

Transcript

Conference Call of IDFC Limited

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Presentation Session

Moderator:

Good morning ladies and gentlemen. I'm Rekha, the moderator for this conference. Welcome to the conference call of IDFC Limited. We have with us today Mr. Rajiv Lall, CEO of IDFC and his team. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Bimal Giri.

Bimal Giri:

Good morning every one, this is Bimal Giri. I welcome you to this conference call organized to discuss the financial results for the first quarter of fiscal 2008 announced yesterday. I have with me Rajiv Lall, MD and CEO, and Vikram Limaye, ED Corporate Finance and new businesses. Before we begin I would like to state that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. Documents relating to our first quarter financial performance were emailed to all of you yesterday. These documents have also been posted on our corporate web site. I now invite Rajiv to provide the highlight of our performance for Q1 of fiscal 08.

Rajiv Lall:

Thank you Bimal, and good morning to all of you. I am very pleased to be with you this morning to share with you our first quarter results. Broad picture is we are quite pleased with the results. I will take you through the details. If you do a year on year comparison of Q1 FY08 with Q1 FY07 - as far as various P&L lines are concerned, you would see that our operating income grew by 70% to 299 crores from 175 crores same time last year. Net interest income from just our infrastructure lending activities registered a growth of 11%, growing to 104 crores up from 93 crores in Q1FY07. Net interest income on our treasury operation showed a very substantial increase, it was up to 30 crores; a five time increase from the same time last year and non interest income was 165 crores for this quarter which is more than 170% higher than the same quarter last year. This bears

some more explanation because part of the increase in non interest income came from the consolidation of SSKI which is now consolidated on a line by line basis. So fee income during the quarter was 87 crores in all out of the total non interest income of 165 crores and this is due to the consolidation of SSKI. If you strip out SSKI income, then our fees grew by 107%. Capital gains, profit on sale of equity investments was 78 crores up from 38 crores in the same period last year. Despite taking these profits, our unrealized gains on existing equity investments, excluding of course the stake in the National Stock Exchange, which is not listed, is as of June 30th still a healthy 244 crores.

Our operating expenses were 50 crores during the quarter up from 14 crores in the same quarter last year and this is largely due to the line by line consolidation of SSKI and partly also due to the increase in the size of our team. Our average tax rate inched up to 25%. Our profit after tax was a very healthy Rs. 181 crores which is almost 40% higher than the Rs. 131 crores we did in Q1FY07. Now to look at the business on rolling 12-month basis and then I will come back to that in the Q&A. But on a rolling 12 month basis the yield on our infrastructure assets improved, as expected, to about 9.5% from 8.9%. The yield on treasury assets likewise was up sharply to 8.6% from 6.2% which means that our overall asset yields on all our interest bearing assets was up to 9.3% from 8.5%. Non-interest income increased from 1.9% to 2.2% of average total assets, operating expenses increased from 0.5% to 0.7% after consolidating SSKI and the return on assets was therefore at 3.3% of average assets on a rolling 12 month basis for the period ended June 30, 2007. Our ROE which was 17% has accordingly improved to 19% on a rolling 12 months basis.

Let me now turn to the balance sheet very quickly. On the balance sheet we have increased the size of our overall balance sheet by 50% from Rs. 13,800 odd crores in Q1FY07 to Rs. 20,673 crores in the current quarter. Our loan book has expanded by 30% from Rs. 11,300 crores to close to Rs. 15,000 crores. Gross approvals were higher by 57%. We did gross approvals of Rs. 4,100 odd crores up from Rs. 2,600 odd crores in Q1 last year. Gross disbursements expanded by 83% to Rs. 2,400 crores from Rs. 1,300 odd crores in Q1FY07. Our gross borrowings increased 85% to Rs. 3,640 crores. We continue to try and diversify the liabilities side of our balance sheet within the regulatory constraints that we face. For the year ended June 30th again commensurate with the size of our lending business the growth in our lending business and the balance sheet generally, the implicit leverage on a rolling

12 month basis went up to 5.7 times for the 12 months ended June 30th compared to 4.6 times last year.

Little color on the sectoral composition of our overall asset book. Overall exposure expanded by 12% to Rs. 24,588 crores. Energy and transportation continue to account for almost two thirds of our total exposure. Exposure to Telecom, Industrial & Commercial and tourism segments was together around 31%. Asset quality continues to be solid. Gross NPAs declined from 0.5% to 0.2%. We have fully provided for the NPA's we have so that net NPAs are nil.

