Indiabulls Financial Services Q2 2013 Earnings Call 22 Oct’12

Operator

Good afternoon. Thank you for standing by and welcome to Indiabulls Financial Services Q2 FY13 Post Result Conference Call hosted by Credit Suisse. At this time, all participants' are in a listen-only mode. There will be presentation followed by question-and-answer session. Please be advised that this conference is being recorded today. I would like to hand the conference over to Mr. Graham Lappin. Over to you, sir.

Graham Lappin

Thank you very much. As we say, just like to welcome you all to the Indiabulls Financial Services Second Quarter Analyst Call from the management, we are delighted to have the CEO Mr. Gagan Banga; the Deputy MD Mr. Ashwini Kumar; Senior VP of IR, Mr. Ramnath Shenoy; and lastly from Treasury Mr. Binan Shah.

On behalf of Credit Suisse, I would just like to thank the management for offering us this opportunity to host this call. And if I could first ask to give us a quick brief overview of the results and then we will handed straight over to question and answers. Over to you then, sir.

Gagan Banga, Chief Executive Officer

Yes thank you. This is Gagan Banga and I am joined by Ashwini who is a DMD, Ramnath who heads IR and Binan who runs the Treasury. Thank you all for coming in.
The company in line with its stated dividend payout policy has declared a dividend of Rs. 8 per share for the first half, this is an interim dividend. And the total half-year interim dividend outflow, including the corporate dividend tax, would be 290 crores.

This quarter has been important from a couple of very significant progression that the company has made. One is on the whole reverse merger side and the reverse merger, which all of you are well aware is a court led process, so that process is well on its way. Shareholders, unsecured and secured lenders have all given their node in the month of September. The court has set the date of 12th of December for the next time hopefully the final hearing. And I expect that the court not should be in our hand by the 31st of December 2012. And so well within the fiscal year the whole process of the new stock listing et cetera will be complete.

We believe that this is an extremely opportune time for Indiabulls Housing Finance to also change its name to be in line with the mortgage business and also to be sort of representing the changed nature of the business from being more entrepreneurial to more institutionalized. So, while we've being doing a lot of stuff at the company management and at the board level to institutionalize the whole organization, I believe the name change will sort of depicted more accurately. So, we've initiated that process. And I'm reasonably confident that when the new stock of the reverse merged entity list, it will list with a new name which will be a non-Indiabulls name.

We've also done two significant tie-ups and these tie-ups are more indicative of hopefully many more such tie-ups happening in the future. So, we believe that distribution is key to the whole home loans business especially the whole salaried segment which we believe is the long-term focus area of the company. So, in the domestic market we've done the tie up with Yes Bank. Yes Bank as you all are aware has been trying extremely hard to increase its own retail presence and had focused extremely hard on improving its CASA ratio et cetera. So, we believe that it would be addressing a lot of retail client and we would want to ride on that whole process where they are trying to talk to more retail clients. And now Yes Bank would be sourcing home loans for us.

Similarly for the NRI market which is also reasonably large and as recent newspaper reports have also indicated that it's a market which is growing at a significant pace for addressing the UAE and Qatar region, including Dubai, all of these markets would get addressed through Doha Bank, through a tie-up with Doha Bank, through a tie-up with Doha Bank, we would also setup a branch but this tie-up with Doha Bank which has a significant retail presence in those markets would help us address the whole NRI segment in the Gulf reasonably well. So, these are two tie-ups and results of this should start showing in the next six to nine months.

Now, moving back to the numbers. The revenue of the company stood at 2,204 crores which is about 28% higher than last year.

The NII has grown by 11.5% to 969 crores. The book yield is stable at about 14% as a result we have been able to maintain our spreads of about 350 basis points.

Cost of money came down by about 15 basis points, book yields are more or less stable. So spreads would be around 350 basis points and I would like to express my confidence that we are -- having gone past the increasing rate cycle now in the downward cycle, we are more than confident of being able to maintain our spreads at about 350 basis points going forward.

PAT, as for the half year, grown to 571 crores, for second half is at 303 crores.

On the balance sheet, the overall sheet size has crossed 35,000 crores, so it stands at 35,352 crores. This is an overall increase of 25%. Assets under management have grown by 30.5% to 31,000 crores. Disbursements have stayed steady at give or take 300,000 crore levels and the whole on home loans is now adding to the stickiness of assets. So we are seeing that our pre-payment rate this year are lower than pre-payment rates last year.
Incremental yields -- incremental disbursements are happening at a yield of between 13.3% to 13.4%. This is also broadly in line with where we were in last quarter. Home loans yields have come of marginally, but the other products continue to be disbursed at more or less the same yields as last quarter.

Network has increased to 5,311 crores. This is after adjusting for a Rs. 8 per share dividend and the related outflow. Capital adequacy is at related outflow. Capital adequacy is at 18.87% and Tier 1 capital adequacy is a little over 17%. On the borrowing side, we have been focusing on making sure that, our bond currency gains in traction.

So, we have made significant progress over the course of the last 12 months from a scenario in 2010 where we were largely placing our bonds with bank and some mutual funds, we been able to progress to life insurance companies. First it was public life insurance companies and then we gained traction with private life insurance company, and in the last quarter, we have also been able place our bond with some large business houses in the country. So, that progress is going on fine and we believe that we are firmly on the part of establishing our bonds as a very firm and liquid currency.

