IDFC Ltd.

Investor/Analyst Conference Call Transcript
October 23, 2009

Moderator

Ladies and gentlemen. Good evening and welcome to the IDFC Q2FY2010 results conference call. As a reminder for the duration of this conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bimal Giri of IDFC. Thank you and over to you sir.

Bimal Giri

Good evening everyone. I welcome you to this conference call organized to discuss our financial results for the first half of financial year 2010. I have with me Rajiv Lall, Vikram Limaye, L. K Narayan and Sadashiv Rao. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. Documents relating to our financial performance have been emailed to all of you. These documents have also been posted on our corporate website. I now invite Rajiv to provide the key highlights of our performance for the first half of fiscal 2010.

Dr. Rajiv Lall

Thank you Bimal. Hello everybody and thank you for joining us today. I will now run you through our numbers, recent developments and then we can spend a little time doing Q&A.

This has been a good first half for us. On a consolidated basis our operating income is up 23% from Rs. 807 Crore in the first half of 2009 to Rs. 990 Crore in the first half of fiscal 2010. Within that it is noteworthy that the largest contribution actually came from our net interest income which increased by 27% from Rs. 410 in H1 FY2009 to Rs. 521 Crore H1 FY2010. This growth in net interest income was driven particularly by our lending activities to core infrastructure which expanded 32%, i.e. the contribution of which grew by 32% from Rs. 356 Crore in H12009 to Rs. 471 Crore in H12010.

The second component of our overall operating income, i.e. non-interest income increased by 16% from Rs. 381 Crore in H1 FY2009 to Rs. 444 Crore in H1 FY2010. This might seem a little counter intuitive, in that, one would expect at a time when capital markets are booming for a non-interest income to be growing even faster than our net interest income. The reason for that is that income from principal investment activities actually decreased by 15% from Rs. 153 Crore in the H1 FY2009 to Rs. 129 Crore in the H1 FY2010. So this is a decrease of 15% and principal investing activities as you know are lumpy in nature and the earnings can be volatile and therefore are not really representative of any underlying business as such but more representative of decisions we make about when to harvest certain investments that we have made.

So the more important aspect to focus on, in terms of tracking our non-interest income, are the other three components which is income from asset management, which increased by 82% from Rs. 77 Crore in H1 FY2009 to Rs. 141 Crore in the H1 FY2010 and I would caution you that this 82% increase is in large part because of the closure of third party funds in our alternative asset management business that came on stream only in the second quarter of last year and therefore are not necessarily representative of our ability to keep growing fees from asset management at this pace. But nevertheless, it does suggest that our revenue streams from the asset management businesses continue to be quite robust. Fees from investment banking and broking as one might expect increased by 36% from Rs. 72 Crore in the H1 FY09 to Rs. 98 Crore in the H1 FY10. Loan related and other structuring fees were a tad down from Rs. 79 Crore in H1 FY 2009 to Rs. 75 Crore in H1 FY2010 and this was really on account of a particularly large transaction during the first half of last year that generated a very large amount of structuring related fees which was more in the nature of a one time fee than a recurring income stream.

Let me turn to expenses now. Operating expenses grew 26% from Rs. 169 Crore in H1 FY2009 to Rs. 212 Crore in H1 FY2010. This was primarily on account of increased business activities in the mutual fund business and to a lesser extent in our investment bank. On a rolling 12 months basis, if you looked at the cost to income ratio, that has trended down just a little bit from 23.8% for the period July 2008 to June 2009 to 23% for the period of October 2008 to September 2009. Pre-provisioning profits therefore increased by 22% from Rs. 639 Crore in H1 FY2009 to Rs. 778 Crore in H1 FY2010. Total provision for various asset classes were down from Rs. 35 Crore in H1 FY 2009 to Rs. 18 Crore in H1 FY2010. This was because we reversed Rs. 24 Crore of provisions that we had made against certain equity investments which we exited during the 1st Quarter. We continue to make formulaic provisions on incremental gross disbursements. So we are not under-provisioning on the loan book; our policy for provisioning has not changed. What this does suggest is that the asset quality continues to track reasonably well. Profits before tax increased 26% from Rs. 604 Crore to Rs. 760 Crore and after providing Rs. 196 Crore towards taxes in H1 FY10, PAT grew by 26% from Rs. 449 Crore in H1 FY09 to Rs. 564 Crore in H1 FY10. Since we did not raise any capital during the period, this translates into a very healthy EPS growth of little over 25% from Rs. 3.46 per share to Rs. 4.32 per share.

