IDFC Limited

H1FY13 Conference Call

October 29, 2012

Moderator Ladies and gentlemen good day and welcome to the IDFC Limited's H1FY13 earnings conference call. 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 Limited. 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 H1FY13. 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 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 Sunil to provide key highlights of our performance for H1 of fiscal 13.

Sunil Kakar Thank you Bimal. I will take you through the macro context, numbers, some recent developments and then we can start the Q&A. On the macro context, infrastructure is a focus area and in power, key initiatives on import aggregation, pooled pricing and tariff pass-through are gaining momentum. The government has approved restructuring of ₹ 1.9 lakh crore debt of SEBs. Half of this is to be taken over by the states and the rest is to be restructured / rescheduled by providing moratorium on the principle and easy terms for repayment. The restructuring/rescheduling of loans is to be accompanied by concrete and measurable actions by SEBs and states to improve operational performance of distribution utilities. Coal India has approved the modified FSA for private power utilities. NHAI is targeting awarding about 4,000 Km of roads under the EPC route to give a fillip to the roads program in FY13. Spectrum auction in telecom is underway and issues surrounding re-farming are under DoT's active consideration. The government is also planning to create a national investment board to provide expeditious single window clearance to large projects. All in all, I can say that the momentum is gaining in the space of infrastructure.

Now on to our balance sheet – Our balance sheet has increased by 32% from around ₹ 53,000 crore as of September 30, 2011, to almost ₹ 70,000 crore in September 30, 2012. Our gross loan book increased by 36% from about ₹ 40,000 crore as of September 30, 2011 to ₹ 54,137 crore as of September 30, 2012.

On the liability side, our outstanding borrowings also increased by 36% from almost ₹ 40,000 crore last year to ₹ 53,680 crore as of September 30, 2012. Approvals increased by 5% from ₹ 13,900 crore in H1FY12 to ₹ 14,527 crore in H1FY13; however, gross disbursements increased by 60% from ₹ 6,500 crore in H1FY12 to ₹ 10,500 crore in H1FY13. Energy, Telecommunication and Transportation continue to be the top three sectors contributing 40%, 24%, and 23% respectively of total exposure and 42%, 24%, and 23% respectively of total outstanding disbursements. The share of energy in total exposure has been coming down progressively from 43% as on September 30 last year to 40% as of September 30, 2012.

Now moving on to P&L – On a consolidated basis, our operating income increased by 8% from ₹ 1,495 crore in H1 FY12 to ₹ 1,622 crore in H1 FY13. Net of principal gains, operating income increased by 24% from ₹ 1,264 crore in H1FY12 to ₹ 1,571 crore in H1FY13. Within that, net interest income increased by 31% from ₹ 981 crore to ₹ 1,285 crore. This was mainly driven by net interest income from loans which expanded 33% from ₹ 867 crore to ₹ 1,151 crore in H1FY13.

The second component of operating income on a reported basis, non-interest income decreased by 35% from ₹ 499 crore in H1FY12 to ₹ 325 crore in H1FY13. However, this was primarily due to a spike in principal gains last year. I also need to highlight that the loan book related fees increased by 38% from ₹ 77 crore in H1FY12 to ₹ 106 crore in H1FY13. We have done a disciplined job of maintaining our expenses. Our operating expenses actually decreased by 2% from ₹ 245 crore in H1FY12 to ₹ 240 crore in H1FY13. Total provisions for various asset classes increased from ₹ 103 crore in H1FY12 to ₹ 133 crore in H1FY13. Loan provisions specifically in H1FY13 were ₹ 66 crore as against ₹ 54 crore in H1FY12. The reported profit after tax increased by 2% from ₹ 838 crore in H1FY12 to ₹ 855 crore in H1FY13. However, net of principal gains, PAT increased by 24% from ₹ 651 crore in H1FY12 to ₹ 805 crore in H1FY13.

