“PNB Housing Finance Limited Q3 FY17-18 Earnings Conference Call”

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Participants from PNB Housing Finance:

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

Moderator: Good day ladies and gentlemen and welcome to the PNB Housing Finance Limited Q3 FY17-18 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 conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Deepika Gupta Padhi: Thank you Margreth. Good morning and welcome, everyone. We are here to discuss PNB Housing Finance third Quarter and nine-month FY17-18 Results.

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

We will begin this call with an overview and performance update by the management followed by an interactive Q&A session. Please note this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve risk and uncertainties that may cause actual development and results to differ materially from our expectations.

PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. A detailed disclaimer is on slide #2 of the investor presentation available on our website. With that I will now hand over the call to Mr. Sanjaya Gupta. Over to you sir.

Sanjaya Gupta: Thank you Deepika. Good morning everyone from a cold dark winter morning in Delhi. I welcome you all to our Quarter three and nine month's financial results for the financial year 17-18. We registered strong growth in all the vectors during the quarter and a nine-month period.

Let me start with the financial performance of the Company for the quarter and the nine-month period for financial year 17-18. The figures are compared with the corresponding period of the previous financial year. The Company registered a double-digit growth during Quarter three of financial year 17-18. Disbursements are up by 110% to INR 9,276 crore for the quarter, highest ever made by the Company in a given quarter. The net interest income is up by 55% to INR 411 crore, the net profit after tax has increased by 58% to INR 217 crore, the Spread on loans for the quarter was 250 bps and the Net Interest Margin is 301 bps.

The nine months of the financial year also registered a healthy double-digit growth. The net interest income is up by 62% at INR 1,141 crore and the profit after tax has registered 64% growth to INR 610 crore. The Spread on loans for the nine months period is 234 bps and the Net Interest Margin is 311 bps. The cost of borrowing declined by 103 bps to 7.78% per annum during the nine-month period of the current financial year vis-à-vis 8.81% of the corresponding period of the previous financial year. In line with our focus on cost, the OPEX to average total assets for the nine-month period is at 0.65%. With ongoing branch network expansion the cost undertaken includes the growth expenditure too. If we only consider business as usual our OPEX to ATA will be around 61 bps. Our Cost to Income ratio has declined to 18.32% for the period vis-à-vis 23.20% in the corresponding period of the previous financial year. The Return on Assets on an annualized basis for the nine-month period for the current financial year is 1.62%.

The Return on Equity is 13.92% for the nine-month period vis-à-vis 17.03% for the nine-month period of the previous financial year. The decline in ROE is due to the expansion in the equity capital post our IPO in November 2016.

Let me now take you through the business performance:

During the nine-month period we registered 59% increase in the number of login files for our retail loans. On a nine months basis the disbursement registered a 68% growth to INR 24,455 crore vis-à-vis INR 14,592 crore during the same period of the previous financial year. The disbursement towards housing loans accounted for 67.3% and non-housing loans at 32.7%. The increase in the non-housing segment is in line with our expectation post RERA implementation and is also in line with the industry trend.

The asset under management registered a growth of 53% to INR 57,668 crore as on 31st December 2017 from INR 37,745 crore as on 31st December 2016. The loan assets are INR 55,296 crore as on 31st December 2017 registering a growth of 61%, last year same time the portfolio on book was INR 34,330 crore.

Housing Loans constitute 69.7% of the loan assets outstanding and non-housing loans constitute 30.3%. In the housing loan segment individual housing loan constitute 57.2% and construction finance for residential units constitute 12.5% of the loan assets. In the Non-Housing segment, LAP or loan against property constitute approximately 16% of the loan assets, lease rental discounting, non-residential premises loan and corporate term loan constitute the balance. Our deposit portfolio grew by 22% to INR 10,668 crore as on 31st December 2017 from INR 8,762 crore as on 31st December 2016.

As a part of our geographical expansion, 17 new branches were made operational during the nine-month period of the current financial year, totaling the 80 branches with presence in 44 unique cities. The Company also services its customers through 34 outreach locations. The Company has operationalized three hubs in the nine-month period, totaling to 21 underwriting hubs as on 31st December 2017 catering to the branches and the outreach centers.

