Fiscal 2016 Earnings Conference Call Transcript

May 02, 2016

Moderator: Ladies and gentlemen good day and welcome to the IDFC Fiscal 16 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bimal Giri of IDFC.

Bimal Giri: Good morning everyone. I welcome you to this conference call organized to discuss our financial results for FY16. I have with me Vikram Limaye, Bipin Gemani and Sunil Kakar, who is a special invitee representing IDFC Bank. 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 Bipin to provide key highlights of our performance for FY16.

Bipin Gemani: Thank you Bimal. I will briefly take all of you through our progress in respect of IDFC consolidated financials, mutual fund, IDF, alternatives and IDFC Securities.

The consolidated balance sheet of IDFC as on March 31, 2016, was INR 77,623 crore. In FY16, the consolidated PBT before special provisions of INR 2,639 crore was INR 1,680 crore. Post this exceptional item, taxes etc., consolidated loss in FY16 was INR 935 crore. The consolidated net worth as on March 31, 2016 was INR 10,109 crore.

Our mutual fund business has been growing very profitably. In FY16, the average AUM of our mutual fund increased by 15% to ~INR 54,500 crore. PAT increased by 32% from INR 83 crore in FY15 to INR 110 crore in FY16. Anoop Bhaskar has joined our Mutual Fund as Head-Equities. Anoop is a veteran with a strong track record in equities. With his coming on board, we expect further traction in growing our equity AUMs.

Our IDF, as on March 31, 2016, has 23 assets totaling INR 1,202 crore. The portfolio is well diversified across renewables, IT SEZs, roads, education and healthcare. PAT in FY16 was INR 37 crore. This is a growth business and is expected to gain momentum over the coming few years.

In alternatives, our AUMs are over INR 16,000 crore in 7 funds across 3 asset classes in infrastructure, private equity and real estate. As I shared with you last quarter, we are in conversations with investors domestically and internationally to raise new funds in private equity and real estate. We are hopeful of closing them this fiscal. Our PAT for this business in FY16 was INR 10 crore.

In our securities business, notwithstanding the structural issues faced by the industry, we have done well. We have strengthened our institutional sales and research to service FII and domestic institutional investors. The quality of our research is well acknowledged. Our analysts have been awarded by Institutional Investor, Asiamoney and Starmine for their work. We have executed several IPOs and QIPs during the year and the pipeline of capital market deals continues to be strong. In FY16 our securities business delivered a PAT of INR 15 crore.

I am sure most of you would have logged into the IDFC Bank concall but to reiterate, across businesses IDFC Bank is gaining traction. It has a very strong capital base and its asset quality is stable with adequate provisions to ring-fence the legacy stressed asset portfolio.

To conclude, all businesses owned by IDFC are profitable and are well positioned for growth. Over the next few years, you will witness significant increase in assets under IDF; and AUMs under alternatives and mutual fund. In our securities business, we will expand our research coverage and sales foot-print to better service our institutional clients. On the bank call on April 27, we shared metrics with all of you to indicate progress of the bank and also, provided a road-map for FY17. With this update, we open the floor to Q&A.

Q&A Session.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Sudhakar Prabhu from Span Capital..

Sudhakar Prabhu: My first question is on your Security business, if you could throw some more light how is the business growing and if you could give me the revenue number and breakup between the investment banking and the broking number?

Vikram Limaye: I can't give you a more detailed breakdown beyond what we have given you. What I can tell you is that as we indicated the pipeline for investment banking business is strong. During the year what we did was from a corporate coverage standpoint the coverage guys are now working closely with the corporate banking guys as their consolidated coverage of the corporate landscape that will certainly help us monetize the investment banking and capital markets business a lot better. As the bank expands its footprint into various aspects of lending and non-lending businesses with the corporate landscape the investment banking business will also therefore widen its base quite substantially across different types of corporates, not only large corps or also mid-corps, SMEs, growth businesses, etc. The topline number is already on our website for securities with 87 crore, bottom line was 15 crore. So as I said, the business is doing quite well given all the issues and the volatility of the market and I think you will see further traction going forward not only from an institutional equity standpoint but also from an investment banking and capital market standpoint.