Let me now take you through our rolling 12 months ROA analysis wherein we compare 12 month periods from July 2008 to June 2009 with October 2008 to September 2009. Comparing these two periods, NII contribution increased from 3.2% to 3.5% of average total assets. NII Infrastructure increased from 2.7% to 2.9% of average total assets. Contribution from non-interest income grew from 2.2% of average total assets to 2.3% of average total assets which in turn came from a growing contribution from investment banking and broking whose share grew from 0.3% to 0.4% of average total assets comparing those two periods. Operating expenses and provisions for October 2008 to September 2009 were at 1.4% and 0.5% respectively, versus 1.3% and 0.4% for the 12 months period ending June 2009. Impact of taxes across the two periods was stable at 1.1% equivalent of average total assets and what that means is that our ROA net of taxes actually on a rolling 12 months basis grew from 2.7% to 2.9%.This surely must be amongst the highest ROAs post tax for any financial services company in this country.

The overall spread has increased from 2.4% for the 12 months period ending June 2009 to 2.6% for 12 months period ending September 2009 and that reflects a healthy liquidity situation and asset stable view; which has resulted in a combination of good cost of funding for us on one hand to more aggressive opportunities to price on the other.

As mentioned earlier, the cost to income ratio has trended down marginally from 23.8% to 23.5%. The effective tax rates actually decreased from 28.1% to 27.5% on a rolling 12 months basis. The leverage as on September 30th 2009 was at 4.7 times. The ROE increased from 13% to 13.7%.

Now let me turn to the balance sheet and take you through some of the highlights. The size of our balance sheet grew by about 10% from Rs. 28,900 odd Crore as of September 30th 2008 to close to Rs. 32,000 Crore as of September 30th 2009. On the liability side, our outstanding borrowings grew also by 10% from close to Rs. 23,000 Crore as of September 2008 to little over Rs. 25,000 Crore as of September 30th 2009. Our loan book which is a reflection of the net growth in disbursements was up modestly by only 3% from Rs. 21,400 odd Crore to Rs. 22,000 odd Crore as of September 30th 2009. However, our gross approvals increased 34% from Rs. 7,400 Crore from H1 FY 2009 to Rs. 9,900 Crore in H1 FY2010. As these approvals translate into disbursements in the coming months; you can expect that the growth in the loan book will also accelerate. Gross disbursements increased by 5% from Rs. 4,700 odd Crore in H1 FY2009 to Rs. 4,900 Crore in H1 FY2010. Energy and transportation continue to be the top 2 sectors contributing about 38% and 22% respectively of the total exposure and about the same percentages respectively of our total outstanding disbursements. In terms of capital adequacy, the regulator expects us to maintain total capital adequacy of 15% by March 31, 2011 and we are currently at 24% as of March 31st 2009. Given our strong capitalization and internal accruals, we believe that we are extremely well positioned to capitalize on growth opportunities in the next 18 months.

Some other developments since our last call on the credit rating side. ICRA and Fitch have both reaffirmed now a AAA rating for IDFC. The rating reaffirmations have been based on our strong capitalization, diversity of our income stream, our strong risk management practices, sound asset quality and improving liquidity situation. Based on recent bond issuances and bank borrowings we believe, our overall borrowing costs have not been impacted by the CRISIL downgrade that we saw in the 1st Quarter of this year.

Second development is IDFC's inclusion in the Nifty-50 which I think is a significant achievement and has improved the liquidity in our stock. So all in all, as I said, this has been a good first half. We feel that the tone of the business is strong; momentum is building nicely, and we expect that this fiscal year should be able to witness a strong financial performance from us. I shall stop there and open the proceedings to Q&A.

Moderator Thank you sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Aditi Thapliyal from The Noble Indian Equities Team. Please go ahead.

Aditi Thapliyal My first question is on your spreads. IDFC's spreads have improved primarily it seems because your incremental borrowing seems to be more short term in nature than in earlier quarters. Now lets assume that liquidity and short term interest rates remain where they are, then would you say that FY2010 will be a remarkable year for interest spreads?

Dr. Rajiv Lall Yes. I mean I think this year would be a very good year for spreads. I do not think the explanation is because of the softening of our liabilities. The explanation really has to do with the availability of liquidity generally in the market and because I think as LK will explain, we have also been able to raise longer term money at very, very fine rates.

