Transcript

9MFY09 Conference Call of IDFC Limited

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of IDFC Limited. We have with us today, the senior management team of IDFC Limited. At this moment, all participants lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the conference to Mr. Bimal Giri.

Bimal Giri: Good afternoon everyone. I welcome you to this conference call organized to discuss our financial results for nine months of financial year 2009. I have with me Rajiv Lall, Vikram Limaye and L. K. Narayan. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. Documents relating to our financial performance have been emailed to all of you. These documents have also been placed on our corporate website. I now invite Rajiv to provide key highlights of our performance for the nine months.

Rajiv Lall: Thank you Bimal. Good afternoon to all of you. Before I go through the more routine presentation, I would just like to give you a few sentences to characterize our performance. The best way I can characterize this is to say that considering the market conditions that we are operating in, it is not a bad performance. Why is it not a bad performance? Remember we are reporting to you results on a nine-month basis, so these are cumulative nine months for this fiscal year compared to nine months of last fiscal year, which as we keep insisting, is the most appropriate way of actually looking at our business, which can be lumpy in nature and all the information that I provide, at least in this presentation, is on a consolidated basis. So, on a consolidated basis, our operating income for the nine months ending December 31st was up by 14%, to 1,142 crores from 999 for the same period last fiscal and if you break that down, net interest income was up 32% from Rs. 507 crores over the same period last year to 669 crores this year and this NII was, on a cumulative basis over the nine months, really driven from our infrastructure lending business. The NII from Infra grew 41% from Rs. 399 to Rs. 563 crores. NII from treasury operations on a cumulative nine-month basis was actually stable/flat at Rs. 108 crores. If you look at the Q3 to Q3 numbers, you will know that treasury income this Q3 versus last Q3 is very sharply up, which is not surprising. Second component of our operating income is the non-interest income, which again given that much of our non-interest income is capital markets related, was actually down by 6% from Rs. 487 crores for nine months of last year to Rs. 456 crores for the period ending December 31, 2008. If you wanted to get some more breakdown of non-interest income, income from principal investments was down 23% from Rs. 201 crores to Rs. 154 crores, obviously at the current market situation we have not been taking money off the table, even if the underlying businesses of the investments we have made remain reasonably robust. Income from asset management increased 300% from Rs. 40 crores to Rs. 125 crores. This really is a reflection of the two funds that we have closed in this fiscal year - the private equity fund and the project equity fund. There is a very significant amount in fee-based income accruing as a result. Fees from investment banking, on the other hand, and broking were down 44%, nine months to nine months, from Rs. 155 crores to Rs. 86 crores and loan related and other fees were flat at Rs. 90 crores.

Now, we return to the expense line. Operating expenses were up by 40%, nine months to nine months, from Rs. 168 to Rs. 235 crores, but this is a bit misleading because it is an apples and oranges comparison. The increase here is really on account of the integration of IDFC AMC, which is the acquisition of the mutual fund that we completed in May of last calendar year. Pre-provisioning profits increased by 9%, from Rs. 831 crores to Rs. 907 crores and provisions from Rs. 30 crores to Rs. 38 crores. So, when you walk further down the P&L, consolidated PBT as a result of all this grew by 8%, from Rs. 801 crores to Rs. 869 crores and profits after tax were up 7% from Rs. 593 crores to Rs. 634 crores. This reflects a slight increase in our effective tax rate and that happens because of the changing composition of our income.

Let me take you now through the ROA analysis that we do for you on a rolling 12-month basis, which would be from January through December 2008. Net interest income contributed 2.9% of average assets for this period, of that contribution of infrastructure NII was 2.4%, improving 10 bps over the previous rolling 12 month period, while NII treasury was flat at 0.4% of average assets. Contribution from non-interest income as a share of average assets decreased from 2.5% to 2%. Miscellaneous income contributed 0.1% and total operating income was 4.9% of average total assets for the 12-month period ending December '08. Takeaway from all of that operating expenses and provisions - they accounted for 1.1% and 0.3% of average total assets respectively, basically unchanged from the previous 12-month period, you get a PBT of 3.6% of average total assets. From this you take away tax and minority interest and you are left with an ROA, which declined from 2.8% from the previous 12 months to 2.6% of average assets for period ending December 31st, 2008.

Little more color, this should be in your investment pack, which is on our website. The overall spread, this is the average spread on our loan book, grew from 2.1% to 2.3%. Cost-to-income ratio increased from 21.5% to 21.9%. This again reflects in part the integration of the AMC. As I said earlier, the effective tax rate is marginally higher from 26 odd % to 27%.