Details on some key ratios – On a rolling 12-month basis are our overall average spread increased from 2.52% to 2.58%. There is an increase of 6 basis points. The NIMs were stable at 4.36%. The cost to income ratio came down to 16.7%. The ROE, however, on a reported basis decreased from 13.2% to 12.5%. However if you adjust for the principal gains, on a comparable basis ROA would have remained same and ROE would have actually increased by 50 basis points mainly due to an increase in leverage from 5.1 to 5.3. The EPS fully diluted increased by 2% from ₹ 5.51 per share to ₹ 5.64 per share in H1FY13. Our existing policies and conservative approach resulted in our cumulative provisions for various asset classes being at ₹ 1,221 crore as of September 30, 2012. Of this, almost ₹ 900 crore was towards loans and over ₹ 300 crore were for investment and others. For H1, our asset quality continues to be robust with gross NPAs at 28 basis points and our net NPAs at 13 basis points.

Now on to some other developments – IDFC was recognized as the best NBFC for infrastructure financing by CNBC-TV18. We also received the Green Crusader's special award in the IT area presented by Schneider Electric in association with CIO magazine. Our head of Technology won the CIO100 award in the IT area. IDFC also launched the 'In Our Hands' initiative to empower youth of our country to bring about a change in the world and take responsibility for what they do. I shall now open this session for Q&A. 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 Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal First question on the loan related fee income during the quarter, it is growing by 5% YoY basis and sequentially it is 29% down. So given the strong growth in the balance sheet sequential basis, why such a significant drop in the loan related fee?

Sunil Kakar If I may answer, first of all loan related fees are generally related to disbursements with the project finance in new projects. Large part of our loan growth, as we may have mentioned earlier also, is coming through gaining market share through refinance where we don't get any loan related fees.

Manish Ostwal And secondly, sir what is attributable to sequential expansion in the principal gains? Is it carry on the alternative assets or some selling of some prop stocks?

Rajiv Lall It is a combination.

Sunil Kakar It is selling of some stocks.

Manish Ostwal Next, currently the leverage ratio is 5.3 times and in the previous call also, management said that they are comfortable at 6 times leverage to maintain the balance sheet liquidity and the credit rating. Now how do you see at 5.3, what is the cushion available for leverage. Number two, since my capital adequacy is fairly strong at 21%. So how do you see this overall 6 times leverage and the 21% capital adequacy in the context of how we plan to grow the book?

Sunil Kakar You see, the growth of the book will be steady. So we are not going to reach the 6% leverage let us say in the next 12-18 months from whatever anticipated growth is, we think it will take almost 24 months from now before we can hit the 6 times leverage target.

Moderator Thank you. The next question is from Sagar Tanna from Kotak. Please go ahead.

Sagar Tanna In your opening remarks, you mentioned about the power sector resolutions that are being worked out and Mr. Lall had mentioned even in the previous con-call that eventually he expects price pooling to come in. What do you think are the one or two biggest stumbling blocks and by when it will be resolved in the power sector?

Rajiv Lall On price pooling, I think our sense is that there is progress that is being made and a broad agreement on the mechanism for how the price of incremental imported coal is to be passed on to State Electricity Boards for all new power projects agreements. Remember that there is a significant amount of existing capacity that is under construction or that is just being completed that still doesn't have PPAs. So for that capacity and that class of projects, I think there is relatively a clear way forward. Where there is still some work to be done is the treatment of price pooling and fuel pass-through for existing PPAs. There are some technical legal issues that need addressing and hopefully in the next couple of months, they will also begin to be addressed. So some partial progress, not 100% but we continue to move in the right direction.

Sagar Tanna We also have mines being allotted, but because of various reasons they have been upheld including resettlement, rehabilitation and environment, etc. Do you think that will get resolved faster?

