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Transcript of IDFC's Q1FY10 Conference Call
July 21, 2009

Moderator: Ladies and gentlemen good morning and welcome to the IDFC's Q1 and FY2010 results conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Bimal Giri of IDFC. Thank you and over to you sir.

Bimal Giri: Good morning everyone. I welcome you to this conference call organized to discuss our financial results for the 1st Quarter for the financial year 2010. I have with me Rajiv Lall, Vikram Limaye and Sadashiv Rao. Before we begin, I would like to state that some of the statements made in today's discussions maybe forward looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were emailed to all of you day before yesterday. These documents have also been posted on our corporate website. I now invite Rajiv to provide key highlights of our performance for the 1st Quarter of fiscal 2010.

Rajiv Lall: Thank you Bimal and good morning to all of you. I hope some of you got to see the solar eclipse this morning. So it is in many ways an important day. We have had a pretty good quarter. Let me just run you through some overall overview information and then I will take you through the usual P&L and balance sheet information.

On a consolidated basis our operating income was up 22% this quarter over last quarter from Rs. 385 crore to Rs. 468 crore. Within that net interest income increased by 12% from Rs. 217 crore to Rs. 244 crore. This was driven largely by NII from infrastructure lending, pretty much only by NII from infrastructure lending which expanded 24% from Rs. 177 crore to Rs. 219 crore. NII treasury actually decreased, not surprisingly, from Rs. 40 crore to Rs. 25 crore quarter-over-quarter.

The second component of our operating income, non-interest income, increased by 32% from Rs. 165 crore to Rs. 217 crore. Income from principal investment activities increased 6% from Rs. 64 crore to Rs. 68 crore. Income from asset management expanded four times from Rs. 18 crore to Rs. 72 crore and fees from investment banking decreased marginally compared to the 1st quarter of last year by 5% from Rs. 37 crore to Rs. 35 crore. Investment banking activities are much better than it was last quarter.

Lastly, loan related and other fees decreased by 9% from Rs. 47 crore to Rs. 43 crore. But overall just to reiterate the point, because it is quite important, we saw a very healthy increase in our non-interest income.

Operating expenses increased 31% from Rs. 78 crore to Rs. 103 crore, but this was really because of our AMC business and our one-time expenses related to additional funds, mobilized by project equity business which we had to pay, Citigroup actually in Q1 of this year. So the increase in operating expenses really needs to be stripped off one-time expenditures in order for you to get a better sense for what's the trend in operating expenses which we believe are very well under control. Pre provisioning profits therefore increased by 19% from Rs. 307 crore to about Rs. 366 crore and now we come to the provisioning line which requires some explanation. Total provisions for various asset classes were Rs. 20 crore in Q1 fiscal '09 and minus Rs. 6 crore in Q1 fiscal '10 which means that we actually wrote back some provisions.

If you look at the provisioning we have made against standard assets this quarter that has been as per our policy which is related to gross disbursements. So these provisions were our traditional provisions made against our standard incremental loan assets. However, we took advantage of the buoyancy in the equity markets to sell down some of our equity positions and against these we had previously made provisions (during depressed market conditions), So as we sold those counters down, we needed to write back the corresponding provisions which is why you see a negative number for the provisioning line this particular quarter.

Let us now turn our attention to the ROA analysis on a rolling 12-month basis comparing fiscal-09 with 12 months period from July-08 to June-09. NII increased from 3.1% of average assets to 3.2% of average assets. NII infrastructure increased from 2.6% to 2.7% of average assets and NII treasury declined marginally from 0.6% to 0.5% of average assets. Contribution from non-interest income as a share of average assets increased from 2.1% to 2.2% and this increase was due to the contribution from asset management, as we have noted earlier, whose share increased from 0.7% of average assets to 0.9% of average assets. Contribution to ROA from principal investments, loan related and other fees and miscellaneous income remain unchanged at 0.6%, 0.4% and 0.1% of average assets respectively and contribution from investment banking declined marginally from 0.4% to 0.3% of average assets.

