IDFC Limited

9MFY15 Earnings Conference Call Transcript
January 30, 2015

Moderator: Ladies and gentlemen, good day and welcome to IDFC Limited 9MFY15 Earnings Conference Call. As a reminder, all participant lines will be in a listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bimal Giri of IDFC Limited.

Bimal Giri: Good morning everyone. I welcome you to this conference call organized to discuss our financial results for 9MFY15. I have with me Vikram Limaye, Sunil Kakar and Pavan Kaushal.

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 e-mailed 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 9MFY15.

Sunil Kakar: Thank you, Bimal. Thanks for joining us today. I will first focus on the macro side and then share the key highlights related to the 9MFY15 financials. Post that we will open the floor for Q&A.

As I had shared with you in the last call, inflation being in the comfort zone would provide room to RBI to cut interest rates. On 15th of January RBI cut the repo rate by 25 basis points to 7.75 indicating its comfort with the evolving inflation outlook and confidence in Governments fiscal consolidation plan. RBI has taken measure to provide non-banks, which include us, greater flexibility to finance / re-finance infrastructure project. The 5:25 rule which was made applicable to existing projects of banks have now been extending to non-banks also. Government is taking steps to ease land acquisition rules for projects and expedite environmental clearances. Auction of coal blocks cancelled by Supreme Court is expected by the end of this fiscal. The ministry of power is working on a gas cooling policy to operationalize stranded gas assets. Spectrum auction for various banks for telecom players could be rolled out my March 2015. Bidding process for the operation, maintenance and development of Chennai, Kolkata, Jaipur, and Ahmedabad Airports has commenced and Navi Mumbai Airport it is expected soon.

Overall, the macro context is turning supportive and steps in the right direction are being taken. But as I continue to maintain in the past, the revival of private CAPEX in infrastructure will take some more time.

Now moving on the 9MFY15 financials:

Our balance sheet growth was 23% year-on-year. However, our gross loan book decreased by 1% from ₹ 54,552 crore as on December 2013 to ₹ 54,004 crore as on December 2014. In 9MFY15, gross approvals were ₹ 15,359 crore and gross disbursements were ₹ 8,843 crore compared to ₹ 20,410 crore and ₹ 7,639 crore in 9MFY15.

On a consolidated basis, our operating income increased by 7% from ₹ 2,763 crore in 9MFY14 to ₹ 2,969 crore in the 9MFY15. NII however decreased marginally by 2% from ₹ 2,036 crore to ₹ 1,992 crore in 9MFY15. Non-interest income increased by 25% from ₹ 718 crore to ₹ 900 crore on account of capital gains, asset management and fixed income trading. The investment banking and broking revenues are showing traction and have increased from ₹ 40 crore for the last nine months to ₹ 53 crore for the current period. However, operating expenses increased by 11% from ₹ 406 crore to ₹ 450 crore. However, adjusted for depreciation, write-back and banking related expenses our operating expenses have actually grown by almost 15% in 9MFY15. Most of this increase relates to our asset management company which is our AMC. These are one off non-staff related expenses. Also, these are expenses related to new issuances of funds.

Our pre-provisioning profits increased by 7% from ₹ 2,357 crore to ₹ 2,520 crore. Our provisions for loans and investment increased almost four fold for the nine month period from ₹ 146 crore to ₹ 638 crore. Provision for loans increased from ₹ 141 crore to almost ₹ 698 crore in 9MFY15. Post provisions, PBT decreased by 15% from ₹ 2,211 crore to ₹ 1,881 crore. Hence profit after tax also decreased by 14% from ₹ 1,545 crore to ₹ 1,325 crore. As on December 2014, our gross NPLs were 68 bps and our net NPLs were 47 bps. Our total loan provisions are at 3.9% of loans. As on December 31, 2014 our net restructured loans are at 6.1% of which almost 87% relate to energy sector and within that 31% relates to the gas based generator. Our net SRs i.e. our security receipts remained at 0.3% of loans.

We continue with our prudent policy of making adequate level of countercyclical provisions which is reflected in the high level of floating provision in the last few quarters. Although we are seeing a level of optimism and improved business confidence, we believe that it would take a few more quarters before we witness any tangible signs of improvement in the infrastructure sector. We continue to review our asset quality and would adjust our rate of provisioning as we see improvement in the sector.