Rajiv Lall That is the expectation, I think all the indication we are getting from the clients potentially most affected from this is that the determination of government to sort out residual issues is higher than it has been and so we are expecting that also to be resolved, but again to put it in some kind of framework that you can understand and track - you know there are projects where the coal mine has been allocated, but no progress has been made on building the associated power asset. Then there are those projects where the power assets has been substantially built or nearing or is already completed, but they continue to have some problems with exploiting the coal mine that was supposed to have been allocated to them. So in Coalgate, both of these classes of projects were caught. Now what is happening is that the second category of projects, as would be common sense, will make progress; but it is the first category of project that will have to be probably scrutinized and there will be investigations and whatever needs to be done.

Sagar Tanna Sir what I was asking is be it on the PPA front where the agreements are between the developer and the States, be it with the recent refinancing scheme being made available again that is with the States and again the price pooling, again it is with the states. So largely, the ball is going to be in the States court and unlike you know the center being pushed. Center can just frame policies and eventually individual states will have to take this up and we have seen how things have performed even at State levels and the relationship between Center and State. So what do you think is the base case scenario, by when we can expect resolution on all these issues?

Rajiv Lall This would not be resolved for the next 30 years and you are talking about the fact that Federal-State relations are going to remain challenging and problematic. But I think what is changing is that if you looked at the design of the new scheme for recapitalizing the State Electricity Board outstanding debts, that scheme is more intelligently designed, better designed than the previous scheme about 10 years ago. So part of their debts are going to be taken over by the State Governments, part of them are going to be restructured by public sector banks and PFC in exchange for clarity on tariff increases and other measures to be taken by them periodically. What you may have also picked up is that the public sector banks have been actually very harsh with the State Electricity Boards, under pressure from the Central Government. So the Ministry of Finance has actually pressured public sector banks not to lend or to cut off lending to State Electricity Boards to cover their cash losses. That has had a huge impact and that is bringing about some behavioral change. It is a game of relative negotiating power that will play itself out, but over the last couple of months, what we have seen is that the negotiating advantage has shifted a little bit towards Central Government on these issues either through the banking system or through other mechanisms. So that is helping at one level. The second thing is I think that is for you to judge, I don't have any particular strong views on it, but even within the States, there is a growing realization or understanding in some States more than others that their electorates will now respond better to policies of regular tariff increases provided they are combined with more reliable availability of power than free electricity and then no power. So that is why I keep saying we won't see any magic bullets taking this problem down overnight, but ours will be a muddled through kind of scenario and everything, the small steps that you have seen are taken in the last few months are consistent with that medium to long-term muddled through kind of scenario.

Sagar Tanna Do you think over the next 6 months, we will see some resolution on all these issues?

Rajiv Lall No final resolution, but enough to buy us another 4-5 years.

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

Mahrukh Adajania My first question is on approvals - do we need to read much into it in terms of future loan growth given that approval growth was weak during the quarter and the second question is if you could just run through the movement in loan provisions, our total provisions during the quarter?

Rajiv Lall So on provisions I will let Sunil explain to you, but what to read into loan growth, I think we are just been guiding investors to a 20% loan growth for the year and we stick by that. You have to understand that the robust performance of our loan book does not indicate there is a return to Greenfield capital building or asset creation that is going on in the country. We have grown this loan book through refinancing and taking market share away.

Sunil Kakar On provisions, this quarter we had provided for only about ₹ 30 crore but that is in line with our standard provisioning policy which is linked to disbursements and their risk rating. So what you can see is that, as Rajiv just mentioned, the fact that we are doing more of operating loans, risk rating is obviously better that means we are taking on lesser risks hence the provisions are relatively lesser on the loan book and the other reason is that this quarter, the equity markets have done well. So there has been no provisioning for equity side and similarly other investments, we haven't made any provision this quarter.

So that is why you will see on a sequential basis, it has moved from 103 down to 30, but that 103 was driven by as we all know one-off in the investment to Deccan.

