"PNB Housing Finance Limited Q4 and FY17-18 Earnings Conference Call"

May 3, 2018

Participants from PNB Housing Finance:

Mr. Sanjaya Gupta	Managing Director
Mr. Shaji Varghese	Executive Director-Business Development
Mr. Ajay Gupta	Executive Director-Risk Management
Mr. Nitant Desai	Chief Operations & Technology Officer
Mr. Anshul Bhargava	Chief People Officer
Mr. Sanjay Jain	Company Secretary and Head Compliance
Mr. 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 Q4 and FY 17-18 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 an operator by pressing '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mrs. Deepika Gupta Padhi. Thank you and over to you, Madam.

Deepika Gupta Padhi: Thank you, Bikram. Good Evening and Welcome everyone. We are here to discuss PNB Housing Finance fourth quarter and financial year 2017-18 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; Mr. Sanjay Jain – Company Secretary and Head Compliance; and Mr. Kapish Jain – Chief Financial Officer.

We will begin this call with an 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 uncertainties that may cause actual development and results to defer materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statement 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 Evening everyone. We welcome you all to our Quarter 4 and financial year 2017-18 Earnings call. The financial year 2017-18 is our first full year result declared post the IPO. We take this opportunity to thank all our stakeholders for their support and faith in our way of doing business. During the year, both our loan assets and borrowings crossed INR 50,000 crore and deposits crossed INR 10,000 crore.

On the borrowing side, while maintaining a fairly diversified borrowing mix, we also set up a US$1 billion MTN to raise funds via rupee denominated masala bond where IFC, Washington DC, is an anchor investor with a commitment of

$150 million. With our continuous focus on people, processes and technology, we initiated a number of digital solutions like digitization of customer security portfolio document, intelligent mass mailing solution, e-verification of various credit checks for better quality, faster execution and superior customer service and improving overall efficiency in our operations.

Let me now start with the financial performance of the Company. The figures are consolidated financials compared with the previous financial year. Financial Year 2017-18 registered a healthy double-digit growth. The Net Interest Income was up by 54% at INR 1,593 crore and Profit After Tax was up by 58% to INR 829 crore. The Spread on loans for financial year 17-18 is 2.36% and Net Interest Margin is 3.07%. The cost of borrowing declined by 84 basis points to 7.71% during the financial year 17-18. In line with our focus on cost, the OPEX to Average Total Asset for the current financial year is at 68 basis points compared with 73 basis points in the financial year 2016-17. This is not withstanding the fact that with our ongoing branch network expansion, the cost undertaken also includes growth expenditure. If we only consider our business as usual, BAU as we call, the OPEX to ATA further drops to 61 basis points. Our Cost-to-Income ratio declined to 19.54% during the financial year 17-18 vis-à-vis 22.43% in the previous financial year, a reduction of close to 300 basis points. The Return on Assets for the financial year 17-18 is 154 basis points. The Return on Equity is 14% for 17-18 vis-a-vis 14.92% for financial year 16-17. The decline in the ROE is due to expansion in the equity capital post our IPO in November of 2016 with average gearing of 7.6 times during the financial year 17-18 vis-a-vis 8.72 times during 16-17. The Board recommended a final dividend of INR 9 per equity share of INR 10 for the financial year.

Let me now talk about the business performance:

During the financial year 17-18, we registered 54% increase in the loan file logins compared to the previous financial year. The disbursements registered 61% growth for year on year at INR 33,195 crore vis-a-vis INR 20,639 crore during the previous financial year. The disbursement towards individual housing loans accounted for 53%, construction finance 16%, and non-housing loans at 31%. The Assets under Management registered a growth of 50% to INR 62,252 crore as on March 31, 2018. Geographically, West is our largest market with 39% of AUM followed by North at 32% and South at 29% of Assets under Management. We have limited presence in East with only three branches, two in Kolkatta and the one is Bhubaneswar which forms a part of the North zone. The Company sold loans worth INR 3,128 crore under direct assignment route during the financial year 17-18 and the total outstanding loans assigned amounted to INR 5,238 crore as on March 31, 2018. Net of the securitized amount, the loan assets in book are INR 57,014 crore as on March 31, 2018 representing a growth of 48% YoY. Housing loans constitutes 70% of the loan asset outstanding and non-housing loan constitutes the balance 30%. In the housing loan segment individual housing loans constitute 56.2% and construction finance constitutes 13.6% of the loan assets.