On the bank side i.e on IDFC bank, RBI has clarified the manner in which the 15th July 2014 surplus for long term infrastructure finance by bank will apply to us. This is the one circular just to remind you all which would give us the forbearance on the calculation of SLR, CRR and PSL. So what they have clarified is that 30% of the outstanding eligible loans i.e 30% of the outstanding eligible loans as on the date of demerger or effective date say that is October 1, 2015 will be available for the benefit of this circular provided they are funded through long term bonds. These long term bonds to be eligible for this will be required to be issued after 15th July 2014 and outstanding as on the date of demerger would qualify.

Also we have received SEBI and RBI approvals relating to our demerger scheme and we are now ready to file it with the Madras high court over the next few weeks. We will now open the floor for Q&A.

Moderator: Our first question from the line of Suruchi Jain from Morning Star.

Suruchi Jain: Your provisioning continues to be high. I understand these are countercyclical provisions, but when do you see these provisions normalizing again i.e what is your estimate on these reversals?

Vikram Limaye: We have been saying for several quarters now that as we transition to the bank we want to make sure that whatever known risks that have not been resolved are adequately cushioned against and therefore we have been increasing our provisioning level. We will continue to monitor the situation surrounding the power sector which is the largest area for us and for large parts of the banking system in terms of assets and resolution, etc. As you know there is a coal block auction that is expected to happen during the end of February for the captive mines that were cancelled by the Supreme Court. We are also expecting a gas pooling mechanism to be announced relatively soon that would give some clarity on what happens surrounding gas base power plants. So, we will continue to monitor the situation but I think you should expect provisioning levels to increase from here to September 30th.

Suruchi Jain: For the bank, do you expect some sort of normalized provisioning once you start?

Vikram Limaye: Yes, that is the expectation. Unless again something unforeseen happens but as I said whatever risks we are aware of, we are trying to question against.

Suruchi Jain: Sure. Also, would the bank operate as a diversified loan portfolio and not just infrastructure?

Vikram Limaye: That is correct. As we diversify into other areas our infrastructure exposure as a percentage of the total book should keep coming down. That does not mean that we will not do infrastructure, it is just that we will be doing other things as well.

Suruchi Jain: Okay. My second question was in terms of the infra bonds that you are allowed to raise. What is your estimate on how many basis points improvement will this clarification have in your cost of funds?

Sunil Kakar: The cost of funds is a function of the prevailing market rate. So this clarification clarifies the quantum of bonds we need to issue. So, it has crystalized that number. The yield and the coupon are moving with the interest rate market and we don't expect it will be in line with whatever we are currently issuing. So the spread, the credit spread of the corporate bonds specifically for IDFC limited and the future IDFC bank is a function of credit rating and the market supply and demand. So, I cannot give you exact numbers. This clarification has helped us to quantify the quantum which we need to issue so as to meet and get the full benefit or regulatory forbearance.

Suruchi Jain: Okay. But will it be beneficial?

Sunil Kakar: Yes, of course. The rule is that minimum of EC which is 30% of the eligible loans and long term bonds. I would like to give an example and the numbers stated in the example are not to be taken for real. Say, if the total eligible loan is ₹ 15,000 odd crore, then we have to ensure that long term bonds ₹ 15,000 odd crore are issued and once that is done then they do not attract SLR, CRR. Hence, to that quantum of benefit of no SLR, CRR with the cost of SLR, CRR is roughly around 60-70 basis points in the overall scheme of thing that will be the benefit. Also, in addition to the year later on, the priority sector lending also is exempt and therefore that has bigger benefit.

Moderator: We have next question from the line of Nilesh Parikh from Edelweiss Securities.

Nilesh Parikh: I wanted to get some clarification with respect to what RBI has stated out regarding the eligible credit. According to my understanding, banks were either ways getting about 30% discount factor for FY16. Is it correct?

Sunil Kakar: Yes, that is correct.

Nilesh Parikh: So what is the extra benefit that we have got from this classification? As per my understanding we were anticipating some couple of quarters back as even in the results conference call we had mentioned that from RBI we are seeking the entire eligible portion to be given as a benefit. So, I just wanted to understand your thoughts on this.

Sunil Kakar: It is a question of interpretation. The fact is that the clarity has come and they have put us at par with the other banks and all eligible loans outstanding are available for the benefit. So it could have been interpreted in many other fashions. Although that was the optimistic side. The other side could have been that only incremental loans after you become a bank are eligible. So overall it is in line with our base case expectation even though it is not in line with our optimistic expectation.