On the ensuring that our asset liability mismatch is marginalized, I had shared about year and a half ago that we've imposed a cap of 15%, earlier this year in our April along with our results declared in April for the full financial year. I had also said that we will imposed a self, imposed cap of Rs.3,000 crores for our short-term borrowing. I'm happy to report that we are well within that self imposed cap and commercial paper is only about 8%.

This is despite the fact that now the yield curve is reasonably stiff and a lot of money is available at very cheap rate. But we do not wish to get into that temptation and create structural issue for the company at a later date.

The company continues with its liquidity position. The liquidity position stood at 5,700 crores and this liquidity gives us the confidence that even if tomorrow any unfortunate event is to happen in the world or in the country, macro or micro, we are safe for over a year and half. And that really is the philosophy of the company, which will also allow us to continue to improve on our credit ratings and over a period of time, reduce our borrowing cost and perhaps expand our margins marginally.

So liquidity, we will continue to focus and for as of end of last quarter we had 5,700 crores of money, which were invested either in cash, fixed deposits, current accounts of banks, investment in liquid scheme of mutual funds or bonds of AAA rated paper or banks. So, that is there is no equity or any other type of investment that we have made.

Asset quality and where as we have a concern on asset quality in the country. Thankfully, our focus on home loans has allowed us to maintain asset quality. Gross NPLs are at 0.76%, net NPLs are at 0.13%. This is more or less in line with other large housing finance companies. And I do not personally see any pressure on NPLs in the near-to-medium term. And over a period of time I believe that this will also start reflecting in our overall cost of credit which is provisioning and write-off cost.

I indicated last year that we do not need to spend much more money to be able to manage our books. So we spent 2 crores to 3 crores lower than last quarter, and I believe that at this rate of 90 crores to 100 crores of expenses per quarter we should be able to get this whole year done, and we will not need to increase our expenses to manage the increase book or to manage the increased the disbursements.

So, this is it from my side. From a key development point of view I think the two key takeaways of the organization of the business for quarter two are that one our book and profitability growth continue at a strong level. And I reiterate that we are reasonably confident of at least meeting our guidance and given that in the first half we've been able to better the guidance. I am hopeful that we should be able to cross the 25% number for overall profit and book growth.

Dividends would continue to get paid at a rate of 40% to 50% for shareholders and the next very significant step for the organization is being indicated in this exercise of name change. So, we had started the Indiabulls Group in 2000. And since 2000 in the last 12 years we have come a long way in few businesses.
Indiabulls Financial Services is the flagship of the Group, and it took us as management some time to convince all stakeholders that

now Indiabulls Financial Services has reached a level where it needs to transform itself from an entrepreneurial organization to an institutionalized organization at a perception level; even though the organization has been operating purely by management and not by promoters for over 2.5 years now. But that perception change needs to be delivered to all stakeholders in the organization and thankfully everybody in the Board has agreed with me. And now we'll go ahead and do this name change at the opportune time right after the Reverse Merger. So I am hopeful that this change of name would not only just merely be a change in name it will be a very definite step towards change in overall governance perception, and this along with a couple of other decisions which I will share with you in the course of time, will definitely allow us to seize this opportunity of creating a large institution at over 1,000 crores of profit.

The consolidated entity is the second largest mortgage finance company and our conduct has to reflect that in public domain. And I am sure that over the course of the next 12 months to 18 months the management would continue to take several steps which will give all shareholders and other stakeholders confidence that this is a completely professionally managed organization. And its growth is quite definite and we will continue to grow at 22% to 25% for several years.

That's it from my side and we can start with the questions now. Thank you.

Questions And Answers

Operator

[Operator Instructions]. The first question comes from Mr. Veekesh Gandhi from Bank of America. You may go ahead please.

Veekesh Gandhi

Hi Gagan. Good set of numbers. Just three questions. One is, can you just throw some light on your Trust in terms of -if there has been any change from that side?

Gagan Banga, Chief Executive Officer

Yeah. On the Trust, as was reported in the annual report, there were two loans which were extended. That was around 440 odd crores loan to other subsidiary or on the Trust which is -- and 540 odd crores of loan to Indiabulls Employee Welfare Trust. Before I answer this question, I'll just step back and explain to you the whole rationale.

The Trust has been essentially set up to administer the employee stock option schemes of the Indiabulls Companies. It is today administering 3 crores employee stock -- 3.9 crores employee stock option scheme of Indiabulls Financial Services. And it is also independently administering the schemes of Indiabulls Real Estate Power and Security.

Veekesh Gandhi

Sure.

Gagan Banga, Chief Executive Officer

We are able to ensure that specifically the Indiabulls Financial Services, I will talk that the scheme, employees stock option scheme does not cause dilution to the tune of almost 2% on annualized basis, since the stock was available at about one-time book. The employee welfare trust went ahead and bought about 9.5% of the company at an acquisition price of about Rs.175 per share. Indiabulls Financial Services exposure is restricted to its own stock options scheme where we have close to about 3 crore shares available with the Welfare Trust. All interest due from either -- or from Indiabulls Financial, Indiabulls Employees' Welfare Trust for 31 March, 2012 or 30 September, 2012 is fully serviced. And that Trust today would also have a marginal cash balance.

The Trust would start receiving cash flows in terms of a stability to repay on the principal from October of 2013, when about 6 million shares would waste, sorry 5 million shares would waste on annualized basis. Besides that, the Trust also has a healthy dividend cash flow, from which it has been servicing the interest component which has been due. So as we speak, the key take away, -- Ventures is that hold loan has been completely round up.