In the non-housing segment LAP i.e. loan against property constitute 17% of the loan asset, lease rental discounting, non-residential premises loan and corporate term loans constitute the balance. As a part of our geographical expansion plan, 21 new branches were made operational during the financial year 17-18 totaling to 84 branches with presence in 47 unique cities. The Company also services its customers through 34 outreach locations. The Company has operationalized three hubs in 17-18 totaling to 21 underwriting hubs as on March 31, 2018 catering to the branches and the outreach centers. During the year 17-18 out of the total individual housing loan disbursements, around 22% by value was in the less than INR 25 lakh segments 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. Part of this portfolio also qualifies as priority sector lending (PSL) which can be sold off to banks at fairly attractive price in the future.

The gross NPAs as a percentage of loan assets is at 0.33% as on March 31, 2018 against 0.22% as on March 31, 2017. The gross non-performing assets (GNPA) for housing loans is at 0.35% and non-housing loans is at 0.27% of the loan asset. The gross NPA to AUM is 0.31% as of March 31, 2018. The lower gross non-performing asset is a testimony of our robust underwriting processes. We have specialized teams for credit underwriting, verification, fraud control, legal and technical fluctuation, which is complemented by a dedicated in-house collections team. Loans are underwritten on predictable and consistent income stream supported by income and bank documents. We have a strong portfolio monitoring mechanism which further helps us in detecting early warning signal. In wholesale finance, we have stringent norms for customer and collateral underwriting. There is a specialized and dedicated team for this business line. While the functions like underwriting, technical, legal, operations, and monitoring is centralized, the relationship team is spread across various large geographies and cities. For these proposals with the developer's credentials, financial standing and previous track records, we also do an in-depth study of the micro-market, targeted segment etc. developer rating, their equity in the project, stage of project, sales and collection velocity etc. are other important vectors which are considered before extending such facility.

As widely reported, much to my surprise, there are instances of developers defaulting in their commitments. In post-sales finance, fortunately we are not impacted by this. We have no corporate exposure today or in the past to developers like JP, Amrapali, Parsvnath, SRS, Era, Earth, etc. We have no corporate exposure to Unitech or any of its group companies either. The stock of acquired properties as of March 31, 2018 stand at INR 179 crore against INR 155 crore as on March 31, 2017. Our collection philosophy is to cure and not just collect through legal channels. The Company uses SARFAESI very effectively and we are working towards reducing the stock of acquired properties. Our total borrowings as of March 31, 2018, stood at INR 54,268 crore. The Company has a diversified borrowing mix with 42% contributed by non-convertible debentures, 21% by deposits,19% by commercial papers, 9% bank, 7% as refinance from National Housing Bank and the remaining through ECBs. NHB reposed its confidence on us as we raised funds to the tune of INR 1,500 crore during Q4 of the financial year 17-18. This is a long-term funding raised for a period of 10 years. During the first quarter, we securitized INR 3,128 crore to four institutions at a very attractive price. We would continue to explore this avenue and look for opportunities to have a positive impact on our borrowing cost. Considering the ongoing volatility in the market, we anticipated liquidity issues in the short-term and hence maintained excess liquidity of around INR 1,500 crore. The current investment, cash and bank balance as on March 31, 2018 is INR 4,035 crore. This also includes the proceeds which we got from our securitized pool.

The capital adequacy ratio as on March 31, 2018, stood at 16.69% of which Tier-I capital is 12.77% and Tier-II capital is at 3.92%. In line with our philosophy to enable the not-so-fortunate segment of the society in becoming capable and self-reliant, we work in the area of skill enhancing trainings, day care centers, education and healthcare under our corporate social responsibility program which we like to call it as Saksham. During the year, we touched 15,000 lives through various programs and are committed towards it in a substantial and sustained manner. We are a strong 1,290 full-time employee team as on March 31, 2018. We have registered an increase in all the employee efficiency vectors like disbursement per employee, loan asset per employee, revenue per employee, and profit after tax per employee during the financial year.

Before you ask questions, I would like to mention that the Company, promoted by Punjab National Bank (PNB), shares a common brand yet as per the regulatory stipulation maintains an arm's length relationship with PNB and does not leverage the promoter for any business or resource mobilization. This is further validated by the rating agencies post the recent fraud issue reported by PNB in February 2018. The rating agencies reposed their confidence in us both CRISIL and ICRA have come out with a credit bulletin within a week stating that the incidence has no impact on the Company's business and financial risk profile. Further, we feel that the recent development at PNB are unlikely to impact the credit profile of the Company. With this, we would now open the floor for question and answers. Thank you very much for being patient listeners.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Sir, congrats on continued strong growth, just had a couple of questions. On the spreads what is the outlook you have right now, I think last time you had kind of toned down your overall long-term outlook, I just wanted to get an updated thought on that?