Nilesh Parikh: Okay. So what are we carrying about as we kind of move to the bank and roughly…..

Sunil Kakar: Just one more point. Remember and I am sure that all of you know that 30% is the starting point. Over the next three years you get the full benefit. So on an average, about 50 to 60% existing outstanding loans will get the benefit.

Nilesh Parikh: That is in line with what we are expecting for the banks also?

Vikram Limaye: Yes. So we are in line with the expected with the banks.

Nilesh Parikh: Right. But if we take some earlier conversations in to account, there was a possibility that we could actually get the entire benefit. But now that the RBI has said that it is 30%, which is more or less in line with what we are seeing for the banks.

Sunil Kakar: Yes.

Nilesh Parikh: Okay. I also wanted to understand something with respect to the borrowing. So basically during the quarter we have seen increase in the short term borrowings. So I just wanted to get your thoughts regarding this. Also, correspondingly we have seen increase in the investments also. So does it mean that it will kind of show up on our SLR? I just wanted to get your thought.

Sunil Kakar: As you would know our treasury assets have grown significantly and they continue to grow. Significant I would say large i.e almost two thirds if not more is on account of SLR requirements. The other also is the fact that there was an interest rate view taken by our treasury department and it has turned out to be right and that is reflected in the ₹ 137 odd crore of nine month profit which we have shown in treasury trading profit. Also, to ensure that we do not have a long term or during this short period of time we do not have high level of negative carry we have repo'ed out these Government securities to ensure that the cost is neutralized. So this is a temporary phenomenon till we transition to the bank. The level of short term borrowings will not be at these levels as a matter of fact it is going to come down over the next 6 to 9 months.

Moderator: We have next question from the line of Adarsh Parasrampuria from Nomura.

Adarsh Parasrampuria: My first question is with respect to the funding part on the bond side. About two quarters back we had seen some stock of bonds which were actually infra bonds in our balance sheet. So after this clarification would these bonds not qualify to fund the eligible 30% loans?

Sunil Kakar: Yes. Bonds issued after 15th of July 2014 will qualify.

Adarsh Parasrampuria: Okay. There is one more clarification which I wanted with respect to this. Could you refinance your existing bonds to become infra bonds or will it be only on maturity i.e. only for bond mature and then you raise fresh bonds. Will that be eligible?

Sunil Kakar: It is only bonds issued after 15th July 2014 and that is it. We don't want to play games. So with those old bonds, I have their natural maturity, there are corresponding. We are focusing on the third and our strategy would be to match the eligible credit available from the asset side, liabilities bond issuance. Also, there is no stress here because there is a significant amount of non-eligible assets also. So we have to match their ALM with the bonds also. So there I see no major stress with respect to bonds.

Adarsh Parasrampuria: So in case, if the loan book remains flat for about 15 month, the incremental bond will be issued only on maturity and you cannot call the old bond and replace it by an infra bond. Could we do that?

Sunil Kakar: There are issues with Companies Act etc. and that is not our strategy. Again I am trying to tell you that I don't need to do that because I do need to fund my so called non-eligible infra loans.

Adarsh Parasrampuria: My next question was related to the treasury build out. You explained part of it is SLR in a rate call. We are seeing some banks especially wholesale funded entities investing a lot more into GSEC because of LCR requirements. Once you become a bank will you also have to kind of comply with that? So any views on how you all would be as a bank on LCR because on the liquidity coverage it may need you to keep higher than required SLRs?

Sunil Kakar: Even today we maintain internally LCR ratios and we are well above the limits as prescribed by the banks. So even my current balance sheet meets the LCR requirement.

Adarsh Parasrampuria: But would that include the investment that you made for a rate call or even by excluding that you are comfortable?

Sunil Kakar: It is such a composite story, so I don't have anything included or excluded. But obviously we will ensure that we meet and we are well above LCR requirements as we speak. So we are well above and we will continue to maintain and be above the LCR requirement as we translate to the bank. Remember the LCR requirements in the bank in the initial year is only 0.6. So I do not see any stress on that.

Moderator: We have next question from the line of Pankaj Agarwal from Ambit Capital.