Operating expenses and provisions for July-08 to June-09 on a rolling 12-month basis were at 1.3% and 0.4% respectively of average assets versus 1.2% and 0.5% for the previous 12 months. Impact from provision for tax and minority interests was 1.1% for the period as against 1% for the previous 12 months. Overall our return on assets, profit after tax, increased from 2.5% of average assets to 2.7% of average assets. Our overall spread has increased from 2.3% in fiscal-09 to 2.4% on a rolling 12 month basis and this has been largely as a result of declining cost of funds for our balance sheet business and also our single minded focus on profitability of our business, so we have been much more discriminating on the type of assets that we have been booking in our book. Cost to income ratio has treaded up marginally from 23.6% to 23.8%. Effective tax increased from

27.7% to 28.1% on a rolling 12 month basis. Leverage as on June-09 was 4.8 times and our return on equity increased from 12.4% in fiscal-09 to 13% for the most recent 12 months.

Now let us talk little bit about the balance sheet. The size of our balance sheet increased only by 4% from Rs. 29,700 odd crore as on June 30, 2008 to Rs. 30,750 odd crore on June 30, 2009. On the liabilities side our outstanding borrowings increased by 2% from Rs. 23,860 crore as on June 30, 2008 to Rs. 24,300 odd crore on June 30, 2009. Our loan book decreased by 2% from Rs. 21,492 crore as on June 30, 2008, to Rs. 21,114 crore on June 30, 2009. Gross approvals also decreased by 3% from Rs. 4,477 crore in Q1 2009 to Rs. 4,361 crore in Q1 2010 and gross disbursements decreased quite significantly from Rs. 2,735 crore in Q1 fiscal-09 to Rs. 1,542 in Q1 2010. This also requires a little bit of explanation, so two things to note here that we have delivered very significant improvement in profits, Q1 over Q1 not withstanding very sluggish growth or slight shrinkage actually in our loan book. The shrinkage in the loan book is not really representative of a trend so do not read too much into it. What it does show is that there has been some slippage in Q1 with respect to certain disbursements that should have happened before June 30th but will happen really in Q2 of this fiscal year, so we expect that by Q2 we shall be back on track with reasonable growth in balance sheet and loan book. Now let me elaborate on the sectoral composition of our lending business. Our overall exposure decreased by 10% from Rs. 36,300 odd crore in June 30, 2008 to Rs. 32,816 in June 30, 2009. In terms of sectoral composition, energy and transportation continue to be the top two sectors contributing together over 60% of our total book.

I think we can take up the rest in the Q&A but I had one important bit of news to share with you, now that I have given you an overview of our performance. We actually delayed our call from yesterday to today and apologies for that, the reason for the delay has to do with our conversations that have been ongoing with CRISIL. We are actually very disappointed to share with you the news that CRISIL has decided to downgrade us from AAA stable to AA+ stable. The announcement has actually just come in. They have sent out a news release. What we will do is we will post this news release on our website for you all to see and we will have our rejoinder to their news release for you to examine. And I will just make two comments with respect to this decision by CRISIL. Not surprisingly we completely disagree with their decision to downgrade us, especially as you will see in their own news release when they gave us very high marks for managing our asset quality, our risk and generally for the way that we conduct our business. The reason that they have given for why they have downgraded us, is to do with an expectation that notwithstanding management's assurances to the contrary, given the opportunity that is staring IDFC in the face in the infrastructure sector, they expect our capital adequacy which we have very painstakingly maintained at over 20% tier 1, they expect that to fall short of 20%, and in anticipation of that they have decided to downgrade us. So we can discuss the implications of this in the Q&A.

For your information there is only a Rs. 1,000 cores worth of bonds rated by CRISIL that are still out in the market, so we are at one level not really particularly concerned about this decision, all the more so, given that ICRA and Fitch continue to rate us at AAA and we have had in the wake of this decision conversations with both ICRA and Fitch who have both assured us that their outlook for IDFC has not changed from AAA. So once again to reiterate, we are really quite disappointed in CRISIL's decision, we are perplexed a little bit by the timing of this decision but we are happy to discuss this with you in Q&A. I shall stop there and open this session forth to your questions. Thank you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Amit Ganatra from Religare. Please go ahead.