Sanjaya Gupta: Well, I am feeling a little bit more confident and I think between 200 to 210 basis points is very much doable though we made about 236 basis points last year. I think liquidity will come in and especially with the ECB getting opened up there is one more avenue and it should ease the domestic market also. Hence, I am confident that we will be able to maintain our spread and luckily the large lenders before us also revised their reference rate in the vicinity of 20 to 25 bps and we also followed without much I would say backlash from our existing customers, so I think it is doable now.

Sunil Tirumalai: Your numbers show that you are actually expanding into the smaller cities and you also mentioned about smaller ticket size loans, how much of a yield upside do you see from these?

Sanjaya Gupta: Let me assure you people, yields are more related to product and segments rather than cities, so supposing if I was to move to a small city from where I come which is Lucknow, I am not going to pay 20 bps extra just because I am now residing in Lucknow, but yes, if my profile changes then yes, I will be ready, so I think yes, those are markets which are also matured and crowded and they have very good profile of lenders and customers both, but geographically yields are not very different pan India.

Sunil Tirumalai: Looking at your liabilities, the deposits have been dropping as a share, what is the strategy around that and I mean any impact from the events at the parent on this?

Sanjaya Gupta: Good question, one is that you know that was deliberate and our deposits are only second in cost to bank lines because there is lot of administrative cost also included in deposit cost because these are retail in nature and hence we knowingly brought it down and we do recognize the importance of deposits in our total borrowing mix. One thing is, it has grown over the last year by 16% and today deposits are standing as of March 31, 2018 of INR 11,586 crore vis-a-vis INR 9,987.09 crore last year, so it is not that we have lost confidence in the franchise, it is not that there has been a run on our deposits, infact the month of February was the best deposit mobilization month for us, the month in which this event happened at the promoters end and rating agencies have re-confirmed and we are very confident that going forward, we will maintain a mix of between 23% to 25% of deposits in our total borrowing mix.

Sunil Tirumalai: Last question is how low do you see the Tier-1 ratio, at what level are you comfortable before you re-capitalise again, thank you?

Sanjaya Gupta: To be very frank, the Board guidance is at about 10x lever to our Tier-I capital we should start preparing ourselves to raise additional capital or go to capital market and I think at about 11x to 12x lever of Tier-I capital, we will be raising fresh capital and I think that should come in our sort of forward journey somewhere in the last calendar quarter of 19 or the first calendar quarter of 20 and let us not forget that internal accruals are going to be smart for this Company since economy of scales are playing up and I guess by that time our NOF should be somewhere in the vicinity of INR 8,000 crore when we go to the capital markets next.

Moderator: Thank you. The next question is from the line of Ronak Raichura from Asian Market Securities. Please go ahead.

Ronak Raichura: Sir, my question was on the masala bond that you just discussed, what was the quantum of the masala bonds and has it been raised?

Sanjaya Gupta: It has not been raised, we are in the process., We have registered MTN of $1 billion, we have approval of $0.5 billion from RBI and I think the market size is generally anywhere between $250 to $300 million and that is what our maiden tranche would look like and 30% of it is already underwritten by IFC Washington to a maximum limit of $150 million on their own balance sheet.

Ronak Raichura: Sir, what rate would this be?

Sanjaya Gupta: The cost of funds gets related to the domestic cost of fund for the same tenure loan, since it will be our maiden venture 5 to 6 basis points I am ready to leave on the table because after all we work in an "SEC A" segment in all our products, we do not have the luxury of huge spread, hence the first tranche can be 5 to 6 bps higher than the domestic for a corresponding period, but later on we are certainly going to do it at a lower price.

Ronak Raichura: Sir, the second one is on your sell down strategy because it is highly ROE accretive, so do we have a strategy as to a percentage of the loan book which should be sold down or something?

Sanjaya Gupta: Yes, very well said, so basically what we are trying to do is since we are becoming a matured player, we would always like our pools to be rated and to be talked about in the external secondary market and hence it will be in the vicinity of 8% to 10% of the AUM.

Moderator: Thank you. The next question is from the line of Ayush Motha from CD EquiSearch. Please go ahead.

Ayush Motha: Sir, what was the nature of these loans sold through direct assignment route?

Sanjaya Gupta: They are all type of loans, basically retail loans, which includes home loans, LAP loans, and there are also PSL loans.

Ayush Motha: Sir, what is the rational for selling these loans?

Sanjaya Gupta: Well, it is to better manage the capital.

Ayush Motha: Like, is it because the loan was stressed or something?

