IDFC Limited

9M FY12 Results Conference Call
February 13, 2012

Moderator Ladies and gentlemen, good day and welcome to the IDFC Ltd. 9M FY12 Results Conference Call. As a reminder for the duration of this conference, all participants' 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 presentatione. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Bimal Giri. 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 nine months for the Financial Year 2012. I have with me Rajiv Lall, Vikram Limaye, and Sunil Kakar. Before we begin, I would like to mention 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 have been emailed to all of you. These documents have also been posted on our corporate website. I now invite Sunil to provide key highlights of our performance for 9M FY 2012.

Sunil Kakar Thank you Bimal. I will run you through the numbers, some recent developments and then we can start the Q&A. Let me start with our balance sheet first. Our balance sheet increased by 17% from ₹48,030 crore as of December 31, 2010 to ₹56,180 crore as of December 31, 2011. Our net loan book increased by 25% from ₹35,000 odd crore to ₹43,897 crore as of December 31, 2011. The increased momentum in the second half of the fiscal is on account of the macro context, surrounding interest rates and efficient management of our borrowings program translating to increased refinancing opportunities in roads and telecom. On the liability side, our outstanding borrowings increased by 19% from ₹36,633 crore as of December 31, 2010 to ₹43,729 crore as of December 31, 2011. Under the FII debt window, which opened for IFCs in October 2011, we have raised close to ₹3,000 crore till date. These borrowings were cheaper on a hedged basis, relative to our domestic institutional borrowing. Our second tranche of tax-free infrastructure bond issuance is open and will close around February 25, 2012. In the first tranche, we were able to mobilize around ₹530 crore.

Gross approvals decreased 41% from ₹36,500 crore for 9MFY11 to ₹21,666 crore in 9MFY12. Similarly, gross disbursements also decreased by 45% from ₹22,495 crore in FY11 to ₹12,429 crore in FY12. In terms of gross disbursements, the transportation and telecom sector saw an increased traction in this quarter. Energy, transportation, and telecommunication continue to be the top three sectors contributing 42%, 25%, and 22% respectively to the total exposure and 42%, 24%, and 23% respectively of total outstanding disbursement. The share of energy in total exposure has been coming down progressively from 46% as of March 31, 2011 to 42% as of December 31, 2011.

Now moving to P&L, on a consolidated basis, our operating income increased by 17% from ₹1,919 crore in 9MFY11 to ₹2,255 crore in 9MFY12. Within that, net interest income increased by 30% from ₹1,171 crore in 9MFY11 to ₹1,527 crore for the period ending 9M FY12. This was driven by NII from infrastructure lending which expanded 25% from ₹1,076 crore to ₹1,340 crore. The second component of our operating income, that is the non-interest income, decreased by 3% from ₹729 crore to ₹710 crore. Further details are available in the presentation that has been shared with all of you.

Operating expenses decreased by 9% from ₹407 crore in 9MFY11 to ₹372 crore in 9MFY12. However, adjusting for expenses related to IDFC Foundation, operating expenses were flat. Total provisions for various asset classes increased by 39% from ₹145 crore in 9MFY11 to ₹201 crore in 9MFY12. We made provisions for some of our equity investments in infrastructure which has caused this increase. Profit before tax went up by 23% from ₹1,367 crore to ₹1,682 crore. After providing for ₹463 crore towards taxes, etc., PAT increased by 23% from ₹995 crore to ₹1,219 crore in 9MFY12. The 9MFY12 PAT includes around ₹80 crore of PAT contribution from the 25% AMC stake sale to Natixis.

Now to share some of the key ratios on a rolling 12 months basis, wherein we will compare the period from October '10 to September '11 against calendar year '11. The return on assets was stable at 3.0. The overall spread increased from 2.30% to 2.37% on account of expansion of treasury spreads. NIM's improved from 4.28 to 4.33. The cost to income ratio decreased from 19.2% to 17.3%. Effective tax rate increased from 27.9% to 28.1%. ROE was stable around 12.9%. Leverage increased marginally from 4.3x as of September 30, 2011 to 4.5x as of December 31, 2011. I will share some more details on the provisions and assets quality. Our existing policies and conservative approach resulted in our cumulative provision for various asset classes crossing ₹1,000 crore as of December 31, 2011. Of this, more than ₹700 crore was towards standard loans and around ₹200 odd crore is for equity. Our gross NPA was 0.3% and our net NPA was 0.2%. Incrementally one asset from the tourism sector got added to gross NPAs in Q3FY12. Our loan loss coverage ratio continues to be robust at 1.6%.

