IDFC Limited

FY12 Conference Call
May 9, 2012

Moderator Ladies and gentlemen good day and welcome to the FY12 Earnings Conference Call of IDFC Limited. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should 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 of IDFC. Thank you and over to you sir.

Bimal Giri Good morning everyone. I welcome you to this conference call, organize to discuss our financial results for the financial year 2012, I have with me Rajiv Lall, Vikram Limaye**,** Sunil Kakar and Sadashiv Rao. Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance have been e-mailed to all of you. These documents have also been posted on our corporate website. I now invite Sunil to provide the key highlights of our performance for fiscal 2012.

Sunil Kakar Before we get into the financial details, I would like to share with all of you that this year we complete 15 years since our incorporation. To commemorate this occasion we have launched a corporate video on IDFC which is available on our website. I would urge each one of you to watch it. IDFC is not only about balance sheet and balance sheet growth, I believe the video creatively and succinctly captures our journey so far and our contribution to Indian infrastructure.

To give you a flavour, we have funded a fifth of the national highways under PPP, our contribution has helped to create more than half of our countries telecom towers and two thirds of the wireless subscriber base. We have financed more than half of the container cargo capacity addition at Indian ports and the airports aided by us handled over a fourth of India's passenger and air traffic. We have also helped create more than half of India's private sector thermal and large hydro generation capacity. Last but not the least we have the largest renewable portfolio in the country.

In addition we have always stated IDFC and infrastructure business is a long-term business and just to recollect it has been seven years since we got listed in these 7 years our balance sheet has compounded at over 30%. Profits have grown at a CAGR of 25% and AUM's of our private management or alternatives business as we call it has compounded over 35%. With all this growth we have maintained our asset quality and the pace of growth is obvious to you. You shall see our operating efficiency improving as we grow into our leverage.

Now I will run you through the numbers for this financial year and some recent developments and then we can do the Q&A. Let me start with our balance sheet.

Our balance sheet increased by 24% from ₹ 49,347 crore as of March 31st, 2011 to ₹ 60,979 crore as of 31st March, 2012. Our loan book increased by 28% from ₹ 38,200 odd crore to ₹ 48,888 crore. The increased momentum in the second half of this fiscal is on account of macro context surrounding interest rates and efficient treasury management of our borrowings translating into increased refinancing opportunities in the roads and telecom sector.

On the liability side, our outstanding borrowings increased by 28% from ₹ 36,300 crore to ₹ 46,430 crore. Gross approvals however, decreased by 25% and gross disbursements decreased by 31% from ₹ 26,700 crore in FY11 to ₹ 18,400 crore in FY12. Energy, transportation and tele-communication continued to be the top three sectors contributing 41%, 28% and 21% respectively of the total exposure and 43%, 24% and 23% respectively of the total outstanding disbursement. The share of energy in the total exposure has been coming down progressively from 46% as of March 31st 2011 to 41% as of March 31st, 2012.

Moving on to the P&L - On a consolidated basis, our operating income increased by 17% from ₹ 2,547 crore in FY11 to ₹ 2,980 crore in FY12. Within that NII increased by 28% from ₹ 1,645 crore to ₹ 2,113 crore. This was driven by NII from loans which expanded 25% from ₹ 1,500 crore to ₹ 1,880 crore. The second component of our operating income which is our non-interest income actually decreased a little by 4% from ₹ 875 crore in FY11 to ₹ 844 crore in FY12. Further details are available in the presentation that has been shared with all of you.

Amongst our non-interest business, I do need to highlight that in the mutual fund industry we are amongst the top 10 players. Our increase in market share was the highest this fiscal from 3% in FY11 to 3.8% in FY12. In an industry which witnessed shrinking volumes our mutual fund AUM increased from ₹ 21,000 crore last fiscal to around ₹ 25,500 crore this fiscal.

Operating expenses decreased from ₹ 533 crore in FY11 to ₹ 523 crore in FY12. Total provisions for various asset classes increased 21% from ₹ 235 crore in FY11 to ₹ 285 crore in FY12 which include some of the provisions we made for our equity investments. And lastly, PBT increased by 22% from ₹ 1,779 crore to ₹ 2,173 crore and PAT increased by 21% from ₹ 1,282 crore to ₹ 1,554 crore. In light of all this we are happy to share with you that our Board has recommended a dividend of ₹ 2.30 per share, i.e. 23% for FY12 subject to approval by the shareholders.