Sanjaya Gupta: Well then there will be no buyers, as one condition let me just share with you, they have to be at least seasoned for 12 months on our books. Second is that the buyers will not even take a single pick if there is a single delinquency at an account level and just to explain you, our gross NPAs on portfolio is 0.33% while it is only 0.31% on the AUM because it is always cherry picked. Stressed accounts will not be sold to direct assignment, they will be sold to an ARC.

Ayush Motha: Sir, have you sold any loans to ARCs yet?

Sanjaya Gupta: No none and I really pray to God that day I do not see in my life.

Ayush Motha: Sir, the loans which were sold through direct assignment route, how much has been recovered?

Sanjaya Gupta: It has been sold in the last quarter, we did our first main securitization of INR 3,377 crore in September 2016 of which about INR 2,100 crore is outstanding, so that is the recovery that has been made in the last 18 months and this is a fresh pool of INR 3,128 crore, which has been sold almost on the last day of the financial year and that is why the current asset have bloated up on the last day to something like INR 4,035 crore.

Ayush Motha: Sir, out of these fresh ones of INR 3,128 crore, we do not have any recovery as of now, we just have a recovery of INR 2,100 crore that is from September right?

Sanjaya Gupta: Obviously, in a direct sale what happens I get a servicing fee and I get a spread and the loan EMI gets paid to PNB housing and then we transmit it to our buyers. We are the recovery and the servicing agent on behalf of the buying institution.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question is on the cost-to-income ratio it has been steadily declining from 30.87% in FY 15 to 19.54% in FY 18, now since we are growing very aggressively, so what is your outlook on whether most of the efficiency are done or we can further see the improvement in cost-to-income ratio and secondly what kind of AUM growth we can see in FY 19 for PNB Housing?

Sanjaya Gupta: I will split your question into two, one I will talk on cost-to-income ratio (CIR), so one is that we are not growing aggressively, we are growing systematically and I think economies of scale have started giving its dividend and in the next eight quarters I think our CIR will be somewhere around 16% and there is an opportunity or a headroom to further bring it down by 300 to 350 bps and your second question is how big are we going to be in the next 12 months, well we do not give guidance on our growth rates etc. but I can tell you we have the capability, capacity and sustainability to grow at about 1.7 to 1.75 times of the industry average.

Manish Ostwal: Second question on the masala bond, what kind of typical cost of borrowing including exchange risk?

Sanjaya Gupta: I answered that, it is dynamic wherever you are borrowing it depends on what the market is on that particular day or during that event and as I said, yes, as a maiden tranche, we might be paying 5 to 6 bps over the corresponding domestic bond market, but not in tranche 2 or tranche 3.

Manish Ostwal: Last question you did comment about anticipate liquidity tightness in the market, so do you see this oscillates to move up sharply, what do you mean by tightness or liquidity, can you throw some light on that?

Sanjaya Gupta: What I am trying to say is that we are in annuity business and we require long-term fund and from the last let us say one quarter, we are seeing a lot of volatility in the interest rate, so the issuers are not there and the subscribers are not there, and hence, long-term liquidity is an issue as of now, but I think with the coming sort of month and the opening up of ECB avenue etc., the government and the RBI will certainly do something to improve on it and that is why I am far more positive this quarter than I was in the last quarter, so I think it will ease out in the coming times.

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

Nidhesh Jain: I have three questions, first is on OPEX to AUM if you can give guidance that what is the potential like the guidance that you had given in cost-to-income? Second on provision for contingency, I have seen quite a bit of buildup in this year FY 18, what is our internal policy for provision for contingency, and thirdly, I noticed that the interest rate that we are offering on the individual housing loan segment, our floating-rate is materially higher than the one-year fixed rate that we are offering, so what is the thought process there and what proportion of our disbursement is coming from fixed?

Sanjaya Gupta: I will just take one question at a time. The first one is obviously OPEX to ATA which is a ratio, a further refinement of CIR, so if the CIR will come down certainly the OPEX to ATA will also come down. Today, our OPEX to ATA is in the vicinity of 68 basis points and it has come down by five basis points over the last year.

Now, I think in next two years' time, this should be in the vicinity of about 56 to 57 bps if the CIR was to come down to let us say 16% or 16.5%, so that is the upside that we are going to get from OPEX to ATA. Your second question was on provision for contingencies. We are a conservative set of management team and what we do is that we have a policy that loans which are not NPA as on quarter end but has given us grief in the previous quarters and by grief I mean even repeated bounce or repeated delinquency or things like that, we provide against them and carry a contingency provision, plus to overcome cyclical aberrations of the future, we have a small pool. We have done contingency provision incrementally of INR 62.5 crore during the financial year that we are discussing and I think going forward also our loans which are not NPA, but has given us grief, we will have that sort of elbow room to continue this good practice and mind you 100% tax is paid on this, so you can add it to your PAT and then your ROTA improves tremendously from 1.54% to about 1.62% and that is the type of I would say conservatism that we display in the way we manage our Company.