So Indiabulls Real Estate and Indiabulls Power are independently financing the stock which is there for running the employee stock options schemes pertaining to those companies and Employees' Welfare Trust has fully serviced the loan from a interest standpoint up to September 30, 2012, and the dividend which it will receive now in November or in May-June of next year, would allow it to service the interest due up to September 30 next year and from October onwards the dividend cum the proceeds from employee wasting aware options would ensure that it's able to wind down the principal.

Our expectation is that if business continues to grow anywhere from next year onwards the dividend inflow into the Trust would exceed the interest requirement of the Trust.

Veekesh Gandhi

And remind me if this would be at what 175 plus, whatever 12% odd interest rate, right, ex-dividend.

Gagan Banga, Chief Executive Officer

Minus dividend.

Veekesh Gandhi

Minus Dividend yield, right. So, it will work out to like 175 something change plus 8% odd interest right for the employee when he get this?

Gagan Banga, Chief Executive Officer

It will work out to 175 plus interest minus dividend and so that would work to a cost of about Rs.190 per employee and that cost let's say in FY15, '16 and '17 would actually start coming down, because the dividend outflow with exceed the interest cost. So, I believe that employees on an average will get the stock of about Rs.185, Rs.188 ballpark.

Veekesh Gandhi

And 5 million each year, is there any hierarchy in terms of allotment or is it like how many employees like of your total?

Gagan Banga, Chief Executive Officer Veekesh Gandhi

And there is no hierarchy like the top management gets it first and those kind of things?

Gagan Banga, Chief Executive Officer

If margin line with compensation principle adopted by any large financial services player where if we have to over a longer period of time manage our cost income, we cannot keep on and yet retain our people, we cannot keep on at a accelerated pace increase our salary payout. So, my expectation is that for the average employee, you mean a gain of about a Rs.100 per annum on the share, which is average for five years, my sense is that it would be good if employees can get about 30% of their compensation through capital gains from the employee stock option scheme. So, that's how the scheme has been designed. It does take into account the vintage at Indiabulls we give a hell of a lot of value to loyalty and vintage that people spend in the organization and we are fortunate that we have a lot of people who spent six, seven years and that's the time that the lending business have been on. So those people obviously get a little more -even at the same position as against somebody who has probably joined two years ago.

Veekesh Gandhi

Sure.

Gagan Banga, Chief Executive Officer

And then performance and cost to companies are the other variables, which will determine as to what -- how many shares does the employee gets. So it's been done extremely scientifically, and because cost to company of senior employees is a lot more than perhaps the credit manager or a credit officer. The skew will be slightly towards senior manager, but it's well spread out and 1,350 people getting covered in the organization were non front-end, there are about 2,200 people is the large coverage.

Veekesh Gandhi

Sure. And just a couple of other things, what is your outstanding now on zero coupon, anything fresh issued this quarter or something?

Gagan Banga, Chief Executive Officer

Nothing fresh issued. So we have about 1,979 -- sorry 1,979 crores outstanding for which ALM's tenor is now 10.8 months, it was 13 months the last we spoke.

Veekesh Gandhi

And there were two other dilutions that were there, right? One was this promoter thing that happened where you I think got upfront 10%, and the residual was over 18 months of the warrants...

Gagan Banga, Chief Executive Officer

After that 25% there is 450 crore warrant issuance, in which 25% has been received from promoters and senior management which includes me. And the balance is due within 18 months and there is approximately 550 crore warrant issuance, which was done to institutional investors in 2010 at a -- and they can convert at a price of Rs. 225 anytime in the next 25 years. This was along with the zero coupon warrant of about 1,500 crores which we had issued, so in 2010. So that is the other warrants which are outstanding besides that there is nothing else.

Veekesh Gandhi

Okay and just if your okay. Can I have a breakup of your disbursement, you said 3,000 odd crores.

Gagan Banga, Chief Executive Officer

Yeah.

Veekesh Gandhi

What would be the ballpark breakup like in home, lap, et cetera.

Gagan Banga, Chief Executive Officer

Yeah one second I'll just give you the numbers. So approximately we've done a total disbursement of 3,300 crores of which 1,677 crores is in Home loan. 800 crores is in lap, 3,023 crores in commercial vehicles and about 510 crores in the corporate loan book.

Veekesh Gandhi

Corporate book.

Gagan Banga, Chief Executive Officer

Yeah.

Veekesh Gandhi

Okay. And finally sorry, can I have the break-up of your provisions for this quarter?

Gagan Banga, Chief Executive Officer

Provisions are -- we have taken a total hit of 20 above 24 crores, 8 crores of standard, 3 crores of general, 3 crores of write-off and 10 crores of floating.

Veekesh Gandhi

10 crores of floating. Okay. Thanks. I'll come back if I have something later. Thank you. Thanks Gagan.
Thank you.

Operator

Thank you sir. The next question comes from Mr. Ritesh Nambiar from UTI Mutual Fund. You may go ahead please.

Ritesh Nambiar

Hi, good afternoon sir. Just wanted clarity on ALM as you touched upon in this call, based on your balance sheet reportings in fact I could see a lot of long-term debt, a lot of other current liabilities which is there is your liability. So, if I add those along with short-term debt, that figure works out to roughly around 14,000 odd crores. But I don't see much of short-term assets maturing within a year or so.

