Ghar Ki Baat

15th November, 2018

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

Scrip Code: 540173

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

Symbol: PNBHOUSING

Dear Sirs,

**Sub: Earnings Call Transcript**

Please find attached herewith the transcript for Q2 and H1 FY 2018-19 Earnings Call held on 5th November, 2018. A copy of the same is also available on the website of the Company i.e. https://www.pnbhousing.com/investor-relations/financials/

This is for your information and records.

Thanking You.

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

Encl: a/a

“PNB Housing Finance Limited Q2 & H1 FY18-19 Earnings Conference Call”

**November 05, 2018**

**Participants from PNB Housing Finance:**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the PNB Housing Finance Limited Q2 & H1 FY18-19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Deepika Gupta Padhi. Thank you and over to you, ma'am.

**Deepika Gupta Padhi**: Good evening and welcome everyone. We are here to discuss PNB Housing Finance H1 Financial Year '18-19 Results adopted as per Indian Accounting Standards.

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

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

Please note this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve risks and uncertainties that may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligations to publicly revise any forward-looking statements to reflect future events or circumstances. A detail disclaimer is on Slide #2 of the 'investor presentation' uploaded 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 you all to our Q2 & H1 financial year '18-19 earnings call. Before I get down to business wish your family and you a very Happy and Prosperous Diwali. During this call, along with our operational and financial performance we will also discuss the current market situation and shall attempt to address the queries raised around the same.

Talking about the current environment the month of September 2018 witnessed a high level of volatility and liquidity concern in the debt capital market more particularly around short-term instruments. In this regard we would like to recall our Financial Year 18 Earnings Call which we held on May 3,2018, wherein we mentioned about the liquidity issues in the short-term and hence the prudent need for excess liquidity on our balance sheet. Further during our Q1 FY18-19 Earnings call on 9th of August, 2018 we again talked about the headwinds and liquidity challenges in the economy and hence maintained surplus liquidity on our book.

This proactive approach of maintaining excess liquidity enable the Company to continue its business as usual. Moreover, in the entire month of September 2018 we did not raise any funds from the wholesale debt market and were comfortably placed with respect to liquidity. Post September we have raised INR 6,000 crores through commercial paper and 200 million USD through ECB. This is not withstanding effect that since March 2018 we improved our ALM and curtailed our dependency on short-term paper from 17.5% to current level of 11.7%. We strongly believe that events like these separates the men from the boys and institutions following fundamental principles of doing business should get accepted and rewarded by the market. We are extremely thankful to investors who have guided us well and kept their faith and confidence in PNB Housing at all time.

In order to overcome liquidity challenges, the regulators – the National Housing Bank came up with positive steps like expanded refinance limit to the housing finance sector along with RBI which came up with multiple initiatives including series of open market operations (OMO). We have also strengthened our deposits franchisee and have seen strong retail confidence with 3,500 deposit application in May of 2018 moving to more than 7000 deposit application in September of 2018. We have also enabled self-service online deposit for ease, speed, convenience of our customers. We believe this should be a good engine to mobilize dependable and sticky public deposits. As there are questions in the market on developer funding, I would like to give some color on our wholesale book:

As on September 30, 2018 our wholesale book is 21% of our Asset under Management (AUM) with construction finance at 12%, lease rental discounting at 4% and corporate term loan at 5% of the AUM. In wholesale we have stringent norms for customer and collateral underwriting. There is a dedicated team for the business line with clear segregation of duties and specialization across acquisition, technical, legal, credit and operations. Along with the developers' credentials financial standing and previous track record we also do an in depth study of the micro market, target segment, developer rating, developer own equity in the project, approval status, stage of construction, sales and collection velocity, etc. before sanctioning any facility. We do continuous monitoring of the project funded post-loan disbursement that helps in early warning signals and hence enable us to take timely corrective measures.

We have relationships with 173 real estate developers across various market. Our largest share of the portfolio comes from West contributing 43% followed by North at 29% and South at 28%. In terms of cities, 83% of our book is in Tier-1 cities. Under our construction finance portfolio developers own contribution is approximately 20% in over

85 projects. The rigor followed in a wholesale book can be envisaged from that fact that we have no corporate exposure today or in the past to developers like Jaypee, Amrapali, Parsvnath, SRS, Era, Earth, etc. We have no corporate exposure to Unitech or any of its office group companies either. I would also like to mention that we have no direct or indirect exposure to IL&FS.