Sudhakar Prabhu: But you don't breakup the revenue between IB and broking?

Vikram Limaye: We do internally, not externally.

Sudhakar Prabhu: My second question is on your dividend policy. Now that IDFC Limited has completed the full year any thoughts on dividend policy? Has the Board decided on it?

Vikram Limaye: I think this year being a loss year but we are not going to be declaring any dividend for this year but going forward we will obviously have to look at what the revenue streams and the income profile of IDFC Limited is. There is certainly an intention to pay dividend. This was a one-off situation this year because of the special provision that we took in the first half. This is obviously not expected to recur. So going forward as we said, obviously all the underlying businesses from an operating standpoint are profitable and therefore they will be profitable next year as well so we certainly hope to pay dividends going forward. I will only caveat one thing on that is as you know IDFC is now an investment company. Various businesses under IDFC have capital needs, also there could be in new businesses that we get into, so our dividend policy will obviously be predicated on what is going on during the year and what the needs of the different businesses are including new businesses. Should there be no use of capital our intention is not to hold any capital in IDFC Limited, we will distribute it out to shareholders.

Sudhakar Prabhu: My last and third question is on the IDFC Bank. There was this thought that IDFC was looking at distributing IDFC Bank shares among IDFC shareholders, any thoughts on that, any progress on that?

Vikram Limaye: I am not sure where you heard that because we haven't said anything along those lines and there is no reason to do that because as you know IDFC Limited is a promoter of IDFC Bank. If your question is surrounding dividend in the form of shares rather than cash then it doesn't matter because the taxability of everything is the same and it was never contemplated that we would distribute IDFC Bank dividend in the form of shares, so I am not actually sure where that question or where that information comes from because we haven't really communicated anything along those lines.

Moderator: We have the next question from the line of Nischint Chawathe from Kotak Securities..

Nischint Chawathe: I am referring to slide 9 of your presentation. The equity AUM percentage is for the mutual fund or for the entire mutual fund plus alternative?

Vikram Limaye: This is only for IDFC AMC which is the mutual fund.

Nischint Chawathe: In the Alternative business, correct me if I am wrong, the topline has been kind of stable year-on-year but your profit has reduced from around 20 odd crore to around 10 odd crore, is this the right observation?

Vikram Limaye: It's the right observation, I think what you have to remember is that obviously as you get into new fund launches, etc., there are certain expenses that get incurred. Also the management fee, when you model it you have got to remember that as the AUM declines because of exits, the management fee also goes down because it's based on the AUM that you are managing. As you grow AUM with new funds that has to be modelled accordingly because there is a staggering effect in terms of when funds get raised, from when management fee starts kicking in and as you exit then the existing AUM keeps going down. Obviously the cost structure is what it is and increases obviously based on HR costs and increments and all that and new fund raising has expenses associated with it as well, so that has what has resulted in the impact on the after tax profit. But the way to evaluate this business is not necessarily from a PAT perspective. This business is about generating investment returns and from that standpoint IDFC's returns from this business through not only the Profit After Tax that you see in the AMC but also through the LP commitments that IDFC has made into the funds as well as the carry that would accrue to IDFC is a holistic way of looking at what the returns from this business are not just from a Profit After Tax basis because that's a very small component of the total returns that we expect to generate from this business.

Nischint Chawathe: Any color that you could give on the carry part?

Vikram Limaye: There has been no carry in the current year and so there is nothing that's accrued in the P&L. As and when it accrues we will obviously make it known. As you know carry only accrues once you have achieved, once you have returned capital and achieved a hurdle rate.

Nischint Chawathe: But there would be some outstanding carry that you are sitting on?

Vikram Limaye: Outstanding carry in the sense?

Nischint Chawathe: The carry that you would have earned in previously unrealized?

