“PNB Housing Finance Ltd. Q1 Financial Year 19-20 Conference Call”

July 30, 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: Good day, ladies and gentlemen and welcome to the PNB Housing Finance Limited Q1 Financial Year '19-20 Conference Call. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 evening and welcome everyone. We are here to discuss PNB Housing Finance Q1 Financial Year '19-20 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 with call with the overview and performance update by the managing director followed by an interactive Q&A session. Please note this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve risks and uncertainties that may cause actual developments and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statement to reflect future events or circumstances. A detail disclaimer is on Slide 2 of the 'Investor Presentation' available on our website.

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

Sanjaya Gupta: Thank you, Deepika. Good evening, everyone. Welcome all to our Q1 Financial Year '19-20 Earnings Call. Before we get into the business and financial numbers in detail, let me talk about our Liability and Liquidity Position, Corporate Finance Book and Capital Raise Plan.

Amidst the continuing challenging environment, the Company incrementally mobilized INR 11,550 crores particularly through bank term loans, public deposits and securitization via the direct assignment route. We are the second largest deposit taking housing finance company with monthly gross mobilization of over INR 800 crores and opening of 12,000 deposit accounts per month. Deposits as on June 30, 2019 stand at INR 15,446 crores, that is 18% of our total financial resources. With INR 12,400 crores of securitized book as on 30th June 2019 the Company has developed expertise in securitization through direct assignment route. As on September 30, 2019 our securitized book is 37 months vintage with gross NPAs of only 0.22%. With our continued focus on long-term borrowings, securitization and sell down of corporate finance assets, the ALM gap across buckets is expected to further contract over time.

As on 30th June, 2019 as a prudent measure, we maintained approx. INR 5,000 crores of cash and liquid investments on our balance sheet.

In the recent times, the rating agencies have cited increasing concern over the sector more particularly post IL&FS and DHFL default which have resulted in series of downgrade, outlook change announced by them across NBFC and HFC space. Consequent to the same, the rating agencies with ICRA changed its outlook on our rating from stable to negative. CARE revised the rating to AA+ with stable outlook from AAA with Credit Watch and CRISIL changed its outlook from stable to negative. The changes by rating agencies was due to the need to raise capital in this financial year in order to bring down the gearing levels and the impact of elongated liquidity tightening cycle on the real estate sector resulting in increase vulnerability of the corporate loan book.

Considering the current real estate environment and as spelled in last quarter, the Company disbursed INR7,634 crores during Q1 of financial year '19-20 with 92% disbursements in the retail segment. During the quarter, our retail disbursements grew by 7% YoY whereas the Corporate Finance disbursement was contained at INR 605 crores indicating a de-growth of 81% YoY. In addition to the lower disbursements in the corporate loan, we down sold INR 842 crores worth of an LRD portfolio. We will continue to focus on building our retail book during the year.

The Corporate book as on 30th June 2019 is 20% of the Assets under Management, down by 1% on a sequential basis. This represents 13% as construction finance, 3% as lease rental discounting and 4% as corporate term loan. In terms of geographical contribution, West markets forms 41% of the corporate book followed by South at 30% and North at 29%. Our lending in this space is primarily to market real estate developers and repeat customers. The disbursements in Q1 FY'19-20 are made to ongoing projects after thorough checking up and compliance to the sanctioned terms and conditions. 98% of disbursements made during Q1 of FY'19-20 is to repeat customers who are time tested and with proven track record. The top 20 developers with 63 loan accounts constitute 60% of the corporate book. We have maintained sufficient security cover on our corporate loan book exposure. Further, we have strengthened our existing teams and created specialized group of skilled professionals from various teams to monitor, measure and mitigate risks arising out of the current environment. As a part of the continuous monitoring, we had identified five accounts that we informed during the last earnings call. Out of these five accounts one account with a security cover of more than 2.5x has moved into NPA. The developer has approached the Company to clear the loan in a structured manner over next two quarters and has deposited an initial amount. The negotiations are currently under way for accelerated payments. On lines of conservatism and as a prudent measure we have created 21% ECL provision in these five accounts, up from 17% as on 31st March, 2019. In addition to this we continue to maintain steady state provision of INR 156.5 crores. We would continue to remain cautious on lending to this segment for the next few months.

The Board of Directors of the Company today approved a plan to raise capital up to INR 2,000 crores. The Stakeholders Relationship Community (SRC) will oversee the capital raise plan as we finalize the mode, time and quantum.

The National Housing Bank vide with circular dated 19th July, 2019 has advised HFCs to desist from offering loan products under the subvention scheme. The Company at all times has been fully compliant to the guidelines and circulars issued by the National Housing Bank and as on June 30, 2019 such schemes contribute less than a percent to the Asset under Management.