During the nine months period of the current financial year, out of the total individual housing loan disbursement around 21% was in the less than 25 lakh segment which can be termed as affordable housing segment. With increase in our branch network in Tier-II and Tier-III cities we look forward to increase the contribution of the said affordable segment in our individual housing loan portfolio. In terms of our gross NPA as a percentage of the loan assets, it is at 0.42% as on 31st December 2017 against 0.37% as on 31st December 2016. The net NPA stood at 0.33% of the loan assets as on 31st December 2017. Our total borrowings as on 31st December 2017 stood at INR 50,751 crore. The Company has a diversified borrowing mix with 43% contributed by non-convertible debentures, 21% by deposits, 17% by commercial paper, 11% by bank term loans, 5% as refinance from the National Housing Bank and the remaining through ECBs. The Capital Adequacy ratio as on 31st December 2017 stood at 17.39% of which Tier-I capital is at 13.33% and Tier-II capital is at 4.06%.

During the quarter we expanded our Central Processing Centre at Mumbai giving out the flexibility to accelerate business while handling non-customer interface activities more efficiently and effectively. This also ensured load balancing of our central operations activities. We have set-up one of its kind document digitization center in Noida and Mumbai which is a true amalgamation of people, processes and technology. This is to provide ease, convenience and comfort to our customers as their key loan documents will now be available to them through the digital medium.

With respect to the Industry outlook and the ICRA report for H1 of the current financial year, it expects HFC industry to grow at the rate of about 20% - 23% during the current financial year with higher contribution from non-individual housing loan segment. The individual housing loan segment is expected to grow at a rate of 19%-21% and non-individual housing loans to grow at about 22%-26% in the current financial year.

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

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: In terms of margins, so given that the interest rate environment has changed and we are seeing increase in the borrowing costs, how do we see the margins behaving for us? And given that we have relatively higher CPs as well at ~ 15% odd, so any guidance in terms of how the overall funding cost would move up?

Sanjaya Gupta: Kunal, I can't give a forward-looking guidance but as I have also made it public many a times, I am seeing a compression in the Spread over the mid-term of 12 to 15 months of about 10 to 12 basis points. This is what my gut feeling is about the entire headwind scenario on the rates of interest. As far as CP's go in Quarter3, because of the volatility we were borrowing short so that the NCD market or the capital markets sort of overcome the turmoil and thereafter, we will be converting some of our short-term borrowings into long-term very much in Quarter 4.

Kunal Shah: Secondly in terms of the PMAY scheme, how has been the overall disbursements and how many is the number of loans which have got sanctioned?

Sanjaya Gupta: As such we do not go ahead and source only PMAY loans but yes, we have had our own share of success. So as I said earlier in my opening remarks 21% is the incremental disbursement of Individual housing loan which are below 25 lakh and we have got a fair amount of claims. Till date we have filed14 claims for 1,361 loan accounts amounting to the subsidy of about INR 32.4 crore and we have received subsidy on 9 claims for 530 accounts amounting to about INR 12.2 crore and the subsidy received is further credited into the individual accounts.

Kunal Shah: So total of about 1,300 odd loan accounts?

Sanjaya Gupta: Yes.

Kunal Shah: And lastly in terms of the non-individual side, particularly on the construction finance, how are we seeing the demand in most of the housing finance companies? We have seen a strong traction out there post-RERA and maybe the demand from a relatively lower ticket housing developers, so how are we seeing it and do we see that proportion inching up because of rising demand in that segment and how would you evaluate in terms of maybe would we want to get into that opportunity as well?

Sanjaya Gupta: We are very active whether it comes to construction finance or residential units across all geographies. Let me demystify you, it is not that the ticket size is going to come down drastically. We only go with the top developers of the country and for this category of developers we will generally get into large townships; we have done 2-3 of them in Quarter 3 and these loans will hence be for a longer term rather than shorter term because the townships take a far greater time to be completed. Across the country if I may quote the ICRA report about 3.1 million housing units especially in five states have got approved under the new RERA and the affordable housing segment. We are active, but we will not dilute on our credit quality when it comes to choosing the developers or the projects.

Moderator: The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: I am seeing that last 2-3 quarters for all HFCs including yours, the growth in construction finance has far exceeded the growth in individual home loans, so is it just a precursor that maybe 2-3-4 quarters from now once these projects get constructed the demand for home loan will also pick up equally strong?