Vikram Limaye: Fund 1 carry has been fully accounted for. Fund 2 and Fund 3 haven't fully exited as yet. Infrastructure Fund 1 also has not yet exited, so the carry on that will only be after all exits and hurdle rate has been achieved.

Nischint Chawathe: Just going back to the Securities part any specific reason why your income would be down on a year-on-year basis?

Vikram Limaye: There is also one thing that you need to keep in mind, I had mentioned that the topline is 87 and bottom line is 15, i.e. for the institutional equities business. As I said, when we did the demerger of the bank the investment banking business in terms of the corporate coverage group moved to the bank so that the consolidated coverage of the corporate community is integrated. There is obviously for capital market transactions a fee share between investment banking and broking which is a 50-50 fee share, which always existed even in the past, continues to exist and will exist going forward. So what you are seeing here is the broking business and a 50% share of the capital markets business. The other investment banking business surrounding M&A, private equity, etc. would have been booked in the IDFC Bank P&L not in IDFC Securities P&L.

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

Mangesh Kulkarni: Taking forward the dividend related question asked by the previous participant, as a combined entity we used to get around 25% dividend and now bank has given just 0.25% dividend and there is no dividend from IDFC because of the loss. But according to you how many years it will take us to come back to dividend paying list. And given that the bank will take some more time to evolve and we will need to invest some more funds in the subsidiaries. Can we also like to retain some meager earnings as dividend payout will be highly tax inefficient? Would it be right to say that it may take around three years or more to come back to dividend list? Or will it have to wait untill we sell some stake in IDFC Bank?

Vikram Limaye: You will have to give us some time to see how things evolve because this is really only six months since we have operationalized the bank. As I said, depending on the profitability of IDFC consolidated and the cash flow requirements our idea is to certainly grow all the businesses that is what will deliver better value for IDFC shareholders. IDFC Bank will also grow and distribute dividends as they have even this year where the payout ratio has been more than 80% of distributable profit. So as the bank's profits grow each shareholder of IDFC had got one share in the bank as well and so you should certainly get dividends from the bank. And like I said this year has been a loss year because of a special provision that was made. Next year will certainly not be a loss year and as we generate profits and income we will decide an appropriate level of dividend. It's very hard for me to give you a roadmap for that but we will have to just take it each year as it comes. The philosophy being that we would distribute surpluses to shareholders unless we find use for that money that is going to be value enhancing for shareholders which is basically growing the underlying businesses. Now you should know that many of our businesses are not capital intensive businesses. Securities and AMC do not require any capital; they are managing third-party funds. The Infra Debt NBFC is a capital intensive business and will require capital over time. Right now it is very well capitalized; its capital adequacy is more than 46% it has almost 600 crore of capital and about 1,300-1,400 crore of assets so it has enough capital for growth but as that entity requires capital we will have to figure out what the right construct is. As I have said before this is also an entity where from a regulatory perspective we have to come down to 49% and so it's not the case that we will have to keep infusing capital from IDFC because our shareholding also has to come down and so I am quite confident that we will be able to raise money in this entity for its future growth without IDFC having to infuse every Rupee that it requires. We will obviously try and maintain our ownership in this entity beyond 50% to the extent possible because it is I believe a high-growth business and a good return business from an ROE perspective for shareholders but there is a regulatory requirement for us to bring it down as well. At this point in time we have been given two years to bring down our share holding to 49. We will see how long it takes us to get there. We will try and manage that transition in a way that maximizes value for shareholders. In the last business which is the Alternative business, that requires some capital for new fundraising that they embark upon so right now as I said they are focused on Private Equity Fund 4 and the Real Estate Fund. We have kept aside some capital for these two funds that they are planning to raise and so from that perspective immediately in the next 12 months should they announce a first close or do fundraising in these two areas, it will not require incremental capital from IDFC because we had planned for it. So my point is that, that's the nature of the businesses and the capital needs of the businesses depending on what the income levels and IDFC consolidated are and the cash flows available, we don't intend to keep any surplus cash flows unless it is required for any new business or existing business and any surplus cash flows we will dividend out. It's very difficult for me to give you a specific rate of dividend like the way we did in the past years where we had a payout ratio, etc. The bank will certainly have that philosophy because that is a listed company and it will have its dividend policy in terms of what payout ratios it achieves for shareholders.