Last month there were a number of questions on Supertech Developer. I would like to take some time and talk about our exposure to Supertech:

We have a total exposure of INR 280 crores bifurcated in two loan. One is now a completed project and the other is under construction in Gurgaon. The project that we funded is spread across 27.5 acres of land parcels offering 2 and 3 BHK apartments and has been developed into phases. It is a must affordable project with average ticket size of INR 80 lakh per unit. The security coverage is more than 1.5x and there is additional cash receivable coverage of more than 1.5x. The project like all our other account is backed by escrow mechanism and is not an NPA in our book.

Let me now talk about the financial numbers for the quarter ended 30th September, 2018 and half year of financial year '18-19:

The figures are on a consolidated basis and are compared with the same quarter during the previous financial year. During the quarter the Company registered a healthy double-digit growth over Q2 of financial year 17-18. The net increase income was up by 25% at INR 463 crores and profit after tax was up by 33% at INR 253 crores. The spread on loan of Q2 of financial year '18-19 is 222 basis points and the net interest margin is 272 basis point. The Company also registered a healthy double-digit growth in H1 of financial year '18-19. The net interest income is up by 27% at INR 896 crores and the profit after tax is up by 41% at INR 509 crores. The spread on loan for H1 of financial year '18-19 is 215 basis point and the net interest margin is 274 basis point. The gross margin net of acquisition cost for H1 of '18-19 stood at 319 basis point against 340 basis point in H1 of financial year 17-18. The OPEX to average total assets for the half year is at 68 basis point compared to 57 basis point in H1 of 17-18. This includes the impact of IndAS on ESOP which has costed us 5 basis point under IndAS. Further with ongoing branch network expansion the cost undertaken includes growth expenditure. If you only consider business as usual (BAU) the OPEX along with the ESOP cost then the OPEX-to-ATA comes down to 61 basis point.

The return on asset for H1 of '18-19 is 1.47% compared to 1.52% in H1 of 17-18 on average gearing of almost 9 times against 6.57 times during H1 of 17-18 resulting in an expansion of return on equity to 15.45% for H1 financial year '18-19 vis-à-vis 12.31% for H1 of financial year 17-18. The closing net worth as per IndAS as on September 30th, 2018 is 6,920 crores.

Now let me talk about the business performance. During the first half we registered 14% increase in loan file logins compared to the corresponding period of the previous financial year. The disbursements registered a growth of 20% YoY at INR 18,172 crores vis-à-vis INR 15,179 crores during H1 of 17-18. The asset under management registered a growth of 43% at INR 73,482 crores as on September 30$^{th}$, 2018. Geographically, West is our largest market with 38% followed by North at 32% and South at 30% of asset under management.

We have limited presence in East with three branches two in Kolkata and one in Bhubaneswar which forms a part of the North zone. The Company during H1 of '18-19 securitized our loan portfolio of INR 3000 crores through direct assignment route. The total outstanding loans assigned amounts to INR 6,690 crores as on September 30$^{th}$, 2018. Net of this assigned amount the loan assets are INR 66,792 crores as on September 30$^{th}$, 2018 representing a healthy growth of 37% year-on-year. Deposits grew to INR 12,394 crores registering a growth of 20%.

Housing loans constitute 70% of asset under management and non-housing loan constitute balance 30% and is lined with the business mix maintained in the previous several years. In the housing loan segment, individual housing loan constitute 58% and constitution finance constitute 12% of the asset under management.

In the non-housing segment LAP i.e. loan against property constitute 16% of the asset under management, lease rental discounting, non-residential premises loan and corporate term loan constitute the remaining portfolio. As part of our geographical expansion plan, 12 branches were made operational during the first half of the year totaling to 96 branches with presence in 57 unique cities. The Company also services its customer through 29 outreach locations. The Company has 22 underwriting hubs as on September 30, 2018 catering to the branches and the outreach centers. During H1 of '18-19 out of the total individual housing loans disbursed around 22% by value was in less than INR 25 lakh category which can be termed as affordable housing. With increase in our branch network in Tier-2 and Tier-3 cities we look forward to increasing the contribution of the affordable segment in our individual housing loan portfolio. Part of the portfolio also qualifies as priority sector lending popularly known as PSL which can be then sold out to banks at fairly attractive price post they attained minimum seasoning requirement of 12 month.

Pre-empting rising interest rate scenario to maintain a profitable growth the Company upward revise its lending rate by 25 basis points in April of 2018 across the entire floating rate loan portfolio. Another 15-basis point from July 1 of 2018 on the new loans and another 20 basis point across floating rate portfolio in October of 2018. Some impact of the increase in visible in our yields and some is expected in the coming quarters. We have multiple reference rates that gives us flexibility on revising the lending rate product wise and customer segment wise. This also represents our technological advancement in the field which are so very well levered today. On business growth with increase in lending rates historically the mortgage sector growth has witnessed limited interest rate sensitivity. You may refer to slide#8 in our investor pack on this.