Let me now talk about the financial numbers for the quarter ending 30th June, 2019. 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 growth over Q1 of FY'18-19.

The net interest income grew by 45% at INR 625.5 crores and profit after tax expanded by 11% to INR 284.5 crores. The spread on loans for Q1 of 2019-20 is 253 basis points excluding the assignment income and other indirect adjustment that is as per IGAAP, the spread on loans for Q1 of '19-20 is 201 basis points. Net interest margin for Q1 is 314 basis points. The gross margins, net of acquisition cost and including fee for Q1 of '19-20 stood at 344 basis points against 321 basis points during Q1 of '18-19. The OPEX to average total assets for the financial year excluding the ESOP cost of INR 11.7 crores, being more of an accounting provision, stood at 56 basis points. This includes employee cost of PHFL, our 100%-owned subsidiary which largely houses the in-house sales force. The cumulative ECL provision as on 30th June 2019 is INR 598 crores. In addition to the ECL provision we maintained a steady state provision of INR 156.5 crores as a steady state provision. The return on assets for Q1 is 137 basis points compared to 154 basis points in Q1 of '18-19 on average gearing of 9.4x against 8.7x during Q1 of '18-19. The return on equity for Q1 '19-20 is 14.81% compared to 15.75% for Q1 of '18-19.

The closing networth as per IND AS as on 30th June 2019 is INR 7,864.6 crores. On capitalization, the CRAR of the Company as on 30th June 2019 is 15.13% with Tier-I at 12.04% and Tier-II at 3.09% which has improved from 13.98% with Tier-I at 11% and Tier-II at 2.98% as on 31st March 2019. The CRAR numbers are as per IGAAP and does not consider the positive impact arising out of IND AS adjustment.

Now, let me talk about the "Business Performance:" During Q1 of '19-20, we registered 11% growth in loan file logins compared to the corresponding period of the previous financial year. The disbursements degrew by 22% to INR 7,634 crores vis-à-vis INR 9,767 crores during Q1 of '18-19. Retail segment disbursements grew by 7% YoY and the Corporate Finance disbursements degrew by 81% YoY. Assets under Management registered a growth of 29% to INR 88,333 crores as on 30th June 2019.

Geographically, West is our largest market with 39% of Assets under Management, followed by North with 31% and South at 30%. We have limited presence in the East with three branches; two in Kolkata and one in Bhubaneswar which forms a part of the North zone.

The Company during Q1 of financial year’19-20 securitized a loan book of INR.2,318 crores of its retail loan portfolio both Home Loans and LAP through the direct assignment route. With consistently superior asset quality and good portion of priority sector lending, the Company’s portfolio continues to enjoy a good demand from banks, HFC for pool buyout. Net of the assigned loans, the loan assets are at INR 75,933 crores as on 30th June 2019 representing a healthy growth of 19% YoY. Housing Loans constitute 72% of the Assets under Management and non-housing loans being the remaining 28% of the Assets under Management. In the Housing Loan segment, 59% is constituted by Individual Housing Loan and Construction Finance for residential units constitute 13% of the Assets under Management. In the non-housing segment, retail loan against property constitute 18% of the Assets under Management, retail non-residential premises loans, lease rental discounting and corporate term loan constitute the remaining.

During the quarter, two branches that had spilled over from FY’18-19 were made operational totaling to 104 branches with presence across 64 unique cities. The Company also services its customers through 30 outreach locations. The Company has 23 underwriting hubs as on 30th June 2019, catering to the branches and the outreach centers. FY’19-20 is a year of consolidation for the Company and hence the Company does not plan to open any new branch. During Q1 of ’19-20, out of the total individual housing loan disbursements around 26% by value was in less than INR 25 lakh category which can be termed as “Affordable Housing.” With the 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 as on 30th June 2019 as a percentage of the loan assets is 0.85% compared to 0.43% as on June 2018 and 0.48% as on 31st March 2019. The GNPA on AUM is 0.76% as on 30th June 2019. The increase in gross non-performing assets is primarily due to the addition of one corporate loan exposure of INR 150 crores, that was already a part of remedial action as we had informed earlier. Excluding this account, the gross NPA would be 0.65% as on 30th June 2019. This is in line with our philosophy to accelerate forward flows during the first quarter so that we can initiate SARFAESI and resolve the account by fourth quarter. The write-off by the Company life-to-date is less than 5 basis points on the cumulative disbursements. As on 30th June 2019, our total provision to assets stand comfortably at 1% and the provision coverage ratio is at 117%.