Your third question was why our floating rate is higher than fixed-rate, certainly because the one-year fixed-rate is matched to one year borrowing, whereas when we do floating-rate, it is matched to a longer term and hence one-year fixed, and we like to insulate our individual customers from volatility in the daily life and hence we offer a one-year fixed at a shade lower than I would say wing-to-wing floating-rate.

Nidhesh Jain: Is it reasonable to expect that the share of the fixed-rate will be pretty high in incremental disbursements?

Sanjaya Gupta: Well, at one-year I think this is what is going to be the USP of this organization and we are very comfortable and why do we do it because if you see the last six to seven months, there has been so much of volatility in the interest rate, as a corporate we can absorb it because we have a full-fledged treasury, but we do not want the individual home buyer to suffer. What a mortgage player is supposed to be doing is to insulate the individual customer family from the volatility of affordability of an EMI and that is what we are trying to do if you ask me culturally.

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

Alpesh Mehta: Sir, one question on the repayment rate of the individual housing loan, it looks like it is upwards of 25%, any comment on the same, and secondly of the incremental borrowings last part of the borrowings during the year has come from commercial papers, so your strategy going forward?

Sanjaya Gupta: Alpesh, I will answer your second question first because you know that the bond market was not I would say conducive for long-term borrowings and every housing finance company or NBFC has gone ahead and raised the CPs, so this is more I would say market denominated phenomenon rather than our doing. Coming on the repayment rates, our repayment rates of all products are in line with the market. The total run-off on the book was about 25% which includes even the corporate book which is at about 30% to 35%, so if you take individuals that is in the vicinity of 18% to 19%, which is in line with the industry.

Alpesh Mehta: The individual pure housing loan book at the end of last quarter was around INR 32,000 crore?

Sanjaya Gupta: Yes, because of the sell-off.

Alpesh Mehta: On the AUM basis individual housing loan would have been around INR 36,500 crore whereas we have disbursed almost INR 17,500 crore during the year on this product, so it works out to be upwards of 25%?

Sanjaya Gupta: It also includes the normal amortization through EMI, 7% to 8% gets amortized through EMI after four to five years.

Alpesh Mehta: Okay, so the 7%-8% is the EMI related repayment and 17%-18% is the normal prepayment plus some loan takeover, is it?

Sanjaya Gupta: 13%-14% is basically the prepayment which will include balance transfer also and about 7%-8% will be the natural amortization.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, most of the questions have been answered, so just couple of them, one, could you give the risk-weighted assets number for us?

Sanjaya Gupta: It is INR 44,451.64 crore.

Dhaval Gada: Could you also provide the incremental cost of borrowing for the fourth quarter and the incremental lending yields on individual housing, construction finance, and LAP book?

Sanjaya Gupta: I will give you that, the acquisition yield for quarter 4 for housing loans was 8.60%, construction finance 11.86% and non-home loans was 10.08%, at the portfolio level it comes to 9.53%.

Moderator: Thank you. The next question is from the line of Mike Sell from Alquity Investment Management. Please go ahead.

Mike Sell: Two questions, firstly could you comment on the competitive environment on whether you are seeing any further intensification over the quarter, and secondly, if your parent were to reduce their stake, is there a chance that your borrowing cost would rise as the rating agencies would downgrade you because of your ownership?

Sanjaya Gupta: The first question was, we love competition, it keeps us on our toes, it sharpens our skills and just to give you a little bit of a flavor of the Indian market, the first five HFCs where we are also there still occupy 82% of the market share at a portfolio level, incrementally it is far higher but that does not leave us complacent and hence we invest a lot in our people, in our processes, in our technology so that our go-to market strategy is far superior, our turnaround times are further refined and our customer service standards are far-far better than the customer expectations, so that is the first I would say reaction to competition. Incrementally speaking in markets where we have gone in the last let us say 24 months where we have opened brand new branches from April of 2016 onwards, they have contributed about 30% of retail business and that shows that our strategies are working well, our brand is very well accepted, and our technologies and our people and our processes are responding well to new geographies.

Coming back to PNB question, well I am not to comment on a shareholder's matter, but I will certainly like to throw some light on the rating agencies etc. and as I said in my commentary to start this conversation, the rating agencies were very very positive when this event happened, and within a week they had come up with their bulletin which reconfirmed our ratings and they very explicitly mentioned that these type of events will have no impact on the operations and working of this Company, so it was a point of inflection where they decoupled the two companies totally and that is very positive. We have raised capital after that, we have raised INR 1,500 crore for 10 years after that in the bond market, we were not priced differently prior or post the event. NHB which is our regulator reposed confidence in us and has given us INR 1,500 crore for 10 years, so I think the market has realigned that the two entities no doubt they have a common brand, but they work very differently, the management teams are different, the fungibility of operations is minimized and hence there is no operational risk or reputational risk between the two institution.

