



IDFC Limited

Q1 FY '20 Earnings Conference Call Transcript

August 16, 2019

Moderator: Good day, and welcome to the IDFC Limited Q1 FY'20 Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bimal Giri of IDFC Limited.

Bimal Giri: Good Evening, everyone. I welcome you to this conference call organized to discuss our Financial Results for Q1 Fiscal '20. I have with me Sunil Kakar, Bipin Gemani and Mahendra Shah.

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 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 and the way forward.

Sunil Kakar: Thank you, Bimal, and thank you, everybody for joining the call. We were a bit late in posting our presentation yesterday being a holiday. But having said that, I will walk you through some of the Key Aspects of the Presentation and then we will spend more time on Q&A.

Broadly speaking, as you would know from the results declared on a consolidated basis IDFC Group actually made a loss of about Rs.227-odd crore. It is there on Page #7 of the Presentation. But if you have not had an opportunity, let me just share the key drivers of that number. Biggest one is because the bank made the loss, the 40% of that, so, Rs.275 crore negative come from the bank. Therefore, the other which is IDFC Limited made a profit of Rs.26 crore. IDFC AMC which is the other operating company, we will talk more about it, is doing well and in the quarter made Rs.18 crore of profit. So, on a run rate basis we have moved well ahead of our last year kind of numbers where we made Rs.50-55 crore and the others all put together would be a small Rs.4 crore of profit which includes the increase in the cost value of IFL which is our Infrastructure Finance company, of which we hold only 30%. So, broadly, the loss of Rs.227 crore driven largely by the Rs.275 crore loss which we pick up from the IDFC First Bank. Now why did the bank make such a significant loss? Something we need to share about. Although large part of it is available on the IDFC First Bank website also, but, just to capture the highlights, it is actually driven by the provision line. And just to reinforce this provision of almost Rs.1,200 crore. Now of the Rs.1,200 crore, almost Rs.900 crore is driven by assets which we had already identified in the last quarter which was in Jan to March quarter. So, there are no new assets which have caused this significant change. It is the same set of two assets or groups. But at that point in time, we had made actually in advance as we

thought about 15% provision. We have increased the provision coverage ratio from 15% to 75%. We believe 75% coverage ratio captures all the changes which had happened in between April and June. Some of those assets reached or downgraded to D-grade. So, all these events which happened in the last quarter kind of gave an indication that to have an appropriate level of provisioning we need to take the steps, so the delta which is 60% more on Rs.1,451 crore is about the Rs.900-odd crore, the rest Rs.200, 300-odd crore is normal and regular in our retail business and therefore that will continue. But this Rs.900-odd crore is one-off based on identified assets in the first quarter rather than last quarter of the last fiscal. So, going forward, do we expect such large provisioning? The answer is clearly 'no'. And the CEO of the bank has in his various communications through the media has expressed the same. So, if you take out the provisioning out of it, let us see what the bank did during that quarter, because it is important to look at the bank on a medium-to-long-term basis rather than purely for the quarter.

The bank's biggest change is strategically it is moving in the right direction. That is the message I want to reemphasize. Today or rather as of the end of first quarter, the bank's retail assets to total funded assets was 40%. You must remember that when we started the bank, almost 100% was wholesale and maybe just before the merger we were 90%-odd wholesale. At the time of merger, it moved to 30%, it has now moved to 40% retail assets, and the goal and objective is over the next four to five years to make it over 70%; roughly 70% retail and 30% wholesale. So, that is the direction in which we are moving.

We will not be growing the overall balance sheet significantly. But the change in mix from wholesale to retail will improve profitability because as you will see the NIMs are already three plus and we should be able to improve NIMs of 10 basis points at the minimum every quarter. So, that is the directional change and it is moving in the right direction. Similarly, CASA ratio at the end of Q1 has reached 15%. Number of branches 279. Our capital adequacy ratio was 14% which is all common equity mostly, a little bit of tier-2 very small, I think. And that also I think very recently RBI has changed certain risk weighted assets in favor of retail, and our revised calculations indicate that we would be more closer to 14.5%. So, we have enough capital to grow. There is no need to think of capital at this point in time. Well adequately capitalized bank, focused on CASA and branches, CASA ratios improving and the other important focus of shifting the mix from wholesale to retail, all these are moving in the right direction.

As far as we know, all the assets which were having little bit of challenges which we did identify earlier is a housing finance company and a financial conglomerate. We have taken 75% provisioning coverage ratio which by all standard are adequate to absorb any other aspect of it and do not expect any more shocks coming from those.

So, if we were to summarize increasing retailization, improving NIM trends, asset quality stabilizing and adequate capital adequacy. So, that is broadly the picture of the bank. And if anybody has any specific questions when we reach on Q&A, we are more than happy to answer those questions.

The core one other metric which we are monitoring very closely is core retail deposit ratio now. CASA ratio includes wholesale deposits which keep going up and down, but the core retail deposit ratio which is defined as retail CASA plus retail time deposits to total deposit and borrowings also because we have a large amount of borrowings, has almost reached 12% in December, in six months was at 8%, from 8% to 12%, it has improved, so, the core retail deposits continue to improve. Just in absolute terms, as of June '19 our CASA was about Rs.10,000 crore and term deposits was about Rs.36,000, on YoY basis CASA has gone up by 64%, term deposits have gone up by 35%, our reliance on certificates of deposit which is nothing but borrowings in the bank market, that has actually come down by 5%. So,

all the indicators are moving in the right direction as far as the medium-to-long-term growth of the bank is concerned.

