



**Reliance Home Finance Limited
Q3 FY18 Earnings Conference Call**

February 7th, 2018

SPEAKERS: Management of Reliance Home Finance

Moderator: Good day ladies and gentlemen and welcome to the Q3 FY2018 Earnings Conference Call of Reliance Home Finance Limited hosted by Reliance Securities Limited. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Asutosh Kumar Mishra from Reliance Securities. Thank you and over to you Mr. Mishra.

Asutosh K Mishra: Thank you Margaret. Good evening everyone and welcome to the Reliance Home Finance 3Q FY2018 Earnings Conference Call. Today, we have with us Mr. Ravindra Sudhalkar, ED & CEO Reliance Home Finance along with the entire senior management team. To discuss the 3Q FY2018 Earnings and the strategy is going forward, so over to you Sir!

Ravindra Sudhalkar: Good evening to all. Welcome to the first quarterly earnings call of Reliance Home Finance Limited. It has been a strong quarter for us and we expect to build on the strength in the coming period. Housing finance sector is headed by positive move from all financial service regulators and government. Increased budgetary allocation towards CLSS and lowering of the GST for affordable housing projects will boost demand for affordable housing. Affordable housing, which you operate as a separate vertical will seek to maximize the support and I will speak subsequently of our performance in this segment.

Moving to our financial achievement in Q3 FY2018, the asset under management grew by 54% to Rs. 14,860 Crores. Our Q3 FY2018 disbursements were at Rs. 1,630 Crores, an increase of 35% over the same period last year. 51% of assets under management were contributed by home loan and the affordable home loan segment, which will remain our mainstay and we seek to grow this book. 72% of the home loan disbursements catered to the self employed segment a segment where we hold considerable expertise. The total income for the quarter increased by 56% to Rs. 421 Crores. The profit before tax rose by 103% to Rs. 70 Crores mainly on the back of operational efficiencies kicking in. You will see further gains to this effort as we deploy cost saving and cost efficient measures. Our cost of funds on book decreased to 8.8% from 9.1% in December 2016. We have reduced the dependence on bank borrowings, which now constitute 41% of our total borrowings as against 53% last year. This aids the robust net interest margin of 3.8%. Our NIM guidance continues to remain in the range of 3.5% as we grow our portfolio in the affordable housing loan segment.

Owing to a critical focus on cost effectiveness, cost to income ratio in Q3 FY2018 saw a significant reduction to 39% from 51% last year. We launched two affordable housing branches this year, these are low cost operationally light branches. As we speak to grow our

affordable housing portfolio such measures will aid overall profitability and at the same time help in franchise building. We managed to reduce the gross NPAs to 0.8% in December 2017 versus 1.1% last year. The coverage ratio at the end of December 2017 stood at 47%. The company had a capital adequacy ratio of 21.5% in December 2017 of which the Tier I ratio was 13.5%. We are operational in more than 100 locations in the country through the hub and spoke model and we continue to expand this footprint. We launched six branches in the last quarter, which includes two dedicated affordable housing branches as mentioned before.

Affordable housing continues to benefit from both government policy focus and demographic driven demand. We have disbursed more than Rs. 400 Crores in Q3 and have received a subsidy of more than Rs. 29 Crores in total, which has been distributed to the 1,230 clients. We have a clear focus for expanding the book size along with the robust growth in the network without compromising on the asset quality. Our target is to see Reliance Home Finance Limited being counted among the most valuable housing finance companies of India along with a view to achieve one of our major objectives, which is to create shareholder wealth in the long term. Thank you for logging in and now we are open to questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Fazlur Rahman from DHFL. Please go ahead.

Fazlur Rahman: Could you give us the segment wise distribution of portfolio. Loan against property exposure?

Ravindra Sudhalkar: See currently if you look at the overall AUM of more than Rs. 14,800 Crores, we are close to 31% on the home loan front, we have 20% on the affordable housing, the construction finance comprises of 28% and the remaining 21% is the loan against property.

Fazlur Rahman: 23% LAP?

