IDFC Limited
9 M FY13 Results Conference Call
February 4, 2013

Moderator

Ladies and gentlemen, good day and welcome to the IDFC Limited's 9M FY13 Results Conference Call. As a reminder, 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. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Bimal Giri of IDFC Limited.

Bimal Giri

Good morning everyone and I welcome you to this conference call organized to discuss our financial results for 9M FY13. I have with me Mr. 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 key highlights of our performance for 9M FY13.

Sunil Kakar

I will take you through the macro context, numbers, recent developments and then we can start the Q&A.

On Macro, the Government announced policies for enhanced FDI limits in single and multi-brand retail, insurance, broadcasting, pensions and domestic airlines. They deferred GAAR to April 2016 and amended the Banking Regulation Act. The cabinet committee on investment is in place and it is expected to play a key role in reviving the investment cycle. Progress on fiscal consolidation is visible with reduction in fuel subsidy and initiative by the government to further disinvest an auction spectrum by year end. The RBI on January 29th reduced the repo rate by 25 basis points signaling a focus on revival of growth. To ease liquidity concerns in the system, it also cut the CRR by 25 basis points. To strengthen source of funds for IFC's RBI has enhanced the limit for ECB's under the automatic route to 75% of net worth from 50% earlier. The definition of infrastructure has been harmonized by RBI with that of the government on account of this, area such as educational institutions, hospitals, hotels, fertilizers and cold chains are also included in infrastructure. To summarize it would appear that slowly but surely things are improving.

Now on to our balance sheet – Our balance sheet increased by 19% from Rs. 58,000 odd crore as of December 31, 2011 to Rs. 69,000 crore as of December 31, 2012. Our gross loan book increased by 22% from Rs. 44,476 crore as of December '11 to Rs. 54,104 crore as of December '12, although sequentially our loan book growth was flat. As mentioned earlier, ours is a lumpy business and we have a robust pipeline, hence we believe that our loan growth for the financial year could be in the range of 15% - 20%.

On the liabilities side – our outstanding borrowings increased by 18% from Rs. 43,729 crore as on December ‘11 to Rs. 51,634 crore as on December ‘12. I just wanted to share with you that even in the Finance Minister’s global road show address we were recorded as the second highest private issuer of domestic debt, fifth highest overall in the country. We were also the first in the country to raise an Aussie dollar denominated loan for 50 million. Gross approvals decreased by 13% from Rs. 21,666 crore in 9M FY12 to Rs.18,838 crore in 9M FY13. Gross disbursement increased by 5% from Rs. 12,500 crore in 9M FY12 to Rs. 13,071 crore in 9M FY13. Energy, telecommunications and transportation continued to be the top 3 sectors contributing to 42%, 23% and 23% respectively of total outstanding disbursements. The share of energy in total exposure has been coming down progressively from 42% as on December ’11 to 39% as of December ’12.

Now moving on to P&L – as you must be aware our fixed income has become a focus area for IDFC. As the contribution from this segment has become significant, it is important for P&L to capture this. Hence in the non interest income line we have separately disclosed the fixed income revenue which captures the fees and treasury trading gains. And also the net interest income for treasury has been recast to reflect the same. On a consolidated basis our operating income increased by 9% from Rs. 2,255 crore in 9M FY12 to Rs. 2,459 crore in 9M FY13. Net interest income increased by 27% from Rs. 1,511 crore in 9M FY12 to Rs. 1,921 crore in 9M FY13. This was driven mainly from net interest income of loans which expanded 31% from Rs. 1,340 crore in 9M FY12 to Rs. 1,762 crore in 9M FY13.

The second component of our operating income which is the non-interest income decreased by 28% from Rs. 726 crore in 9M FY12 to Rs. 519 crore in 9M FY13, primarily due to a decline in principle gains. Net of principle gains, the non-interest income actually increased by 14% from Rs. 405 crore in 9M FY12 to Rs. 462 crore in 9M FY13. However we need to highlight that loan book related fees increased by 49% from Rs. 95 crore in 9M FY12 to Rs. 141 crore in 9M FY13. Operating expenses remained stable and flat at Rs. 374 crore in 9M FY13 as against Rs. 372 crore. Total provisions for various asset classes decreased by 8% from Rs. 201 crore in 9M FY12 to Rs. 185 crore in 9M FY13. Loan provisions in 9M FY13 were Rs. 100 crore as against Rs. 110 crore in 9M FY12. Reported profit after tax increased by 7% from Rs. 1,219 crore in 9M FY12 to Rs. 1,310 crore in 9M FY13. Net of principal gains, PAT increased by 33% from Rs. 945 crore in FY12 to Rs. 1,253 crore for the same period in FY’13.