Little bit of color on what has been happening on our balance sheet. If you recall, starting July of last year, we had started putting on the brakes in terms of the growth of our balance sheet, so when you actually compare balance sheet for the nine months ending December 31st, with the nine months for the same period last year, the balance sheet grew by 15% from Rs. 26,000 odd crores to Rs. 30,000 crores, a significant slowdown from the past. Our loan books increased by 7% from Rs. 19,800 odd crores to Rs. 21,300 crores over the nine-month period compared to the same period last year. Gross approvals came down quite sharply by 42% from close to Rs. 15,000 crores to close to Rs. 9,000 crores for the nine months of this fiscal year versus nine months of the last fiscal year. On the liabilities side, our outstanding borrowings increased by 16% from Rs. 20,400 odd crores as on December 31, '07 to Rs. 23,800 crores or thereabouts on December 31, '08 and leverage on a TTM basis decreased from 4.9 times to 4.8 times. So, the combination of the slight decline in the ROA with the slight decline in the leverage ratio meant that our ROE declined from 14.4% to 13.4%.

As for the sectoral composition of our lending business, overall exposure increased by 4% over the period from close to Rs. 32,000 crores to just over Rs. 33,000 crores as on December 31, '08. Energy and transportation continue to be the dominant sectors; together they constitute 62% of our total exposure. I think that is as much as I wanted to say in terms of our routine presentation. It is probably a good idea now to turn to Q&A.

Question and Answer Session

Moderator: Sure sir. Dear participants, please press * and 1 for your questions. Our first question comes from Mr. Anand Vasudevan of Franklin Templeton.

Anand Vasudevan: Good afternoon gentlemen. I have a few questions here. Maybe to start with on the loan portfolio quality. What was your gross NPL number as on December?

Vikram Limaye: Gross NPLs were 0.2% and net NPLs continue to be 0.

Anand Vasudevan: Have you done any restructuring on any of your exposures to date?

Rajiv Lall: No, we have not. Not so far.

Anand Vasudevan: And what is your outlook?

Rajiv Lall: The outlook probably, because there will be lot of questions on asset quality, maybe I will just make couple of general remarks. Asset quality actually so far has held up remarkably well. Not to say that it is going to continue to be as pristine as we have seen it in the past. To the extent that we are seeing some stress or signs of incipient stress in asset quality, again not surprisingly these are disproportionately concentrated in our real estate portfolio and amongst the companies or the projects that we have in the real estate portfolio, and because we do a systematic review of our assets pretty much every month and we track this very, very carefully, what we are finding is that there are no fundamental solvency issues though in a couple of cases there are liquidity issues and there we are working on these particular cases very proactively to preemptively restructure to basically nip the problem as quickly in the bud as we can. So prospectively, I think you can expect next quarter to see some restructuring. It is difficult for me to give you a sense of how much, but if you look at our overall portfolio composition, it will be, let us say, a modest subset of our real estate portfolio. That will give you some idea of the broad orders.

Anand Vasudevan: What is your total exposure to commercial real estate?

Rajiv Lall: The total real estate outstanding disbursements are about Rs. 3,000 crores. I cannot tell you off the top of my head, of this total, how much is pure commercial because some of that will be project related and infrastructure related, but it will be under Rs. 3,000 crores.

Anand Vasudevan: Okay. And would this all be classified under the industrial and commercial exposure that you report?

Vikram Limaye: Yes, a portion of if not the entire one, but yes, a large chunk of that would be real estate related.

Rajiv Lall: That is correct.

Anand Vasudevan: What would be your single largest exposure to real estate corporates?

Rajiv Lall: See we debated that internally. I think that we do not want to share individual names.

Anand Vasudevan: I am not asking for names, but the amount of single largest exposure?

Rajiv Lall: What we have disclosed to everybody is our concentration analysis and that top 20 company exposures comprise about a third of our total exposure.

Anand Vasudevan: Okay thanks. The other question is on your loan loss provisioning because last year you had indicated that you wanted to raise the level of provisions on C-rated assets, I am just wondering how you have progressed on this because your loan loss reserve ratio is at 1.2% compared to 1.1% in March.

Vikram Limaye: Yes, so I think on the loan loss provisioning as you might recall, we have over time tried to figure out ways in which we can keep increasing our overall provisioning levels, primarily from a prudence perspective. We had put in place a policy that was driven to achieve that based on gross disbursements that were happening and we have an approach which says that we would provide a certain percentage of our disbursements based on the type of assets that we are disbursing in order to build our provisioning levels. So that on a blended basis comes to around 0.75% to 0.8% of gross disbursements. There are details surrounding that, but that's broadly the number. That is the level at which we are provisioning so far. That is what we have been doing. Now, obviously the environment that we are in, as Rajiv has outlined while so far our asset quality and everything has held up quite well, undoubtedly, there will be situations where some amount of restructuring would be required, etc. Again, from a prudence perspective and this is something that we are still discussing internally to figure out what we should be doing and what the right approach would be in terms of trying to see if we can increase the cumulative provision that we have through some sort of one-time provisioning that we do against standard assets to build it up rather than this incremental approach where it will get their over time anyway.

