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Conference Call of IDFC Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I'm Leela, moderator for this conference. Welcome to the conference call of IDFC Limited. We have with us today Mr. Rajiv Lall, CEO of IDFC Limited 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 key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Bimal Giri for opening remarks.

Bimal Giri: Good morning everyone. This is Bimal Giri. I welcome you to this conference call organized to discuss our financial results for the financial year 2008 announced yesterday. I have with me Rajiv Lall, Managing Director and CEO, Vikram Limaye, Executive Director Corporate Finance and New Businesses, and L. K. Narayan, Chief Financial Officer of IDFC. Before we begin, I would like to state that some of the statements made in today's discussions maybe forward looking in nature, and may involve risks and uncertainties. Documents relating to our financial performance were e-mailed to all of you yesterday. These documents have also been posted on our corporate website. I now invite Rajiv to provide key highlights of our performance.

Rajiv Lall: Thank you Bimal. Good morning to all of you. I will just take you through our performance highlights. We are overall very pleased with the performance of this financial year. It has actually been a very good one; the momentum of the last couple of quarters has carried through into our last quarter performance, giving us pretty good overall year performance.

If you look at the consolidated FY08 numbers with the consolidated '07 numbers operating income is up from 716 crore in '07 to 1324 crore in '08, a very substantial increase

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of 85%. Net interest income is up 62% to 694 crore, net interest income is broken up into two parts, NII from infrastructural loans is up 44%, from 392 to 565 crore. Our treasury operations did extremely well delivering NII income that grew almost 2 ½ times from 37 crore last year to close to a 130 crore this year. Non interest income - I am very pleased with that overall it is up from 267 crore to 618 crore. A little less than 50% of total operating income is non interest income and you can split that into four distinct components. There is principal investing which delivered income growth of more than 63% from 133 crore to 216 crore, which includes 134 crore of capital gains, which is only a margin increase from the capital gains number of last year. So the rest of principal investment basically comprised our income from carry and our investments in our third party funds. Income from asset management, this is basically fees from our asset management activities, grew from 54 crore to 56 crore. AUM remains, as on March 31st , they were the same as last year and were 665 million, but as I will explain later, we are in very advanced stages of raising another close to billion and a half dollars worth of funds, which will be done in the next two quarters. Income from our investment banking activities, was 187 crore for fiscal ’08, this basically reflects the contribution from SSKI. And our other fees, a lot of which are related to our lending business, were also up very sharply, close to double,from 80 crore last year to about 160 crore this year.

On the expense side, as you can imagine, we have grown very rapidly over the year. Our operating expenses went up from 82 crore to 254 crore. This was primarily on account of the line by line consolidation of the investment banking business. We have now absorbed close to a 144 new professionals into the company, and as a result of that, the cost to income ratio has gone up from 11.5 % in ’07 to 19.2% in ’08. What does it mean for profits? Our consolidated profits before tax were up 62% from 616 crore last year to a 1,000 crore this year. Our effective tax rate, however, went up from about 20% last year to close to 25% this year. Profits after tax therefore were up 47% from 504 crore to 742 crore this financial year.

To give you a better sense for the underlying businesses, if you focus on the lending business, the average spreads in our lending business actually increased from 1.9% for fiscal ’07 to 2.2% in ’08. This reflects an improving spread, not only in our treasury business, but more importantly even in our core infrastructure lending business. The ratio of net interest income to non interest income was

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52%:48%, which is in line with expectations that we have been sharing with the market. I think I have already given you some color on where the non interest income came from. A lot of it came from our principal investing activities with the investment bank contributing the second largest chunk. If you look at the RoA kind of analysis as a percentage of total assets, net interest income was 2.9% in ’08, of which contribution from infrastructure was 2.4%, from treasury was 0.5%. Non interest income was 2.6% of average assets. Operating income was 5.6% of average assets; operating expenses were up to 1.1% of average assets; provisions were 0.3%. After accounting for 1.1% towards taxes, Return on Assets after tax was 3.1% in ’08 and then accounting for leverage we did an ROE that was close to 16%. So much for the RoA analysis and the P&L.

Let me give you some sense for what's happening with the balance sheet. Our balance sheet grew by 56% from close to 18,000 crore last year we are now at close to 28,000 crore this financial year. Net loan book increased by 47% from close to 14,000 crore last year to about 20,500 crore this year. Gross approvals were also sharply up 54% from 13,000 odd crore last year to over 20,000 crore this year. Gross disbursements increased in line with all of this by 63% from around 7,300 crore last year to over 12,000 crore this year.

On how have we funded ourselves - as far as the liabilities are concerned, our outstanding borrowings increased 50% from 14,900 crore to 22,300 crore. Leverage declined slightly from 6.1 times to just under 5 times this year on account of the capital raising we did early this financial year. Book value per share was higher from Rs. 26 in ’07 to about Rs. 43.2 per share in ‘08.