Details of some of the key ratios - the RoA was stable around at 2.9% in FY12. The overall spread, in spite of increasing interest costs, increased from 2.24 in FY11 to 2.41 in FY12. NIMs increased from 4.19 in FY11 to 4.33 in FY12 on account of efficient management of our liabilities. The cost to income ratio has declined from 20.9% in FY11 to 17.5% in FY12. Tax rate was around 28.5%, ROE has improved marginally from 12.9% to 13%. The closing leverage increased from 4.2x to 5x**.** Our EPS increased from Rs. 8.71 in FY11 to 10.20 in FY12 so our EPS fully diluted today stands at 10.2.

I will now spend some time on the provisions and on asset quality. Our existing policies and conservative approach has resulted in our cumulative provisions for various asset classes accruing to around ₹ 1,100 crore, to be specific it is ₹ 1,090 crore, as on 31st March, 2012. Of this ₹ 750 crore is towards standard loans and ₹ 218 crore odd towards equity. Our gross NPAs were at 0.30 that is 30 basis points and our net NPAs were at 15 basis points.

Now to some other developments, IDFC was ranked number five lead arranger and underwriter in the APAC region including Australia for the period January to March 2012 by Deallogic. IDFC signed the loan agreement with JBIC, which is the

Japanese Bank for International Cooperation for $60 million long-term facility with a total tenure of 10 years. Star Mine awarded two of our research employees Nitin Agarwal for industry stock picking and Harit Kapoor for earnings estimations, Anupam Joshi was awarded the top debt fund manager by Business World. IDFC has also helped in the preparation of the National Infrastructure Financing Policy for Nigeria. I shall now open this session for questions and answers. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Rajatdeep Anand from ICICI Prudential Life, please go ahead.

Rajatdeep Anand I had three questions, first one being on the leverage, so last time I think when you raised money it was at 5.3x it is already at 5x at the quarter end. So would you be in a position to take on more leverage this time? Second question is on the tepid other operating income, it is the lowest in last 12 quarters so if you can help us with how this would trend next year, would this lead balance sheet growth or lag it? And lastly on provisions I think you have managed to keep it between 70 to 80 bps as a percentage of loan book. Now how would this be in slowing GDP growth rate environment? Suppose GDP growth rate falls off from 7 to 6% - so these are my questions to you.

Sunil Kakar On the leverage I can say that estimating our growth at around 20% for the next 2 to 3 years which of course does not include the upside if the power industry improves and given our internal accruals we do not believe we need to raise any further capital for the next 2 to 3 years, more likely three years we won't need to raise capital and our leverage at that point in time should be able to be around slightly north of 6 that is what we should be able to do. On operating income as you know the details are there with you specifically our institutional broking and investment banking operations which are linked to the capital markets and the flow of IPO. FY12 has been a soft year, it is not only for us, the whole industry has suffered. We do expect an improvement in these lines as we go forward. It cannot be the case that the whole banking broking industry is not going to grow for the next 2-3 years. Our asset management company as we shared has reached a great operating leverage position and everything they grow will flow straight to the bottom line from here onwards. On provisioning, as you know, we are conservative and we are adequately provided, we have almost ₹ 750 crore towards standard loans. Looking at the environment is too macro; one has to look at provisioning on the basis of the specific assets one has on one's books. I don't expect a significant change in our provisioning policy. However, we will keep watching it and keeping track of our asset quality in the various sectors and of course; I understand RBI might come up with something in the direction towards dynamic provisioning. Should that happen, we will of course have to follow the regulations but I believe even under that scenario our current provisioning policy is adequate. May I ask our Chief Risk Officer Mr. Sadashiv Rao to comment anything on the provisioning going forward?

Sadashiv Rao As percentage of the total loan outstanding, our total gross loan provisions is 1.7% which we believe is adequate based on our quality of assets basically. So on some assets we have gone granular on a portfolio as a whole we have done a gross basis of provisioning & we feel that this current provisioning is more than adequate.

Rajatdeep Anand I suppose we are on 180 day NPA recognition?

Sadashiv Rao Yes.

