IDFC H1FY12 Results

Investor/Analyst Conference Call Transcript
November 9, 2011

Moderator Ladies and gentleman good day and welcome to the H1FY12 results conference call of IDFC. As a reminder, 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 this conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference e over to Mr. Bimal Giri from IDFC. Thank you and over to you sir.

Bimal Giri Good morning everyone. I welcome you to this conference call organized to discuss our financial results for the first half of financial year 2012. I have with me Rajiv Lall, Vikram Limaye, Sunil Kakar, 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 Sunil Kakar our group CFO to provide key highlights of our performance for the first half of fiscal 2012.

Sunil Kakar Thank you Bimal, hello everybody. Thanks for joining us. I will run you through the numbers, recent developments and then we can do the Q&A.

On a consolidated basis, our operating income has increased by 19% from Rs. 1,259 crore in H1FY11 to Rs. 1,495 in H1FY12. Within that the net interest income increased by 38% from Rs. 711 crore to Rs. 981 crore. This was driven by NII from infrastructure lending which grew at 31% from Rs. 663 to Rs. 867 crore and NII treasury which also increased from Rs. 48 crore in H1FY11 to Rs. 114 crore in H1FY12. The second component of our operating income, which is non interest income, has decreased by 6% overall from Rs. 533 crore to Rs. 499 crore in H1FY12. But if you break this down further, you will see that income from principal investment activities has increased by 70% from Rs. 151 crore to Rs. 257 crore. Income from asset management has increased marginally by 5% from Rs. 121 crore to Rs. 127. Whereas the fee from investment banking and broking business, as expected, has decreased by 67% from Rs. 110 crore down to Rs. 37 crore. Loan related and other fee is also down by almost 48% from Rs. 151 crore to Rs. 79 crore. In H1FY11, we also included some loan related fees from a section 25 companies, which is no longer with us, which is IDFC Foundation. So if you adjust for this, the loan related and other fee is actually gone down by 42% from Rs. 135 crore to Rs. 79 crore. Operating expenses were flat at Rs. 245 crore, but if you adjust for the IDFC foundation, the operating expenses would have grown marginally by 7% from Rs. 229 crore to Rs. 245 crore. Total provision for the various asset classes increased by 10% from Rs. 94 crore to Rs. 103 crore. We have made provision for some of our equity investments in the infrastructure sector and that has caused this increase largely.

Profit before tax increased by 25% from Rs. 919 crore to Rs. 1,147 crore, After providing for the taxes, our PAT has increased by 24% from Rs. 674 crore in H1FY11 to Rs. 838 crore in H1FY12.

I will now take you through the ROA analysis on a rolling 12 months basis wherein we will compare the two 12 months period July 10 to June 11 and October 10 to September 11. Net interest income increased from 3.9% to 4.0% of average total assets. NII infrastructure and NII treasury was 3.5% and 0.4%. Contribution from non-interest income increased from 1.6% to 1.8% and the break down is in line with what we spoke wherein principal investments have gone up from 0.2% to 0.7%, asset management remained flat at 0.5%, while investment banking and broking has come down from 0.4% to 0.3%.

Operating expenses have been stable across the two periods. The overall spread over the two-12 month rolling period which is an important parameter, has increased from 221 basis points to 230 basis points. The cost to income ratio has decreased from 20.6% to 19.2% and the effective tax rate has reduced from 29.4% for the last 12 months period to 28%. The leverage as of September 30th, 2011, was 4.3 times and the ROE has increased from 11.5% for the 12 month period ending June 11 to 12.7% for the 12 month period ending September 11. Now to take you through some highlights on the balance sheet front, our balance sheet has increased by 11% from Rs. 46,400 crore on September 30th 2010 to Rs. 51,650 crore as on September 30th 2011. On the liability side, our outstanding borrowings increased by 12% from Rs. 35,300 crore to Rs. 39,576 crore. Our net loan book increased by 14% from Rs. 34,397 crore in September '10 to Rs. 39,313 crore in September '11.