Ravindra Sudhalkar: 21% is LAP.

Fazlur Rahman: Could you just give us some kind of number of units in this quarter with retail segment?

Ravindra Sudhalkar: If you look at it, see our ticket size for affordable housing we are in the mid range of affordable housing, we are not in the lower range of affordable housing. We are clearly in the region of 7.5 lakhs and above in category B towns and 10 lakhs and above in category A towns as far as affordable housing is concerned, so affordable housing my ticket size on the

AUM is close to about 13 lakhs and the new disbursements that I do every month is 1,200 to 1,400 units disbursements every month.

Fazlur Rahman: That is in affordable housing category?

Ravindra Sudhalkar: Yes.

Fazlur Rahman: Could you please take us through the distant geography, how geographically portfolio is distributed?

Ravindra Sudhalkar: We are 60% present in the western part of the country, western geography comprising of Maharashtra and Gujarat, 20% is in the north, which is typically Delhi NCR and Jaipur and very less portfolio in Punjab. We are close to 5% in the east and close to 15% in the south, so that is geographical distribution across various products that we have.

Fazlur Rahman: In case of construction finance, what is the average ticket size?

Ravindra Sudhalkar: Construction finance average ticket size is roughly about Rs. 10 Crores and this is at the time of origination of loan, this is not on the principal outstanding and if you actually look at Reliance Home Finance, we have been extremely selective in the builders that we fund and also the ticket sizes that we fund and we are extremely comfortable in the middle rung spectrum of the ticket size, which is close to Rs. 10 Crores going to Rs. 12 Crores.

Fazlur Rahman: Given the construction finance could you please give an idea at what stage all the construction projects?

Ravindra Sudhalkar: RERA has just set in this financial year post July, so if you look at it most of the funding that we would have done in the past, so we took a lot of comfort in entering projects only once they were more than 50% completed because in construction finance it is important that the receivables should be from the new sales and the sales normally happened over the last two to three years and overall market was stagnant when the construction was more than 50% completed, so we had a very clear understanding that projects we would be entering only once they are 50% completed, so that there were some sales already there and new sales would happen and actually that strategy has paid us off quite well.

Fazlur Rahman: How about your exposure to delayed projects?

Ravindra Sudhalkar: I do not think we take exposures in delayed projects.

Fazlur Rahman: You are not exposed to any kind of delayed projects or stuck at project you mean to say?

- Ravindra Sudhalkar:** Although I have heard of some of the companies, which are keen on doing this, but we are not seeing any merits in funding these kind of projects at this point in time.
- Fazlur Rahman:** That is, it from my side Sir.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Thank you Sir for taking my question. This makes that you described about the four segments, what was this mix a year back and what has been the growth rates in these four segments?
- Ravindra Sudhalkar:** If you look at these four segments about a year back, see home loan and affordable housing put together was slightly about 54% to 55% earlier, if you look at it this, 55% has gone down to a level of 51%, but owing to the focus on affordable housing we see it is going to a level of 55% in the midterm, but clearly to answer your question about a year back we are closely 55%.
- Sarvesh Gupta:** And the other two segments?
- Ravindra Sudhalkar:** They were in the same proportion of 21-28%.
- Sarvesh Gupta:** What kind of growth rates to be envisaged a year or two years from now?
- Ravindra Sudhalkar:** I am talking about the growth rates product wise, if we were to talk about the product composition in the midterm, which is clearly four quarters from now, my home loan and affordable housing would be about 55%, CF would be clearly between 27% to 28% and the balance would be loan against property.
- Sarvesh Gupta:** Understood. Can you give us a rough breakup of the gross NPA numbers in the four segments?
- Ravindra Sudhalkar:** Gross NPA if you look at it for home loan, affordable housing and LAP have been in the region of 0.8% to 0.85% and CF has been in the region of 0.7% to 0.75%, so in fact CF construction finance our GNPA's are on the lower side compared to the other.
- Sarvesh Gupta:** Understood and your CF right now when you give the loan are you the sole financier and secondly what kind of collateral you take and what is the value to collateral ratio right now?
- Ravindra Sudhalkar:** Your last question first, so normally we are comfortable with 2.5 to 3 times value of the collateral and we are the sole financiers in whatever projects we have funded till date.

