pnb Housing Finance Limited
Ghar Ki Baat

November 23, 2016

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

Scrip Code: 540173

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

Symbol: PNBHOUSING

Dear Sirs,

Sub: Investors Call transcript

Please find attached herewith the Investors Call transcript for Investors Call held on November 17, 2016.

This is for your information and records.

Thanking You,

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

“Investors Call of PNB Housing Finance Limited”

17th November, 2016

SPEAKER: **Sanjaya Gupta, Managing Director**
Shaji Varghese, Business Head
Ajay Gupta, Chief Risk Officer
Jayesh Jain, Chief Financial Officer
Deepika Gupta Padhi, Head-Investor Relations

Moderator: Good day, ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. We welcome you to the PNB Housing Finance Investor Call. For the duration of the presentation, all participants' lines will in listen-only mode. We will have a Q&A session after the presentation. I would like to now hand over the conference to Ms. Deepika Gupta Padhi from Investor Relations. Thank you and over to you, ma'am.

Deepika Gupta Padhi: Thank you, Harpreet. Good evening and welcome, everyone. We are here to discuss our H1 FY16-17 results and the impact of demonetization on the company. With me we have our senior management team represented by Mr. Sanjaya Gupta, Managing Director; Mr. Shaji Varghese, Business Head; Mr. Ajay Gupta, Chief Risk Officer; Mr. Nitant Desai, Chief Operations and Technology Officer; Mr. Anshul Bhargava, Chief People Officer; Mr. Sanjay Jain, Company Secretary and Head Compliance; and Mr. Jayesh Jain, CFO.

We will begin this call with the opening remarks from the management followed by an interactive Q&A session. Please note that some of the matters we will discuss today are forward-looking including and without limitation statement relating to the implementation and strategic initiative and other affirmations on our future business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the developments of our business, a number of risk and uncertainties and other important factors may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligations to publicly revise any forward-looking statements to reflect future events or circumstances. With that, I will now hand over the call to Mr. Sanjaya Gupta for his opening remarks. Over to you, sir.

Sanjaya Gupta: Thank you, Deepika. Good evening, everyone. I welcome you all to our first investor call after the initial public offering. The company got listed on the National Stock Exchange and the Bombay Stock Exchange on 7th November, 2016, and declared the first result post IPO on 15th November, 2016. Before I speak of the regular H1 performance, I would like to thank everyone for supporting the IPO of the company. This was the largest ever IPO by a housing finance company / NBFC in India and the largest primary fund raise in this calendar year. The infusion of equity in the company will allow us to spread our branch network further and grow our loan book in a healthy fashion. I understand that there would also be people on this call with whom we are

interacting for the first time. I would therefore give a brief description about the company before I move on to the performance of H1 financial year 2016-17.

PNB Housing Finance started its operations in 1988 as a registered housing finance company with the National Housing Bank. The company saw manifold growth in its last six years towards the business process re-engineering that was initiated in 2010 once it became a public-private enterprise. Multiple initiatives including new management centralization and standardization of business processes, change in the organization and sourcing strategy with better underwriting and work flow technology which is scalable and plug & play were undertaken during this period. Since 2010 post this business process re-engineering, our asset under management (AUM) grew by 8.5 times, our deposits grew by 32.3 times and our PAT also grew by 4.7 times. Today, as a consequence of this, we are the fifth largest in terms of AUM. We are the fastest growing HFCs amongst the top six. We are second largest deposit-taking housing finance company. We have a robust and scalable technology which has enabled our target operating model. We are a pan-India housing finance company today with 49 branches and 18 hubs as on the 30th of September 2016. We have the best-in-class asset quality with gross non-performing asset amongst the lowest in the industry. We have a diverse and cost-effective funding base, and we have a strong supportive parent along with a highly professional management team and higher level of corporate governance.

Now coming to the financial performance of H1, these are some of the highlights. The spread on loans increased by 7 basis points to 2.17% during the period which grew from 2.10% during the same period of the previous year. Our net interest income (NII) increased by 45% to INR 437.6 crores in H1 of 2016-17 from INR 301.5 crores of H1 of the previous year. The net interest margin unfortunately declined to 2.73% during the period compared to 2.95% during the same period of the previous year, and this decline in NIM is primarily on account of higher gearing which on an average during H1 of 2016-17 was approximately 13 times as against 10 times during the previous year.

