"PNB Housing Finance Limited Q1 FY'21 Earnings Conference Call"

July 23, 2020

Participants from PNB Housing Finance:

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

Moderator: Ladies and gentlemen, good day and welcome to the PNB Housing Finance Limited Q1 FY'21 Earnings 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 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 G Padhi: Thank you, Rayomand. Good evening and welcome everyone. We are here to discuss PNB Housing Finance Q1 Financial Year 2021 Results. You must have seen our "Business and Financial Numbers in the Presentation and the Press Release" as shared with the stock exchanges and is also available on our website.

With me, we have our leadership team represented by Mr. Neeraj Vyas -- Managing Director & CEO; Mr. Ajay Gupta -- Executive Director, Risk Management; Mr. Kapish Jain -- Chief Financial Officer; Mr. Anshul Bhargava -- Chief People Officer; Mr. Nitant Desai -- Chief Centralized Operations and Technology Officer; Mr. Sanjay Jain -- Company Secretary and Head of Compliance.

We will begin this call with the "Overview and Performance Updates 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.

Now I would like to hand over the call to Mr. Neeraj Vyas for his remarks. Over to you, sir.

Neeraj Vyas: Thank you, Deepika. Good evening, everyone and welcome to Q1 Financial Year 2021 Earnings Call. I hope you all are safe and healthy and taking due precautions for COVID-19.

Let me start with the "Update for the quarter." The disbursements during the quarter were INR.69 crores, impacted due to lockdown on account of COVID-19 pandemic. However, on a month-on-month basis, the disbursements registered an increasing trend. Retail segment contributed 97% of the total disbursement with 65% disbursed towards lower risk weighted individual housing loan segment. As on 30th June, the assets under management of the company is maintained at INR 83,495 crores with retail AUM at 82% and Corporate at 18% of the assets under management.

On RBI moratorium, we adopted opt-in route for accepting customers request. Our AUM under moratorium in phase-1 was 56%, which has got reduced substantially to 39% in phase-2 as on 30th June 2020. A sharp drop is witnessed in the retail segment also in which the moratorium under phase-1 was 49%, it got reduced to 29% in phase-2. The company adopted a proactive communication strategy with the customer on moratorium, advising each of the customers about their increased liability in case they avail the moratorium and overall amount that they are going to pay on the remaining period of life of the loan. As a result of that, you can see the result, it has come down from 49% to 29% in phase-2. In addition to that, proactive calls were made to the customer who had availed moratorium-2 and on account of these calls which were almost around roughly 40,000 calls made to the customer who had availed for moratorium-2, around 5,000 customers have reversed their decision on moratorium.

In addition to this, we have also tied up with CIBIL to educate customers on the benefits and pitfalls of the moratorium and are witnessing some of the inquiries from the customers on our call centers.

To be future ready and work in the so-called new normal, the company undertook various measures in sourcing, underwriting and collections during the quarter.

With the lockdown in April ’20, the extended teams are involved in the recovery of delinquent accounts. The company also initiated in-principle online sanction of loans and is developing a new digital channel for sourcing and reviewing the loan applications. We have also tightened our credit guidelines to further strengthen the underwriting process including norms on target customers/industries, methods of assessing income and tightening of key policy parameters.

We are also working on AI-based Voice Bot system in the existing resolution set up to facilitate timely EMI payments. This is as I mentioned AI-based Bot system will make calls to the customer who have availed moratorium-2 and also the customers who are into stage-1 and 2 and 3. And therefore this would help us in improving the collection methods.

Similarly, on the corporate book, the company has created a Remedial Management Group under direct supervision of the managing director to focus on faster resolution and effective monitoring of corporate book accounts. The group comprises employees from various verticals with a mandate to identify, discuss, plan and resolve accounts through various available options. The newly formed group has already started showcasing results through resolution of a few corporate accounts.

Let me give a brief on few corporate accounts about which I think I mentioned in my last earning call. Starting with IREO Private Limited, we had disbursed INR 150 crores to this and outstanding was INR 101 crores, that showed a reduction in outstanding by roughly INR 49 crores. As we mentioned in June, the company has successfully got one part of the mortgage land auction and received 25% earnest money. Further, before the second option of the remaining piece of land, the developer approached the company requesting not to auction the land and resolve the account. As a part of resolution, the developer has already paid INR 25 crores in July '20 and balance amount is expected to come in the next three months' time. As on date, the principal outstanding has gone down to INR 69 crores.

In another account, Supertech, we had given the date for auction under SARFAESI. We are expecting some kind of interest from the market. Promoter himself came to us. He is showing some interest to resolve the account. In addition to promoter, some other people have come, and promoter also joined with them and they are showing interest to buy one piece of land which would help reduce the outstanding in Supertech. But the issue is, it which will take some time as I mentioned, RMG has been set up only a month back and therefore these are the efforts of RMG but in case of IREO, the real effects have been shown and amount has been recovered, amount outstanding have been brought down.

One major account which I mentioned last time is Vipul. There again, we had a long battle with the promoter in court. The promoter was trying to take a stay on our SARFAESI action. With our timely intervention and arguments in the court, we have been successful in not letting the court grant stay on our action and auction is scheduled. As a result of that, we are experiencing some interest in the market. People are coming to talk to us, and they are interested either by way of taking development right or settling the account. Let us see what happens before 6th of August because that is the auction date. We have made it very clear that we will not postpone the auction unless some concrete issues or development happen.

Another big account was Radius where the outstanding is more than INR 250 crores. We are in close consultation and discussion with the co-lender as they are also a partner in the project. In the meanwhile, we have initiated legal proceeding against the company under SARFAESI.