Rajiv Lall: So, that is precisely what we are debating. Because we did not have enough data points to figure out what is the best way of doing this before the end of this quarter, but definitely before Q4, we will either increase the provisioning on the formulaic basis that we have in the past, meaning, instead of 0.75 on average or 0.8, we will increase that to a higher number or we will make a one-time allocation in view of the circumstances to just shore up our kitty as this pig of asset quality works its way further down the stomach of the snake.

Vikram Limaye: See, the other thing what we are facing is that while we have put in place this provisioning policy, which was driven by gross disbursements, we have slowed down our balance sheet growth and so that approach will not get us to where we want it to be by the end of the year by adopting that because during the year, we slowed down balance sheet growth, otherwise, we would not have had to do this thing in a one-time effort.

Rajiv Lall: So, what this suggests is that we are gearing towards a one-time allocation, which would be made in Q4.

Anand Vasudevan: But with your tier-1 capital at 18.9%, would that be a constraint.

Vikram Limaye: No, I think the entire business model, the way we have planned is to try and stay within the parameters that we outlined earlier, which would be broadly around capital adequacy ratios that you are seeing today.

Rajiv Lall: Actually, what has happened on this, is that because of changed circumstances and the macro headwinds, etc, the growth momentum generally speaking and opportunities for prudent lending are more modest than they were and therefore, we feel pretty good that without having to raise additional capital, we will be able to deliver growth, i.e. finance entirely from retained earnings.

Anand Vasudevan: What about the goodwill on your balance sheet, because of the acquisition of the AMC and SSKI, firstly your tier-1 ratio of 18.9% does that exclude the goodwill?

Vikram Limaye: The usual formula that the regulators adopt in terms of deducting the investments made in subsidiaries in excess of 10% of capital is deducted from capital in calculating capital adequacy. So, yes, the short answer is yes.

Anand Vasudevan: Okay. On the goodwill, is there any need to review and any need to write down, given that the earnings level should have been reset now?

Vikram Limaye: No, the thing to remember is this is not a mark-to-market portfolio investment that we have made. This is a long-term strategic investment from a business perspective. These are businesses that we want to be in for the long haul and so while markets today might be depressed, two years from today might be very different and we cannot keep looking at this on an annual basis. These are long-term strategic investments for the platform that we believe long-term will deliver significant value.

Rajiv Lall: And incidentally just to add to that, the AUMs in our asset management business were Rs. 13,000 crores when we integrated the business. They came down to Rs. 8,000 crores and they are back up to Rs. 13,000 crores.

Vikram Limaye: See, October-November timeframe as you would know was a fairly stressful period given the drain on liquid funds and this that and the other, and our funds actually held up extremely well in that environment and as Rajiv outlined while the redemptions were significantly smaller than what the industry faced, we are back up to the same levels that we were at when we bought the business.

Rajiv Lall: We had increased market share and our ranking.

Anand Vasudevan: That is great. What about your equity investments that you made during last year? Again, is there any need to review and write down or is there no risk of that happening?

Vikram Limaye: On a portfolio basis, there are still unrealized gains on the overall portfolio, so short answer is no, and that does not capture unrealized gains that we are talking about on National Stock Exchange, etc., which are very significant as you know.

Anand Vasudevan: Are you sharing how much is your unrealized gains on the listed portfolio?

Vikram Limaye: No we are not.

Anand Vasudevan: One last question from me, this is on your lending book, given that interest rates are substantially lower now, are you beginning to see or do you expect to see clients asking for either prepayment or resetting rates lower?

Rajiv Lall: We will have to wait and see. What I can tell you is that at least from a positioning point of view our balance sheet is now well positioned. We have been working very proactively in terms of asset liability management that the duration of liabilities is now shorter than the duration of our assets. So at least in principle, in a declining interest rate market, they should help protect our spreads, but we will see how it goes.

Vikram Limaye: The other thing I would add is that if you recall what we had outlined way back in July, as part of our strategy, we were planning to enhance the yields on the existing assets, which we have been reasonably successful at achieving and while rates have gone down what has also happened is that there is a flight to quality and so it is not the case that everybody is going to get access to money and so the refinancing risk that existed say three years ago in a declining rate environment is not there anymore. The situation now is very different, so it is not the case that people who actually have loans at high rates can actually get them refinanced at lower rates.