During the period, the country witnessed one of the worst natural calamities in Kerala. As a prudent measure we issued a policy circular for the state of Kerala to provide easy funding for renovation, home extension, home improvement and construction loan. This is done as a special gesture for customers who got adversely impacted by the flood in the state. However, there has been no reported loss or damage to the collateral in any of our funded dwelling units. Gross NPA as a percentage of the loan book stands at 0.45% as on September 30th, 2018 compared to 0.34% as on 30th September 2017. The gross NPA on AUM levels further dropped to 0.42% as on 30th September, 2018. In our wholesale book we have nil NPA which is due to stringent norms for customer selection, credit underwriting and project monitoring mechanism.

On our resource profile 33% is contributed by non-convertible debentures, 18% by deposits, 12% by commercial paper, 20% by banks, 5% refinance from the national housing bank and 10% direct assignment and remaining through ECB.

The capital risk adequacy ratio as on 30th September, 2018 stood at 14.85% of which Tier-I capital is at 11.38% and Tier-II capital is 3.47% representing a very healthy headroom for Tier-II to be added if the need arises. This is as per IGAAP and does not consider the impact arising out of IndAS otherwise this would have been far healthier.

In line with our philosophy to enable the marginalize community in becoming capable and self-reliant, we work in the area of skill enhancement, training, day care center, education and healthcare under our corporate social responsibility program known as 'Saksham'.

As we complete two years post the IPO in the Indian stock market, we have witnessed many economic events like the demonetization followed by falling interest rate scenario, GST, liquidity crunch, etc. However, all these events have made our belief stronger on the business fundamental and the customer segment that we are focused on. We look forward to continue with the same customer segment in business mix as we move ahead. I would like to thank everyone who have kept their trust and faith in us.

With this, we would now open the floor for questions and answer.

**Moderator**: The first question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

**Piran Engineer**: Sir, firstly a technical question if a builder is dragged to NCLT is the SPV still valid or all vendors pari passu?

**Sanjaya Gupta**: In most of the cases we are the sole lenders. We have only three accounts across the country where we have pari passu or a consortium.

**Piran Engineer**: But you will be a sole lender to the SPV right?

**Sanjaya Gupta**: Yes.

**Piran Engineer**: But if the parent is dragged into NCLT just as far as the legality goes do you all also get dragged and are you all like kind of pari passu and lenders to other SPVs?

**Sanjaya Gupta**: I don't think so and we have a very strong internal legal department which takes care and let me assure you till now that has not happened. One is that none of our customer have been dragged into and that reflect our selection criteria, but I do not think because our mortgage is primary mortgage.

**Piran Engineer**: I just missed your ESOP number did you give here an INR number of that?

**Sanjaya Gupta**: If you will look at the OPEX the only operating cost which has gone little wacky is the HR cost. There are three components which are added to it. One is that now we have a 100% owned-subsidiary on which our DSTs or the ROs as we call them internally, they are boarded. So, their fixed cost cannot be amortized so that is adding about INR 18-19 crores. The second one is that our HR year is not the financial year. It is the second quarter that sees all the promotions, increments, bonus payouts. The third one is the ESOP cost. So, between the three of them and if you were just to take that we are a growing Company, we are employer of choice, we are creating employment. So, from the last year from INR 60 crores if you take a upside of about 40%, so which will give somewhere around INR 85 crores and these other three element which are new elements and that is why our COA has dramatically come down here on. So, about INR 19 crores is the fixed salary cost of the DST, about INR 9 crores is the additional ESOP cost and on increments and bonuses is around INR 8 crores and that is how the gap which is becoming very enlarged does get exempt.

**Piran Engineer**: And just one more question on Slide #15 where you all have given that business inflow number. Each quarter it is INR 5,500 crores while our quarterly run rate generally is around 3,500 to 4,000 crores, so is this number that you all have given a contractual number or an estimated number?

**Sanjaya Gupta**: These are business inflows based on behavioral run rate including interest income and fees.

**Piran Engineer**: Why is it higher than the regular run rate then?

**Sanjaya Gupta**: Between the two quarter one and two disbursement was around INR 9,000 crores, we have shown as about INR 10,000 crores disbursement in Q3 and Q4 because this is also the season of mortgages, there is a seasonality in this business. After all tomorrow is Choti Diwali and day after is Diwali and at this time people buy home. So, we are one category of mass lending institution which believes in business as usual. We expect that the business should do well and that is why in our cash flow we have taken this sort of robust number.