Rajatdeep Anand So when we move to 90 day how it does impact the NPAs and the slippages?

Sadashiv Rao The borrowers also know these regulatory requirements as a behavioral pattern will accordingly change if the NPA norm change to 90 day for us.

Sunil Kakar We don't expect it to happen overnight, the point being if the borrower can pay on 170^{th} day, he can also pay on the 89^{th} day; it is just a behavioral pattern which needs to get changed. We do not anticipate, NPAs happen if there is a structural problem at the asset level. This cash flow management is not going to result in an NPA.

Rajatdeep Anand Yes, just coming back to my second question, you said the capital market related businesses will begin to look up. There are also two lines which is the principal investment and the loan related fee part, which would not be related as closely to capital markets. So those how would they trend, would they trend lower than balance sheet growth or higher?

Sunil Kakar See, loan book related fees trends with the balance sheet so there is a strong co-relation.

Rajatdeep Anand Because that has also come of quite a bit?

Sunil Kakar It is tracked with the disbursements.

Rajatdeep Anand Yes, so as a percentage of disbursements it used to be close to 1 now it is at 50 bps.

Rajiv Lall The point being that we don't see any further decline relative to the growth rate of disbursements in the loan related fee income. On principal investments there is always a certain way of lumpiness in this line item but the more generic point you should keep in mind that our portfolio in our alternative asset management are now maturing and now as we transition to the next generation of funds we will see a growing number of exits from various investments there. We will also see some exits from investments that we have made directly from our balance sheet so I don't expect that number to grow proportionately at the same pace as the balance sheet but the absolute numbers should remain about the same.

Moderator Thank you. The next question is from Amit Premchandani from UTI Mutual Fund, please go ahead.

Amit Premchandani Just wanted to ask you about broking part of the business, quarter-on-quarter as revenues have declined sharply. If you see the volumes of the business they have gone up sharply for the overall market because Jan-Feb volumes are very high. So is there any one-off there in broking?

Vikram Limaye There is no one off there. There is nothing one of, I think that business again as you know has been quite challenging in the last 12 months but we are systematically trying to make sure that we not only maintain market share but grow market shares so short answer to your question is that there is nothing unusual. It is been a difficult year for investment banking and broking and that reflected in the numbers.

Amit Premchandani Can you share with us the amount that we have paid for acquiring SSKI?

Vikram Limaye No, we cannot.

Amit Premchandani And since the financial year has ended can you share with us the subsidiary level profits because it will come one month down the line?

Rajiv Lall The subsidiary level profits at the level of IDFC Capital you will see in accounts but their contribution to overall profits is, this year relatively close to 0.

Amit Premchandani And AMC?

Rajiv Lall AMC is close to 14-15 crores that number.

Amit Premchandani And finally on the coal issue, we have seen lot of activity lot of media kind of hype being created in January about the FSA signing and suddenly everything has kind of died down. Just wanted your views on how to look at that issue and will it impact real investment as such?

Rajiv Lall Our concern on the coal issue was first and foremost to stabilise the prospects for those assets that are already on stream or just about to come on stream so on that issue there has been some positive progress. What we don't have visibility on, is, for future growth and projects that might be coming on stream over the next 2 to 3 years whether we will be able to organize ourselves sufficiently to mine the appropriate amount of the domestic coal that is not as clear. I think, in my personal judgment, I am feeling much better about it because major problem with respect to potentially standard assets that risk is mitigated. With respect to the scenario going forward my sense is that the cost of fuel one way or the other is going to go up so whether it is a blend of imported coal or domestic coal one way or another cost of fuel is going to have to go up so that will moderate equity returns that developers had been previously expecting. The long term impact of that on private investment demand is still unclear so I can't say.

Amit Premchandani In terms of your own thought process on going forward with more sanctions on the power project given something is moving on the FSA?

Rajiv Lall We have been focused on basically making sure that our asset quality looks at and is actually clean so we are focused on the making sure that the projects that we have supported get to completion - those that are already operating remain operating on a sound basis. As far as new projects are concerned I am not at this point comfortable allocating huge amounts of capital towards supporting those. As I said anything that is going to be commissioned over the next 12 to 36 months will require much greater visibility about availability of fuel, etc. three years down the road in the absence of that we are reluctant to expose balance sheet to such projects.