Rajiv Lall: That said, we do not know, we will see how it goes.

Anand Vasudevan: Okay, thanks.

Moderator: Our next question comes from Mr. Ashish Kacholia of Lucky Securities.

Ashish Kacholia: I just wanted to understand how your interest spreads have expanded and is that a sustainable statistic going forward?

Vikram Limaye: This is something that we have been saying ever since we went public that on a long-term basis the lending business we believe will see declining margins and this keeps changing depending on where you are and the rates cycle and what the environment is from a lending perspective. As you know the last 6, 7, and 8 months the lending environment has actually changed quite dramatically, as I just outlined, with risk aversion and flight to quality and all that even the high quality entities, the cost of capital for those entities has gone up, and the liquidity was really quite tight in the market. So we have obviously from a spread perspective benefited a little bit from that environment but also based on a concerted effort that we outlined in July to enhance the yield on the existing assets which we have done and so our increase in spreads actually reflect a combination of those two factors as also some portion going forward, which hopefully we will benefit based on the asset liability duration that Rajiv outlined.

Ashish Kacholia: Okay, and is it likely to be a continued effort on your part to keep your liability duration shorter than your asset duration?

Rajiv Lall: As long as we feel that interest rates are going to decline that is what we will try to do.

Ashish Kacholia: And what is your outlook on the interest rate cycle itself?

Rajiv Lall: We think that it has probably sometime to go, some ways still to fall.

Vikram Limaye: But on the ALM thing just one thing I would like to point out, we are not going to run large mismatches and take interest rate calls, if you see the mismatch in ALM right now, it is extremely tight. So we are not running large interest rate risks on the book. It is very modestly skewed towards a mismatch that would favor us in a declining rate environment but we are not taking interest rate calls to have wide gaps in ALM.

Ashish Kacholia: One last question on an ongoing basis do you see IDFC having access to long-term funds like 10 year bonds or to be able to fund infrastructure projects with a really matched book?

Vikram Limaye: No, I think the answer to that when you say matched book, today we are matched as Rajiv said from an ALM perspective. While we run door-to-door tenors of 10 to 12 years, all these loans typically have resets at the end of every year or two years or three years and that is also because the rest of the banking landscape cannot give you 10-year money. So, we are not sole lenders to any of these situations. By definition, you will have resets in all these features. So to answer your question, yes we do have access to long-term money and to the extent that we have access to long-term money that makes sense for us to loan we will do that, but that is quite separate from the fact that you do not have a 10-year loan without any reset on the asset side is what I am saying.

Ashish Kacholia: Right sir. Thank you very much.

Moderator: Our next question comes from Mr. Ahmad Premchandani of UTI Mutual Funds.

Ahmad Premchandani: Hi. Is the loan book likely to shrink next year, next financial year?

Rajiv Lall: No.

Ahmad Premchandani: What growth rates you are expecting in the loan book?

Rajiv Lall: Modest.

Ahmad Premchandani: That is it.

Moderator: Our next question comes from Mr. Jatinder Agarwal of ABN AMRO.

Jatinder Agarwal: First, in terms of spreads it seems like 3Q has been very good. What is your outlook on maintaining these margins going ahead?

Rajiv Lall: It cannot last forever. We will do our best to keep these margins as wide as we can, but sooner or later they will contract.

Jatinder Agarwal: Within the quarter, there seems to be a sharp rise in interest earned if you calculate backwards, any specific resets that have happened within the quarter, which have led to this sharp rise or is it in the normal course of business?

Rajiv Lall: Sharp rise in what, sorry?

Jatinder Agarwal: If you calculate your interest earned backwards from the NII that you disclosed, there seems to be a sharp rise in terms of sequential growth and interest earned?

Vikram Limaye: Yes. If you recall, in October and November there was a very severe shortage of liquidity until the RBI intervened and reduced the stress in the system. At that point, the incremental cost of borrowing did escalate and the priority for us was to make sure that we remain liquid and we are appropriately funded and inevitably like the largest wholesale funded entities in this country including HDFC we did see a temporary spike in our cost of funding, which thanks to RBI intervention, came down very rapidly.

Jatinder Agarwal: But the pricing ability on the lending side still continues, is it?

Vikram Limaye: No. For the same reason that we were seeing stress or challenges on the liabilities side, for a while again you recall only two to three months ago nobody was lending. So we had an opportunity to price quite aggressively during that period, also any loans that were coming up for resets during that period we were able to re-price at a higher rate.