I will now share some details on our telecom portfolio, given the recent judgment by the Supreme Court on the new 2G licenses. First, we have no direct exposure to new telecom operators. Over 90% of our telecom portfolio in exposure terms is to the largest and well-established telecom operators, the balance relates to cable companies and others. Now to some other developments, the 10th edition of India Infrastructure Report for 2011 on policy and performance for sustainable development in the water sector was released in New Delhi by Dr. Mihir Shah - Member of Planning Commission. Our legal team was recognized by the legal era and legal counsel Congress as the best project finance team. The legal counsel Congress also recognized Dr. Rajeev Oberoi our General Counsel as the General Counsel of the year. Also our Annual Report for FY11 was awarded the Silver Shield in the NBFC sector by the Institute of Chartered Accountant for Good Quality Financial Reporting and Disclosure Standards. Thank you. I shall now open the floor for Q&A.

Moderator Thank you very much, sir. We will now begin the question and answer session. We have the first question from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Oswal My question is related to the previous call, when you said that the company would focus on mid-tier plans to improve asset yields and we saw improvement in this space during the quarter from 2.3% to 2.4% in the last 12 months rolling basis. Firstly, how do you see the incremental provisioning due to this change in asset mix? And Secondly, we are relatively moving into a higher risky segment, so should we expect a higher provision on incremental basis on the loan book?

Sunil Kakar In the earlier term, what we meant was that we will be changing our product mix but not adding on higher and risky assets. In effect, actually the increase in spreads has been driven more from the liability side management and not from the asset side. Our incremental asset quality has improved as we have focused more towards operational assets rather than under construction assets. And on provisioning, I had mentioned, the increase in provision has largely been driven by some of the equity assets that we have on our book. This is due to the market conditions that required me to create certain provisions as of December 31st. Actually, as we speak, there have been some corrections in the market and these provisions would get written down or written off as markets improve. So just to reiterate, our incremental credit quality in the quarter has improved. The increase in spread is driven largely by liability side action and not changes in the risk profile of our asset quality.

Manish Ostwal Loan against shares book increased significantly both Y-o-Y and Q-o-Q basis, so is there any internal limit for this book and how do you see growth in this book going forward?

Rajiv Lall You need to understand what loan against shares means. It is not a standard promoter lending that other NBFCs are doing, these are structured products that are largely in the nature of acquisition financing and mezzanine financing. And these are predominantly given to some very well respected and some very large groups as well. And just because the number of loan against shares as a proportion has gone up, it does not indicate that there is a formulated increase in risk profile in the asset book.

Vikram Limaye Yes just one point I would like to add to what Rajeev said is that actually going forward we're going to combine this loan against shares and mezzanine products and just call it structured product because that is the actual characterization. Very often the loans that we have made have other types of security associated with them as well, not just shares. There could be personal guarantees, cash flows, other assets etc. So it doesn't necessarily reflect the true picture. What is the true nature of the product is in fact the category of products called structured products that could have a variety of assets as security and there could be acquisition financing as part of that which would not fall within the traditional categories of the project loans and corporate loans. So we want to club all those together in a category called structured products and that will be an appropriate categorization of that.

Rajiv Lall Again to add something and maybe address some other questions that people might have on the same subject, competitively you have to understand that we are able to do acquisition financing unlike our competitors who are unable to do it. This is actually an interesting space for us at a time when in the infrastructure sector, there is consolidation that is beginning to happen and we have seen that in a number of deals and that is what we have basically exploited. We have been supportive of our relationship with strong well-capitalized people that are looking to make targeted acquisition and that has been a good business for us over the last 12 months.

Manish Ostwal On a risk adjusted basis, what is the difference between our spread on the loan book, lending operations and the spread in the loan against share book?

Vikram Limaye I think the spread differential depends on the quality of promoter and the type of financing we do, but it could be higher by 150 to 200 basis points over the standard infrastructure loan spread that we get.