Moderator Thank you. The next question is from Mahrukh Adajania from Standard Chartered, please go ahead.

Mahrukh Adajania I just wanted to check in most of the demand even in this quarter from refinancing and would it be refinancing of operational assets only?

Vikram Limaye This quarter as in you mean?

Mahrukh Adajania 4th Quarter, that's what I mean.

Vikram Limaye Look again this is something saying for some time, we don't actually run the business based on quarterly outlook or what happens by quarter. In general I can tell you that the last fiscal year there has been a substantial amount of refinancing that we have done, that refinancing has largely been in road assets. There has been some refinancing that has been done in power assets primarily in the renewable space. These have all been operating assets so these have not been under construction assets that we have been refinancing. And then there has been some refinancing in the telecom space so broadly to answer the question the refinancing that we have done have been in operating cash generating assets across these three areas - roads, renewable and telecoms.

Rajiv Lall I would just add one thing when you contemplate the next five years in the infrastructure space the refinancing opportunity is actually a huge opportunity because what has happened is that the first generation of projects that are coming to the end of their construction, those that will generate visible cash flows, will have an opportunity to refinance themselves at a higher credit rating and if we as an infrastructure financier can do that in a intelligent way and pass on value to our clients we will do that business all day because not only it is a good spread business for us, and we have demonstrated that over the last year that we can make it a good spread business; it is also a much lower risk business and it is value added to our clients so the more that business is created frankly we are very happy.

Mahruk Adajania It is fair to believe that the refinancing opportunity will be large in the next 4 to 6 quarters as well?

Rajiv Lall I would imagine so, yes. Especially in at interest rates are coming down we will see even more refinancing.

Moderator Thank you. The next question is from Hardik Doshi from First Voyager, please go ahead.

Hardik Doshi I have three questions first on this refinancing topic, when we are talking about 20% loan book growth over the next few years can you give a sense how much that you think be driven by this gaining market in refinancing and how much you are expecting to come from actual new projects?

Rajiv Lall If I was that much of a voyeur I would be a billionaire by now so I can't give you that much clarity but what I can tell you without being trite about it is that when we contemplate certainly the next 12 to 24 months we feel confident that we will be able to grow a balance sheet at the rate that we have said. Moving away from thermal generation in particular so that our exposure to the overall energy space will continue to come down that is one. Second is that refinancing will continue to be a significant portion of our activities and third in view of the new definition of infrastructure that has now come through with the Government of India we believe that has also given us space to do other subsectors such as pipelines for example, such as healthcare and education to an extent but certainly healthcare and pipeline that will give us more room to grow.

Hardik Doshi Again in the refinancing part in the past, I believe, we were not very active in it because the spreads there were lower but now we are able to keep our spreads and in spite of participating refinancing activities. So just want to understand, do you think this scenario can persist going forward, is it that PSU banks have generally become risk averse in infrastructure in general or is it that our cost of funds have kind of improved significantly given the Forex markets that we can tap, I mean what is driving the this change and how we will sustain this?

Rajiv Lall It is a combination of things. One is clearly that competition has become more risk averse. Second is that their ability to take on more exposure is also being constrained by their capital. So they are reaching sectoral caps by exceeding groups and single company exposure and sectoral exposures so they will have difficulty in keeping up. The third is that the average cost of funding for the banks themselves has been rising behind a very tight liquidity situation actually. The deposit growth has slowed down, competition for liability that we have been marking for a while especially depositary franchises have grown so their average cost of fund is risen. And four is that we ourselves have taken advantage of access to FII flows into the domestic corporate debt market so it is combination of those four things that makes this an interesting business proposition for us.

Hardik Doshi Okay, got it. My second question is on the NPA front, we could keep on saying that we are pretty comfortable keeping gross NPAs below 1% even in a quite dire situation. Can you give me a colour on what is driving that guidance, what gives us comfort on that?

Rajiv Lall I think that it has a lot to do with underwriting standards and processes. That is the reason why from the regulatory point of view the regulator likes specialised players because they have a huge amount of expertise that the general financiers don't have. So I take you back to 2008 when we made ourselves very unpopular by completely withdrawing from the market whereas everybody else continued to lend. We did that because we believed that we knew something that the rest of market participants were not necessarily seeing at the time and we protected our balance sheet. So it is through a huge amount of diligence a lot of hard work and very strong processes that we have maintained these underwriting standards despite the fact that the macro environment has not been constructive.