L. K. Narayan Yes. You will also notice that our duration of liabilities has actually moved up. So what has happened is, given the liquidity that prevailed in the system this time around, what we have done is that we have opportunistically capitalized both at the near end as well as on the longer end. And on a more fundamental basis what has happened is the duration has actually kicked up compared to 1.52 we are now at 1.59. Therefore, we believe, we are adequately positioned for the years ahead. So do not take away the impression that the yield gains have happened at the expense of maturity mismatches. We have borrowed in the near term and we have actually also borrowed significantly in the longer term and that is the perception I would like to keep.

Aditi Thapliyal If you could quantify your long term bond raising which you have done?

L. K. Narayan We cannot give specific details about it, but it has been quite significant. At the longer end essentially, some insurance companies and such because the banks have actually been at the near end of the market. So we have built on our relationships with the insurance companies and have borrowed at the longer end as well.

Aditi Thapliyal Mr. Lall if you could give us some colour on IDFC-SSKI's performance in this quarter. The reason why I am asking this question is that overall market volumes from Q1 to Q2 are almost flat. So in IDFC-SSKI there has to be some meaty corporate finance style of fee income that must have come in Q2 versus Q1?

Vikram Limaye Yes. Actually the increase in the investment banking and broking revenues were on account of both the broking volumes as well as the investment banking deals. So I think overall the performance has been quite strong across all areas and not only the investment banking side.

Aditi Thapliyal Okay, because if you look at the results of other brokers what we have noticed is that broking income has moved in tandem with market volumes so just …?

Vikram Limaye What I can tell you is that our market share has also improved.

Aditi Thapliyal Are you quantifying the market share now?

Vikram Limaye No, we do not disclose market shares.

Aditi Thapliyal And Mr. Lall your comments on asset management business. The asset management income in Q2 has declined on a sequential basis. So should we takeaway from this the fact that this is an overall reflection of SEBI cutting down distribution fees? Is the asset management business being affected due to the SEBI regulation on this?

Dr. Rajiv Lall Well yes. In a strategic sense, obviously it's going to have some impact on the asset management business … maybe we will eventually provide more granularity of information on this but the asset management business is split into the alternative asset management business and then the mutual fund. So what happens in the alternative asset management business is that, once the fund is closed you actually get fees retroactively to the date of the first closing. So let us say, in the first closing we raised \$1.6 to \$1.7 odd billion in two different funds last year, right. If the first closing happened for let us say \$500 to \$600 million then everybody else that came at a later date, would pay a fee going back to the first date. And so what happens is that the moment the fund closing happen you get a lumpy amount of fee payments. Then overtime, that gets moved out. So if you are just looking at the fee generating revenues from our alternative asset management businesses, sequentially on a quarter-to-quarter basis, then they will probably come down until that lump is normalized and then you would just see a predictable whatever it is, 1.5% odd of assets under management that will show up on a quarter-to-quarter basis. So that is really what the response for the sequential change is. Overall revenues from the mutual funds have actually been tracking up, and that is because not withstanding all of the regulatory changes, our assets under management have been growing quite robustly. We have also introduced some hybrid products into the market that have fee generating characteristics that are much more lucrative than the standard long only fund. So I can tell you that the tone of the mutual funds, our business is actually pretty solid at this time.

Aditi Thapliyal Okay, thanks for this, but I think going forward more details would be appreciated both on the asset management business as well as on IDFC-SSKI.

Dr. Rajiv Lall Yes, we will try to manage that.

Aditi Thapliyal Now that the dust seems to have settled down on the CRISIL ratings downgrade issue; what are your views on the longer term or the medium term impact on cost of funds and growth capabilities for IDFC. I can understand in the short term liquidity is ample, so perhaps we will not see the kind of cost impact we are going to see in the longer term. So just wanted to understand now that we know the pros and cons of this downgrade, what are your assumptions on growth and cost of funding?

Dr. Rajiv Lall Well I think that on a net-net basis it is a pro for us, because if the CRISIL downgrade had to happen at any time, the time at which it happened was probably the best because cost of funding generally was coming down very sharply and therefore the CRISIL downgrade, fortunately for us, did not really have any meaningful impact and I think because ICRA and Fitch have reaffirmed their AAA ratings. I think that at the time when rates begin to harden again we are not anticipating any great impact on our cost of funds on account of what happened in Q1 with the rating by CRISIL. So we were constrained previously to maintain 20% Tier I. Here the regulator requires us to maintain by March 2011, Tier I and Tier II of only 15%. So it is safe to say that what leverage we end up with on a sustainable basis will be in between those two numbers and given the leverage ratio that we have today, we have room to increase leverage at least one more turn, I will leave you with that thought.