Gross approvals have decreased by 58% from Rs. 33,000 crore in H1FY11 to Rs. 14,000 crore in H1FY12. Gross disbursements also have decreased by 62% from Rs. 17,300 crore to Rs. 6,600 crore. Energy, transportation and telecommunication continue to be the top three sectors contributing 43%, 24% and 22% respectively of the total exposure and 44%, 23% and 21% respectively of total disbursement. Our net NPA was at 0.1% and our loan loss coverage ratio as of September 30th 2011 stood at a healthy 1.7%. On the borrowing side we have been in a position to diversify our liabilities profile much better this fiscal. We have reduced our dependence on rupee term loan borrowings from bank and replaced them by more cost effective sources such as foreign currency loans and some bonds and CPs. Recently, the FII route has opened up and that has also contributed significantly and is becoming a new market for us wherein, the last month only, we were able to raise Rs. 2,000 crore from this window. The integrated treasury includes debt capital market business and this territory has also performed well this fiscal so far.

On the asset management company side (AMC), we have received all approvals for our 25% IDFC stake sales to Natixis and we expect to conclude this transaction during this quarter. Our mutual fund business has been doing well. This fiscal, we have increased our market share from 3.75% to 4.06% from June 30th to September 30th 2011. We are placed 10th in the league table and Y-on-Y we have increased our average AUMs by 31% to almost Rs. 30,000 crore in H1FY12.

To take you through some other developments, IDFC was ranked first in India for carbon ranking by the environmental investment organization. IDFC Securities has now opened an office in USA. IDFC has been judged as a business super brand considered to be the Oscars in branding. Super brands originated in the UK and has since spread globally. We shall now open the session for Q&A.

Moderator The first question is from Sagar Tanna from Kotak Investments.

Sagar Tanna If I look at your quarterly run rate, gross approvals have been the best in the last four quarters, how do you look at things going forward and what do you think has been the reason?

Rajiv Lall Guidance remains the same for balance sheet and loan book growth to be in the range of 15 to 20% for this fiscal year.

Sagar Tanna Okay, but do you see any uptick in any sectors, etc.?

Rajiv Lall There is some uptick in the road sector and telecom sector, but nothing in power and then there are all kinds of refinancing and other kinds of businesses that we are pursuing, which will give us the loan and balance sheet growth that we are looking for.

Sagar Tanna In your previous con-call, you mentioned about inaction on the government policy front, etc., which is causing further stress and giving a bleak scenario, has that changed, has that materially improved, are you seeing any signs of it?

Rajiv Lall Well I will be lying to you if I said that there has been any material improvement, but there are signs that people are beginning to take action. I can only give you anecdotal examples of why that is the case. The first is with respect to what is happening with the State Electricity Boards (SEB). The public sector banks have begun to cut off their lending to SEBs. So there is escalating pressure on them to get their act together. Firstly, there is evidence that some states are now going to be raising their tariff rates. Secondly, there is also pressure coming from the Central Government. The Shunglu Committee is expected to report on its deliberations and recommendations in the next couple of weeks. That will put additional pressure on the SEBs to make their accounts much more transparent and a combination of these things should begin to be taken seriously by the SEBs, but that is the slow burning fuse for the longer term. The more immediate issues of concern are to do with fuel availability, both coal and gas, for which I am unable to at this point, report any material improvement on that front.

Sagar Tanna You mentioned about the SEB tariff increase, do you think that will help to bridge the short fall of Rs. 90,000 crore that is being reported in various media or will it just take care of future needs in terms of cash?

Rajiv Lall Just increasing the tariff will not solve their problems. They require significant restructuring of the balance sheet and stuff like that. And this will take time because these are complex issues and very political, but like governments everywhere in the world. We will do just enough to keep the ship afloat. So for the time being, I am not expecting anything more than that.

Moderator The next question is from Jatinder Agarwal from RBS.

Jatinder Agarwal Can we have the amount for the interest on zero coupon bonds for the first half of this year and the same for last year?

Sunil Kakar Rs. 47 crore were charged to the securities premium account this half compared to Rs. 90 crore in the last half year and this thing will wind itself down in another 12 months or so.

Jatinder Agarwal The second question is on your difference between consolidated PAT and standalone PAT, if you look historically at last couple of years, initially in the first three quarters, we used to have consolidated profit which used to be higher than standalone profits and in the last quarter because of the dividend effect, we actually used to see that get unwound in the first couple of quarters.

Sunil Kakar We have amended the dividend policy for our subsidiaries. We sweep the dividend out every quarter almost and hence what you used to see only in the last quarter, we will now see it happening every quarter.

Jatinder Agarwal Can you give some qualitative details, in terms of, which of the subsidiaries on a reported basis are actually in minus?

Sunil Kakar There are a few minus, but all large subsidiaries like the project equity, private equity, asset management, securities and IDFC capital are plus.

Jatinder Agarwal So, the minus effect is just because of the dividend given back to IDFC.

