9MFY11 Earnings Call Transcript
February 02, 2011

Moderator: Ladies and gentlemen good day and welcome to the IDFC nine months FY'11 results conference call. As a reminder for the duration of this conference all participant 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. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bimal Giri from IDFC, thank you and over to you Sir.

Bimal Giri: Good afternoon everyone. I welcome you to this conference call organized to discuss our financial results for the nine months of the financial year 2011. I have with me Rajiv Lall, Vikram Limaye, L.K. Narayan and Sadashiv Rao. 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 posted on our corporate website. I now invite Rajiv to provide key highlights of our financial performance for the nine months of fiscal 2011.

Rajiv Lall: Thank you Bimal and good morning to all of you. Let me just go through the usual presentation and then we will open it up for question and answers. On a consolidated basis our operating income was up 28% from about Rs. 1,500 Crore over the nine months in FY'10 to just a little over Rs. 1900 Crore for the nine months of fiscal 11. Within that our net interest income increased by 47% from Rs. 797 Crore to Rs. 1,171 Crore. This was driven essentially by our infrastructure lending business for which NII has expanded 47% from Rs. 731 Crore to Rs. 1,076 Crore, nine months to nine months. The NII from the treasury also did quite well on a nine month to nine month basis increasing 46% from Rs. 65 Crore to Rs. 95 Crore.

The second component of our operating income, which is non-interest income, has not performed as well. It increased by 7% from Rs. 680 Crore over the nine months of fiscal 2010 to Rs. 729 Crore over the nine months of fiscal 2011 and this was principally due to our capital gains from our investment activities which, nine months to nine months, decreased by 31% from Rs. 234 Crore from the nine months of fiscal 2010 to Rs. 160 Crore in nine months of fiscal 2011. This was primarily because of the turbulence in the market where we did not capitalize on our investments.

Second component of non-interest income is the asset management business. If you look at the management fees from asset management, they actually decreased by 12% from Rs. 209 Crore to Rs. 184 Crore, nine months to nine months and this was essentially due to some decline in AUM in IDFC Mutual Fund; however, total revenues from the asset management business which also includes carry and capital gains embedded in that business, they declined only marginally by 3% from Rs. 209 Crore in the nine month fiscal 2010 to Rs. 203 Crore in the nine months fiscal 2011.

Fees from investment banking and broking business increased by 22%; they were up from a Rs. 132 Crore to Rs. 161 Crore and loan related and other fees primarily linked to our lending business, increased by a whopping 94% from Rs. 105 Crore in the first nine months of fiscal 2010 to Rs. 203 Crore in the nine months of fiscal 2011. So, as far as revenues are concerned, basically the story is one of, the balance sheet business seem very strong this year and the non-balance sheet businesses not being as strong relative to last year.

Let me turn to operating expenses. These, on a nine month to nine month basis, grew by 29% from Rs. 316 Crore to Rs. 407 Crore and this was primarily on account of HR related expenses and that too on account of provisions made for variable compensation and this you will recall last year we had a problem Q4 to Q4 I suppose if we could describe it as in how we disclosed our variable compensation numbers because we left our provisioning for bonuses to the last quarter of the year since our performance overall was very strong last year the variable bonus component was also quite large and we had ended up significant spike in Q4 on account of variable compensation. This year we have tried to do provisioning for bonuses somewhat differently. It is still not as smooth as one would like it to be. So the first two quarters of this year we provisioned cautiously because we did not have visibility with respect to provisioning the performance of the firm for the full 12 months and the third quarter with greater visibility for our overall yearly performance, we have adjusted the provisioning for bonuses upwards and which is why you see this increase in operating expenses nine months to nine months. So if you compare it to the nine months of last year, we would have under provisioned with respect to variable compensation. This year we have provisioned more appropriately and that is why you see an increase in operating expenses. So, the more important number and I will come back to that in a minute, is our cost to income ratio which, on a rolling 12 month basis, has been actually pretty stable at around 25% and there is some good news on that which I will come back to in less than a minute.