In another big account, Ornate, the outstanding is INR 181 crores and we have initiated proceedings under SARFAESI, the case is now admitted to NCLT, and we have to join the process under IBC for resolution of the case.

In case of Radius, we have got interest from two developers also. We are talking to them. But right now, nothing concrete is there to report and maybe we will come to the market whenever we have something to report there and if the resolution is done.

There was another small account of Pate Developers. We entered into an agreement with one of the developers. He has already paid us 10% of the amount and the last date to clear the outstanding is 30th August. Otherwise, we have right to adjust the amount paid to us by the developer.

In addition to this, there was a small account of INR 1.56 crores which we declared last time has been fully recovered and close without any haircut during the quarter.

Apart from these key corporate accounts, the company has been able to resolve another account in IREO Group which was under stage-1 with SICR we had put it under stage-2. Here also, the promoter paid the entire amount of overdues and has promised to pay another INR 5 crores by 15th of August. As of today, the account is zero DPD. So, in other words, the account is out of SICR as of today. But we have kept it at the same place without touching the provisions. Maybe we will take a call t when another installment that he has promised comes. But as I told you, as of today, the account is under zero DPD.

As on 30th June 60% of our corporate book is under principal moratorium. And just to give you a flavor, we have collected almost around INR 600 crores under moratorium in this book. As the accounts are under moratorium, the amount has come under escrow account and the promoters have been permitted to utilize this amount.

As mentioned last quarter, we are looking to sell down our corporate look. We are in discussion with a few banks on the same. We have received sanctions from two banks amounting to INR 350 crores, but again because of COVID the issue is there, the documentation is not happening, stamp duty is not payable, noting of interest in the books of registrar of the company, that could not happen because offices are not functioning, all this is causing delay. But we have sanctions and going forward probably we will be able to transfer these outstanding from corporate accounts.

Out of the construction finance book of INR 10,356 crores, INR 3,422 crores is under construction with less than 50% completion. Out of this roughly 1,000 crores is under NPA whereas a large part of this book that is roughly INR 2,290 crores is a zero DPD book where the interest is being serviced regularly by the promote.

On AUM basis, gross NPA as on 30th June is 2.32% and around 2.76% on the loan book. The life to date write-off by the company is just 10 basis points of the cumulative disbursement. The company has created additional provisions in its books resulting in total provision to total asset at 2.7%. The Overall provision coverage ratio is 98% and the stage-3 provision coverage ratio is 40%. As I mentioned that our corporate book is covered more than 100%, we are sitting at 103% of PCR in our corporate book.

Talking about the liabilities during the quarter, the company mobilized INR 5,484 crores through NHB, Bank term loans, ECB, CP and Deposits. We are second largest deposit taking HFC in the country and during Q1 FY20-21, we mobilized around INR 990 crores of deposits, majority of which are public deposits. These deposits are sticky in nature with average tenure of 42-months on outstanding basis. Deposit as on 30th June stand at INR 16,203 crores which is roughly 20% of our total financial resources.

With our continued focus on the long-term borrowing, ALM is comfortable in light of the fact that option of availing moratorium for customer has been extended up to 31st August 2020. But we have not availed the option of moratorium with respect to our payment obligations to all lenders during the moratorium period.

The company has maintained adequate cash and liquid investment of INR 7,000 crores as on 30th June along with undrawn and sanction lines of INR 5,000 crores. This will suffice us till the end of Q2 FY'21 by which time liquidity situation shall further ease out. Not to mention we also have built a good pipeline of new prospective borrowings from diverse resources.

Over a period, our CRAR, as on 30th June '20 increased to 18.05% with tier-1 at 15.33% much beyond the minimum regulatory tier-1 requirement of 10%. Let me remind you that when we closed our year on 31st, March 2019, our CRAR was 13.98% which today is at 18.05% with tier-1 comfortably at 15.33%. This has improved from CRAR of 15.13% with tier-1 of 12.04% as on 30th June 2019. Please note the CRAR numbers are IGAAP net own funds and do not consider any impact on either side plus or minus of net worth arising out of IND AS adjustments. The gearing of the company is 8.2x as on 30th June which has improved from 9.2x as on 30th June 2019.

Then a "Summary of Financial Results of Q1" is as under: The pre-provision Operating profit for Q1 FY20-21 is INR 404.6 crores as compared to INR 427.6 crores for Q4 FY19-20 showing a decline of 5%. Impairment of financial instruments and write-offs in the quarter are at INR 75 crores. The additional provisions have further strengthened the balance sheet and overall provision coverage ratio. Profit after tax for the quarter stood at INR 257.2 crores as compared to net loss of INR 242.1 crores for Q4 FY19-20. The spread on loans is 219 basis points. Excluding the assignment income and other IND AS adjustment, that is as per IGAAP, the spread on loans for Q1 is 228 basis points compared to 213 basis points for Q4 FY19-20, more than 15 basis points above what we reported in Q4. Net interest margin for Q1 is 266 basis points against 261 basis point for Q4 '19-20. Gross margin, net of acquisition cost and including fee for Q1 FY20-21 stood at 261 basis points against 288 basis points during Q4 FY19-20 due to lower fee and other operating income during Q1 FY20-21 as compared to Q4. OPEX to total assets for the quarter excluding ESOP cost of INR 1.24 crores, being more of an accounting provision, stood at 50 basis points. Return on Asset for Q1 FY20-21 is 1.33% and Return on Equity for Q1 FY 20-21 is 12.62%. The Closing net worth as per IND AS calculation is INR 8,170 crores. We have employee strength of 1,494 full time employees as on 30th June '20.