Summary therefore, key financial highlights for the period - continued progress and expanding the business and size of the balance sheet with an encouraging pipeline which is the solid growth in gross approvals, stable ROA on a rolling 12 month basis, increasing ROE commensurate with rising leverage made possible in part because of very strong performance and fee income and therefore we feel good that we are continuing to execute pretty much as to plan. Some specific highlights for the quarter - we raised Rs. 2,100 crores through what I believe is the largest QIP still for the Indian markets at Rs. 127 per share. This QIP was actually executed very, very quickly, took us less than three weeks to get the whole thing done from start to finish and with the new investors that have come on board we feel good that the breadth as well as the quality of our investor base has been strengthened further. During the quarter, as I mentioned earlier in my presentation, our stake in SSKI grew from 33% to 67% which is what has resulted in the line-by-line consolidation of SSKI. SSKI will now be re-branded as IDFC-SSKI and we expect that this will give strong momentum to our investment banking initiatives focussed especially on the infrastructure space.

We hired 16 young analysts, they came from top business schools around the country, we now have a total staff strength of 225 people, excluding SSKI. If we include SSKI, we have 300 people.

So with 300 professionals on board I do believe that we have created the largest platform of professionals who are basically focussed on the infrastructure space. I don't think there is any platform that has this kind of talent focussed on the sector anywhere else - certainly not in India, may be not even in Asia. The progress with the project equity fund which is the IDFC-Citi-Black Stone Fund continues to be solid. We hopefully will be able to announce to you a first close by the time we meet again next quarter. So that is it. It has been an eventful quarter for us, as I said we are

quite pleased that we remain on track. We would now like to open this conference call for questions.

Question and Answer Session

Moderator:

Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Rajeev Varma of DSP Merrill Lynch.

Rajeev Varma:

There are actually a couple of things. One is, your funds, I just wanted an idea of the total assets that you have on the management and how much got deployed and secondly as you mentioned the balance sheet growth was 50% while your loan book has grown at about 30%, so I just wanted to understand in terms of the rest of the asset growth largely is that heavy investments or anything specific?

Rajiv Lall:

Let me take the second question first. Yes, there has been some growth in investment but there also has been solid growth in our treasury book which has become quite lucrative contributor to our overall operations. So that is why there is a difference between the growth in the overall balance sheet and the loan book. What we have been guiding the market is this you know it is our intention to focus systematically on principal investment activities and now that we have a total capital base post QIP of Rs. 5,000 odd crores, we would like over time to deploy roughly a quarter of that capital levered three times to principal investment activities. So we think that we will have between Rs. 3,000 and 4,000 crores worth of assets that will be in principal buckets and those will broadly fall in 2 buckets. The first one is our contributions to our growing asset management business and the second is the risk that will reside directly on our balance sheet. The remainder of the capital which will be our share capital that is 4,000 crores levered seven times will be deployed to growing the loan book. So you will see going forward increasing sort of disparity between growth in balance sheet versus growth in loan book and that will require more discussion as we go along but it is very much in line with the indicated transformation of our balance sheet. Your second question Rajiv, I think I forgot.

Rajeev Varma: Actually it is just a followup on that one only. How much do you have right now enlisted in your principal investment, I mean as total fund?

Rajiv Lall: Overall we have about 6% of total assets that is invested in principal activities which is a little over Rs. 1,000 cores.

Rajeev Varma: My other question is actually related to overall asset management business.

Rajiv Lall: Our total funds and the management haven't changed since the last quarter, it is still 670 million, but as I said hopefully by next quarter it may slip by a month or so. We will be ready for our first close for the project equity fund, that is the one that we are doing with Citi and Black Stone and the target for this fiscal year for funds under management remain unchanged, we expect that we will end the year between 1.5 and 2.0 billion of assets under management this fiscal year.

Moderator: Thank you sir. Next we have Ms. Mahrukh of UBS

Mahrukh: I have a few questions, just one clarification on loan growth I appreciate the transformation which is what management has always been talking about over the last one quarter. But given that the growth in approvals and growth in disbursements, has been very strong, do you expect loan growth to pick up from the current 30% year on year range? That was my first question and secondly some more details on the fees as to what came in from SSKI because asset management fees haven't really grown, so just wanted some colour on that, on the composition of fees and also on the operating expenses and how much of those actually relate to integrating SSKI.