Sanjaya Gupta: You are bang on right. So we have to fund the supply side and the new product regime of RERA and the affordable housing. But if you see the most important thing and the most significant thing is that at a portfolio level the complexion of our portfolio mix has not changed. And as I keep saying in large operations give me plus minus 2% and we will be there for products and segments. Certainly these loans in the disbursement mix will look larger because they run off far faster than an individual home loan or a LAP loan. So just to give you a complexion or a comparative on the effective term, the individual home loans in India doesn't last more than 83 months. A LAP loan to an individual customer loan doesn't last more than 60 months and a construction finance loan lasts only between 28 to 32 months and hence the run off rate of construction finance look far faster but effectively at a portfolio level the complexion of the portfolio mix does not change.

Digant Haria: Except Maharashtra, other states are also seeing now good traction because the last time you said Maharashtra was probably the most forefront in RERA and the other states are still to join the league?

Sanjaya Gupta: Now Gujarat, Tamil Nadu, Madhya Pradesh, West Bengal and Rajasthan are the other states which have joined the growth momentum.

Moderator: The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: My first question is what will our incremental cost of borrowing be at this point?

Sanjaya Gupta: I cannot be a harbinger to that. But as I keep saying with our product mix and with our segment mix we are confident that between 195 to 210 basis points would be the incremental spread at a portfolio level. We will keep on trying for that. The yields and the cost of borrowings actually get reflected in the spread, so we are very confident of our sweet spot when it comes to product mix and segment mix, we will keep on doing that. And I think we have the tenacity to maintain 195 to 210 bps as the incremental portfolio spread.

Karthik Chellappa: This is against a spread which is currently at about 2.5%?

Sanjaya Gupta: That's only for the quarter. This is an annuity business and I always say we will maintain between 210 to 225 bps, this time I am saying between 195-210 bps on incremental basis.

Karthik Chellappa: My second question is at a processing hub level for the 21 processing hubs that you have right now, what kind of capacity utilization are they running at?

Sanjaya Gupta: It all depends on the vintage of a hub and a branch. The new hubs will be at about 40-45% of capacity utilization, within a year they come to about 80-85% and the legacy hubs or the big hubs that we have, are doing a fantastic job and are operating efficiently, the turnarounds are faster. We have recently launched a TQM, total quality management exercise for our old and the large hubs in Noida, Mumbai and Bangalore. So it's a sort of business as usual, mix and match.

Karthik Chellappa: And this capacity, it's measured in the form of number of application processed per month per hub?

Sanjaya Gupta: Yes and also per FTE. We have different metrics and every year we do publish our efficiencies per employee. So if you were to see our presentation for the investors on our website you will see these.

Karthik Chellappa: What would be the difference in the yield for us today for a loan which is above 30 lakhs vis a vis below 30 lakhs?

Sanjaya Gupta: Well about 15 to 20 bps.

Karthik Chellappa: And has that changed in the last one year?

Sanjaya Gupta: No, we are able to do this pricing pretty effectively, even in the sector and industries where nobody does.

Moderator: The next question is from the line of Deepak Mallik from BCCL. Please go ahead.

Deepak Malik: What is the difference in NPA levels between affordable housing segment and the rest of the portfolio and how does it compare with the LAP?

Sanjaya Gupta: Basically what happens is that in the housing segment we don't do assessed income, so there is hardly any difference between smaller loans and the larger loans. But yes, for products there is a difference and I can give you the figures. The share of NPAs at IHL which is individual home loans, it is sitting at 0.49%, for Non-Housing Loans it is sitting at 0.34% and for individual LAP it is sitting at 0.59%.

Deepak Malik: The reason I asked that question was that there are a lot of reports in newspapers about high delinquency levels in the affordable housing segment, so I wanted to just understand from your perspective.

Sanjaya Gupta: The beauty is that the analysts are not talking of the segment. We also do as I said about 21% of loans in the below INR 25 lakhs category but we are not going to the unorganized or assessed income segment. So we have to paint that segment of loan of below INR 25 lakhs with different paint brushes for the income recognition sort of distinction. Therefore, we go into the formal sector, our formal sector individuals also need a loan below INR 25 lakhs and everybody is not an assessed income customer.

Deepak Malik: And what would be the percentage of non-salaried customer in your overall portfolio?

Sanjaya Gupta: In the overall portfolio, it is about 40%.

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

Nidhesh Jain: The deposit growth has actually slowed down in this nine months, so is it a conscious decision or we are seeing competition increasing in deposits?