Gagan Banga, Chief Executive Officer

As you know, there is a lot of short term -- there is this cash that we carry of 5,000 odd crores and then the current liabilities would include -- they would include the cash flow facilities, right? So a lot of the commercial papers that we have of approximately 2,300 crores and which typically gets rolled over every two to three months and then there is a 1,500 odd crores of cash credit facilities which are professional type of facilities would be there. And we have short-term loans and advances which are also maturing of about 4,000 odd crores. So, there is a slight mismatch but there is nothing very alarming in that. So, we have about 13,000 crores of short-term borrowings and current liabilities and we have about almost 10,000 crores of cash and short-term loans and advances. And the balance is typically the commercial paper piece, which is approximately 2,300 crores, 2,400 crores which is on a perpetual role. So, I don't have a concern significant concern on that.

Ritesh Nambiar

Okay. Just on this merger, I just wanted to know what kind of provision addition would you be required to make, if suppose that December '13 deadline is met in fact, you become a full fledged HFC. Any further addition of provision is required or...

Gagan Banga, Chief Executive Officer

No, nothing we've already provided on 90 days basis for NPLs and if there is any additional standard asset provision which is required, we have a large counter cyclical provision pool into which we can dip. So, there is -- and then there are reserves created under the NHB guidelines for any one-off event into which we can also dip and we have dipped in the past marginally into that. So, from a P&L point of view, it will no impact.

Ritesh Nambiar

Okay. Sir, what's your incremental cost of funds currently?

Gagan Banga, Chief Executive Officer

Incrementally, we will be borrowing at about 10.2% to 10.3% and our cost of money is today at about 10.35%.

Ritesh Nambiar

Okay, sir. Just one request I had, if you could in fact disclose your provision number on a reporting basis that could be really helpful? Distributing standard and other standard, non-standard provision if you could do that rather than taking it in a call?

Gagan Banga, Chief Executive Officer

Okay. I'll report it from next time.

Ritesh Nambiar

Okay. Thanks a lot.

Operator

Thank you, sir. The next question comes from Mr. Aman Mehta from HSBC. You may go ahead please.

Steve Nilon

Hi Gagan, this is Nilon from HSBC.

Gagan Banga, Chief Executive Officer

Hi Nilon.

Steve Nilon

Few questions I had. Just wanted to know what was the amount charged in the balance sheet on zero coupon bonds this time?

Gagan Banga, Chief Executive Officer

One second, it was 48 crores.

Steve Nilon

Okay. And your tie-up on capital you mentioned it 17, doesn't include the first half profits?

Gagan Banga, Chief Executive Officer

Yes, it will include the first half retain profit, but not include the dividend. So, it will be adjusted for dividend and all of these. So, we will have -- in Q1, we started with 5,037 crores and we closed at 5,347 crores. In the second half, we closed at 5,311 crores, net of the dividend and grossing for the profit.
Okay. Just wanted to give some better sense on this liquidity which you mentioned that you're tarring around Rs.57 billion of liquidity. In an average context over the quarter, what would be this closed? And what is the negative carry on this liquidity?

Gagan Banga, Chief Executive Officer

Yeah. See on 5,700 crores, we bought most of it in liquid schemes and liquid plus schemes of mutual funds, on which we get a marginally better tax rate. So our post tax return on investment for the first half has been 7.01%. Our post tax cost of funds at 10.5% average for the first half has been 7.09%, so the negative carry is about 0.08% which is close to about 4.5 crores.

Steve Nilon

Okay. And this is an average number through the quarter which you run or?

Gagan Banga, Chief Executive Officer

This number typically is about 1,000 crores lower if you were to look at an average type of a number.

Steve Nilon

Okay. And can you give some flavor on your asset quality in terms of 30 day and 60 day pass due?

Gagan Banga, Chief Executive Officer

Yeah, I will just tell you, one second. Yeah 30 days is at about a 100 basis points, 90 days is at the NPL number of 0.76% and 180 days would be about 50 basis points.

Steve Nilon

And this is across your book, on an overall basis.

Gagan Banga, Chief Executive Officer

No, mortgages will be lower. So mortgages will be 35 basis points to 40 basis points, commercial vehicles will be 160 basis points, 170 basis points, so 30-plus I am talking about. And commercial credit will be about 150 basis points, which drops to some 30 basis points on 90 days basis for mortgages and about 10 basis points to 12 basis points on 180 days value for mortgages.

Steve Nilon

Okay. And something which I just heard, are you looking to change the name of the company, I didn't get that thing, which you were mentioning.
Yeah. So the resulting entity, Nilon, would be Indiabulls Housing Finance Limited. We believe it's time that we moved on from the Indiabulls' tag and to put forth the way that we currently operate. So from a promoter's standpoint, Indiabulls Housing Finance or Financial Services is more a long-term financial investment rather than an operating company.

Clearly for them Indiabulls Real Estate and Indiabulls Power are their operating companies in which Saurav and Rajeev are involved on day-to-day basis and Sameer is overlooking the business operations. Indiabulls Financial Services clearly is run by me and the Board, and overall the name has to start indicating that. So, we would be loosing the tag of Indiabulls and we would have something else now, you know there are specific agencies which are expert agencies which are out there trying to figure out as to what is the most appropriate name from a long-term housing finance pursuance and that opportunity getting tapped, but it will be a non-Indiabulls name.

Steve Nilon

Can you give some color of your Board of Directors and composition and any changes you will make on that end. What's the overlap on the group side on that as well?