Manish Ostwal You said in the previous call, the steady state of cost-to-income ratio should be around 20%. This year, we see the nine-month number is 17%, so do we expect some one-off increase in the Q4?

Sunil Kakar You are right, now we are targeting to stay under 20% at all times and over a longer period of time, we may hit even lower than 17%. But there is always some full year through up with respect to our variable pay, which we have spoken about, but it will not be significantly different.

Rajiv Lall: Because again, we have actually provided for bonuses every quarter more systematically than what we did in the past. In the past, there was always this spike that happened in Q4 on account of variable compensation. We have taken that feedback on board from you guys and what we have actually done this year is quarterly provisions against bonuses so that you won't see that kind of jump on account of variable compensation in Q4 this year.

Manish Ostwal What was the amount profit on stake sale?

Sunil Kakar ₹80 crore.

Moderator Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani I just had a query on the provisioning policy, as you already hold around 1.6% of the assets as provision, now if one asset has fallen as NPL this quarter, do you provide for that or you use the existing provisions?

Sunil Kakar We provide for it. We have not yet used any of the existing provisions.

Rajiv Lall General provision, we haven't dipped into our standard provisioning pool. On a specific asset, we provide over and above that.

Amit Premchandani Going forward, just a hypothetical scenario, if 1% of the asset gets bad, you will continue to provide 10% as per the RBI policy or you will use the general provision pool?

Rajiv Lall We will have to face that circumstance, if and when we come to it, but if there were chaos in the market and it really starts pouring then theoretically, we could dip into our standard provisioning pool. That's why we have built it up, so that in the event of an emergency, we can use it. What we will say and what I can say relating to a class of questions on asset quality is that notwithstanding everything that is happening in the marketplace, we are very confident that the 1.6% cushion that we have is enough to protect the P&L through this cycle.

Amit Premchandani And any proposals of restructuring that you have received or you are envisaging to receive over the next two to three quarters?

Rajiv Lall We are not envisaging to receive any proposals for restructured assets, but I can tell you that in the last nine months, we haven't restructured any single asset.

Amit Premchandani And as per your definition of restructuring, will a rescheduling of payment qualify as a restructuring for IDFC?

Rajiv Lall Our definition of restructuring is the RBI definition of restructuring and we stick to that technical definition. In fact, the RBI is inspecting IDFC on a regular basis and we look forward to welcoming them, actually next week. So they will have every opportunity to check and recheck whether we are abiding by their technical definitions of all these categories.

Amit Premchandani One question on the exposure details, over the last one year, there has been no increase in energy exposure, while a significant increase in telecom, you have already clarified that the increase was to large telecom players. But generally, given the growth scenario in this sector, how come your exposure in telecom is increasing so much, is it more of refinancing and short-term loans?

Vikram Limaye Again as we outlined in the beginning, we have been very careful in general about what type of credit risk we take and that has applied also to the telecom sector. So we have an exposure to the largest, well capitalized, cash rich telecom operators without naming the entities, and those companies repeatedly have needs for refinancing short-term loans or other refinancing opportunities that come up. As we have highlighted before in the last nine months, we have had the advantage of our cost of funds being quite competitive given the fact that we have borrowed significantly in the bond markets relative to where bank base rates are. So we have used that competitive advantage to actually do business in a manner that the actual risk in the portfolio has come down. So we have done more loans that are higher rated for our internal benchmarks and even external benchmarks and have managed to demonstrate growth in the loan book and have also managed to demonstrate higher spreads relative to where our spreads were in March. So we have very carefully constructed our telecom exposure such that from a risk perspective, it is a low-risk portfolio.

Amit Premchandani What is the guidance in terms of growth because you have easily met the guidance for the full-year growth in the first nine months, so shall we expect this number to continue or some slowdown is expected?

Rajiv Lall Well nobody can gaze confidently into any crystal ball and a lot will depend on the government that you have elected and how they behave and how they don't behave. But without being fastidous, I think that just as this year, we have managed our growth to what we consider to be very respectable levels, given the current macroeconomic expectations for the economy more widely, we feel that we can repeat the performance next year and deliver a respectable growth rate. That said, we will not go back to last year's growth rate which was very high, but respectability is something that we strive to deliver and we are confident about delivering.