**Piran Engineer**: And if we do not take any more interest rate hikes what spread would we make in FY20?

**Sanjaya Gupta**: As I said this Company is highly technology levered. So, because of this micro economic aberrations a new series of reference rates have started from 1st of July. So, our old portfolio is now insulated and I cannot give these number. It is giving us very healthy spread. The new book we assume by December will start giving us targeted spread of 205-215 bps and if the rates of interest remains constant for the given sort of period then I think entire financial year '18-19 we should manage as per our guidance anywhere between 205 to 215 bps.

**Piran Engineer**: And just lastly the RBI on Friday gave that new announcement on partial credit enhancement and there is a little bit of confusion in the language so is it applicable to all HFCs.

**Sanjaya Gupta**: Let me tell you I am the guy who was also instrumental in bringing the credit enhancement in this country through Basel-II. So, these types of interventions are always I would say they may make an impact for companies which are rated A and below. For companies which are rated AAA like us the NPAs are coincidental and are the industry best they do not add value.

**Piran Engineer**: I am sure that you would not need that but just technically is it for all HFC or only non-depositing taking HFCs?

**Sanjaya Gupta**: It is for the entire sector I think so.

**Piran Engineer**: Because for NBFCs, it is only for non-deposit taking that is why there was a bit of confusion in the language?

**Sanjaya Gupta**: It really does not interest us because of our stature, positioning, robustness of portfolio, rating and liquidity today and it would be I would say misgiving if people saying only ECB is now the flavor of the day. Well, there is domestic market, our CPs are getting rolled over in a predictable manner. Yes, there are lot of question bigger in operations as the size increase manifolds, but having said so it is not a desperate situation at all.

**Moderator**: The next question is from the line of Ayushi Mohata from CD Equisearch. Please go ahead.

**Ayushi Mohata**: Sir how would you explain mismatch between 37% growth in interest income and 47% growth in interest expense in H1?

**Sanjaya Gupta**: Let me be candid one is if you observe our numbers carefully our spreads are healthier but our NIMs got compressed as there are two reasons for that. One is an interest income is led of interest cost. So, the thing is short passage of time because of our robust growth and a meaningful growth the Company got levered about 2.5x more than September of 17 so that is one reason. The second reason is we have been harping right from November of 17 that liquidity is becoming an issue. So, we were carrying excess cash and obviously cash in bank or mutual funds never gives us the return which a loan asset gives. Hence it got compressed and therefore our NII is lesser than the average asset growth plus let us be standard that there is always a lag effect when we revise and upward revise our reference rate. As I have been saying there are two elements in pricing of floating or IHL product. One is the reset frequency and one is the reset date and 70% of our portfolio is floating rate. So, there is always a lag effect. And in a growing organization your incremental borrowing for your incremental business plus your redemption i.e. about 30% of your total borrowings is in a period of a year. Hence, the new borrowings are coming at a new cost whereas the old portfolio takes some time to get the impact of the revision of the reference rates.

**Ayushi Mohata:** Sir, in light of recent liquidity stress, so have you considered any change in your loan book portfolio, any change in the composition going ahead?

**Sanjaya Gupta:** So, one thing is, we are one of the few fortunate people because we could about a year back forecast that we are heading towards this sort of situation because the velocity of new credits were far slower than the velocity of the loan portfolios. And hence, we carried access liquidity and when this entire market was in a volatile situation in the month of September which also got, unfortunately mucking because of the IL&FS battle we never borrowed a rupee, we were carrying liquidity with us. So, I don't think that is our situation plus at the end of quarter 3, whatever CPs have to be rolled over have been rolled over, so we are not having any sort of redemption pressures like I do not know where this growth would come that the other has huge redemption pressure between November and December, we do not have. We have already rolled over. We are very comfortable till 31st December, 2018 as of now.

**Ayushi Mohata:** Sir, overall, what is the weighted average cost of borrowing in H1?

**Sanjaya Gupta:** Well, H1 and this is apparently when the rates went up, our borrowing cost actually came down by 10 basis points and that was because the old borrowings that we had done and if you remember, if you have been regular on this call, in November of 2017 I borrowed 10,000 crores and people thought I have got crazy. And the benefit of that is now getting reaped. So, on one side, I mean the portfolio, the loan book takes a certain time for the yield curve to move up. But the borrowing that we have done historically is having an impact of the entire one year and now it is visible. So, as we have reported, our borrowing cost is at about 7.8% for H1 of this year.