Amit Ganatra: See post this announcement now only one question that comes to mind is that what does that mean for our capital adequacy now?

Rajiv Lall: Well it means both good and bad. I mean its good in the sense that CRISIL having made this decision, it is almost like a self fulfilling prophecy. Since they have said that they have downgraded us because they expect us to increase our leverage, I assume therefore that we are not constrained any more and we can increase our leverage. So that's one aspect of it. The other aspect of it is we will have to see what this does to our cost of funds but our preliminary sense, the next quarter will tell, is that as long as the other two rating agencies remain supportive and they have shown all indications that will be the case, that should not have too much of an impact on our business. It just happened so I am still formulating my thoughts. The honest answer would be that while we have always maintained that it is important for us to have a AAA rating, I think that given the juncture we find ourselves in, and given the fact that two out of three rating agencies remain supportive, it will be interesting to see how the trade off between a slightly faster growth in our balance sheet which will result in a slightly higher leverage ratio relative to what we had been pursuing in the past, on balance what that does to our performance.

Amit Ganatra: But coming on the growth factor do you now believe that the environment is conducive for growth further from here on? Now anyways the downgrade has happened to some extent and the other two rating agencies still remain supportive, so suppose if you decide to grow faster do you think that the environment currently is conducive for growth? Asset quality issues are basically behind us now?

Rajiv Lall: We have maintained that the asset quality issues are very much in control and are largely actually behind us. We have seen the operating environment improve quite a bit actually over the last couple of quarters and so we are feeling much better about our asset quality situation and the prospects for doing business, we have always maintained, are little unpredictable. It takes a little time for demand to crank up. What I can see is that there is significant latent demand in infrastructure specially in the road sector that is now coming up and we have always maintained that even if there is a huge growth opportunity out there that we will not grow hell-for-leather that we will continue to pursue our strategy as we always have which is a balanced growth of all our revenue lines both non-interest and interest so that we deliver profitability as we continue to grow. So that is what, in light of this CRISIL decision, we will have to now sit down and think how we can recalibrate so that we remain growing at a profitable rate. I guess what I am saying to you is that my honest first instinct, we should be able to continue delivering profitable growth playing on the trade off that has now opened up for us.

Amit Ganatra: In terms of other two rating agencies, have they indicated any sort of capital adequacy comfort level for them?

Vikram Limaye: No, not really. See we are today extremely well capitalized as you know. Total capital at the end of March was 24%, so the issue with CRISIL was the fact that they wanted us to maintain Tier 1 capital well in excess of 20%, whereas the other agencies really did not have that kind of threshold level and so given the amount of capital that we have, obviously we are not at any kind margin in terms of their expectations of what capitalization level should be. It was more a CRISIL issue than the other two rating agencies.

Amit Ganatra: So suppose assuming that the cost of funds actually still continues to remain under manageable level, so in that case can you go to like 17% capital adequacy ratio and still have an AAA ratings status with other two rating agencies?

Rajiv Lall: Well that is too early to tell. I think the guidance you should take away from management is that what we have been consistently saying and I will just repeat it. There are two things, and this is in anticipation of other questions that may follow from others, is that a) as a management we believe that we cannot afford to grow much faster than the rest of the financial system for any extended period of time because of the potential challenges that we could have in managing our liability base. b) we feel that there is enough opportunity for us to grow in a balanced way such that you can expect us and we would like to deliver consistent performance which has us growing at reasonable rates. Now we have not really given a specific number for that, but that rate is not 25% and it is not 10%.

Moderator: The next question is from the line of Tabassum Inamdar of UBS. Please go ahead.

Tabassum Inamdar: In terms of your own comfort level, how much would you be comfortable in terms of leveraging up the balance sheet?