As mentioned last quarter, we approached our promoter PNB to participate in the capital raise plan of the company. This is an issue I know most of you would be anxious to know. As discussed with our promoter, PNB is evaluating this and is expected to discuss in their board meeting which may be scheduled during this month or early next month. PNB being a sovereign bank, would need approval of Reserve Bank of India and

Government of India and that is the reason as I mentioned that PNB is discussing internally and they will take the matter to their board to take a call on this. Once there is some clarity that emerges post PNB board meeting, we will come back to the market to inform the decision taken by them.

The board of the company during the quarter approved its business plan for FY 2020-21. As per the same, company will continue to focus on lower risk weighted assets. The AUM is expected to be maintained in the similar trajectory in FY2020-21 as was in FY 2019-20. The retail book AUM is expected to increase to more than 85% where the corporate book AUM to reduce to less than 15%. This is due to the various reasons as I mentioned -- Focus on Retail Book, Sell Down and Resolution in the Corporate Book. The spread is expected to be in the range of 210 to 220 basis points and gross margin of 300 to 315 basis points. With the cost rationalization measures, the operating expenditure is expected to reduce by 5% to 10% in absolute terms. The Return on Asset is expected to be in the range of 140 to 160 basis points with lower gearing and higher capital risk assets ratio.

With this I would throw the session open to question-answer. But before that, I know that there would be questions on issues, which I mentioned in the last earnings call; one was about the CEO and about the corporate sell down. As far as CEO is concerned, the company has authorized the Nomination and Remuneration Committee to go for identifying the candidate, suitable for CEO of the company. The NRC is actively looking for the prospective candidate in this direction. And I think an announcement would be made very shortly in this connection. As far as sell-down is concerned, as I mentioned, we already have a sanction of INR 340 crores in our hand, but because of COVID, certain offices are not working, even the problem is there with the banks who are going to take over, their offices are working, sometimes their offices are closed due to COVID issues, some case is diagnosed, the entire office is closed, that is creating problem. Another INR350 crores is in very advanced stage of discussion, but it is taking time. But going forward, I think we should be able to sell down our corporate book as our discussions are revealing with the banks. So here I think I would say that now the floor is open for any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: I have two questions. Basically, on the moratorium book, while you have given the number based on the morat under phase-one, and what is the moratorium as of 30th June, you had also disclosed in the previous results moratorium as of 5th June and the moratorium numbers seems to have increased from there, basically the retail book it has increased from 20% to 29% and on an overall basis from 31% to 39%. So if you could explain what has been the reason behind this increase because generally we are seeing a declining trend in moratorium across different players?

Neeraj Vyas: Moratorium-2, we had issued the opt-in instructions, but some of the customers going by the trend of banks thought it will be opted out and given across the counter. When we were interacting with the customers, they were interested in taking moratorium and that is the reason subsequently they applied for the moratorium after we declared it to the market that it is 20%, that is the reason it has gone up from 20% to 29%in retail. But again, as I mentioned, when we had another round of interaction with the customers, some of the customers who had taken the moratorium they withdrew out of it, almost around 5,000 customers, they have withdrawn their requests out of moratorium-2. So that is the reason when we gave the figure to you and a figure that I am giving now has slight variance in that.

Viral Shah: And if you could give us a sense of moratorium, maybe as of date or mid-July in terms of from end June to mid-July, what are we seeing?

Neeraj Vyas: There is no change in the moratorium-2. Whatever I mentioned, just now continues to be there. But as I mentioned that 5,000 customers have withdrawn the moratorium, but give another flavor to the people who have not taken moratorium-2, I may mention that those people who have taken moratorium-1, our collections have improved and if you see my collection efficiency it was 95% and it moved to 97% and as I talk to you today, it is 98.15%. It includes people who have taken moratorium-1 also where it is 95-plus.

Viral Shah: Sir, my second question is on the margins. On a blended basis, basically your margins seems to have gone up sequentially, I am calculating it based on a calculated number and on a quarter-on-quarter basis seems to be driven by increase in yield. So, what is happening over here because largely the loan book has been flat and we have not disbursed anything to change the loan mix, so, what could have driven that because we have seen usually pressure on margins generally for housing finance companies, so why was it not the case this time around?

Neeraj Vyas: On a blended basis, it has gone up because rate of interest on corporate book has been changed by us. We have increased rate of interest on corporate book on CF, that is residential housing by 1% and on corporate term loan that is which is not residential housing by 1.25%.

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

Subrat: Just wanted to understand the collections in a bit more detail. In terms of absolute value, if you could give the trend, total collections in April, May and June?

Neeraj Vyas: In April, May and June, on an average (for the quarter) we have collected scheduled payment of roughly 1500 crores in the three months. April as you know the lockdown was there, so, collections were low, but on an average if I take it, it is roughly INR 1500 crores and this is for retail. Corporate, we have collected roughly INR 125 crores in

April, in May it went up, in June also it went up but as I mentioned the corporate book is under moratorium, these collections are under our escrow account and we gave the release to the promoter to utilize it for their expenses and construction activity.

Subrat: So, INR 400 crores was the amount for June you mentioned for retail?

Neeraj Vyas: June is more; INR 500 crores

Subrat: And for May it would have been?

Neeraj Vyas: May was I think INR 400-odd crores.

Subrat: So, if we just refer to the Q4 presentation then total collections which were expected for Q1 was supposed to be around 7,500 or 8,000-odd crores. So, the moratorium numbers if you see then, would it be that high out of INR 7,000, 8,000 crores we would have received in terms of collections maybe around INR 1,000-odd crores in Q1, then…?