Coming back to the main presentation I have talked about revenues, I have talked about operating expenses, pre-provisioning profits therefore when you cut through it all grew by 27% from Rs. 1,188 Crore in nine months of fiscal 2010 to Rs. 1,500 Crore in nine months of fiscal 2011. Total provisions however increased by close to 2.4 times from Rs. 60 Crore over the nine months of last year to Rs. 145 Crore over the nine months of this year and this was driven primarily by much higher general provisioning on account of higher disbursements. Just to remind you, our general provisioning for the lending business is linked to gross disbursements and since gross disbursements this year have grown very fast our general provisioning has grown accordingly.

As a result of all this profit before tax grew by 21% on a consolidated basis from Rs. 1,128 Crore in the first nine months of last year to Rs. 1,367 Crore in the nine months of this year and after providing Rs. 294 Crore towards taxes a profit after tax on a consolidated basis for the first nine months of this year grew 19% over last year to Rs. 995 Crore up from Rs. 834 Crore. So that is the P&L.

Let me turn briefly to the normal return on assets decomposition that we do for you, which we do on a rolling 12-month basis where we compare the 12-month period from October 2009 to September 2010 and January 2010 to December 2010. So, on this basis overall ROA trended slightly down from 3.3% to 3.1% and the decomposition of that reflects actually the overall performance obviously this interestingly enough decline in the ROA is not due to compression in spreads. That is important point. It is due a reduction in our non-interest income so if you decompose it our NII as a share of average assets actually grew from 3.6% to 3.8% in the most recent 12 month rolling period. Overall NII grew from 3.6 to 3.8%, NII infrastructure increased from 3.4 to 3.5 and NII treasury was stable.

Contribution from non-interest income declined from 2.9% of average assets to 2.5% of average assets, which is why you see an overall decline in the ROA as a share of average assets outstanding.

Just a little bit of colour on the spreads, if you compare our spreads on a rolling 12 month basis you will find that they were actually stable at 240 basis points, 2.4%. On a rolling 12 month basis our cost to income ratio increased slightly from 24.5% to 25.4% our effective tax rate also increased slightly from 26.2% to 26.7%. Our leverage as of December 31 was 4.2 times. Our ROE declined from 14.9% to 13.7%, on a rolling 12-month basis. That was because of the QIP and capital raised in that.

Just a comment on cost to income ratio again on the rolling 12-month basis this increase is not indicative of what we are expecting for the year. I would like to provide guidance on the cost to income ratio, we are quite focused on this and we expect our cost to income ratio for year ended March 31 to end up certainly below 24%, but it could be how much lower I cannot tell you at this point, but it could be it will in any case the materially better than last year when it was 26.2%. So there should, you will see a material improvement in our cost to income ratio for the year ended March 31.

Enough on the P&L let me talk about the balance sheet. This is the year of the balance sheet. Our balance sheet of nine month to nine month basis has actually grown by 53% from Rs. 31,300 Crore to Rs. 48,000 Crore as on December 31, 2010. On the liability side, our outstanding borrowing also increased commensurately by 51% from Rs. 24,000 Crore as of December 31, 2009 to close to Rs. 37,000 Crore as of December 31, 2010. Gross approvals actually grew 2.2 times from Rs. 16,550 Crore for the first nine months of last year to Rs. 36,500 Crore for the first nine months of this fiscal year. Gross disbursements increased 2.8 times from Rs. 7,900 odd Crore last year to Rs. 22,495 Crore this year.

Energy, transportation and telecommunications continue to be the mainstays of our lending business. These top three sectors contributed 47% and 28% and 15%, respectively of the total exposure and 42%, 24% and 21% respectively of total outstanding disbursements.

Our net loan book increased by over 50% nine months to nine months from a little over Rs. 23,000 Crore as on December 2009 to over Rs. 35,000 as on December 2010 and if one were to look at the colour of the lending business going forward I would say that we have done very well by front-ending the growth of our balance sheet this year and what it means is that if we end this fiscal year with an overall balance sheet growth of close to 50% we will still be in a very good position over the next 36 months or beyond to meet our goal of tripling the balance sheet. So remember we had told you that our goal was to grow the balance sheet to three times its size over 36-48 months. We expect to grow our balance sheet this year alone by 50% and therefore even as growth begins to moderate we are pretty confident of delivering on a medium term targets as we go forward. Despite the very significant growth in the balance sheet, our asset quality remains very well under control.