Jatinder Agarwal: Sir, in terms of your treasury book on the balance sheet, sequential quarter, there is a sharp increase on the treasury book and if you look back to your other income profits on sale of principal investments whatever, there does not seem to be any significant change there. Any reasons, has anything set off in terms of a positive and a negative or is it just that you have not booked it?

Vikram Limaye: No. The principal book, you cannot track on a quarterly basis. So that is more a function of when we believe is the right time to sell. It has not got nothing to do with some sort of stable number every quarter. It is the nature of investments as such that we would take money off the table when we believe it is the right time to take money off the table. So you might see that total quantum skewed in the first half or second half or in a particular quarter it is not a quarterly number that we can try and achieve from an earnings perspective. So that is why you might see certain quarters having larger principal investments, gains from principal investments than others and the principal investment line is obviously different from the treasury gain.

Rajiv Lall: Let me see if I can address your query. If you look at our Q3 to Q3 numbers for NII treasury, there has been a very sharp increase. Right, but principal investment for us is all equities. So there, there has been a decline because we did not take profit and whatever profit there was that was unrealized gain that disappeared, It is not perfect, it is terrible for us, but that is just the nature of the beast .

Jatinder Agarwal: Right, my question is just the amount of 10, is it net of some gross positive or negative or is it just 10 on a standalone basis.

Vikram Limaye: What is 10?

Jatinder Agarwal: The principal equity, your typing it shows only about Rs. 10 crores if you do backwards?

Bimal Giri: It is not a net. It’s just straight whatever gains have happened in the past. There is no netting out there.

Moderator: Our next question comes from Mr. Ashish Sharma of Enam AMC.

Ashish Sharma: My one question is about that gross and net amount for the principal investments has been answered. My second question is what will be the size of treasury asset book which is primarily debt sir, for the Q3?

Vikram Limaye: That is actually if you look at the presentation we have disclosed the size of the book, at the end of December 31 it is about Rs. 5,900 crores.

Ashish Sharma: Okay sir and what would be the average for nine months because I think last quarter it was a different number sir?

Vikram Limaye: Also, so you look at as of April 1, 2008, the size of book was Rs. 5500 crores. At the end of December 31, 2008, it is Rs. 5900 crores.

Ashish Sharma: Okay, because at the July end when I asked the same question I think it was close to Rs. 4000 crores, I just wanted to get an average number for the nine months?

Vikram Limaye: So that is your average, April 1 was Rs. 5500 crores; December 31 was Rs. 5900 crores.

Ashish Sharma: Okay sir, second question was your exposure. As on December 2008 your exposure is close to Rs. 33,000 crores and outstanding disbursement is close to Rs. 23,000 crores, I just wanted to get a clarification, should we assume the difference between the exposure and the disbursements would represent a pipeline for going forward, do you see accretion to the loan book from these, I mean we just take difference close to Rs. 10,000 crores.

Rajiv Lall: More or less yes, there are some of those of exposures that we may cancel, but we have actually cleaned it up quite a lot, so there should not be too much left to cancel.

Vikram Limaye: Again that is not a number that just disbursed in one year. So that is the pipeline that would disburse over the next two-three years.

Ashish Sharma: Two-three years, okay sir, and sir on the investment banking side would you be able to share any numbers of the deals done in Q3?

Rajiv Lall: That is very easy, No deals.

Ashish Sharma: I mean any ECM or non-ECM transactions?

Rajiv Lall: No, there are some DCM transactions, but no ECM transactions.

Ashish Sharma: Thank you sir.

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Moderator: Our next question comes from Mr. Manish Chowdhary of Citigroup.

Manish Chowdhary: I just wanted to get some sense of probably your fixed income gains booked in this quarter probably you have adjusted against the NII, if you could share some details on it?

Vikram Limaye: Do not think we give the breakdown of that. It is part of the NII treasury.

Manish Chowdhary: If you could just give some color on what could be the delta?

Rajiv Lall: The delta you can get a sense if you compare Q3 NII with Q3 NII. There is a 78% increase in revenues from NII treasury. It is not an insignificant number.

Manish Chowdhary: Okay thanks.

Moderator: Our next question comes from Mr. Abhishek Goel of Copal Partners.

Abhishek Goel: I would like to know how you are working on the loans, which you have given against the shares of the company.

Rajiv Lall: We are, first of all, working to reduce them, so if you notice the loan against shares in the total portfolio has actually come down from 9.8% of total exposure to 6.7% of total exposure comparing the December '07 to December '08, That is basically what we have done and in some cases what we have done is we work very aggressively to also in addition to whatever share securities that we have, we have also supplemented that with non stock security. Those are the two things that we are doing.