Gagan Banga, Chief Executive Officer

Currently, the independent directors are people who are from the banking and the legal background. But I believe that now the time has come to also strengthen the Board and get some more so to say stalwarts who are comfort to agencies and stakeholders outside.

So, over the course of the next 12 months to 18 months we would be inducting some of these stalwarts like bank Chairman and some senior bureaucrats and people from who are probably Supreme Court or High Court, Chief Justice type of people. So that process is on and it's not something that can happen overnight. But I've said it has to happen step-by-step.

The first step was to lose the flexibility of being able to do multi-product and to get specific to being a housing player. And for that we said the best way of communicating the same to all the stakeholders is to lose the tag of being a multi-product NBSC and restricting ourselves to being a housing finance company.

I think the next is the name and subsequently, the Board also would undergo a significant amount change in terms of the Independent Directors. The Executive Directors and the promoters would continue to retain and remain on the Board, so that is not changing. And so the three promoters and myself we will continue and we will induct some very well known type of Independent Directors.

More importantly, those Independent Directors have to be in a position to help us do risk management over a period of time, because perception changes can be conducted reasonably quickly. I believe that the larger objective of having a strong Board is to be able to do risk management over a period of time. And the risks that we run are both financial as well as non-financial. So we'll be putting forth a Board which is in a position to help us manage all of these risks.

So I think in the next 12 months, Nilon, you will be quite surprised with some of the moves that we will have in terms of some extremely well known and well respected people getting associated with our Board. And by surprise, I mean a very positive surprise.

Steve Nilon

Okay thanks a lot Sameer - I am sorry Gagan.
Thank you sir. The next question comes from Mr. Himanshu Kuriyal from MSFL. You may go ahead please.

Himanshu Kuriyal

Yes. Hi sir. Great sit of numbers. Most of the questions have been answered, just a few data points. What would be your total floating provision as of date?

Gagan Banga, Chief Executive Officer

120 crores.

Himanshu Kuriyal

120 crores. And you said that your total exposure now stands at 540 crores versus 980 crores in the...

Gagan Banga, Chief Executive Officer

That's correct.

Himanshu Kuriyal

Okay. And I know you have touched on this point but how do you see the asset quality emerging in the non-home loan portfolio, I mean specially in the lap for corporate?

Gagan Banga, Chief Executive Officer

See corporate is quite stable because of the fact that 80% of the portfolio is -- 70% to 80% of the portfolio is lease rent discounting, so lease rent discounting is a function of cash flows of several very strong type of companies. So, unless we start hearing that Google, Accenture, IBM and the lights of these companies have started taking severe cash flow knocks, that is not going to -- and they are sort of vacating their offices, that portfolio will continue to perform in a very, very stable manner.

There is a marginal in -- on 30 days pass due on commercial vehicles and little bit on lap but well within the tolerance level of the organization, 10 basis points, 15 basis points or 30 days pass due in-chaps is not significant or of a big concern. I have seen larger in-chaps in these two portfolios in 2008 for it to not result into any NPA type of an addition and the moves of lap being a very low loan to value type of a product and commercial vehicles, the fact we do not lend to first time users and we are largely lending to fleet owners, it gives me a lot of comfort and largely on new vehicles. So, it gives me a lot of comfort.

So, from an asset quality point of view frankly, that's not something which I am worried about and I am reasonably confident that 70 basis points to 100 basis points, 80 basis points to 100 basis points is what I'd guided, so we are better off than where we had

guided. So, that guidance range would be 70 basis points to 100 basis points of gross NPL and 30 basis points to 50 basis points of net NPL and I don't see any need for these numbers to be revised upward. So, we should be able to maintain asset quality on a very, very steady basis.
Okay, okay. And just one more thing, incremental spreads on if you could just give a breakup of the incremental spread?

Gagan Banga, Chief Executive Officer

We are currently lending at about 13.3 and borrowing at about 10.3, so our blended cost of money is to incremental lending is 300 basis points and and on book basis it is about 350 basis points.

Himanshu Kuriyal

Okay. Thanks a lot, Gagan.

Gagan Banga, Chief Executive Officer

Thank you.

Operator

Thank you, sir. Your next question comes from Veekesh Gandhi from Bank of America. You have go ahead please.

Veekesh Gandhi

Yeah, Gagan just again one small question I had. You've mentioned 120 crores of floating, how much would be standard?

Gagan Banga, Chief Executive Officer

What, of the total standard provision?

Veekesh Gandhi

Sorry?

Gagan Banga, Chief Executive Officer

You asked total standard provision is 99 crores.

Veekesh Gandhi

99 crores. And any other kind of general provisioning beyond these two?

Gagan Banga, Chief Executive Officer Veekesh Gandhi

Any contingency or any thing different?

Gagan Banga, Chief Executive Officer

There is a -- there is a sub-standard assets provisioning of 139 crores.

Veekesh Gandhi

So, this would what specific provision, right?

Gagan Banga, Chief Executive Officer

It will be specific provision.

Veekesh Gandhi

Right. And could you give me for the quarter on a console basis, what was your gross and net number NPLs?

Gagan Banga, Chief Executive Officer

Gross and net NPLs?

Veekesh Gandhi

Console.

Gagan Banga, Chief Executive Officer

Yeah, so it is 236 crores and 96.99 crores.

Veekesh Gandhi

And within this 236, would you have the breakup of what is coming from which segment?