Mangesh Kulkarni: In terms of our investments in our subsidiaries what kind of capital we will be requiring in FY17?

Vikram Limaye: I just outlined that because I said Securities and Asset Management does not require any…..

Mangesh Kulkarni: Yes, we have mentioned that we have kept aside some capital.

Vikram Limaye: We have not kept aside capital, we have kept aside some money for our contribution. Every time Alternatives raises new funds, the sponsor of the funds has to contribute a certain amount of capital, so broadly speaking somewhere between 7.5-10% of the funds that Alternatives raises are contributed by the sponsor. So depending on the fund raise that IDFC Alternatives achieves for its Private Equity Fund 4 and Real Estate we have kept aside money for our contribution into those funds, is what I said. The business does not require any capital because it is managing third-party money. It's a profitable business and it covers more than its costs.

Moderator: The next question is from the line of Pawan Ahluwalia from Laburnum Capital. .

Pawan Ahluwalia: I had a question on Securities business and the Mutual Fund business. Vikram, I think you mentioned in response to an earlier question the results may not be exactly comparable to last year because a certain portion of the investment banking business has moved to the bank. Could you give us a little bit of color on the time the investment banking transactions that are going to be done in the bank versus what will be done in capital, maybe just to take a specific example of transactions you have done just so we understand what activity will be in capital going forward versus in the bank. I don't know if you have done this calculation but if you were to normalize for that how do the results compare versus last year for this business? That's my first question. My second question is there is a big delta on the mutual fund profits this year versus last year. Obviously there is a delta on AUM as well and I am assuming like that because you have more of higher margin equity mutual fund AUMs over the course of the year. I don't know if I am correct, would appreciate some clarity on that and just some understanding of what the driving that improved profitability. And lastly on the private equity side I hear what you are saying about the business obviously being a return generating business where a large portion of the income will be from carried interest but if we leave that aside for a moment how do you think about ongoing profitability in terms of just OPEX, salaries, etc., cost of running the fund versus the fee income that you generate from the fund. Because the profit from that division has been pretty stable over the last few years and I am wondering whether we can underwrite if it is bad level of profitability going forward in terms of just fees being generated and more than covering OPEX and then you have a carry as whatever it is but at least that portion of PAT should be under writable I am wondering if that's a reasonable way to look at it. Those three questions.

Vikram Limaye: The first question, the type of investment banking business that we have been engaged in historically and will continue to be engaged going forward, have three aspects to it. One is M&A aspect to it which involves advising on the buy side or on the sell side in terms of asset sales, etc. The second is private equity capital raising, third is public markets capital market transactions in the nature of IPOs, QIPs, etc. All those three activities we have done historically. We will continue to do going forward. The business that is linked to the securities business is the capital markets business involving IPOs, QIPs, Block deals, private equity firms, selling their stakes in listed companies through blocks, etc. Any interaction involving the public markets is certainly transaction where there is a partnership between the investment banking team and the securities team. That existed even in the past before the banking team moved to the bank that will continue to exist going forward. It is documented through a specific agreement between IDFC Bank and IDFC Securities. The revenue share for capital market transactions is 50-50 which was also the case when the two teams existed within one legal structure. So there is no change in terms of how business is being conducted. It is only being reorganized in order to make it more effective to capture the opportunity landscape better because as the bank links across different sectors we want coordinated coverage to monetize the entire product suite for a particular client, banking and nonbanking products and investment banking products. Therefore, the coverage of a corporate client has been consolidated rather than being diffused.

Pawan Ahluwalia: Just one thing just so we all understand is, the three rings you have outlined -- M&A, private equity and public market, the public market you are saying now has a 50-50 split, private equity fund raising will continue to be with IDFC ltd. or has it been switched over to the bank?

Vikram Limaye: The rest will be M&A and the private equity fees will be in the bank without any revenue share.