Aditi Thapliyal Okay. I can understand your reluctance of this stage to put a number or to give a guidance on credit growth, but would it be safe to assume that is going to be say north of 18% to 20%?

Dr. Rajiv Lall I think it is very safe to assume that it is north of 15% and beyond that we will see what happens, but yes between 15% and 20%, I mean, if we do not do that we would be disappointed.

Aditi Thapliyal Right, thanks a lot. I am going to come back with more questions.

Moderator Thank you. The next question is from the line of Krishnan ASV from Ambit Capital. Please go ahead.

Krishnan ASV Would you think that there might be a medium term impact on the CRISIL downgrade. Yes, it has not had an impact in the near term, but in the medium term, do you think that there is something to fear on that front at all or would you be willing to work with the rating agency again. I mean is that a process still on?

Dr. Rajiv Lall Well I think you should ask CRISIL and I tell you that there is nothing to fear but fear itself. I do not want to be facetious, but we are pretty confident that it should not have any lasting impact on us.

L K Narayan Just to reiterate what I said earlier is that we have not necessarily been limiting ourselves to borrowing in the near term. As I mentioned earlier our duration has actually trended up relative to the last quarter in quite a significant manner though we have borrowed across the maturity spectrum and we believe that we have benefited by the ample liquidity that has prevailed as well as the reassuring reaffirmations by both Fitch and ICRA.

Krishnan ASV My second question was about the spreads. I mean at this point of time on the rolling 12 month basis we are doing roughly around 2.9%. I mean I am just trying to figure out and obviously we do believe that interest rates at some point of time in the system will need to harden. Also, given the fact that we are dependent on the borrowings to a large extent; will that squeeze the spreads going forward? What would be a more sustainable spread, will we be trending back to the 2.3% to 2.4% or can we look at reiterating ourselves to a little higher spread there?

Vikram Limaye We have been through cycles in the credit markets now over the last few years and as we have highlighted on earlier calls that our spreads are different depending on where we are in the cycle and it is very largely dependent on how the rest of the financial services landscape react to liquidity and risk aversion and credit views and all that. So, as an overall theme what we have outlined is that lending spreads, long term, we believe are likely to decline that fortunately has not happened ever since we have been saying it, that is not to say that as a management team we are not preparing for that and we are certainly conservative in our assumptions on how spreads are likely to track long term. So far asset yields have held up as Rajiv mentioned, it is very hard for us to really predict on how the banking landscape will react and that also has to do with the liquidity situation that prevails over the medium term.

Dr. Rajiv Lall I did want to add one thought which is that although we have for the longest time been saying to the market that you can expect a secular long term decline in our spreads. I have began to sense that our long term decline in our spread is probably not going to take place quite in the same manner or to the degree with which we had feared 24 months ago. And the reason for that is that as credit off-take picks up. What we are finding is that banks need to become more and more competitive in terms of gaining access to a liability base. Therefore, since the Tier I, Tier II cities already have savings, they are quite well captured and intermediated they have to spend money now to reach savers in Tier III and more far flung locations in the country, point being that the cost of incremental liability acquisition for the banks is going up not down and therefore their long term average sustainable cost of funding is going up not down. And as their spreads come under pressure now, forseeably on a secular basis, then it means that comparative pressure on the asset side for our business should also abate and therefore long term pressure to drive our spreads down should also abate relative to our previous expectations.

Krishnan ASV Okay. This question is more on the principle investments. I do realize that it is not a predictable income stream but what is the kind of logic that drives you in terms of monetizing that particular income stream?

Dr. Rajiv Lall It depends on what kind of investment it is. If it is a financial investment that as we call it, it depends on the stage of that investment. If it is a relatively early stage of that investment, it is illiquid, you have to give it more time for it to grow. If it is however, liquid, and then an investment in a listed entity then it really is a question of well trading off our understanding and our conviction about the longer term fundamentals of that particular business versus over valuation or sloppiness of the capital markets. Also, at that point if we feel that the valuation in the markets are given the business are going to be higher than our long term belief in the business itself, then we would be inclined to sell it, if not, then we will be inclined to hold on to it.

Krishnan ASV Okay fair enough. So, if we look at the direction of the principle investment movement or the income from this particular stream at this point of time, is it fair to assume that you believe that there is a fair bit of steam still left in your investments because as we tend to look at it obviously the markets have recovered fairly well. So what is holding IDFC back in terms of booking at this point of time or do we believe that the fair value still a fair bit away?