On our resource profile, 25% is contributed by non-convertible debentures, 21% by bank and 18% by deposits, 15% by direct assignment, 8% by commercial paper and

8% refinance from the National Housing Bank and 5% through external commercial borrowings. The Company has raised ECB of $100 million from IFC Washington on 25th of July 2019, reposing its faith on the operational robustness of the Company.

In line with our philosophy to enable the marginalized community in becoming capable and self-reliant, we work in construction labor skill enhancement trainings, day care centers, education and healthcare under our Corporate Social Responsibility program known as "Saksham". We are a strong 1,690 full time employee team as on 30th June 2019. The Company constitutes to maintain a balanced approach to business and growth with focus on asset quality and profitability.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just on this comment that you made, you let the account slip in Q1 and so that recovery can happen in Q4, was it meant about these five accounts that you have classified as stressed or is it general policy?

Sanjaya Gupta: That is a general annual policy that we do every year because wing-to-wing the SARFEASI action takes about six to seven months to cure an account and hence we start off the forward flows in a knowing manner from Q1 so that by Q2 they peak and by Q3 we start seeing resolutions and by Q4 we are home. So, it is an annual feature which always happen.

Amit Premchandani: These five stressed accounts have nothing to do with this feature?

Sanjaya Gupta: One of the accounts, even when we have received the servicing installment on INR 150 crores which would have pushed it backwards, we have allowed it to flow in the NPA bucket so that we can start the legal action.

Amit Premchandani: So, do we read into that the other four accounts were not necessary to forward flow?

Sanjaya Gupta: Yes, because for the other four we are able to see some visibility of evidenced cash flows and we are partnering with the developers so that the projects get delivered even if with a little bit of delay and not get them into any sort of a legal tangle.

Amit Premchandani: The probability of them default or classified as defaulting is low. Is it a safe assumption to make?

Sanjaya Gupta: I would always say credit default is part and parcel of lending business and even last year if you were to say in '18-19 we cured three accounts and recovered about INR 115 crores. We are in the process of not only lending but also recovering. Further, wherever we think that our partnering, our customers would help to save an NPA, we always like to partner, we are collaborative. But where we think that we are not seeing any evidence, cash flows, etc., or a resolution, there obviously we like to initiate the legal recourse so that tomorrow if we have to sort of take harbor in curing the account through that method we are not found wanting.

Amit Premchandani: In the last one quarter you have not added any account in the stress list?

Sanjaya Gupta: No.

Amit Premchandani: For the next three quarters also, do you expect any addition?

Sanjaya Gupta: I cannot forecast. We are regularly monitoring our corporate book and as I also said in our annual earnings call that annually we will be detailing out all our stressed corporate accounts because during the lifecycle of a project you have to take about a year to really take it from one stage to the other and hence it is too premature but yes, as of today, even out of those five stressed accounts, one, we have let it flow into an NPA because we think legal recourse is required to augment the pressure on the customer to repay the loan in full or to repay it faster than what the corporate house has indicated to us in their first instance. And in other four, we think that we will be able to partner with the developer and able to get the projects moving.

Amit Premchandani: Finally sir, any timelines on the capital raise and the method of capital raise?

Sanjaya Gupta: You will be happy to know that the Board has today given us an omnibus approval to raise capital up to INR 2,000 crores. They have also empowered the stakeholder's relationship committee, I would say in a carte blanche manner to start with the RFP process to bring on board merchant bankers/investment bankers. And the two I would say routes which are looking most likely and this is my gut feeling are limited pref or rights. However, let the merchant banks come on board, they will give us the right suggestion.

Amit Premchandani: Any timeline with in this quarter or next quarter?

Sanjaya Gupta: We are very cognizant of the time schedule and we will follow the process because this is a regulated sort of a process and we will like to do it swiftly in a compliant manner.

Moderator: Thank you. The next question is from the line of Subrat Dwivedi from SBI Life Insurance. Please go ahead.

Subrat Dwivedi: Sir, a couple of questions. One is on the ALM in the 6 to 12-months bucket as well as in the one to three year bucket, there is a cumulative mismatch. Of course, a part of that would have been addressed with this ECB raising from IFC. Any other measures that you are taking?

Sanjaya Gupta: This has come down from the previous quarter and let me be candid with you this is not at all irking us because we have a securitization program, last year if you remember we did something like INR 7,300 crores and this year we plan to do north of that figure and in the first quarter we did about INR 2,300 crores. Our seasoned book which is securitized is having 37-month MOB and only has a gross NPA of 22 bps. I cannot tell names of the banks but there are about three, four banks which are already doing due diligence on a handsome sort of a portfolio much in excess to this negative gap and that will take care of it.