Pankaj Agarwal: I wanted some clarification with respect to these infra bonds. It seems like 60% of your loan book is kind of project loans and then you are getting 30% of that as eligible as asset. If 60% of your loan book is project loans, then 30% of this 60% comes to around 18% to 20% of your balance sheet which would be eligible for exemption once you become a bank. Is this correct?

Sunil Kakar: Yes I guess so and if those numbers are…

Pankaj Agarwal: I mean your disclosure says that your project loans are 60% that is why I am assuming it to be 60%.

Sunil Kakar: Yes, so that is it whatever it is. But it is outstanding as of September 30th and therefore I cannot tell you what that number is today.

Pankaj Agarwal: I understand. So, if your loan book remains as it is, then roughly it is coming around ₹ 10,000 to ₹ 11,000 crore. So at this point of time have you raised these eligible liabilities to match this ₹. 11,000 crore or you will need to raise it as the year progresses?

Sunil Kakar: The short answer is obviously not the full amount. We also are aware of how the interest rates are moving. So, I would like to maximize the gain by raising liability at the right time such that the cost of liability is also lower. But there is, we have planned it out and there are no sudden needs or a surge of liability bond raising. We have almost 8 months to go and that number is not very large and it can be easily covered.

Pankaj Agarwal: Okay. Secondly, do you not think that these infra bonds are kind of weakening your competitive strength in infra lending? This is because earlier banks were facing ALM issues if they were funding it through CASA. Also, they were not able to raise long term loans because it was very-very expensive after you include CRR, SLR, and PSL. Now they are at par with you and therefore don't you think these infra bonds are kind of negative for you?

Sunil Kakar: We are also becoming a bank. So, if you are comparing non-bank with bank, we are more of a bank going forward than non-bank. The issue with the infra sector has got nothing to do with competition and pricing. The issues with infrastructure have got to do with all the real economy issues of acquisition, clearances and coal. Also there is so much of demand open up that competition is the last thing we all need to be worried about, it is more about collaboration than competition.

Pankaj Agarwal: I understand, actually my question was that earlier as a non-banking….

Sunil Kakar: I think that question is no longer relevant if I may use the word because I am no longer going to be a non-bank finance company. So I have moved, if I may say so closer to the bank. In six or nine months' time I will be a bank. I would like say the other way around that if six months down the road had I become a bank and this benefit had not come. Relative to that I am much better off.

Pankaj Agarwal: Okay. What is your overall restructured asset at this point of time?

Sunil Kakar: 6.1% net.

Pankaj Agarwal: Is that flat Q-o-Q as last quarter also it was 6.1. Is that correct?

Sunil Kakar: Yes it was around that.

Moderator: We have next question from the line of Devam Modi from Equirus Securities.

Devam Modi: If you see your provisioning over the last four quarters, it has come down significantly in this quarter as compared to the last three quarters even with our risk policy and dynamic adjustment of provisioning. Unless the situation improves from here, we will not see provisioning rise further from these levels.

Sunil Kakar: This is a challenge have been having for last 4-5 years and I am trying to say we don't read too much into quarter-on-quarter provisioning. The provisioning is done keeping in mind and obviously it is dynamic in nature but I would not read anything too much in the quarter-on-quarter. It is more appropriate to see annual number in that direction and as Vikram has mentioned even sometime back that we do expect to continue provisioning, the rate of provisioning what is and how much goes into each quarter, etc., will vary. Having said that, I would like to share with you all of you that provisioning number as a total from a balance sheet perspective and not debit to P&L will continue to increase for the next two to three quarters.

Devam Modi: What is the total number of bonds? Could you share the number in terms of how much amount you raised after July 14?

Sunil Kakar: The exact numbers as I have mentioned in my last few questions and answer that we will ensure that these quantum of assets are fully-funded by the long term liability but if you are all so eager to know I can share we have raised almost over ₹ 6,000 crore so that leaves us only with whatever is the gap depending on how the asset grows. Also, just in case you are also interested to know our regular every month we do more than ₹ 2000 crore. So I am again repeating there is no stress in trying to raise the incremental bonds.

Moderator: We have next question from the line of Jai Mundhra from CRISIL.

Jai Mundhra: In the previous call you had mentioned that you are still awaiting some clarity on the SLR and CRR exemption. So just wanted to get your thoughts if anything incrementally you are seeing some visibility?