Rajiv Lall: There is no secret about this, we have again always maintained that we have not agreed with CRISIL that a 20% Tier 1 capitalization is necessary for our business model. We have also sort of maintained that we are a conservative management and that the type of potential leverage that the regulator allows for us may be on the aggressive side. So somewhere between what CRISIL has felt necessary for us in terms of minimum capitalization and the lower bound that is set by the regulator, we will now recalibrate ourselves in that continuum and I think we would probably have a better sense for that by next quarter. So we can revisit this question about what is an appropriate leverage for us next quarter. Give us a few weeks to rethink these issues and before we articulate them to the market, now that we are, I guess, free to do so.

Tabassum Inamdar: Just one more thing supposing you go up to say seven times leverage over the next couple of years, would that be something where CRISIL would again maybe look at, I am wondering whether they would downgrade again or they have some leverage in mind for you, which they believe you will go up to and which is why they are downgrading you?

Rajiv Lall: No. They do not have any leverage in mind for us because whatever we have shared with them is basically what we have shared with you all and we have maintained to them is that we do not intend to grow our balance sheet business very aggressively. In fact our ability to grow our balance sheet business is partly conditioned by our ability to grow our non-balance sheet business because we believe that for us to pursue profitable growth; we must grow our non-balance sheet businesses in tandem with our balance sheet businesses. So based on that information I do not think they have any sense for what the appropriate leverage ought to be. They are just making a very macro statement that here is a huge infrastructure opportunity that is theoretically there and how can IDFC not pursue this and it is given that their Tier 1 capitalization will fall below 20% and therefore we are downgrading them.

Tabassum Inamdar: Just one thing then, what is the kind of growth one should expect. Basically in the last conference call I think we talked about 10%-15% balance sheet growth, which you clearly with the environment changing is achievable. Should we expecting maybe 15%-20% growth over the next 3-4 years and that is sort of decent and in line with what industry may grow at, the financial sector?

Rajiv Lall: Tabassum I do not want to be pressed on this question today. I think that, give us a few weeks to recalibrate ourselves and then we can sit down and discuss this more systematically because this has just happened. Not that we haven't thought about what we might do in the event if something like this happened, but nevertheless we have not had a chance to huddle amongst ourselves and say okay this is what for reasons a, b, c, d, we think now makes sense and this is what we are comfortable sharing with the market. So give us a few weeks.

Vikram Limaye: Just one other thing in addition to what Rajiv has said, once we come back with more concrete thoughts on this, one thing to remember from a business model perspective is that we are a profitable company and our profits are very healthy, so there is an in-built capability of growth which is based on internal accruals. So it is not the case that because we grow at a certain rate it necessarily eats into capital. So depending upon what the leverage is, there is a substantial addition to net worth that happens as a result of our profits and so there is an ability to grow without depleting capital at a certain rate anyway.

Rajiv Lall: Just to elaborate on that thought just a bit. Therefore the logic that suggests itself now is that how we grow will be calibrated in part by what we are comfortable in terms of financing through accruals right and our ability to raise capital in an intelligent way. The objective being we want to deliver profitable growth.

Moderator: Thank you Ms. Inamdar. The next question is from the line of Mr. Dipankar Choudhury of Deutsche Bank. Please go ahead.

Dipankar Choudhury: What are the thoughts on the trend or outlook for cost of wholesale funding for the next 12 months or so? We have seen some very remarkable changes in the way it has played out in the last six months wherein wholesale has slipped below retail etc., and obviously that has benefited you massively, so how would you see this particular factor play out in the next 12 months or so. I know there are too many moving parts.

Rajiv Lall: This is a complex question and what I can tell you is that you know one of the reasons why wholesale funding has come down is to do with the steepening of the yield curve because what has happened is that the short end of the yield curve has really been kept low and that is because there is a lot of short-term liquidity that is available, so our ability to maintain a cost of funds advantage is also linked to the slope of the yield curve and our appetite and ability to play along it and borrow at different maturities, so I would suggest that given the RBI's current stance that for the next few months, we will see sufficient liquidity at the short-end of the yield curve, such that if we wanted to keep the majority of the duration of our borrowings relatively short, we would be able to continue exploiting the advantage of low cost of funds but I think given the nature of our business, we will need to lengthen the duration of our borrowings and in fact if your view is that interest rates over the next 12 months or so will begin to harden on account of some kind of crowding out as domestic investment demand picks up and the financing requirements of the budget plays themselves out then the cost of borrowing for medium term duration is not going to remain depressed for too much longer and we can expect therefore this extraordinary development of the last two quarters to become less extraordinary.