Details on some key ratios on a rolling 12 month basis, overall average spread remained stable at 250 basis points. NIMs decreased marginally from 4.3 to 4.2, primarily driven by an increase in average leverage. Cost to income ratio decreased from 16.7 to 16.5. ROE increased from 12.5 to 12.8, as mentioned, as the average leverage increased from 4.5 to 5.0. ROA was stable at 2.6% and the closing leverage however did come down marginally from 5.3% to 5.1%. EPS fully diluted, increased from Rs. 8.01 per share to Rs. 8.62 per share in 9M FY13.

Our existing policies and conservative approach resulted in our cumulative provision for the various assets classes being at Rs. 1,272 crore as on Dec 31 2012. Of this Rs. 950 crore was towards loans and over Rs. 320 crore was for investments. For the 9M our asset quality continues to be robust with our gross NPAs at 26 basis points and our net NPAs at 12 basis points.

Now onto some other developments – IDFC alternatives limited through IDFC private equity fund 3 announced an investment of 100 crore in Manipal Service Corp Facility Management Private Limited. The IDFC annual report for FY12 received the silver shield for the financial services sector excluding banking and insurance as a part of the ICAI awards for excellence in financial reporting. Note, that there was no gold shield awarded this year. At the legal counsel congress India award 2013, our General Counsel Rajeev Oberoi was awarded the "General council of the year" award and our legal team member Rohit Sharma was awarded the young in-house lawyer of the year. I shall now open the session for Q&A.

Moderator We will now begin the Q&A session. We have the first question from the line of Amit Premchandani from UTI.

Amit Premchandani I had a question on one of the press news reports on the Delhi, Gurgaon toll road on that IDFC will take over - around 74 to 76% of the assets. So just want to have your view on how does it impact the overall appetite of the management in the refinance business because of the problems being faced in that asset?

Rajiv Lall The news report is incorrect. What the news report should say is that NHAI has given permission in principle for IDFC to acquire up to 74% of these assets. So this is in the nature of bi-lateral negotiation between IDFC and the concessionaire. So that shareholders agreement, it will depend on what conditions we are able to extract in exchange, you know for taking over the asset. That deal is still not done. So that first is an important clarification. Second point I wanted to make about this is that this doesn't really affect our appetite for re-finance as such. The issue with Delhi-Gurgaon is actually quite a peculiar one which used to say that inherently there is no debt servicing issue involved in the asset because the traffic growth on that stretch remains quite robust and quite capable of servicing the debt. The issue is there are working level challenges and problems between the various stake holders and we have been trying to play a constructive role to actually solve that. I can't share more than that at this point. Hopefully this time next quarter we will have much greater clarity on how this thing has evolved.

Amit Premchandani And that asset is still not in your book right now in terms of that seen that 1,600 kind of number that is going around?

Rajiv Lall We have a debt exposure to it. We are a part of consortium of bankers that has a total exposure of 1,600 odd crore to the asset. Otherwise the asset is not in our books in the sense that we certainly do not have an ownership stake in it at this point.

Amit Premchandani One more question on the fixed income separate disclosure, last quarter investment banking income was around 19 crore and this quarter it has been restated to 13 crore. So some has moved to fixed income?

Vikram Limaye The trading gains there are not exactly investment banking revenues. Just to clarify again what we are trying to do is now position the revenues for some of these businesses as pure revenues for that business and not based on the nature of such revenues. For instance some of the syndication and bond placement fees are in the nature of investment banking revenue but if you have to look at the discrete SBUs then it is part of the fixed income SBU and therefore it has been classified as such.

Amit Premchandani So is it fair to assume that now on only the equity related M&A or IB will be booked under investment banking?