Hardik Doshi Okay and this 1% guidance basically goes after looking at each projects and basically assessing it on a project by project basis?

Rajiv Lall Absolutely.

Hardik Doshi Okay and lastly, I know you don't look at it on quarterly basis but your employee expensive is up about 25% quarter-on-quarter?

Rajiv Lall We have reduced that volatility. In the past we got this criticism that the 4th Quarter volatility was too high because of our variable compensation. So what we have tried to do now is that we have provisions for bonuses more evenly throughout year but even so there will be some variability that happens in the 4th Quarter because the actual variable compensation that is awarded will be slightly different from that which is been provided on a formulaic basis. That it, there is nothing else to read into it but for guidance purposes, I think you should focus on the 17.5% cost to income ratio, it is our goal to keep it at that.

Hardik Doshi Got it. Last question assuming interest rates doesn't come off significantly and we remain in that rather tight liquid environment. What is your NIM outlook going forward for the next year?

Sunil Kakar It should be north of 4. We have been guiding the market that spreads would be maintained in the regions of 225 to 245 in that space.

Moderator Thank you. The next question is Seshadri Sen from JP Morgan. Please go ahead.

Seshadri Sen I have couple of questions on asset quality; one is what is your overall approach to your pool of general provisions. We saw that in the third quarter when you had some delinquencies you made specific provisions against those despite holding high levels of general provisions. So over the longer term is there laid down policy as to whether you will start to draw down on these rather than hold these and have specific provisions or is there a trigger point?

Sunil Kakar The point is that we have been saying that there are 2-3 factors which are roaming around, one is definitely the dynamic provisioning policy which is being debated right now with the RBI so that would be a guidance factor. There is let's say that call will have to be taken on a case-to-case basis. The overall policy is to maintain north of 1%. We will never come down below 1-1.2% but at every point in time the way it works is every quarter because we do not have a very large book we get down to the granular levels of estimating portfolio level provisions and specific provisions for every single asset. We then compare it with what kind of provisions we already are holding in our total pool and basis that we make a decision if we do need to draw down or do not need to draw down. So I am saying that obviously there will be floors and limits which will be guided by the regulatory environment as well as our reading of our overall portfolio but I were to take an estimated guess I would say that it will not come down below 1-1.2 and it will not go up above 1.7-1.8, in that range it will fluctuate and again specific cases what the situation is at that point in time we also have to remember that we are infrastructure players and therefore these are lumpy in nature statistical analysis may not be the right way to just look at it. The more granular we get the better we are in estimating our provisioning liabilities.

Rajiv Lall But long and short of it is that with ₹ 700 odd crore in provisions we feel that we have adequate cushion for the macro risk that we see in the book today apart from the specific provisions that we have that we have made in respect to particular assets.

Seshadri Sen Another structural question on asset quality, when you say that you are confident of your superior underwriting skills vis-à-vis the banks, I may be sort of exaggerating it a bit, but that is broadly the take away, where do you see your main strength, is it project selection or is it the ability to structure an exposure to a particular project better than the other banks or is it a combination of both in which is more important.

Rajiv Lall It is mostly project selection, you cannot structure you way out of a difficult problem because that is basically the learning. So it is project selection and promoter selection, those are the two most important things. And project selection depends on knowledge of the industry we will tell you that you have to understand not just the technology, you have to understand the cash flow characteristics, their particular timing challenges, execution challenges, how long it takes to actually get things done. Those are various factors that will determine our ability to judge the debt servicing capacity of any particular deal.

Seshadri Sen I know Sunil just said that statistical analysis is probably not appropriate for a lumpy and not very old book such as yours. But when you do estimate your losses, when you make you general provisions what is the order of magnitude of the loss given default that you assume?

Sadashiv Rao Where we have access to cash flows where there is project asset we typically take 45% but where it is, for example, the security being real estate or shares we take 75% as a loss given default.

Moderator Thank you. The next question is from Nilesh Parikh from Edelweiss. Please go ahead.