Sunil Kakar: Sir, I have answered this in the last three or four questions. We have received clarification from RBI and hence I would suggest that you may see our recorded minutes.

Jai Mundhra: Okay. No, sir that was more of let say SLR, so for CRR there is no further clarity you would have to be complying it?

Sunil Kakar: Yes. SLR, CRR we will see it in the same sense. If it is 4%, it is 4%. If RBI reduces it to 3% it will become 3%. There is nothing significant on that.

Jai Mundhra: Sure. My next question is with respect to the concentration guidelines in terms of the loan exposure that applies to banks. So how do you actually plan to meet that thing because I believe banks have certain sector over sectoral concentration guidelines?

Pavan Kaushal: As we become a bank obviously we will carnation the existing book. But like Vikram mentioned earlier we are going to be putting on other types of assets whether they are corporate loans or consumer and rural and over a period of time this diversification will come in.

Sunil Kakar: So let me also clarify as far as I know that if the Board approves the sectoral guidelines and therefore there is no RBI-mandated percentage sectoral exposure.

Pavan Kaushal: The mandates are all from the Board and as the Reserve Bank obviously has approved our demerger, it is fully aware about our current portfolio concentrations.

Moderator: We have next question from the line of Abhishek Murarka from IIFL.

Abhishek Murarka: Could you give a break up of your investment treasury portfolio of around ₹ 25,000 crore with respect to G-Sec and corporate bonds?

Vikram Limaye: I am not sure we have those numbers immediately available right now. I would suggest you get in touch with our IR department. Also, just to understand what is the reason for that question?

Abhishek Murarka: Yes. So, I just wanted to know that as in last quarter you had said you have about ₹ 13,000 crore in G-Sec which were compliant with SLRs.

Vikram Limaye: So the point is we will be compliant with the SLR requirements and whatever it takes to be compliant we will get there by September 30th.

Abhishek Murarka: Sure. That is obviously given, it is just that I wanted to know the level.

Sunil Kakar: If we were 13 last quarter and we have increased it, obviously it is more and higher than ₹ 13,000 crore. It is somewhere around ₹ 16,000 crore if that makes you happy.

Abhishek Murarka: Okay. Secondly, I think you were also in dialogue with the RBI for expanding the scope of assets which were eligible to be transferred to IDF's. Any update with respect to this?

Vikram Limaye: There is no definitive answer on that, all I can tell you is that RBI is also positively inclined. We are continuing to have conversations with both RBI and Government and once there is clarity we will obviously disclose that.

Abhishek Murarka: Could you share something about your plans regarding asset diversification or CASA branches etc. or is that set for a later date now?

Vikram Limaye: So we will have separate conversations surrounding the bank and the business plan for the first year and three years and all that at an appropriate time closer to the launch of the bank.

Abhishek Murarka: My next question is with respect to this long term infra bond issue. For FY16 over and above whatever you need to meet the necessary ₹ 10,000 or ₹ 11,000 crore level, have you planned anything more?

Sunil Kakar: This is part of our funding strategy. Obviously when we convert ourselves into a bank, CASA will be almost zero. So all of our funding will come through, but the duration of the bonds is going to be matched with our ALM situation. So we may not be issuing more than 7 year because that eligible bond has long term which is more than 7 years. The duration of the bond issuance will be calibrated with our asset maturity.

Abhishek Murarka: Sure. Currently the bonds that you are raising are being raised roughly at what cost?

Sunil Kakar: 8.43-8.50.

Abhishek Murarka: Okay, no different from the other ones? I meant the long term infra.

Sunil Kakar: The yield curve is flat so all I can tell you is that we raise our bonds at competitive prices so as the yield curve moves and that is one of the reasons we are trying to raise bonds at an appropriate point in time.

Abhishek Murarka: Of course. I was just trying to check / understand if there is a spread between a regular bond issuance and long term infra bond.

Sunil Kakar: The yield curve is flat as of now there is not much of a difference.

Moderator: We have next question from the line of Nishchint Chawathe from Kotak Securities.

Nishchint Chawathe: Out of your total consolidated net worth, I remember last call for that long it was more for the bank but remains as the holding company would be shifted to another company either the IDFC Bank of the IDF. Could you give any update with respect to that i.e if you have any number in mind?