Subrat Dwivedi: This securitization is largely in the retail segment?

Sanjaya Gupta: On the direct assignment route, basically it is retail home loan and the retail LAP book. Even in the first quarter we almost did 50-50%, in the second quarter also we are planning to do the same and then if you recall from my call we did about INR 850 crores of LRD sell-down, we plan to do another about same amount of LRD sell-down, we have some very marquee LRDs with us with zero DPD. So, we want to harbor them to a nice lending institution so that our customers do not face volatility in interest rates and we should be able to do. Given a ballpark figure, I think in Q2 of '19-20, between securitization and sell-down, we should be north of something INR 2,500-2,600 crores and which will take care of this ALM mismatch. So, these gaps are basically by design.

Subrat Dwivedi: Second question was on the increase in the NPA. The increase is roughly INR 300 crores QoQ, out of which INR150 crores you mentioned is on account of that one stressed account which became NPA. What about the balance INR150 crores?

Sanjaya Gupta: The balance obviously is coming from the retail book. And if you see the retail book NPA as on 30th June was about 0.79% which has moved up a little bit and every Q1 we have the forward flow of about 20 bps from March or the Q4 of the previous year, and this is just a replica of that because once again accounts which are recalcitrant with us and have sort of been little problematic on the collection front, we let them flow to the Stage-3 bucket so that we can take legal action. So, it is by design more or less. This phenomena if you were to compare because last year was a beautiful year, previous to that was a wonderful year where there was no corporate finance or corporate book NPA. So, the forward flow between Q4 and Q1 is of a similar nature.

Subrat Dwivedi: How much was the disbursements towards Construction Finance in Q1?

Sanjaya Gupta: Corporate book disbursements are INR 605 crores in Q1.

Subrat Dwivedi: This would be on committed lines?

Sanjaya Gupta: So, what we are doing is as a strategy we are not sanctioning new loans but whatever commitments we have from the past because these loans do not get disbursed in single shot, they happen over in different stages of a project lifecycle. So, those commitments we are honoring to the team.

Subrat Dwivedi: Last question on the CP book. That has come down from around INR 8,000 crores in March to some INR 6,500 crores in Q1. So, any view on that, whether it will further continue to come down or it will remain at these levels?

Sanjaya Gupta: I think this is a safe stage of CP of about 8% on the overall resources and if you remember somewhere in FY'18 we were as high as 18-19%, so gradually we have come down and this is a level that we would always like to maintain because at these levels the rollovers on the size of a balance sheet is not becoming an issue.

Subrat Dwivedi: Rollovers are happening?

Sanjaya Gupta: Yes, the rollovers are happening, though they are pricier but that is for everybody, not us alone.

Subrat Dwivedi: And mutual funds would be the primary holders?

Sanjaya Gupta: The banks, mutual funds, insurance companies, all types of lenders who subscribe to our CP.

Subrat Dwivedi: And the rollovers are happening even by mutual funds?

Sanjaya Gupta: Yes, we are a little cherry picked by some of the big mutual funds and they continue to support us.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: I had a couple of questions; the first was that on the two budget announcements, one is the transfer of regulatory oversight from NHB to Reserve Bank of India and the other is credit enhancement for some housing finance companies and NBFCs that is likely. Is that sort of getting formalized, have you seen any notification, what changes do you expect arising out of these two announcements?

Sanjaya Gupta: That budgetary announcement has happened and the budget has been approved by the parliament but the rules are yet to be announced. So, let me tell you as a regulatory it does not make much difference to us because there was no regulatory arbitrage between what the RBI was subscribing for NBFCs and what NHB was subscribing for HFCs. Let us wait, we will have to cross the bridge when we come to it. I am not in a position or I am not the authority to comment on this.

Ashwini Agarwal: Sir, second question relates to the response to the first question on this conversation. Earlier you said that you allow loans to slip into NPLs, you are referring to the one corporate customer where INR 150 crores is shifted into NPL. I would have thought that anything that is past the due for more than 90-days would automatically slip. So, how can you influence that outcome, I mean, NPL should be more of automatic thing?

Sanjaya Gupta: Now the thing is that there are certain customers, whether it is retail or corporate who are not regular. EMI is like a bill to be paid in arrears. So, if in the subsequent month, the previous month EMI is not paid or the interest is not serviced, because these are term loans, then it has a DPD. Now, for both in retail and in corporate, when we find that the incidents or the propensity to north is very high. Then Q1 is the best time when you don't actively go and collect. You do not intervene and you let the customer default so that the customer passes the 90 plus DPD and is in stage-III. Once an account is in stage-III, even if the customer pays as per the SARFEASI Act of 2002, you can invoke the SARFEASI Act and take a legal recourse. So, that is what we did in this account.

