last question is on this government affordable housing scheme and your lending under CLSS, that normally takes almost a year or more for the developers to get approvals for the project. So, do you see enough supply coming from developers for affordable housing to benefit from the government schemes?

Sanjaya Gupta: There will be a lag but I think the government, because of RERA, is now pulling up the socks of the competent authority, authorities across the country to give faster approvals.

Rohit Goyal: Just one last question, if I could squeeze in. You mentioned that RERA would impact the growth for the next 2 or 3 quarters. So, would it not impact our growth because of the new launches going down because of the RERA?

Sanjaya Gupta: No, there is enough of supply. This is the right time for homebuyers to buy their homes. There are ready projects and prices are reasonable, rate of interest are reasonable. So, the pent-up demand of these 4.2 million households can be met on the existing supply.

Moderator: Thank you. We will take the next question from the line of Mohit A., he is an individual investor. Please go ahead.

Mohit A.: Sir, I want to know, do you have any exposure towards the account, the kind of they are under RBI hit list of top 12 like some Essar Steel or some other those kind of companies and the corporate term loan or something?

Sanjaya Gupta: No. We work under the same sort of environment, we are not busy doing loans there.

Mohit A.: Having the impact of the reduction in the provision rates as announced by RBI in the previous policy for loans above INR 25 lakhs on your numbers because basically your ticket size…

Sanjaya Gupta: That is only before the incremental loans and not on the retrospective portfolio, which is existing. We are under national housing bank, they have issued some guidelines last night. We will have to evaluate them and then we will see what sort of an impact provisioning will have.

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

Deepika Gupta Padhi: Thank you, everyone, for joining us on the call. If you have any questions unanswered, please feel free to get in touch with Investor Relations. The transcript of this call will be uploaded on our website that is www.pnbhousing.com. Thank you.

Sanjaya Gupta: Thanks.

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