Sanjaya Gupta: Very well said and I must say you would probably be the only one asking a question on deposits. So, when you manage a big treasury the cost of funds are very important and the capital markets were trading at the lowest ebb of the rate of interest curve or the yield curve. So, we knowingly priced our deposits far lower than the rest because the mix has to be corrected so that we bring down our total cost of borrowing to one of the finest levels. We have again revamped because I see that in this quarter and the next quarter at least that far there would be a little bit of challenge in the capital market. So our deposits will once again stand strong in our total borrowing mix.

Nidhesh Jain: What will be our incremental spread on the entire book?

Sanjaya Gupta: As I said expect anything between 195 to about 210 basis points pure spread.

Nidhesh Jain: On the repossessed stock of properties that we have disclosed in the annual report if we look at the trend in the last three years, there has been a bit of acceleration in that. If you can give any color on how the trend has been in the first nine months.

Sanjaya Gupta: Basically as of 31st March 2017 we had 274 re-possessed properties worth about INR 170 crore. In the nine-month period we added another 119 properties worth about INR 65 crore and in the same period we have also disposed of 60 properties worth INR 32 crore and as a consequence of which as of 31st December 2017 we have 333 re-possessed properties worth INR 203 crore and we expect that Quarter 4 will dispose a lot of properties as they have been put on auction, the market is good. We have also tied up with a digital auctioning platform and this number will significantly come down when we report the Quarter 4 or the financial year results.

Nidhesh Jain: If we would have classified these properties as NPA will there be any impact on our P&L?

Sanjaya Gupta: Not really, because whenever these accounts have diminutive value at the time of current asset classification, the same has been provided for however the exact calculations are difficult to predict.

Moderator: We will move to a next question which is from the line of Ronak Raichura from Asian Market Securities. Please go ahead.

Ronak Raichura: My question is more related to the spreads, you specifically said that the range of the spread that you would like to maintain is between 1.95% to 2.10%, now my question is if I just do simple arithmetic all the housing loans are priced at about 8.5% to 9% whereas the non-housing loan book would be of a higher yield and individual housing constitute about 60% of our portfolio. So the weighted average yield would effectively keep on treating downwards.

Sanjaya Gupta: Yes.

Ronak Raichura: In such a scenario how do we still maintain the spread range in this because if we see the housing loans are priced way below our current average yields of 10.12%?

Sanjaya Gupta: We have the freedom to reprice our portfolio. 73% of our portfolio is on variable interest rate and we have five reference rates in our system to which our products and segment are related, so we have that freedom. Already three banks have upped their reference rates or MCLR by 5 basis points. So why do you forget that even a loan can be repriced upwards. Every time a loan will not be repriced downwards.

Ronak Raichura: And we are saying 73% of our book is on the variable.

Sanjaya Gupta: Yes and even the fixed rate book doesn't have a pure fix, so they have a three-year fix, a five year fix and we have come through a variable. So I am very confident that we can maintain that sort of a spread going forward.

Ronak Raichura: On the asset quality one thing which PNB Housing should be really given an accolade about is their asset quality inspite of reasonably high proportion of the Non-Housing segment. Now what could be the secret I mean do you do something which is very different from the market because generally the LAP portfolio or the Non-Housing segment is supposed to have a higher delinquencies across the industry, PNBHF seems to be an exception on this front. So what is it that you are doing so different from the market?

Sanjaya Gupta: It is our robustness and our head on our shoulders that's about it.

Ronak Raichura: Nothing in terms of differentiating process?

Sanjaya Gupta: We are working in the same country with the same citizenry in the same denomination of the currency, it's all about conservatism, it is all about the wisdom getting translated and transmitted to our hubs and spoke target operating model, processes and sourcing channels. And I mean we don't like to say no but we know how to say no.

Ronak Raichura: What percentage of our loans would be actually rejected?

Sanjaya Gupta: About 22% at a gross level for a variety of reasons.

Ronak Raichura: Any specific segment or geography where you see the gross NPAs really rising like the affordable housing segment which is a low-ticket segment is seeing a little higher delinquency. Our average ticket size is a way above that. But do you see any sense of the general NPA rising in the industry and any specific segment that you feel is prone to more delinquencies?

Sanjaya Gupta: Let me tell you this business is not about fill it, shut it and forget it. The backend rigor has to be maintained continuously and that is why this year we have created a load balancing on a DR side of our CPC and we have actually applied technology to bring in far greater efficiencies in our banking and security management. These are the tangible differentiators between PNB Housing and the rest. We invest a lot in surveillance, in monitoring and in operational rigor. As such when we come down to geography to distinction in portfolio behavior, we are not seeing segment wise or geography wise any difference. But I am an avid reader also and what credit analysts have been saying that Delhi NCR and Tamil Nadu are showing some sort of higher increase rates in the NPA figure but as of now not on our portfolio.