A little more color on our lending business, with respect to our sectoral composition, overall exposure increased by 53%, to about 34,000 crore. Of this 34,000 crore, energy and transportation together still are the largest, nothing new in that, together they account for 60%. Gross NPAs were stable at about 0.2% of assets; our provisioning was higher at about 70 crore during ’08 against 17 crore last year. Our provisioning policy so far has been against standard assets to provision 0.5% of gross disbursements.

To summarize then, very sharp and impressive growth in our overall balance sheet, within the balance sheet, very, very healthy growth in our loan book, strong growth in profitability, even on loan book underpinned by improving spreads. Commensurate and as expected increase in our non interest income business lines that have become more diversified and I think therefore it's a better mix overall of revenues that we have been able to deliver.

Some corporate highlights, our fund raising efforts on our various private equity funds as I suggested earlier, well under way. Two funds that we are currently raising, one is the infrastructure fund that we are doing with Citi, we have so far raised close to 600 million dollars in that fund. We will probably close at somewhere around a billion dollars, although it is difficult to predict at this time, over the next two, three, four months. On the private equity III front, we are close to closing the fund, the third private equity fund, with a corpus of between 600 to 700 million dollars. So at least another billion and a half in assets in the management of the next two quarters is what we are expecting. We closed the acquisition of the StanChart Asset Management business, you will be hearing more about that in our plans for it in the coming quarters, but those are really the two big corporate highlights that are deserving of attention this quarter and I am happy to answer questions and we will now open the floor for that. Thank you.

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 key pad 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.

Our first question comes from Ms. Elizabeth of Keynote Capital.

Elizabeth: I wanted to understand regarding the sequential numbers like when I compare December of '07 with March of '08, the quarterly numbers, I wanted to understand about the cost of funds as to how it has moved and the yields and spread.

Rajiv Lall: Well, the rolling 12 month numbers, I think that is what we should focus on. And if you look at the rolling 12 month numbers, December to March, our overall spread went from 2% to 2.2%.

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Elizabeth: Could you state the cost of funds also?

Rajiv Lall: No.

Elizabeth: Regarding the expenditures you mentioned that the staff expenses have increased that when I take on an annual basis, so what was the employee strength, how much is it right now. Is it because of that also?

Rajiv Lall: Yes, it's mainly because of employee strength. I mean, as I said, we have integrated SSKI line by line, so we have 144 employees in SSKI, those expenses have now become part of the P&L. And then next year again these numbers will be further distorted because we will have to consolidate the staff expenses of the Asset Management Company as well. And Vikram, how many people are there in the Asset Management Company?

Vikram Limaye: Almost 70 to 80 people.

Rajiv Lall: So once the dust settles on the integration of the AMC, we will have total staff strength of close to 450 professionals that will be close to 200 odd professionals more than we had in the beginning of last financial year.

Elizabeth: And how much is the treasury income for this year?

Vikram Limaye: 129 crore.

Elizabeth: Thank you.

Moderator: Our next question comes from Mr. Suresh Ganapathy of Deutsche Bank.

Suresh Ganapathy: I had two questions. One is on the outlook for spread, if I am not wrong, one year before you had guided that spreads in this business are going to come down because of excessive competition, but actually you have gone ahead and increased your spread. So I just wanted your guidance further, do you think it is going to go down further from these levels? That's one thing and what has been the main reason for the increase in spreads this year, because of cost of funds, or your yield on assets, and finally your logic behind acquisition of StanChart AMC, because as I guess this is the only non infrastructure piece in your entire model, so why did you actually go and acquire this StanChart AMC? And finally your provisions for this quarter has really jumped a lot, it is around I think 40 crore in this quarter, you have made, its quite significant, because it is even more than your nine months figures. What is the reason for this?

Rajiv Lall: Yes, so what is the question, there are provisions, there is spreads, and there is logic. Okay, spreads, first though guidance is that spreads will go down.

Suresh Ganapathy: And then you will increase next year?

Rajiv Lall: We are constantly battling with the issue of spreads. It's hard to predict partly because of the nature of our funding, and spreads of AAA securities, government securities have been more volatile than they have normally been. And so, that adds to the uncertainty. Our pricing power with respect to asset yields has also been a little uncertain. The inflationary outlook and so on, with scenario has changed quite dramatically over the last quarter; whereas most people were expecting a quarter ago that interest rates had peaked, now suddenly the inflationary situation looks quite unhealthy and nobody is expecting interest rates to come down quite as quickly any more. And the reasons for inflation are also not to do with the peak of a credit boom, so what we are seeing in the interest rate environment does not correspond to a neat credit cycle as such. And therefore, the implications for our spreads may have been more benign. What has happened essentially to improve our spreads is two things, one is that since we don't feel as if we have been at the peak of the credit cycle, we have actually been able to price our assets better than you might expect at the peak of the cycle, because there's been less competition for the type of products that we have been providing for our clients. And that leads me to the second point, which explains why spreads improved. It is that our products mix has changed a little bit, so we are doing more creative kind of products, on the one hand trying to do a little more mezzanine kind of structures. We have also done a little more loan against shares. And on these kinds of products, our pricing power has been much greater than on the standard loan products. And the third reason is that despite rising average cost of funding, I think we have managed our liability raising quite well. We made some good calls, and the timings of the borrowings have been good. And so we have managed to do okay. So these three things are difficult to get into alignment in the best of times, which is why for the reasons that I have discussed many times over, my guidance continues to be for the next 12 months, spreads will probably come down.