Gagan Banga, Chief Executive Officer

Yeah give a minute.

Veekesh Gandhi

Sure.

Gagan Banga, Chief Executive Officer

So, it will be about 55 of mortgages. About the erst while unsecured assets giving 54 crores, commercial vehicle assets 35 crore and commercial credit assets -- and commercial credit about 95 crores. Let me just recheck this and reconfirmed to you in one minute.

Veekesh Gandhi

Sure.

Gagan Banga, Chief Executive Officer

Now, we can go to the next question.

Veekesh Gandhi

On your outstanding stock. How much in between home and lap or if you have the breakup nothing like it. What would be your proportion of salaried and non-salaried?

Gagan Banga, Chief Executive Officer

In home loans about 70% is salary and 30% is self-employed. All of lap is self-employed.

Veekesh Gandhi

All of lap is self employed?

Gagan Banga, Chief Executive Officer

Yeah.

Veekesh Gandhi

Okay. Fine. So, let me know when you get that breakup of gross.

Gagan Banga, Chief Executive Officer

Yeah, they are rechecking. I will confirm to you in a minute.

Veekesh Gandhi

Sure, sure. Thanks.
We can move to the next question. I will come back to you.

Operator

Thank you sir. There are no further questions sir. [Operator Instructions]. The next question comes from Mr. Sudhakar Prabhu from Span Capital. You may go ahead, please.

Sudhakar Prabhu

Yeah, thank you. Gagan, do you have any stated dividend policy?

Gagan Banga, Chief Executive Officer

Yeah. We distribute profits between 40% to 50% of our declared profits, give out dividend of 40% to 50% of our declared profits.

Sudhakar Prabhu

Okay. And any plans of venturing into any other retail products or you would be largely a mortgage company?

Gagan Banga, Chief Executive Officer

We will only be a mortgage company.

Sudhakar Prabhu

Okay. Thank you.

Operator

Thank you sir. The next question comes from Mr. Jigar Valia from OHM Group. You may go ahead please.

Jigar Valia

Congratulations for the great number sir. Just need some color on the other income, it's been trending slightly lower this quarter, if some color on that sir.

Gagan Banga, Chief Executive Officer

The other income is a function of unsecured collections and as a portfolio, will age. So we stop doing unsecured collections way back in -- unsecured lending in way back in 2007. So as the portfolio ages obviously collections from that would reduce, so that is why it is down to 11 crores. I think for the rest of the two quarters we will be able to get about around odd 20 crores of collections from this unsecured...
Okay, okay. So balance is the regular fee income that could be -- question.

Gagan Banga, Chief Executive Officer

Yeah the balance is regular fee income. Veekesh, just to go back to you. So mortgage is 55 crores,SME and other unsecured erstwhile loans is 33 crores, commercial vehicles is 35 crores. Sorry, commercial vehicles is 43 crores, unsecured loan is 40 crores and commercial credit, which is corporate lending, is 98 crores; totaling to 236. So, I'll repeat, mortgage is 55, commercial vehicles 43, unsecured 40, commercial credit 98.

Okay. Should we move to the next question.

Operator

Sure. The next question comes from Mr. Aditya Singhania from Enam Holdings. You may go ahead please.

Aditya Singhania

Thank you. I just wanted to check what was the net interest margin for the quarter and if you could give the comparable number for the previous quarter?

Gagan Banga, Chief Executive Officer

Yeah, one second. Aditya, net interest margin for us is not so relevant, but it was 6.6%, again 6.5% for last quarter.

Aditya Singhania

Okay. I just wanted to check.

Gagan Banga, Chief Executive Officer

Quarter one.

Aditya Singhania

And the second thing is you mentioned in your opening remarks about the improvement in these sort of run-off rates or lower, could you just explain that a bit more. I think there was discussion last call about how the run-off rates were on the higher sides. What steps have you taken to improve that?

Gagan Banga, Chief Executive Officer

Well, I think it is less about steps being taken by us. I think it is more about steps which come from home loans as an asset class becoming a higher component. And as I had said last year, there was also this big shift from fixed to floating, which had caused some bit of a prepayment.

Aditya Singhania

Okay. This is total repayment rate or just the prepayment?

Gagan Banga, Chief Executive Officer

Repayment and prepayment. So...

Aditya Singhania

Okay. Right.

Gagan Banga, Chief Executive Officer

The principal reduction would be in the range of 1.7 to 1.8, which was more like 2.2%, 2.5% last year.

Aditya Singhania

This is just for the mortgage portfolio, home loan portfolio or the...

Gagan Banga, Chief Executive Officer

No, overall book.

Aditya Singhania

Overall loan book.

Gagan Banga, Chief Executive Officer

Yeah.

Aditya Singhania

Alright. Thank you so much.

Operator

Thank you, sir. The next question comes from Mr. Jigar Valia from OHM Group. You may go ahead please.
Hi. Thanks for the follow-up. Just needed the clarification post the reverse merger, would we content to have a subsidiaries or most of the other businesses would be like as a part of divisions and not in subsidiaries?

Gagan Banga, Chief Executive Officer

The only functional subsidiary that we have today also, which conducts business is Indiabulls Housing Finance.

Jigar Valia

Yes.

Gagan Banga, Chief Executive Officer

So, that would get reversed merged. Indiabulls Financial Services as an NBFC license we will loose. We also have two other NBFC licenses, one of which is Indiabulls Infrastructure Credit, that we will convert into an asset finance company and push down our commercial vehicles portfolio into that and along with that some of the lap assets can go there for it to qualify as an asset finance company.