And on the income side, I shared with you the excessive or the provisioning number which went up significantly to Rs.1,280 crore due to increase in provision coverage ratio of those two assets. That actually sums up on the bank front.

I will also talk about the AMC. Just give me a minute. I want to update on our strategic direction which we had shared with all of you. On that we will focus on retailization and retailization of the group. In that space, we had identified that the bank as well as the AMC are the two businesses on which we will focus and the other businesses which fall under the category of divestment, I will just give you an update on that; it is moving in the right direction, it is moving as planned, we did have a small hiccup, but I am happy to share, we have shared it with the stock exchanges day before yesterday, even that has been taken care of.

So, just to summarize, we had an entity, IDFC Capital in Singapore. That also has been sold to Aberdeen and the money, which came has been repatriated home. We have to liquidate that company and that amount will also come through.

As far as IDFC Alternatives and Trustees go, that has also been sold... that is an old news I do not want to repeat that here.

IDFC Infrastructure Finance or IDF as we call it, 51.48%, which was the tranche-1 already sold, old news, to NIIF. The tranche-2 has two CPs just for recollection. NIIF has to form an IFC which is an infrastructure finance company to buy our 30% stake. The application has moved to RBI. That application is an update and we are just awaiting approval as soon as possible. I expect sometime this quarter that should take place and IDFC on our side needs a notification from CBDT. So, these are the two CPs on which we are working this quarter and we are hopefully giving good news in the next quarter. But these are the two CPs which will allow us to close the tranche-2 which is the balance 30%.

The other business which was being divested is the IDFC Securities. Just happy to share that on 14th of August, the Board has agreed to elect Mr. Dharmesh Mehta along with some other investors... we have a group of investors who will take 100% stake in this business. We are now in a phase to do all the definitive agreements, documents and regulatory approvals. All of that we hope should happen sometime next quarter let us say October-November is the timeframe, we believe it should not take more than 2, 2.5-months. So, next quarter even that should happen. So, when we meet next on the results, we should be able to give you a fairly good update on these two items.

But as far as our understanding and MoU and definitive term sheet, etc., everything is in place for the divestment of non-retail businesses which broadly is the Rs.1,200 crore number I have been speaking of for the last one or two quarters. If people can recollect or should recollect that all the time, we have been saying the Rs.1,200 crore should be possible to give it to you without any tax impact; however, as we are all aware, on 5th of July under the new budget, the buyback has been made taxable. So, obviously, all of you should recollect that we have been saying that we will do it in the tax compliant and tax efficient way. But if tax rules changes, therefore, tax compliance has to be maintained. So, these numbers will get impacted. The fact is now buyback is not necessarily the most tax efficient way. Most tax efficient way as we can now see is the dividend route. But dividend route has its own set of challenges with respect to Companies Act, etc., So, we are working all of that too. But the gross number of Rs.1,200 crore still stands, the changes which is happening or is expected to happen is only guided by the fact that on 5th of July, the rules of

taxation on buyback have changed and hence our strategy to give it back to you in the most tax-compliant and tax-efficient way is being reworked. But the broad number or the cash from which we expect to collect around Rs.1,200-odd crore still remains the same.

From a timeline perspective, as we said because of these changes and most likely it will be following the cash dividend route. This could be done in two or more tranches. So, there is no need now to do the buyback and take back 60, 70, 90-days. So, as and when dividends are available at the parent level, we will distribute it and therefore it might be more than two tranches or two tranches at the minimum. That is basically the broad change with respect to the Rs.1,200-odd crore which we have been speaking of. Post that obviously IDFC Limited will have the bank and the AMC and then we will start thinking of what is the best way of taking this forward.

I think we have done this... the bank I have told you about the divestment. Now to spend a few minutes on AMC. The Q1 for IDFC AMC, the average AUM grew by 19% whereas the industry growth was only 4.7%. The quarterly average AUM was above Rs.82,000 crore; however, as we speak, this is just a point in time, there is a point, but it is a good number. I think the number is Rs.92,000 crore or Rs.93,000 crore and I am very hopeful that the next time we have this call we should have crossed the century by that time. Rs. 100,000 crore is definitely a good number to talk about. We are progressing well in that direction. Just to repeat the number; we grew 19% as against growth of 4.7% with respect to the industry. The average AUM as of June was Rs.82,000-odd crore, and as we speak, that number not the average, the point in time number is about Rs.92,000-odd crore. Where did the money come? Most of it our growth 23% is in the fixed income side. So, our market share has improved to 4.4% from 3.7% QoQ. Now, why is the money coming in the fixed income? It is purely driven by our prudential approach in investment. With all due respect to the whole industry, I am very happy to share and I am proud to share with you that we have not had a single case where we have some sort of an impairment on an asset due to poor credit decision-making or any structured kind of a flow. I think that has really helped the market to appreciate the prudential way we make our investments and hence, the flow of fixed income is improving despite the fact that there has been a lot of turmoil in the AMC industry on the credit side.