Nilesh Parikh Just wanted to get some sense on the telecom sector refinancing. What is the tenor of the loans and typically over these corporates that you are lending to and is it more working capital, is it against specific assets? If you can just throw some color on that?

Vikram Limaye As we have said our telecom exposure is to the highest quality players in the landscape, whether it is on the operator side or the tower side. And some of the refinancing really relates to couple of different things, one is just short-term facilities that need to get refinanced, these are not working capital, we cannot do working capital we are a non-bank. The other type of refinancing involves giving longer tenor loans for facilities that were shorter tenor earlier. For those have been the two types of refinancing that have happened. And as I said these are to operators as well as tower companies.

Nilesh Parikh And typical spreads on these would be how much?

Vikram Limaye Typical spreads on these are low because as I said we are lending to the highest quality borrowers.

Rajiv Lall And so on that actually it is useful that you have asked that question, if you were to look at the overall credit rating, we have internal credit ratings for each deal that we do, if you look at the overall composition of our loan book the average credit rating we give to these deals have actually gone up over the last 12 months even as our spreads have improved. So in our internal risk management framework the riskiness of the outstanding portfolio has come down even as the average spread has improved.

Nilesh Parikh Having said that, now when liquidity resumes normalcy maybe six months down the line, we go with that assumption, do we think that the lending spreads will actually start coming off because the mix that we move more towards…

Rajiv Lall Normally historically what we have seen is that as interest rates come down in the initial stages, our spreads should actually improve, but as a matter of abundant caution, Sunil is telling me to guide that our spreads will be stable. But we are confident about certainly maintaining our spreads in theory. Based on past experience our spreads could actually improve marginally in the initial stages of a declining interest rate cycle. After that, pressure develops on our spreads.

Nilesh Parikh Have we done any restructuring during the last six months in the power space?

Rajiv Lall Not in the power space but our general guidance, the empirical fact is that the overall restructured assets have come down as a share of our loan book.

Nilesh Parikh What is the outstanding as of today?

Rajiv Lall About 1%.

Moderator Thank you. The next question is from Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal Keeping everything else constant is it fair to say that the spreads are lower in refinancing versus disbursing new loans?

Sunil Kakar Yes.

Pankaj Agarwal What would be their quantum, difference in spreads?

Rajiv Lall It depends on who you are refinancing also, so obviously like-to-like everything else being constant and for the same project the refinancing spreads would be lower but because we have managed our liabilities very effectively. The average spread on refinancing have been better over the last 12 months than it would have been three years ago.

Pankaj Agarwal But still there is a difference between refinancing and….

Rajiv Lall There is a difference and you just focus on our overall guidance. We have guided that over the next 12 months our refinancing business will continue to be quite robust. Notwithstanding that we are telling you that our spreads would be stable to improving.

Pankaj Agarwal Your provision for equity investment it is on your listed equity investments or unlisted as well?

Rajiv Lall Both.

Pankaj Agarwal Finally what is the bigger problem for power sector as per you? Is it the availability of coal of the SEB losses? What is your view?

Rajiv Lall The bigger problem is availability of fuel.

Pankaj Agarwal So you believe that once that is sorted out SEB losses are immaterial?

Rajiv Lall I have always maintained that SEB losses are a more manageable problem because they are more in nature of a fiscal problem. It is really the fuel availability that needs to be solved for the medium term.

Pankaj Agarwal Going forward are you considering giving loans to SEBs as well?

Rajiv Lall No, not really.

Moderator Thank you. The next question is from Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani A couple of questions there. One is on the goodwill if you look at the consolidated assets; the goodwill has come down by approximately 200 odd crores, whereas I do not see any depreciation related charge in the P&L. So a) how does it happen and b) was there any kind of write down in the goodwill?

Sunil Kakar If you recollect we sold 25% of our AMC, so it is a flow through of that.

Hiren Dasani The second question is that on the employee expenses, I know there was some discussion earlier, if you look at some disclosures on the full year basis, the standalone employee costs have gone up quite a bit, overall consol has remained the same but standalone employee cost have gone up quite a bit, is there any reason for that?

Sunil Kakar Overall full year is okay. If you go through our P&L, you are obviously aware that some of the sectors have not performed which are under different legal entities so there costs did not go up and the lines of businesses which is basically our project finance and treasury, they have performed appropriately and done a good job and hence this standalone reflects. Now there could be some accrual business between the entities but it is basically the fact that other businesses have a lower, as a matter of fact relatively lower increase in their employee expenses given poor performance.