Our net NPAs were 0.1% and our loan loss coverage stood at healthy 1.7%. Just to remind you once again our provisioning is linked to gross disbursements and that is why even as our balance sheet has grown rapidly we are able to maintain a pretty comfortable level of overall loan loss coverage ratio.

The last point I want to make about the performance is re-emphasize the importance of the lending business for this fiscal year. So if you look at IDFC performance on a standalone business then you will see that profit after tax actually increased by 27% to Rs. 930 Crore this year from Rs. 734 Crore last year, but if you look at core lending business, which means that if from the standalone P&L, you will strip out the line relating to capital gains you will find that our core profitability has actually increased by more than 50% nine months to nine months. That is all I wanted to say about performance.

I have few more bits of information that I want to share with you, starting first with some senior management changes. L. K. Narayan that most of you have come to know - Executive Director and our group CFO after having spent 13 years with IDFC will be leaving us at the end of this month to pursue interests that go way beyond financial services so I just wanted to take this opportunity not only to make that announcement and share the news with all of you, but also to wish LK all the very best in the future and he will be spending all of his time in the nonprofit sector. As you know LK has been with IDFC since its inception. He has been overseeing not only the integrity of our balance sheet and accounts, but he has also been overseeing the build out of our IT platform as well as managing treasury. We have gone through a very extensive search process; I am equally pleased to let you know that we have found LK's replacement. I think we will be posting his name on the web over the next 48 hours but he will be overlapping with LK starting February 14 and there will be a smooth transition, so that he is completely in the saddle before the end of the month. We will post his name and background on the website over the next couple of days.

Other bits of news, IDFC was ranked seventh globally and fifth in Asia in the Project Finance mandated arranger category in two separate polls conducted by Dealogic and by Thomson Reuters for the calendar year 2010. IDFC was ranked fourth globally in the public private partnership mandate arranger category league table published by Dealogic. Some of you may have noticed that we have also launched the second tranche of our tax-free long-term infrastructure bonds. You would recall where in the first tranche, we raised Rs. 470 Crore and we actually got 2.2 lakh new investors to hold IDFC paper. The second offering will close on February 4 and we hope, we do not know, we will find out only in the next week. We expect that we will raise a similar amount of money to the first tranche.

Last point, we are quite proud of the way in which we share information with you all. We always look forward to your feedback, but I am pleased to announce that our annual report for fiscal year 2010 received the Silver Shield Second Best Entry award from ICAI for excellence in financial reporting.

That is my presentation for this morning. I think we can open up this session for Q&A. I have LK, Sadashiv and Vikram by my side and we are happy to take your questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. To ask a question at this time please enter "*" followed by "1" on your touchtone telephone. Our first question is from the line of Manish Ostwal of KR Choksey. Please go ahead.

Manish Ostwal: On operating expenses side, what is the total provisioning for variable bonuses during this quarter, could you provide the figure?

Vikram Limaye: The nine month cumulative provision for bonus so far has been about Rs. 90 Crore.

Manish Ostwal: What is your outlook on the loan-related fee income? Because during this quarter, it has declined, although on a nine-month basis it has been very strong at 94% YoY growth, so what is your outlook going forward?

Vikram Limaye: Outlook for the loan-related fee business will basically track the growth in the lending business. So for this quarter, depending on what happens to the lending business, that line should improve.

Manish Ostwal: But that number on a sequential basis declined from Rs. 107 Crore in Q2 FY'11 to Rs. 52 Crore in Q3.

Vikram Limaye: Yes, it depends on what is going on with the loan book right? So, on a quarterly basis if you look at how the loan book has grown, you will find that in the first half the growth in the loan book was much stronger than in Q3.

Rajiv Lall: The point that is being made is that there is nothing-structural happening. There is no sort of decline in fees associated with the lending business per loan.

Manish Ostwal: What is your outlook on asset management business, especially mutual funds and alternate assets?

Rajiv Lall: Alternate asset is stable. Those are closed ended funds, so their fees basically track commitments more than anything else. For the time being, there is a stable outlook on fee income from the alternate asset management. From the mutual fund business, we are seeing actually traction now on AUMs and as AUMs expand, we should expect the fee income revenues from that business to actually grow. So clawback at least some of the losses in revenues that we saw over the first six months of this year, I think, over the next quarter or two, we should be able to recoup some of that.