Amit Premchandani In terms of the power sector issues, if you can just share your thoughts on the three fronts, how the things are moving on FCCB, on fuel linkage and on the competitive bidding projects, in terms of some of the UMPPs coming up for commissioning and how they will manage the situation?

Rajiv Lall Look, we are in the flow of things so we may have a little more information than you do. What we can share with you is that in the next year, there remains a fair bit of uncertainty. That said, there are couple of positive developments over the last month and they primarily pertain to SEB risk at this time. So you recall that SEBs, public sector banks, and PFC's have stopped lending to SEBs and the SEBs therefore found themselves to be in a bit of a corner and didn't have any resources to paper over their cash losses. So that has triggered some positive reactions. There are nine distribution companies around the country that have already raised tariffs or are in the process of raising tariffs. I cannot pretend that the tariff increases that they have contemplated or announced are going to be enough to make up for their losses, but this is a very important beginning and what that means is that their cash losses are going to decline.

Secondly, as far as the fuel linkages etc., are concerned, what we are given to understand is that there is a reasonable prospect that Coal India will meet at least 70% of their commitments, they will not be able to meet 100% of the commitments on the fuel linkages but it is better than the 50% which was the number that will being bandied about some time ago. And then finally on the PPAs, that's where we have the least amount of clarity at this point. But our common sense would suggest that based on history and how things have evolved, it is the market's expectation, it is the expectation of the developer community that at least for those cases where Coal India had promised fuel linkages and has been unable to deliver or live up to those expectations, in those cases the developers would be allowed to use imported fuel as a pass-through. That is the formula that is being actively negotiated; I cannot tell you today if that it's a done deal.

Moderator Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy I just wanted to know what your risk-weighted assets number is for this particular quarter outstanding?

Sunil Kakar ₹53,000 odd crore, but I will reconfirm it.

Suresh Ganapathy But is the growth similar to the growth in the balance sheet?

Sunil Kakar Yes.

Suresh Ganapathy I'm just trying to guess whether there has been any kind of capital relief because we are moving towards more high rated assets because of which the RWA growth is lower than the balance sheet growth.

Sunil Kakar Except for G-secs and few others, there is hardly any differentiation in terms of the risk weighted assets, like in banks, if you lend to AAA etc., you get a 20% weight, for us this kind of differentiations are not available easily. There are some categories, but broadly speaking it is proportional.

Suresh Ganapathy So it's a 100% risk weight typically which applies?

Sunil Kakar Generally speaking.

Moderator Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain I just wanted to understand the nature of the refinancing of assets that we have done in this quarter in terms of the possible spread earned on this book and how big the book is and what kind of lending we have done, whether it is short-term or long-term?

Sunil Kakar The refinancing opportunity as we outlined even in our opening comments was primarily in two areas, one in telecom, the other in roads. So as it relates to the telecom sector, the refinancing is a mix of short to medium term opportunities. In the road sector, it is primarily longer-term opportunities because these are operating assets that you can securitize future cash flows. So on the road assets; I would categorize them to be medium to longer term, and telecom assets, short to medium term. The spread again is built in to our weighted-average spread that we have delivered as we said this year in the last nine months, we have seen a fairly large amount of refinancing that we have done despite that our spreads have actually improved from the March levels and that has largely to do with providing a competitive cost of borrowing for promoters, because of the cost of fund advantage that we had relative to the banks. So that's the reason why promoters who are willing to refinance these assets in the first place, so they did get some benefit.

Rajiv Lall And we were able to protect our spreads. It's not as if we have been pursuing refinancing business and operating assets and taking the decline in spreads, this basically indicates or it is a reflection of the success we have had on the liability side of the balance sheet.

Rahul Jain Just to get some sense on yields on the blended book, how would that have behaved from the last quarter on a QoQ basis, would it be up or stable in this quarter, because NIMs from Treasury has been fairly strong so just wanted to get some sense on the lending side as well?

Vikram Limaye The average yields that you're talking about in the last quarter specifically?

Rajiv Lall Your query is whether the yields have tracked up or down?

Vikram Limaye So if you look at this table that we have in our presentation and we do this on a rolling 12 months basis.