Sunil Kakar That is correct.

Moderator The next question is from the line of Ritika Dukania from Birla Mutual Fund.

Ritika Dukania What kind of growth do you see in the loan book in this year and which sectors of business will drive such growth?

Vikram Limaye So the loan book growth as we have indicated for some time now, we expect to be in 15 to 20% zone. For the 9 months period we have grown at 10%. We do have a pipeline that we hope will close before March 31 that will allow us to still be in the zone that we have indicated in terms of the guidance for loan book growth. The sectors that will drive growth will be the same sectors that we were focused on which would be energy, transportation and telecom. So I think from that standpoint there is not going to be any new sector that comes up with any kind of large number in the next 2 months.

Ritika Dukania And for the rest of the year?

Vikram Limaye For the next year you mean?

Ritika Dukania After March?

Vikram Limaye Yes, again as we have said for this year a large part of the growth has come from refinancing and that has to do with obviously certain set of opportunities that present themselves for refinancing in terms of operating assets or other types of situations that crop up and the fact that over last 12 to 18 months we have had a benefit of cost of funds being quite competitive. Going forward we will have to see how that plays out. Clearly you can't, as a sustainable business deliver on a larger asset base each year 15 to 20 % growth a large chunk of which keeps coming from refinancing that I don't think is sustainable long term. However for the next year we still feel that 15% growth rate should be do able. We also hope that some of the uncertainties surrounding infrastructure will get resolved in some reasonable period of time after which a new project pipeline should start picking up potentially in the latter half of the next fiscal.

Rajiv Lall I will just add that with respect to next year there is a greater degree of uncertainty with respect to prospects than that is for the next quarter. And we are doing our year end exercise in terms of strategy and all that so next year guidance is something that we will be in a better position to discuss in the next quarter.

Moderator The next question is from the line of Kamlesh Kotak from Asian Markets.

Kamlesh Kotak Just could you have some more color on the energy sector. Particularly the power sector, the reforms that are going on and how you see the pipeline going ahead in terms of both private and public projects in generation as well as the T&D side?

Rajiv Lall So power projects on the power sector the reform measures that have gained some traction first on the distribution side there is the Financial Restructuring Plan (FRP) which is a bilateral agreement between Central Government and State Electricity Boards. So several states have now increased tariffs and the bulk of the states have begun to subscribe to what is called the FRP program. But it still early days. I think it will take some time before we get clarity on traction on these financial restructuring plans.

Sadashiv Rao A bulk of states has increased the tariff now. 18 out of 22 have increased the tariffs. Some of them for the last two years now. So the first good thing is that there has been a regular tariff increase at least for the past two years. The second thing is 7 states which basically comprise of 85% of the losses have agreed to the FRPs.

Four of them have actually got it through their respective governments and it needs to now get approval of the state regulator. So that's on the FRP and tariffs.

Rajiv Lall REC and PFC have sanctioned about 17,000 crore to these states that have agreed to participate in the FRPs. So that will be enough to tide over some of the cash problems these SEBs are having. But you know truth to be told; these measures are not enough to solve the longer term problems. So that's on the SEBs. On the other side, developer side the biggest issue everybody has been focused on is with respect to fuel availability and what is going to be the treatment of imported coal for those plants for whom the price of imported coal has gone up sharply due to a force majeure and those plants who are not getting as much domestic coal as has been promised to them. In a nutshell what is happening is that these issues are being adjudicated through the CERC, Central Electricity Regulatory Authorities good offices. They are trying to act as an arbiter if you like between the State Electricity Distribution Companies on one hand and power suppliers on the other to come to some kind of a settlement. So, a lot is riding on what the CERC decides and is able to articulate in the coming months, till then we will not know for certain what will be the fate ;for example the Tata UMPP is going to be or the Adani plants that have been relying on imported coal. So to summarize some traction, some movement in the right direction but still a fair bit to go, last thing is we did not talk about gas.