Moderator: We will move to a next question which is from the line of Bobby Jayram from Falcon Investments. Please go ahead.

Bobby Jayram: Your leverage levels are lower than your competitors, what is your target for that?

Sanjaya Gupta: The leverage levels are lower than our peers because of a huge half a billion dollar worth of IPO which happened 14 months back and we keep on telling the markets our business as usual leverage level will be around 10x and between 11x to 12x we would be going into the capital markets to raise Tier-I equity.

Bobby Jayram: So around an ROE of 15%-16% around that level as well.

Sanjaya Gupta: If you see our OPEX is coming down, our CIR is coming down. We expect our return on assets to be better and if we leverage to about 10x then I think we should be a shade better than what you are projecting.

Bobby Jayram: Your brand is mainly known in the North, so how are you able to penetrate the other regions, East and South and all that?

Sanjaya Gupta: No, it is not an Indo-Gangetic brand; it's a Pan India brand. And if you go and see our Investors' Presentation on our web page, our portfolio is very well distributed between North, West and South. We are almost equally distributed. So we don't have to do much different or go-to-market strategies for different loans.

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

Bhaskar Basu: In terms of your loan mix we have seen a gradual shift from individual housing towards Non-Housing, is there a target mix which you have in mind over the next one to two quarters?

Sanjaya Gupta: As I keep saying it will be (+/- 1%-2%), we have about 8 quarters presentation on the webpage, it is getting very well maintained and this quarter also it has moved by around 1% point. So just to give you a little bit of flavor, total housing which includes construction finance will be between 70% to 72%, LAP and NRPL will be in the vicinity of about 18% to 20% and the remainder will be between LRD and CTL, +/-1% or 2% because of large operations. Going forward it will remain constant.

Bhaskar Basu: Because we have seen quite of few lumpy LRD deals I think over the last few quarters.

Sanjaya Gupta: One quarter.

Bhaskar Basu: Yes in the last quarter we had.

Sanjaya Gupta: Yes and that is why our LRD has jumped but the total composition of Non-Housing Loan has not jumped more than that. LRD per se has because we did two large LRDs

Bhaskar Basu: And in the context of rising bond yields what is the target borrowing mix which you would like to maintain? We have seen CPs going up this quarter, NCDs going down, bank loans going up, so what is the mix which you would like to maintain?

Sanjaya Gupta: Primarily what we will say is that our deposits will be at about 25%, our NCDs will remain at about 45%, so that will constitute about 70% and bank borrowings because now banks are allowed to do non-MCLR loans to corporates, so related to or linked to T-Bills or LIBORs which are known as FCTL will probably go up and NHB refinance will remain same, ECB will keep on coming down as the repayments have started and CPs will remain between 15% to 18%.

Bhaskar Basu: In terms of incremental yield, what is the kind of incremental yield you are seeing on your Construction Finance or Non-Housing portfolio?

Sanjaya Gupta: If the markets move up the yields will move up and if the markets will move up the cost of funds also keep on moving up, so it's a dynamics sort of a situation. As I keep saying as a business manager my first objective will be to secure or protect the spread between 195 to 210 bps and that's how we are going to price our incremental growth and our products.

Bhaskar Basu: But in the context of rising competition don't you think that yields will be under pressure

Sanjaya Gupta: How long, what sort of liquidity are they sitting on, it will get absorbed

Bhaskar Basu: What proportion of your loan growth is coming from balance transfers?

Sanjaya Gupta: We have no strategy on balance transfer. We never have a sales strategy or acquisition strategy which says balance transfer, lower fees, you can check it out; 4%-5% net on the portfolio.

Bhaskar Basu: Of the portfolio about 4% to 5% is coming from balance transfer?

Sanjaya Gupta: Yes and that is voluntary balance transfer because of better service, better ways and a better brand. But we have not gone ahead and ever had a tactical move to the balance transfer even in Q4 when the others are busy doing this.

Bhaskar Basu: We have seen increase in ad spends off late, what's the strategy there and do we see an increase in cost going forward?