Second one was with respect to provisions, so on provisions the last quarter looks aggressive, because of provisions on our non lending businesses. So we have done two things, this last quarter, we have done some spring cleaning in terms of our receivables, and so there's been some of our fee based income, especially for advisory stuff that we have done with government. For fees that's been outstanding more than six months, we haven't written it off, but we have taken a provision against them. We are still chasing after them. Then, on the equity side, on our proprietary equity investment business, there are certain investments on which we have decided to take a position on account of what's happened to market. And basically the judgment is that includes the investments, the mark down in market prices is significant enough and steep enough that we don't expect to recover to where they were and therefore thought it prudent to take a provision against those. So that's on the provisioning side.

Suresh Ganapathy: Just to interrupt. Have you done any provisioning against your FOREX loans due to some depreciation?

Rajiv Lall: No, we have no such loans. What you should know is that we have just in the board meeting yesterday approved a new provisioning policy that would enjoin us to provision more aggressively against certain type of assets. So we have an internal rating of assets. So you just conceptually look at rating of 1 to 3, and third being sort of the highest risk assets in our internal lexicon, we are saying that rather than providing formulaically at 0.5% of growth disbursements, no matter what type of product or loan we are making against 3 rated assets, or C rated assets as they are called internally, we are now provisioning 1% of gross disbursement. So that's the conscious policy going forward. Third with respect to logic or illogic, I don't know if you saw my interview immediately after having announced the acquisition, but basically starting from the biggest picture first, we are and remain focused on the infrastructure opportunity, which is growing quite rapidly, but there are certain aspects of our infrastructure business, notably the lending business that for us in order to scale that business up profitably, its very, very challenging. Because the lending business consumes a lot of capital, and the ROE it generates within the constraints of the leverage that we are able to put on this balance sheet as a wholesale funding and financial company are such that we really can't deliver superior ROEs on the pure lending business. But that business remains important for us to develop scale and reach within the middle market of the infrastructure community. So to keep that wheel turning, we must have several, three other wheels of our car turning at the same speed. And the second wheel was the principal investing activity. But we can only do so much of the principle investing activity. Why? Because although it consumes less capital than the lending business, and it is higher ROE, the problem with the principle investing business is that the revenues it shows up are non-transparent and besides their prudential restrictions as well, or limitations of how much of our networth we can expose to principle investing. Then there is the investment banking business that we have gotten into, which does not consume nearly as much capital, is therefore high return on equity business, but as we are discovering through a mini bear market right now that this income stream is really volatile. So we do have to turn to the fourth wheel of our car, which is low capital intensive high ROE, but predictable revenue stream business, and the world over asset management has spoken to be a very, very good business for that reason. That is really the logic for us getting into the asset management space. Now, you are saying its not infrastructure, just three days ago, you saw that SEBI has now facilitated the introduction of REITs. I think it's a matter of time before infrastructure REITs are introduced and there could be another whole bunch of innovations that allow us to structure mutual funds that are fixed income in nature that are actually focused on the infrastructure space. So, it's a bit like the investment banks, yes, we got into investment banking because SSKI does have a presence in the infrastructure space. StanChart AMC by no stretch of imagination has any footprint in infrastructure, but asset management as a business has the optionality for actually supporting our infrastructure franchise, not to mention building stability in our overall business model makes absolute sense to us and that's why we got into it.

Suresh Ganapathy: Thanks a lot.

Moderator: Our next question comes from Ms. Nandita of Karma Capital.

Nandita: I just wanted to follow up on our conversation about a month back when we talked about the lending environment and how you were planning to slow things down a bit. What is your prognosis right now? What's the environment and what are your plans?

Rajiv Lall: The prognosis hasn't changed in the last month. It remains the same; we did 47% growth in our lending business this last year, plus we have 13.5 thousand crore pipeline in terms of un-disbursed sanction. And so we already have a lot of momentum built up into the lending business so far.