The cost of borrowing declined by 45 basis points to 8.79% in H1 2016-17 as against 9.24% during H1 of 2015-16. The OpEx to Average Total Asset (ATA) declined by 12 basis points to 0.77% which was 0.89% over the same period of the previous year. During the period, a provision of INR 25 crores was made as

standard asset provision and a provision of INR 4.26 crores was made for gross non-performing assets.

We also reversed the contingency reserve of INR 24.50 crores which was created over and above the provisions required to be maintained under the NHB directions during the period. The profit after tax increased by 75% to INR 233.6 crores during H1 of 2016-17 as against INR 133.6 crores during H1 of 2015-16. The return on assets increased by 11 basis points to 1.46% during H1 of 2016-17 as against 1.35% in H1 of 2015-16. The return on average net worth stood at 20.73% for H1 of 2016-17 as against 15.45% during H1 of the previous year. These are some of the financial highlights.

Now coming to operational highlights: In terms of operations, our disbursement grew by 48% to INR 10,175 crores which in comparison to the previous year stood at INR 6,869 crores for the same period of the previous year. The assets under management grew by 56% to INR 34,896 crores. The loan assets increased by 47% to INR 32,236 crores as of 30th of September 2016. The company sold loan assets of INR 2,440 crores in this period under the loan assignment route, and the total outstanding loan sold through this mechanism stood at INR 2,660 crores. The loan assets as of 30th September, 2016 comprises 61% of individual home loans, 11% of construction finance, and 28% of non-housing loan. The gross NPAs of the company stood at 0.26% of the loan asset as of 30th of September 2016 as against 0.23% as on 30th of September 2015. The gross NPAs on AUM basis were at 0.24% as on 30th September 2016. The net NPA stood at 0.18% to the loan assets as on 30th September 2016. During this period, your company raised ECB worth $150 million from Asian Development Bank under the Affordable Housing Programme. The company has got diversified borrowing mix with 43% getting contributed by non-convertible debentures, 25% by deposits, 10% as re-finance from National Housing Bank, 14% commercial paper, and remaining through banks.

Our deposit portfolio grew by 14% to 7,831 crores as of 30th of September 2016 against 6,877 crores on 30th September 2015. In terms of our service locations and branch locations, we added two new branches and two new hubs during H1 of FY2016-17. In addition to this, we made eight more branches operationalized and we became fully functional during the period. As on 30th September 2016, the company has 49 branches and 18 hubs which are equally distributed amongst North, South and West. We also service our customers through 21 outreach single-man offices spread all over the country. With this, I will hand over to my

colleagues Ajay Gupta and Shaji Varghese to give you a little bit of a sense on the impact of demonetization on our loan book and also the gross profit of the future. Ajay, over to you.

Ajay Gupta: Thank you. Good evening, everybody. Actually, a lot has been written and spoken about the impact of demonetization. Hence, we would like to restrict our discussion of the impact of demonetization on our portfolio. Let me first touch upon our LAP portfolio where a lot of queries have been raised by several analysts and lot of news articles are floating in the market. The key features of our loan against property portfolio as on 30th September 2016, the LAP was at 18% of total assets, average ticket size for this part of the portfolio is about INR 53 lacs which indicates profile of our customers in this segment. A large portion of our customers are in the age bracket of 40 to 55 years having business vintage of more than 10 years on an average and maybe the second generation of business. They all have income assessed on documented income proof. Majority of customers have banking relations in terms of CC limits, OD limits or other line of credits from the banks. Weighted average LTV which is a good indicator of the portfolio is at 43% for this segment, and in most of these accounts mortgage properties are self occupied residential properties. These loans are mainly availed for business purpose either working capital requirement or for growth capital like investment in plant and machinery etc.

Now impact of demonetization of this segment. As I see, the direct impact of demonetization could only be on liquidity and not on viability or solvency of the business. This means there may be a small dip in the business volume in a short term. However, we expect that this phase will get over in the medium term with infusion of liquidity in the economy. Another concern raised among the analysts community is impact of demonetization on LTVs. In this context, let me share with you that in India, housing is a need which people cherish. It is not a trading commodity where the decisions of purchase and sale depends on the daily market price. So, even if there is a fall in price which may be temporary in nature, it will not adversely impact portfolio quality. At portfolio level, the weighted average LTV for housing and LAP portfolio stood at 66% and 43% respectively. Lower LTV indicates enough margins even if there is a correction in property prices in short term or in the near future.