Sarvesh Gupta: Where all is this construction finance going, is it mostly in Mumbai market or which markets are these?

Ravindra Sudhalkar: As you look at it our comfort is in the mid segment of construction finance, which is in the region of Rs. 10 Crores going to Rs. 12 Crores of CF and hence obviously in Mumbai proper not very many builders we would have funded, but we would have surely funded the builders in the periphery of metros and in category B town. So currently as we are speaking we are present in more than 100 locations; however, we have offices close to 51 locations in the country and if I were to tell you through how many offices we do CF, it would not be more than 8, 9 offices.

Sarvesh Gupta: If you can give us some mix of cities?

Ravindra Sudhalkar: If you look at the western part of the country would have a higher CF. 75% is in Gujarat comprising of Ahmedabad, Surat may be one odd project in Baroda, but balance in periphery of Mumbai and Pune.

Sarvesh Gupta: So mostly big cities in Gujarat and Mumbai and periphery of Mumbai?

Ravindra Sudhalkar: Yes, as I told you we are in eight to nine locations.

Sarvesh Gupta: Last question is what kind of yields are there in these four segments that you said?

Ravindra Sudhalkar: You want to know the incremental yield or the booking?

Sarvesh Gupta: If you can give both that is great, otherwise you can give the incremental yield.

Ravindra Sudhalkar: If I give you the book yields, book yield on home loan is about 9%, incrementally also home loan is about 9%, affordable home loan the book yield is about 10%, incremental is also 10%, on the LAP front book yield is 12.6% to 12.7% incrementally we are at 11.5% and on the CF front the book yield is 14.2%, but on an incremental basis we are upwards of 15.5%.

Sarvesh Gupta: Why is it up rather than going down?

Ravindra Sudhalkar: No, yields in construction finance I think 15.5 is the moderately correct yield if you look at the best pricing in CF.

Sarvesh Gupta: Understood Sir. Thank you, Sir and congratulations and all the best, for the coming quarter.

Moderator: Thank you. The next question is from the line of Manish Manwani from Bonanza Portfolio. Please go ahead.

Manish Manwani: Thank you for giving me opportunity. I have a question regarding the last board meeting, the board approved the resolution for warrant issues 7.5 Crore warrants, I just wanted to know the details and at what time the warrants will be going to issue?

Ravindra Sudhalkar: There are two things as we are growing the company and if you have seen our AUM has grown at the rate of more than 50% over the last three quarter and as we are talking now we are adequately capitalized and we do not require any capital for this quarter and the next quarter, but to keep all the options open we have taken an approval from the board and from the SEBI, but we have not worked on it, it is just an approval that we have taken.

Manish Manwani: Got it and can you tell us about the growth prospects after two or three years how big will be the book from now?

Ravindra Sudhalkar: I would not mind giving you the figure because this figure has been announced about more than a year back saying that we want to grow housing finance company to a level of Rs. 50,000 Crores by the year 2020, so if we were to talk in the month of December 2020 we would be at Rs. 50,000 Crores of AUM and whatever growth we have achieved till now and whatever growth we would be achieving in future, we would be keeping December in mind.

Manish Manwani: Any dilution is possible by the equity way and all, it is purely on the entire debt fund if you raise this on debt side?

Ravindra Sudhalkar: To be able to grow to that size we will require capital, we have not had any concrete discussions around that as yet. Whenever it comes up we will let everyone know.

Manish Manwani: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Shiva Kumar from Unify Capital. Please go ahead.

Shiva Kumar: Thank you for the opportunity. What is the incremental cost of borrowing?