Sunil Kakar: At this point in time, obviously large part of it will move to the bank and I can just give you qualitative answers. The numerical numbers is also actually a function of others, specifically the IDF and the clarity around IDF. So it is still a moving target and I am sorry I don't have any specific numbers to share with you at this point in time.

Moderator: We have next question from the line of Bharat Sheth from Quest Investments.

Bharat Sheth: You had mentioned that we have around 3.9% as a floating provision of total loan book. So what level of floating provision would we be comfortable?

Vikram Limaye: There is no level I can tell you today as I said we will keep evaluating the situation. If it improves obviously our view will be different. If nothing changes from the current environment, our view will be different and so we are monitoring the situation as it goes along. Also, as we get clarity on some of these things, we will adjust whatever we need to do. So currently based on where we stand right now, I have said that you should expect provisions to increase up to September 30th. If things change dramatically in a positive way, then obviously our own views on how much we need to provision will also change.

Bharat Sheth: My next question is with respect to our project loan book. We are seeing contraction in our project loan book and as Mr. Vikram mentioned that some of the things would take few quarters. So could you elaborate more with respect to this? Is there no opportunity or we are consciously contracting the loan book?

Vikram Limaye: As I have said before we have guided to a flat loan book even at the beginning of the year and that is where we are tracking. You should know that flat loan book does not mean that there are no disbursements or no new sanctions that are taking place. You should know for instance that gross disbursements on a nine-month basis have actually increased by 16% from about ₹ 7,600 crore to about ₹ 8,800 crore. So it is not that because the loan book is flat there is nothing going on. There are repayments, prepayments that also happen. Despite all that our book is still flat. Also, as you know there is no new project activity surrounding infrastructure in the landscape. We do expect some level of activity to pick up in roads and potentially in ports. There are obviously some activity that is ongoing in renewable energy, but beyond that there is not a whole lot of corporate credit growth in infrastructure. As I said before, we certainly believe that for this fiscal year we will be flat from a loan book perspective. That is where we are from a nine month perspective as well.

Bharat Sheth: Could you share what kind of initiatives the Government has taken? How long it will take to really come on the ground?

Vikram Limaye: You know the investment cycle always comes back with a lag and based on where we are it is my view that we are at least 18 to 24 months away.

Bharat Sheth: It will take an investment cycle to materialize?

Sunil Kakar: Yes.

Moderator: We have next question from the line of Manish Shukla from Deutsche Bank.

Manish Shukla: My question is with respect to the loan book. For the Company to end the year at a flat loan book, it will have to grow more than 10% in this quarter. Is that still a target that you are aiming for?

Vikram Limaye: No, I mean it depends on what happens in the next two to three months. We had guided towards a flat book and the point is we do not know what is likely to happen. There is a spectrum auction that is going to come up. There will be some financing surrounding that. Last year if you will recall, we have done some short term loans based on the requirements by certain Corporates. It was our expectation that we would be flattish from a loan book perspective. Our hope is that, if there is some credit growth in the next couple of months surrounding some of these specific opportunities that may be available in the landscape you will have some opportunities for disbursement. If none of that materialize we may be down a little bit. But as I said, we are not as focused on specific loan book number. We are as we said focused on low-risk opportunities for growth. We are not focused on growth in this environment because the opportunities for growth are limited. As you know it is not specific to infrastructure, the overall corporate credit growth number is very weak through this year and I do not see that picking up in the next two months; unless there are some specific events like spectrum financing or something else that crops up. So that is where we are, we still have two months to go and we will see where we end up.

Sunil Kakar: Also just to add on this, in our transitioning to the bank balance sheet is not a negative or an adverse thing to have an optimal level of balance sheet which need not be very high. Normally you would associate growth as positive and I am saying there is an optimal level as you transition to the bank because having a very large loan book in the bank creates pressures of large priority sector lending requirement which may result in negative drag. So we have to optimize the size of loan book rather than just talk about the growth.

Pavan Kaushal Also we will look at the proposals on its merit. We are not targeting a loan book growth as a parameter but on the quality of credit, as we get to the bank.

Manish Shukla: My next question is again with respect to the infrastructure bonds. Considering that you will start with almost your entire book as infrastructure loans. I think even after three or four years as a bank it might be fair to assume that at least 50% of your book will be infrastructure. In that scenario are you comfortable with funding that portion of your assets with a (+7) year kind of a liability in terms of ALM. How do you see it from an ALM perspective?