Rahul Jain Yes, on that it has actually come up by 10 basis points, if I were to see from last 12 months rolling, from January to December 11 period.

Sunil Kakar We have the numbers on a consolidated basis, but we can get back to you if you can just write to our IR department.

Rajiv Lall Quarter-on-quarter, the yields are definitely up that I can tell you on the lending book.

Rahul Jain Just one last question on average duration of assets, if I look at from March level, it has actually trended consecutively down quarter over quarter and now it stands at about 1.7 years. So I just wanted to understand, is it something to do with our investment book also, are we playing on the inverse yield curve or something of that sort?

Sunil Kakar Let me first clarify what do we mean by asset duration, we're talking of interest-rate asset duration. So for example you could have a five-year loan with an annual interest rate reset. So from interest rate perspective that will be classified as a one-year loan, and it is not us, Given that on the asset side, all the CFOs who borrow from us are equally smart, if not better, and their expectations of yield curve and interest rate coming down has led to a situation where the borrower has been more focused on taking interest rate resets for a shorter duration and hence the duration on the asset side from an interest rate perspective has been coming down.

Rajiv Lall The maturity profile remains the same.

Sunil Kakar Yes the cash flow maturity remains the same at around 4.8 to 5.

Rajiv Lall Just to answer your question on the average yield on the infrastructure book that also over the last 12 months relative to the 12 months ended September 30 has gone up.

Rahul Jain Just one data point, is it possible to get provision amount breakup?

Sunil Kakar Yes, we shared with you it is about ₹700 crore plus.

Rahul Jain No, I meant during the quarter, what would be that on the equity book, mark to market hit that would have taken on equities…

Sunil Kakar I don't have it ready out here, you please write to us and we will talk about it.

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

Jatinder Agarwal Can we get some amount of interest that has been charged on account of ZCB and the amount outstanding and when does this run off?

Rajiv Lall This year 9M, it is around ₹66 odd crore as against ₹137 crore last year and we expect this thing to run off in another 12 months or so.

Jatinder Agarwal Can I get the amount outstanding?

Sunil Kakar ₹700 odd crore.

Jatinder Agarwal Can we get an update on the alternative assets, private equity one, two and three? One seems to be very close to its end, any plans as to how this business will pan out over the next 12 to 18 months?

Rajiv Lall This was actually not just private equity, this is IDFC alternative, so please note the new nomenclature. This IDFC alternatives has two asset classes for now. We are going to be adding a third asset class this year. In the two asset classes, which are private equity and project equity, we have four funds. Total assets under management are $7.3 billion. Private equity has three funds, the ones you mentioned, 1, 2 and 3. Of those, fund 1 is completely invested; the capital has been 100% return. On top of that, there has been some distribution as well. Fund 2 is also 100% invested and Fund 3 is about 66% odd committed. So we are expecting that in private equity, it will take another 8 odd months, for us to put enough money to work in fund 3 that private equity will be open for fundraising but we will be in the market earlier in the year for fundraising with project equity and the third asset class that we are infusing as I said, it's in real estate, for which we will also be fundraising this year. So over the next 12 to 18 months, we expect to replenish the funds that we would have invested, i.e. the four funds that we currently have and we expect raise another fund in the new asset class that is real estate. So you will get more color on that over the next quarter or two, we haven't finalized how much we want to raise because we will have to test the market. It's a very hostile market for fundraising out there and India is not at all popular. We will do our best and will give you a better indication, so that you have a better sense for what this could look like 12 to 18 months from now, so those are our plans as of now.

Jatinder Agarwal Where you have returned the capital, can we get an IRR on what you have generated for those investors, is this possible?

Rajiv Lall I don't want to share that information in a public domain but you will get a sense for how those businesses are doing by attributing some share of the principal gains that we report to that business. So it is really our expectation that over time as the alternatives business matures that the bulk of principal gain that we will be reporting will come from these businesses, they won't be ad hoc investments. So the idea is to build in principal gains on the recurring basis coming from funds that have been invested over several investment life cycles.

Moderator Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani This quarter, we have seen some increase in the fees from the alternative assets classes, so anything you can explain?

Rajiv Lall It means that there have been some principal gains.