Rajiv Lall But let us also be clear that our NPA numbers are going to rise and our restructured asset numbers are going to rise, but to be again very blunt, I keep repeating we are not under stress. Absolute numbers will grow, but compared to the size of our loan book, our asset book and the provisioning cover we have, it will remain manageable.

Mahrukh Adajania Just one more question in terms of the disbursements, telecom; was there any lumpy disbursal in this quarter?

Vikram Limaye Yes. We cannot get into specific clients and transactions as you know.

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

Chhavi Agarwal Sir my first question is that in this refinancing, which are the sectors that you refinancing immediately? Is it roads or power and if you could give us interest rate, which is a ballpark number as to this is the threshold that you are looking for refinancing these loans?

Vikram Limaye We do not have any specific interest rates for refinancing. We are obviously trying to maximize returns that we can get for the risks that we take. For the refinancing mix, it is really more in telecom and roads and less so in power.

Chhavi Agarwal So you are refinancing your own earlier loans or the new loans of the others?

Vikram Limaye Other banks.

Chhavi Agarwal What is the exposure to airports especially DIAL and MIAL and with the changes in regulations are clients expected to pump in more money? Are you further lending to these airport sectors?

Rajiv Lall We have exposure to I think couple of airports, but you are referring to the recent..

Chhavi Agarwal Yes, changes in regulation - with ADF going away, airport clients will have to pump in more equity like in case of MIAL, so are you continuing with lending to them and is there any more money you plan to give to them?

Rajiv Lall But you know it is not a very significant amount of additional equity that they have to pump in because the bulk of the gap between the actual project cost and the initially projected cost, i.e. the cost increase. Two-thirds of it has already been funded through ADF. So there is only one-third that they are talking about that they may not want to fund through continued ADF and if you consider a 70-30 debt-to-equity ratio, the amount of equity that these parties have to bring in including the Airports Authority of India which is a joint venture partner if you talking about DIAL, it is not very large. So we do not see any material change to the risk profile of the asset as a result of the suggestions that the Government of India has made or is making.

Chhavi Agarwal So what proportion of your loan book is in the airport sector?

Vikram Limaye Out of the transportation exposure that we have which is about 23%, two-thirds to 70% is to roads, the balance is equally split between ports and airports.

Chhavi Agarwal So within the road sector, given that a lot of companies are looking to sell their assets as a portfolio and still we do not see any major pickup in this activity. So what is your view on that. Where is it stuck, is it the valuations or something else?

Vikram Limaye No, I think if you look at what has happened so far in the last 12 months, many of the bids that have been awarded are yet to reach financial closure. There are some bids that are unlikely to reach financial closure and if you look at the health of many of the developers, it is not that they have tons of equity to put to work in new projects. So I think what the government is planning to do as Sunil mentioned in his opening remarks.

Chhavi Agarwal Sir I am not talking about the NHAIs, I am talking about lot of companies are looking to sell off their road portfolio as such.

Vikram Limaye So it is the same reason. I think there are very few buyers of road assets and portion of it has to do with valuation expectations. Also you should know that from a regulatory perspective, how much you can sell in a road asset also has to do with what time period has elapsed since constructions, since the road has begun operations, etc. So there are various thresholds that original promoters, developers need to retain and so depending on what type of asset is being sold, majority stakes may not be available. There are only a handful of funds that are potentially able to buy SPV level investments and then there is obviously in some cases a disconnect in terms of valuation expectation relative to what buyers are willing to pay.

Moderator Thank you. The next question is from Devang Modi from Equirus Securities. Please go ahead.

Devang Modi Could you give us more color on the investment banking revenues, the recent increase in investment banking revenues for this quarter?