On the Equity side, equity is difficult, it keeps going up and down, the markets are what they are. We all know about it... I guess you guys know more. But even in that space, our quarterly average AUM was about Rs.24,000 crore which grew by 9-point some per cent. Our market share improved slightly excluding the ETF, of course, ETF we have not counted at all from 1.9% to 2%. On equity side we have been flat, but significant growth on the fixed income side. So, strong fixed income performance with high quality portfolio. Equity portfolio is positioned for earnings recovery. I still want to reemphasize that the positioning of the portfolio is really very good. It is focused on very high earnings assets in between. It is just that the market has to translate from earnings perspective into price, I mean, the earnings growth of the portfolio is more than 20%, 25%, but price has not moved and the price in the market as you know is index, etc., are being driven by a few stocks. But things should correct and therefore you will see the equity portfolio is also moving.

To summarize, great performance even if I have to say on the fixed income side and maintaining our market share on the equity side. The equity side is a diversified product suite, it is well positioned for growth and that growth should happen hopefully sooner than later. So, that in substance is how AMC has performed as I said very high-level numbers. AMC bottom line Rs.18 crore in the quarter, top line as we speak Rs.92,000, Rs.93,000 crore of AUM, that is the summary of AMC.

I think I will stop now and open the floor for Q&A. Thank you very much for listening.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** Sir, just now you mentioned on this cash dividend which you are planning. Already we have received Rs.860 crore in our kitty and balance we are expecting. Could you share some timeline in which month you would like to distribute cash dividend to the shareholders?
- Sunil Kakar:** You are right about Rs.860 crore, but you see those Rs.860 crore are in various companies, and if you will see the Slide #11 on our presentation which is there, IDFC Limited which is the entity which can declare the dividend and give you the money because you are the shareholder of IDFC Limited if you are that is and that is there is only Rs.450-odd crore. It is lying in some other companies and moving money in the most tax-compliant and tax-efficient way given our provisions may take some time. But your question is valid. That is why I am saying it will happen in two tranches.
- Sneha Ganatra:** Sir, again two tranches we are hearing, but could you share like in the third quarter we would like to give half portion of the dividend, we just want the timeline and the date and the month also, that would be really helpful, we are holding it?
- Sunil Kakar:** I cannot really share because things have to move and things do not move as we all want it to move. I can only talk of the intention. But, if you are looking for intention statement, it is likely to be planned in third quarter and fourth quarter.
- Sneha Ganatra:** And this would be part by third and fourth?
- Sunil Kakar:** Yes, part- part obviously, that is why I said minimum two tranches.
- Sneha Ganatra:** My second question is on the AMC business. Current quarter you have made a profit of Rs.18 crore. What is the target for the profit number for FY'20 for the fair assumption?
- Sunil Kakar:** Rs.18 crore into 4 is Rs.72 crore, so a little bit more, Rs.75-odd, Rs.75 crore to Rs.80 crore let us see where it ends up. But just multiplying and expecting a linear thing is not...but yes, why not, that is where we are targeting and let us see where it ends up. Maybe we will surprise ourselves, but it also depends on how the equity markets perform. As you know the fees is linked to the equity markets mostly. And if equity markets do not move up we are constrained in that set of the outcome, but broadly speaking, we did make Rs.18 crore, there is no reason for us to believe we will make less than that as we go forward. AUMs are growing. Our guess is as good as mine.
- Sneha Ganatra:** On the AMC business, would you be continuing AMC business or any plans to give shares to the shareholders post-demerger?
- Sunil Kakar:** We are exploring all alternatives to provide whatever is possible in a tax again compliant and tax-efficient way. Our current understanding which is subject to another round of meeting with senior tax counsel is that such a transfer of shares to the shareholders or a demerger, etc., is not, I repeat, is not tax-compliant demerger and the consequences of a non-tax compliant demerger are unknown and we do not want. So, we are still exploring the various options, but at this point in time, we do not have a very clear answer. Obviously, we do not want to do something and then later on realize, 'oops', Indian corporate history is full of instances where large companies have got large tax contingent liabilities. I do not think this management or the Board wants to move in that path where we do not know what the potential outcome could be. So, at this point in time, all I can say is we are exploring all the

various options until we have clarity as to what is the best possible way of improving your shareholder value. I would not like to give any direction in that space.

Sneha Ganatra: My third question is I just wanted to have some clarity on the IDFC Bank; 20% stake would get free in October 2020. So, what is the thought process on that?

Sunil Kakar: The lock-in period of our current lock-in it will get free on October 2020. So, from that point onwards we are free to divest and obviously at least my current thinking that it is an overhang in the market, we are not going to divest in the market, that is not the right approach. We will look for some strategic options to see who else can we share that. As you know between 40% and 26% and I will use the word 26% because our voting rights are limited to 26% by law, so between 40% and 26%, depending on what we can find we will look for divestment opportunities. But, at that point in time, it is all dependent. Today, we are at one price, we see the things improving, it is like any shareholder or any investment you will see as to what the future potential growth of that stock is at that point in time and basis that we will take appropriate decisions. But if it looks like... and it is a big 'if', if it looks like that divesting some portion of it and pushing the money up to the shareholder depending on. Again, the tax rules have changed. It is a good thing to do. We will do it. We have no intentions of holding onto it unless we believe that the growth of the stock price is more than what we can give it back to you. And at that point in time hopefully after we have done all this, the markets will readjust the holdco discount. But assuming the holdco discount continues to remain which after the dividend probably moves up to beyond 55%, 60%, we will take the right call and whatever is in the benefit of the shareholders, we will take those actions at that point in time. But to be able to forecast one year in advance as to how the stock prices will be moving? That is not a skill set I have. I wish I had, but I do not have that. But intention wise there is no intention to hold on to 40%, intention is to monetize the value and transfer at the appropriate time.