Hiren Dasani Even 43% does not look little on the higher side?

Rajiv Lall 43 I am not sure about this number, what is this 43%?

Sunil Kakar On the standalone part, see, we always look at ….

Hiren Dasani Is it that part of the standalone is related to the comps of the subsidiary?

Sunil Kakar We will have to specifically check, as I said we always manage the business on a consolidated basis. On a standalone it is an estimate out there.

Rajiv Lall See, you have to just look at it this way that you do not have the legal entity numbers, they will be available to you in the balance sheet, but can you remind me what is the precise number?

Hiren Dasani 106 crores versus….

Rajiv Lall I was saying that 90% of our profits are basically from IDFC standalone. So the disproportionate bulk of the growth in bottom-line and growth in the pre-variable compensation profits has come from IDFC standalone.

Sunil Kakar And we have invested on people in certain businesses we are developing also in the fixed income space so there is some increase.

Rajiv Lall IOn the IDFC standalone there are three businesses, there is the lending business, there is the fixed income treasury business and then there is the corporate overhead. So if these three activities have generated 90% of the profit, the bulk of the HR expenses in terms of variable compensation will go to the standalone entity. You will get a better picture of that once you get the entity-wise P&L.

Hiren Dasani Sure, I will look that. Third question is on the capital adequacy; you said your internal ratings obviously for the refinancing are much better. Does it reflect in the way you compute the risk weighted assets or that one has to be done by outside agency only?

Sunil Kakar That is as per RBI guidelines.

Hiren Dasani Similar to banks you have to follow the external ratings only.

Sunil Kakar Actually it is 100% for us. The rating does not come into play.

Hiren Dasani So irrespective of the internal rating or external rating you have to have 100% risk weight on each loan?

Rajiv Lall Yes.

Hiren Dasani Okay. And just a small clarification in one of the earlier questions you replied that if you have a real estate or share as a collateral you take 75%, I thought 75% is recovery rate you meant, right? Not the loss given default?

Sadashiv Rao No, other way round, loss given default is higher. If there is a default the share price tends to back down and therefore the recovery is lesser.

Hiren Dasani But even if you have adequate collateral and all, typically you say that you do it with like more than 2x collateral so how can the loss given default be 75%?

Sunil Kakar What you should understand when the company is not doing well what happens to the share price and therefore what we recover.

Rajiv Lall But this applies to loans against shares more than anything else.

Moderator Thank you. The next question is from Mansi Sajeja from SBI Mutual Fund. Please go ahead.

Mansi Sajeja Just one question on your project side, how many of these would be operational interest paying projects and what proportion would be projects where in the initial stages the interest during construction is getting added up?

Vikram Limaye Two-thirds of our book is operating assets.

Mansi Sajeja If we can get a breakup for the key verticals, energy roads, telephones, etc.

Vikram Limaye We do not have that detail offhand.

Moderator Thank you. The next question is from Jatinder Aggarwal from RBS. Please go ahead.

Jatinder Aggarwal A couple of questions. One is dividend income from subsidiaries in FY12. The second is the outstanding amount of zero coupon bonds and the interest that has been charged in FY12. The third is if you would like to disclose this, the loans are being restructured and to what extent are these on an outstanding basis on the book?

Sunil Kakar Dividend from subsidiaries is around, remember in consolidated books it gets eliminated, so I do not know what the value of that information is but it is about 70 crores but it gets eliminated. Second was on zero coupon number impact on P&L is about 79-80 crores. And as we said it is running off, next year it should be almost negligible. And your third question restructured assets as we said it will come down this year and the specific number, we do not share those numbers, it is between 1 and 2%.

Jatinder Aggarwal Can you share the outstanding amount of zero coupon bonds?

Sunil Kakar ₹ 470 odd crore.

Moderator Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to Mr. Sunil Kakar for closing comments.

Sunil Kakar Thank you all. And the only comment is please look at the growth of the country and growth of IDFC over a longer period of time.

Moderator Thank you. On behalf of IDFC Limited, that concludes this conference call. Thank you for joining us.