Dr. Rajiv Lall No, it is a combination of things related. There is only a small portion if you like of our principle investments that we want to be able to harvest on a sustainable basis. There is a portion of the principle investment corpus that, if you believe in the business you have invested in, you want to keep for a rainy day. I mean if you need the capital, if you don't need the capital today you can postpone that event. So it is a combination of things. Now principle investments will also include our share of carry earnings from our investment in various funds. Those again inherently are difficult to predict, but if there are some investments in the portfolios there that are reasonably mature and capital markets are looking pretty healthy right now there would surely be some exit events and we might see some principle earnings from that.

Krishnan ASV Okay, I guess I am done, thanks a lot, thank you.

Moderator Thank you Mr. Krishnan. The next question is from the line of Jyothikumar Verma from KR Choksey. Please go ahead.

Jyothikumar Verma My question is with respect to the products that you have. As I see it, the non-funded exposure that was there in September 2008 was 2% of your exposure and as we look down right now there is no non-funded exposure. Is it like aberration or is it a conscious decision not to get into the business?

Vikram Limaye No, there is no conscious decision not to get into the businesses. It just depends on the business opportunities.

Jyothikumar Verma Okay. So right now you do not sense any business opportunities in your non-funded business, is this what I should presume?

Dr. Rajiv Lall It is true for certain types of non-funded business lets say for the guarantee business. The guarantee business is not particularly lucrative business opportunity because the capital allocation against providing a guarantee is the same as if it came as a funded …

Jyothikumar Verma You are saying that it is 100% CCF.

Dr. Rajiv Lall Correct, and yet the spread or the fee that you get on guarantees are not as interesting as the spread as you might get on a regular loans. So when we do non-funded kind of transactions only in a broader context when it is in combination with something and the entire package make its worthwile.

Jyothikumar Verma Okay. Secondly with respect to loan against shares that you have, generally it has been seen at the trend especially in the last, not prevailing the period for the last 7 months. I think all the bigwigs have burnt their hands in this business. Going forward, do you think you would like to increase your share in this business or what is your view on loan against share business?

Vikram Limaye As we have said all along, this product for us is very different from how loan against shares is generally done in the marketplace or viewed by the marketplace. This is not margin financing for just people in the marketplace, this is financing for core clients of IDFC that are involved in infrastructure. So the relationships that we have with these promoters and clients are fairly broad and are not one off transactional relationships primarily for promoter financing or loan against shares. So this is done more strategically in trying to work with core clients of IDFC to help them in whatever context is required and we do that not only for project loans, corporate loans, selectively, we do that for promoter financings. So where it makes sense we will obviously look at it. As you have seen our portfolio in loan against shares has come down quite significantly over the last 12 months. That is primarily because many of the promoter loans that we did were repaid and we have obviously not done any incremental loan against shares in the last 12 months. But that is not to say that if there is a compelling reason to do that we would not do it because, again as we have said, we have had absolutely no problems with this portfolio or any part of this portfolio even through the most volatile times last year and this is done for core clients of the organization. It is not done as a margin financing product.

Jyothikumar Verma Okay. With respect to ratings, I think this has been a repeated question quite a few times, but I just wanted to know that, now that CRISIL has done its downgrade and ICRA and Fitch has held their ratings, will we be able to increase our leverage without being pushed for a rating downgrade from these two agencies, will that be possible in your sense?

Vikram Limaye Well I mean as we pointed out earlier on the call, if we are planning to grow our loan book at 15% to 20% and you look at what the internal accruals of the business are, I think it is quite clear that leverage is not going to go up substantially in a hurry. There are substantial internal accruals that will also support a certain percentage of loan book growth just based on internal accruals without even increasing leverage. So we do not foresee for the short-to-medium term based on the growth that we see in the landscape; that our leverage is going to suddenly shoot up that would cause any concern for anyone.

Jyothikumar Verma Thank you sir, I will get back with rest of my questions in the second round.

Moderator Thank you Mr. Verma. The next question is from the line of Mudit Painuly from Macquarie Securities. Please go ahead.

Mudit Painuly My question is concerning your loan growth. Which are the sectors where you are particularly seeing strong growth in let us say approvals and disbursements, because approvals are up pretty strongly in the first half?

Vikram Limaye The three sectors where we see opportunity is roads, power, and telecom.

Mudit Painuly Okay. So are these the drivers of the strong approval and disbursements more or less the same thing?

Vikram Limaye Yes. See disbursements again, as we have said a portion of the disbursements are linked to the pipeline that we developed through our approvals. So a portion has to do with what was approved earlier while the other portion has to do with things that come up, that we can approve and disburse within the period. But just as an opportunity landscape I would say that those are the three areas where you will see a bulk of the approvals and the disbursements.