Sneha Ganatra: When we have received Rs.450 crore, we can easily distribute to the shareholders as possible. Why do we have to wait for third and fourth quarter?

Sunil Kakar: Yes and no, the two senses of the word whatever will happen. There is that DDT aspect of it. We have to see. This is becoming a tax debate out here. Look, it is August 15th right now. So, when I say third quarter, let me also say early third quarter, it is not December.

Moderator: Thank you. The next question is from the line of Ankit Singh from Value Partners. Please go ahead.

Ankit Singh: I wanted some update on the reverse merger. You have not mentioned anything about that.

Sunil Kakar: The reverse merger, my dear friend is not in my hands, it is how RBI looks at it. Any which way I can tell you our informal conversations and whatever runs here from the market, there is nothing we can do till October 2020. So, let us keep that timeline perspective in mind. But at the same point in time, we will continue to engage with RBI and find a solution which allows us to maximize value, whether it is through reverse merger or demerger, we have the AMC businesses, the growth, so the engagement. And what we are actually also, we will get enough indications as to how RBI is thinking as we see what happens to one or two of the small finance banks as far as I know, and you may have heard something different that they are insisting on the small finance bank to list both the entities, the holdco as well as the bank. Now if you are insisting people to list at the end of year-three, and then at the end of year-five you will have a different view. Yes, I have not discussed with you reverse merger because I do not have any certainty or any clarity from Reserve Bank of India. One thing is very clear and it is up to all of you unless we have clarity we will

not take steps because the non-core businesses we have taken steps, so let us be very clear on that, when you could ask on all the non-core businesses in our opinion, those businesses which do not help us retailize our group, we have taken steps and everything pertaining to that, we just spoke about it. Now these two are core businesses from a strategic direction. These two are businesses, which is creating wealth and generating value for the shareholder. And hence how we manage these two businesses which is linked to the last question also as to what happens, “Do we divest? What do we do?” But, to summarize all of that, we need to have regulatory clarity and we are working. So, let us not also take away from this that we are just waiting for October 2020 and then we will wake up one day and start talking to Reserve Bank of India, that is not the case, we are trying to ascertain clarity to the best of our ability, but, no further action is planned till clarity emerges from Reserve Bank of India.

Ankit Singh: But, you are in discussions with them to get this clarity?

Sunil Kakar: Yes.

Ankit Singh: Because the small finance banks have been saying that they are planning a reverse merger five years after the listing. So, it seems like they have some clarity from Reserve Bank, no?

Sunil Kakar: Sorry to use the word. People talk. If I may request, I mean, if I were a shareholder and I say that if you have such a clarity, can I see the copy of that letter. Anyway, I will not like to comment on that.

Ankit Singh: Suppose we do not do reverse merger, in September once the lock-in of the bank shares ends, can we not distribute them to IDFC Limited shareholders? I am talking about all the bank shares, not just 20%.

Sunil Kakar: No-no, I understand your question. I think we should have next time around or we will post it on our website. As we speak, tax counsel do not agree that certain activity can be done. I mean, the cost of the tax implication of such activity, the tax liability could be significant, and they are exploring this because it doesn't seem that such things have been very common. Unless there is a demerger and then you can do some things like that? The problem is our structure is quite unique because the owner of those stocks is NOFHC, not IDFC Limited. So, there are a few complications in this structure. It is not a tax-efficient way. But all I want to say to you, all the guys on the call, so that we do not have this thing is that we are in discussions at various fronts; a), with the regulator as we spoke; b), with senior tax counsels, and all the options you have shared on the call and others I have at various points or time are being evaluated in a serious manner to come up with the most optimal solution. So, we are running with three or four balls but as we speak, we do not seem to find a way out of this tunnel. There was a very simple way by the way which got locked up on July 5th, otherwise, the most simplest of the lot could have been at a very low cost and our estimate of cost was about 7-8%, not more than that whereby we could have transferred value back to you. So, as the life is getting more and more complex, we have to still find that way whether we can give you just the shares and what is the tax impact of that on us as a company and what is the tax impact of you. I do not think there is too much tax impact unless you sell it and as and when you sell it. But as a company, we would have some significant tax liability and one would need to be very careful about it. There are two things. The reason I am elaborating it because this question been asked and thank you for asking because this been asked many times. What we want? We want a certainty of tax liability if any. The last thing you want is an uncertain tax liability because once that is done then IDFC Limited has nothing left, where the hell is the tax demand comes, what will happen, who will pay for it, will they run after each of you shareholders? All

of this has to be well thought through. Actually, as of now, our tax counsels have been very clear in saying that this would be a very difficult proposition. As I said, there is a regulatory in that space, reverse merger seems to be a much better answer, there is no doubt about it. So, between the two if one had to choose then one will walk the reverse merger methodology. But even for reverse merger, there is this issue of how do you demerge. So, this is a multi-varied problem. All I can tell you is enough attention is being paid. Obviously, what we wanted to do was to first clear up the non-retail businesses because any timeline and to start with again, as I said anything which can be done, will be done only post October-2020. So, it is not that we do not have time. So, let us take it step-by-step. We will finish step-1, phase-1, parallelly engage with the various stakeholders in step-2 and see what is the best possible option and we do have at least 15-months or so to come up with the most optimal option.