Vikram Limaye: So at this point in time just to answer the obvious question, we are more than adequately secured against this portfolio, there have been no issues with anybody not topping up on margin requirements that we have made and at this point in time we are very comfortable with the exposures that we have in this book.

Rajiv Lall: This is after lot of stress in the market, so, so far so good.

Abhishek Goel: Okay, Thank you sir.

Moderator: Our next question comes from Mr. Gaurav of K. R. Choksey

Gaurav: Sir, I just wanted to know that government has announced its second fiscal stimulus package. According to that there will be ECB funding available for infrastructure financing companies. Are you looking to raise any resources from that front?

Rajiv Lall: Yes, we are.

Gaurav: Sir and when we are expecting that funding?

Rajiv Lall: That is in the hands of God and the RBI.

Gaurav: And sir, your sector-wise disbursement is showing a figure of Rs. 23,184 crores and your balance sheet is showing infrastructure loans of 23,000 crores, so.

Bimal Giri: First, I think the disbursements will include what is happening on the non-funded side and what is happening on the equity side. The loans will be just pure debt exposure, so that is what is there in the balance sheet. Other things, are either separately indicated or are not there in the balance sheet.

Gaurav: So, it includes equity as well as non-funded exposure?

Rajiv Lall: These are disbursements, yes.

Gaurav: Thanks a lot sir.

Moderator: Our next question comes from Ms. Jasmina Parekh of ING Mutual Fund.

Jasmina Parekh: Sir, your staff cost has declined substantially during this quarter, even sequentially in year-on-year. Is this a one-off item?

Rajiv Lall: It is a combination of both. I think that we have been very disciplined about trying to shrink staff cost and trying to, shall we say, deal with people that are not performing, although the more important reason by far for the staff cost coming down is that as most shareholders would expect, we have curtailed our ambitions with respect to variable compensation.

Vikram Limaye: So, basically we have obviously tightened our belt on operating costs and whatever we, at the beginning of the year, felt was likely to be variable compensation that is going to go down just given the kind of environment we are in, so in overall costs you will see a decline.

Rajiv Lall: Actually the nice feature of the way, especially our HR expenses had been designed is that our fixed cost component is not that high, generally speaking, but the variable cost component has been quite high so the variable cost component is linked to performance, so if the overall profit performance of the company disappoints, then the variable compensation comes down quite sharply.

Jasmina Parekh: Okay, sir my second question is regarding your FOREX loan, which is around 1,761 crores. Did we provide any mark-to-market on this because of rupee depreciation during this quarter?

L. K. Narayan: This is all hedged so there is no vulnerability to transitive depreciation.

Jasmina Parekh: Okay, thank you.

Moderator: Our next question comes from Mr. Anshul Sehgal of Kotak PMS.

Anshul Sehgal: Could you tell me what is the progress on the fund raising plans? You have an enabling resolution for $750 million. Anything you have thought in those terms at the moment or any timeline?

Vikram Limaye: No we have not. Now see 750; we keep saying this again and again. It is an enabling resolution that addresses capital raising across all types of securities in the capital structure. We have said last quarter we will repeat it again. There are no plans of raising dilutive capital at this point in time.

Anshul Sehgal: Okay, no because with your constraints on leverage one would assume that to grow you would need to raise equity capital.

Rajiv Lall: Boss, who is growing that fast now?

Anshul Sehgal: Okay, so put it differently. You will do about 700 to 800 crores profit. Assuming five times leverage you should be able to grow the balance sheet at about 12% to 13%. Is that a correct estimate or you would think of it differently?

Vikram Limaye: We have said that this year and next year we are not going to grow a balance sheet aggressively so yes depending on what else we can do beyond the profits that get ploughed back and the leverage we get, as you know, there could be gains. There are other things that we could do because we have a lot of unrealized gains on several other types of investments we have made. Point is, that we are not going to grow balance sheet at 25%-30% if that is your question.

Anshul Sehgal: No, I said 12 to 13.

Vikram Limaye: What I am saying is that we have said that our balance sheet growth will be modest and conservative for this fiscal and next fiscal.

Rajiv Lall: Those will be all consistent with what we have, the type of analysis that you are doing.

Anshul Sehgal: Okay and when you say that you may take advantage of investments you have currently, would this include NSE as well?

Vikram Limaye: It could. It just depends on how the year evolves and what else is going on. There are several other things we have in terms of principal investments we have made.

Anshul Sehgal: Okay, alright thanks.

Moderator: Our next question comes from Mr. Mahesh of Edelweiss.

Mahesh: Hello, just two or three questions sir. One is on the loan book, are you seeing any delay in any kind of execution in most of the projects where it has been lent, probably due to lack of equity from the promoter side or etc?

