

# We have enough capital to ride out the worst possible storm

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IDFC Ltd's provisions will increase over the next couple of quarters, the infrastructure financier's executive chairman Rajiv Lall said in an interview, adding that the health of gas power plants would be the key to IDFC's asset quality. On the positive side, Lall said his firm has enough capital to ride out the worst storm. Edited excerpts:

**Will your asset quality see an improvement?**

Even as the economy starts improving, you will see asset quality deteriorating for a couple of quarters and then it will catch up. So I suspect that asset quality continues to deteriorate.

**Would you say that for IDFC as well?**

I would say that for IDFC as well.

**How much worse is it going to get?**

Not much worse but yes it will get worse. Everything is relative, we are much better than the rest of the banking system; even taking into account the fact that we are concentrated so high in infrastructure.

**But you had a quarter of very heavy provisioning?**

We have. See I will tell you where IDFC comes out on all of this. It is all out in the public domain, I am not letting any cat out of the bag. Our fortunate position is that we have never been shy of raising capital in order to strengthen our balance sheet. So we are sitting on 21% tier-I capital. What that means is that even if this gov-



Confident outlook: Rajiv Lall.

## INTERVIEW

ernment had not been elected and we had ended up with a weak dispensation, bad for business, etc, which would have meant that growth would not pick up and asset quality by definition would continue to worsen further. We have enough capital to ride out the worst possible storm and that is our strength at IDFC. So, it doesn't affect our ability to launch the bank or survive the worst possible scenario.

**I am just asking from a near-term investor point of view.**

From a near-term investor point of view, the only residual uncertainty with respect to asset quality on IDFC's balance sheet has essentially to do with what happens to gas power plants. In retrospect, it was not a very clever thing to have done to have financed gas-based plants. But we are where we are, everybody knows what our exposure to gas power

plants is. We have restructured these assets because we have had no choice but to restructure them. If you ask me today, do you know what is going to happen to gas in 36 months? I really don't know.

**Do you think that gas prices should move up from \$4 per million British thermal unit (mmBtu) to \$8?**

Undoubtedly, it needs to go up, there has to be a continuous adjustment to these prices in keeping with changing market realities.

**So you are saying you are extremely well capitalised but you expect asset quality deterioration over the next two quarters?**

Let me correct that—not asset quality deterioration but provisioning, yes. I don't think my fundamental asset quality is deteriorating any further but provisioning would increase, and how much it increases depends on what happens to gas. But no resolution is going to take place in the next month or two. So if no resolution is going to take place then I am going to have to continue provisioning.

**Your loan book grew last quarter by 6% and a lot of it was short-term corporate loans to telecom, etc. When do you expect real infrastructure loan growth to come back?**

Probably next fiscal, as the confidence builds up. Our situation is a little more complicated because of the transition to the bank. So even if there is an opportunity, pure market-based, to grow the balance sheet, we may not want to because our starting position as a bank becomes that much more complex.