Hiren Dasani No I'm talking about the fees line which has gone up from ₹31 to ₹41 crore. I think the principal gains probably you report under capital gains...

Bimal Giri If you look at the fees under alternatives, it is actually stable at ₹30-33 crore. As Dr. Lall was saying, it is essentially the capital gains and carry, which is added and that is separately indicated in the P&L.

Rajiv Lall Fee income, I don't know where you are picking that up from.

Sunil Kakar Consolidated, it has gone up, but when you look at the breakup, ₹11 crore is from capital gains and carry from alternatives. We normally used to classify it all clubbed together and we have now segregated and given more information.

Rajiv Lall So in our investor presentation and therefore on the website, you should see a breakup of the alternatives revenue lines between fee income and gains from principal investments and carry and in that you will see the fee income. .

Hiren Dasani I thought the ₹11 crore is other than the ₹41 crore, my mistake. Loan growth trajectory for this quarter was very strong, so what would be your guidance on the loan growth going forward?

Rajiv Lall For FY12 our guidance has been around 20% and we stick by that guidance. For the next year the management speak is, we strive for respectability and we came to deliver it, so in a difficult environment, respectable will be similar kind of ballpark 15% to 20%.

Hiren Dasani When you say 20% growth in the infrastructure loans or would you include infrastructure loans plus investments also?

Rajiv Lall No this is for the whole, I'm talking on the whole balance sheet but it's mostly in infrastructure. Treasury will only move proportionately.

Hiren Dasani In your investments, when you give a breakup between treasury assets and equity, the equity portion has gone up by some thousand crore between last two quarters, ₹5,100 odd crore now?

Sunil Kakar Equity portion has gone up by thousand crore. That's a consolidated equity, that includes all my investment in subsidiaries etc, so it's ₹3,090 crore to ₹3,107 crore and has remained constant almost.

Hiren Dasani Maybe again you have made some reclassification, because earlier presentation, I think it was shown differently. Obviously when you are looking at a consolidated balance sheet, you would not put the equity in the subsidiaries in this bucket, right?

Sunil Kakar Yes, the goodwill is there separately, as you see the treasury assets have come down from ₹7,000 crore to ₹6,600 crore.

Vikram Limaye If you look at Slide 9 of the investor pack, that gives you breakdown between treasury and equity.

Hiren Dasani In one of the earlier questions, you alluded that on a longer-term basis the capital gains will come more from the private equity funds or the alternative asset fund, so does it mean that on balance sheet equity investments you are not going to book profits?

Rajiv Lal Yes, there will be fewer, so the bulk of our equity investments from the balance sheet will be in the form of our contributions to our fund.

Hiren Dasani And is that included in this ₹3,100 crore?

Rajiv Lall That should be included in the ₹3,100 crore. Our contribution is included in this number. The answer is yes.

Moderator Thank you. The next question is from the line of Veekesh Gandhi from Bank of America Merrill Lynch. Please go ahead.

Veekesh Gandhi Is there any guidance on growth, the rebound in this third quarter over second quarter has been good, but in terms of pipeline, you have done good sanctions, if I look at quarterly, but otherwise…

Rajiv Lall I tell you the guidance is to repeat what I have said a couple of times are that for this fiscal year, our guidance in balance sheet growth of about 20%. For next fiscal year, respectability is what we are striving for. So to translate that into numbers, we will give you 15% to 20% growth guidance.

Moderator Thank you. The next question is from Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal When I look at your cash flow duration on the asset side, it seems it has increased over last two quarters based on your disbursement number, your quarter end loan book, so any reason behind that?

Sunil Kakar It is because the interest-rate duration has come down from the asset side.

Pankaj Agarwal But cash flow wise, it has gone up that's what the numbers are showing.

Vikram Limaye When you say cash flow duration what do you mean. The average maturity of our assets and average maturity of liabilities is about 4.8 years and 4.5 years, so if average maturity has gone up marginally.

Pankaj Agarwal No, but if I look at your loan book at the end of the last quarter and the disbursement you have made in this quarter, there must have been some prepayments or payments in this quarter. Based on this rough number, your duration of your loan book on this quarter number comes around 8 years, which used to be around 3-4 years historically.