Mudit Painuly So roads, power and telecom basically right?

Vikram Limaye Yes that is correct.

Mudit Painuly This sharp increase in short term borrowings maybe opportunistic, but are you comfortable with this 18.5% of your total borrowings being in the short term going forward. Let us say in the next couple of quarters or even beyond, do you see this proportion coming down because you will be basically cranking up the loan growth so that will mean that the borrowings will basically have to increase in absolute quantum, so what do you feel about that?

L. K. Narayan First is historically if you have seen our borrowing profile, the near term borrowings have been in the ballpark of about 10% to 12%. So this is just a spike, in that opportunistically, we have raised near term money. But as I kept articulating earlier, we have balanced this with its borrowing at a longer maturity spectrum as well because if you see my duration has expanded actually. So it is not therefore one or the other that we will do, we will always tend to have a certain profile of liabilities that we need to create which will obviously then try to capitalize on market based opportunities, but at the same time trying to ensure that our long term focus is to try and have a matched duration vis-à-vis our assets.

Mudit Painuly Okay, fine. Just to reemphasize, you do not see your cost of long term borrowing going up significantly post the downgrade right?

L. K. Narayan Yes. There has actually been nothing of that effect at all that we have seen in the volume of money that we have borrowed in this quarter. Like I said, the longer term funds come to us from insurance companies and they are very comfortable with the profile of IDFC historically and post the downgrade there has been no concern in their minds and whatever perhaps limited concerns they might have had of the downgrade; that has again got reaffirmed by ICRA and Fitch in addition to our conversations with these insurance companies. So they are comfortable with the risk profile of IDFC and as a result all the funds that we have mobilized from this segment have really not cost us anything more than what we would have otherwise offered.

Vikram Limaye I would like to just add that there have been few questions surrounding CRISIL and downgrade and all that I think it is important to remember that if you read the rationale for why CRISIL downgraded in the 1st Quarter, it really had nothing to do with any financial concerns surrounding IDFC at all. So in fact they have articulated quite clearly that they were very comfortable with risk management, asset quality, diversified revenues, etc., their rationale was more based on a medium term outlook of growth which would therefore result in our Tier I capital levels coming down. So there has never ever been any concern even with CRISIL about any credit quality, asset quality or risk management issues that the market really needs to worry about in terms of our lenders whether it is insurance, banks wherever we borrow from. Obviously, they downgraded us to AA+ after which ICRA and Fitch have come back and reaffirmed AAA. So the recent borrowings that we have done have indicated that the CRISIL downgrade has not really had any impact on our overall borrowing cost.

Mudit Painuly Okay. Thanks, I am done.

Moderator Thank you. The next question is from the line of Ajinkya Dhavale from Motilal Oswal Securities Ltd. Please go ahead.

Ajinkya Dhavale As you articulated on the spreads movement going forward that you think higher spreads can sustain for some more time before they come to a longer term average. Is the uptake in the ROA also more convincing as we are inching slowly towards 3% return on asset and that is far away from 2.5% long term which you had been talking about. So is this higher ROA a reality for next couple of quarters to come?

Dr. Rajiv Lall Probably yes for a couple of quarters.

Ajinkya Dhavale Okay. Are the approvals really a very good indicator for last two quarters now growing really strong, but the project pipeline which I look has not grown. I mean the way I look at project pipelines is the difference between your exposure and disbursements and neither the loan growth has been there on a sequential basis so am I wrong in analyzing this way or can you just explain that? The approvals are not getting captured neither in the pipeline nor in the loan book.

Vikram Limaye There are some approvals there. There are some loans that we had sanctioned and some that we have cancelled as well. Periodically, as we see what is going on with specific projects or approvals that we have made and we have to keep adjusting those for what is likely to actually disburse. So on an on going basis we keep doing that. So what you see is a result of that rather than the opportunity landscape.

Ajinkya Dhavale Okay. So maybe some past sanctions have got cancelled that is why the pipeline is not getting stronger?

Vikram Limaye That is correct.

Ajinkya Dhavale Okay fine, thanks.

Moderator Thank you Mr. Dhavale. The next question is from the line of Jatinder Agrawal from RBS. Please go ahead.

Jatinder Agrawal In terms of the recent changes in debt capital markets, their settlements from 1st of December will go through NSCCL and CCIL. Does that make a difference to the way that you would look at your funding profile over the longer term…?