Ashwini Agarwal: So, stage-III is past 90-days?

Sanjaya Gupta: Yes, for banks and us its the same. Since we have moved to IND AS and ECL sort of a regime, I have stopped calling it as 90-days past due, I am calling it as stage-III because that is defined as stage-III.

Ashwini Agarwal: So, what you are saying is that you do not do any follow-ups which allows these accounts to slip and therefore your ability to invoke SARFEASI kicks in?

Sanjaya Gupta: Yes. And now we are on the negotiation table because the customer also realizes that we need some real hard measure and especially when the securities are more than 2.5x of the loan outstanding and when we say 2.5x these are the sort of valuations which are dynamic and we are taking the stretched valuation.

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

Niddhesh Jain: Firstly, again on the asset quality and especially the five accounts that we have discussed in Q4 and now again, so do you think there is a chance for the number of accounts or the quantum of loans for around INR 800-900 crores to increase over the course of this financial year?

Sanjaya Gupta: We are here in the business as I said to lend and recover and that we are doing in a tenacious manner, in a very alert manner. And which banker would like any of his or her account to move into NPA bucket or even in a delinquency bucket. Our entire team of 45 people who are across the board for corporate finance book are only working to monitor utilization of funds, construction stage, sales velocity, collection efficiency, escrow discipline and the new sort of Indian environment which is so full of frenzy of litigation. So, we are monitoring them day in and day out. Our two executive directors which is the Chief Risk Office Mr. Ajay Gupta and our Business Head- Mr. Shaji

Varghese and a team of six, seven people from the corporate finance book are only monitoring them. As a CEO and Head of the institution, on a weekly basis I am taking sort of heads up and we spend about two-three hours together. Even if we are not acquiring new business, out of ~163 unique relationships that we have, we are proactively meeting with the developer fraternity which is onboard with us, and we are making them aware because we do a very intensive RAG (Red, Amber, Green) analysis and wherever we are having concerns or even if we have to say thank you very much, you are doing fantastically well, we are keeping our relationship warm so that we come to know of any eventuality, it can be positive, it can be negative before the world comes to know. And it is always a heart burn to come to know from the market about the project that you are funded rather than knowing it yourself as a first information. We have a cherry picked portfolio of INR 17,000 crores approximately. We love it, we care for it and we nurture it and we are taking all possible actions in a very sort of collaborative fashion to make sure that we remain in the business of supplying home and not taking away home from a developing economy.

Niddhesh Jain: So, metrics that we are tracking, are you more worried about these accounts or overall portfolio of construction finance versus the position that we were in Q4 in FY'19 or the positioning on sales velocity and other metrics remain broadly similar?

Sanjaya Gupta: I would say there is a slowdown. We cannot defy that. But besides these five accounts we are not reaching a critical level of anxiety in the rest of the portfolio. Obviously, when we do a red, amber, green analysis, the reds are those five. There are certain amber but they are manageable, they need special care, they need special monitoring, they need a closer sort of collaboration on the retail front. We also have a property broking arm which we call it as Property Services Group (PSG) and our retail guys are deploying our PSG folks there on the project so that wherever the sales propensity has come down, we can probably augment through our retail sources because when we are doing about 13,000 retail home loans in a month, there are a lot of customers who apply for a home loan to check their eligibility and there are property not yet selected as we call it in mortgage jargon "Property not Identified (PNI)." So, that sort of a data that we have on a continuous basis. It is applied to a property services group. And then they get in touch with these customers who have taken a loan sanctioned and are looking for a home to check on their budget, on the allocation, on their preferences and if they have certain sort of inventory which matches the requirement of a retail customer, then they make sure as a counselor they marry the demand side with the supply side and make dreams come true.

Niddhesh Jain: Secondly, on the operating expenses, we have seen quite a bit of improvement in OPEX to ATA, so is that a sustainable level and we should expect slow improvement from these levels or there is some one-off in this OPEX?