Vikram Limaye We don't track it in that manner, we're looking at the average duration on the asset book and the liability book on a quarterly basis, it has been quite lumpy depending on what type of assets you have done. So if I have done some road asset that has a 12 year financing that might get built into some quarterly disbursement, but that I would encourage you'll to look at it on a rolling 12 month basis at a minimum rather than looking at these duration numbers on a quarterly basis. So our average duration, we have already disclosed, the average maturity of assets and liabilities is about 4.8 and 4.5 years, so that again is relatively closely matched.

Moderator Thank you. The next question is from the line of Sunil Kumar from Birla Sun Life, you may go ahead.

Sunil Kumar My question is, like you mentioned couple of times around 15% to 20% loan growth this year as well as next year and just going back to the update you provided on the SEB issue, the Coal India, the fuel availability issue and the PPAs etc. And you also said that the SEBs have hiked tariffs. Coal India, instead of 50% is likely to provide 70% and for PPAs also something would be done, so if this is the improvement in the scenario, let's say, in this particular year vis-à-vis the last 12 to 18 months, shouldn't we start seeing some impact of this improvement in the scenario on our disbursements?

Rajiv Lall We want to be very conservative in our assessment and what is baked into our guidance is the assumption that for the foreseeable future, we will not be financing any thermal power. We will be doing some selective renewables perhaps, but you are already beginning to see the implication of that stance taken by us, because the exposure in relative terms to the power sector has already come down by 400 basis points and over the next 12 to 18 months, I expect that share to continue to decline. So what we are basically saying is that notwithstanding a very challenging situation in thermal power generation generally, we will still be able to peak out a respectable growth performance over the next fiscal year. Obviously, if the situation on power improves then guidance would also commensurately improve.

Vikram Limaye But you just remember that even if all the uncertainties surrounding power gets lifted and people start investing in new projects, by the time that flows into our actual disbursements will happens with a lag and the reality is for the developers to start investing in new projects, they will also require access to risk capital not just debt capital. So these guys will have to also have the ability to put in equity into new thermal projects that they decide to develop if all these uncertainties get sorted out.

Moderator Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak I just wanted to have more color on the energy sector exposure, how it is split up between the renewables or oil and gas or power?

Mnangement We have put up a tree on our website, which gives the breakup. We will update it if it is still as of September 30th. It will get updated hopefully by end of day or early tomorrow, so no major significant change in that, but the updated numbers will be on the website by end of day.

Kamlesh Kotak Regarding the thermal power projects as you mentioned, I wanted more sense about how the execution of the projects which are already going on is now panning out? And secondly, how you see the restructuring and all these reforms are going to actually be implemented because in the past also we have seen these kind of attempts, but the situation never has improved, so your thoughts on this?

Vikram Limaye Projects under construction, we have seen at least as far as our portfolio is concerned, developers continue to progress on completing these projects because that's the logical thing to do given that you are in the middle of getting this power plant up and running. The expectation also is that by the time these plants get completed some of the uncertainties that we are talking about will get sorted out, so there is no reason to stop construction at this point.

Rajiv Lall In addition to that, it adds to their financing cost if they delay construction, so it makes no sense to slow down construction.

Vikram Limaye So that we are not seeing as it relates to our projects.

Rajiv Lall And on the wider issue of how these things have resolved, these are all personal judgments if you like. at based on data point from various people and various analysis etc. Best case scenario is that we will muddle through, so it will be a combination of action on three fronts. So there will be some increase in tariffs, but it will not be enough to completely wipe out losses on the State Electricity Boards, so there will be some improvement of the cash flow situation of the State Electricity Boards which will buy us some time.

It could also be that there is a slight expansion of the experiment with franchisee companies in the distribution space, so it'd be a combination of these two-three things that will happen and most likely what you will find is that there will be some states that will pull away from others. So like Gujarat has done a very good job over the last 6-7 years, you might find another two-three states, who will get their act together, but the other states will begin to languish and that will cause a lot of discrimination on the part of lenders about what PPAs to accept and what PPAs not to accept. That's what I expect to happen on the distribution front.

On the fuel supply front, if you remember that it's not just coal, but it is also gas. So on coal, most likely Coal India will be able to increase its commitment from 50% to 70% of the linkages that they have progressed. Longer term, I suspect that it will take some time for Coal India to increase its production to a level where it is able to sustainably feed the power projects that will have come on stream. So I'm expecting that the mix of imported coal to domestic coal on average will be higher than people had expected and therefore the cost of generating electricity will also be higher.