Moderator: Thank you Mr. Choudhury. The next question is from the line of Madhuchanda Dey of Kotak Securities, please go ahead.

Madhuchanda Dey: Very good set of non-interest income numbers but as you gave this news, just was wondering that now that this leverage restriction kind of ghost because they have already downgraded and they have also recognized this opportunity in the infrastructure sector, would you be looking at some kind of a capital raising to kind of take advantage of the situation that has come up to you?

Rajiv Lall: No, I do not think that, one view to take is that if CRISIL have downgraded us anyway which they have, there is actually no immediate reason at all to raise capital, so rather if there is an opportunity to grow profitably, we can do so by increasing our leverage little more than we have in the past.

Madhuchanda Dey: To what extent can you leverage without impacting this existing rating which is double AA plus stable?

Rajiv Lall: Remember that we are AAA with major two rating agencies.

Madhuchanda Dey: I am talking about just CRISIL for the time being.

Rajiv Lall: Well, I do not have an answer to that question, they haven't indicated to us what would it take for them to further downgrade.

Vikram Limaye: When you read their release, what they are saying is that if there is a steep deterioration in capitalization then they will revisit their ratings otherwise they believe that the current capitalization levels and earnings and diversification and all that is healthy to support where they are.

Rajiv Lall: So what they are basically saying is that IDFC's capitalization and earnings are comfortable but Tier 1 CAR is likely to reduce over the medium term but will remain strong enough to support the present rating given the institution's excellent asset quality that is what they are saying.

Madhuchanda Dey: Does it mean that it could be anywhere in the late teens kind of Tier 1 that you would be comfortable with can we go with that kind of guidance from your side?

Rajiv Lall: It is impossible for us to answer this question intelligently today, you will have to give us few weeks to figure out how we can recalibrate ourselves in order to deal with the consequences both good and bad of this development.

Moderator: Thank you Ms. Dey. The next question is from the line of Anand Vasudevan from Franklin Templeton, please go ahead.

Anand Vasudevan: On this capital requirement would getting a bank license, would that make a material difference to the rating agencies views on your risk profile.

Rajiv Lall: Again it is difficult to say that their approach to rating a bank basically it is very different from their approach to rating NBFC, it would make a difference, what kind of difference it would make I do not know.

Anand Vasudevan: That means, presumably, that will be a positive difference. I would like to understand what is the RBI's stance in granting you a fresh banking license?

Rajiv Lall: I think that discussion has not really happened, we have not applied for a fresh banking license. Again I reiterate what we have consistently articulated to all of you over the last two months, not withstanding all kinds of rumors in the market that we believe that given our current business model construct, it is inappropriate for us to grow our balance sheet at a significantly faster rate than the rest of the financial systems for any extended period of time because of potential challenges of managing our liability exposure under those circumstances. But we still have ample opportunity to grow and that growth is far from shoddy and therefore even as we continue to pursue various potential avenues to deal with our liability management issues as our balance sheet size grows of which one avenue is the bank and we will continue to focus on our current business. The issue with bank possibility is that you know even if the RBI were to be favorable to our approach which we have not made. Our issue with a bank license would be that the bank license comes with so many other obligations that it is not entirely clear that that price is an appropriate price to pay to buy stability for our liability taking in the long run. So, there are other possible solutions that we should think of are to deal with the liability issues. Those are being articulated and will be discussed with our stake holders including particularly the government of India and the RBI in the coming months and we will as always keep you informed about the progress of those conversations**.**

Anand Vasudevan: The proposed take off financing by IIFCL would that be available to NBFCs like IDFC?