Vikram Limaye Specifically on investment banking revenues, we have a breakdown in the presentation that we have shared. So I do not know what more you need. What I can tell you is that basically the hope is that second half will see more deal closures. Sentiment has certainly picked up from a market perspective that has reflected in incremental flows from a trading perspective. So, all that hopefully will result in better numbers for the second half and for the full year. While specific numbers surrounding investment banking and broking have already been shared in the presentation that we have given you for quarter as well as for the first half and there have been some deal closures as well in the current quarter on the investment banking side which has resulted in pickup in revenues, but as I said more broadly since sentiments surrounding India seem to have picked up hopefully it will continue that should feed into the second half being better than the first half.

Devang Modi Sure sir and could we infer that probably the number of mandates that would be in the pipeline have gone up because of more easing sentiment and also the fact that in this environment we can be fairly confident of a more robust investment banking performance in the second half?

Vikram Limaye Yes, that is what I have said. I mean mandate pipeline was relatively robust anyway. I think what we are counting on is hopefully more deal closures and to the extent that the capital markets are more supportive, there could be potentially a few capital market deals that could get done which for the last 18 months have been exceedingly difficult.

Devang Modi We understand that there is some further amount related to the treasury investment that still remains unprovided for, what is the situation on that and what is the feeling regarding the further unprovided amount whether that will need to be provided in the remaining quarters, in the coming quarters I mean?

Vikram Limaye Yes, so we had already mentioned to you in the last conference call for the last quarter the amount that we provided in the first quarter, I think the situation is evolving as we speak. I think suffice to say that by the end of this fiscal for sure, we would have made an appropriate provision that we believe will cover the entire risk that we believe is associated with this investment.

Devang Modi And it would be great if you could share like which sectors have seen maximum amount of activity in terms of investment banking in this quarter and going ahead also which sectors do you see being more vibrant for investment banking?

Vikram Limaye Like I said it depends on sentiment remaining where it is or in fact picking up. I think depending on the type of company, I think there are opportunities in all sectors, but I can tell you that there has been activity in retail, consumers, pharma, cement, those are some of the areas that have been active. Infrastructure still remains challenging, but there are obviously a lot of mandates and a lot of people who are trying to raise money either through asset sales or private equity. Capital markets for infrastructure continue to remain challenging given where valuations of some of the infrastructure companies are, but as I said the pipeline of mandates is quite strong. We are counting on some more deal closures in the second half relative to the first half.

Devang Modi Sure sir and just one more question on the asset management business, we see again there has been an outperformance on the mutual fund side and also that regarding the fund raising for any further alternative asset, so would like to know whether there is any progress regarding the alternative assets and how do you see the mutual fund side playing out over the second half?

Rajiv Lall In a solid performance, the focus has been on profitability and we have done a pretty incredible job under difficult circumstances, so we had a solid focus on cost control and we are well positioned for any return of sentiment in the retail market for equity. So as and when that happens, I think we will be well poised to grow.

Devang Modi Also alternates?

Rajiv Lall Alternates, we are in the market raising funds, usually a more about that over the next couple of quarters. Right now, its is not an easy fund raising environment, but despite that we feel that we have traction in two of our three asset classes and we will be in a position to share more concrete information with you towards the end of the fiscal year.

Moderator Thank you. The next question is from Rajatdeep Anand from ICICI Prudential. Please go ahead.

Rajatdeep Anand Firstly on Deccan Chronicle because other banks have written this loan off fully. I think you took some provisions last quarter, but there are no provisions this time and how do you think that will pan out, that is first and secondly looking at this RoA tree, it seems to be at the lower end of where it has been historically, your RoA. So how do you see this going forward and what are the areas where we can expect an increase in RoA from?

Rajiv Lall See on the RoA, the number looks lower only because we didn't get the gains on equity this quarter. So on an annualized basis, as contributions from principal gains come through, you will see the rolling 12-month RoAs to be pretty stable actually. So don't read too much into that. It has nothing to do with anything fundamental with the business.

Rajatdeep Anand I think the fee part has come off quite a bit, okay, that includes this.