**Ayushi Mohata:** And sir, last year it was in the same period?

**Sanjaya Gupta:** About 7.91%.

**Ayushi Mohata:** What is the nature of this income on assigned loans, which you have recognized in Q2?

**Sanjaya Gupta:** These are loans which we have sold on direct assignment and assignment income has to be added to interest income. If you shave off the net assignment income from a gross interest income, you shave it off by about 9 bps.

**Ayushi Mohata:** This is the loan which you sold on direct assignment, right?

**Sanjaya Gupta:** Yes, we only sell direct assignments because we do not want to have credit risk on our book.

**Ayushi Mohata:** Okay. And sir, what is the recovery mechanism you have in place for NPAs in construction finance business?

**Sanjaya Gupta:** Well, luckily till date we have not had to do it. But just to comfort you, if you go through our deck which is already uploaded, we did have 2 accounts which were NPA in our wholesale book and we were able to cure and I will use the word cure, I do not manage anything and we got them out of our portfolio.

**Ayushi Mohata:** But sir, what I want to understand is like in construction finance, project gets slower and the construction stops mid-way, so how do you recover it if an account becomes an NPA?

**Sanjaya Gupta:** The project is with us, in these 2 cases, we sold the project when we were able to find buyers. See, SARFAESI is very good for retail and that is the tenacity of this team, we on our own do project management quarterly for all the projects which are funded by us and are under construction. So, what we do is we make sure that the utilization of funds is for the purpose meant for. The sales velocity is as per the projected sales velocity in our proposal at the time loan is sanctioned. And the escrow mechanism is 100% plus the collection efficiencies and we do a RAG analysis on all these projects and if we get a sort of an amber before it becomes red we start working with the developer as a partner and not as a lender to resolve the issues. Plus most of the loans have fire sale mechanism, which allows us to reduce the selling price and hence, the sales velocities always go up if you are doing that.

**Ayushi Mohata:** And sir, last question, sir, how much is your exposure to Supertech?

**Sanjaya Gupta:** Well the total exposure to Supertech is in 2 accounts and the combined exposure is about INR 280 crores and 1 is a completed project which was actually INR 50 crores, today the outstanding is about INR 25 crores, the remaining is about INR 230 crores which have also split into 2 facilities both for the same project in Sector 83 of Gurgaon. The construction stage as projected is 38%. The sales velocity is at 36%, which is also as per our proposed covenant and as I said it is not an NPA account. And mind you in this loan which is a larger loan for both the facilities we also have 3 months DSRA, which is Debt Servicing Reserve Account, which we have not used till date.

**Ayushi Mohata:** Sir, what kind of provision are you maintaining?

**Sanjaya Gupta:** Today, ECL provision is about 0.58%, and our provision coverage is of 177%. And in this provisioning, I mean wholesale we do not have an NPA but there are files that come in Stage-1 and Stage-2. About 60% of the total provisioning is for the wholesale book.

**Ayushi Mohata:** Sir, I was talking about the provision for Supertech.

**Sanjaya Gupta:** Well, Supertech, I mean per se, we would be having provision. The LGD which I can give you, as a percentage is at about 65%.

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

**Nidhesh Jain:** Sir, the first question is on disbursement growth, if we look for this quarter is a bit lower than what historical run rate has. So, is it cautious strategy that we have reduced our growth because of the liquidity scenario or the demand environment is slightly weak in this quarter?

**Sanjaya Gupta:** So, one is you have rightly observed the growth rates have slowed down but that is not the strategy of the Company. As I keep saying, we are hungry for sensible profitable business and the risk that we understand, we will buy and purchase. Now, what has happened that the primary market has actually slowed down and hence, this growth rate has come down and otherwise, there is no other reason, liquidity certainly not. So, as a Managing Director and Head of the Institution, I will never say do not do business but right price your risk, do business that you understand, do business that you can sustain yourself in both segment and product, and obviously the product mix has been our promise from last 7 years and we always say –+/- 2% on this large balance sheet, our product mix will remain constant. So, those are the philosophies which are driving it. We will not go behind business just for the sake for augmenting growth and sort of design a rainy day for ourselves in the future. We will never do that.

**Nidhesh Jain:** As I understand the mix of slow-down in the primary market plus our slightly higher pricing probably had led to the slow down.

**Sanjaya Gupta:** Yes, you very rightly said. So, this is a little bit of disadvantage of being a thought leader. So, we were the first one who revised the interest rates in a brand-new year right in April. We were the first one to revise our rates of interest in the second quarter in July. And then if you see in October, our revision in interest rate was only 15 bps in the retail segment and 50 bps in the wholesale and we were the lowest because we were better prepared for this eventuality. And our team today is far better trained to sell home loans lowest at 9.10% while the others are struggling to sort of I would say accept that fact of life. So, that is the price that we paid in quarter 2 when we were better prepared. We were more realistic to the situation which was emerging.