Rajiv Lall: Given that the pipe line is strong it is still early days, right now I think we feel very confident about 30 odd % growth in the balance sheet whether or not it can be more than that, let it come as a pleasant surprise. Second, with respect to color on the fees, first quarter this year we did 165 crores of non interest income, of that fee-based income was 87 crores and of that there has been two significant contributors outside of the SSKI business. They are debts syndication for which we did solid 13 crores in the first quarter of this year compared to 20 crores for the entire fiscal year last year. Likewise the equities syndication was about 3 odd crores in this quarter compared to 5 crores for the entire fiscal year last year. And then if you add SSKI that was 34 crores just for the first quarter of this year, but that is because of the line by line consolidation. So I guess the story or the message that

you should take away from this is because you have to adjust for the line by line consolidation of SSKI that clearly going forward is going to become a significant contributor to our fee-based income. But the really good news here is that the non asset management related fee base businesses that we have been talking about which is the debt capital market and equity capital market have begun to perform and contribute to our revenue line.

Mahrugh: Just one follow up question, do you expect this momentum to continue and debt and equity syndication fees even in the forth-coming quarter?

Rajiv Lall: See nothing happens in a straight line. So all we can say is that we feel good about the way this business is developing, whether it will be just as strong probably not but we will be better than what we did for fiscal last year and if that does not happen we will be very deeply disappointed.

Moderator: Thank you Madam. Next we have Mr. Srikanth Vadlamani of Brics Securities.

Srikanth: Just two questions, which is on fee income, I think 40 crores is the fee income - non asset management and non SSKI right? Of which 13 crores is debt syndication and 3 crores is equity syndication.

Rajiv Lall: Yes.

Srikanth: That still leaves around 24 odd crores, some colour on that where exactly that is coming from?

Rajiv Lall: See that the rest of the fee is structuring fee that is associated with our lending business.

Srikanth: The bulk of it is coming from the lending business, bulk of the remaining 24.

Rajiv Lall: Yes. There is the corporate advisory business also, so the remainder comes from a combination of the advisory business and the lending related structuring fees.

Srikanth: And in terms of the composition would it be roughly equal in the two or is it predominant towards loan product?

Rajiv Lall: Its more, it is predominantly associated with the loan book.

Srikanth: On the treasury side you said that extreme amount of money is deployed in treasury operations, now does that include the principal investment in the infrastructure

business you were talking about or it is money management?

Rajiv Lall: No, see if you look at actually, that's a good question. Give me an opportunity to clarify. So our proprietary businesses you call them - there is a fixed income business so whatever fixed income trading takes place that would be in the treasury book.

Srikanth Okay so that is the 30 crores that is given in the book.

Rajiv Lall: Yes, the equity book is separate.

Moderator: Thank you sir. Next we have Mr. Chinmay of DSP Merrill Lynch.

Chinmay: A question on your QIP that we have done, how do we plan to deploy this fund?

Rajiv Lall: We have raised about Rs. 2,100 crores right, the idea is that incrementally a significant chunk of this will actually go towards our principal investing activities which means contributing to our asset management business as well as taking direct risk on our own balance sheet and some of it will go towards growing the loan book. I am saying that incrementally. But if you look at that overall capital which is 5,000 crores I have given a sense that we would like to deploy a quarter of that in our principal investing activities and three quarters of that towards our loan book. Is that clear?

Pankaj: Rajiv hi, this is Pankaj here. Just meaning on broader perspective when we say there will be a contribution to our fund meaning we have said that we are looking at about 3 billion dollars of assets in the management in the next 2 to 3 years, so is it just that we will have about 8-10% as our principal money being deployed in those?

Rajiv Lall: Yes, that's right.

Pankaj: Balance will be on our balance sheet is it?

Rajiv Lall: The balance will be on our balance sheet. We would like it to be on our balance sheet we will see how the business tracks and the rest will go to the lending business so roughly if you have Rs. 4,000 crores of capital levered 7 times that means that we can on the basis of this very broad plan or framework we should be able to grow our loan book to 28,000 crores. And ideally if we can manage to do it the rest of the capital levered three times which should be another 3,000 to 4,000 crores will be either

relative to 1,000 crores we have deployed today. We will have invested in principal activities which will include both our contribution to funds as well as investments that we will make from the balance sheet. Is that clear?