Neeraj Vyas: Roughly pre moratorium we collect INR 1,600 crores for retail and INR 2,000 crores per month we collect. For the quarter it should be INR 6,000 crores. But as I mentioned corporate, we are not proceeding anything in the account. Whatever we are collecting is given back to the promoters or the vendors for construction activity. We collected INR 600 crores during the period, but it was basically in the escrow account which was released back to the promoter.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: Just to extend the previous question, you suggested that in your corporate book you had collected about INR 600 crores, but you let it stay in the escrow account so that the developers can use it for the expenses and construction. So, when you say that you just disbursed about INR 20 crores in the quarter, does it effectively mean that you have disbursed about INR 600 plus INR 20 crores in the quarter?

Neeraj Vyas: No-no, this is not disbursement, this is collection which came in the escrow account and because they have taken moratorium, from interest and principal both, so that has been released back to them.

Abhijit Tibrewal: From their customers you mean?

Neeraj Vyas: Correct.

Abhijit Tibrewal: These were not your collections?

Neeraj Vyas: No, otherwise it would have gone to my interest that I could not appropriate because the moratorium has been granted.

Abhijit Tibrewal: Because you are one among the first HFCs to report the Q1 results. Just wanted to understand, what is the thought process around the COVID provisions of about INR 71 crores in the quarter?

Neeraj Vyas: If you see our last presentation, we had made a COVID provision of INR 471 crores. This provision of INR 71 crores we have made additionally this quarter to build a cushion and make the balance sheet stronger. We have not touched our COVID provision of INR 471 crores because COVID is still going to take some time when the moratorium gets lifted in the month of September and thereafter the impact would be known. So, we have not touched COVID provision, that continues to remain at INR 471 crores.

Abhijit Tibrewal: What I am trying to understand is now that the total additional COVID provision stand at about INR 540 crores, I mean, what was the rationale for taking in lower additional provisions of only about INR 71 crores in the quarter, are we saying that basis our evaluation, we think that whatever we have provided until now is more than adequate and we would not need to provide any more in the coming quarters of the financial year?

Neeraj Vyas: See, whatever we have provided so far is adequate. That is what I made the statement in last quarter also and we have taken hit in our quarterly profit. We have covered our corporate book, adequately we have provided for the retail book. But as I mentioned, going forward, it appears to be adequate provision. We are talking to the builders, we are talking to our borrowers who have taken construction finance from us, whatever issues are there, one-to-one we talk to them, but going forward telling that maybe four quarters down the line the provision would be sufficient and nobody can predict like that. But as of today, depending on the situation on the ground, depending on the feelers from the ground, collections in the escrow account of the builder, talking to them one-to-one, their past track record, I feel that this provision is adequate. Let me give a flavor to you that under moratorium book on construction is around 60% or 58% as of today. The amount as I mentioned in my script also is out of that less than 50% is INR 3,400 crores, out of that INR 1,000 crores is NPA, INR 2,400 crores is remaining INR 2,200 crores is zero DPD accounts. So, I think you can make out the quality of those based on this. So, as of today I find the provision is adequate. This INR 71 crore added during the quarter is ECL provision.

Abhijit Tibrewal: Even during your opening comments you gave a color on that one existing account which was identified for SICR. I think that was Ireo account. What about the remaining three accounts which you had classified under SICR in the last quarter?

Neeraj Vyas: We are trying to resolve those accounts too, but right now they continue to remain stage-2.

Abhijit Tibrewal: They are all in the moratorium as well?

Neeraj Vyas: Yes.

Abhijit Tibrewal: I mean, essentially DPD freeze?

Neeraj Vyas: Yes.

Moderator: Thank you. The next question is from the line of Aakriti Kakkar from Goldman Sachs. Please go ahead.

Aakriti Kakkar: I have two questions: First is, if you could please provide any details around the bounce rate that you have been seeing in this quarter. And second question is on the moratorium. What is the overlap between moratorium phase-1 and phase-2, if you can give any direction around that?

Neeraj Vyas: As far as the bounce rate is concerned, as I told you in May it was around 5%. If you see my collection efficiency it is 95% in May. June again it was hovering somewhere around 96%. Now as I talk to you today, it is 98-plus. To your second question, about 90% of people who are in morat-2, they are there in morat-1. Only 9% customers have opted phase-2, but they were not there in phase-1.

Aakriti Kakkar: And just one confirmation. The collection efficiency is excluding the moratorium customers, right?

Neeraj Vyas: Yes, it is based on whatever we are billing and obviously the one which is under moratorium is not getting billed.

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

Omkar Hendre: My question was regarding post-COVID scenario. As a second largest deposit taking HFC, how do you plan to utilize this crisis as an opportunity because there would be funds available to you at a cheaper cost?

Neeraj Vyas: As far as the opportunity is concerned, you see we have USP in terms of our delivery system which will strengthen further by providing an app which has been launched few days back where it is a seamless exercise we are trying to do. customer does not have to visit the branch, sitting at home, the customer can complete the application, digitally sign it, it flows to us, and based on that, we can provide the sanction because in the new scenario where people are not coming out of homes, but they do want the houses to be purchased. We have provided this utility which was put on trial basis three days back and maybe in next seven days' time we will try and test it, based on whatever experiences and feedback we get from the customers, we will try to roll out fully. That is one thing that we will try to do because the demand is coming from mass housing sector and we are well positioned in that, because we have presence in almost all-important cities from where the demand is coming. And that is where we want to utilize this opportunity by capturing the demand through the app that I mentioned. In addition to that, we have a strong force of connectors and DSTs roughly around 15,000, that force is already available on ground that has been activated by us. And with that, I think we will capture the lead. And as I mentioned, we were not expecting that we will touch a disbursement figure of INR 500 crores during June, but we already touched the disbursement figure of INR 500 crores in June. And this mostly has come out of sanction, we accorded post 1st of April. Most of the disbursements have come out of the new sanction that we gave during this quarter.