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How aggressively do we want to chase business going forward, I think the answer to that is, less aggressively simply because the tone of the market seems to be different now. I don't think that we therefore need to be as driven as we were over the last 24 months on building up critical mass in our lending business. Not that we don't want to grow, we want to continue growing, but we want to grow intelligently, without making mistakes if we can help it. My biggest concern about the lending environment is, I would like my colleagues at IDFC to get a better sense for what our various client promoters are up to outside of the specific project for which we have supported them. Because entrepreneurs in the country have a notorious habit of getting over extended and over diversified, and we don't really know what risk they are subjecting themselves to. So I would like us to focus more on that 25, 30 important relationships, really understand what these people are up to, rather than chase down the last deal that is out in the market.

Nandita: Okay. And so how does that time in with your new rating system?

Rajiv Lall: No, the rating system had been there, it's just that you are hearing about it for the first time. We have maintained a judicious mix of various ratings to try and achieve some balance between; by the way the C rating or 3 rating is also investment grade. But it's not triple A in that way. So we want to maintain an appropriate mix between triple A assets and lower rated, but yet investment grade kind of securities on our balance sheet. We want to also pursue a balance of products, whether its pure project finance, whether its some corporate lending, some loan against shares, a balance of sectors, so that the spread that we are able to get, reflects as best as we can the type of underlying risk that we are taking.

Nandita: Are we anywhere close to a point where projects are being shelved, or delayed as a result of a higher interest rate environment, or less favorable credit environment at all?

Vikram Limaye: No, we haven't seen any of that as yet, but as Rajiv has said, we are cautious given the market environment, particularly as it relates to equity capital raising for promoters, which is getting more challenging. And to the extent that promoters are not able to get risk capital, that will have an impact on what happens to future projects. So short of it is, at this point in time, we haven't seen any delays, any deferrals of projects, any restructuring of existing projects, any of that. Can't rule any of those out, going forward we will just have to see how the market shapes up and what promoters are able to do in terms of access to risk capital.

Nandita: Okay, and then lastly just in Q4, your employee cost shot up 25% Q-on-Q. And I thought we discussed this, I don't know if it's a one time thing or what it is, but I thought we discussed this in the last call that when you have bonuses, that you actually provide for them over four quarters rather than one quarter. Isn't that right? So I am just wondering why there was such a big jump in employee costs in Q4.

Bimal Giri: I think going forward we will see how best we can address this issue, but the investment bank got consolidated line by line, and I think the bonus for that got accounted for in Q4, that's this hike you are looking at.

Nandita: Okay. Thank you.

Moderator: Our next question comes from Mr. Anil Agarwal of Morgan Stanley.

Anil Agarwal: Hello, just had one question on the change in provisioning policy, from a timing perspective are you seeing any, you said that you are cautious on lending environment, but are you seeing any signs of any asset quality pressure on the…

Rajiv Lall: Not really, our provisioning, if you look at the numbers, it's been actually a bit awkward, because for the last several quarters every quarter we have been writing back against re priced assets. So that has been causing some distortion to our provisioning, and then we set the tone with this 0.5% of gross disbursements, but when we look at our cumulative loan loss ratio for standard assets, that continues to trend down. And we just feel that as our balance sheet has been growing quite rapidly, especially at a time where the macros are and what they are, we have wanted to do something to at least stabilize that loan loss assets ratio. And therefore, we don't want to be ad hoc in the change of our provisioning policy either, we thought the more sensible thing to do was to look at it by our internal rating, and systematically provision more against those assets that we internally deem to be the riskier.

Anil Agarwal: Okay, that's fine. Just a modeling question on rating 1, you still have a 0.5% internal provisioning?

Rajiv Lall: Yes, rating 1 and 2 - we have rating A and B - we have a 0.5% provisioning, on the rating C we have 1%.

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Anil Agarwal: Okay, can you give a broad mix of rating A, rating B and rating C, or what will be the blended provisioning like?

Rajiv Lall: The next time we hang out together we can give you some guidance on provisioning.

Anil Agarwal: Okay, that should be great, thanks.

Moderator: Our next question comes from Mr. Vijay Sarathy of BNP Paribas.

Vijay Sarathy: Couple of questions from me, there are a lot of numbers floating around about the total investment pipeline across corporates in India, the question I have is, what kind of execution risk are you seeing in the next three to four years about most of this coming through, any light on that?

Vikram Limaye: I mean, when you say execution risk, as you know, obviously we certainly believe that we understand the project finance and infrastructure business fairly well, given that we have been doing it for ten years, so we are very cautious about what type of projects and what type of promoters we work with and how the projects are actually structured, because of which so far you have seen that reflected in the asset quality. We obviously continue to be very stringent on our diligence in the type of projects that we support and so from that perspective that's all factored into the kind of projects that we do and the kind of promoters that we support. We don't, as Rajiv mentioned, we don't see anything in our portfolio that causes any kind of concern to us about asset quality. How these projects, which are under implementation ultimately get to closure in terms of actually hitting completion and operation would obviously depend on variety of factors including access to capital and access to risk capital as I pointed out earlier. If you just talk to promoters on the landscape, what they will tell you is obviously they are stretched in terms of resources, particularly on the construction and engineering side and that could potentially result in some delays in projects, but again there is nothing in our asset book that we see that causes us any kind of concern at this point in time. We are aware of the environment that we are operating in and therefore we are very diligent in making sure that the projects are structured in a manner that are reasonable in terms of achieving closure and hitting operations in the way it is contemplated when we get into the projects front end.