Rajiv Lall: No, not really.

Mahesh: Second is on the provision side, in Q4FY08 we had a sharp jump in provisions, are we likely to see a repeat in the next quarter?

Vikram Limaye: As Rajiv just outlined, and we were talking about this when someone else asked a question regarding provisions, we are in the process of evaluating where we are on the overall provisioning level given that there has been a slowdown in our balance sheet growth, as the existing policy that we have that was linked to disbursements will not allow us to build provision as quickly as we would like to and so in that context if we have to take an additional amount in Q4 to play catch-up, that is something that we would do.

Mahesh: It is not provisions on the other expenses side. If you look at Q4FY08, we had a sharp jump because of some provisions, which was not made during the course of the year.

Vikram Limaye: If you are asking about any operating expenses, which are not provision related that will see any kind of jump in Q4, the answer is no.

Mahesh: Okay. If I look at your gross loan book which is shown as 21,304 and the loan book, which is in the balance sheet, the difference will show the total provisions, which is lying there. Am I right on this?

Rajiv Lall: Yeah, probably that is correct.

Mahesh: And you are saying this is what you are looking at increasing during the course of in the next quarter?

Rajiv Lall: That is correct.

Mahesh: Okay, fine thanks.

Moderator: Our next question comes from Mr. Sunil Kumar of Birla Sun Life Insurance.

Sunil Kumar: Just wanted to understand your macro call in the market. Last time you mentioned that disbursements, which are slowing down is nothing to do with the capital, but it is your macro call in the market. So after all these measures which RBI has taken last quarter, what is the call now?

Rajiv Lall: I did not understand that, macro call was?

Sunil Kumar: Macro call in the market with respect to the disbursements of loans, with respect to growing the balance sheet, so what is the macro call now obviously last quarter was tough, but…

Rajiv Lall: No, macro call is that basically I personally believe that investment momentum in the economy has slowed down quite significantly, and it is likely to slowdown further in view of very restricted access to liquidity from overseas and in view of the deteriorating cash flow position of Corporate India and therefore, as investment demand generally slows down, I would prognosticate that demand for private sector infrastructure development will also slowdown and that will reflect on the pace at which our own loan book grows.

Sunil Kumar: And second question, I want to understand what is the status on your dialogue with the credit rating agencies?

Rajiv Lall: We are still talking. I think we probably need another quarter or two. LK, can we say by June of this year?

L. K. Narayan: Yes, I think. See, it is not on any single number as capital adequacy, but they generally tend to look at the overall balance sheet - quality of assets, liquidity, our management, etc. So this is a continuous process and after each growth has been moderated and quality of assets holding up the way we intended it, then obviously we think that it may allow us greater latitude, but this is going to be a running computation and cannot really put a date on it, but perhaps the second quarter of the next fiscal.

Sunil Kumar: Okay, is there any chance to have a dialogue with other credit rating agencies?

L. K. Narayan: No, the other rating agencies have not put this condition on our side, this is a condition that has come only from one rating agency, which is CRISIL, and therefore, ICRA and FITCH who are the other two rating agencies who have rated us, they have not imposed any of these conditions. Nevertheless, on a quarterly basis we have a continuous dialogue. All the three rating agencies have got the quality of our assets etc, so we continue to engage all of them all the time.

Sunil Kumar: Okay, one last, wanted to understand this MOU, which you have signed in Gujarat, which has been signed by IDFC projects, one of your subsidiaries for 1600 MW wherein I think you have close to 50% of stake. What is the purpose of these and where will the equity come from?

Rajiv Lall: See we had created this company called IDFC Projects, which is a company that is going to be involved in early stage development of infrastructure projects and the idea is that much of the equity for these kind of interventions will be raised from third party investors, so we are engaging in pursuing selectively these kinds of opportunities where we are reasonably confident that in a consortium with parties that we know, we will be able to raise enough equity to get us to financial closure.

Sunil Kumar: Okay, so does that mean none of the equity contribution will be required from IDFC parent?

Rajiv Lall: There could be some, but it is unlikely to be a very meaningful number in the foreseeable future.

Vikram Limaye: Also, just remember that these things take five, six, or seven years to develop and build so it is not a one-year event.

Sunil Kumar: Right, thank you so much.

Moderator: Yes sir. Our next question comes from Mr. Jatinder Agarwal of ABN AMRO.

Jatinder Agarwal: Just two questions one is on the staff strength as of December and the bigger question is on while liquidity would have improved for NBFCs is what we understand. Have rates got better or how is it?

Rajiv Lall: Rates have come down very sharply.

Jatinder Agarwal: And how do you expect this to move ahead?