**Nidhesh Jain:** Sure. So, in light of this, will there be any change in our loan growth guidance and consequently when do you think capital is required?

**Sanjaya Gupta:** See, as I keep saying, we are very well capacitized to give a growth rate which is 1.5x to 1.75x of the industry growth rate because we are not working in a vacuum. We are working in an ecosystem where we are one of the mass lending institutions. So, we are not insulated from the sentiments of the market. The only thing is that we can probably forecast those sentiments far superior.

**Nidhesh Jain:** And when do you seek next equity capital raise and at what Tier-I?

**Sanjaya Gupta:** As my guidance goes and I have been saying this from the last, ever since, we went on our IPO road shows. We will start in October 2019 and finish it by March 2020, I still hold on to that.

**Nidhesh Jain:** Sure. And secondly, on the income on derecognized loans, so how one should look at it? One should look at the margins before that or margins after that because this is a sort of up fronting of the future income.

**Sanjaya Gupta:** After assigned income.

**Nidhesh Jain:** Because of that your margins will be volatile in which quarter you securitize or assigned.

**Sanjaya Gupta:** I did not think so. I mean, our portfolio today is seasoned, so there is no need to fear on that and let me tell you we are very well provided and if you see besides the ECL provisions we also carry a steady state macroeconomic aberration contingency reserve of INR 145 crores. So, I really do not think so.

**Nidhesh Jain:** And sir, if I look at the income that you have got on assignment INR 61 odd crores.

**Sanjaya Gupta:** Yes, it is in net number of 9 bps as I told you. So, from 222 bps, you shave off 9 bps, we are at a good 213 bps even in these situations.

**Nidhesh Jain:** But if I compare it with the loans that you have securitize in this quarter that will broadly be accounted out to be around 2%.

**Sanjaya Gupta:** So, you have to take the ENR of that and actually the securitization was planned for quarter three. But we fast forwarded because our faith in ourselves was only growing stronger and stronger. We said there might be a situation when there are too many sellers and we will not get a good price for it. So, we were one of the pioneers once again.

**Nidhesh Jain:** Okay. So, this 2% spread is reasonable?

**Sanjaya Gupta:** No, it will not be 2% spread. I mean if you were to talk about absolute spread to be very frank on home loans, it would be in the vicinity of about 50 bps - 60 bps, not more than that.

**Nidhesh Jain:** Okay. And lastly, on the OPEX to asset ratio, currently we are expecting decline in that number.

**Sanjaya Gupta:** So, if you take away that HR cost which has gone up, my CIR actually comes down below 20%, which will give a very healthy OPEX. Because of this IndAS thing and the worst thing in IndAS about ESOP and the non-amortization of salary to the salespeople is that even if the share has done yo-yo but my option premium does not get changed. It is not dynamic, it is on the date of grant. So, we will have to live with it. But do not mind it, it is a book entry, the money is not getting paid, it is getting transferred to NOF.

**Moderator:** Thank you. The next question is from the line of Sanjeev Mishra from AGIF. Please go ahead.

**Sanjeev Mishra:** Sir, with regards to asset liability maturity profile which is given on #18, there is a **mismatch** in the 1 month to 3 months; there the outflow is more

**Sanjaya Gupta:** Yes, so basically there are only INR 500 crores and if you were seeing us intently that is our deposit mobilization in itself. So, this is not a worrisome game at all. Do not worry about that. And as I said in the beginning, till 31st of December we have no pressure of redemption as all the CPs which were to be rolled over have already been rolled over.

**Sanjeev Mishra:** Sir, and is it the same thing for the 6 months to 12 months period wherein the outflows are more than the inflows?

**Sanjaya Gupta:** Yes, these are and as you would be seeing Sanjeev, now we are borrowing more and longer. Our CPs which were almost at 18% have come down to 12.5% just in a passage of 2 months - 3 months. So, we have that tenacity to shift gears in an ever-evolving market and in a volatile situation.

**Moderator:** Thank you. The next question is from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

**Ankit Agarwal:** Sir, a couple of things, I just wanted to get your sense on the disbursement growth again, so you did point out that you are looking at higher disbursement growth but could you give some color as to what sort of I mean how you are seeing it further.

**Sanjaya Gupta:** Please do not put words. I never said, I am looking for a higher disbursement. I said I am looking for a sensible business which is sustainable, profitable and the business that we know. If there are opportunities, we have enough competency on both, we have the right technology, the right people, the right product, the right pricing, the right liabilities to match that requirement.