Rajiv Lall: But because there would be difficulty raising equity, it could be that financial closure takes longer and that causes delays. So, there are two potential causes of delays, one is financial closure and the other is in just availability of people and equipment, in power for example. Of course those kinds of things, so talking to promoters doesn't give you a good sense of what the reality is and today it is difficult, so common sense again suggests that, yes, these kind of challenges will become greater, but promoters continue to deny it.

Vijay Sarathy: Right, but purely in terms of volume you have not seen any significant scale back, say over the last three, four months?

Rajiv Lall: No.

Vijay Sarathy: Okay, second question is again going back to the much talked about 1 2 3 classes, is it possible for you to guide towards what percentage is your loan book in each of these categories?

Rajiv Lall: We will figure out how to share that information with you guys. I think, the better thing to do would be to share with you guidance on how our provision overall are likely to track, okay, and for that you will have to give us a couple of weeks to think how to formulate that, I mean, to be perfectly frank, our provisioning numbers as you see them, have not been very sensible, because of these anomalies that I have been talking about and what is the sustainable provisioning number as a share of average assets, we will have to roll out our model and see what it looks like in the next two, three years, but over the next 12 months again you won't see sustainable sort of numbers, so give us another couple of weeks, we will communicate to all of you and give you guidance on where our provisions are heading to.

Vijay Sarathy: Okay, thank you and last one from me. What will be the target ROE for your projects, what's the number that you will work towards?

Rajiv Lall: This year we were 15.7, next year we should definitely improve on that.

Vijay Sarathy: May be 17% level?

Rajiv Lall: Well, from your mouth to God's ears.

Vijay Sarathy: Thank you so much.

Moderator: Our next question comes from Mr. Mahesh of Edelweiss Capital.

Mahesh: I just had one question, on the treasury gains which you report in the interest income, you said in the previous con-call saying that you would give us some color as to how do we actually look into this particular segment of business, could we have some clarification on this?

Rajiv Lall: I did, on treasury?

Mahesh: The 21 crore that you reported during this particular quarter?

L. K. Narayan: Yes, see there are couple of things, our treasury like before continues to be invested only in fixed income securities, there is nothing that we do, which touches upon the equity market, that's the first aspect. Second is that the average assets under treasury has increased significantly from about 2600 crore, it has moved up to close to 5000 crore and therefore the composite of both of that has resulted in a higher treasury gain relative to last year.

Mahesh: But, what is the nature of these gains, sir?

L K Narayan: These are basically treasury investments in fixed income securities and corporate bonds, which we buy and sell and then that results in the profit.

Mahesh: Okay, sir, is it possible to get some color on what is the breakup between the broking and the IB revenues, because it has been pretty strong this particular quarter?

Vikram Limaye: I think from your perspective it is safe to assume 50:50.

Mahesh: Sir, and on the leverage part, when you in fact go for a rating, is the investment book actually deducted before calculating leverage?

Rajiv Lall: No, the investment in subsidiaries would be deducted….

L K Narayan: Yes, investment in subsidiaries more than 10% of our capital would be deducted.

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Mahesh: And that you would like to have a leverage of about 7 to 7 1/2?

Vikram Limaye: Yes, that would be right.

Mahesh: Okay fine, thanks sir.

Moderator: Our next question comes from Mr. Ashish Sharma of Enam Asset Management.

Ashish Sharma: Congratulations on a good set of numbers. Just a repeat question on the IDFC SSKI income, in the last con-call you mentioned there are three components for this module, one is your equity capital markets, which is the investment banking and then capital market model which is transferred from IDFC and broking, could you give the breakup for the '08 numbers?

Rajiv Lall: No, I didn't say that, what I said was that there are our non interest income has several components and I can run through those components if you give me a minute. Non interest income overall this year was 618 crore relative to 267 last year, broken down into four components, principal investing, which is 216 crore, asset management, which is 56 crore, investment banking, which is 187 crore and there are other fees which are 159 crore.

Ashish Sharma: Actually I am referring to the fees from IDFC-SSKI, 187 crore, the breakup for that, sir?

Rajiv Lall: No, that is as Vikram said, 50:50.

Ashish Sharma: No, but in the last con-call you mentioned there were three components, there is one debt capital module which is transferred to SSKI, which now is a part of IDFC-SSKI income, sir, which you mentioned in the last con-call.