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

Ritika Dua: Sir, my apologies probably you have answered them, and I think I have probably missed your comments on two of these questions, Sir, what were your remarks on spreads if that has already been asked, and secondly, on the other OPEX is there a one-off there?

Sanjaya Gupta: First thing is that I think the liquidity is coming back in the market, there is some sort of a green shoot that we see there and I think we will be able to maintain a healthy spread anywhere between 200 to 210 basis points, I am confident because we have also revised our reference rate by 25 basis points and our customers have taken it well, both retail and wholesale customers because the other lenders also reacted in a matured manner and they did the same as we did because last time that was my apprehension in quarter 3 earnings call and coming to OPEX to ATA I think our economies of scale are panning out we should in another eight quarters get this figure of 68 bps to ATA down to about 56-57 bps.

Ritika Dua: Sir, sorry, I just wanted to know if there is any one-off in the OPEX this particular quarter?

.Sanjaya Gupta: There are two to three things which have contributed to this and one is that when you securitize a portfolio, we amortize our COA and we also amortize our fee, okay, are you with me.

Ritika Dua: Yes Sir.

Sanjaya Gupta: Now, the COA which was unamortized on the pool which was securitized was worth INR 20 crore and the processing fees on the portfolio was INR 7 crore, so as a result of securitization the CoA and processing fee is recognized in the P&L respectively. Also we did a marketing campaign which all of you enjoyed a lot that costed INR 15 crore. Further there are some HR provisions worth INR 4 to

5 crore that we are carrying forward for financial year 18-19 because the Company we knew is going to do flabbergastingly well, so we have to reward the team, so we have carried forward in the same financial year. Now, this Company has a lot of infrastructure and technology for growth and that capitalization always happens towards the end of quarter 3 or in quarter 4, so those costs also come in and they are in the vicinity of INR 3 to 4 crore.

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

Nishchint Chawathe: Sir, what prompted you to sell loans in this quarter?

Sanjaya Gupta: Better financial management and capital management.

Nishchint Chawathe: Any specific numbers in terms of what rate you could securitize?

Sanjaya Gupta: Well, we are getting a very smart spread and we are getting a very smart servicing fee.

Nishchint Chawathe: On an outstanding basis, what would be the difference between the fees that are not yet amortized and the expenses that are?

Sanjaya Gupta: It was the cumulative difference of about INR 200 crore and which all the companies will have to start doing as per IFRS, so this is one Company which is totally insulated.

Nishchint Chawathe: Just to clarify on the regulatory front from next quarter onwards?

Sanjaya Gupta: We are not very sure, yes, there has been some one-page guideline from NHB, but we are going to represent because it says both the accounting standards on a single balance sheet have to be applied, I do not know how.

Nishchint Chawathe: What was the rate hike that you have taken in non-housing?

Sanjaya Gupta: 25 basis points across all segments, across all products.

Nishchint Chawathe: Your current marginal cost of borrowings?

Sanjaya Gupta: Well, the current marginal cost of borrowing is not a very true indicator because from last two to three months, the capital market long-term borrowings have been miniscule, so I will not say that you take that as the marginal cost of borrowing.

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

Bhaskar Basu: Just two questions, firstly on the salaried mix, so it seems that salaried home loan mix has gone up from 66% last quarter to 68% this quarter, any specific reason or shift in strategy?

Sanjaya Gupta: No, change in strategy, it is as I keep saying these mixes we are a transparent organization, we are the only people who disclose it plus/minus 2% at a portfolio level give & take its large operations. Today, your company processes 15,000 loan applications a month across the country in 21 hubs and 84 branches, so these 1 or 2 % point aberrations QoQ will keep on happening, do not get worried.

Bhaskar Basu: Similar question on what is your target in terms of housing and non-housing/developer medium term?

Sanjaya Gupta: Again, plus/minus 2% at a portfolio level, 60% individual housing, 12% construction finance for residential units, so it makes it to about 72%. Out of the remaining 28%, about 15% to 16% LAP, Loan against Property, so remaining is about 10% equally divides them between CTL, LRD, and Non-Residential Premises Loan (NRPL).

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Sir, very little to complain on the micro, a couple of very macro questions about the industry, so first is this GST issue of applicability on securitization portfolio, so how has that affected the securitization market, has there any clarification come through about the applicability on the principal amount or on the interest amount and how is it affecting the pricing in this market?