Ankit Singh: Yes, because the reason I ask this is because we are basically trading at 50%, 60% holding company discount. So, unless you present to shareholders the tax impact of any such move. You know I am already losing 60% of the value of those bank shares today. So, are you telling me the tax impact of distributing those bank shares will be more than 60%? I doubt it will be so high. So, do you not think it is necessary to present shareholders with all the expenses and the tax cost and let them make the decision. And right now, we are not aware. So, do you not think that information should be presented to us so that we can take a call because right now I am losing 60% because of the holding company discount? If I have to pay 20% tax on any bank shares, maybe that is okay, maybe that is an option right now shareholders will be willing to accept. Can you not provide more clarity on that by engaging tax counsels and tax experts and allowing shareholders enough information to make that decision?

Sunil Kakar: Yes, but anything cannot happen before 2020, remember that.

Ankit Singh: Yes, but we have enough time to present that information six months in advance or even nine months in advance. We do not have to wait for that date.

Sunil Kakar: Yes, we are working on it and we will get to you all the relevant information on that.

Ankit Singh: So, can we expect that may be in a couple of quarters?

Sunil Kakar: Yes.

Ankit Singh: Because it is important for our shareholders to get that information?

Sunil Kakar: I understand that boss. This whole IDFC Limited the group of five or seven people, that is all we think about. So, the answer to you is 'yes'.

Moderator: Thank you. The next question is from the line of Gautam Bahal from Morgan Capital. Please go ahead.

Gautam Bahal: It is really to push more on what the previous questioner was asking. In the hypothetical scenario of demerging 25% of the 40% that we have in the bank directly to shareholders, is that any different from what we had done a couple of years ago when we had demerged? I think was around 53% with the shareholders? It looks to me like exact same thing. So, why should the tax refund be any different?

Sunil Kakar: I think I have answered that question, but just to put it in last one sentence, yes, we will be in a position to provide you better clarity within a quarter or so.

- Gautam Bahal:** No sir, my question really is, is that any different from what we have already done? Let us say in October 2020, you spin off 25% which we are allowed to do on that date. That is nothing different from what we have already done, right when we went from 100% to 53%, I think it was?
- Sunil Kakar:** No-no, that was different, that was as tax compliant demerger under the law. That is where the whole problem would be. Depends on how we go about. We can divest. There is nothing which prevents us to divest X amount and then push the money up from 40%, but then I thought I had answered. If you dump it in the market, the stocks will just...
- Gautam Bahal:** No-no, unless my understanding is wrong, you did a tax-compliant demerger from 100% and directly gave the shares to shareholders to go down to 53% I think it was. And now in October 2020, can you not do a tax compliant demerger of shares directly to shareholders to go from 40% to 15%?
- Sunil Kakar:** I hear you, I hear you, and simple answer is, our current advisor say 'no,' that is not tax compliant, that is the simple answer. And we spend a lot of time in the last 15, 20 minutes explaining to the various stakeholders and I have also kind of said that by the next quarter or so we will come up with the most efficient way of ensuring that the value which has got locked and that there is no denying that we are running 50%-odd holdco discount and it is my objective, my goal, my role to minimize that as soon as possible and therefore whichever way it works... we have to have very firm answers and only point I keep repeating is having uncertain tax liability is not the right way of serving shareholders.
- Gautam Bahal:** I think it would be quite helpful if you give that tax clarity to shareholders in the next quarter or two?
- Sunil Kakar:** We will do that within next one or two quarters probably and the earlier the better.
- Gautam Bahal:** Because even the AMC demerger, seeing relevant examples in the market, there is a couple of remedies to it and tax-efficient and tax-compliant demerger is possible. So, it is quite frustrating to keep hearing that it might not be possible because the current discount is actually 70-80% if you calculate the value of AMC as well given what the two listed AMC doing in the market, our AMC is being valued at is quite frustrating. So, it really would be helpful if you could be a lot more sort of proactive in giving some color to shareholders about what is going on. That is my limited point really. And given the current tax treatment in the country with buyback tax and dividend tax, it really does seem like demerger usually would be the most tax-efficient and it is usually tax-compliant as well, so, more colour on that would be very helpful.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Just a few quick questions. This Rs.1,250 crore is net of the capital gains tax, right?
- Sunil Kakar:** Not net of, this is not the amount which can reach you.
- Sarvesh Gupta:** Secondly, this Rs.450 crore I think I missed that answer. You mentioned that there are some Companies Act related challenges for distributing it immediately...
- Sunil Kakar:** Not for the Rs.450 crore. There is a DDT issue. And if I give it from IDFC Limited, then otherwise I accept that I pay 20% on DDT. I do not know which section it is. It is a taxing the dividend received net of DDT paid can be deducted. So, I am trying to optimize that part. Now to move dividend up from subsidiary, the only other way

is to move dividend from down to up. If to move the dividend up, we are working on it. This is not the forum. If you are very keen, I will direct you to this thing, but if you study the balance sheet and the numbers it is all there.

Sarvesh Gupta: Sir, we will take it offline, but what I am hearing is this Rs.450 crore can be distributed in the next quarter or in the next-to-next quarter?

Sunil Kakar: Yes, next quarter. So, this Rs.450 crore, I said early next quarter.

Sarvesh Gupta: And the other Rs.390 crore which is at IDFC alternative that will be distributed post January 2020 is my understanding?

Sunil Kakar: Yes, there are some moving parts out there, but that is the plan.