Rajiv Lall: See, we have all kinds of complex internal revenue sharing things there, I don't want to go into all that level of detail with you guys, so the SSKI 187 number is roughly 50% income from broking, 50% is from investment banking, which includes their share of equity placement, debt capital market and the IPO business. The other fees that I talked about, the 159 crore, that will have all our front end fees, the guarantee fees, fees from advisory and all that stuff and it will have some share of IDFC platform's share of the debt capital markets and equity capital markets income.

Ashish Sharma: The next question is on the StanChart Mutual Fund acquisition, you had given the logic that we want to expand the ROEs, now we have seen that even if you expand your AUMs, the profit after tax is quite low. Now, what would be the strategy for you going forward for StanChart AMC, would you be looking for increasing AUMs, but that won't basically give you the PAT, because PAT by AUM is quite low in India, if you see.

Rajiv Lall: No, you will have to wait to see what we do with that. Obviously expanding AUM has to be part of the strategy, but there are different ways of expanding AUMs and then to be upfront that you understand where we are coming from, this is not going to happen magically overnight, we will have to see the business and for us this is a longer term strategic play, so in the next two, three years we expect to build this business systematically and the full value of the business to the platform will take that much time to unfold.

Moderator: Our next question comes from Mr. Prashanth Poddar of ICICI Prudential Management.

Prashanth Poddar: Hello, thank you very much, sir, for so much disclosures that we have to really ask very few questions. Just one question from my side, sir, you mentioned about infrastructure equity of 852 crore, what would be included here, what kind of investments would be included here? Page number 12, outstanding disbursements, 852 crore in infrastructure equity, in your exposure you have shown 1021 crore. I just want to understand what kind of thing is included in infrastructure equity?

Rajiv Lall: This is part of our principal investing business and this is a number of things, so these are some deals below certain threshold size that we will do directly from our balance sheet and then there are some deals that we have been warehousing for a fund that has not been closed. So, some of that 852 crore, close to 200 crore will move from our balance sheet to the fund when the fund reaches closure and the rest is proprietary investing that we do, some of it in unlisted, some of it in listed securities, in parallel and based on certain rules.

Prashanth Poddar: So, there will be pre committed returns on that warehousing part?

Rajiv Lall: Yes.

Prashanth Poddar: Okay and would BOTs and investment in BOTs and all would also come here?

Rajiv Lall: They could, yes, depending upon what size.

Prashanth Poddar: Okay, one last question, you mentioned about internal rating of assets and you have been doing that, within your portfolio have you observed that this spread increase has also been there because of the higher risk assets going up as a percentage?

Rajiv Lall: Higher, well that's difficult to say exactly, but it is definitely the case that our spread has gone up in part because of the changing product composition of our assets. There are certain products that banks are not able to do, just to take the example of loan against shares for example, so our pricing power on that is disproportionate at times to the risk we take on that. So, it's not one to one associated with risk, this should be on competition also.

Prashanth Poddar: Okay, thank you very much, sir.

Rajiv Lall: I can take one more question then I will have to leave and I will leave my colleagues to take on the balance of questions.

Moderator: Next question comes from Mr. Srinivas of HSBC.

Srinivas: Just wanted to get information on the asset management business, I presume the fees are primarily fixed fees, so wanted to know if there was a variable component in this and when would that start kicking in from?

Rajiv Lall: There is no variable component to the fee, but there is a variable component to the carry and the carry has already started kicking in from fund 1.

Srinivas: Okay, thanks.

Rajiv Lall: Okay, so, Leela I am going to excuse myself and then Vikram, L. K., Bimal and Atul are here, they will take a few more questions, I have to go to the airport, I am late, so thanks to everybody, I am going to excuse myself.

Moderator: Our next question comes from Ms. Madhuchanda of Kotak PMS.

Madhuchanda: Yes, I have three small questions. You mentioned that the provisioning of 40 crore this quarter has a component of non lending provision also, if you could quantify that for us, please?

Vikram Limaye: We don't want to get into the break down of provisions between lending and non lending and all that, I think, if you look at it, you have to look at our business in the aggregate. We have already said that for the lending business we have provisioned at 0.5% of gross disbursement, which is going to change going forward and so I think from your perspective you should look at that as the provision number against the loan business and the balance would be provisions against all the other businesses.

Madhuchanda: Yes, I understand that, just one small clarification here, you also mentioned about this rating of assets and the provisioning according to the rating, so that has not kicked in from Q4?

Vikram Limaye: That's right that will kick in from April 1.

Madhuchanda: Okay, The second question is, there was lot of discussion about the indefinite environment, in light of the same, what kind of guidance do you want to give for your loan book growth in the coming fiscal?

