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We'll seek RBI clarification on infra project financing for banks

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IDFC Ltd will seek clarification from Reserve Bank of India to find out whether it can avail the incentives for infrastructure project financing for banks, as the company hasn't yet transitioned into a bank, said Vikram Limaye, managing director and chief executive officer of IDFC Ltd.

Edited excerpts from an interview:

What is your sense for IDFC and when you become a bank some time in 2015, how will it work for an IDFC Bank?

This circular is applicable only to banks and it's not applicable to us because we are not a bank as yet and for our transition to bank, we need to operationalize the bank in October 2015. At the outset, I would like to say this is positive in general for incentivizing that into infrastructure and cost of that for infrastructure because both on cash reserve ratio (CRR), statutory liquidity ratio (SLR) and priority sector lending side, the government and Reserve Bank of India (RBI) have done their bit in terms of incentivizing the structure investment including affordable housing which is a good addition to that. However, for us what it means is that when we become a bank in October 2015, this is part of an approval from the RBI to establish a bank and IDFC wants to be promoter of that bank. All the infrastructure assets today reside in IDFC's balance sheet. When the bank gets formed and operationalized the bank will necessarily have to take over the infrastructure assets in the entire lending book from IDFC and at that point in time the assets will be taken over and liabilities will also be issued by IDFC Bank then because today there is no legal entity called IDFC Bank.

So, holders of IDFC debt will have to become holders of IDFC Bank's debt and issuance of those bonds obviously IDFC Bank will do only once we operationalize in its part of demerger scheme of assets and liabilities from IDFC to IDFC Bank. Therefore, at the outset, I would say that this is a huge positive for us, we will seek appropriate clarification from RBI since we are in a unique position because we are not a bank as yet but we will be a bank in 15 months. Our interpretation of the circular, what it indicates is that since the bank would be taking over the assets from IDFC under an approved scheme of RBI then the entire book becomes eligible for CRR, SLR and PSL to the extent that we have the right tenure of bonds because this is capable only to long-term bonds that are issued for financing infrastructure. So, that is our current interpretation of the guidelines when we look at it but as I said we will as part of this bank process get appropriate clarification from RBI.

Ashijit Bhatlekar/Mint

Transition process: *IDFC's Vikram Limaye.*

INTERVIEW

Can you tell us exactly what is the total book or the total exposure that you have to the eligible infrastructure loans or even the affordable housing segment?

We do not have anything on affordable housing but under the definition of infrastructure, obviously as being an infra finance company most of our assets are within the definition of infrastructure as per RBI and right now what the circular talks about is project loans for infrastructure. Therefore, today our loan book is about ₹55,000 crore. Large part of that would be infrastructure but I would say that probably 70% of it would be project loans because there are other types of loans that we do to infrastructure as well but this circular talks about project loans applicability and so from that perspective it would still be a substantial part today but this is applicable to what our book looks like in October '15, not today. Therefore, between now and October '15 there will be an evolution of the book in terms of the assets and liabilities and we will do what it takes to make sure that as large component of our book becomes applicable for the CRR, SLR and PSL benefit that this circular provides.

For the existing banks, RBI says their existing exposure to infrastructure will be counted at 16% of exposure in the first year that is this year another 16% next year and so on—that won't apply to you because you are not a bank?

Because this is applicable to outstanding loans on the date of the circular. So, on the date of the circular, which is Tuesday, there is no bank; so there is no outstanding loan of the bank on the date of the circular, it is not relevant for us and so it is outstanding loan only on the date of issuance of bonds by the bank and when we operationalize the bank in October '15, around that time is when the bank would also be issuing liabilities that are IDFC Bank's liabilities and so that would be the relevant date to look at.