Rajiv Lall: I think there is now as I am told a proposal to extend that facility to NBFCs as well as to extend that facility as well as the refinancing facility to NBFCs, so both of those should they materialize in the next month or two, should be very helpful.

Anand Vasudevan: Just to revisit your provisioning policy, what is your policy, what percentage of disbursals do you intend to provide as standard provisions?

Sadashiv Rao: It is basically, depending on the quality of the loan book we provide, we categorize the loan book in three categories; A, B and C. A and B are the better ones where we provide 0.5% of the disbursed amount and C where we provide 1% of the disbursed amount.

Anand Vasudevan: Have you acquired the remaining outstanding shares in SSKI?

Rajiv Lall: We have acquired the remaining 20% of SSKI over the last quarter.

Anand Vasudevan: What is the price at which you acquired the last 20%?

Rajiv Lall: It is a very compelling price, so I will leave at that.

Anand Vasudevan: Final question on changes in your exposure you know from end of March to end of June. It looks like you had a huge increase in exposure to corporate loans; I would like to understand what is happening?

Rajiv Lall: That is probably on account of two to three particularly interesting transactions that we did. They are really in the nature of acquisition finance. I guess there is some kind of philosophy of approach that is developing with respect to our corporate lending activities as oppose to our project lending activities and what we are increasingly looking at is that corporate lending whether it is secured just by the balance sheet of the company or it is secured by shares, is something that we would pursue to facilitate acquisition in selective cases rather than just do bread and butter type of corporate lending, so that is what accounts for this increase over the quarter. I do not think it is reflective of any trend that is predictable if that is what you are trying to get at.

Moderator: The next question is from the line of Seshadri Sen from Macquarie, please go ahead.

Seshadri Sen: Does the rating affect bank loans that banks have given you; do those also get downgraded and will that impact banks capital adequacy? Secondly, has CRISIL set out any circumstances under which they could reverse this and re-upgrade by setting milestones for you to achieve for this to do that?

Vikram Limaye: So, couple of things, the latter one first, I think as we have said before, CRISIL expectation is that over the medium term, Tier 1 capital levels well in excess of 20% is what they would expect us to maintain for a AAA. Now, obviously, as we have outlined from a long-term business model perspective, we have told them as well, we do not believe that, that is warranted for the kind of business we are in and the risk that exists in our business to maintain Tier 1 capital well in excess of 20% on a long-term business model basis. So that is one aspect to keep in mind. They have obviously mentioned as you will see in the release that the outlook could be revised if the companies capitalization plans change resulting in higher Tier 1 capital adequacy on a sustainable basis, so that is consistent with what their expectation is about maintaining Tier 1 capital well in excess of 20%. The first part of your question relating to what type of instruments etc., these are primarily bonds that have been placed with provident funds, etc. the outstanding amount today is extremely small relative to our entire borrowing base, it is only Rs. 1,000 crore out of a Rs. 25,000 crore borrowing base. ICRA and Fitch continue to rate us at AAA and so that the bulk of the Rs. 1,000 crore is in bonds placed with provident funds, not in loans with banks.

Rajiv Lall: We have also sought advice from SEBI and we have been assured that we can actually raise funding with just rating from one entity. So from that point of view certainly for our incremental borrowing, we are very well covered because we can turn to rating agencies that are supportive of us and are positioned with respect to our capitalization requirements in order to get us ourselves rated to the satisfaction of the regulator for the purposes of incremental fund raising.

Moderator: Thank you Mr. Sen. The next question is from the line of Anil Agarwal of Morgan Stanley please go ahead.

Anil Agarwal: We have to go out and borrow today with a AA plus rating, what is the impact on your incremental funding cost compared to what was earlier or is it like 40 basis point or 50 basis points, what is the impact. Second thing is that on your existing Rs. 1,000 crore of bond with the insurance companies etc., with the AAA rated rating, do they give it back to IDFC or are they allow to own AA plus paper or what is the impact on the Rs. 1000 crore paper?