Sanjaya Gupta: You like the advertisements? They are de-cluttering the crowded market, yes, it is strategic for brand recall, Quarter 4 and Quarter 1.

Bhaskar Basu: At a time when you are actually already growing at about over 50%.

Sanjaya Gupta: Yes but we can't take the market for granted.

Bhaskar Basu: Does it mean that your OPEX to AUM will increase?

Sanjaya Gupta: That's a good observation. So basically there are two components to our OPEX especially in this quarter, one is that all our incremental facilities will be up and running. So as I said in the beginning of the year we started the year with floor space to 2,10,000 sq. ft. of usable office area, we are going to add 1,15,000 sq. ft. more to it. It is been already leased out. It will be put to economic use by let's say a month or so. People have been hired and yes, this ad campaign is also happening, so 2-3 bps of OPEX to ATA is a no brainer increase in Quarter 4. But during the year the full-year if we take we will be very much far lower than the previous year.

Bhaskar Basu: And over the next two years I mean you had a target of bringing it down?

Sanjaya Gupta: I have that target still.

Bhaskar Basu: You still stick with it?

Sanjaya Gupta: Yes

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

Nischint Chawathe: Do you maintain a breakup of disbursements between disbursements for new loans and balance transfer; I think you mentioned it's around 4% to 5%?

Sanjaya Gupta: At a portfolio level, I don't do it at an incremental level because we don't have a strategy of balance transfer.

Nischint Chawathe: The other question was if I look at the shareholding pattern today, promoters level has kind of come down so we are just curious as to when you have the next level of capital issuance, do you have any indication from the promoters whether they would participate or not and in that scenario if the shareholding falls below a particular threshold level how would the rating agencies react to that?

Sanjaya Gupta: As of now and I have got no guidance from my shareholders because next round of capital raise I don’t think is going to happen before 18 to 20 months from now.

Nischint Chawathe: Your coverage ratio has gone up this quarter, so how should we read that I mean is it something which is to do with the ageing of NPLs or how should we really think about it?

Sanjaya Gupta: It's our conservative approach and also the seasoning of the bucket plus if you add the contingency reserve, then our PCR is very smart which once again, confirms that this management believes in conservatism rather than just showing growth in profits quarter-on-quarter.

Nischint Chawathe: In the affordable housing segment what would be the breakup between salaried and non-salaried segment?

Sanjaya Gupta: It will remain the same. As I said we are not gunning towards a market share or a particular segment. We are doing a business which we think we can acquire, process, underwrite, deliver and service. Whatever is the opportunity I will certainly utilize it to our benefit.

Moderator: The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: You said that there will be an opportunity to increase yields to protect spreads. A lot of it would also be determined by how our competition is reacting and how the larger HFCs will work, whether they are increasing their yields or not. So in that scenario your ability to increase yields is not really going to be independent, it's going to be dependent on the market. So do you see that as an impediment to maintaining this 195-210 bps spread that you are targeting?

Sanjaya Gupta: What you're saying is absolutely correct and obvious but the thing is that we will not like to be irrational when it comes to our profits. So we do distinguish between profit and profiteering and I'm very sure my other colleagues in the industry may also have the same sort of point of view. How long and I keep saying that will they do irrational pricing. I can understand Quarter 4, but in Quarter 1 of the next financial year everybody is going to look at their profitability and the cost of fund in the industry are fungible and common sources. So it's not alone that for PNB Housing the cost of funds are going up, also liquidity is becoming a constant, it's our view. When it comes to bank because your second question will be on bank's cost of fund, well that their OPEX is 4%-4.5%, so are people making profits is a very big question.

Abhishek Murarka: In that context then in your borrowing mix the proportion of CP is higher than generally what is observed with other housing finance companies. So is there any particular reason or it's not even transient, you said it will remain between 15% to 18%, so it's not really a transient factor?

Sanjaya Gupta: What I would say is that please compare us with the big housing finance companies and not small housing finance companies and look at the average outstanding rather than the reporting date outstanding that we can also do.

Abhishek Murarka: On an average your levels would still be at 16%-17% or would they be lower?

Sanjaya Gupta: This particular quarter we knowingly went slow on long term, because we are planning a huge masala bond of half a billion dollar where IFC Washington DC is already an anchor. We have signed a MoU with them. So we know that our short-term borrowings are going to get replaced in the recent future and the market was doing so much of yo-yo that we said let it settle down and then we will go to the bond market.

Abhishek Murarka: Has it settle down as in your view?