Bimal Giri: Well, I think we are expecting rates to come down even further.

Jatinder Agarwal: But that is partly led due to RBI measures or?

Bimal Giri: Yes, I think what the general characterization of the market is that there is ample liquidity now and in fact the shoe is certainly on the other foot and that opportunities for prudent lending have declined relatively sharply.

Jatinder Agarwal: Is it partly because of RBI measures because that is going to be temporary in nature and what could be the long-term viability again coming back to the earlier question of spreads.

Rajiv Lall: In fact, if you look at what is happening you are right that right now the overall borrowing levels have come down largely as a result of RBI measures. Corporate spreads over the government are still relatively wide. They have come down from what it was few months ago, but they are still wide relative to historical context. So, there is opportunity for that to compress going forward and beyond that we do not expect any kind of measures from the Reserve Bank that will reverse the reductions and rates that have happened recently anytime soon.

Vikram Limaye: Theoretically what could happen is that the fiscal deficit becomes so out of control that whatever liquidity has been created in the market has been mopped up in government borrowing.

L. K. Narayan: I think what you have said Vikram holds true. What I personally believe is the rates will trend down for the immediate future given what RBI has done vis-à-vis liquidity infusion into the market and our running conversations with various capital providers indicate that they are also expecting the PLR or the reference rates to trend down further. So as a borrowing entity we expect to see the costs of funds coming off somewhere at this point of time

Jatinder Agarwal: That is it sir, thank you.

Moderator: Our next question comes from Mr. Subramaniam of SBI Capital.

Subramaniam: Query on the recent guidelines on restructuring by RBI. Firstly, is it applicable to NBFCs also, the relief on restructuring?

Rajiv Lall: The short answer is yes.

Subramaniam: Okay and has the company restructured any of these loans during the quarter?

Rajiv Lall: No.

Subramaniam: Okay, sir one more query on the loan on the liability side. Most of the banks, which have reported results have actually shown improvement in their yield on advances despite news of PLR cuts, so while the corporate bond yields have actually come down, in the credit market the yields have not yet come down. What has been IDFC's experience in terms of its liability mix and even your presentation shows that your share of rupee term loans is reducing while bonds and debentures as a percentage of your liabilities are increasing?

L. K. Narayan: Yes, see across both of this, the yield on bonds have fallen much more than where the bank rates have come off, but there is only so much that the market has absorbed, the capacity for bonds because these are typically held by some of the commercial banks and mostly by mutual funds, but what we see from our conversations with banks that they are willing to renegotiate special loans also at much lower levels from their PLR. So while the PLRs are coming off actually now they are talking about much lower sub-PLR levels on the loan funds, though they are still slightly wider than the cost of bonds.

Subramaniam: Okay, so during the third quarter were you actually borrowing at lower rates than what was for the second quarter from the banks?

L. K. Narayan: I would say somewhere late November and early December the rate started coming off much more than what we achieved in Q2.

Subramaniam: Okay, thanks a lot.

Moderator: Our next question comes from Mr. Ajinkya Dhavale of Motilal Oswal.

Ajinkya Dhavale: Just one question left now - SSKI has reported a loss during the quarter, am I right?

Vikram Limaye: SSKI, I do not think, is not a loss during the quarter.

Ajinkya Dhavale: Because the minority interest shows a negative figure there. We still hold 80%. We have not hiked it further?

Vikram Limaye: There is a slight difference there because right now our fund of funds business that we are running out of Singapore is legally structured as a subsidiary of SSKI, but it is not your institutional broking business. So, when we set up Singapore from a legal construct perspective it was set up as a subsidiary, but from a business perspective it is a separate business, so we do not take that as SSKI business or SSKI revenues when we look at it from a business perspective. So the broking and banking business is not in a loss, but the fund of funds business, which we are planning to do out of Singapore that obviously is in a set up stage at this point.

Ajinkya Dhavale: Okay, that is hurting the overall earnings.

Vikram Limaye: Yes, that is what gets legally consolidated.

Ajinkya Dhavale: Okay and second question a very minor thing, but last year's loan book seems to be restated. As far as your last year's presentation it was 192 billion. It is now 198 billion. It is a small difference, but I just wanted to clarify.

Bimal Giri: We will check and get back to you on this. There must be a mistake somewhere, I can get back on that. There is no restatement.

Ajinkya Dhavale: Okay, thanks.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Rajiv Lall for closing comments.

Rajiv Lall: Well, thank you all for being with us this afternoon. If you have additional queries, please do address it to our investor relations team. We will try and meet some of you independently over the coming months, and I hope that this year is better for all of us than the last year has been. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.