Rajiv Lall: My understanding is that they are allowed to own that paper, so I do not think that is going to be an issue. To what the impact is going to be on our cost of borrowing, the answer is we do not really know but clearly what we will do for incremental borrowing is that we will not get it rated by CRISIL, we will get it rated by Fitch and/or ICRA or both and with that AAA rating, we will approach the banks and see how they react to us.

Anil Agarwal: Assuming that Fitch and ICRA also downgrade assuming they follow, in that case what happens to your incremental funding cost?

Rajiv Lall: Again we do not know, we have never been in that situation, so it is difficult for me to tell you that but I would discourage you from anticipating that either ICRA or Fitch would downgrade us. Actually, very recently they went through an exercise and reaffirmed their ratings.

Anil Agarwal: Do they also have some kind of a like CRISIL was fixed rated on 20% Tier 1? Has Fitch or ICRA also has given any kind of leverage number that they are comfortable with or not comfortable with?

Rajiv Lall: They have not.

Moderator: Thank you. The next question is from the line of Siddharth Teli of ICICI Securities, please go ahead.

Siddharth Teli: You said that during this quarter there was something paid to Citi Group on account of the fund raising on the Citi-Blackstone fund, just wanted to know because there was something last quarter as well, so how much this number was?

Rajiv Lall: Rs. 5 Crore.

Siddharth Teli: Do you think there could be a further downgrade from CRISIL if you were to let leverage to 6.5 or 7 times, is there anything of that sort?

Rajiv Lall: No, I am not aware of that I think you can make your own judgments when we post their statements on our website. I think that, they actually acknowledged our prudent approach to risk management in their own statement and therefore obviously if we were to increase our leverage from you know from 5 times to 9 times or something like that, that would destabilize them but if we were in a calibrated way over the medium term to pursue growth pretty much in the way we have in the past as we have been sort of guiding the market, my sense is that they should not be destabilized.

Siddharth Teli: In terms of borrowing you said roughly Rs. 1,000 crore of pool is rated by CRISIL. Can you give us the number of how much is it by the other two rating agencies?

Vikram Limaye: We do not want to get into those details because like we have said, the other two rating agencies have confirmed that they are stable at AAA. Reason why we outlined the CRISIL's outstanding amount is so that you will get some context for what the CRISIL paper is as a proportion of the total paper. Total borrowings are about Rs. 25,000 crore.

Rajiv Lall: Of which that rated by CRISIL is Rs. 1000 crore.

Siddharth Teli: I just got this press release and there are some NCDs aggregating to Rs. 20 billion, then there are bonds aggregating to Rs. 13.5 billion. This is the official release from CRISIL and some Rs. 13 billion short-term debt programs.

Vikram Limaye: No. What the numbers you see over there, the numbers you just outlined, are numbers relating to the original program when the bonds were issued it does not relate to the outstanding bonds at this point of time. The outstanding paper as I have said is Rs. 1000 crore.

Moderator: Thank you Mr. Teli. The next question is from the line of Ajinkya Dhavale from Motilal Oswal Securities. Please go ahead.

Ajinkya Dhavale: On the treasury book which we run, it has been increasing every quarter and as a percentage for overall asset base it is now upwards of 20%. Just want to understand the thought process that how much of this will look as a structural liquidity which we want to maintain and how much of this is more tactical in nature?

Rajiv Lall: Structurally, I think we probably require little less than what we have today. The size of the treasury book has gone up tactically because of certain interest rate views that our treasury have taken. Therefore, we thought that it would be a good time to borrow even as our asset book develops because of the future interest rate view that we have.

Ajinkya Dhavale: May be more from a total asset perspective, is it like 15% will always remain in treasury that kind of calls you take and the balance depends on the tactical movements. Is there any number or any way that you freeze that this is the minimum treasury book which will always run?