Sanjaya Gupta: Securitization has got two components, one is the interest payment, interest payment will not attract GST because that is a repayment. On the servicing fee, there is a GST, which is miniscule, this we bear and we even bear it on our passbook and there is a credit input on that.

Nishant Shah: Just on the securitization bit a little bit more, the question I ask is because HDFC has been flagging off that there is some lack of clarity about the applicability of the GST whether it is only to the servicing fee portion or to the entire amount and that is why they have not been selling down loans to HDFC bank since the last couple of quarters, so I am just trying to understand, if there is any?

Sanjaya Gupta: We have bifurcated it, one is repayment, repayment we are just working as an intermediary because it is a true sale, so there is no service that we are rendering. Whereas on the service, there is a service fee which the buyer pays, on the direct sales, GST right from the beginning we are not disputing that, so that is it.

Nishant Shah: The second question is on pickup in affordable launches by developers, so are you seeing any traction come through especially in the southern states for affordable?

Sanjaya Gupta: I would say affordable housing you should treat as a mass housing because if you see 150 square meters of carpet area INR 18 lakh per annum disclosed income that is not actually bottom of the pyramid customer, the next slab is 120 square meters and below that is INR 6 lakhs and 60 square meters, so that is bread and butter of all housing finance companies. Out of that segment if people qualify for PMAY scheme, we send the data to National Housing Bank, we have got subsidies in the past for 892 odd accounts worth about 20 crores, we have credited it into the accounts of our customer, so that is business as usual. As I said in my opening remarks about 22% of our incremental portfolio is all about loans below 25 lakhs, so that one can say is affordable. Now, whether they qualify, or they do not qualify for PMAY is dependent on I would say there demographic details.

Nishant Shah: Fair enough, my question was more on the supply side, so are the developers getting into those states the smaller area, the lower ticket size kind of project?

Sanjaya Gupta: Very good developers, crème de la crème developers have realized that this is the future and some of them are cherry pick developers, they are all going but those are large townships, they will take more than 10 years to get completed, but for the income tax rebate they are doing it in five years, so they do it in phases.

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

Amit Gupta: Sir, I just want to know your Tier-I ratio is coming down, your gearing ratio is also coming down, theoretically if your Tier-I is coming down your average should go up?

Sanjaya Gupta: Due to securitization, the gearing ratio came down.

Amit Gupta: Basically, Tier I is coming down your leverage should go up?

Sanjaya Gupta: Leverage for the year has gone up.

Amit Gupta: It has come down.

Sanjaya Gupta: Look at the average gearing of FY17 was 8.72x, average gearing of FY18 is 7.6x, why this has happened is because the equity came in only end of November 2016, so the equity was only in our books for four months, where the full equity advantage we have taken in the first year which was my opening sentence of today's earning call, that is why that has happened.

Moderator: Thank you. The next question is from the line of Miyush Gandhi from Canara Robeco Mutual Fund. Please go ahead.

Miyush Gandhi: Sir, is it possible to share disbursement market share in top four to five cities or a year market share?

Sanjaya Gupta: I will tell you one thing, the first 10 cities across India constitute anywhere in between 65% to 70% of the business at a market level and so is the case with us also and the remaining continue 35% to 30%.

Miyush Gandhi: If I am not wrong, we used to claim almost 10%-12% market share for some of the top five to 10 cities?

Sanjaya Gupta: We still have.

Miyush Gandhi: In those cities, what would be our AUM market share, is that a number that you can share?

Sanjaya Gupta: That I will not like to share. I have those numbers branch wise but I will not like to share.

Miyush Gandhi: Sir, just one last thing, can you give some color on the network expansion that you plan over FY19 in terms of employees and branches?

Sanjaya Gupta: We will be opening 24 more branches in 17 new locations.

Miyush Gandhi: This new locations will be outside of these top 10 cities?

Sanjaya Gupta: New locations would mean mutually exclusive to the ones where we are present now.

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

Koteshwar Rao: With the GST and RERA settling down, I am just asking like where the housing as an industry, can we expect a better industry growth averages than what we have seen in the last couple of years?

Sanjaya Gupta: I really wish that and I hope so and I think this year is going to be better than the previous ones.

Koteshwar Rao: The way PNB Housing is quoting around 1.7 to 1.75 times of the industry growth rate, so are we good to maintain this kind of growth rate?

Sanjaya Gupta: We have built those capacities, Mr. Rao, capacities do not only mean infrastructure, they are a combination of policies, SOPs, technology, network, people, go to market strategy, vendor management, a whole gamut of operations, we have that capacity and that is why you know our branches which we open in 18-19, 24 in number are going to really stand us in good stead and also branches which we opened in 16-17, 17-18 are doing very well.