Pawan Ahluwalia: So basically we were losing almost the entire banking business of the three legs, we are losing two of them and half of the third?

Vikram Limaye: Yes but the cost and everything else also moves with it. The second part is, the business in terms of how it fared relative to last year, I would say from a profitability perspective and a top-line perspective it has done better than last year. There are investment banking, I don't know whether it was disclosed in the bank presentation on what the investment banking fees were. But obviously we have done a lot of transactions in the last year. There are several IPOs, QIP's that we were involved and private equity raises we were advisors on the buy side, sell side, so there have been many transactions that we have been involved in, in the last 12 months. As I indicated the pipeline is still quite good in terms of transactions that remain to be executed as you know that's always the function of market sense, so I hope even that market remain stable in order to enable execution of transactions that we have been mandated for.

You point surrounding Asset Management – this is a business that we actually run quite differently from what many other people in the landscape do. So our objective for this business is not necessarily to be the largest Asset Management company in the country. We certainly want to be one of the best Asset Management companies in the country and that best is defined as an entity that is focused on investor interest first and runs a business that is focused on profitable growth. There are lot of practices and lot of things that Asset Management companies engage in. We are not in the business of buying AUM, we are not in the business of launching products that are flavor of the month, flavor of the year that don't generate returns for investors. We have consciously stayed away, for instance, from the entire credit fund move that happened in the last couple of years. We have zero credit funds because we took a call that we were in the wrong part of the credit cycle and it would not have been the right product long-term from an investor return. We don't pay silly broking commissions in order to just gather AUMs and liquid funds and cash funds that are not profitable products. So we are focused on growing market share in the right kind of products. If you look at our profitability relative to other Asset Management companies, it is much better for the size of AUM that we run and that's because of a disciplined way in terms of how we want to build this business under disciplined approach to making sure that we are focused on investor interest first because we firmly believe that this business as also the alternatives business is about generating investment returns, not about generating management fee because the only sustainable way to build a high-quality long-term third-party fund management business is to generate returns for investors. We will gather AUM as a consequence of that for sure as you would have seen as we have built the Asset Management business over the last five years as well as the alternatives business. So we will continue to focus on that strategy. We have a good team. Our fund performances have been good and I think overall distributors and investors are quite happy with what we are doing in terms of our philosophy, so that we will continue to do. I don't know whether it addresses the question you asked. The profitability of the business is a function of various things as I described. One is to focus on profitable products; the other is to be more disciplined about how we engage with distributors. So what we do from a distributor perspective also is rather than having foreign junkets and entertainment programs, we are actually taking the time to invest in financial education and literacy to make our distributors more effective in being able to communicate with the last mile. That is well appreciated by the distributors. They believe that is value add for them and we have introduced a lot of creative tools to do that and the feedback we got is very positive on all those fronts. So we would rather invest our money in making our distributors more effective and getting better relationship with our distributors based on those kind of things rather than throwing money at entertainment events and holidays, etc. so that's not something that we do.

Pawan Ahluwalia: But that's more for the domestic distributors, right. On the alternatives side I'm assuming a lot your AUM business….

Vikram Limaye: I was addressing the Asset Management business Pawan which is the mutual fund business. The alternative business obviously has 80%-90% of foreign LPs. That is very different business from the mutual fund business, so the alternatives business again we have grown across three asset classes. The fund raising environment is not easy, so we are in the market raising private equity fund for debt as well as real estate. Domestic real estate fund we are quite confident we will raise there is an international real estate fund that we are trying to raise, we will see how we progress on that. Whether it's actually a fund or some sort of managed account and the private equity fund as well, we are reasonably good in terms of announcing a domestic first close, there are conversations with international LPs that are ongoing and we will be able to give more clarity on that in the next quarter. As far as the economics of that business are concerned, the business certainly more than covers its cost depending on how the fundraising happens and when the fund-raising happens. The actual AMC fees and profits will vary but it will always more than cover cost. There is obviously a pressure on fees globally in terms of what the alternative business is able to get. Traditionally, the model used to be 2% fees and 20% carry that is under pressure. Management fees are coming down and while carry you may be able to hold the line that also varies between 15% and 20% depending on the product and depending on what you're trying to do. So management fees are coming down. As I said LPs are not happy if they see large profits being made in the Asset Management entity to management fees then that's the reason why there has been a squeeze on management fees in general because they want interest to be aligned that the profitability and the economics of the business are delivered based on investment returns, not based on management fees. So I would say that the way to view this businesses that there will be some range of after tax profits in this business based on what you have seen historically that will be a function of how the funds run-off in terms of exits and when you fund raise happens. But management fee cannot be the long-term driver of this business, investment returns will be the long-term driver and that will have two components – One is on capital that we have committed to the funds as our contribution, the 7.5% to 10% that I mentioned and the second is the 15% to 20% carry that we get on the entire fund after having achieved a rate of return for share for LPs.