For gas plants the expectation is that; there are 2 things that have happened one is that the price of natural gas international has come down, which is at the margin a good thing but we still do not have enough clarity on what is going to happen to the pricing of KG basin Gas. Rangarajan Committee's recommendations have been submitted. We understand that these are still being discussed, debated, evaluated and there has been no final decision but assuming that the Rangarajan Committee's recommendations are accepted and the price for KG Basin Gas is readjusted to $8 and some, I think it can go a long way towards improving domestic gas supply. This is one another positive development on domestic gas. ONGC has come up with some additional gas which is now being reallocated to users. Last thing about gas that I should add for your information, nothing resolved but there is an active discussion going on about reassigning priorities for who gets existing gas, so the owners of gas plants are making in my view a very sensible case, that look, gas that goes to fertilizers should be diverted to gas plants because electricity cannot be imported: fertilizers can and more over fertilizers plants can, if push come to shove, also work on naphtha. So whether not again there are legal issues involving whether or not the system will agree to this I cannot say with any certainty or confidence but these are basically the initiatives that are on-going. Its positive but none of it is enough to give us clarity and certainty that infrastructure is back.

Kamlesh Kotak With the kind of other issues in terms of the land acquisition, environmental clearance do you see any sort of progress made on that reform side and that also both from energy and road sides? If you can get some more idea about that how things are panning out?

Vikram Limaye I think it is still early days. The cabinet committee's for infrastructure that is being formed is supposed to intermediate such issues where projects above a certain size have been stalled on account of clearances, etc. Their first meeting just concluded a few days ago. But the hope is that some of these issues will get resolved through that process. I do not think there is any clear indication that approvals and clearances are suddenly being expedited; it is fair to say that because of some of the developers pulling out of projects particularly in the 2 road projects that GMR and GVK have pulled out of and some of the pressure that is coming from the financial community as well in terms of the risk appetite that developers and financiers have to financing projects that actually do not have everything in place whether it is land clearances, etc., will in some ways force the government and the system to expedite some of these things because otherwise there will be no infrastructure development and people will pull out of projects as has already happened and I am sure that is not something that the government wants to see more of. Whether it is land clearance, etc., will in some ways force the Government and the system to expertise some of these things because otherwise there will be no infrastructure development and people will pull out of projects as – as already happened and I am sure that that is not something that the Government wants to see more of, so I think there is now pressure from the developer community as well as from the financing community to make sure that some of these uncertainties are not really borne by financials and developers.

Rajiv Lall Let me give you a couple of concrete examples on this whole environment issue and land aggregation, so for example the NHAI have made again to my mind something that is constructive about how to handle environmental clearances for road projects. So they have argued that we must make a distinction between what is characterized as linear infrastructure and other infrastructures. For example, infrastructure that requires to deal with right-of-way issues is what is broadly considered to be linear infrastructure. There it is about you know, there are trees growing on the edges of existing highway, those trees may have to be cut down as you expand the highway, so the suggestion is that the clearances for those should be treated on a fast track manner and very differently from the other environmental approvals. So now it is in the system, it is a commonsensical suggestion to make, but whether the Ministry of Environment will approve of it or not is still not clear, the expectation is, as Vikram was saying that it will happen, but it will take a little more time. One last piece of information I wanted to share with you, because I am sure other people will ask similar questions, is on captive coal mines. There I think the ministry of coal have done quite a lot of work and our sense is that those plants that have already gotten captive coal mines and have demonstrated advanced progress in actually building the plants associated with those mines, their interest will largely be protected and expedited. Now how they will be able to bid the suggestion is that they would not be allowed to sell all their power, that comes from such captive mines on a merchant basis, a substantial part of it will have to be sold through a PPA although they would have flexibility to sell some on the open market, but those details are still being worked out. But the Ministry of Coal, I can tell you, has actually worked very diligently to clarify that situation. So our concern that you know the banking system, the existing exposure to plants that have relied on captive coal may be compromised, I think that fear is been receding, but it's a mixed bag. Broad message is that there is progress but still a fair way to go.

Moderator The next question is from the line of Sneha Kothari from Subhkam Ventures.

Sneha Kothari I just want your clarification regarding the Times of India article against the Deccan Chronicle and second I just want to know what is the outlook on the asset quality front?