Chinmay: Yes and the second question on the equity book our equity book has almost doubled on Q on Q basis. Can you help us understand where have we deployed this fund?

Vikram Limaye: It's really across several investments I can't get into specific investments because many of them could be private in nature. There is one particularly large investment relating to the telecom sector which is more of a structured investment which is a few hundred crores but otherwise the rest of it is dispersed across multiple investments.

Pankaj: And would that include this increase. Will also include the incremental stake in SSKI?

Vikram Limaye: The incremental stake in SSKI is not part of that.

Pankaj: Is not a part of that?

Rajiv Lall: The stake in SSKI we view as a strategic stake so it will not be part of our equity investment book if you like.

Moderator: Thank you sir. Next we have Mr. Dipankar of Deutsche Bank.

Dipankar: It's actually a general question. Last one year the interest rates have been absolutely impossible that has been all over the place, so what kind of flexibility do you actually have to structure your overall pie of liabilities I do see the change that you have given at the presentation but if things were to remain like what they have been in the last one year, how do you propose to actually adapt yourself to this?

Rajiv Lall: We do the best what we can and what that means is 2 or 3 things. One is that opportunistically and subject to RBI approval we will borrow offshore. Second, is that we will play with the yield curve and we will use hedging products to borrow short term and take derivative contracts and synthetically make them longer term to keep the ALM under control and third thing we do is we try and time our borrowing with some degree of anticipation. So far we have done a pretty good job of it but it is not easy and that's why the role of treasury in this market is really quite important.

Moderator: Thank you sir. Next we have Ms. Kiran of Prabhudas Lilladher.

Kiran: I wanted to know that from this profit on sale of investments which we got 78 crores, can you throw some light which of these investments which we will book profit against.

Vikram Limaye: We can't get into specific investments that we have sold etc. If you look at our disclosures you have the list of investments that we have made in public companies and private companies and we selectively monetize the positions depending on whether we think we need to take some money off the table based on market prices.

Kiran: Another thing from the 34 crores income from SSKI. Can you throw some light if we can get a breakup of how much is the broking income and how much is investment banking income?

Vikram Limaye: It is about 50, 50.

Kiran: 50, 50 okay. Any pipeline of deals in SSKI investment Banking?

Vikram Limaye: Yes of course. There have to be.

Kiran: Definitely this 50 if I go to see 17 crores income from IB, this is from how many deals?

Rajiv Lall: We can't get into that level of details you know, you are in the same business so you know how these things are.

Kiran: Definitely sir.

Rajiv Lall: Yes, I think I would like to believe that we are transparent but you know there is some limit to how much information we can share with you, because these are competitive issues for us, so we have to be careful about what we divulge to the market.

Moderator: Thank you Madam. Next we have Ms. Tabassum of Kotak Securities.

Tabassum: One question on margin, basically how do you feel this change in interest rate, especially on the bulk deposits coming down, helping IDFC and are you seeing pressure already on the lending rates in terms of production companies asking you to reduce rate?

Rajiv Lall: Second one not yet, but I think we have to prepare ourselves for that. So far what has happened is that the yield curve has basically steepened and short term borrowing costs have come down. So in fact we are doing some stock and treasury to take advantage of that. So whether synthetically or otherwise that should help us maintain the cost of our liabilities. I don't know what you think but the pressure on longer term rates coming down is probably a quarter or so away. So we have to stop thinking about how we position ourselves for that.

Tabassum: Okay but the margin this quarter was slightly lower compared to your fourth quarter numbers and compared to last year, so this would possibly be the bottom in terms of margins at least in the immediate term when we see the interest rates.

Rajiv Lall: Going forward, in the light of what I have been saying about the growth of our investment activities, we will have to revise how we present this, because what has happened to our net interest income, that is presented in our ROA tree on a rolling 12 month basis, you will see a 20 basis point decline on the infrastructure business. Now there are 2-3 reasons why that have happened and none of them is to do with the incremental spread on the business that we book. One of them is to do with the timing of when the assets were booked and therefore the contribution from incremental assets to interest earning versus when borrowings took place in that quarter and therefore the cost of funds, in absolute terms that got attributed to that line for the quarter. So there is the timing sort to disconnect as the borrowings took place earlier in the quarter and the disbursements did not happen till the very last week of the quarter. Second is that traditional explanation of higher leverage ratio and third is that of the growth in assets, there was meaningful growth in non interest bearing assets in the form of investment. So you will have to give us a quarter and we will come back with some kind of metric that helps us all track a little better, what's happening to the loan book versus that part of the book that is being deployed in investments. It will give you a better sense of the business.