Sarvesh Gupta: So, maybe by fourth quarter we should expect this Rs.860 crore being distributed totally?

Sunil Kakar: That is correct if not more.

Sarvesh Gupta: This Rs.390 crore, any expectation on this?

Sunil Kakar: Overall plan is to pull out the whole Rs.1,200 crore and distribute by the end of fourth quarter.

Sarvesh Gupta: Some comments on IDFC Bank. Since we are the principal shareholder, I think two comments; one is that the provisions never seem to stop, so like there are too many one-offs which we are continuously seeing at IDFC Bank level. I think when the ex-management was there they did a large provision. We thought that is the end of it. Then the current CEO came. He did one quarter of heavy provisions and that again we saw as one-offs. And now again this quarter we have pretty large one-offs. So, sir, the credibility of remaking a statement that these are just one-offs are eroding and that is where market is not valuing it properly because of that. So, I think we need to suggest to the management that they need to maybe do it in one shot, whatever are the one-offs should be done in one instance, we cannot have these continuous provisions which keep occurring on a very recurring basis every quarter. So, I think that is one comment. And I think if we can pass on to the management of IDFC Bank that would be helpful because our credibility is at question.

Sunil Kakar: So, fully, fully, fully agreed with you, I do want to say this on part of the management there also completely aligned in ensuring that there have been too many one-offs, but I can only assure you with one thing that if there is something, so there are two different ways of approaching this and I want to be clear about it. Yes, we do not want and there have been too many one-offs and I cannot deny that. It is not that the management is not able to read that. Things have happened too fast in the last... and these are those two accounts and the whole world knows about it. And the speed at which they deteriorated is also known there. So, yes, we are aware, we are pushing them, they are aware. But one thing you have to give credit to the group overall is that we will not hide it, we have never hidden anything. So, yes, we are reasonably confident at this point in time that there are no more known unknowns, and so there is nothing there which we are aware of now. Now the world seems to change so fast and not definitely for the better. I only hope some of it changes and we can recover some of it. Look, 75% provisioning on those two accounts may give an opportunity of some small recovery also in the future, but I do not want to comment that, I just only want to say that, yes, a), I agree 200% with you; b), the management is fully aware of it and conscious of it. And the only caveat I was saying is that unfortunately, if something happens, as a philosophy, we will not hide back

and try to flip it through, we will be upfront and share it with all the good news, bad news as it comes along. But, there is no denying in what you said that comment is kind of repeated almost every month, if not every quarter and we are trying to ensure that things stay within the expected range and such shocks are hopefully things of the past.

Sarvesh Gupta: I think in the previous call, one of the participants had requested you to request IDFC Bank management to hold concalls as almost every other bank do it on a quarterly basis. But sir I do not think they have done it even in this quarter. So, any comment on that?

Sunil Kakar: We have communicated it and the answer is - At an appropriate time we will start the process.

Sarvesh Gupta: Because sir it also helps the management a lot in terms of how the market is looking at them etc., Again, the thinking in many market participants is that management is shying away from taking the hard questions which will be asked by the analysts compared to the media. So, that is one. Now on the AMC sir, is there a way we can see the P&L on the presentation every quarter? I think that would be very helpful if we can.

Sunil Kakar: Sure, I will take that point. I do not see any reason why you should not seek more granular level P&L. We will take care of it, that is easy.

Sarvesh Gupta: I think you alluded earlier that you will look to sell some stake in IDFC First Bank. But you also I think, kind of alluded that you will also look at the market valuations and you would not dump it, that is understood, but you will find a strategic investor in it. My only comment is that sir earlier when it comes to an unlisted company, like IDFC AMC, it is okay to kind of look at the valuation because the shareholders do not have any way to participate in IDFC AMC if it is not sold in the right valuation. But when it comes to IDFC First Bank, subject to of course all regulations I think the management of IDFC should not take a call on the right valuation rather it should sell at the market valuation, of course, not at a distress valuation and of course it should not dump into the open market because obviously the liquidity would not be there. But you should find a buyer who is at a similar level to the market valuation because if any shareholder wants to participate in IDFC First Bank and he feels that the shares are very undervalued, they can always buy those shares, they can get some realization from IDFC Limited and use that to buy at IDFC First Bank listed shares. So, this case is different than IDFC AMC. Here, I think the management of IDFC Limited should not try to wait for the right valuation let us say you have a five-year view on that that it will go 3x, 4x, that is not a view which IDFC Limited management should take rather it should sell at the market valuation subject to the fact that at that point of time, market valuation should not be a distress valuation and secondly you should not dump into the market. So, that is my comment in terms of part selling the stake of IDFC First Bank.

Sunil Kakar: I think you have a very valid point. I did not exactly mean that I am going to punt on that, I mean, broadly, the idea was that there should be a buyer, it should not cause a distress, I mean, the discount to the market etc., but broadly, I get your point and I do not disagree with you, as a matter of fact I agree with you.

Moderator: Thank you. The next question is from the line of Ankit Singh from Value Partners. Please go ahead.

Ankit Singh: I just wanted to find out when will the annual reports be coming out for IDFC and the subsidiaries?