As far as rate of interest is concerned. We are trying with our banks to get the rate of interest reduced on the borrowing that we have. But let me tell you, most of the borrowings happen in the second quarter of the financial year. So last year, the second quarter of financial year we had taken loan from the banks. And as you know, the rate of interest, the policy rates have moved downwards. Most of the banks have reduced their MCLR. And the condition in these kind of loans is that the reset happens on the anniversary of the drawdowns. So, most of the loans were taken during second half of the last year, they will come for the reset in this half, the second half, and then we would be able to reduce our borrowing cost on that.

Omkar Hendre: So, you expect a margin expansion because of that in the upcoming quarters?

Neeraj Vyas: Yes, to some extent we will, but we will have to pass on the benefit to the customers also, because if you see in the market, my rate of interest and the rate of interest available to the customer from both private and public sector banks are lower, the differential is roughly around 1%. We will try to bridge the gap so that the runoff which happens in my book is avoided.

Omkar Hendre: So, a slight margin expansion or the steady state which we can expect.

Neeraj Vyas: Yes, slight margin expansion we will retain, but we will try to pass it on to the customers also.

Omkar Hendre: The second question in on the gain and the capital adequacy you have sufficiently capitalized and gearing is also around 8.2%. So, I mean, what is the thinking behind raising capital then? Where do you plan to take it to the gearing ratio?

Neeraj Vyas: See, because we have a corporate book also, in my opinion, this gearing of 8% should be brought down further, and that is the reason that we are trying to raise the capital. Notwithstanding that reason, we had already declared to the market last year that we will go to the market, because my capital adequacy was 13.98%. But subsequently, when we found that we are yet to take a call to raise the capital, which way we will raise the capital, we decided that we will go into balance sheet management and we will try to do some securitization of our assets. And in that process, and on account of profit earned during FY '20, our capital adequacy went up from 13.98% to 17.98%. And as of today, it is sitting at 18.05%.

While capital is sufficient, but you can't sit on the fence and do business. If I have to see my plan for next two years, I need capital at this juncture, because, otherwise, again, my capital adequacy will be going down and that would impact my rating. I don't want to do that, I have to improve my rating too and we are gearing further. So, both these factors, that is sufficient capital available for doing business, and to take care of my rating in the market. Because credit rating agencies have been looking at a blended gearing of7 if I have a corporate book. Pure retail book, they are okay with a gearing of 8, but because I have a corporate book portfolio available to my book, they have a different way of looking at my gearing. So, to satisfy the market I need capital to bring my gearing down. That would help me reduce cost of fund too.

Omkar Hendre: Because the question arises is that, at such a lower valuation, you will be diluting much of the equity because the market capitalization has already fallen drastically.

Neeraj Vyas: Yes, we will have to take a call on that. Whatever rates today are there, based on that if we go to the market, there would be a dilution. But we have made a calculation on that, and we are okay with it, because improving rating is of prime importance. And with the rating and all that, your cost of fund goes down. So, we have done that calculation and we are okay with that to raise the capital.

Omkar Hendre: Okay. Just one final thing is that, you talked about the business plan for upcoming financial year, the current financial year. So can you just tell that again? I just missed that, in terms of ROE and AUM growth.

Neeraj Vyas: AUM growth will remain same because we are trying to do business of INR 13,000 crores, but simultaneously as I mentioned that we also have the differential in rate of interest, so there is a runoff which is happening in the market, some of the players are very, very aggressive on that, they are trying to take over the accounts, because these accounts are having a vintage of two to three years, track record is available in the market so people are trying to take over. But we are looking at a business of INR 13,000 crores in retail. But going by the trend, it's very easy for us I think to book this business. But as of today, the plan which is approved by the Board is INR 13,000 crores for retail business, which we are going to achieve.

As far as corporate thing is concerned, we have already taken a call, we will not do any corporate financing. Last year we did not do anything, going forward also we will not do it. Whatever disbursement you are seeing in the balance sheet is basically our commitments given to the sanctions we accorded before 31st March 2019. These are commitments to the builder and those who are on track in terms of their commitment, in terms of timelines, in terms of milestones set forth while sanctioning the loan, we are still disbursing to them. So, this is the plan for the financial year 2021. Retail disbursement, we are expecting that we will be disbursing something around INR 13,000 crores. Return on assets, we are expecting to be in the range of 140 to 160 basis points. And this is in line with what we showed in Q1 as well.

Omkar Hendre: Got it. So, basically what you mean is that there would be almost all the sanction and disbursals would go to the retail side?

Neeraj Vyas: Yes, correct. And we are aiming that retail should go beyond 85%. Even the incremental disbursement we are trying that we achieve a ratio of 75:25 in retail only, housing loan and non-housing loan as we call it.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, is there any difference between moratorium numbers between under construction projects and completed projects?

Neeraj Vyas: No, there is no difference.

Pankaj Agarwal: Okay. And any difference between the ticket sizes?

Neeraj Vyas: Corporate, as I said, everybody has taken, almost everyone, around 85% people have taken the moratorium.

Pankaj Agarwal: Okay. Any difference between LAP moratorium and individual home loan moratorium?

Neeraj Vyas: No, it is almost at the same ratio as the other loan book.

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

Pratik: Sir, I just want to understand a bit on the collection numbers a bit more. So, you said your collection you do collect around INR 6,000 crores on a quarterly basis on approximate basis, and around 40% is under moratorium. So, your connection could have been closed for around INR 3,800 crores. And what you said is that you collected around INR 500 crores average on a monthly basis as opposed to INR 1,500 crores. And just adding the corporate book to that, it would be slightly higher. So, I am not able to completely reconcile how the collection efficiency percentage is being computed here. So, if you could just help us with the numbers it would be helpful.