Sanjaya Gupta: You are very correct. As I said this is a year of consolidation. We are not adding to any sort of capital expense during this financial year. When it comes to opening new branches, we are not adding much to people. We have 104 branches, 23 hubs and 30 outreach locations. Almost 50% of our branches which contribute about 25-30% of our business, as a definition that is about two years old branches, we will concentrate to make them come to an optimum level of operations and I think even our board which is highly illustrious and experienced is guiding us and we are very cognizant of the fact that in today's environment the only thing which is in the hands of the management is to manage cost. And let me tell you all 1,690 people together are working towards tightening our belts, we are not cutting on cost, all essential expenses are met, we are good paymasters, but we are not sort of being spendthrift and we are not going to spend money where it is not required. This entire transition from IGAAP to IND AS has actually moved expenses from GL lines. So, we are also getting used to it. And I think our investor community and our analyst community will also get used to it. And I think the biggest dent, this OPEX can actually if it was IGAAP it would have only been about 56 bps, there is ESOP cost and there is a subsidiary employees cost and all, which was not there in IGAAP has come in IND AS regime. But we now know how to live with it and we are managing and we are very conscious of the fact that this is the time when we ought to be frugal like a good Indian family and that will be the way going forward so that we have a healthy ROTA by the end of the year. Our board was very receptive for capital raise and they have allowed an interim INR 2,000 crores of tier-1 infusion. And I think that will also improve our lever. Probably if rating agencies get out of their euphoria of downgrading the sector probably an upgrade by quarter three and hence the cost of funds will also come down and the amalgamation of borrowed debt expanded as NOF will also increase the spread.

Niddhesh Jain: Lastly on the credit cost. Any guidance you would like to put out for the full year because in this quarter I think the credit cost is quite elevated and which may not be extrapolated to the full financial year?

Sanjaya Gupta: About 25-27 bps at a steady state would be the credit cost. But I have promised to my CRO that in case any major rollbacks happen from the corporate book, from an NPA or stage-I, we will not reverse this provisioning. And that is why we have taken a conscious sort of hit on our PAT growth and I would like that we have enough elbow room because the economic cycle frequencies are condensing that we do not have to look here and there supposing another one comes after three, four years. So, this is a team which has got hundreds of years of mortgage experience. For us these times are not rattling particularly the top 5-6 people that we have, have seen about four, five cycles like this and in a much-much smaller economy, in a much guarded economy, in a much tariffed economy. I would say this is the time to concentrate on operations, on our orthodox methods to overcome the turbulent times. People who will harbor safely in 2020 will be the winner.

Moderator: Thank you. The next question is from the line of Saurabh Kabra from Reliance Mutual Fund. Please go ahead.

Saurabh Kabra: I have a question with respect to the gearing levels and the capital raising plan. So, considering the current market scenario and the way rating agencies are reacting, so do you feel that INR 2,000 crores equity and that to by I think Q3 or Q4 will suffice to change the outlook back to stable or are we planning to have another round of equity in next year?

Sanjaya Gupta: As I said, this is an interim measure for 12 to 15-months. I am neither pessimistic nor I am optimistic, I am a realistic guy. And as I said, the frequency of the economic cycles are condensing. We firmly believe that in next 9-12-months we will come out of it. This is an interim measure and I think by that time the markets will also correct. The sentiments towards HFCs, NBFCs will improve. The robust organizations will survive and it will be far easier to distinguish between men and boys and I think everybody will be kinder because after all we are in a generic sector, we are not doing something which is highly I would say complicated. So, the demand is there, the population is there, the nuclear families are there, the stability of employment is there, affordability is there, the prices are stable and they are time corrected. So, why not a better future.

Saurabh Kabra: I totally agree with that. Assets side is quite strong, but on the liability side, if I include off-book AUM and gearing and the debt, the gearing as of now is somewhere around 10.5x. So, with INR 2,000 crores equity also it will be somewhere around 8.5x. So, at what level of gearing are we comfortable?

Sanjaya Gupta: What I would say is that if you see our Q1 gearing it is almost same as Q4 of the previous year. And the idea is that with the infusion of this INR 2,000 crores by end of the year we reach a comfortable level of about up to 8x. And with this product mix on the balance sheet would make the rating agencies quite comfortable. Now, I will put the ball back in the court of the rating agencies if we are able to do that and we are able to showcase a good quality portfolio, robust operations, compliance, etc., then they should also have guts to upgrade.

Saurabh Kabra: When rating agency consider the gearing, they also include the off-book AUM?

Sanjaya Gupta: Whether it is outlook or whether it is upgradation, whether it is gearing, let us not have a ping pong game. If the stability is back, demand is back, cash flows are back, velocity of transactions are back, the institution has been able to demonstrate that the current stakeholders are having 100% confidence in the method, the way business is done, the business is regulated, monitored, the quality of the management, what else can you do.

Saurabh Kabra: How much would be the committed lines as on 30th June from banks or financial institutions?

Sanjaya Gupta: Including the cash and bank balances and liquid investments, we have about INR 6,000-7,000 crores.

Moderator: Thank you. The next question is from the line of Shubranshu Mishra from BOB Capital Markets. Please go ahead.