- Mahendra N. Shah:** 30th September is our AGM. We will be sending out in first week.
- Ankit Singh:** There was just one item in the 2018 Annual Report in the fixed assets, there is this Rs.100 crore of wind mills. We have not previously discussed this. Can you just give some...?
- Sunil Kakar:** We still own it. We get some return. But yes, this is also one of those assets which needs to be disposed off.
- Ankit Singh:** Yes, because it is almost Rs.100 crore gross block. So, is any plan to get rid of this also?
- Sunil Kakar:** The net block is about Rs.60 crore, but you are right, we get this thing. Yes, it is on my list of assets to be disposed, definitely non-core.
- Ankit Singh:** One last question on the regulatory cash between IDFC and the NOHFC. There is almost Rs.1,000 crore of cash in this 451C reserves. So, I know that is RBI mandated reserve which NBFCs need to have. But my question was that suppose we go for a reverse merger or a collapse of the structure, in that case does this cash actually get freed up and can be returned to shareholders?
- Sunil Kakar:** My answer to that is if we go for a reverse merger it will move to the bank.
- Ankit Singh:** Yes, of course, but this is additional cash on top of the Rs.1,250 crore, correct?
- Bipin Gemani:** No, there is no equivalent cash on the asset side, it is all the investment in a bank.
- Ankit Singh:** This is just an accounting reserve. It is not that you actually have ...
- Bipin Gemani:** It is an accounting reserve.
- Moderator:** Thank you. The next question is from the line of Rikesh Parikh from Barclays. Please go ahead.
- Rikesh Parikh:** Thanks for clarifying on the timelines for the distribution of the corpus, means funds lying with us. Just a question, now that dividend tax and the buyback are more or less at par on the taxation front, why can we not think of buyback of the shares and enhancing the value of the shareholders, means, whoever wants to tender or you can return it by way at the book value to the shareholders, any thoughts on this?
- Sunil Kakar:** We have done our numbers. It is very simple. Dividend is still efficient compared to buyback. You can do your numbers.
- Rikesh Parikh:** Yes, sure, means, it was broadly enhancing the shareholder value, because...
- Sunil Kakar:** Dividend I am just giving it back and you can do whatever you want with it. Look, 90%, there will be a few people who may prefer buyback over dividend. And there is a timeline issue with buyback. One goes through various processes and a minimum of 90-days and if you look at it, you can do your maths. If I have Rs.100... since I have done it, I shall share it with you, if you have Rs.100 to distribute, if you do dividend, the shareholder gets Rs.83. If you do buyback, the shareholder gets Rs.79.40 or Rs.79.50, I do not remember the exact number. So, now the question is with a Rs.5 difference. why would I go down the buyback route?"

Rikesh Parikh: What is our thought process on the AMC side of the business, how we are looking at it going forward?

Sunil Kakar: We just shared that it is '*nazar na lage*', they are growing leaps and bounds. We are doing well and we expect to be able to create much better value in a very short time out there and then we will see how best we can monetize it either getting a strategic investor most likely or we do an IPO. Those are options. But it needs to reach a certain level. And I have said I think in the last time or was before that, at the right time, at the right size, I think the size is still relatively small and obviously, this is not the right time from a market perspective. Somebody asked about P&L. Of course, we are going to hit the Rs.100K crore very soon. But from a profitability perspective, the operating leverage is not yet kicking in. And we know the answers to that. The equity mix makes to debt mix which is 30 equity, 70 debt is not going to allow you to have a very good bottom line, but we can see that once you reach a certain size, you are within the space of being if I may say relevant and along with the fixed income then the equities also start moving and we will do it. End of the day I want to repeat this so that everybody on the call, IDFC Limited is a holding company. Everybody has said it, depending on how you value X and Y, we are having some 60%, 70% holdco discount. No management worth its salt can stand up and say, 'We will continue to do. We do it as business as usual and everything will be fine.' So, all our efforts are to ensure at the minimum either the market starts recognizing that this holdco discount is completely inappropriate and price starts moving in the right direction or we will continue to take steps to at least convert it, monetize it and push it back to the shareholders so that the holdco discount starts coming back appropriate to the amount of tax losses which we may have. So, in a theoretical model, I mean for me to do the action, push the cash back, to bring down the holdco discount, it is just unnecessary, the market should adjust itself to see that this is what is the planning, because we are not going to hold whatever earnings comes or whatever be the monetization opportunity, we convert it and push it back. The only loss is tax loss and therefore the holdco discount should converge towards the tax losses. Now that is the theory, but it never happens. God knows why. But we will be making all efforts to ensure that this holdco discount and if it means monetizing some assets, pushing some cash back just to build the confidence and credibility in the market. My hope is by pushing back the Rs.1,200-odd crore... of course after the taxes will give confidence back to the market that we do what we were saying. It is just that the timelines are not exactly in my control. It requires so many approvals at various points in time. But these are the steps which I am very confident which will help reduce the various holdco discounts and we are working on all fronts. This is one which you will see in the short period of time which is like the first cash flow should happen early next quarter. The second one maybe the quarter after that. And if every quarter in theory I could push some money back, the holdco discount by design has to come down, and we are working to find best possible way to push the money back.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Regarding the Slide #12, what would be the unanticipated delay in the completion of the merger and the capital reduction by Jan 2020?

Sunil Kakar: Any NCLT process is one of the reasons. Second step, which is alternate, we are moving the offices to Chennai, the NCLT in Bombay, these entities are in Bombay registered, my company secretary, he may correct me if I am wrong, so we are first moving it to Chennai, because Bombay is chock-a-block full, I mean, your case there is a risk of that, so we are moving it to Chennai, because that is where IDFC Limited is. So, instead of having two courts... timeline slippages is only dependent upon court process, and yes, that is the only risk factor I can see out here.