Rajiv Lall Yes, that is correct.

Jatinder Agarwal Any thoughts on the RBI's action of raising limit for FII investments in infra IFC bonds?

Sunil Kakar SEBI issued that circular around first of October and RBI just came out with it and during the month of October itself, we have been able to raise Rs. 2,000 crore from the FII market, which is almost 50% of the total raising. So going forward, however, we will have to develop this market a bit more and this will become a good source of funding as we go forward.

Jatinder Agarwal What is the cost of funds under this route?

Rajiv Lall It is several tens of basis points lower than domestic rupee financing from alternative sources.

Moderator The next question is from Manish Choudhary from Citigroup.

Manish Choudhary Can you provide the breakdown of your power sector exposures in terms of thermal versus non thermal and off the thermal, what would be operational assets versus under construction?

Sadashiv Rao Our total exposure in power is 43% of total. Of the total energy exposure, 64% is generation where primarily people are concerned with. Of the 64% generation, under construction is where we see the risk which is 34% and the balance 30% being operational. Of the 34% roughly about 14-15% is basically thermal.

Rajiv Lall But the bottom line is that when you look at our total exposure, a very significant chunk is actually renewable and captives, so our IPP exposure is less than half of our total energy exposure and the second important point for you to understand is about half of our total exposure is in operational assets as opposed to assets under construction. We will make a slide explaining these details put up on our website by EoD.

Manish Choudhary How much of this will be captive versus non-captive?

Rajiv Lall Yes all of that will be available.

Moderator The next question is from Tabassum Inamdar from Goldman Sachs.

Tabassum Inamdar Is the general provisioning about 6.6 billion rupees now. Is that correct?

Rajiv Lall Yeah that is correct.

Tabassum Inamdar Okay now you had about Rs. 6.5 billion in the previous quarter and you have made about 600 million provision this year, so does that Rs. 600 million provision including other than NPL or general provisioning, because otherwise it should have gone up by around Rs. 600 million, which it has not because if I look at your gross NPL and net NPL

Sunil Kakar A part of the provisioning this year has been on account of equity and not on account of loans.

Tabassum Inamdar It is the equity mark to market.

Sunil Kakar Yes.

Tabassum Inamdar Have you restructured any loans, are you getting a lot of queries for restructuring now or are companies coming to you to restructure loan?

Rajiv Lall In the first six months, there has been no restructured assets, but I expect over the next 18 months, there will be some assets that will be restructured, but like in the previous cycle, compared to our balance sheet, they will be very small.

Tabassum Inamdar If I look at the loan growth this quarter, quite a bit of that has come from loan against shares and corporate lending, the demand is less from project lending, so is there any kind of proportion you would like to restrict this loan against shares in terms of the overall proportion?

Rajiv Lall No, please do not characterize this as loan against shares. This is not what you think it is. These are actually mezzanine type structures, designed to help promoters raise the different class of capital, not so much to repurchase their shares or any such things, but often to make acquisitions or to expand capacity as back to back they are raising money from private equity investors. So this is actually a form of bridge financing, the contours of which are well defined and the underlying cash flow characteristics of these projects are very strong and the third feature is that the all-in return for this kind of financing, what you might call structured finance, is very lucrative for us.

Tabassum Inamdar The lending rate would be higher on this versus your normal project lending?

Rajiv Lall Yes, It will be materially higher.

Tabassum Inamdar This quarter or this half year, would you have done a lot of refinancing of loans in terms of disbursements?

Vikram Limaye Refinancing has not been a very large component. There has been obviously some refinancing that we have done in the road sector primarily, but otherwise a lot of it is also project disbursements or any other type of special situation financing that has been done. But in the road sector we have done some securitization and refinancing.

Moderator The next question is from Venkatesh Sanjeevi from ICICI.

Venkatesh Sanjeevi The employee cost in the standalone business has seen a pretty sharp increase sequentially, from Rs. 28 crore to Rs. 44 crore, can you explain what is this on?

Sunil Kakar It is just a variable bonus part of it. We have tried to make it more uniform. Last year we had done only 35% of the total provision in the first half, so we are trying to make it smoother and do almost like 45-50% in the first half, don't read too much into quarter-on-quarter. The number at the end will remain the same. It is just that we are making a smoother provisioning this year.

Rajiv Lall And the other thing is that we are consolidating all variable provisioning against the standalone P&L, not the subsidiary P&L.

Venkatesh Sanjeevi I have noticed that sundry debtors has increased significantly, what would have been the reason?