Vikram Limaye Deccan Chronicle, this is a case that is currently being litigated in the court so I think we are taking all the legal recourse that we should in order to protect our interest. We certainly believe that the case really has no merit and therefore we are just going down with a recommended legal path to make sure that our interest is protected, I don't think there is anything more than we have to say on that. It's a situation that is quite widely known in terms of what has happened to Deccan Chronicle and the misstatement of facts and balance sheet, accounts and all that as a result of which a lot of lenders have suffered losses including ourselves, we don't think there is any merit in the case.

Rajiv Lall We had an exposure of over a 100 crore, which we have had to write-off, so for people to allege that, we have actually knowing sold paper to them has just no merit and we are taking all legal action to do the necessary. So, on asset quality, so far so good is the first reaction, but second thing is that we have been saying this for a while, that gross NPAs of 0.26% are not going to be sustainable. You will see a rise in the NPA number on the next several quarters but we believe that the asset quality issue is well under control and that we are adequately provisioned to digest these issues as they materialize over the next 12 to 18 months.

Moderator The next question is from the line of Sagar Tanna from Kotak Securities

Sagar Tanna If I recall, lot of ALM mismatches have started cropping up and in view of deposit growth slowing down, do you think in FY14 that will be a reasonably good risk reward adjusted opportunity for us in terms of refinancing or loans held down by banks?

Sunil Kakar Our strategy on loan growth as mentioned, refinance plays an important role but having said that it is the asset quality which determines that whether or not we will accept that particular asset on our books. So the opportunities are there, we will look at it and depending on whether the risk is what we are able or willing to take this refinance will continue to be a significant portion of our growth at least in the next 12 months or so.

Sagar Tanna But are you receiving proposals actively by banks in order for them to reduce their ALM mismatch.

Sunil Kakar No, I need to point that out. I have said it earlier, we don't go out to the banks or seek proposal this way, we work with our clients, depending on his needs, what he would like to do. We provide solutions to it. So it is not actually initiated or led by the banks on the other side, it is more of our relationship with our clients and the solutions which our clients need at that point in time drives this refinance growth.

Moderator We have the next question from the line of Jatinder Agrawal from CIMB.

Jatinder Agrawal Just taking this conversation on refinance ahead, you said you were inclined to something where you reach out to your clients and ask them, can you give some flavor in terms of new client additions that you would have had just on the refinance side over the last 6 to 9 months and if this is an opportunity which you think will expand over the next 12 to 18 months. What initiatives are being taken to tap into new customers who can potentially be added to your client list?

Vikram Limaye We are not going to share specific situations and clients where we have done refinancing, etc., I think from a broader perspective, as Sunil just pointed out, there are two things to keep in mind. One is, what we are trying to do is to try and take, on a risk-adjusted basis, exposure to assets that are lower risk. So, refinancing activity necessarily surrounds either special situations surrounding high quality corporates or it surrounds operating assets whether in roads or renewables or power or whatever it might be or ports or airports, etc. Now the point is, it is very much a situation specific thing and we have benefitted over the last 12-18 months also from the cost of funds advantage in terms of our cost of funds being competitive. And therefore our spreads remaining stable, despite refinancing which are indicated necessarily to low risk assets. Now whether that continues for the 12-18 months, time will tell, we don't know. The reality is that obviously if there are more situations and opportunities to take exposure to operating lower risk assets we will continue to do that, because new projects pipeline whether in roads or in power is quite low as we know and so, we are therefore being very prudent and disciplined about where we take exposure and so far the opportunities have presented themselves we are obviously actively trying to think about solutions that can be helpful to our clients, from a capital perspective through refinancing and as such opportunities keep coming up, we will continue to do those, but we can't get into specifics about which new additions in terms of clients or specifically which assets have been refinanced.

Jatinder Agrawal Could you give a broad sense of your number of relationships?

Vikram Limaye The point is all the large infrastructure players in the landscape happen to be our clients, so we have to pick our spots and pick the assets and the situations that we are comfortable with from a risk perspective so that's what we end up doing, so it's not that there are suddenly 6 new clients in infrastructure that we have discovered, that we weren't aware of. But there could be certain assets in their portfolios, where we believe that from a risk perspective either we are able to take a larger exposure than the one we currently have or their assets that were under construction earlier that have now become operational, where we may not have had an exposure in the under construction stage, but now that the asset is stabilized we feel comfortable taking exposure to that that asset and to the extent that we are able to provide cost effective solution to the client, that results in an opportunity.