Tabassum: Maybe if you declare the spreads that will help.

Rajiv Lall: That is precisely what we are revisiting Tabassum.

Moderator: Thank you Madam. Next we have Mr. Manish Karwa of Motilal Oswal Securities.

- Manish Karwa:** I just wanted to check how much do we own in SSKI now, 66% or more than that?
- Rajiv Lall:** 67%.
- Manish Karwa:** Okay and how much did we pay for the incremental 30% if you can share that number?
- Rajiv Lall:** I can tell you what we paid for the whole.
- Manish Karwa:** Okay.
- Rajiv Lall:** So for the 67, we have disclosed all that in the balance sheet. The annual report has 250 crores for SSKI investments so you should basically take that as the number 250 crores for the 67% and that's what we said.
- Manish Karwa:** Yeah I wanted to check up on the carry thing that we would start earning from our asset management businesses. Typically you know from the management perspective when is that are we looking at chunk year income coming in would it be 09, 10, 11 like that? As of now we have two funds. The first fund of 250 million dollar is now a three year old fund. So probably are we looking at some carry income coming from it?
- Rajiv Lall:** We are looking at some carry although we cannot qualify because this is a lumpy thing and we cannot give any great indication or visibility but I can tell you that the realized gain on investment in that fund are significantly higher than 50%.
- Manish Karwa:** 50% CAGR.
- Rajiv Lall:** Yes. And the unrealized gain is slightly lower but it's a pretty healthy return, but the broad answer to your question is that probably within the next 18 months or so we will start seeing a carry stream from that fund.
- Manish Karwa:** Okay and typically from all the funds that you are raising would it be fair to assume that after 4 to 5 years the carry income would start to come in?
- Rajiv Lall:** Yeah that's about right. Year 4 to 5 is when the carry stream starts to kick in.
- Manish Karwa:** Okay and lastly, you said that by the end of this year we might have assets under management of 1.5 to 2 billion dollars. So roughly would we start to earn fees which is closer to 1.5% of that quantum?

- Rajiv Lall:** Yeah about 1.5% on an average of that quantum. It depends on when the fund closes. I am talking about the IDFC Black Stone Citi fund. Normally what happens is that the fees start accruing from the time of the first closing. So you won't get the fee income for the entire fiscal year, but you will get it for part of the year.
- Moderator:** Thank you sir. Next we have Mr. Vinay of Lotus Mutual Fund.
- Vinay:** The overall AMC fee seems to have declined on a YOY basis.
- Rajiv Lall:** Yeah, I mean that happens because you know there is a first closing and there is a second closing. The people who come into the second closing or the final closing face fees retroactively from the time of the first closing.
- Vinay:** Okay so there is some lumpiness sir.
- Rajiv Lall:** Yes some lumpiness, now it will smoothen out.
- Vikram Limaye:** I think the way you should look at it is if you look at the fees for FY07 for asset management that was about 53 crores. If you look at the fees for asset management in Q1 of FY08 that is 13 crores that's roughly one fourth of that. So on an annual basis it will extract at the annual number basically.
- Vinay:** And for the previous question we have mentioned that the carry starts kicking in the 4th or 5th year of the fund normally. How is this accounted for when we return the funds back to the investors and then whatever on the excess profits we return back on that we start recognizing carry is it that or...?
- Rajiv Lall:** It is actually quite complex. I don't know if I can explain it to you here over the phone, but we have to meet a certain hurdle rate first of all. The investors are returned that hurdle rate in two stages. First is that the capital has to be returned, committed capital or invested capital. Invested and drawn down capital has to be returned to the investor. On that capital we have to give them a hurdle rate. And returns beyond that begin to be shared.
- Vinay:** Okay so what ever you return back over and above the hurdle then you start sharing it and then recognizing it in your balance sheet.
- Rajiv Lall:** That's right.

Vinay: Okay and normally that can start from say from 4th or 5th or 6th years.

Rajiv Lall: Yeah that's right because you know again 4th or 5th year may also be a little bit optimistic because typically these funds have a 4 to 5 years' commitment period. Meaning the investment manager has 4 to 5 years in which to invest the entire corpus. So it is through the investments that you made in the first year some of them may start to show results by year 4 or 5, you know it depends on public market.