Rajiv Lall Yes, that includes the capital gains no. So that is what it is which is why we keep guiding the market that the best way to look at our business because it is lumpy and is to really look at it on a 12-month rolling basis and keep monitoring us on that. On Deccan Chronicle, we have recovered some, we have written-off some. We are going to give it another quarter to see if we can recover some more. If we don't, we will write-off the remainder. It is not a very large amount. So it is really not a big deal for us.

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

Hiren Dasani I know you guys don't disclose the cost of funds number per se, but directionally would it have gone up in this quarter because that is what it seems if you just calculate on a quarterly average basis?

Sunil Kakar See there are two parts of the number, one is on an average basis and one is marginal. The marginal cost of funds has started coming down and as you will see that our overall spreads have gone up from 252 basis points to 258. The increase in spreads is largely due to the liability side that is the better cost of funds. So just to put it in perspective and we are seeing that the cost of funds on the margin has started coming down and we will see that slowly impacting the overall book, but we have always maintained and try to maintain that the spreads remain in the range of around 240-250 for sometime.

Hiren Dasani Would there be any large let us say issuance related expense or any bond issuance related non-interest expense which would have been booked in the financial expense this quarter?

Sunil Kakar No.

Hiren Dasani And just lastly on the exposure tree which you give on the energy side, there is a 2% exposure in the gas side, any concerns over there at all because there are issues about shortage of gas and all?

Rajiv Lall But as you know gas again is 2% exposure, less than half of it is in projects under construction. The rest is projects that are already operating. So really when you drill down the potential issues are with respect to projects that are coming on stream that will be stranded, that risk being stranded because of non-availability of KG basin gas. Now there are two positive developments there. The first is that we will find out in the next few months, but the chances seem to us to be higher now for the gas price formula to be revisited and some negotiated settlement to emerge between government and the parties concerned and that we expect once it gets resolved will give the market greater clarity and confidence about the future availability of KG basin gas. That is one. Second is that internationally shale gas in the US, the impact of that is now beginning to be felt and whereas 6-8 months ago, importing LNG would have been prohibitively expensive, now at least on the spot market it seems like very doable. Even people are able to buy re-gasified LNG delivered here at site at under $10 which translates to Rs. 5 or under in terms of cost of generating electricity. This is a spot market. This is not a long-term contract. So what it suggests is that short-term issues using LNG gas as a bridge is looking much more feasible than it did a year ago. So combination of those two things we are feeling more constructive about even gas related challenges and we feel that these would be resolved.

Hiren Dasani Sorry if I understand correctly you are saying that, today if you transport the shale gas and kind of re-gasified here then the cost of generation of power works our to around Rs. 5 per unit?

Rajiv Lall Yes, not shale gas.

Hiren Dasani Because of shale gas, the overall gas prices have come down in the other market.

Rajiv Lall The Qatar Gas spot has come down very significantly. If you import Qatar Gas and re-gasify it, you are able to do it at around $10 and that translates into Rs. 5 per unit of electricity generation.

Sadashiv Rao Let me just clarify. Basically the imported LNG gas price is $10 per mmbtu, but including taxes duty which comes to about $12 per mmbtu and that in turn converts to less than Rs. 5 variable cost.

Hiren Dasani Just to clarify, this 2% should be entirely under construction right because that is the breakup of your construction.

Sadashiv Rao Yes.

Hiren Dasani And any concerns on the renewable side because there are some high profile companies facing financial troubles there?

Sadashiv Rao No, we don't have any.

Rajiv Lall We don't have any high profile companies in financial trouble?

Sadashiv Rao No, I don't know which one he is referring to?

Hiren Dasani I mean I can take the names, we are talking about Suzlon here sir.

Rajiv Lall No, don't worry about that.

Hiren Dasani You don't have exposure basically right?

Rajiv Lall We don't have any meaningful exposure to Suzlon, that we have to be worried about.