Vikram Limaye: We have said all along for the last couple of years, ever since we went public, we said that growing 50% balance sheet year on year on a larger base is not something that we would say, what we can plan for and budget for, it gets more and more challenging as the asset size grows at that rate, what we have maintained all along is a growth of 30% to 35% should be doable, based on what we see in the environment as a more sustainable long term growth for our balance sheet.

Madhuchanda: Yes and the third question I have is that, this PE 3 that Mr. Lall was mentioning to is that the project equity funds that…

Vikram Limaye: There are two funds that Rajiv said we are in the process of raising; one is the infrastructure fund with Citi, which is the project equity fund.

Madhuchanda: Well, the one billion dollar fund is the project equity, right?

Vikram Limaye: That's correct.

Madhuchanda: And the PE 3 that he mentioned, 600 to 700 millions?

Vikram Limaye: That's the third fund in our private equity business.

Madhuchanda: Okay, that is not the project equity, right?

Vikram Limaye: No, that's a separate fund in private equity.

Madhuchanda: That is not infrastructure as well?

Vikram Limaye: No, all our private equity and project equity funds are infrastructure focused.

Madhuchanda: Okay, so this PE 3 is also infrastructure private equity, right?

Vikram Limaye: That's correct.

Madhuchanda: Yes, and before this acquisition of the StanChart AMC, if I recall in the last to last call, you also mentioned about getting into listed equity on your own, there was no mention about that in the call today. So, I was just wondering whether you have shelved the plan in light of the acquisition of the StanChart AMC.

Vikram Limaye: It's not shelving the plan, its more about the asset management business being a core part of getting into the listed space, I mean, the asset management business is all about investing in listed securities.

Madhuchanda: Right, so at the moment you are not disclosing that plan, right?

Vikram Limaye: No, we will disclose that we haven't yet closed the acquisition, so it's hard to disclose the plan right now.

Madhuchanda: Okay, thanks a lot.

Moderator: Our next question comes from Mr. Rahul Singh of ABN Amro.

Rahul Singh: Hello, I believe your entire treasury is into fixed income and corporate bonds do you have plan to enter into equity business as well, probably in the future?

L. K. Narayan: No, at the moment treasury and in going forward also treasury will continue to be in fixed income securities.

Rahul Singh: That's what I wanted to know, you will have an exposure to equity market as well on your treasury side, probably in the future?

Vikram Limaye: That's what L. K. just said, the treasury line will continue to be focused on fixed income. We do take equity exposure in our principal book as we have mentioned in unlisted as well as listed securities.

Rahul Singh: Okay, thank you.

Moderator: Next question comes from Mr. Manish Chowdhary of Citigroup.

Manish Chowdhry: I just wanted to check one thing on this StanChart acquisition, this is the first time that you are significantly moving into any retail kind of a business, does it signal anything in terms of shifting focus more towards retail or is it a one off?

Vikram Limaye: No, I don't think it signals anything about shift to retail. As Rajiv mentioned, this is more trying to achieve the right mix of businesses in order to be able to deliver more predictable revenue streams and a higher ROE.

Manish Chowdhry: Okay.

Moderator: Our next question comes from Mr. Anand Vasudevan of Franklin Templeton.

Anand Vasudevan: Just going back to your new policy of increasing provisioning for C rated assets, will it also lead to a change in pricing or do you think you are adequately pricing?

Vikram Limaye: No, I mean, so there are two answers to that, one is as Rajiv said, here one aspect of it is the risk of the asset, whether it is categorized as A, B or C. The second is the actual product mix in our lending business. What we certainly believe is that when you blend the two together, we think making a higher provision against riskier assets, a) is warranted, b) we certainly believe given the pricing power that we have, that we should be able to absorb that kind of provisioning and yet be able to maintain our spreads.

Anand Vasudevan: Okay, trying to read in between the lines, I mean, can I repeat, if you are going to provide 50 basis points more on a certain risk, which you were not providing until FY08, could you also be reflecting it incrementally in your pricing, I am aware that you already do price as per risk?

Vikram Limaye: Yes, so the short answer to that is, we will obviously try and recover any kind of incremental provisioning that we believe is warranted against riskier assets by building that into the pricing of those assets.

Anand Vasudevan: The other question I have is again, if you could broadly comment on the competitive outlook for the lending business, I mean, with the perspective of both from domestic and international funding sources that your projects may have?

Vikram Limaye: Okay, so I think on that front the answer is not very straight forward because as you would imagine there are multiple variables that feed into that. One is obviously the interest rate environment domestically. The fact that internationally it's become even more challenging for people to raise debt and therefore a lot of guys who were able to raise debt internationally will now have to rely on domestic sources for debt raising. Third is, how the PSU banks are capitalized and what they do in terms of shifting their business from retail to corporate to infrastructure and what path that takes and you guys as you meet with banks and figure out their strategies and how they are changing their strategies between retail and corporate, that will obviously have some impact on allocating more capital to corporate and infrastructure if they indeed decide to reduce their retail lending businesses and then lastly obviously if you take into account things such as Basel II, etc, that if they are implemented, what impact that could have on the lending environment and that we certainly believe will have a positive impact on IDFC because it would require a higher amount of capital to be allocated to infrastructure assets by the banking system from what they currently do. So, the point I am trying to make is that there are four, five, six different variables that ultimately feed into what it would mean from a competitive perspective. The mix of that, as we have said all along, we certainly see a lot of opportunities in the market place, but we from a prudence perspective would anticipate declining spreads on the lending business.