Sanjaya Gupta: I think yes, by Quarter 4 we will go to the masala bond market and we will have a better term management. It is a conscious sort of a call because we knew this is in the offing.

Abhishek Murarka: It's just that if you see that the markets are settling down and you are going to replace your CPs then why is it that it's still going to be in the 15% to 18% range and not lower.

Sanjaya Gupta: Because my portfolio is also going to grow and there is no harm in having a 15% CP.

Abhishek Murarka: It's just a little different than the mix that I am looking at?

Sanjaya Gupta: Our sales is huge, we manage our fund flows beautifully; our product management is backed up with 17 bank lines for over draft facilities. It's not that we are going uncovered on CPs, so what is the anxiety all about if we can manage it. We manage it well.

Abhishek Murarka: The other question is on the cost, just a question on the commissions and brokerage that you would be paying out to DSAs. Generally in the industry and for your self have you seen that increase in the last few quarters especially as growth rates are high for several large companies?

Sanjaya Gupta: We have not seen it over the last four years and even in Quarter 4 let me set your anxiety to rest, we are going to have no incentives and bonuses and all those things for the third-party vendors.

Abhishek Murarka: Roughly as a percentage of disbursements how much would that be?

Sanjaya Gupta: That is about 0.8%.

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

Rakesh Jain: WRT Non-MCLR loans to the corporates, is there some regulations regarding that.

Sanjaya Gupta: Yes it's from the banks that we have got these lines.

Rakesh Jain: So it will be giving lower cost of fund?

Sanjaya Gupta: Yes, they come at a very reasonable cost.

Rakesh Jain: What will that be?

Sanjaya Gupta: They will be in the range of about 740 to 760 bps.

Rakesh Jain: What would be your subsidy in the PMAY scheme for the quarter?

Sanjaya Gupta: It's not the subsidy to us. It's a subsidy to the end-user.

Rakesh Jain: So what is the amount for that?

Sanjaya Gupta: Till now we have got INR 12.2 crore worth of subsidy from the government for 530 accounts.

Moderator: The next question is from the line of Siji Phillip from Axis Securities. Please go ahead.

Siji Phillip: Are we looking to expand our average ticket size from the level that we have as of now?

Sanjaya Gupta: No, as I keep saying in my statements my product mix and my go to market strategy is going to be the same and we are not looking at large ticket sizes. Even if you would have seen our presentation in the Non-Housing Loans the ticket size has gone up a little because of the two big LRDs that we have booked in Quarter 3, not because of individual average ticket size.

Moderator: The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Given the headwinds that were there this financial year we still manage to come on with great loan book growth and excellent execution in terms of profitability, etc. Now going forward for the next financial year when things are more or less in our favor in terms of all the headwinds behind us, etc., how should one be looking at the overall industry growth as well as the growth for PNB Housing?

Sanjaya Gupta: Industry growth I don't think will be more than about 16% to 18% at a portfolio level and as I keep saying because we have an expansion led growth strategy we will be at about industry average into 1.5x to 1.7x.

Sangam Iyer: Even during the testing times we did much better than that so if things are much better in terms of the overall environment, do we see that there could be a further acceleration in the growth coming in or in terms of growth we would be content to this number and then execute much better numbers going forward?

Sanjaya Gupta: I am like a doctor and a farmer, I am positive and realistic but I would not count my chickens before they are hatched.

Moderator: The next question is from the line of Navin Bothra from Arch Finance Ltd. Please go ahead.

Navin Bothra: My question is regarding the total market size of the mortgage opportunity in India is roughly around INR 15.5 lakh crore presently.

Sanjaya Gupta: That is outstanding portfolio; incremental is about INR 4 lakh crore a year.

Navin Bothra: So banks and NBFCs share is equal 50-50 right now?

Sanjaya Gupta: No, banks are 62% and HFCs are 38%.

Navin Bothra: In slide 9 of our presentation we have said that as on 30th September 2017, INR 8 .5 lakh crore is total share of the housing finance company's and now out of that we are having 6% market share.

Sanjaya Gupta: I will just make you understand that INR 15.5 lakh crore is actually housing portfolio and not total portfolio.

Navin Bothra: My question is regarding how do you see this share of 60-40 in favor of banks and NBFCs going forward?

Sanjaya Gupta: I think it is going to remain constant; the housing finance companies will grow faster so their share in the outstanding portfolio might go up by a percent or two that's all.