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

Pankaj Agarwal Sir your operating expenses are coming down on a YoY basis for the last four quarters. So from where this improvement in operational efficiency is coming and do you foresee this trend continuing going forward?

Rajiv Lall We want to keep the total cost-to-income ratio under 17% and we are achieving this by keeping a handle on non-HR operating expenses, but also on our HR expenses. So we are paying ourselves less.

Pankaj Agarwal But in terms of businesses, I mean it is across the board or related to certain subsidiaries?

Rajiv Lall We have to be disciplined and fair. So it is across the board, but it is particularly with respect to those businesses that are not performing. We are very harsh and tough on performance metrics and that is how we are doing it.

Pankaj Agarwal And sir in terms of your outstanding zero coupon bonds, what would be the amount outstanding at the end of the quarter and by how much amount would your interest expense have been higher, had you expensed those zero coupon bonds?

Sunil Kakar Yes, that impact has come down to almost negligible. For the full half year, it would be 8-9 crores. So you can forget about that going forward now.

Pankaj Agarwal And sir finally when I look at your loan growth not only increasing your loan book through refinancing, but even in terms of instruments, it seems like on quarter-on-quarter basis, the incremental growth has come from corporate loans. So is there any strategy behind that.

Vikram Limaye See, the corporate loan pickup that you are seeing is on account of telecom, right where as we have said multiple times, our exposure is to the highest quality companies and that is what is reflected in the increase in the corporate exposure. Otherwise we have already outlined, we have done a lot of refinancing as well where the project risk is much lower because they are operating projects.

Moderator Thank you. The next question is from Jyoti Kumar from Spark Capital. Please go ahead.

Jyoti Kumar One is what proportion of your incremental loan growth in the last 6 months will be on operating assets including the bought out assets?

Vikram Limaye We will have to get back to you.

Rajiv Lall It is obviously very high.

Jyoti Kumar That is what I am trying to get a sense of it.

Sunil Kakar I mean on an average portfolio basis, I can tell you it is running around 80%. So that hasn't dropped. So my intuitive guess would be at least 75% would be operating, but we have to check back on that.

Jyoti Kumar If I were to look at your entire 54,000 odd crores, how much will be operating now?

Sunil Kakar That is what I said 80%.

Sadashiv Rao When we say operating, it is corporate loans plus operating assets.

Jyoti Kumar Secondly how do you see your Tier-1 taking shape going forward given that you are now enjoying a 50% risk weight arbitrage vis-à-vis banks, it is gaining every quarter. So where do you see that in say another 12 months from now? Given the strategy also to increasingly buy more assets, do you see the Tier-1 in spite of your growth, gaining going forward?

Sunil Kakar No, we won't expect it to gain. It will come down slowly. If that is the way to look because we are going to leverage because all my growth is coming from the debt side of the equation. No additional capital is being raised. The risk-weighted assets, yes we do get a 50% arbitrage on certain types of assets only which are PPP and COD plus 1**.** So all I can say it may help us extend the capital consumption a bit slower, but I don't see it growing.

Jyoti Kumar Lastly the kind of borrowings that you are incrementally doing which are more from the pension funds and rupee debt from FIIs, what kind of lower cost will it be vis-à-vis base rates of banks?

Sunil Kakar Marginal costs are there on the Bloomberg you can look at it, but if you are looking on the duration and tenure, it varies but let us say for one year we can easily borrow at around 9%.

Moderator Thank you. The next question is from Vishal Goyal from UBS. Please go ahead.

Vishal Goyal I just need to know what has been the average maturity profile of our loan book for last 2-3 years?

Sunil Kakar 5 years.

Vishal Goyal It remains 5 years or it has gone up or gone down in last 2 years?

Sunil Kakar Has not changed much, so there are two ways to look at it. One is on an interest rate duration basis and one is on cash flow maturity basis. The 5 continues to be on the cash flow maturity basis, but on an interest rate duration basis, it has come down because people are not borrowing long-term fixed, that number is around 1.8 years is the interest rate duration for asset which has come down from 2 years.