Everything else is not essentially functional apart from one company called Ibulls Sales in which all of my direct sales team is employed, rest are all historical and therefore there is no operating or fund flow which is happening in those organizations.

Jigar Valia

Perfect. Sir, this AFC would initially be a subsidiary and then you may have some data plans for that something...

Gagan Banga, Chief Executive Officer

It's a subsidiary, it will remain a subsidiary. I don't see with the type of capital that we have any reason for us to dilute at a subsidiary level, as of today and we will see after three years, four years what we have to do.

Jigar Valia

Okay. Thank you, sir. Thanks.

Operator

Thank you, sir. [Operator Instructions]. The next question comes from Himanshu Kuriyal from MSFL. You may go ahead please.

Himanshu Kuriyal

Yes. Hi, sir, just one small query. What would be that breakup of that 71% into lap and home loan?
46 and 25.

Himanshu Kuriyal

46 and 25. Thank a lot, thanks a lot.

Operator

Thank you, sir. [Operator Instructions]. The next question comes from Prashant Periwal from Altima Partners. You may go ahead please.

Prashant Periwal

Hi, Gagan. Good set of numbers. Just a clarification is wanted. If I look at the fee income this quarter, that looks to be a bit bite, any particular reason for that?

Gagan Banga, Chief Executive Officer

That's looks to be a bit, bit lower right?

Prashant Periwal

Yeah.

Gagan Banga, Chief Executive Officer

so, I have -- Prashant I have said often that our fee income is a direct has direct company correlation to the amount of disbursements that we do. If our prepayment and repayment rates are stabilizing to coming down to do that odd 1,000 crores of book growth, we don't need to necessarily do very high heavy type disbursements, our disbursement numbers ever quarter-on-quarter would come down and marginally. And if you compare to last full year it is almost flat. So, that there is no idea of growing the book much beyond 1,000 odd crores, which is approximately the levels that we had grown last year, I don't think that the fee income will be significantly different to last year, last year we had a fee income of approximately 360 crores, of which one-time syndication we have done of 60. So, I think we will do about 300 crores for the year, we have done about a 120 for the first half, we should be able to do about an 180 for the second half.

Prashant Periwal

Thanks. Very helpful. Thank you.

Operator

Thank you, sir. The next question comes from Mr. Saurabh Kumar from JP Morgan. You may go ahead please.
Hi, sir. Sir, just on your lap portfolio just wanted to understand what is the basis of giving the loans here, is this the LTV on the property or is it the disclosed income or it which these guys file?

Ashwini Kumar Hooda, Deputy Managing Director

Ashwini here. Lap business initially while it is given against the small business owners who -- that is the prerequisite, we will not give you loan otherwise. But essentially it's a cash flow backed product. There is no surrogate also, this is normal income program, where whatever is your business cash flows, they are appraised and at max 70% of that can be assumed to service this loan that you're taking. For the product averages at around 48% and maximum we can avail is 65%, as most of the time the limit is 60%, but on average it is 48%. But it is still strictly cash flow based, there is no collateral-based landing in fact in the entire industry.

Saurabh Kumar

Okay. As said just wanted to ask on this cash flow base because from what I understand they would be like -- the actual cash flow versus reported will be just completely different numbers.

Ashwini Kumar Hooda, Deputy Managing Director

Yeah.

Saurabh Kumar

So do we -- you make your own assessment or is it just you guys take the income tax return and just use that as a basis?

Ashwini Kumar Hooda, Deputy Managing Director

So, I'll take it when I say we do not offer surrogate product, which is zero. There are products in the market which will take your repayment track record for example. So if you are being paid Rs. 100 regularly you can pay 125 is the assumption; or if you have been maintaining average quarterly balance of Rs. 100 in your bank then you can service an EMI of 50. Those are surrogate.

What we employ is a gross turnover method, where turnover has to be stated. We will not restate your turnover but we have our in-house industry margin expertise where we know about 250 industries, what are the margins, within those segments what are the margins. So, we track almost 1,000 margins across different industries and impute those margins in case the disclosed income we believe is understated.

Saurabh Kumar

Okay.

Gagan Banga, Chief Executive Officer

So to sum up, Indiabulls does not do any bit of surrogate lending.
Fair enough.

Gagan Banga, Chief Executive Officer

And that's the -- that we have from 2006, 2005, our personal days when the industry used to surrogate lending and we were not. And that's why we did not lose our capital and most of the industry lost its capital. So we do not do any surrogate lending. We are operating today in an environment where we are, let's say amongst the most tightly priced lenders from a competition standpoint. So in the large segment our interest rates would be at par with the best priced players.

As a result, the risk is significantly lower to what we were underwriting in 2006 but the practice is we still follow in terms of checking of 2006. So as Ashwini mentioned, we do not do collateral-based lending from a qualification standpoint. There are these industry margins which are one input that we have.

The second input a visit on each and every client from our credit manager who will go and sit on his office, would also go and visit his godown and do a tender check in terms of checking for his activity. We also have paneled across the country independent chartered accountants who would do exactly the same job as our own credit manager. So that is the third input and the fourth input comes from his income tax returns, his excise returns, VAT returns, et cetera. So, all of those allow us to assess his gross turnover, and his bank statements allow us to figure out what his actual working capital cycle is.