Ravindra Sudhalkar: Incremental would be around 8.5. So that is the cost of debt what we have told, cost of debt is 8.5. Most bank loans are at MCLR, which have not moved, are still around those levels and even if we look at three year, five year bond, will be showing at around those levels, 10-15 basis points here and there, but to give you a clarity, all loans from the banks we are getting at three month MCLR and six month MCLR.

Shiva Kumar: And we see a downward trend in the net interest margin like last quarter if I am not wrong it was 3.9% and this quarter roughly around 3.8%?

Ravindra Sudhalkar: Yes.

Shiva Kumar: So, we also see that the yields on the home loans and LAP loans have come down on a quarter-on-quarter basis, where do you see this going and steadying at what levels?

Ravindra Sudhalkar: To answer your question, earlier also we have mentioned in the earlier interactions that as we grow our portfolio in the affordable housing segment and the housing segment we expect contraction of the NIMs to a level of 3.5% to 3.6% and we at Reliance Home Finance are extremely comfortable with NIMs upward of 3.5% to 3.6%.

Shiva Kumar: What will be the number where disbursements were also stable, but this quarter is 16.3 billion compared to last quarter's 20 billion, so do you find it increasingly difficult in terms of competitiveness in the market to disburse steady number at around 20 billion or do you think you will be able to ramp it up?

Ravindra Sudhalkar: It is a very good question. I have a two-prong approach to this as I have told you that we at Reliance now the focus is growing the book in the affordable home loans and the home loan segment and if you compare the number of fresh approvals and fresh unique disbursements that we have done. On affordable housing finance, we are disbursing close to 1400 units disbursements every month and as you know any housing finance company would do the disbursement is basis of stage of construction, so I am sure as and when the work of construction in the units that we have funded progresses the disbursement could surely go up. So yes if you compare to the same period last quarter the disbursements are slightly down because of our focus on the housing and the affordable housing segment, but if you look at the first nine months we have grown at the rate of 44% in disbursement.

Shiva Kumar: Sorry if I am repeating this because I have joined in late coming to the construction finance segment you are explaining what are the kind of projects you take on, so can I say that the majority of the projects for which you provide construction finance you use them to source your home loans or affordable housing loans?

Ravindra Sudhalkar: If you look at the last entire year, we have just converted 86 unique clients from whatever projects we had funded it is a poor number. Going forward we would like to increase this number as we are talking right now the number is 140 not much, but we at Reliance Home Finance we are focused on the self employed category much more than the salaried category and if you look at the portfolio also we are more than 70% of the SEMP category

as far as the home loan and the affordable housing is concerned and that is also one of the reason why the conversion is slightly much on the lower side.

Shiva Kumar: Fair enough. Getting into some more details on the construction finance with an average ticket size of Rs. 10 Crores, so what is the kind of a typical construction finance project that you fund and how come your GNPA is very low at just 0.75 and other players are grabbing with much higher number?

Ravindra Sudhalkar: There are two things. Earlier I have also mentioned that it all depends on what stage I entered my funding, so for the last two years you have seen the overall new bookings were not happening till the time the project was not 50% completed because there were lot of dealers in the builder projects so people normally went and book only when the projects were 50% and upward, so we used the same strategy for our construction funding and we got in only in the projects, which are more than 50% completed. Now if you look at the kind of builders that we fund most of the builders have delivered more than 5 lakh of square feet space in the past. So these are the kind of developers that we are looking at when it comes to funding. So these are reputed builders in the micro markets; however, they are not big in size. The projects are also not very big in size. So these are the builders what we have focused on and what we have consciously.

Shiva Kumar: And typically these projects are based in urban area or are they out of the metro areas?

Ravindra Sudhalkar: Although we are in 51 offices, the CF is operational only in eight to nine locations in the country and this would be if you were to talk about Mumbai, the projects would be in the periphery of Mumbai including Kalyan, Virar and otherwise category B towns. We are clearly not there in category C towns.

Shiva Kumar: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Thank you for the opportunity Sir. I have a couple of questions that I would like you to answer. So one is I wanted to understand how is our sourcing mix and how do we source these leads for home loans particularly?