Anand Vasudevan: Okay, final question on, again the environment for raising AUM, I am particularly trying to understand the impact, if any, of the stretch in global financial markets and what effect is that having on your AUM raising efforts and particularly I would like you to comment on your experience in marketing the IDFC-Citi-Blackstone Fund, which I understand you have already raised about 600 million dollars, I would like to understand what segment of investors are you continuing to see demand from and what segment of investors is the demand lightening?

Vikram Limaye: Okay, so to the first part, as it relates to the impact on our fund raising efforts, I think, at least as it relates to these two funds, which we are in the process of raising, we are fairly confident that the numbers we have indicated, we would be able to achieve, that's the first thing. The private equity fund 3, fund raising effort was fairly quick, given the track record that we have established, etc. The infrastructure fund is a different product for the Indian market; it's a first of its kind for the Indian market and so obviously to that extent that requires more explaining than the traditional private equity funds. Having said that, as Rajiv indicated, we are well on our way to achieving our target billion-dollar fund raise for that fund. We do not anticipate any problems in getting to that number. The mix of investors in the infrastructure fund, I would say is a mix of institutional and private client type of investors. See, as it relates to the private equity fund, it is all primarily institutional investors. In both the funds there would be, call it 80% plus international investors versus domestic investors. So, to answer your question on the fund raising environment internationally, whether it is challenging or not? I am sure it is challenging, that has not impacted what we plan to raise in both these funds.

Anand Vasudevan: Okay, thank you.

Moderator: Next question comes from Mr. Manish of Motilal Oswal.

Manish: I just wanted to know about the carry income, out of this 210 crore of principal investment income, you said 134 crore is your profit on sale of investments and 64 crore is carry income, is that right?

Vikram Limaye: I wouldn't say that the entire balance is carry income, there is some dividend income, there could be some other things in there, but carry has started accruing on fund 1, as Rajiv indicated. I don't think we are disclosing the details of carry income at this point.

Manish: Okay, if you can just give a broad indication, would carry income be in a growing proportion as we move forward, especially only on the fund 1, if you are talking about?

Vikram Limaye: I don't know what you mean by growing proportion, it is very difficult to predict carry income, as you would imagine, because it is lumpy, it is not something that you can necessarily predict, because that is totally outside our decision making. The funds investment and divestment decisions are independent of the platform; they are taken by an independent investment committee. They would take those decisions depending on when it is the right time to exit, they are not forced to exit on an annual basis or on a quarterly basis, so it is very difficult for us to predict when they are likely to exit, because we are not part of that decision and like I said, these are long term funds, this is ten year fund, so there is no reason for them to exit in a hurry, they will exit at the appropriate time when they believe that they have achieved fair value for their investments.

Manish: Right and how much investments have you made in fund 1, if you can disclose that?

Vikram Limaye: Yes, fund 1, like we said, our fund 1 was about 840 crore, of which our capital is about 12%, so call it a 100 to 120 crore.

Manish: Okay and how much of that fund which was invested has been exited as of now?

Vikram Limaye: As we have said, at some point in our previous discussions, fund 1 has basically based on the exits that it has achieved so far has returned capital to investors. So, the entire fund has been returned to investors based on the exits that have happened so far.

Manish: Okay, thanks.

Moderator: There are no further questions. Now I hand over the floor to Mr. Vikram Limaye for closing comments.

Vikram Limaye: As Rajiv said, we are obviously quite pleased with our performance for fiscal ’08. Fiscal ’09, we want to once again reiterate, is expected to be a challenging year, we don’t see anything at this point in time that would force us to ring any kind of alarm bells, but we want to certainly guide everyone to the fact that it will be a challenging year, there are certain aspects of our business that could be negatively impacted depending on how the equity markets shape up. The lending environment is also something that we want to be cautious about and so, as we have said, we will continue to plough through the year and try and achieve what we have set out to achieve, but as you all will appreciate, last year has been a very solid year, growth in balance sheet and growth in profitability on rising base effect numbers is certainly something that everyone should keep in mind in addition to the fact that fiscal ’09 for a variety of reasons could be a challenging year, so we will just continue to visit that on our quarterly calls and give you appropriate guidance if we see anything on the horizon that causes us any kind of alarm, but otherwise everything is on track and again we will talk to you at the end of Q1. Thank you very much.

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.