Vinay: Right performance of the funds. That's true.

Rajiv Lall: Yeah and if the public markets are really frothy and you are able to list these investments relatively quickly then obviously the carry economics will start accruing to you quicker. So it's kind of unpredictable so you'll have to take these things with some....

Vinay: Yeah I know this is very lumpy in nature. And these funds are normally for what period - like the Black Stone fund which has been raised through the Indian infrastructure initiative, how much are they?

Rajiv Lall: They are between 10 to 15 years.

Vinay: 10 to 15 years and this is for the equity component.

Rajiv Lall: Yes all equity.

Vinay: 10 to 15 years tenure?

Rajiv Lall: Tenure, yes.

Vinay: Okay and sir, out of this 5 billion, 3 billion is what you mentioned in your balance sheet, which is the debt fund or the debt component?

Rajiv Lall: Debt component.

Vinay: Is there any fees or any economic income which can be made out on that side?

Rajiv Lall: I won't account for that as of yet.

Vinay: Okay. And finally there was the announcement made on the BSE regarding your MOU with the India Infrastructure Company Limited. Could you throw some light on that?

Rajiv Lall: Well see if the if you know the IIFCL, this is a 100% government owned entity and their objective is to provide long term funds over normally 10 years to the infrastructure space. But they do not have the ability to lead any transaction so they have two restrictions on them - one is that they can only do 20% of project cost, the second is that they have to follow a lead bank so it is in their interest as well as in ours to work together, so that we can together provide a complementary value proposition to our client.

Vinay: A sort of a consortium type of thing?

Rajiv Lall: Yeah this is a systematic thing, so what we will do is that if they find a deal they will come to us and then we can jointly appraise very quickly because IIFCL doesn't have too many human resources. So we do the appraisal they put some of the money up which is possibly longer dated than ours we put up the rest and then you know it accelerates the whole thing. So it works to mutual advantage.

Vinay: And sir, one last question once again regarding carry only. See if you assume that you get a 100 rupee carry normally what would be the margin or profit to the investors. I mean to the management or fund manager as well as to.

Rajiv Lall: Listen, the way to understand the private equity and the project equity business, what we have is the following. Let us say it is a billion dollar fund and IDFC contributes a 100 million dollars to it, 10%. It probably will be less - normally 6 to 7% will be our average contribution but round numbers take 100 million.

Vinay: Okay.

Rajiv Lall: I know that the first one has had very impressive returns and all that but if you look it at on a long term basis these returns are unsustainably high. So what we believe is that unlevered equity investment that is the fund will make should be at least a 15% IRR. So our capital 100 million on an unlevered basis should earn 15%. But that capital is fungible in our balance sheet so if we apply a three times leverage to that our target for that 100 million dollars contribution to a billion dollar fund to generate a 45% ROE. On top of that you get fees, net of expenses and you get carry. So the effective IRR for that 100 million dollars seed investment in a billion dollar fund through IDFC should be close to 60 odd percent.

Vinay: Yes, you are providing a limited partner perspective. What I was talking about is the general partner or the fund

managers' perspective; say the IDFC asset manager or the project equity...

Rajiv Lall:

That is 100% owned by us.

Vinay:

Yeah, I got it, so assuming that company generates the carry of 100 rupees part of that has to be shared with the team. Sir I was talking about that normally on an industry perspective...

Rajiv Lall:

That is truly confidential and I will not discuss that in a public forum.

Moderator:

Next we have Mr. Nischint of Kotak Securities.

Nischint:

Just a small clarification which I wanted. You know you have some gross disbursements and a part of it is loan so what is the balance I mean is it just bonds or is it some kind of structured debt or what is it? You have gross disbursements of about 2,444 crores of which loans are 1,761 crores so the balance is like just bonds or is it structured debt or what is the balance?

Atul Dighe:

Balance will be in the form of non funded disbursements plus equity or principal investments.

Moderator:

Thank you sir. Next we have Mr. Sunil Kumar of Birla Sunlife.

Sunil Kumar:

Yeah, just one clarification. In terms of your loan book what's the composition like in terms of long term loans of around 15 years or so and short term loans?

Vikram Limaye:

I don't think you should look at it from that perspective because we have given you what the duration of our asset book is. So the duration asset book is about 2.23 years.