Having said this, there may be increase in bouncing, delinquencies for a very short period. Once currency circulation gets settled, then things will ease out and people will have an increased liquidity. Moreover, our repayments are through banking

channels indicating lesser impact due to shortage of liquidity. Let me now hand over to Shaji to talk about the growth perspective.

Shaji Varghese: Thanks, Ajay. Good evening, everybody. This is Shaji Varghese. I head the business. Regarding the growth opportunity with demonetization of currency and other recent developments, many prospective buyers especially the self-employed customers are likely to access formal credit facility than at the past. In the long run, this may help to expand the market. In the short term, there is a likely chance for postponing the decision to buy the property. Once currency circulation settles down and sentiments improved, we hope the sales will also pick up. In our experience, most of the primary purchases from the developers are through banking system. Hence, the impact will be relatively less. Over the last five years, our growth momentum has been higher than the industry average and our endeavors will continue to be the same. That is broadly the outlook on the growth.

Sanjaya Gupta: This is a brief from our side on H1 performance, plus a few sort of forward-looking statements on the impact of demonetization and the business growth prospect. We will now open for Q&A session, and you are most welcome to ask any question.

Moderator: Thank you so much, sir. With this, we will open the floor for a Q&A Interactive Session. Participants, if you wish to ask a question, you may please press “0” and “1” on your telephone keypad and wait for your name to be announced.

Sir, the first question of the day, we have from Ravi, individual investor. Your line is unmuted.

Ravi: Sir, in the LAP portfolio, how much has been given to salaried employees?

Ajay Gupta: It’s a product which is essentially for self-employed people. As I mentioned, the end use of the purpose of the loans is for business purpose. We are not into consumption-based lending. Hence, over 95% of portfolio would be self-employed segment.

Moderator: The next question we have from Raghuvir from State Capital. Your line is unmuted.

Raghuvir: Congratulations on the good set of numbers. Sir, what is the percentage of LAP portfolio in the total portfolio?

Sanjaya Gupta: That is 18%. LAP to individuals is 18% in the portfolio.

Raghuvir: And what is the LTV? 43%?

Sanjaya Gupta: Yes and about 85% of properties are self-occupied residential property.

Raghuvir: What is the percentage of developers?

Sanjaya Gupta: You mean construction finance to developers?

Raghuvir: Yes.

Sanjaya Gupta: That is about 11%.

Raghuvir: Okay. What will be the impact of demonetization on the growth of individual housings?

Sanjaya Gupta: See, Raghuvir, we should not be making any speculative statements. It is too early to give a guidance. What my colleague, Mr. Shahji Varghese also said, we are getting a feel from our different markets spread all across the country. As of now, there is not much of a threat, but we envisage because people are involved in getting their old currencies sort of exchanged, etc. There might be a temporary dip of one or two months but we do not envisage a long-term negative impact. In fact, what we envisage is that it is bringing method to madness and especially because the penetration of mortgage to GDP is very low in our country, this is a golden opportunity that the informal sector also comes into the formal sector to take housing loans and LAP loans from the formal sector and increase the penetration of mortgage to GDP.

Raghuvir: Yes, sir. What is the ticket size in the housing loan, individual housing loan?

Sanjaya Gupta: It's INR 32 lakhs.

Raghuvir: And most of the people are salaried or self-employed?

Sanjaya Gupta: Yeah, I mean obviously there are certain self-employed people also. But as you know, formal sector housing loans, home loans are primarily taken by salaried, so is the case with us.

Raghuvir: Okay. Sir, now our book value is around INR 5,000 crores including the IPO money so if we look at the leverage, before IPO, it is around 11 times

Sanjaya Gupta: No, no. The leverage was far higher. Raghuvir, and that is why we had to securitize this book of INR 2,440 crores in H1 of the year because our leveraging was at almost at 15 times towards the end of H1 period. And that is why though spread increased from 2.10% to 2.17%, the NIM got compressed because of high leveraging on an average at about 13.5 times during H1 period.

Raghuvir: Okay. So, now book value is INR 5,000 crores. So, we will use this for the growth or we will reduce the leverage in the balance sheet?

Sanjaya Gupta: No, no. So, I as a CEO always say that it is our responsibility to make sure that the capital is utilized optimally. So, we will always try to optimally utilize the internal accruals and this capital. And on an average in the midterm, your company will be levered between 9 to 10 times.

Raghuvir: Okay. Thank you very much, sir. This is from my side.

Moderator: The next question we have from Rakesh from Asian Market. Your line is unmuted.