Sunil Kakar If I may just add in a different tone it's about deepening the relationship with the client rather than widening the client base.

Rajiv Lall And I'll add one more comment to that, it's not about widening the client base necessarily, it is about deepening the relationship but it is also about reducing the risk of our own exposure, so this incremental business we are doing, it really in the current environment, we continue to grow the balance sheet in a risk mitigated manner, by moving systematically from greenfield asset exposure to more operating asset and going concern exposure.

Jatinder Agrawal If you could share some thoughts on some these new expanded definition of infrastructure how does that throw up new opportunities for IDFC?

Rajiv Lall These sectors are obviously areas that we have experience in. So before the IFC category was created, we have lent to education hospitals, tourism etc. so it is not areas that we are not familiar with. Now because they are within the definition of infrastructure it gives us the ability to lend to these areas and remain within the regulatory requirements of the percentage of our balance sheet that needs to be in infrastructure as defined by RBI. These are areas that are not necessarily large areas in terms of either ticket size or the volume of opportunity. So it is not that you can suddenly build a 5,000 crore loan book to education. That's not feasible. But within the context of incremental growth opportunities, clearly there are high quality groups in each of these areas whether education, hospitals or cold chain or logistics and tourism that we could selectively take exposure to in order to grow, but these are all not necessarily going to be very large exposures that are suddenly incremental growth opportunities that can substitute for the core infrastructure growth that has slowed down.

Moderator The next question is from the line of Mudit Painuly from Max Life Insurance.

Mudit Painuly Question on your spreads and Margins. Could you just give a flavor of what the incremental spreads and margins would be in the quarter because whole sale funding costs have come down, so that should have reflected in better spreads and margins, what exactly is going on there?

Sunil Kakar As we mentioned quite a few times, we run a pretty matched ALM. So to the extent your cost of funds comes down, for the same level of risk we will adjust what we charge to our customers. So if you go back and see the trend FY11 our average spread were 224, FY12 was 230 odd 235 I think, and this current year we are talking about 250. So actually our spreads have been going up and we have heard also from a strategic perspective or tactical perspective we have changed our asset mix which is more and more towards refinancing and operating loans. So the credit spreads do come down, so when we look at our spread it is not only a function of cost of funds, it is largely a function of what level of credit risk you are putting on your books and the ALM. So my basic point is that you have already seen, we are wholesale funded, whole sale bond markets react much faster than the loan market, so for the last 2 -3 quarters which is reflected in the 250 basis points of spreads as compared to 230-235, the fact that we have changed our liability mix and gone more towards bond and the benefit of lower bonds has already flown into the P&L system. So it is not that going forward things will happen, I think things have already anticipated and happened, so broadly we try and run a steady spread basis which will run around say 240-250 as we go along.

Moderator The next question is from the line of Rahul Jain from Goldman Sachs.

Rahul Jain Just wanted to understand on this cost-to-income ratio, which IDFC has really done a commendable job in lowering this ratio over the last few quarters. How do you see that going forward for the next few quarters and from where do you see the scope of further bringing down from the current levels?

Sunil Kakar The ratio would improve primarily due to the fact that both sides, our income is growing say 20-25% and costs are growing 5 to 7%, so we would see some amount of further improvement in the cost to income ratio by the time we close the year but in a perverse manner, I must say the fact that our investment banking and other have not been able to do very well, the cost-to-income ratio has improved but once they start kicking in, remember they do not consume capital. They are more advisory based so cost-to-income ratio may have a slighter change as we go forward but in the range of 15-16 is what we see for the next 2-3 quarters if not more.

Rajiv Lall I would just add that you know the cost to income ratio is a bit of a tricky number for IDFC because we have different kinds of businesses. So you should track both the cost to income ratio as well as the operating expenses to assets number. It's the latter that will give you a better sense for – so if you look at our numbers as a decomposition of ROA, you will get a better sense for how everything tracks and hangs together and on that basis our operating expenses to ROA numbers had been coming steadily down over the last 24 months as the size of our balance sheet has grown.