- Anish Jobalia:** So, can it be assumed that like 90% we are sure that should be adhering to this timeline based on your rough estimate of how things could be panning out or it is like more uncertain basically this timeline?
- Sunil Kakar:** No, I would assign 90% probability...sorry, I need to add, although the percent probability there is high. If you go back to Slide #11, there is this IDF tranche-2. Once that happens, then only the capital reduction will happen. So, there are two dependencies, not one. But we are more hopeful of tranche-2 completing because both parties are working. But, that is on a regulatory front, where basically meaning Reserve Bank of India and CBDT. From a stakeholder perspective, there are three stakeholders whom we need to manage since you are talking timelines and risk to timelines. It is only risk to timelines, not risk to the deal. A), Reserve Bank of India is one stakeholder. CBDT is the other stakeholder. These two events will take care of tranche-2 and then we move to capital reduction which is the NCLT part. So, these are the three moving, but we have done our estimate and we do believe that Q4 is not an unreasonable expectation.
- Anish Jobalia:** A few questions on the AMC. So, I just wanted to know like despite of our AUM growing so handsomely in this quarter, our revenues have actually declined as compared to last year and the segment results are flat, but still the PAT has grown by I think close to 30%. So, how does one think about this? The growth being different between the line items and all the...
- Sunil Kakar:** You know margin squeeze is happening. That is where SEBI came in September-October last year. So, the volume growth is obviously much more required to even maintain the same levels of revenue. Next part is simple operating leverage. The Opex growth is much lower compared to the revenue growth which will give you a much better... percentages and numerator, denominator, we are too small to get... the numbers will look bloated, I mean, last year same quarter, some one-off event could be there which is not here. But, I can assure you that the strategic direction is, a), grow AUM; b), focus on equity growth, because that is more if I may say remunerative, but it has two impacts not only from float perspective, it is also the market condition, if market condition is going to improve, that is the thing; and c), manage the cost at very tight level, so which is what I call the operating leverage. If these three levers are pushed and they move in the right in sync, you will see this improvement. And in the specific case, just to give a specific number, the income did grow by only about 18%, 19% or so and the cost came down by 5%-odd and hence your core PBT if I may use the word went up by almost 40%, 50%, and there are some one-off incomes and one-off cost and that is how it works.... No-no, there is one more item, and how can I forget that. July 5th gave so many negative news from a buyback perspective. The fact is that the tax rates have moved from 33% to 25% in this specific entity because of that turnover moving over from Rs.250 crore to Rs.400-odd crore. So, there is a small benefit there also. Those are the three things which have helped. So...
- Anish Jobalia:** Because I was not able to...
- Sunil Kakar:** You are right. Somebody did ask that. Going forward we will share the line items on the P&L.
- Anish Jobalia:** Just a quick question, because we have had this target of doubling or tripling PAT over the five years. The question was that because this debt-to-equity is very dynamic, sometimes the debt grows very faster and then going forward, we expect the equity to pick up. So, I just wanted a broad thinking of like when can we achieve that doubling to tripling of PAT at what kind of AUM levels and what kind of equity and debt mix basically, because like in this year only we will be growing AUM at I think 35%, 40%. So, the PAT will obviously move in a similar fashion. But the

question is like our expectation is much higher when it comes to the AUM PAT growth. So, directionally when we see this? It is okay if it is three to five years, but what kind of AUM levels and debt-to-equity mix can we see?

Sunil Kakar: Off hand I do not recollect, because this exercise was done at a very dynamic. I just tell you broad lines, I think we are talking of AUM levels of almost 220,000-odd, we are talking of debt-equity mix of almost 60-40 or maybe 55-45 and basically the operating leverage, because Opex should not grow. Let me put it this way in a very simple manner and we monitor that ratio. PAT as to AUM is currently about 8 basis points roughly. That we expect to move it to 12-13. That is how it should move. In a three to four-year period time.

Anish Jobalia: Yes, I got that. What is the impediment of holding the AMC directly under IDFC instead of NOHFC?

Sunil Kakar: Boss, just two things. Let us just step back. Current structure was mandated by Reserve Bank of India in our license conditions when we got the license in 2015. If there is any leeway I would not, I mean, even in my dreams never have such a structure which is so inefficient. This is a structure mandated by Reserve Bank of India. And as spoken earlier in the call, we are in dialogue with Reserve Bank of India to trying to tell them that it will not work. If you want to kill an institution, you are more than welcome. But please going forward relook at the structure, because this structure causes a whole lot of tax inefficiencies, which result in the shareholder value being depleted rather than being created. So, just to answer your question in one line, a), it is mandated by Reserve Bank of India and that is why it is where it is.

Moderator: We will take that as the last question. I would now like to hand the conference over to Mr. Sunil Kakar for closing comments.

Sunil Kakar: Thank you, all, thank you for being patient. Just want to reinforce that all your concerns are valid, a), and b), we are definitely working on each and every one of them. You have to have that. But the timelines are a bit uncertain, but the objective is to monetize and give back the value as early as possible in the most tax-compliant and tax-efficient manner. There are uncertainties. We will be able to provide more colour as requested by many of you hopefully within the next one or at best two quarters. Thank you very much.

Moderator: Thank you very much. On behalf of IDFC Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.