Moderator: Thank you Mr. Ostwal. Our next question is from the line of Vijay Sarathi of BNP Paribas.

Vijay Sarathi: In terms of your approvals and disbursements, there has been a fairly sharp decline at least from the Q2 FY'11 levels. Now looking forward over the next one year, what do you see in terms of infrastructure financing? Are you seeing a further slowdown or is there going to be a delay, say further into FY'13 or so from FY'12?

Rajiv Lall: Let me put that thing in context. We have made a conscious decision to as I said in my main presentation to front end our growth. Whatever happens to our lending business over a medium term point of view will be reflective of basically the macro conditions in the country and in the infrastructure space more specifically. We saw a huge opportunity this fiscal year to aggressively but relatively safely manage the expansion of the balance sheet. We have not changed and we are not changing our medium term guidance for balance sheet growth over 36 to 48 months starting at the beginning of this fiscal year. So tripling the size of the balance sheet over the next 24 to 36 months beyond this fiscal year that target still remains intact.

Moderator: Thank you Mr. Sarathi. Our next question is from the line of Suresh Ganpathy of Macquarie.

Suresh Ganpathy: The net interest income from the treasury book which you reportedhas gone up substantially on a QoQ basis from Rs. 15 Crore to Rs. 47 Crore – can we have some clarity on that?

L. K. Narayan: In the first two quarters of the year, the interest rate outlook was very choppy, now we are seeing hardening of rates and that is where the treasury has interjected and we have done exactly the same things as before, we were more cautious in the first two quarters. We did not want to have MTM losses but in the third quarter we have seized the opportunities as any treasury should and therefore these gains have occurred. We have not done anything different.

Suresh Ganpathy: The second aspect is continuing with the previous question on the growth outlook. I mean, historically IDFC actually has managed to even massively slowdown the balance sheet in case the macro economic situation has been pretty bad, because even in the past you have guided for pretty aggressive growth levels of 35%-40% but brought down quite drastically once the macro situation really worsened. What is your assessment of macro first of all and secondly do you actually also see that in a lot of these sanctions which you have done is, there a potential that these may not necessarily get converted to disbursement because of various issues like environment clearances or fuel linkage, how confident are you of achieving the 30%-35% growth over the next 24 to 36 months to meet your tripling of the balance sheet?

Rajiv Lall: On the macro issue, the economy is facing challenges from inflation to interest rate expectations, to availability of equity capital, liquidity constraints, etc. I would project that we will see a gradual slowing in the growth momentum of the overall GDP. So, what we are seeing evolve now is quite materially different from what we saw evolving in second and third quarter of 2008. In 2008 the concern was that the music would stop very suddenly and there could be a sort of violent sort of shake up in the financial realm. That was really the concern. This time around I think it is a more predictable and therefore more gradual response to change in where we are in the credit cycle and the interest rate cycle. So, as interest rates go up credit appetites could slowdown and therefore you expect the economy to respond as you would expect to the normal changes in the business cycle. So, I am not seeing a violent or a sudden slowdown in the economy at this point and that is why it gives us at least so far the confidence to guide with respect to the medium term prospects for our business. We are very glad to reemphasize the point that we front ended the growth we have delivered this year for the next 24–36 months, I think we are in a much better position to deliver the original targets that we have talked about.

Moderator: Our next question is from the line of Manish Chaudhary of Citigroup.

Manish Chaudhary: Hi, Rajiv, firstly in terms of growth, you did mention some amount of caution at least over the next six to 12 months kind of level, but just wanted to understand how much of your disbursements would be contingent upon equity capital raising if you could give us some sense whether all of the disbursements will be equity or new capital raising or part of it will be going through even without new equity capital being raised?

Rajiv Lall: Sadashiv correct me if I am wrong but 65% of our loan book is for the assets that are already operating, and that is another aspect of our book building that I think is useful to talk about a little bit that this year you will not get access to that information. But I can tell you, a good chunk of our growth in the loan book was actually delivered by doing refinancing. Refinancing of projects that had reached COD, that have actually then seen an improved credibility and then were in a position to refinance. It is possible to continue with robust growth by catering to the evolving financing needs of the mass of projects that are already under construction and are going to be coming on stream. That is one. Second is that we tend to be more conservative than most lenders on the type of equity commitments we seek from the promoters that we back in greenfield projects to the amount of equity that must be available and we must have visibility about before we actually make our disbursements and I think on that basis I will go back to my earlier guidance, we still feel pretty good about where we are and feel that over the next 24–36 months we should be in a pretty good situation to deliver the original targets that we had been guiding the markets towards for the medium term.