Rakesh: Yeah. Good evening, sir. I just want to know what is our customer mix between the salaried and self-employed in individual housing and in LAP segment as well.

Sanjaya Gupta: LAP is generally all self-employed because that's the product which is used by self-employed for business purposes. Home loans majority is salaried.

Rakesh: And can you quantify, 90%?

Sanjaya Gupta: No, it was say about 60-40 in home loan.

Rakesh: And how many accounts you have in home loan

Sanjaya Gupta: We have 100,000 accounts.

Rakesh: I just want to know also what is the yield on LAP we have currently, and individual housing

Sanjaya Gupta: Yield on LAP portfolio is about 11.30%. And on housing it is 9.60%.

Rakesh: Okay. So, recently, have we done any change, because most of the banks have taken a price cut in terms of their lending rates; so have we done any…

Sanjaya Gupta: So, what happened was because of the IPO, we could not do any sort of, I would say, rate change. We have recently after our H1 review done an ALCO (Asset Liability Committee) Meeting to revise the rates down.

Rakesh: Okay. So, your home loan is at 9.5 or till…

Sanjaya Gupta: It is 9.30% for salaried and 9.55% for self-employed and about 10.50 for LAP. Actually it's a band of 10.50% to 11%.

Rakesh: Okay. Thank you, sir.

Moderator: Thanks for your question. Next we have Piran from Motilal Oswal Securities. Your line is unmuted.

Piran: Good evening, sir.

Sanjaya Gupta: Hi, good evening.

Piran: Sir, my question is if you could just briefly elaborate on the underwriting process followed specifically in the LAP segment. I mean do you consider like cash flows of your clients etc

Sanjaya Gupta: We do LAP cases only on documented evidence income. And the average income on our LAP portfolio for months for our LAP customer is about INR 390,000 per month.

Piran: And say out of every 100 customers or loan applications that you get, how many do finally convert into sanctions?

Sanjaya Gupta: For the LAP product about 62%.

Piran: Okay. Thanks.

Sanjaya Gupta: Welcome.

Moderator: Next we have Bhavik Dave from Reliance Mutual Fund. Your line is unmuted.

Bhavik: Hi.

Sanjaya Gupta: How are you doing?

Bhavik: I'm good. Sir, just a couple of questions. Sir, on the book that we have in the north, we have been hearing that the north real estate

places have been under pressure and players who are present in the north have gone through some difficulties on the asset quality. Although our books have held up really well, but the point is are we seeing any signs of asset deflation in the north market especially in NCR and Delhi and Haryana.

Sanjaya Gupta: Bhavik, you're right. So, one is all the large players are available in north also. So, we are not the unique ones. So, it's a common sort of a portfolio distribution. 33% in the north and the rest is in south and west. Now, when you talk of north specifically, it has got into the limelight primarily because of micro markets in Gurgaon. And what happened in Gurgaon is the density norms. They do not allow affordable housing or mass housing to sort of mushroom in that particular county of Gurgaon. On an average, a dwelling unit has to be about 1,600 to 1,700 square feet. And even if you're selling at INR 6,000 per square feet, the landed cost is in the vicinity of about INR 3.2 to 3.5 crores per unit. That is why the sales have dipped because the sentiments were down. Now, having said so, the same situation is a contrast in Noida, but there are exceptions. If you were standing on the, let's say, expressway and your back is towards Delhi and your nose is towards Agra, on the right hand side you will have NPAs. Whereas on the left hand side still between five of our developers where we have large exposures, we are able to sell between 400 to 450 units a month. So, it all depends in which micro market, what are you tapping and how are you sort of going about judging the marketability or the salability of the project. And that is how different housing finance companies have got different flavors in the portfolio while they are in the same geography.

So, micro markets have to be seen with a lens and not entire geography at large. So, for example, Ghaziabad, your Vaishali, Noida, Greater Noida, Noida Extension, they're all doing very well. In fact, wherever we had a little bit of construction finance, because we have a small portfolio of construction finance vis-à-vis the other lenders. But wherever we have, the cash flow, because we made the right choice in the project, are much faster than what we had envisaged.