Vikram Limaye Are you asking the question about debt instruments being listed or what is it in specific?

Jatinder Agrawal RBI had sent out those notifications saying that all OTC trades and corporate bonds will be cleared through NSCCL and CCIL?

Dr. Rajiv Lall That should improve transparency of pricing and price discovery. So I guess the theory is that secondary market trading in bonds should become a little more liquid. I think that could have some impact on the overall depth of the bond markets. If it does, it could eventually translate in some pricing benefits for us, but I personally am of the view that our bond markets will remain fundamentally constrained by the lack of diversity of potential buyers. So if the bulk of the buyers continue to be the bank as long as that remains the case, you would not see the bond markets really grow very dramatically. So I am not particularly holding my breath pertaining to this particular measure.

Jatinder Agrawal In terms of the yield curve steepening that we are currently seeing, you see the one year to 10 year upwards of 200 to 250 for the AAA compared to last year where it was all in the range of 100 to 150. Till the time that it remains steep, do you think that it makes a material difference to your liability repricing benefits?

L. K Narayan Most of our borrowings are based on a bilateral conversation with various constituencies, banks, insurance companies and while there are reference points taken from the secondary markets in so far as pricing is concerned it also beholds to have them factor in the credit profile of IDFC. So we have historically seen the AAA spreads actually compressed. It used to be 180 to 190 now we are coming off in the range of 150 thereabouts. So we have actually benefited as a result of that even at the longer end of the spectrum.

Jatinder Agrawal Perfect, thank you sir.

Moderator Thank you Mr. Agrawal. The next question is from the line of Ranjeet Sivaram from PCS Securities. Please go ahead.

Ranjeet Sivaram Like you have said that your Capital Adequacy Ratio is 24%, can you just let me know the breakup of Tier I and Tier II capital adequacy ratio?

Vikram Limaye The capital adequacy number is really an annual number that we have. We have disclosed the March 31st number, close to 24% and 23.8%.

Ranjeet Sivaram What is the sub-debt?

L. K. Narayan The sub-debt was about 3.8% and the rest was Tier I.

Vikram Limaye As of March 31, 2009 it was almost 20% in Tier I and another 4% odd in Tier II, so it is about 24% total capital.

Ranjeet Sivaram Okay, fine. I think your borrowing is far ahead compared to your net growth. So I am just curious, if you want to increase your books because of the infrastructure spending and you need to disburse more loans; so don't you have to go for a QIP at this point of time?

Dr. Rajiv Lall No we do not need to go for any QIP. We do not need any additional liquidity capital at this time because you know our leverage is 4.7 times as of September 30th and given that we feel that 20% Tier I capital adequacy was too high a burden on us quite unnecessarily. We feel that we can continue to grow the business for sometime especially to take account of annual internal accruals that we are generating from our business and that we can comfortably grow our balance sheet for the next two to three years even at 15% to 20% without requiring any additional equity capital.

Ranjeet Sivaram Okay. What is your target growth rate for this fiscal year?

Dr. Rajiv Lall We do not give target growth rates. What we have said is that 15% loan growth which we had signaled earlier is now looking like it would be on the lower side. We are confident about doing more than 15% so we have I suppose expanded the indication of signaling of 15% to 20% and we are saying that we should achieve that quite comfortably this year.

Ranjeet Sivaram Okay. Going ahead there is a possibility of RBI hiking the interest rate. In such kind of a scenario, how flexible are your loans? Can you carry forward the same hike to your loans and thereby stabilize your earnings?

Dr. Rajiv Lall We have a PLR and our PLR is set every fortnight and so any incremental assets that we book get recalibrated on our marginal pricing basis to the new PLR.

Ranjeet Sivaram Okay, because most of your borrowings are short term so once you pay them back, in increasing interest rates scenario your cost of funds increases so at that point of time wouldn't your NIMs get affected?

Dr. Rajiv Lall Yes. I mean what happens in an upward rate cycle is that it depends upon what your duration gap is, that your NIMs could get affected negatively because if the duration of liabilities is a little shorter than the duration of your assets they will tend on average to reprice a little quicker than your assets and as interest rates are rising then your NIMs do get squeezed. But the point I was making in response to a similar question a little while ago is that relative or compared to what we have expected to happen in a hardening interest rate scenario two years ago, we feel more confident that this time around, the contraction in NIM would be more modest than previous cycles for the reasons that I was explaining that the environment for banks has become more competitive in terms of liability acquisitions and therefore their ability to be very aggressive on asset pricing is not as strong as it was before and they are therefore going to be motivated to adjust their asset pricing quicker in this interest rates cycle than in previous ones and therefore we think that the likely impact on our NIMs would be more modest.