Sadashiv Rao: As part of the due diligence process we look at the ability of the promoters, the sponsors to bring in the equity commitment towards the project. So, we look at the cash flow requirements of the sponsors as to what is their need and where their resources are and after we are satisfied then we basically look at examining the project. So, it is part of the due diligence process, the ability of the sponsor to bring in the equity requirements.

Rajiv Lall: So, let us put it this way, I think over the last five years I do not recall any project that we have funded that has stalled because the promoter we have backed did not bring equity to the table.

Manish Chaudhary: Is there any particular level of loan loss reserves that you would be comfortable with before you want to change the provisioning policy?

Rajiv Lall: Setting the provisioning targets for the balance sheet is a dynamic process. I do not think there can be any rules that are frozen in time. So, it is dependent on what is happening in the overall macro situation. If you recall in 2008, the situation was severe enough at that time that we thought it fit to actually do a one-time provisioning and set it aside. Learning from that experience, we actually set for ourselves fairly aggressive provisioning targets for general provisioning and we linked them deliberately to gross disbursements. Our balance sheet has been growing rapidly and I think it is only the appropriate thing to do to provision for the time being at least at the rate we have without tinkering with provisioning policy to often. What we have done is that we have refined the provisioning policy so that to your question we do not want to over provision either. So, since a growing share of our business is becoming underwriting where we only keep on our balance sheet a certain proportion of the asset we book originally, the rest we recycle or sell down in the marketplace. The inconvenience of the formulaic provisioning policy that we had crafted was that we would automatically provision against the entire amount booked on the balance sheet. So, now what we are doing is we are provisioning only against that part of a loan asset that we expect will remain on our balance sheet and we are not provisioning against that share of an asset that we are selling down. Obviously if for whatever reason the sell down does not take place within a stipulated period of time, we would create provision against whatever asset remains in the book. So, that is the kind of refinement we have done so far but at this time we are not looking to fundamentally revisit our provisioning policy.

Manish Chaudhary: Finally just one more in terms of spreads and the outlook. Now there has been a lot being talked about in the market of spreads coming down and cost of fund going up but your spreads seem to be more or less stable and on the ground do you see more pressure on spreads coming up or do you think it can remain stable for the near term?

Rajiv Lall: Again I go back to the guidance I have been giving on this subject. I have been saying consistently that in this art of the credit cycle it is normal it is expected to see some spread compression because what tends to happen is that there are cost of funds, which is adjusted monthly relative to our PLR bench mark, rises ahead of our ability to raise asset yields. That said I have also been arguing that in this credit cycle we are unlikely to see spread compression to the extent that we saw in the previous cycle and I stick to that projection and therefore although there might be some spread compression in the coming quarter or two, I do not expect that spread compression to be nearly of the same order of magnitude as we saw last time around. We are today at 240 basis points and I think that whatever modest compression you would see combined with growth in the balance sheet should see us through this cycle reasonably well.

Moderator: Our next question is from the line of Jatinder Agarwal of RBS.

Jatinder Agarwal: There was some conference in Kolkata I guess and there was a comment that the accumulated losses in SEBs are something like Rs. 2.5 trillion. Do you think that is logical and if yes what could be the implications of this?

Rajiv Lall: When you say logical I do not know what you mean but it is factually correct that cash losses in the State Electricity Boards have been rising and they have been rising because the cost at which the State Electricity Boards are procuring power has been rising and in fact has been becoming more market determined to the extent that some of the power is being sold in an merchant form etc., there is more traded power etc., but they have not on average, this is important, had the discipline to raise the tariff to the end consumer. That is why average cash losses for the State Electricity Board have been rising.