Sunil Kakar Nothing, you see we did some sales transactions, the treasury on 29 and 30, 1st and 2nd were holidays, so it's just had to be classified that day and since received October 4th, it was back in cash account on 3rd., so this is just transitory.

Venkatesh Sanjeevi So, the entire Rs. 1,000 crore is this?

Sunil Kakar Yes, on October 3rd it would have been back to square one.

Moderator The next question is from Anand Vasudevan from Franklin Templeton.

Anand Vasudevan If you look at the loan against shares portfolio and the corporate finance portfolio, from RBI's perspective, does this qualify as infrastructure financing for your status as IFC?

Rajiv Lall Yes. Please let's not call these as loans against shares, these are structured deals for infrastructure players. May be our people have nomenclature this as loan against shares. I am going to ask them to change this nomenclature because it gives a wrong impression of what it is that we are trying to do.

Anand Vasudevan The security for this lending is shares held by the promoter in various companies that the promoter's have, is that correct?

Vikram Limaye Yes. If the only security that we have lent against is shares, then it will be classified as a loan against shares. Most cases the lending that we do have multiple levels of security. There are other assets that are provided as security. There are shares that are provided as security. There could be cash flows provided as security. There could be personal guarantees of promoters that could be provided as security, etc., in which case those would not be classified as loan against shares because that is not the nature of the instrument and many of these structured instruments are more to provide some sort of bridge financing to promoters because many of them had plans to go public or had plans to raise equity from the capital market and those plans have been deferred. These are all high quality companies. They are not going to differ their plans and therefore they are looking for bridge financing till the market comes back and some of them are in conversations to raise private capital since the public markets are unavailable. So these are in the nature of structured mezzanine instrument where shares could be one part of the security, but unlikely to be the sole security. If it is the sole security against lending, we will classify that as a loan against shares.

Anand Vasudevan What would be the cover of lending that you classify as loans against shares?

Vikram Limaye Normally at least two times and depending on the promoter it could be much higher.

Anand Vasudevan How do you manage the margin requirements if stock prices were to fall.

Vikram Limaye Typically what happens is that there is a daily monitoring of the cover and depending on what the cover is, either a 25 basis point drop or if the cover is substantially higher than two times may be we will relax it to a 50 basis point drop, once that threshold is met, top up is required.

Anand Vasudevan So is it always that you maintain minimum two times cover?

Rajiv Lall Yes.

Vikram Limaye We have never had any problems with any of our loan against shares portfolio because if it is a pure loan against shares transaction, it is done with very high quality promoters that are of strategic importance to the platform. It is not being done as a product and by that what I mean is that there are several financial services organizations that do this as a product. We use this strategically for core clients of IDFC. So there are multiple engagements with these clients beyond any promoter financing that we may do and they would be from the highest quality groups.

Anand Vasudevan Did you say that the loans that you classified as corporate finance lending, does that also qualify for the IFC treatment?

Rajiv Lall Yes. Any kind of infrastructure lending is treated as IFC.

Moderator The next question is from the Ganesh Jayaraman from Spark Capital.

Ganesh Jayaraman Wanted to understand the gain from principal investment this quarter, what is the quantum, what is the tax element in that, if you can give me some detail?

Vikram Limaye There is a 20% tax.

Ganesh Jayaraman Is it the National Stock Exchange.

Vikram Limaye A large chunk of that relates to portions that we sold in the National Stock Exchange.

Ganesh Jayaraman Could you tell me what percentage of stake you are now left with on NSE?

Vikram Limaye About 6.6%. We were at about 7.8 - 7.9%.

Ganesh Jayaraman Is it fair to assume that the entire Rs. 243 crore is largely from the stake sale.

Vikram Limaye Yes about Rs. 240 crore was from the National Stock Exchange.

Moderator The next question is from Mr. Nischint Chawathe from Kotak.

Nischint Chawathe There is a fair bit of traction on a quarter-on-quarter basis, could you give some color on the loan related fees, how much would be linked to disbursements and to some other items, etc.?

Sunil Kakar The disbursements have picked up in the second quarter. The loan related fees are all related to disbursements only.

Nischint Chawathe But the proportion which you have increased is substantially higher on a quarter-on-quarter basis, if you could just give some more color as to how we should look at that?

Vikram Limaye It's all largely linked to the growth in the loan book, that's the way we would encourage you to look at it.