Neeraj Vyas: Yes. I think I mentioned about the collection efficiency and average collection. But let me tell you, in the month of June itself we got roughly around INR 700 crores additional EMI paid by the customer, which I was mentioning even last time also that some of the customers who are salaried class, particularly from the government and public sector undertaking and good private sector undertaking, the discretionary spending was not there. So, they were left with surplus fund. So almost around INR 700 crores during June we got extra from such kind of customers. That is not included in the amount that I mentioned to you.

Pratik: This is over and above the INR 1,500 crores?

Neeraj Vyas: Yes, that is over and above that.

Pratik: Okay. And my second question is on OPEX. I looked at OPEX numbers, the other overheads have dropped drastically from around INR 94 crores to around INR 27 crores. So, I want to understand what will be a sustainable number for the year in the next nine months? Also on the employee cost bit, employee cost had dropped to around INR 35 crores in the last quarter and again back up to INR 61 crores, there is a bit of volatility in this number. So, just tell what is your sustainable OPEX over the next three quarters?

Neeraj Vyas: Okay. I will request our CFO, Kapish to respond to this, OPEX and employee cost.

Kapish Jain: I think what you should look into is the overall OPEX that we are talking about. Our overall OPEX to ATA that we have given is around 0.50% and the endeavor is to see how we can bring it down and keep it around these levels. And the outlook that we have given as well is our endeavors to bring the OPEX down by around 5% to 10%. So that's the kind of number that you should track rather than looking in to quarter-on-quarter detailing of these numbers between employee costs and others.

Pratik: So, you are saying, on overall yearly basis the OPEX could be down by around 10% over FY '20?

Neeraj Vyas: Yes, that's the kind of endeavor and target that we are carrying, 5% to 10%.

Pratik: Okay. And just lastly on the margins, I mean, what I understand is incrementally you will be lending more towards the retail and yields in the retail segment could be slightly lower than the generating of corporate. So, is there a possibility that the margins could see a bit of pressure because of higher retail disbursements?

Kapish Jain: No, we have done the calculation, and as I mentioned that we are expecting ROA of around 140 to 160 basis points. And return on equity is in a double-digit. So, I think we have done the calculation on that, because the major benefit when we are going into retail is credit cost is not coming as high as it used to be in corporate loans.

Kapish Jain: But then the benefit that you get on retail is, you will be able to have a higher churn because the risk rates are lower.

Neeraj Vyas: These are all capitalized assets, so at 35% to 50% capital, I can churn my capital better to book the assets.

Moderator: Thank you. The next question is from the line of Sarthar Shah, who is an individual investor. Please go ahead.

Sarthak Shah: Sir, I just wanted to get a flavor from you in the matter of the new CEO search. I know it might be a little confidential, but if you can just give us some background about it.

Neeraj Vyas: The NRC is looking into it, they are interacting with the prospective candidates. A final call will be taken by them shortly, and thereafter we will inform all the concerned. So, right now it is a work in process, but we will complete it very fast. Let me tell you this much.

Sarthak Shah: Okay. By when can we expect?

Neeraj Vyas: I can't give any timeline to it, but the NRC is actively engaged and is expected to take decision shortly.

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

Nidhesh Jain: Sir, is there a plan B if PNB is not able to subscribe to our rights issue, then how will we address this leverage and the capital raise issue?

Kapish Jain: So, like what you would have seen, we have been very disciplined around this. Our capital adequacy was 13.98% as of March of 2019 and our gearing was around 9.6%. From there we have taken the journey and we have brought it to around 8.2% now, and the capital adequacy is 18%. Somebody you heard in the call itself mentioning that it seems that we don't need capital anymore. So that's precisely the point, that's a plan B in the sense that operating without getting impacted with the capital piece, our endeavor has been to make the book lighter and use our capital more judiciously by working towards more lower risk weighted assets. So that's the plan and that's precisely what you have seen quarter-on-quarter, not just an aberration in one quarter, but every single quarter you have seen the journey of lower gearing and improving capital adequacy. And that's how we're going to see how we progress.

Nidhesh Jain: And what level of your AUM you will be fine with the non-retail book? Is their entry cap that you want to have on the non-retail book?

Neeraj Vyas: You are talking of the corporate book?

Nidhesh Jain: Yes, on corporate book the percentage of AUM.

Neeraj Vyas: Yes, we are trying to reduce the corporate book, as I mentioned, 85% we will have retail book, so obviously the corporate book would be less than 15%.

Nidhesh Jain: After that you will then start disbursing the corporate loans?

Neeraj Vyas: No, corporate we have not taken a call. It is no as of today, last financial year we did not do it, this financial year also we will not do it. Going forward, when the results are available for FY 2021, after that the Board will take a call on that. But as of today, no to corporate book.

Moderator: Thank you. The next question is from the line of Rohit Harlalka from Bharti AXA Life Insurance. Please go ahead

Rohit Harlalka: Sir, would you be able to help me with your repayment obligations over the next two or three quarters? So basically, on your borrowings which are the bonds, term loans and fixed deposits.

Kapish Jain: To answer this question, Rohit, I would like to answer it in a manner that we are working towards keeping a liquidity which should be in the range of around 60 to 90 days of my liability commitments, without considering any moratorium being available to us from any of our lenders, and we do our business which is in line to what we are planning and striving to do. So, with that, we would be working with this discipline that we will keep our liquidity intact for around 60 to 90 days, taking care also that we don't have a huge liquidity, which is a negative carry. The way we measure it is that what is my pipeline on my borrowing in addition to what I already have in my book? And that's something which is looking better to what it was maybe in around March quarter. Because post the results, like what MD mentioned, the traction with banks, having them also released their results and with more limits opening up, we see that traction building up where we believe we are building a reasonably good pipeline. And that's where our comfort draws in.