Second point I think you should understand is that the performances of states varies. So, there are some states that have managed this much better than others, which is to suggest that it is not that it cannot be done. So, there are a lot of examples around the country or states that have shown that the whole thing is politically manageable; you can raise tariffs and diminish losses etc. Now, what does this mean for the overall power sector? I think it means that two things, one is that if this continues as a trend then it will reflect in a growing fiscal burden to the state governments. So, in a very big picture sense this has implications for the fiscal consolidation targets of the government. So, the pressure is on the government to improve their fiscal situation and the fiscal situation depends partly on the central government and partly on the state government. If for political reasons, state government slip up against their fiscal consolidation targets then in a macro sense it actually places greater pressure on the central government to disproportionately improve its fiscal performances so that on a consolidated basis the overall fiscal deficit for the country remains within targets. So bottom line is the risk that emanates from this is that of a deteriorating macro fiscal situation. It does not translate, into defaults or state government now refusing to pay, but it does translate in a deteriorating fiscal situation which is a slower burning fuse, but nevertheless a fuse. So then we have to worry about the overall macro situation of our country.

Jatinder Agarwal: Merchant power prices have seen a sharp fall in their prices, anything to be concerned about at this stage Sir?

Rajiv Lall: I mean for us not. I think because we have been hyper-conservative in our projections for merchant power tariffs, we are expecting this kind of situation and so from a credit or debt servicing point of view and the quality of portfolio it does not raise any red flags at this point but from the point of view of those equity investors who had invested or provided capital to such power developers are only expectations or fairly fancy merchant power tariffs, I think the stock prices of infrastructure companies reflect growing skepticism that is associated with those projections.

Jatinder Agarwal: Are both partly interconnected the fact that you know as SEB losses have accumulated itself are big and then they are rising on incremental basis and why buy merchant power prices at higher rates?

Rajiv Lall: Yes they are linked, because the immediate knee-jerk reaction of State Electricity Boards is to say 'my cash losses are rising how can I reduce those' but I can reduce those by doing load-shedding i.e., by not buying the power because it is priced at a market rate even though my constituencies and clients need the power. So states that are doing this are presumably states that are not facing an election. So if it were that all states are facing an election there would not be load shedding very significantly at this point

Jatinder Agarwal: In the previous call you had mentioned that the Shunglu committee report is expected somewhere in May could you give more insights if you have any in terms of how the problem will be resolved or something?

Rajiv Lall: I do not have visibility into their potential recommendations; but I will be happy to interpret whatever recommendations they do come up as and when they do that.

Moderator: Our next question is from the line of Nitin Kumar of Quant Broking.

Nitin Kumar: Sir your transportation segment has shown a good pick up again during the quarter in terms of outstanding disbursements so is that largely carried forward from the strong activity that you witnessed in the first half or are the things really changing on the ground incrementally?

Vikram Limaye: As we discussed before the outlook for the next 12months is certainly going to be slower than what we have seen in the last 12 months. So that I do not think is should come of any surprise to anybody and that will be reflected in what happens on an incremental basis QoQ as it relates to our balance sheet growth as well which is why we have made the point earlier than while we have grown 50% this year in terms of the total balance sheet growth you cannot obviously expect to see the same kind of growth for the next year but we will on a normalized basis still be able to triple over the three to four year timeframe that we had outlined earlier. So the short answer is that clearly momentum is slower than what it was in the last twelve months for the next twelve months.

Rajiv Lall: And your question specifically on the transport sector we are expecting that with the change of guard in the ministry that there will be now a new generation, a new batch of road projects that we will be bid out so we are expecting to see a pick-up in activity on the national highway program.

Vikram Limaye : But I think what you should expect to see is actually what we are hearing from NHAI etc., works out to be true that there will be several road bids that will come up in the next quarter or two and that should be reflected and therefore more financial closures and higher numbers as it relates to sanctions for transportation and for the road sector. The translation of that into disbursements as you know comes with a lag, typically comes with a lag. So that should translate to disbursement over the next two to three years because there is a time lag to achieve financial closure and then there is a two-year construction period.

Nitin Kumar: Secondly in the proportion of your forex loans in your overall borrowings has declined quite significantly during the quarter so can you touch upon this because I thought given the ECB window, this segment should see an increase?

L. K. Narayan: Yes you are right about that it has come down to about 3.5% of total liabilities but as a sequel to the IFC status we are currently in conversation with international counter parties and we are in the process of raising external commercial borrowings and you will certainly see some of that come through in Q4.

Moderator: Our next question is from the line of Amit Dalal of Tata Investment Corporation.