Shubranshu Mishra: I just wanted to check, the ticket size of the construction finance has doubled since first quarter '19, but the number of loan accounts have largely remained similar range-bound. So, just want to understand how this has happened?

Sanjaya Gupta: Last year what happened was and I will be very candid with you, when people start looking with telescope, microscope, we also started becoming to create the trustworthiness and transparency. So, the initial in FY'19 in the beginning we used to show loan account wise ticket size. Then people started asking us these questions of top-20 exposures and group exposures and all. So, it is at a unique corporate house level now. And that is how the ATSs has gone up. So, there is nothing to worry otherwise. It is actually the moving goal post.

Shubranshu Mishra: Your yield has gone up substantially on YoY basis.

Sanjaya Gupta: Because what happened last year… if you have been regular on our earnings call, and I have been explaining to you people that it takes around 45-105 days for a reference rate change to impact at a book level as 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, and we had done five of them last financial year. The impact of all five has come now. So, it has almost gone up by 100 basis points. This is where I reconfirm this is annuity business and this is not a quarterly business, this is not a manufacturing company, this is not a IT company.

Shubranshu Mishra: So, yields are likely to sustain at these levels?

Sanjaya Gupta: Yes.

Moderator: Thank you. The next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Kishan Gupta: What sort of corporates are you lending to now?

Sanjaya Gupta: We have our old accounts and we are honoring those commitments, we are not acquiring any new corporates.

Kishan Gupta: So, is there a cap on a single corporate group exposure?

Sanjaya Gupta: The maximum exposure have been regulated. At an entity level, we cannot have an exposure of more than 15% of our NOF and at a group level we cannot have more than 25%.

Kishan Gupta: Sir, what is the median ticket size for existing corporate loan book?

Sanjaya Gupta: It is mentioned in the presentation. It is about an average of INR 134 crore in corporate finance book. This is all dynamic. The loan sanction is absolute but the loan disbursement and the loan repayment is dynamic, they keep changing.

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

Nischint Chawathe: How much did you borrow incrementally during the quarter and from which avenues?

Sanjaya Gupta: We borrow something like INR 11,550 crores in total. We borrowed INR 6,856 crores from bank term loans, our deposits gave us about INR 2,600 crores, securitization of INR 2,300 crores and the CPs got rolled over. We raise ECB of $100 million in Q2 FY20.

Nischint Chawathe: This quarter you did loan securitization right, not assignment?

Sanjaya Gupta: No, it is securitization through the direct assignment route. The servicing rights are with us.

Moderator: Thank you. The next question is from the line of Pratik Chheda from IIFL. Please go ahead.

Pratik Chheda: Within Construction Finance, what are your outstanding sanctions as of the first quarter?

Sanjaya Gupta: In the corporate book subsequent disbursement of the partly disbursed book is expected at about INR 1,600-2,000 crores during the year.

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

Viral Shah: I had three questions. So, one, just wanted to clarify, in the last quarter you had mentioned that you had called out five exposures in your construction finance book which you are potentially seeing some signs of stress. Now in this quarter, you have mentioned four exposures which are outside of the NPA and three exposures which are under NPA. So, is this something which is incremental, so last quarter it was five, and this quarter it is seven?

Sanjaya Gupta: So, last quarter it was five plus two, seven. Now the equation is four plus three equal to seven.

Viral Shah: So, the two accounts are already in NPA?

Sanjaya Gupta: Yes, even on 31st March, that is why that 0.17% NPA figure on corporate book came.

Viral Shah: I wanted to understand actually, your QoQ your tier-1 inched up nearly 100 basis points?

Sanjaya Gupta: Yes, that is what is balance sheet management, portfolio management my dear friend, and that gives you the depth of the management and obviously the internal accruals, etc.

Viral Shah: But proportion of your book in terms of your construction finance and the non-housing?

Sanjaya Gupta: It has come down by 1%. Then we sold off an LRD which is the highest risk weight, then we have internal accruals, we have PHFL, dividend, there are so many things. We also securitized about some LAP of ~INR 1,000 crores in Q1 which has a higher risk weight than a housing loan portfolio.

Viral Shah: Third one was I actually looking at the proportion of your disbursements actually sourced via DSAs. There was a sharp jump this quarter. Why would that be?

Sanjaya Gupta: A very good observation. I am really impressed. That jump has gone up by almost 8 percentage points. The reason that is because we were doing about 10% of our business from a corporate finance team, there is no new acquisition. So, the corporate finance you acquire directly. And hence that corporate finance contribution to in-house channel has been shaved off 100% and hence the contribution of in-house channel has come down and the contribution of the DSA has gone up. So, it is actually a re-mix of the channel because new or incremental business of wholesale has stalled for a temporary phase.