Sunil Kakar: We have to fund it right, it does not mean that I have to fund it, if they are eligible.

Manish Shukla: Assets would be eligible; I am saying the comfort…

Sunil Kakar: This should be eligible loans and matching the interest rate duration there are other options available including interest rates swaps. So obviously we have been doing this from the last 5 decades or so. So we have the expertise, we will manage that situation. Obviously whether I issue a (+7) year bond or I don't issue will be the question related more driven by the asset side of the balance sheet. So, I don't exactly get the concern out here.

Manish Shukla: I mean, if you issued a 7 year fixed rate liability?

Sunil Kakar: I am saying it is not necessarily fixed rate. You take fix rate and you can swap it around and balance your interest rate match durations with the asset side of the equation. Also, on the reverse side it is also possible that there are fix rate loans given.

Manish Shukla: Right. Assuming others who also try to do it then your swap cost will obviously go up. So, your all inclusive cost would be to that extent higher. Alright, regarding my last question did I hear you correctly that about 30% of the restructured book is the gas-based projects?

Sunil Kakar: Yes.

Sunil Kakar: Energy is 87% of which 30% is gas.

Manish Shukla: So which means broadly at least about 40% of your gas-based exposure is restructured as on date. What is the comfort on the rest of the book because gas is the only real area of concern as most of us hope that coal will be sorted out?

Vikram Limaye: Yes, so I mean the reality is that coal and gas are the two big issues. So if that gets sorted out then a large part of our problems are sorted out.

Manish Shukla: What I am trying to understand is, comfort levels with gas being sorted out as well.

Vikram Limaye: Like I said, depends on what the gas pooling mechanism is, that gets announced. Also, how gas becomes available in what construct based on the framework that was being discussed. The objective was to try and get sufficient gas to these power plants so directly debt could be serviced. So if those kinds of things are made available, then obviously our gas-based assets and more generally speaking in the landscape from a debt servicing perspective gas-based assets would become productive. So you are asking me about our comfort level, I don't have an answer because I don't know what the mechanism is being proposed.

Moderator: We have next question from the line of Nitish Chawla from Banyan Capital Advisors.

Nitish Chawla: I wanted to understand what is the restructuring pipeline in the coming quarters considering that the provisioning norms will increase to 15% in the end of this fiscal year?

Vikram Limaye: All I can tell you is that we expect that there will be more restructuring. So I cannot give you a number on restructuring pipeline. It also depends on how things evolve as I said surrounding coal and gas. There is also the 5:25 scheme that was recently made applicable to NBFCs as well and that came into effect only on 19th of January i.e only a week ago. So we will also evaluate assets that could be refinanced under that scheme. So we will see how that situation evolves. I can tell you that the restructured assets are likely to increase.

Nitish Chawla: Okay. The NPA numbers are on a 180 DPD basis right?

Vikram Limaye: Yes.

Nitish Chawla: So can you share the number what would it be on a 90 DPD basis?

Vikram Limaye: No, I cannot share that.

Moderator: We have next question from the line of Mangesh Kulkarni from Almondz Global Securities Limited.

Mangesh Kulkarni: What are our strategies for disinvestment in the non-core assets particularly NSE stakes and all of those before we transform into a bank?

Vikram Limaye: So as we mentioned before that all of the financial investments that we have made are exactly that. They are financial investments and we are willing to monetize its appropriate valuation. We have monetized in the past and we will continue to monetize as we go along. It is just a function of making sure that we get the right valuation and we don't time these things on a quarterly basis. It has more to do with making sure that we are getting appropriate value. Whether it is NSE or any other financial investment that we have made, we are open to monetizing those investments.

Mangesh Kulkarni: But there is no any timeline fixed before that…

Vikram Limaye: We would like to monetize our financial investments before we become a bank. But as I have mentioned before, I cannot give you a firm timeline because we have another 8 months to go and we cannot time this to perfection. It depends on buyers being available at that point. Also, in certain cases there are formal processes that get run in terms of monetization not because we are the only guys monetizing because there could be a situation where other investors also want to monetize. So it is situation specific.

Moderator: I now hand over the floor back to Mr. Sunil Kakar for his closing comments.

Sunil Kakar: Thank you very much. I hope it was a productive call and we look forward to our next quarterly results call.

Moderator: Ladies and gentlemen on behalf of IDFC Limited that concludes this conference. Thank you for joining us.