Vishal Goyal I think I was referring to cash flow basis.

Sunil Kakar Cash flow basis remain around 5, not too much of a change.

Vishal Goyal When I back calculate your repayments if I use your disbursal data, then it shows that the repayment rate has gone down from 50% average of opening assets to around 20% in the last 2-3 quarters. So what would explain that sir?

Vikram Limaye I am not sure we look at it in that way right? So as Sunil was saying if the average maturity of assets is close to 5 years, the average maturity of liability is 4 years and the duration is more or less matched at about 1.8 years.

Vishal Goyal I am not talking about liability sir, I am only talking about assets or loans only.

Sunil Kakar So if it is 5 years, it should be 20%, right?

Vishal Goyal It was 50% in 2011-12 and in this year especially last 3 quarters gone down 20%.

Sunil Kakar Why does a prepayment happen is because if your base rate is high, people will pay me and what we are doing is reverse of it. Now my cost of funding is very competitive. So there is no reason for a borrower to repay me and run the interest rate arbitrage anymore. Earlier, when the interest rates were different, our cost of funding was more difficult, in the sense that bank rates were low and they had not yet increased it. Now what happens is bank rates have increased, but they are slow in coming down and therefore there is no interest rate arbitrage for a borrower to repay us.

Rajiv Lall But you know this is an interesting point you raise and we will do a little more analysis on this. It seems on the face of it, the churning in our asset book has come down and the hypothesis is that is happening because of our ability relative to years past to manage our cost of funds much more effectively and competitively.

Moderator Thank you. The next question is from Gaurav Jangale from Wealth Management. Please go ahead.

Gaurav Jangale One was regarding the upcoming telecom spectrum auction that will occur. So, is there any overall credit demand like what kind of credit demand you will be seeing and like how do you intend to participate in that and the second question was regarding the breakup of the disbursements that have occurred, sectoral breakup if it is possible?

Vikram Limaye So to answer your first question, on telecom we will see how the auction process works out. We have generally been very conservative about our telecom exposure and as we have said before, we have exposure to the highest quality companies in telecom. Should they require any financing for the auction bids that they put in, we will certainly consider that. As it relates to your second question on composition of, your question was surrounding composition of disbursements, by sector what is your question?

Gaurav Jangale Sectoral composition.

Vikram Limaye Of disbursements?

Gaurav Jangale Yes.

Vikram Limaye Incremental disbursements or outstanding disbursements?

Gaurav Jangale Incremental.

Sunil Kakar As I said, incremental disbursements are evenly spread out between the three sectors for the first H1, it is one-third, one-third, one-third, almost 30-30-30 and 10% to others. Last quarter, there was an increase in the telecom sector.

Moderator The next question is from Mangesh Kulkarni from Almondz Global. Please go ahead.

Mangesh Kulkarni Sir I just wanted to know more color on our exposure to Deccan; we had an exposure of around 145 crore and we have provided only 60 crore out of that. We have said that we have recovered something, so can we expect a further 60 crore kind of provision?

Vikram Limaye As we have said couple of times already on this call, we have covered some amount out of our 145 crores exposure, but we have provided 60 crores in the first quarter. For the next 2 quarters that remain in this fiscal, we will make sure that we are adequately provided so that the risk on this investment is completely taken care of.

Rajiv Lall So you can expect that we will write-off less than 85 crores between now and fiscal end.

Mangesh Kulkarni Our NSE stake sale, when we will expect around another 1% kind of stake sell in Q3 or Q4?

Vikram Limaye We cannot commit to any timing.

Moderator Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Sunil Kakar for closing comments.

Sunil Kakar Thank you for the participation. Have a nice day.

Moderator Thank you very much. On behalf of IDFC that concludes this conference call.