On all of these basis, we will be able to figure out what his real net income is and then price our loan. The fact that it has to be a residential property at around give or take 50% loan to value is incidental. So we would also not lend against plots, et cetera. It has to be backed by the owner's house, but the bigger emphasis is on cash flow.

Saurabh Kumar

This is very clear sir. Just final question sir, what would be the yield here and would be the risk rate on these loans?

Gagan Banga, Chief Executive Officer

The book will be priced at about 15.5 %

Saurabh Kumar

Okay.

Gagan Banga, Chief Executive Officer

And today also we will be getting a little around little over 15% as our incremental leap.

Saurabh Kumar

Okay. And the risk rate here is similar mortgages or is it 100%?

Gagan Banga, Chief Executive Officer Saurabh Kumar

100%. Okay all right. Thank you. Thank you very much.

Operator

Thank you sir. [Operator Instructions]. The next question comes from Ms. Sneha Kothari from Subhkam Ltd. You may go ahead please.

Sneha Kothari

Hello. Sir, any chance of change in borrowing mix or in the loan mix?

Gagan Banga, Chief Executive Officer

In the loan mix, Sneha we will not change anything. So, we have arrived at our ideal mix. So, 45% - 46% home loans, about 25% laps, 21% corporate and 8% to 9% of commercial vehicles is the ideal mix for the company and we will continue to strive 100 basis points where there can always happen but this is where we would ideally want the company to be from a maintenance of our credit risks as well as our return on assets point of view, I think this is an ideal type of a mix.

From a liability point of view, we've already imposed a cap on our commercial paper from a rupee standpoint. So, as a book growth, what is 8% today will contract further and we will strive that whatever our reducing in commercial paper we're gaining in our bond. So, I had said earlier also from the current 27 odd percent, in ideal scenario I'd like to see this number at 35%. It will take me time. It would also require a stable type of an interest rate environment. A very sharply increasing or very sharply reducing interest rate environment tends to not necessarily be very, very good both sides.

So if there is sort of a stable interest rate environment, I think that is the time that you'll see substantially increasing the bond book. Till then, we will continue to do additional bond issuances to the tune of 253 crores every month.

Sneha Kothari

And sir want to know also outlook on the margins?

Gagan Banga, Chief Executive Officer

Margins we'll maintain as a booked margin at about 350 basis points. I think having come through the whole cycle and achieved this ideal mix and still maintaining, now I'm more confident than ever before that 350 basis points and in worse case 325 basis points is where the business would long-term stabilize.

Sneha Kothari

Okay. Thank you, sir.
Thank you, ma'am. The next question comes from the line of Jigar Valia from OHM Group You may go ahead please.

Jigar Valia

Thank you, sir. Sir, you explained that this time prepayments are lower as compared to last year and that also because of that, the need for pushing the disbursement is also lower this time and there would be a trending slightly declining disbursement possibly. In that case, how do we see the fee income actually increasing from 120 crore first half to 180 crore?

Gagan Banga, Chief Executive Officer

How do we...?

Jigar Valia

If there is the prepayment fees are lower because of the lower disbursement, the fresh processing fees might also be lower?

Gagan Banga, Chief Executive Officer

The disbursement would not significantly reduce to where we are, so in the second half, we will increase our book by 4,000 crores to 5,000 crores, which will require us to do disbursements of approximately 8,000 crores. In the first half, we have done disbursements of approximately 7,000 crores. So, there will be incremental disbursement. Some bit of insurance pay out to us are chunkier, so there would be some additional insurance pay outs which will happen towards quarter four. So, all of this, some bit of additional disbursement as well as some insurance pay outs will result that 60 odd crore additional fee that we have to generate in the second half or it easily come by.

Jigar Valia

Okay. Sir, last question is that if you can give some color on the competitive landscape as far as the fees are concerned. We believe that SBI and all have reduced processing fees further for the... that add pressure on overall?

Gagan Banga, Chief Executive Officer

SBI has reduced processing fees on home loans in which anywhere the fee is very marginal. The big fee comes from loan against property and commercial credit, that's where in rupee terms the big fee is earned and on that there is no pressure on fees.

And it is also about every company and its policies in terms of what type of risk is it, willing to underwrite. Historically, Indiabulls has had a 80% plus penetration in making sure that our borrowers are covered on the life insurance front and our commercial vehicle borrowers almost 90 plus percent of those borrowers have to take there vehicle insurance from us. So, that's been just a practice. A lot of institutions have indicated that they also want to have this practice, but have not

been so successful, we've been successful at it and therefore we get the additional fee though the brief that I have given to my team is that we have to sell the most customer friendly products. So, from a customer standpoint, it's a very nice So, it is serving both purpose. So, I think if organizations work hard, if my team works hard, I don't see any pressure on the fee basis.

Jigar Valia

Perfect, sir. And sir when we say a loan mix ideally is the -- ideal one right now. Some breakups into lap and home loan that was also covered or can there be a little...

Gagan Banga, Chief Executive Officer

Yeah. For 45-46, 24-25 that's where it we would we want to keep it at.

Jigar Valia

Perfect. Thank you so much, sir. Thank you.

Operator

Thank you sir. [Operator Instructions]. At this time there are no further questions sir.

Gagan Banga, Chief Executive Officer

So we'll wind up now. I think we'll wind up now. Thank you.

Operator

That does concludes our conference for today. Thank you for participating. You may all disconnect now.