Vikram Limaye: Basically, there are couple of aspects to treasury right, one is like we said, we maintain adequate liquidity to meet any kind of disbursements that we expect on the asset side and that we have visibility because there are some scheduled disbursements based on sanctions that we already have in on our book and then there is some incremental liquidity that we need to keep in the event that there are discrete transactions that come up which are not part of the sanctions that have already been done. So in that context, I think if you look at it over the next couple of years, I would say that treasury levels that you saw at the end of March 2009 are more or less is the numbers that you should see over the next couple of years in terms of absolute numbers, so we do not expect that you know that book will necessarily grow at the same pace that the overall balance sheet grows because there is a portion of it which relates to proprietary investments and trading that we do in fixed income markets and a proportion that is deployed for liquidity purposes for asset book and so that mix obviously evolves depending on market condition, but then in absolute terms that is broadly where we should be over the next couple of years.

Ajinkya Dhavale: That also leads to the second point that then there is a possibility that we keep our leverage at 5x of below that only despite accelerating the loan growth?

Vikram Limaye: That all depends on how the environment works out and you know how as Rajiv said, what we feel is prudent growth balancing all the other aspects of our business. You cannot just look at it in isolation in term like the treasury book and the loan book.

Moderator: Thank you Mr. Dhavale. The next question is from the line of P.S. Subramaniam of SBI Cap Securities, please go ahead.

P.S. Subramaniam: How much is the provision that you hold against your non-performing assets apart from the standard asset provision that you already hold?

Bimal Giri: They got changed basically in the March 31st number. So it was about Rs. 75 to Rs. 80 crore gross NPLs, net NPLs was about Rs. 30 to Rs. 40 crore.

P.S. Subramaniam: Rs. 80 crore was the gross NPL and Rs. 30 crore was the net NPL.

Vikram Limaye: No, as we have said earlier, our provision keeps growing based on disbursements.

P.S. Subramaniam: I just wanted to know the specific provision against the gross NPLs that you have done.

Vikram Limaye: The net performing assets are 0.2% of assets. Gross non performing assets are 0.4% of assets.

Moderator: Thank you. Ladies and gentleman, due to time constraints, we will be taking one last question from the line of Mahrukh Adajania from Nomura Securities. Please go ahead.

Mahrukh Adajania: Basically on this CRISIL downgrade, this is kind of a disincentive to the business per se, if one of the best managed infrastructure finance companies was asked to maintain Tier 1 at about 20. It means that the ROE will be perennially suppressed, so it is a disincentive to do business even if you are well managed.

Rajiv Lall: So, are you suggesting therefore that they have now given us the incentive to do business.

Mahrukh Adajania: No, I am just wondering, why there was this debate in the first place and why the requirement went on increasing because I am not sure of too many financial institutions who either by regulation or due to pressure of rating agencies are required to maintain Tier 1 in excess of 20%. I am just wondering about the thought process.

Rajiv Lall: You will have to ask his question to them. We disagree with it. We made that quite clear to them and we are sharing that with you but to understand why they have made this decision, you can read their press release and if you are still not clear in your mind as to the underlying logic, you should talk to them.

Vikram Limaye: So, we do not have an answer as to why Tier 1 capital well in excess of 20% is warranted, so you will have to talk to them about it. That is really their view.

Moderator: Thank you Ms. Adajania. I would now like to hand the floor over to Dr. Rajiv Lall for closing comments. Please go ahead sir.

Rajiv Lall: Thank you. It has been, all things considered, not a bad quarter, not withstanding the news about CRISIL. I think that we have demonstrated and certainly we as a management team feel very good about our ability to deliver results even under very trying circumstances, I think that the diversification strategy in terms of pursuing different revenue lines with different characteristics has demonstrated its value and you have seen our performance this year in terms of profits after tax not withstanding relatively sluggish growth in our balance sheet. We feel vindicated and we are more confident that we need to continue pursuing the strategy we have articulated of balance growth and as the first reaction, I would only leave you with the thought that our business model is strong enough to take the downgrade by CRISIL in our stride. We will come back to you in the course of the coming weeks, perhaps even in a specific call ahead of next quarter as we recalibrate our business plans in the light of the most recent developments. Thank you all for your attention. We will be in touch with you soon.

Moderator: Thank you gentlemen of the IDFC Management. Ladies and gentlemen, on behalf of IDFC that concludes this conference call. Thank you for joining us and you may now disconnect your lines.