Nischint Chawathe What would be the rate hike or the PLR hike on the asset side that you would have done over the last six months and as compared to this what would be the portfolio yield change in the last six months. I am basically trying to get a more qualitative color on this and you know how the asset mix or the quality mix has also changed?

Sunil Kakar: Our spreads have improved marginally from 220 odd basis points to 230 basis points. Asset yields in the landscape have gone up because the interest rate environment has gone up so bank's base rates have gone up, but it's not about asset yields, the number to track is more about spread. So our spreads have certainly stabilized-to-marginally improved and that is what is evident from the data.

Nischint Chawathe Looking at the same thing a little differently, would the median credit or median internal credit for clients have changed in last six months?

Sunil Kakar: No, my credit quality remains the same. Through treasury operations / borrowing mix changes, our average cost of funds has not increased as much as what banks and others have increased. The 150 basis point till September and 175 basis points RBI has raised rates, our prime lending base rate has not gone anywhere near that. Our cost of funds may have increased by on an average 50 to 60 basis points. So through that exercise also, we have been able to provide competitive rates out there and the underlying question whether the spreads increased because of decrease in credit quality, the answer is no.

Moderator The next question is from Manish Ostwal from KR Choksey Shares and Securities.

Manish Ostwal Do we hedge the foreign currency exposure loans entirely or we hedge partially?

Sunil Kakar We 100% hedge foreign currency exposure, we do not carry any foreign currency exposure.

Moderator The next question is from Shrey Loonker from Reliance Mutual Fund.

Shrey Loonker Could you give us some color on how do see the tradeoff between project loan and corporate loan, and the second question is that if you have seen any slippages on the planned disbursement draw down may be because of some pre-disbursement conditions, covenants breaching? And thirdly if you could just give us some color of incremental disbursements between under construction and post COD and pre-COD in the past 6 months?

Sadashiv Rao Can you give some color on corporate loan and project loan, what do you want exactly?

Shrey Loonker How do we view it in terms of the risk matrix one versus the other as a product?

Sadashiv Rao Typically, the risk in the project loan is higher during construction, but thereafter as steady state cash flow is achieved then the risk migrates down substantially. In a corporate loan, it is a corporate balance sheet that we look at and therefore the risk by and large does not migrate much, but to start with the risk is lower in a corporate loan.

Shrey Loonker How would the pricing be different, would the corporate loan be lower yielding for the similar corporate vis-à-vis a project loan, I agree it's very project-to-project specific, but just on a broad like-to-like basis?

Sadashiv Rao Typically yes it would be lower for corporate.

Shrey Loonker The second question was if you have seen any slippages on the plan draw down from a sanction book, may be because of some pre-disbursement covenant breaching or any other reason ?

Sadashiv Rao We do have a gap between sanction and disbursement and that's because typically all the projects takes time to get approvals and take time for order. So that the same schedule is being maintained.

Shrey Loonker So there hasn't been any slippages to the schedule of that plant draw down over the last one year.

Vikram Limaye No.

Shrey Loonker If you could just give us color on incremental disbursement mix between Pre-COD and post-COD?

Rajiv Lall My sense is that the share of pre-COD project is coming down. We are doing more post-COD projects.

Shrey Loonker Would that consequently mean we are doing more bit of refinancing?

Rajiv Lall Yes, we are doing a lot of refinancing and securitization.

Moderator The next question is from Ramnath Venkateswaran from Birla Sun Life Insurance.

R. Venkateswaran My question is related to the fact on the power fuel availability front. Do you see some kind of consolidation likely to happen in this space and opportunity for private equity or some of the larger players taking over the smaller ones who got into this business?

Rajiv Lall Well I am aware that there are many conversations that are ongoing, but I am not aware that any transactions have actually being concluded. M&A in the Indian context as you know is not an easy thing. It takes time. People want to hold out till the last and I suspect there is lot of people still trying to hold on and hold out.

R. Venkateswaran Do you see some opportunities coming up for your private equity side of the business over the next say one or two years during this time when you could probably look at…?

Rajiv Lall What I can tell you is that the investment activity and our alternatives funds have stepped up and we are expecting that by second quarter of calendar 2012, we will be in the market to raise new funds.

R. Venkateswaran How do you see the kind of bidding that is happening in the road side business, the economics of some of the projects that are being bid by some of the developers, do you see them…?

Rajiv Lall During the time of the UMPP, there was a lot of euphoria and a lot of banks rushed into financing UMPPs. We stayed away from every UMPP in the market. Likewise we feel that a bid is too aggressive, we will steer away from it.