**Ankit Agarwal:** So, sir, I mean going ahead, we obviously did 14% sort of disbursement growth this quarter, how do you see this going ahead, I mean considering the industry environment as of now?

**Sanjaya Gupta:** Well, I think, I am like a farmer, I always think of a better tomorrow. So, I think, things should stabilize and this year there will be last ended so starting from December I will say the gusto of growth will catch on and there will be enough liquidity. I have never bothered about the interest rate movement and that is the beauty of our presentation that we have put up today evening, if you go to slide number #08, and that is where we have shown how insensitive a generic product is to the movement of interest rates. I think, if liquidity is there then everybody will be out in the market as they were before.

**Ankit Agarwal:** And sir, have we seen repayments coming down this quarter I mean have you seen the activity of balance transfer reducing?

**Sanjaya Gupta:** So, that has come down in comparison to last year and that is very good.

**Ankit Agarwal:** What would you attribute that to I mean our people prepaying less or balance transfer happening less.

**Sanjaya Gupta:** It is a phenomenon which we are observing inside PNB Housing because we have insulated past portfolio which was accumulated up to June of 2018. The volatility of the prepayment on that portfolio are far limited and I think, that the average per annum in the retail portfolio we will see about 18% - 19% which will include everything. The part prepayment, the full prepayments, balance transfer, and normal amortization.

**Ankit Agarwal:** Okay. And you think this rate should continue 18% to 20%?

**Sanjaya Gupta:** I think so because more and more this is a very good opportunity for right risk pricing. So, those sort of I would say the cheque happy people have disappeared. So, people who can right price the credit are the ones who are continuing in business.

**Ankit Agarwal:** Right. And sir, just wanted to understand, on your early warning signals I mean were you able to sort of catch what has happened like default of Supertech, I mean how does your system address this now? I mean how do you deal with it I mean does the monitoring go up?

**Sanjaya Gupta:** So, Supertech is not an NPA. None of our wholesale account is an NPA and that is the rigor of our project management.

**Ankit Agarwal:** But did it show us an amber or something sometime?

**Sanjaya Gupta:** Yes, so which we do very-very regularly and very robustly and any loan which is even in stage 1 qualifies for an amber.

**Ankit Agarwal:** Okay. So, as of now, this will be in stage-1?

**Sanjaya Gupta:** This is a too detailed query, much beyond this call. And it is adequately provided, do not worry on that. And we are in continuous touch with the developer and as I said this is a time to partner your customer and not to sort of draw out with your customer and make him a borrower. None of our customers is a borrower, they are all my customers.

**Ankit Agarwal:** And sir, what will be our largest exposure in the Delhi NCR region?

**Sanjaya Gupta:** Well, I think, anything around INR 300 to 350 crore, would be the largest in Delhi NCR.

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

**Nischint Chawathe:** Just a couple of questions, one if I look at the fee income on a half year to half year basis, there was a fairly strong growth. So, just curious what is driving the highest fee and commissioned income?

**Sanjaya Gupta:** There is not even a single loan which comes at zero fees. Even the employees of this Company have to pay a fee for the service, there is no thank you business in this Company and we are able to drive even cross-sell very handsome. And that is getting us the fee income.

**Nischint Chawathe:** And just to clarify that this is kind of completely deferred. So, this sort of run-rate should continue?

**Sanjaya Gupta:** Some part of it is up fronted. The cross-sell is up fronted because that is one-time and the processing as administrative fees is amortized over the different product and different segment as per the behavior pattern of that portfolio.

**Nischint Chawathe:** And how much of this would be the cross-sell income of INR 231 odd crores?

**Sanjaya Gupta:** Well, the cross-sell income will be about one-third of it.

**Nischint Chawathe:** Sure. The other point was, you mentioned something on the employee expenses side, I did not quite follow that. I understood the ESOP part.

**Sanjaya Gupta:** Okay, I will do it once again, Nischint for you. So, 40% growth comes because of additional manpower, human capital and so last year the figure was INR 60 crores. 40% of that will be another INR 24 crores, rounded off till 25. So, it becomes INR 85crores. About 10% of that will be the increments and bonuses which got paid in the month of July on 31st July. So, that is about INR 7.5 - 8 crores and then the internal sales team which is today migrated into PHFL**,** which is our 100% owned subsidiary there fixed salary cannot be amortized and that entire thing is coming into our employee cost which is around INR 19 crores and another additional impact of premium on the ESOP grant that we made in first half of this year which is about INR 8 - 9 crores.

**Nischint Chawathe:** So, the first 2 parts, these would be kind of I mean whether they not there in the base or whether not there last year?