Then the pain will have to be shared in some measure by the developers, who will take some reduction in their equity return which has already begun to happen and some of the pain will be taken by the consumer because the tariffs will eventually have to go up. On gas, I think I'm cautiously optimistic that gas pricing issues will get resolved over the next two-three months and then gas availability will become less of an issue or even there some pain will have to be shared by various people. I suspect that gas plants that are coming on stream may have to live with a lower PLF. So basically, some combinations of these various things will most likely pan out which will give us a muddle through scenario.

Kamlesh Kotak And could you have some more thoughts about the transportation segment on how that disbursement and how the growth tariffs are going to be?

Rajiv Lall On transportation, actually growth is reasonably good. That is one sector that continues to do reasonably well. There is a greater measure of transparency that has been introduced into the bidding process and allocation of bids for NHAI and investors and developers continue to bid for new projects and as long as traffic projections and actual traffic growth continues to be reasonably robust, I think that is one part of the infrastructure story that seems to not chug along, but look forward at least.

Vikram Limaye I would add to what Rajiv mentioned is that the road sector seems to be active, but other parts of transportation certainly could see more activity, particularly the port sector. Airports anyways are very limited, so that can be done given government policy. But port sector should certainly pick up steam because over the last 12 months or 24 months, there has been very little progress happening in terms of the new projects being bid out from the port sector.

Moderator Thank you. The next question is from the line of Abhishek Murarka from ICICI Securities. Please go ahead.

Abhishek Murarka Just briefly going back to the alternatives, what is the contribution that you have already made to the existing funds and what is the kind of contribution you will be looking to make to any of the funds, for example, the real estate one which you plan to float in the future?

Rajiv Lall To date, our allocation to the entire alternatives business so far, cash, is about ₹400 crore and the way we have positioned the alternatives business is that whatever funds we raised, about 10% of that capital would come from the IDFC balance sheet. So let's say hypothetically, we raised a billion dollars, ₹4,000 crore in couple of asset classes, it doesn't mean that we will allocate our $100 million right away. These investments take place over three to four years on an average so that $100 million commitment will be over that time period, so about 30 to 40 million dollars a year equivalent.

Abhishek Murarka So it will basically be as we go along and commit to the part of the fund?

Rajiv Lall Yes, that is broadly correct.

Moderator Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe In the opening commentary, you did mention that you raised around ₹30 million from the FII window, could you give us more sense on how much you are benefiting from this and what would be the contribution of this in the entire borrowing plan over the next couple of quarters?

Sunil Kakar As we mentioned, this is also a function of swap rates prevailing at a particular point in time and the domestic market rate. So at that point in time, it did give us something in the range of 25 to 50 basis points, it varies from deal to deal. But that is to say, it is a very tactical approach; it depends on how dollar rupee is behaving, how the FX forward markets are behaving because as mentioned, we do not keep open FX risk. We hedge it but our intention is that from all foreign currency sources, FIIs or ECB etc., almost 20% of our borrowings come from those sources. But that delta, will it continue at 25 basis points or so cannot be guaranteed.

Nischint Chawathe That is something, which obviously is the function of the markets but broadly 20% is what you would target?

Sunil Kakar Yes.

Moderator Thank you. The next question is from the line of P. Subramanian from Sundaram Mutual Fund. Please go ahead.

P. Subramanian I wanted to know what is the status for the Project Equity Fund, how much of it is actually deployed and how much do you think you will be able to deploy by the end of this year?

Rajiv Lall We expect that the fund will be fully invested within the next six months and so we will be on the road raising money may be as early as next quarter.

P. Subramanian And how much of the fund is currently invested?

Rajiv Lall I think close to 65% to 66% is committed.

P. Subramanian What would be this number have been at the beginning of the year just to understand how deployments have been on the product equity space?

Rajiv Lall I would say it is about 45%.

Moderator Thank you. I would now like to hand the floor over to Mr. Sunil Kakar for closing comments.

Sunil Kakar Thank you everybody and we hope to meet next quarter with good results.

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