Moderator: We have next question from the line of Amish Kanani from JM Financial.

Amish Kanani: If you can explain to us what is the thought process on entering new businesses like Insurance, do we have any idea, do we have thoughts on entering Insurance business and some related stuff like that to cover our comprehensive umbrella offering all the financial products? Second, if you can tell us about what are our core investments versus non-core investments that we have both at IDFC Limited parent and bank level and whether we have some plans to monetize some of them as a part of selling the non-core investments the way all other banks are doing? Also in the same line if you can remind us whether we have some stake in NSE in that context? Third question, what is the percentage holding that IDFC Group Management and employees are holding as an ESOP at an IDFC Limited level? The fourth question if you can tell us if there were some talks about the two-level holding structure which was creating lot of issues? I know you were indicating that there was some discussion with the regulator about whether there can be some interest on that, if you can share something on that, what is the progress if any?

Vikram Limaye: To take the last question first, we are in the process of looking at the structure in discussions with the regulators as well to see how we can try and reduce the leakage because of the multilayered structure that we currently have. I'm not in any position to give you any definitive clarity on what is likely to happen on that front. I can tell you that we are focused on it and we will try and find a way to try and address any structural constraints that we have from a value creation standpoint for shareholders. But that is not entirely within my hands, it involves conversations with multiple stakeholders and unless I have clarity on that I will not be at liberty to discuss any more details surrounding any structural solution to the current structure that we have. We are focused on it; we are in conversations and discussions internally and with regulators. Once more clarity emerges we will certainly share that.

Amish Kanani: There are also talks about the small finance bank also having the similar problem, so are we addressing the issue at the similar level or ours is a unique vis-à-vis them?

Vikram Limaye: RBI will take a call on a consolidated basis, right. They generally don't tend to make entity level exceptions. So if they are to do anything it will apply to the entire landscape, they will not apply it to only one entity and not the other which is why there is a conversation ongoing. There are various conversations ongoing by other entities as well. The idea has been to try and make sure that it addresses RBI's concerns in terms of structure and risk mitigation, in terms of how they want the financial services architecture in terms of holding company and operating entities, segregating bank from non-bank, etc. in the most efficient way so that there isn't any diminution in shareholder value on account of structure, so that conversation is ongoing.

Amish Kanani: Is there any idea on timelines possible or it's…

Vikram Limaye: The timeline like I said because it involves the policy decision on the part of RBI, it is very hard for me to give you a timeline.

Amish Kanani: Not from your side, some guesstimate on timelines of when RBI can move kind of a thing or not possible?

Vikram Limaye: If I give you a time it will be a moving timeline so if I tell you it will take 3-4 months then it will take next quarter, I will have to tell you it's still ongoing if it doesn't get resolved. All I can tell you it's ongoing; I hope it doesn't take 9 months, one year. We certainly hope it will take earlier than that but let's see how things evolve. The second question you had was…

Amish Kanani: Insurance and core investments versus non-core investments.