Amit Dalal: I must say that your medium term target for tripling the balance sheet say by 2014-2015 is very encouraging but given that you will have equity requirements and issuances will perhaps follow as time goes. Do you think you will be able to incrementally increase the ROE on the increased capital or will there be a stress on the ROE based on the higher cost of funds that you have in the system now?

Rajiv Lall: Firstly, our guidance on ROE has consistently been that in the steady state sustainable model, our ROE should be 18%-21%. Secondly, for us to achieve our medium term targets as articulated we do not foresee the need to raise additional capital having raised $750 million last July. So between now and the achievement of these medium term targets we expect that the ROE would rise to get to that 18%-20% range

Amit Dalal: Which right now of course it is lower?

Rajiv Lall: Correct. That is only because we have raised a lot of equity last year. So if you project for the next three years, you would expect the ROEs to rise consistently until they reach that 18%-20% and if by that time we have indeed reached our balance sheet growth targets and growth prospects for the subsequent four years seem equally robust then again we will have to raise the additional equity.

Amit Dalal: So we are basically saying that these two objectives will be achieved here right now in January FY'11. We are talking about 13-14, would that be fair?

Vikram Limaye: We will get confused with years and beginning of this fiscal we had said 36-48 months, starting FY'11.

Amit Dalal: So April'11 you said 36-48.

Management: That is right. So April 1, 2011 will be saying 24-36 months.

Moderator: Our next is from the line of Sagar Tanna of Kotak.

Sagar Tanna: you just talked about the power vertical, can you also talk about the other two key verticals that are the telecom and transportation and what kind of risk do you foresee if any?

Rajiv Lall: So on telecom, our exposure is quite concentrated and it is concentrated essentially on the top three players in the industry. We have actually done a fairly robust analysis to form our views about how the industry is going to be evolving and it is our expectation as is many other people's that this industry will be facing challenges going forward because of the large number of players and the new entrants that have come in on the one hand and some degree of regulatory uncertainty that has been created as a result of all the conversation surrounding 2G and 3G. In a business sense the future of the industry depends a lot on the success of data and therefore you put all these three things together it basically reinforces the view that only the strong are likely to survive. So we have stress tested our portfolio and we are very comfortable that as long as we remain focused in where our exposure lies in the industry we are going to be very safe. So that is on telecom.

On the transportation sector there are no trends such as you have the SEB in the power sector. In the transportation sector for roads in particular, issues are primarily related to challenges of construction and implementation. So the nature of risk in the transport sector portfolio or the road sector portfolio is, can they be delays to construction? We have not come across any case in our portfolio where traffic projections have disappointed relative to our projections as creditors. They may have disappointed relative to the promoters projections from the point of view of raising equity and so on and so forth. But relative to our projections of traffic growth on account of disappointing performance relative to that benchmark we do not see any stress in terms of debt servicing on the portfolio so that is the nature of risk.

Sagar Tanna: But do we have any exposure to GMR and GVK yet?

Rajiv Lall: Of course we do.

Sagar Tanna: Sir I am sure you would have read about it and the recently AERA has proposed against certain changes on double-till and single till. They have had a round of discussions on that about bringing in certain changes in a way returns are calculated do you think that will impact us; for the airports?

Rajiv Lall: We have exposure only to Hyderabad. So we do not have any credit exposure to Delhi or Mumbai.

Sagar Tanna: Sir second thing on the fund raising side we have seen a very tight year in terms of liquidity especially barring the recent past where deposit growth itself was very muted and it has picked up only with a rise in interest rate, how do you see that scenario panning out for us?

L. K. Narayan: Well you are right; there has been choppiness in the liquidity markets. Markets have been consistently illiquid for better part of this fiscal year and we see the same tightness in liquidity continuing to overhang the system even in this quarter. But what we have done is in the last quarter we did the retail bond like what Rajiv spoke about earlier and now we are in tranche 2. We are basically accessing different constituencies, timing the market appropriately and then meeting all our borrowing requirements through very effective intermediation so we will continue to do that for the foreseeable future and then in Q4 we will obviously access ECB markets as well.

Sagar Tanna: But you mentioned tightness in liquidity only in this quarter. Do you foresee that spilling over to Q1 of next fiscal?