Sunil Kumar:

Okay.

Vikram Limaye:

In June 30/06 it was 2.01. It's now 2.23. The door to door maturity is typically more than ten years anyway. I don't think that would help you understand because these are reset features built into the loan agreement and typically these reset features vary anywhere from 1 to 5 years and so the duration adjusts for that.

Moderator:

Thank you sir. Next we have Ms. Kajal Jain of ICICI Direct.

Kajal Jain:

Sir one question on the effective tax rate. We are seeing it rising to 22% in the first quarter on a rolling basis itself so what is your take for the year or what will it be around?

- Bimal Giri:** That should be in the ball park of 25% to 26%.
- Kajan Jain:** Okay. And sir if you can tell me on a net profitability level, what must have SSKI contributed to the total profitability at the net profit level?
- Rajiv Lall:** You can sort or work that out. We have given you the breakdown right. We have said that SSKI contributed 34 crores.
- Kajan Jain:** On the revenue side, yes.
- Bimal Giri:** Last year for a third it was about 12 crores net for us. So they get three times that was the total profitability.
- Kajan Jain:** Okay. Sir since line by line consolidation has happened on the fee income side it has contributed 34 crores. But then on the expenses side also it has contributed something. I just wanted to know on the net level how much it must have contributed?
- Rajiv Lall:** So yeah what we are saying is that, last year our 33% share on a net basis was 12 crores. So on a net basis if you assume that the performance of SSKI were to remain the same as last year on account of a higher ownership share that 12 crores will become 24, 25 crores.
- Moderator:** Thank you Madam. Next we have Mr. Sanjay Parekh of ASK Investments.
- Sanjay:** In terms of asset allocations for every 100 rupees you have two businesses - one is to participate in the funds that you manage and then you have fund-based activities. How do you plan to allocate since the business where you participate in the fund is really much more lucrative?
- Rajiv Lall:** May be I should spend a second to explain and reiterate our business model. The one way to look at the business model is that we have two parallel conduits for originating business and risk. One is the loan book which originates not just debt opportunities for us but a whole bunch of other businesses. This is a very important conduit for risk and business origination for us. The parallel conduit for the same is now IDFC-SSKI and risk originated through these two conduits then gets allocated by the platform in any of three ways. First you can lay off that risk to third parties. So if it is an equity risk you can lay it off by placing the equity with somebody else or if you are raising money for the client. If it is a debt deal you are syndicating it, or you are securitizing it. The second possibility if that risk that

gets allocated to one of our fund depending upon the nature of the risk and the mandate of the fund and the third possibility is that that risk gets allocated to our own balance sheet.

Sanjay: Yeah.

Rajiv Lall: So this is the base model, now let's talk about the allocation of capital. The allocation of capital as I said post QIP, the 5,000 crores of net worth that we have, we would like in an ideal frame work if that is our objective to try and execute it like this is that a quarter of the 5,000 crores get allocated towards the principal book, so it get allocated either to our third party funds or to our own balance sheet levered three times and then three quarters of the capital gets allocated to our loan book levered seven times.

Sanjay: Okay.

Rajiv Lall: And we are targeting lets say 45%-50% levered IRR, ROE on our principal investing activities and 12-13% odd percent IRR ROE on our lending business. So we get a blended ROE of between 20% and 25%. That is going to be the allocation strategy.

Sanjay: Thank you. One more thing is your gross disbursement has increased by 83% while your net disbursement is up 21%. So still repayment is a concern?

Rajiv Lall: No these were scheduled repayments we had done last year we had done deliberately some shorter dated asset. What would be of concern is unscheduled repayment. So you know that is the problem and challenge that we normally have to confront when interest rates really start to drop dramatically. So that is why I was telling Tabassum earlier that a quarter or two from now we will have to watch out for that.

Sanjay: Okay thank you.

Moderator: Thank you Madam. There are no further questions. Now I hand over the floor to Mr Rajiv Lall for closing comments.

Rajiv Lall: Thank you all very much for being with us today. The only closing remark I would make is that in terms of the metrics that we communicate to the market I think that they will also need to evolve some as our business model continues to change and in the interest of greater transparency that leads to a better and easier understanding of the business even as it changes we will do a little more thinking and hopefully from one quarter to

the next what we share will become more intelligible to all of you. So look forward to that. Thank you again.

Moderator:

Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.