Neeraj Vyas: But let me clarify that whatever liquidity we mentioned that we have roughly three months' liquidity available, does not take into account any prospective limit which is not in place. It is clearly the cash available with me and the sanctioned and utilized limits.

Rohit Harlalka: Okay, that's great. So even if I want to arrive at an estimate, can I take your liability numbers from your ALM part and adjust for operating expenses to get to your repayment obligations?

Kapish Jain: That's precisely the number you should look into, because those are scheduled liabilities as per my contractual commitments.

Rohit Harlalka: Okay. That would also include operating expenses, if I am correct, right?

Kapish Jain: No, they are balance sheet to balance sheet, my asset to my liability.

Rohit Harlalka: Okay, that's great. So most of my questions have been answered, so just another question on your corporate book. So, let's suppose after this special moratorium is lifted, let's say, a quarter down the line, how much of your corporate book be under principal moratorium? Would you be able to give an estimate of that?

Neeraj Vyas: Yes. As I mentioned, about 58% under construction book is under moratorium. I mentioned it to you, we had given in the month of March, it was 60%. As of today, it would be around 58%. And I mentioned that more than 85% of this book is zero DPD.

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

Subramanian Iyer: Just had a question. The capital ratios and the gearing numbers that have been given, they have been given on the basis of IGAAP numbers. How much of a difference does it make if seen in terms of IndAS?

Kapish Jain: Today the regulator has prescribed us to work on our capital adequacy basis IGAAP, and therefore, we have worked on our capital adequacy basis IGAAP. It wouldn't be proper for us to do any kind of market statement on how would this number look like basis IndAS. Unless this is more firmly worked out in discussion with our auditors and in discussion with our Board.

Subramanian Iyer: Okay. Would the primary difference come from the provisioning that you are carrying? I mean, under IndAS and under IGAAP?

Kapish Jain: So, let's not do any estimation there, because that's not just one differential which is there, there are differentials on fair value which comes in on the asset size as well. So some give a positive impact, some give a negative impact. And therefore, it would be difficult to say that one would give a higher benefit than the other. We would need to work that out. And once the regulations allows, and will ask us to make it on those lines, we are going to build it up, take it to our Board and then come back to the market on what it would look like.

Subramanian Iyer: Got it. And just a follow-up question on collections, because I am actually not still clear on that. So, the retail collections in the month of June were about INR 500 crores, right? So, what was the actual receivable during the month? I am just trying to put it in context of the 29% moratorium.

Neeraj Vyas: You are talking about the collection amount of INR 500 crores which is based on 97% collection efficiency. So, 3% was not collected, for which the bill would be generated next month, whatever overdues are there the billing is done next month. So, if you take 97% in June 3% was not collected.

Subramanian Iyer: Got it. But I mean, just simplistically assuming that say INR 500 crores broadly say corresponded to about 77% of your retail book in value terms. I mean, would it be right to say that the actually amount due on the overall retail book would be, so this INR 500 crores corresponded to the INR 700 crores? So, would the overall repayment due on retail would be somewhere around INR 700 crores?

Neeraj Vyas: It is difficult to work out because these are all EMIs, a major portion goes towards interest in the initial period of these alone. And later on, as the vintage goes down, the interest comes down and the principal goes up. So, I think if you apply with a calculator and all that, it will be difficult to work out on that.

Kapish Jain: And this INR 500 crores in retail is only the scheduled payment which is billed to the customer. In addition to that there are pre payments, part payments and balance transfers which also are incremental funds that do come in from the customers from time to time.

Neeraj Vyas: This I mentioned, around INR 700 crores we got extra in the month of June.

Moderator: Thank you. The next question is from Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Sir, So one question regarding the clarity on the corporate moratorium. Just wanted to confirm the number, 85% you said they have opted for moratorium II in the corporate side?

Neeraj Vyas: Both moratorium I and moratorium II, who so ever has taken moratorium I has taken moratorium II as well.

Anuj Singla: Okay. Understood. The second question is with regards to the FY '21 plan, where we are targeting 140 to 160 basis points of ROA. Have we built in some kind of recoveries from the accounts which we are planning to resolve over the next couple of months? So, is there some amount of recovery amount also built in in those numbers?

Neeraj Vyas: Definitely, recovery has been built into that. All kind of scenarios have been considered while making the business plan, this would mean that the recovery that we are going to anticipate based on the current situation, and what is the going forward requirement to other issues, if you have some retail book where my NPAs are 1%, one point something percent, so all those factors have been taken into account.

Anuj Singla: Sir, would you be able to share out of the major accounts which you have highlighted in the presentation as well, including radius and the other accounts, how much of that has been built in this number? If you can give some color on that, maybe not absolute numbers, but some color, maybe three out of those five accounts or any color on that will be helpful.

Neeraj Vyas: I think at this time it is difficult to share, because we are discussing with the promoter and the prospective buyer. So, I don't think at this stage it's okay for me to disclose this information or disclose this information. As I told you about the IREO of whatever has happened, I told you. Till it happens, I think it is difficult to discuss.

Moderator: Thank you. The next question is from the line of Nishant Rungta from Premji Invest. Please go ahead.

Nishant Rungta: Sorry to persist on the ALM question again. I had a question on the ALM table drawn on one of the slides in the presentation, if you can clarify the maturity for assets is behavioral or contractual in nature that the numbers disclosed here? And do they factor in the assets under moratorium at this juncture while drawing these numbers?