Rahul Jain But I was just sort of coming from your own guidance that your loan growth will be more like 15-17% going forward, with this kind of outlook I was just wondering how much more scope is there to sort of squeeze the cost, even if the growth comes off, would there be a scope for bringing down the cost further from the current levels or improve the efficiency on the lending side?

Sunil Kakar This is around 15% is what we are targeting.

Rajiv Lall As a contribution from our balance sheet business to income, if it grows faster than the contribution to revenues from our investment banking business, then the cost-to-income ratio by definition will come down.

Rahul Jain Have you disclosed or can you disclose your outstanding restructuring of loan book?

Rajiv Lall No we have not.

Moderator The next question is from the line of Veekesh Gandhi from BOA Merrill Lynch.

Veekesh Gandhi Of your incremental growth, how much of that would have come from refinancing in the last quarter?

Vikram Limaye Not about Last quarter, you can look at the 9 months, it is about half of it.

Veekesh Gandhi I believe in the last quarter you had ball park given, amount of loans that were restructured or rescheduled, which was like less than 2%, would that number still be holding true of your outstanding book?

Rajiv Lall Yes so far, so good, although that will probably rise a bit but we are not really going to officially disclose that number. We are just diligently transparent about all our NPAs.

Moderator The next question is from the line of Vibha from ICRA Ltd.

Vibha This is Vibha. Just wanted to ask, how do you think the infrastructure debt fund would shape the business for you and would it cannibalize the NBFC business

Vikram Limaye So as far as IDFC is concerned, the infra debt fund, we decided to do that in the mutual fund construct, for which we obviously made an application to SEBI and we have the ability to raise an infra-debt fund if we choose to. The reality is that we have represented to SEBI and to the Ministry of Finance that there are certain changes that are required, in order to make that structure feasible and attractive for investors, so some of those recommendations are being discussed and we will see that there have been some changes that were made by SEBI in their recent guidelines but I don't think those are sufficient to make this product viable in the mutual fund construct. The mutual fund construct as you know is obviously a more flexible construct than the NBFC construct, in terms of the type of assets that the infra debt fund could book. The NBFC construct is more constrained in terms of just PPP assets that are more than one year post operation. So we have chosen to try and do this through the mutual fund construct and so as of now since it is not really feasible to raise money unless some more changes are made, there is no question of cannibilisation.

Vibha My second question is on restructuring. We have seen that RBI has proposed more stringent guidelines for banks and you know to say, obviously if you read the guidelines, they exempt the projects which are yet to achieve COD, but we know that lot of infrastructure projects which have achieved COD and they still need a lot of support on handholding. So do you think if similar guidelines were to be done for IFCs, would that be impacting you significantly or it's not a material impact?

Rajiv Lall No I think for now, our provisioning cover even on that metric would be ok. As you remember we have been provisioning much more aggressively than the banks on infrastructure and certainly much more than required regulations. So our loan loss reserves over the years we have built up have provided a very good cushion for us which the banks by and large don't have.

Vibha It is not just the 5% that the lenders have to achieve by 2015 but also the asset classification, if these loans are restructured, starting FY16; these will have to be classified as nonperforming assets then obviously the provisioning requirements shoots up.

Rajiv Lall But that time one expects that the restructuring problem will be gone.

Moderator The question is from the line of Mangesh Kulkarni from Almondz Securities.

Mangesh Kulkarni I just wanted to know about our pending outstanding approvals out of it how much will be disbursed during the current quarter. Any point in percentage terms.

Vikram Limaye On a quarterly basis, it's very hard to say, but broadly if you look at, how we have disbursed pipeline typically a third get disbursed every year so, you can assume that, the pipeline of undisbursed approvals will get disbursed over the next 2-2.5 years.

Mangesh Kulkarni On this our Deccan Exposure, we still need some more provisions. I think it will be in the Q4 right.

Vikram Limaye There won't be significant, though would be at most probably 10 crore. Not more than that. Rest of it has already been provided.

Moderator That would be the last question. I would now like to hand the floor over to the management for closing comments.

Sunil Kakar Thank you. That's it.

Moderator On behalf of IDFC Ltd, that concludes this conference.