Vikram Limaye: Again I'm not going to be able to tell you definitively which businesses we are likely to get into etc. As I said before we are evaluating the financial services landscape in terms of what are the other synergistic businesses that IDFC could get into which are A. white spaces that we are not in and B. have some synergies with other entities in the group including the bank and the rollout of the bank branch plan etc. So within that construct we are trying to identify the growth businesses and value enhancing businesses that IDFC could get into. Again once we have clarity internally and board approval to pursue certain businesses, it's only then that I will be able to get into specifics on which areas we want to get into otherwise it's just speculation.

The third question surrounding investments of IDFC and IDFC Bank, when we de-merged into IDFC Bank, all the investments also de-merged into IDFC Bank and so specifically your questions surrounding NSE and some of the other financial services investments that we had in IDFC, such as ourselves, Sharekhan etc. have all been de-merged into IDFC Bank. So in the monetization for those investments will get reflected in IDFC Bank's P&L.

Amish Kanani: The last one was the ESOP whereas IDFC grew management and employee's hold at current level?

Vikram Limaye: That I don't have the number at the top of my head. I think we can get back to you on that

Moderator: Next question is from the line of Devam Modi from Equirus Securities. .

Devam Modi: The infra debt fund ended the year with around 12 billion with a net worth of 580 crore or so. So what kind of total growth do we target over here and on the current equity what kind of size are you looking to reach? In the earlier call you had stated that you will be targeting something like 15% ROEs over here so by when do we expect to reach this, beyond what level should we stabilize in terms of ROEs over here?

Vikram Limaye: It's a AAA entity and it is focused on operating infrastructure assets which by definition are lower risk, so we are not taking any construction development risk. My hope is that the rating agencies will be comfortable with six times assets to equity which means that if the 600 crore equity base we should be able to get to see somewhere between 3,000 to 4,000 crore in assets, so you could double from your without any capital raise. And obviously there will be internal accrual, so this entity is already profitable as we outline it generated 37 crore of after-tax profits already year-on-year-on-year it will continue to generate profits. The stabilized ROE which I indicated of 15% is something that is a function of growing into your capital then, if you get to 3-4 times leverage then you will start seeing the impact from an ROE perspective because right now it's only two times levered. Therefore, you will not see the kind of ROE that I'm talking about. I would hope that in the next couple of years you will start getting closer to the 15% number.

Devam Modi: The spreads over here would be somewhere in the range of 200 to 250 basis points, the gross spreads?

Vikram Limaye: My friend, 200-250 basis points for operating infrastructure assets is not easy to achieve. What you have to remember is that just you got to keep things in context, corporate credit growth is quite slow as you know. Therefore, higher quality credit are getting much tighter pricing in general whether its corporate credit or infrastructure credit and infrastructure higher quality credit by definition are operating cash generating assets. So getting 200-250 basis points over your cost is not realistic. I would say it is more in the 150 to 175 basis point zone. We are a AAA entity so one thing you have to remember about this business is that it is wholesale funded, so it is largely bond funded and maturities of (+) 5 year that's the RBI regulation. Just recently last week or 10 days ago, they came out with a notification saying that up to 10% of the liabilities can be raised in short tenure instruments less than 5 years but that's only 10% of the liabilities. 90% of the liabilities will still need to be in (+)5-year maturity. So AAA right now cost of borrowing for the entity will be somewhere in the 8.5% zone and so that is what the cost of borrowing will be for this entity because they are all market borrowing usually. Other point you should remember is that as I said earlier this is the tax exempt entity and therefore PBT is equal to PAT, the cost to income ratio for this entity is also quite low because it doesn't require a lot people to run this entity. So historically also if you recall IDFC's cost to income ratio was quite low, it was high single-digit. This entity should also be able to operate at similar kind of cost to income ratios long-term steady state because right now you already have the team and so over time as you grow the business you will get operating leverage because as you keep growing assets in don't need to keep adding people.

Moderator: We take the last question from the line of Simmi Chhabra from Frontline Securities.

Simmi Chhabra: I just have one question; it's about the one time hit of provisions against identified advances of 2,500 crore. Could you please give a breakup and the details of such assets in terms of sectors and projects?