L. K. Narayan: I think some of that will be impacted by RBIs further monetary policy changes but I would think that whatever they have done has alleviated the system to an extent but for this quarter certainly the same over hang will continue beyond that we will have to wait for the RBI to give a signal.

Rajiv Lall: Just to elaborate on that so far we have navigated it is quite well. We have borrowed at very tight spreads over government security, we have borrowed ahead of time anticipating changes in interest rates, so we have done pretty good job on the treasury side. The important thing for us is that it is impossible to the entirely certain about how the domestic liquidity situation is going to be under current circumstances. So diversification of our liability base is how we are managing it, so more retail bond offerings and more importantly more external borrowings is what you will see from us over the next couple of quarters.

Moderator: Ladies and gentlemen, due to time constraints the last question is from the line of Sreekanth Akula of Spark capital.

Sreekanth Akula: Sir in this quarter the gross disbursements have gone down drastically from last quarter of Rs. 7,000 Crore this quarter is close to Rs. 5,000 Crore and even your approvals have gone down from Rs. 19,700 Crore to close to Rs 3,700 Crore. Are you seeing any slowdown in terms of new loan drawdowns from companies?

Rajiv Lall: In terms of drawdowns we are not seeing any slowdown so if your question is there a growing gap between sanctions and disbursement we are not seeing that. So nothing unusual that is happening on that front. What is however true is we have been saying throughout this call is that we are very pleased that we have grown our balance sheet 50% this year so we are in a much better position to glide it into our medium term growth targets because we have been aggressive about growth this year so our medium term growth targets we have is quite aggressive to start with will not be achieved in a straight line or a linear growth path. It has been front ended over the next 24-36 months that growth will come down but our target to get our balance sheet to Rs. 1,00,000 Crore within 24-36 months of March 31, 2011 still stands.

Shreekanth Akula: You mentioned that your provisioning policy is mainly based on your gross disbursement. This year we have seen the gross disbursement grow from Rs. 6,000 Crore in first quarter to Rs. 11,000 Crore in the second quarter and now it is Rs. 5,000 Crore and your provisions have been fairly stable at Rs. 45-49 Crore for three quarters, can you please give us a sense are these forward looking provisioning plans that you have or is it on a quarterly basis in the sense that your provisions will be based mainly on the disbursement during the quarter?

Rajiv Lall: It will be based on the disbursements during that quarter to the extent there is some disconnect that may be on account of provisioning against some MTM positions in the equity portfolio.

Shreekanth Akula: Sir further to that, please could you give me a breakup of the current quarters provision the Rs. 49 Crore in terms your standard assets?

Vikram Limaye: As we have said the bulk of the provision surrounds disbursements on the loan book. So we should be able to figure out what the provision is. I think that provision for the quarter is also available in our results and as we said our provisioning policy is quite transparent and it is based on the volume of disbursements that we do, adjusted for the amount that we would continue to hold on our books. So what you might see in terms of variability is that in a certain quarter you might have some large underwriting transactions that has taken place, which might show up in gross disbursements in terms of having taken on certain amount on our books with the explicit objective of selling down over the next month or two so while that will show up in disbursements that itself will go down as we distribute that into the marketplace and therefore our provision will be based on what we expect to hold post that distribution as opposed to the upfront disbursement that we made.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Dr. Rajiv Lall for closing comments.

Rajiv Lall: Thank you. In closing again at the cost of repeating this one time too many, but the highlight really of this year story is the core lending business of IDFC. If you strip out the capital gains from the standalone results of IDFC you will find that the nine month to nine month profit growth has been upwards of 50%. As we contemplate the next few quarters the takeaways are an intense focus on the part of management to ensure that cost to income ratios for the 12 months to March 31 are lower than last year and managed with discipline and second that we are pleased to have front ended the growth of our loan book such that as we contemplate the next 24-36 months starting April 1, 2011 we feel still that our goal of getting the balance sheet to Rs. 1,00,000 Crore is still doable. So with that thank you and talk to you next quarter. In the interim if you have any suggestions or questions please do not hesitate to contact our investor relation's team, Bimal Giri and his colleagues are available to help you. Thank you.

Moderator: Thank you Dr. Lall and members of the management team. Ladies and gentlemen, on behalf of IDFC that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.