Koteshwar Rao: One last question in the last concall like it was being told like the ROA levels can be maintained from 1.7 to 1.85 by the time we come back to market for the capital infusion?

Sanjaya Gupta: Give us eight quarters and we will be there. It is also the way the management works, as I was saying if I would have not done the contingency provisioning, my ROA is already 1.62%, but it is a conservatism that sort of makes us do what we are doing because we do not want to be totally going berserk and calling out great numbers and tomorrow because of cyclical aberrations or something, we have nothing to fall back upon.

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

Rakesh Jain: Sir, I was just looking at the yields for FY 17, the yields were much higher than FY 18, so any particular reason for falling in yields?

Sanjaya Gupta: The market made them come down because the borrowing rates also came down, so as the yields came down from 10.76% to 10.07%, but if you see the borrowing cost came down much sharper from 8.55% to 7.71% and hence our spread expanded from 2.21% to 2.36%.

Rakesh Jain: So any particular segment which basically has witnessed the decrease in the yield?

Sanjaya Gupta: It is not a segment, it is the market, it is a macro market.

Rakesh Jain: Can I get your GNPA for construction finance and LAP?

Sanjaya Gupta: At a Company level we have gross non-performing assets on the portfolio which is on our books at 0.33%. In housing loans, it is 0.35%. In our non-housing portfolio it is only 0.27% and the combination of two brings it to 0.33%.

Rakesh Jain: Sir, just one more thing what would be the amount that you have received under PMAY scheme?

Sanjaya Gupta: PMAY, I think we have till now received, I will just give you the figures, we have received for 892 accounts amounting to INR 20.03 crore as subsidy.

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

Piran Engineer: Sir, I just had one question basically over the last few quarters or couple of years, we have done a good job at reducing our OPEX ratio, but from here on probably the improvement is limited and on the other hand we are seeing a probably 25 to 30 bps sort of compression in the spread, so how exactly do we target ROA improvement, I get that the contingency provisions will not recur year after year, but that is only 10 to 20 bps of your total loan book, so I am really struggling to figure out how you will improve our ROA by 25 to 30 bps over the medium term?

Sanjaya Gupta: One is obviously, I mean these compressions in spread are not going to be permanent, this is the guidance only from QoQ that I keep giving and fortunately I was proved wrong by God and the macroeconomic factor that the spread never got compressed the way I was projecting it to get compressed and I hope God and the macro indicators remain the way they are, but I will still be conservative.

On the second, thing is that there are two to three elements in our operation which in the medium-term are going to give me an upswing in my OPEX or CIR. One is that this growth sort of agenda that we are carrying on our shoulders I think 18-19 is going to be the last year in which such a phenomenal infrastructure, technology, people, and geographical expansion is going to happen before we go to the capital market once again and that will bring my OPEX down by about 6 to 7 bps. Another 4 to 5 bps I think I am going to get because our efficiencies are increasing and hence we always say please look at our productivity indicators which we put up in the Investor presentation, so that makes me a little sort of I would say sure that this figure at about eight quarters should be around 56 to 55 bps, so I think I have answered both on spread also and on the OPEX also, how it is going to happen.

I will just give you a figure and that will really stun you people. Last year, which is 17-18, we opened our total goto market capacity of about 2 lakh square feet of office area. When I say office area it is not only standalone haunted office area, it has people, it has network, it has SOPs, it has vendors, it has an entire ecosystem. In the year gone by, your company has added another 1 lakh square feet of economically usable area and that will give us an impetus and will be a catalyst for our future growth for this year and the next year. This year also in 18-19, we are going to repeat something like that and then I think we are going to have a steady state of our business as usual expansion and not having this sort of a robust expansion plan, we will not require to have.

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

Pawan Rathore: Sir, I am sorry to have missed it out, but what proportion of the book is of home loans is affordable housing?

Sanjaya Gupta: 22% is below 25 lakhs.

Pawan Rathore: Do you wish to expand it?

Sanjaya Gupta: As I said, we are not going to go berserk, we have 3S philosophy of doing business i.e. Sensible, Substantial which means relevant and Sustainable. With these three principles, we will keep on doing business.

Moderator: Thank you very much. Ladies and Gentlemen, that was our last question. I now hand the conference over to Ms. Deepika Gupta Padhi for the closing comments, over to you.

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

Sanjaya Gupta: Thanks a lot, Good Night. Thank you for being with us.

Moderator: Thank you very much members of the management. On behalf of PNB Housing Finance Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.