Vikram Limaye Yes, I think as we have seen there is nothing unique about this particular period. In general, there have been road projects even historically that have been aggressively bid and also aggressively capitalized and we have steered clear of both those situations and that is reflected in the asset quality of our road portfolio as well. So even in the current round of bidding that has happened because we haven't really looked at the detail projections of each of these developers when they bid on some of these roads, but it does appear that some of these roads have been aggressively bid and as we are very disciplined about our own credit standards, we will steer clear of projects that we believe look stretched in terms of traffic projections or capital structure.

R. Venkateswaran I just wanted to understand when you are giving money in the form of mezzanine debt, are there covenants in terms of saying that the usage of funds will not be put in as equity by the promoters or the company concerned in some of the projects and stuff like that or are there any specific covenants or specific do's and don'ts that you prescribe to this part of the portfolio?

Vikram Limaye Yes, this is more complex than just a plain vanilla instrument, and it depends where this money has been lent. In any events, there are two types of investments, two levels at which this could go. One could be at the promoter investment company level, in which case we are necessarily saying that whatever money we are disbursing is going towards some infrastructure project or investment or it could be a mezzanine investment that is part of the capital structure of the infrastructure entity itself or project itself. So as we said, it is in the nature of bridge financing that otherwise would have taken place either through straight equity or a capital raise by the entity itself or some private equity investment, etc., which might happen in the next 12-18-24 months depending on when markets recover or what conversation these people have with private capital. So in any event the money that we are disbursing is towards some infrastructure related investment of the promoter or in fact into the entity itself that is engaged in this specific project whether it is roads, power, etc.

Moderator The next question is from Hiren Dasani from Goldman Sachs.

Hiren Dasani Would it be possible to know who was the counter party in the NSE transaction?

Rajiv Lall No.

Hiren Dasani The compensation qualities of the standalone employees have changed with a link to the standalone P&L now, was it different earlier?

Rajiv Lall: A large chunk of our compensation is variable and we want to keep it that way because we don't want the fixed cost base to escalate rapidly. So the question was how do we provide for the variable compensation which is performance linked and in the normal course of business is really crystalized only at the end of the year. So for internal management purposes, management wants to be careful about what employee expectations are about variable compensation for the year. So the compromise that we have found is twofold - first is that we will now provide more evenly throughout the year rather than bunch up the entire position at the end of the year. Second is that we will provide at the level of the standalone entity.

Sunil Kakar Standalone is only one part, the subsidiary thing is added at the consol level not at the standalone level also. So that's the tracking and accounting wise we have to be careful. So there has been no change in the compensation philosophy. We are trying to ensure A) smoother provisioning and B) not too much of visibility across the employee sections. So subsidiary P&Ls will get trued up as the year goes along.

Rajiv Lall Was that clear to you or does it still sound like smoke and mirrors to you.

Hiren Dasani There is always some smoke and mirror right.

Rajiv Lall So we want to give as transparent and timely guidance as possible to investors for our overall compensation expenses, So our underlying compensation expenses are not clear, but where we book those expenses during the course of the year. We have decided to book them at the level of the parent and not at the level of subsidiaries because we don't want our own employees to start looking at the quarterly accounts and assume a calculation for their own remuneration.

Hiren Dasani Does it mean that at the quarter end or at the year-end there is some kind of accounting treatment between subsidiary and the parent P&L?

Vikram Limaye Yes. See the reason for all this is, we have said before each business of the platform gets paid in line with market. Investment bankers get paid differently, private equity gets paid differently, the compensation mix is different for different businesses, unless we know what the actual performance of each of these businesses is, what the actual compensation for each of these businesses is very hard to predict early in the year. So we want to try and allocate the overall bonus pool that we are providing at the consolidated level to each of the subsidiaries once the actual performance of each of these subsidiaries is known. That is not known till very late in the year as some of these businesses are volatile.

Rajiv Lall At the end of the year, the distribution of expenses, compensation expenses between parent and subsidiaries might change, but the overall compensation number is not going to be very variable.

Hiren Dasani As per the earlier calls, would it be in the range of about 11% of the net revenues?

Rajiv Lall Yes but the total cost-to-income ratio is actually headed down.

Moderator Thank you. Ladies and gentlemen due to time constraints that was a last question. I would now like to hand over the conference back to Mr. Sunil Kakar for closing comments.

Sunil Kakar Thank you for your participation and we will update our website with some more information as promised. Thank you very much.

Moderator Thank you. On behalf of IDFC that concludes this conference call.