Ravindra Sudhalkar: So there are two things. One is we have a digital online portal on which clients can come and they can get end-to-end sanction. It is a recent portal that we have developed over the last two, three months. Going forward we expect close to 20% of our incremental home loan and affordable home loan business from out of the portal; however, we have our

internal teams going and sourcing, so if you look at the affordable housing more than 60% of the business is sourced internally and 40% come through references and DSA.

Trupti Agarwal: We have a sales team.

Ravindra Sudhalkar: Yes, we have fleet on sales, which cater to more than 60% of the affordable housing finance.

Trupti Agarwal: Interesting and how about the other construction finance and is this also like through our internal?

Ravindra Sudhalkar: No, CF is completely in-house source it is never through any mediators. So construction finance is completely sourced out of our internal references because we have been in this business since long. Actually we are a nine-year-old company and whatever good experience with the builders we have had in the past we generally get leads from the set of builders and that is how we source the CF.

Trupti Agarwal: Got it. Also just was very curious to know what is the differentiated strategy because we all know that this space has gone so crowded in the last few years and there are so much of churn and balance churn that is happening and banks are also quite obvious, so what is our strategy here, is it particular geography, I know you have said about the self employed segment, so can you please guide us on this?

Ravindra Sudhalkar: Actually if you look at it I think we are the only housing finance company, which is at more than 70% portfolio of housing and affordable housing comprising of a self employed category and there is no one closer to us, so I think that is what makes us different than the other housing finance companies.

Trupti Agarwal: Sir, is there any unique way in which our credit assessment?

Ravindra Sudhalkar: There are two things. As I have said in the past, the LAP more than 98% of my clients are based on cash flow, so in home loan and affordable housing also more than 98% clients are funded basis, the current cash flows and not on the basis of future cash flows I think that as a strategy has actually helped us.

Trupti Agarwal: Sir just one last question if I may. You said that your average ticket size in the affordable housing is Rs. 13 lakhs, but you also said some two numbers, which is some Rs. 7.5 lakhs and Rs. 10 lakhs, which I think I missed could you please?

- Ravindra Sudhalkar:** So what we are saying is that today if you talk about affordable housing loans, there is a clear cut definition given by the RBI to the banks as far as the affordable housing loan is concerned; however, when it comes to housing finance company different companies have their own definition of affordable housing loans, so we at Reliance Housing Finance had a definition of housing loans up to Rs.28 lakhs is affordable; however, for the last one month we have changed and we have taken it closer to Rs.35 lakhs of affordable housing loans for a very simple reason that even MIG and MIG-II also gets subsidy, so why not higher rung of people who avail loans more than 28 also should not be considered. So looking to that we have said that anyone taking the loan up to Rs.35 lakhs forms affordable housing for us. Having said that my funding begins from 7.5 and upwards in category B towns and 10 lakhs and upwards in category A towns meaning thereby that anyone wanting a loan of even 7 lakhs in category B towns I would not fund the client and anyone wanting a loan of 9 lakhs in category A town I would not fund, so the thresholds of funding are very clear at Reliance Home Finance.
- Trupti Agarwal:** Thank you so much Sir. I will join the queue.
- Moderator:** Thank you. The next question is from the line of Yugansh Jaswani, he is an Individual Investor. Please go ahead.
- Yugansh Jaswani:** I was coming through one of your credit rating reports and it mentions about a transfer of large small group mortgage loans from Reliance Capital under your LAP loans, so how much of your LAP loans are on account of those transfer?
- Ravindra Sudhalkar:** It was not transferred to LAP loans, it was transfer of the existing book of Reliance Capital to Reliance Home Finance and roughly a book of about Rs. 670 Crores only was transferred from Reliance Capital to Reliance Home Finance as a part of the demerger.
- Yugansh Jaswani:** Ticket size?
- Ravindra Sudhalkar:** Ticket size of the loans, some of the loans were builder loans and the balance were home loans. They were retail mortgage loans, which were there on RCAP balance sheet, which we have moved into the housing finance business, so the total was some Rs. 670 Crores.
- Yugansh Jaswani:** What is your thought on the cost of borrowing just your outlook going forward and 3.5 is the net interest margin that you want to maintain and given that we have seen 3.9 in the past, your commentary on that?
- Ravindra Sudhalkar:** Today, if you look at it as I have said the bank lenders and we have borrowings out of NCDs, these are fixed in nature, so at least for the next one quarter there is no change in the