Vikram Limaye: That is something I will ask Sunil to address. But one thing I want to point out is this is a provision that we have taken in the first half of last fiscal year that was against an identified pool of assets that we thought were stressed assets in the infrastructure landscape. As we had outlined the at that point in time, obviously a large portion of these assets are in the power sector and there are also gas based assets that comprise a significant portion of the power sector stretched assets. Now we haven't disclosed the details of every asset and what percentage is from what sector etc. All I can tell you is that pool of assets has not changed from when we provided and the provision also that we made continues to be more than adequate to cover the stretched assets portfolio that is now part of the bank when we de-merged. The bank, the assets and the provisions moved to the bank and therefore even though you might see an escalation in NPAs in the bank, it has not resulted in any incremental P&L hit for the bank because as we have said for the last several quarters since we made this provision. We are providing significantly more than what is required from a regulatory perspective. So even though a restructured asset might move to an NPA, it will not result in incremental provisions for us because we have provided a multiple of what the regulator would require. Even though the asset might deteriorate in terms of classification it will not result in any incremental P&L hit because that P&L hit has already been taken upfront when we created that provision in the first half of last fiscal.

Sunil Kakar: Vikram has almost answered everything I could share. The only data point I could add there was maybe, around 70% to 75% pertain to energy sector.

Simmi Chhabra: And this is a one-time hit so its kind of bottoming out?

Vikram Limaye: This is not recurring. We took that provision upfront because as you might recall, we said all are long since we were de-merging into the bank we did not want the bank to have any kind of overhang on future profitability coming from risks that were already known to us. So we have more than adequately provided against those risks so that there is no future drag on profitability in the bank on account of these assets. There will be future provisions that get made on account of regulatory provisions that are required on standard assets and all the usual stuff but against the stressed assets portfolio, there could be a reclassification within that portfolio from standard to restructured, from restructured to NPA, whatever the classification might be. That is not expected to result in any incremental P&L hit for IDFC Bank because all that provision was made upfront.

Moderator: We take the last next question from the line of Pawan Ahluwalia from Laburnum Capital.

Pawan Ahluwalia: So just one follow-up question on the IDF, I was listening to the numbers. Now on a 150 or even 175 basis points that you say full leverage is 6X, so 600 crore, you were 3600 crore book. At that level my income and I don't think there's fee income associated, correct me if I am wrong—would be 55 to 60 crore even if I have running operating cost to running this unit of 5 or 10 crore that gets me down to 40 to 50 crore of PBT which have a 600 crore equity base is like a 6%-7% ROE. So how do we with these kinds of spreads and a 6X leverage—how do you get to the 15% ROE?

Vikram Limaye: We can walk you through the numbers off line. But this business is certainly at--so you have to add in some fee component, you have to add in the fact that the fixed cost base doesn't change so there is operating leverage. You have to add in a few as you, I have said conservatively six times leverage. If you recall in IDFC Limited when we were doing construction and operating assets, the rating agencies were comfortable with six and a quarter times leverage. So I have given you an conservative estimate that here we would be doing no under construction assets and so from that standpoint six times is a conservative number. I hope we will be able to get more than that. I don't know what's your math is but broadly if I were to do the math.

Sunil Kakar: I guess if you take only spread versus net interest margin that's the difference. The equity does not cost, so when your net Vikram spoke spread, spread meaning as if the 100% of the asset is funded.

Vikram Limaye: If you add the equity component to it.

Pawan Ahluwalia: So your NIMS will be high.

Vikram Limaye: No, so the math indicates a 15%-16% ROE if you just add the associated 8%-10% return on equity to your numbers and there is a 600 crore equity base so that 60 crore right there.

Moderator: Thank you. Ladies and gentlemen this was the last question. I would now like to handover the floor back to the management for their closing comments. Over to you Sir.

Vikram Limaye: Thank you very much for attending this call. We will certainly give you further updates in the subsequent quarters. And if there is anything that we need to share with you prior to the next conference call we will do it appropriately through press releases. Thanks again.

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