Bhavik: So, you mentioned Vaishali, Noida, Ghaziabad are doing well. So, which are the geographies that are under a little… so, micro markets which are facing some stress…

Sanjaya Gupta: As I said, what was NCR known as, NCR was known because of Gurgaon. Nobody before this even talked about Trans Yamuna areas, because Gurgaon had a large ticket sell. It had all the fancy buildings which were talk of this country. Now, today they are not selling, the velocity is low. So, the entire market is bad. But having

said so, some of units are selling. And especially what we see is a very different sort of sales velocity mapping. Three, four years back, the highest sales velocity used to be at the time of launch of a project. Today, the highest of the peak sales velocity is when a project is about 60-65% complete, and still the developers has inventory to offer by choice. So, when it comes to RERA, demonetization, GST, I think overall they will all be positive towards housing finance and mortgage penetration to GDP.

Bhavik: And sir, again on your LAP books, do we get a chance to monitor the end use of this money or is it like there is no chance for us to envisage that how is the end use of this entire money for the business that they have taken, get utilized? Is there any way that we are able to monitor that?

Ajay Gupta: There are two aspects to this. When we do a credit evaluation, we evaluate what is the purpose of this loan and whether the loan sought is commensurate to the business and how the funds will gel with the business or growth number. So, while doing the credit appraisal, we take into account the requirement and the justification of seeking a loan by the customer. But this being a LAP, we have a very limited scope or way of monitoring the end use. Wherever we feel that we need to monitor the end use, on a case-to-case basis we do that.

Bhavik: Sure. And just finally on your normal housing portfolio, can we have a median CIBIL score that we have for our customers?

Ajay Gupta: So, if you look at overall for the retail portfolio, average score is about 747 a number and upward of 90% of customer would have a CIBIL or a credit bureau score.

Bhavik: Sure. That's all. Thank you, sir. Thank you very much.

Sanjaya Gupta: Thank you.

Moderator: We have a question from Rakesh from Asian markets. Your line is unmuted.

Rakesh: Yeah. Thank you for the opportunity. Sir, I just wanted to know what is… post this demonetization, is there any, we have seen any drop in our overall disbursement?

Shaji Varghese: Rakesh, in long-term, it's a positive move. In Short-term, there is a likely chance for many prospective customers may defer the decision because there are so many news floating around. There can be a chance for a couple of months prospective customers

may delay that decision, it is likely, more so in the retail market. In primary market what we really see is anyway the transaction majority happens through the banking system only. So, we don't expect much of drop or volatility there. In retail market, there can be an indecision which can influence to an extent.

Rakesh: Okay. And, sir, how much percentage of our book is into construction property in individual loan housing segment?

Ajay Gupta: About 50% of home loans would be under construction property. Having said that, this 50% would not mean that these under construction properties is in nascent stage. Bulk of under construction property is where the project is in the advanced stage. And close to 80% of under construction properties are to A, A plus premium builder. We have our internal scoring mechanism of rating a builder for retail funding. So, under that parameter, close to 80% of under construction portfolio would be to the premium on good developer.

Rakesh: And sir, how much percentage of DSA business we have for sourcing of loans?

Shaji Varghese: 43%. . The remaining is through in-house.

Rakesh: Okay. In LAP and home loan, can I get individual segment-wise?

Shaji Varghese: See, in LAP, around 85% of the LAP is sourced by DSA and the 15% is by the In-house. So, from there, we can understand how much home loan is.

Rakesh: Okay. Thank you, sir.

Moderator: Next we have from Rahul Ranade from Goldman Sachs. Your line is unmuted.

Rahul: Thanks for the opportunity. Just one clarification actually. In the loan against property, we said that 95% of the loans would be kind of income generating or business purpose loans, right?

Sanjaya Gupta: Yeah, Rahul.

Rahul: Okay. Because I was just looking at your website where it says that LAP is also given for some personal requirements like, say, education or marriage of children and some other personal requirements.

Ajay Gupta: So, as a product, we have that offering. But hardly anybody is taking these loans so 95% is for business purpose. Essentially the product is for business purpose

Rahul: Okay. Alright. Thank you.

Moderator: Once again, participants, if you wish to ask a question, you may please press “0” and “1”. At this time, there are no further questions in the queue. So, I would now like to hand over the floor back to Deepika Gupta Padhi for final remarks. Thank you and over to you, ma’am.

Deepika Gupta Padhi: Thank you, everyone for joining us on the call. If you have any questions unanswered, please feel free to get in touch with investor relations. The transcript and the presentation of this call will be uploaded on our website www.pnbhousing.com. Thank you.

Sanjaya Gupta: Thank you. Have a nice evening.

Moderator: Thank you, speakers. Thank you, participants for joining the session. That does conclude our investor call for today. You may all disconnect now. Thank you and have a pleasant evening.