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

Omkar Kulkarni: My question was regarding where do you see your ROE and ROA couple of years from now?

Sanjaya Gupta: In couple of years, my ROA should be in line with the industry I would say the big four above us, something like 1.7% to about 1.85% and if I lever myself 10x to 11x that's going to give me the ROE.

Moderator: We will move to our next question which is a follow up from the line of Deepak Malik from BCCL. Please go ahead.

Deepak Malik: I have a question on your contingencies and NPAs if I'm reading it right, your AUM is about INR 57,000 crore outstanding and gross NPA is about 0.42% which is about INR 225 crore to INR 230 crore and the provisions for standard assets is already at about 279 crore. Does it mean that whole of gross NPAs kind of fully provided for, is that the right way to read it?

Sanjaya Gupta: No, now what happens is that standard asset provisioning is a sort of a provision that you carry on your balance sheet when the account is current, that means when it is paying on time because there is a probable risk of that percentage and the standard asset provisioning is linked to loan amount, the product, loan amounts in LTVs by the regulator. Then comes NPA so when an account comes into NPA bucket the standard asset provisioning moves out and you have to do seasoning of the bucket and then provide as per the regulatory requirement. This contingency reserve that we have already done for about INR 76 crore today is a reserve against accounts which are current today but have given us some sort of grief in the past. So as a conservative set of management executive we carry additional provision that in case these accounts again come into delinquency of any category, we have enough and plenty of reserve not to disturb our profitability.

Deepak Malik: So, in a way the provisions are let's say INR 279 crore as standard asset, INR 49 crore as NPA provision plus INR 76 crore to take care of any exigency whether it is the actual net NPA not getting paid off or whether it is a new potential NPA?

Sanjaya Gupta: Yes, potential or forward flow or something like that because we have to as I keep saying this is annuity business and you have to keep the operational rigor on and your balance sheet management on. It's not like fill it, shut it and forget it. We create these sort of reserves against accounts for our rainy days that's all and full tax is paid on this.

Deepak Malik: Just to simplify the math, basically the gross NPA is about INR 220 crore, net NPA is about INR 150-160 crore and the standard asset provisioning is INR 279 crore, NPA provision is INR 49 crore plus another INR 79 core for exigencies, just in layman's term?

Sanjaya Gupta: Yes and standard asset provisions is for the accounts which are running alright.

Moderator: The next question is from the line of Harshit from Jefferies. Please go ahead.

Harshit: If I look at our net interest margin sequentially that has gone down around 10-15 basis points

Sanjaya Gupta: Yes it has.

Harshit: And correspondingly our spreads have been maintained, our cost of funds have reduced, mix has shifted towards non-housing which is relatively higher yield, so overall how do we see this because and leverage is also actually reduced?

Sanjaya Gupta: What I would say leave alone on the mix, portfolio mix that I keep saying one or two percentage points here or there the portfolio is going to remain the same. But the NIM has got compressed because we were carrying large amount of investments average for the quarter which generates lower interest income and there was an increase in the leverage.

Harshit: So as we go forward then and as leverage improves you see this trend again reversing so NIMs being higher than what it was?

Sanjaya Gupta: I have sort of committed myself that if the spreads come down and that is the first component of NIM to about 195 to 210 bps then for NIM to go above 310 would be a challenge because if you were to take total cost of funds to total interest income that will go up as the lever goes up.

Harshit: Spread part I understand but only on the basis of leverage we expect leverage to increase in the medium term?

Sanjaya Gupta: Yes, if you were to take what percentage of your interest income got eaten up by interest cost if the lever goes up that ratio will enhance. Today it is at about 68%, so that will go up when the lever goes up.

Harshit: NIM should actually fall slightly as the leverage goes up.

Sanjaya Gupta: The NIM can fall a little bit but then don't forget that the other income and fee income and non-fund based income are not included in NIM.

Harshit: Will that be very high for us?

Sanjaya Gupta: Yes. So if you were to take the gross NIM that is NII plus fee minus cost of acquisition then it is about 356 basis point.

Harshit: Around 40 to 50 bps is from other than NII?

Sanjaya Gupta: Yes because we have income from securitization portfolio and that is why portfolio on books and AUM has about 2300 crore difference and we get servicing fee of it and in the first nine months we got a total fees including servicing fee of about INR 187.15 crore.

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

Deepika Gupta Padhi: Thank 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.

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