cost of funds as far as our existing borrowings from NCD is concerned and as far as the borrowing from the banks is concerned most of the banks you have said three months MCLR or six months MCLR and none of the banks as we are talking now from where we have borrowed funds have reduced or have increased the MCLR. So all in all for the next one quarter I do not see any difference in the cost of fund.

Yugansh Jaswani: Understood, fair enough Sir. Lastly my question is on there was acquisition of credit business of India debt management could you add some more colour on to this?

Ravindra Sudhalkar: This was an existing business of finance company, which we took over last year, so that is what it was and anything specific you can surely put me a mail.

Yugansh Jaswani: What exactly does this and how it is?

Ravindra Sudhalkar: It was into distribution of financial products, some of the products were also in the same line of housing finance and since we had an extreme robust collection mechanism we had taken over a part business of this company. The aim is to show up our distribution capabilities across the country.

Moderator: We will move to a next question, which is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Sir can you please also guide us on the steady state cost to income ratio that we are targeting because there has been a sharp improvement in this from 51% to 39%, so what is the number that we would get to when we are at 50,000 Crores AUM?

Ravindra Sudhalkar: Frankly I would have allowed to give you a number, but any improvement on the cost is an ongoing process and we will surely be comparable to the other, but having said that there are very few housing finance companies, which are growing their AUM at a rate at which we are growing, which is at the rate of more than 25%. If you look at the overall market, it is growing at the rate of 18% to 20% and most of the housing finance companies show AUM growth of 25% and below I think only two or three companies are growing at the rate at which we are growing. Having said that companies, which have a high growth aspirations will have a relatively higher cost to income ratio initially and I think currently we have done very well for ourselves getting it down from 55 to a level of 39 and you will see progressively going down in the coming year.

Trupti Agarwal: Sure and what is our credit rating if I may?

Ravindra Sudhalkar: It is AA+.

- Trupti Agarwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Fazlur Rahman from DHFL. Please go ahead.
- Fazlur Rahman:** Could you please give us average tenure of your affordable housing loan ticket we do?
- Ravindra Sudhalkar:** We do not lend beyond 20 years in affordable housing, so on an average, the tenure would be about 12 to 14 years.
- Fazlur Rahman:** And in case of LAP?
- Ravindra Sudhalkar:** Average is 5-6 years.
- Fazlur Rahman:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Dinesh Kotecha from KRIC. Please go ahead.
- Dinesh Kotecha:** My question is that our geographical spread, which you have given 60% western geography, 20% north, 5% east and 15% south, which is the most profitable out of this whole and how are you going to expand 5% and 15%, what range we are going to expand next year?
- Ravindra Sudhalkar:** So if you look at profitability there is no particular center, which has shown a higher delinquency or where our cost of funding are quite high, so on the profitability front I think all geographies behave equally for us; however, as we expand the branches as we take the branches from current level of 51 to 75 next year and since I have told you 20% would be affordable housing finance branches, which would be on the periphery of the existing locations I think distribution wise we would be more or less the same even if we were to talk about distribution after fourth quarter.
- Dinesh Kotecha:** That means the concentration will be more on the western geography?
- Ravindra Sudhalkar:** It is and would continue to be because satellite branches would be coming up in the periphery of existing locations.
- Dinesh Kotecha:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Asutosh Kumar Mishra for closing comments.

Asutosh K Mishra: Thank you all investor for actively participating in the call and thanks to the management for giving their prospective. Thank you and now we can disconnect.

Ravindra Sudhalkar: Thank you very much.

Moderator: Thank you. On behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.