Kapish Jain: So, the ALM of course is behavioral, the ALM is always drawn basis the behavioral experience on our asset book. And based on those lines they are drawn. The moratorium is only for a very minimal period, since we are already in the month of June, it is there for the next two months. So, the impact of factoring moratorium, impact of not factoring moratorium will be very minimal. It is drawn basis our experience over the immediately prior period of last few years, and then populated on a behavioral basis. And on that basis, we have been drawing the ALM every time. And the ALM does definitely factor in the experience of our collections from the recent past across asset class.

Nishant Rungta: Understood. And just to follow-up on that, does this also factor in the INR 7,000 crores of cash liquidity that you have on books while providing the positive or the negative mismatches?

Kapish Jain: Yes. So let me give you some more understanding. This ALM is on principal to principal, so all that I have on my asset side and on my liability side has been populated. So, the cash that I had of INR 7,000 crores has been populated on the asset side. And since its principal to principal, it doesn't incorporate the INR 2,300 crores of annual net interest income that I mobilized for the business. So that's additional cushion that is there on this ALM, which more than adequately covers even the 12 months gap that you see a INR 1,469 crores.

Moderator: Thank you. The next question is from the line of Jigar Mistri from Buoyant. Please go ahead.

Jigar Mistri: Thank you. Just one question from me. When you report the collection efficiency, in the numerator, is it the total amount of EMI received for retail? So, let's say, if the actual collection is INR 500 crores, you have received an incremental INR 600 crores, so, you do 500 plus 600 divided by the demand rate, or is it just the 500 divided by the demand raised?

Neeraj Vyas: That is not included. Collection efficiency is on billing made, anything paid beyond that, is not included.

Jigar Mistry: Correct. Even in the numerator?

Neeraj Vyas: Yes. If it's not billed, it's not included. So, anything beyond that is not included in collection efficiency. We include only overdues, if not paid earlier month is included in the billing this month. And against that we map the collection efficiency. Anything which is a prepayment or an additional EMI paid over and above the billing is not included.

Jigar Mistry: The confusion is, because let's say if you say INR 1,500 crores is the regular like an ongoing receivable that we get, and if 30% book is in moratorium, then we should ideally be looking to collect something like INR 1,000 crores. We have collected INR 500 crores; how does that make it a 97% collection?

Neeraj Vyas: Okay. See, INR 1,500 crores would include even the part payment, runoffs as well. It is not that INR 1,500 is total amount of the billing that I am doing, you have to take into account that INR 1,500 includes the runoff as well.

Kapish Jain: Just to add, and sorry for this confusion, just to add. What MD is articulating is, collection efficiencies is a measure of numerator denominator for all that I am scheduled to collect, including my overdue which is scheduled. In addition to this number, whatever I collect which comes to us as a balance transfer or a prepayment is what is the incremental amount which we mentioned, which adds up to around INR 1,500 crores.

Moderator: Thank you. The next question is from the line of Jigar from Financial Research. Please go ahead

Jigar: Sir, I just want to know what is the amount we plan to raise in terms of capital? Do you have any figure in mind?

Neeraj Vyas: We have approval to raise, it was INR 2,000 crores earlier, subsequently we went to the board, so we are trying to raise same amount, plus/minus INR 100 crores, INR 200 crores So, anything between INR 1,500 crores to INR 1,700 crores.

Jigar: And this would be entirely by PNB, I mean, to be put in?

Neeraj Vyas: No, if we go for the rights issue, it depends who are subscribing to it, who are the equity shareholders. As I mentioned, the major stakeholders are willing for it, but a call has to be taken by PNB, that depends on the decision of the PNB. So, if it is rights issue, proportion will come from the equity holders; if it is any other combination PNB will take the decision, depending on that we will mobilize it.

Jigar: So, how soon do you expect to go ahead? I mean, very soon to finalize this?

Neeraj Vyas: Yes, it is expected, as I mentioned that the PNB is expected to meet in the month of July or maybe in the month of August, early August. Let's wait for their board meeting. Because ultimately, as I mentioned, PNB is a listed company and they need approval from RBI and Government of India both. So, it will depend on the decision of PNB, and thereafter we will inform the market accordingly.

Jigar: Most likely it will be a rights issue, is it?

Neeraj Vyas: That appears to be an option available which is most suitable. But as I mentioned, all the three options are open to us, but depends on the call taken by PNB.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Sir, my question is that, what is your approved borrowing limit from PNB, your parent?

Neeraj Vyas: Approved borrowing limit with PNB is not fixed, because they have the exposure norms.

Abhishek Murarka: So, you would have already taken some borrowings limit?

Neeraj Vyas: They will have exposure norms on them. No such kind of limit is there with us. Ultimately it is the lender who will decide how much to lend to whom.

Abhishek Murarka: Yes, sure. So, you might have some facility, or some approve limit which you may not have utilized fully, that is what I was asking about.

Kapish Jain: So, we have a blend of multiple borrowings from them, we have external commercial borrowing, we have OD lines, we have term loans. And these are replenished from time to time. And depending on my own balance sheet, my own requirement which comes in which is submitted to them, they do the credit analysis, on an absolutely arms-length basis, just like they do for any other lender and then derive what kind of credit they can give it to us.

Neeraj Vyas: It is absolutely on arms-length basis, it's not that because they are the promoter in the company they will give whatever I demand, it depends.

Abhishek Murarka: And sir, in the previous question on ALM, your cash is in which bucket? In the greater than five-year bucket or which bucket does it feature in?

Neeraj Vyas: My cash would be majorly within three months.

Abhishek Murarka: Okay. And finally, what is the yield on a blended basis on your retail portfolio and your non-retail portfolio?

Kapish Jain: So on the retail portfolio, on the home loan side it was 9.52%, it was 10.6% for the LAP portfolio. And on the corporate side, it's around 12.5% to 13%.

Moderator: Thank you very much. We will take that as the last question. I would now like to turn 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. Thank you.

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