Moderator: Thank you. The next question is from the line of Rakesh Jain from Jasper Capital. Please go ahead.

Rakesh Jain: Regarding new lines on the bank during the quarter and are they private banks or nationalized banks?

Sanjaya Gupta: There are ~33 banks; private, foreign, public sector, small, big, all types of scheduled commercial banks are there.

Rakesh Jain: Are you seeing cost of funds to increase in future maybe because the rating is down?

Sanjaya Gupta: Let us see. We are very keen on pricing of a raw material because the finished products pricing will depend on the raw material price.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Sir, two questions, both data-keeping. One, you are sharing just on the previous question that about how your tier-1 had increased because of the strategy that the management has taken. For my understanding, the sell-down that you have done both on LRD and LAP, that are part of this?

Sanjaya Gupta: No, LRD is a sell-down, LAP is a securitization.

Ritika Dua: So, the number which we have shared of a cumulative sell-down which we have done so far which is like some INR 12,400-odd crores?

Sanjaya Gupta: No, that INR 12,400 crores is securitization, it is excluding sell-down because once sold down will never reflect in off-balance sheet or on-balance sheet. Sell-down means with servicing rights. Lock, stock and barrel, everything.

Ritika Dua: The second question if you could just help with the blended cost of funds and blended yields on the various product lines both on asset and the liability side?

Sanjaya Gupta: The incremental home loan yield is at about 938 bps, construction finance yield for residential purposes is 1173 bps, non-housing loan as a blended is 1055 bps. When it comes to the blended cost of borrowings for Q1 is 831 bps.

Ritika Dua: Sir, would it be possible to share the numbers there as well on a liability wise basis?

Sanjaya Gupta: The liability it will not be correct to be sharing and clubbing them under heads because the tenure also matters. So, for example one-year bank line will be very differently priced than a five-year bank line. Supposing I am taking an ECB and not hedging it, it will be priced very differently than what we have done and hedged it fully. So, it would not be correct on my part to give you headers which have broad spectrum of supplying and put a cost on that, for example, even a 45-days CPs or an overnighter comes as low as 6%. But I can go ahead and borrow CP up to 364-days. But it will come as a CP. But that is not the right way to put a price because they are different maturities, some are floating, some are fixed, so that will not be correct on my part.

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

Piran Engineer: The one account slipped of INR150 crores, can you just give us some more flavor like which city is it from, what stage of completion, when did you disburse the loan, something more about the project that gives us some sort of understanding?

Sanjaya Gupta: It is a Corporate Term Loan (CTL) and this is in the NCR region in Gurgaon and this is 27-acres of prime land, a you people are interested, we will like to sell it off to you, fully converted, all license, EDC, IDC, all paid, non-encumbered and we are the sole lender and it is a beautiful plot of land of 27-acres.

Piran Engineer: Secondly, the LRD that you sold off, what I understand disbursements that it was refinanced by another lender?

Sanjaya Gupta: It was not. This is where a little bit of difference and that is the hairline. When we take balance transfer, it is an ugly word as if you are a loser. Here we go out and we scout for a harbor of a marquee asset. And we are always partnering with our borrowing entity because the borrowing entity should also have the comfort with the new lender.

Piran Engineer: Why would you want to let go off a marquee asset?

Sanjaya Gupta: One is that in a volatile interest rate scenario, LRD is one product which has got limited elasticity on the rate of interest movement. Secondly, LRD has got because it is basically on commercial property, has got the highest risk weightage. So, if I as a CEO of the Company, managing the balance sheet I have to manage two, three things – one is my risk capital; the second is obviously my spread and the third thing and more important is the quality of my portfolio. As I am finding that for NBFCs, HFCs the volatility is more than a bank and I am marginally positive on my capital and my teams are doing fantastically well to get the new assets, I will have to give this elbow room to my team to get new more accounts and I will then downsell it.

Piran Engineer: Back to the first thing when you said there is a 2.5x security cover that account, that is an NPL, does that mean its networth is 2.5x?

Sanjaya Gupta: Not networth, the security value.

Moderator: Thank you. The next question is from the line of Mayank Agarwal from Anand Rathi. Please go ahead.

Mayank Agarwal: Sir, out of your individual loan book, how much would be under the subvention scheme?

Sanjaya Gupta: The total subvention book is less than 1% of the total portfolio.

Mayank Agarwal: What kind of impact after the recent NHB circular?

Sanjaya Gupta: We are still reviewing and I do not think there will be much adverse impact because we have not been much lending into the subvention or buyback scheme.

Good night. Thanks a lot folks for joining us.

Moderator: Thank you. 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 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

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.