Ranjeet Sivaram Okay and thank you for answering my questions, that is all from my side.

Moderator Thank you Mr. Sivaram. The next question is from the line of Manish Shukla from IIFL. Please go ahead.

Manish Shukla If you look at your borrowing mix, borrowings from banks would roughly account for about 50% to 55% of your total borrowings. Here I am assuming that about half your bonds or debentures are subscribed to by banks. Now given that banks have their restrictions in terms of exposure norms and risk weighting do you see that funding source being a bit constraint for growth in excess of say 18% or 20% going forward?

Dr. Rajiv Lall The answer is no, because the banking system has been growing at an average rate of 20% odd a year for the last 15 to 20 years as far as I remember. So we have consistently said that as long as we maintain the growth of our balance sheets to a pace that is commensurate with the growth of the banking system, we will not be placing incremental pressure on the banking system to fund our balance sheet. Our size relative to the banking system would remain the same and therefore should not cause any real stress in terms of our ability to finance our balance sheet. Of course, if we decided to grow or wanted to grow our balance sheet at twice the pace of the rest of the banking system, then sooner or later we could get into trouble.

Manish Shukla But as far as the current status is concerned there is no real strategy to change the mix as a conscious strategy?

Dr. Rajiv Lall No, we would love to become less dependent on the banks but I think that is the reality of our financial system, that there are only so many sources of funding outside of the banks and therefore we have to take all that into account and articulate our strategy appropriately.

Manish Shukla My second question is regarding your private equity business. What would be the proportion of deployment of the funds that you have raised last year?

Dr. Rajiv Lall I think we have committed 40% of the funds we raised last year.

Manish Shukla And do you expect the balance to be committed over the next 1 year period?

Dr. Rajiv Lall No, not at all, I think given valuation in the public market, I will be hardly surprised if this money gets utilized. It will take at least 24 months in my judgment.

Manish Shukla Till such time that you deploy that money, would you be raising any new funds?

Dr. Rajiv Lall With the follow on funds to the funds we have, I do not think we will get to that until 2011. That is my current guess, but we haven't thought through at this point a calendar, if you like, for when we will raise additional money for our follow on funds, but that did not prevent us from raising funds for our kinds of asset classes that fall under the general heading of alternative assets.

Moderator The next question is from the line of Veekesh Gandhi from DSP Merrill Lynch. Please go ahead.

Veekesh Gandhi Could you give me the breakup of how much money is in equity and debt in your domestic fund, mutual fund?

Vikram Limaye It is about 80:20, 80 debt.

Moderator The next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri My questions have been answered. Just a repetitive one, you mentioned your maximum leverage sometime during the call, so what is that number which you can reach with the current equity?

Dr. Rajiv Lall No, we did not mention maximum leverage that we can get. We had previously been functioning under the constraint of 20% Tier I and what we have said is that we will end up with total capital adequacy that will be somewhere between 15% and 20%.

Moderator Our last question is from the line of Kunal Yadav from Almondz Global Securities. Please go ahead.

Kunal Yadav Earlier in the call you made a point about the incremental cost of funds with banks that will increase over the long term and how that will help in lessening the pressure on your spreads also over the long term, but in a very near term when I am talking about the next quarter or two, given the current liquidity scenario where you have also done some opportunistic borrowing and banks are also offering one year loans at sub 10% rates of interest, are you getting any sense of pressure on your advances growth where banks are competing away some of that demand by offering lower rates especially for bridge financing?

Dr. Rajiv Lall No, not quite, the short answer is no. I think it is probably to do with the fact that banks are actually still quite focused on maintaining asset yield coming out of the turbulence of the last 12 months or so. And so we are not quite seeing the same degree of pricing aggressions from them as we would have seen when we were at the peak 2 to 2.5 years ago.

Kunal Yadav So you are still competitive in terms of the yields or rather the rates that you are offering to the borrowers?

Dr. Rajiv Lall Yes.

Moderator Thank you Mr. Yadav. I would now like to hand this floor back to Dr. Rajiv Lall for closing comments. Please go ahead sir.

Dr. Rajiv Lall Well thank you all for joining us today. If you have any additional questions please do not hesitate to contact our investor relations team. And we hope to be interacting with you during the quarter, visit our website, if you have any suggestions for improving we welcome those, otherwise we will talk to you again same time next quarter, thank you.

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