**Sanjaya Gupta:** Last year we did not have PHFL. It was on the third-party rolls and everything was amortizable and that is why if you observe my COA that has dramatically come down. So, if you want to extrapolate the last year COAs, you know the portfolio has grown by 37% and you just do a 1.35 times of that, that entire thing will be reflected.

**Nischint Chawathe:** Got it, got it. And one last point you mentioned that your kind carrying some excess liquidity on the balance sheet, so maybe if you could put some number around it in terms of what are the average is around?

**Sanjaya Gupta:** Yes, we are having about INR 4,200 crores.

**Nischint Chawathe:** And what would the number be like in the first quarter?

**Sanjaya Gupta:** First quarter the number about INR 3,000 crores.

**Moderator:** Thank you. The next question is from the line of Vaibhav Agarwal, an Individual Investor. Please go ahead

**Vaibhav Agarwal:** I have 3 questions for you. First of all, what is the status of the stake sales process that was going on?

**Sanjaya Gupta:** Well, you are asking the wrong person. I think, the media houses are better informed. As an employee of an investee Company, I do not muddle up with my shareholders.

**Vaibhav Agarwal:** Sure, leave that, sir. The second question is that RBI has said that they are seeing something in the ALM mismatch, so they are coming up with some regulations on that. So, what is your view on that?

**Sanjaya Gupta:** Actually, you know Vaibhav, with my board meeting today, so I did not hear what the RBI said, I will probably read it tomorrow in Economic Times.

**Vaibhav Agarwal:** Okay. And sir, is the worst over for the liquidity situation right now.

**Sanjaya Gupta:** Well, as I keep saying if you right price your product offering the liquidity is not an issue. If you sell a discounted product at a discount and say no fees, nothing then the problem occurs that how are you going to mitigate the cost of funds.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.

**Omkar Kulkarni:** My question was if you look at quarterly result year-on-year basis for the last 2 quarter - 3 quarters, your spreads and margins have been coming down. So, it is a conscious strategy to increase the volume?

**Sanjaya Gupta:** The spread is not coming down. The NIM is coming down and as I have made others understand, it has got 2 very important components which led to the NIM compression. One is excess liquidity that we are carrying right from last year and the second one is the leverage, your Company today lever at 9.5 times as of 30th of September whereas if you were to see last year same period it was levered at 7.7x. So, the leverage on the cost your compression on our NIM.

**Omkar Kulkarni:** Okay. So, till what level, you are comfortable, sir?

**Sanjaya Gupta:** So, as I have been saying the first signal to go to the equity market would be when we are levered at about 11x and by the time it is 12x - 12.5x, we should get our money in. And I anticipate as there is an enough and plenty of headroom in our Tier-2 also and to give us a breather and I think the right sort of time frame for it would be anywhere between October 2019 to March 2020.

**Moderator:** Thank you. The next question is from the line of Kishore Agarwal from Fiera Capital. Please go ahead.

**Kishore Agarwal:** Sir, I would like to get a sense of margin cost of funds?

**Sanjaya Gupta:** It is about 8.2 to 8.3 bracket.

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

**Ritika Dua:** Sir, if I could get the incremental cost of funds, across maybe bank lines, CP, NCD, and the recent ECB we did

**Sanjaya Gupta:** See, Ritika, this is a blended cost on incremental borrowing. It will have a deposit, it will have CP, it will have NHB refinance, it will have bank lines, it will have some bit of NCD if the wholesale market starts behaving itself, it will have ECBs. And this is what I also told some other reporter that do not only think of one or two lines, we have a very large menu card on our borrowing, the plethora of borrowing avenue. We have a large and a very sort of agile treasury, which looks at all opportunities.

**Ritika Dua:** Sure, sir. Sir, any securitization deals, in the pipeline, if you can share on that? How are we looking at these?

**Sanjaya Gupta:** It is not the end of direct assignment program but to say what is the deal size, when the next one will be, who is interested, the multiple portfolios, multiple interested parties who are there with us and it is a business as usual. And as I have said right in the beginning of the year the previous year about 10% of our AUM will be on securitization at a steady state.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I now hand the conference over to Ms. Deepika Gupta Padhi for closing comments. Over to you, ma'am.

**Deepika Gupta Padhi:** Thank you, everyone, for joining us on the call. If you have any questions unanswered, please feel free to get in touch with investor relations. The transcript of this call will be uploaded on our website that is www.pnbhousing.com, thank you. And wish you a very Happy Diwali.

**Moderator**: Thank you very much, ma'am.

**Sanjaya Gupta:** Thank you, good night.

**Moderator:** Good night, sir. Thank you. Ladies and Gentlemen, on behalf of PNB Housing Finance Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.