IDFC Limited
H1FY16 Earnings Conference Call
02 November,2015

Moderator

Ladies and gentlemen, good day and welcome to the IDFC Limited H1FY16 Earnings Conference Call. As a reminder, all participant lines will be in the 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. 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 H1 fiscal 16. 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 H1 fiscal 16.

Sunil Kakar

Thank you Bimal. Thanks for joining us today. I will first focus on the key highlights related to IDFC Bank and then give an update on the H1FY16 financials of IDFC Limited. Post that we will open the floor for Q&A.

As you all must be aware, IDFC Bank was launched on October 1, 2015 and was formally inaugurated by the honorable Prime Minister Shri Narendra Modi on October 19, 2015. At the formal inauguration in New Delhi, the honorable Finance Minister Shri Arun Jaitley and the honorable Minister of State for Finance Shri Jayant Sinha were also present.

As per the scheme of demerger approved by the honorable Chennai High Court, the shareholders of IDFC as on the record date of October 5, 2015 have received an equivalent number of IDFC Bank shares free of cost. IDFC shares are now trading ex-Bank and IDFC Bank shares are expected to list and trade on November 6, 2015 which is this Friday. Post demerger, the net worth of IDFC Limited is now ₹ 9,580 crore and its portfolio of businesses include a 53% stake in IDFC Bank, a 75% stake in IDFC Asset Management Company, a 100% stake in IDFC Securities, a 100% stake in IDFC Alternative and as of now a 100% stake in IDFC Infrastructure Debt Fund. I am also happy to report that the Infrastructure Debt Fund has started operations this quarter. This stake in IDF will have to be brought down to 49% over a period of time. So, it was important to share the structure one more time with you all.

IDFC Bank is starting its journey with a balance sheet of ₹ 73,447 crore and a net worth of ₹ 13,322 crore. Post demerger, the book value of IDFC Limited is ₹ 60.10 paisa per share and that of the Bank on demerger was ₹ 39.11 paisa. We have launched the Bank with 23 branches; of these 15 are rural branches in Hoshangabad, Khandwa, and Harda districts of Madhya Pradesh. The eight urban branches are in the four metros- Pune, Ahmedabad, Hyderabad and Bangalore. By urban I mean to say cities like Mumbai, Kolkata, Delhi and Chennai.

Now I will share some update on the H1FY16 financials.

Our Balance Sheet declined about 3% year-on-year. Our gross loan book including assets which are booked under IDF, decreased by 15% to ₹ 46,889 crore as of September 2015. In H1FY16, the gross approvals decreased by 5% to ₹ 9,807 crore and gross disbursements actually decreased by 20% to ₹ 5,353 crore. On a consolidated basis our operating income decreased by 8% from ₹ 1,921 crore in H1FY15 to ₹ 1,768 crore in H1FY16. The NII or the net interest income decreased by 7% from ₹ 1,331 crore in H1FY15 to ₹ 1,241 crore in H1FY16. Large part of the decrease in the net interest income is related to income reversal due to NPLs. Gross NPLs have gone up and we will talk about it later. Non-interest income decreased by 11% from ₹ 583 crore in H1FY15 to ₹ 519 crore in H1FY16.This was mainly due to some losses in the fixed income treasury in the first quarter of FY16 which we had shared with you earlier.

As mentioned in the last quarter investors call, the key highlights of this quarter result is the creation of the one-time provision of ₹ 2,500 crore by utilizing the non-distributable statutory reserve which we call commonly as 45-IC. In addition to the above, there was a one-time provision of ₹ 138 crore towards reversal of unrealized income for stressed assets. On a prudent basis, we are moving to income recognition against stressed assets on a realized basis from rather than accrual basis. So this ₹ 138 crore which we are speaking here is nothing but a one-time adjustment related to the income and not related to the asset quality provision. So on a prudent basis, we are moving to income recognition against these assets on a realized basis. Our regular provision for H1FY16 was ₹ 325 crore and it largely consisted of ₹ 250 crore of loans which include the FITL number, which is about ₹ 133 crore and which is also is an income adjustment and a ₹ 73 crore for equity as against for the same period last year was ₹ 485 crore. Profit before tax, if you exclude this one-off, profit before tax before the Bank expenses and exceptional provisions primarily which is an exceptional provision we just spoke of the ₹ 2,638 crore if you adjust for that the PBT is almost constant, actually it has increased by 1% from ₹ 1,137 crore in H1FY15 to ₹ 1,145 crore in H1FY16. The details of the breakup and these comparisons are available on our website.

Net effect, the topline number had a loss in the H1FY16 of ₹ 1,215 crore as against a profit of ₹ 903 crore last year. But, if you adjust for exceptional item which is ₹ 2,600 odd crore, the first half was actually a profit of ₹ 511 crore against ₹ 741 crore in H1FY15. The H1FY16 profit of ₹ 511 crore compares favorably to the fact that even in Q1 we had a ₹ 250 crore of profit. So we are about a run rate remaining constant of about ₹ 250 crore a quarter.

Our gross stressed loans as per regulatory definition which includes the NPLs, the restructured loans and security receipts were ₹ 5,016 crore as on September 30, 2015 as against ₹ 4,973 crore as on June 30, 2015. So even over the last one year, the total has remained constant at around ₹ 5,000 crore. We have provided ₹ 2,807 crore for these and hence our net stressed loans as on 30th September were

₹ 2,209 crore which translates to about 4.9% of our loan book. Our net restructured loans were 3.7% and our net NPLs were 1.0%. Just to recollect our total stressed loans as per management assessment and was shared with you last quarter also was around ₹ 8,800 crore. Whereas, as per regulatory definition this number is around ₹ 5,000 crore. We believe that we have adequately provided for against these legacy assets as we begin our journey towards building a strong Bank. Thank you and will now open the floor for Q&A.

Moderator We have first question from the line of Amit Ganatra of Religare Invesco.

Amit Ganatra At present, what is the total loan-loss reserve ratios that we have managed to create?

Sunil Kakar It is around ₹ 4,600 odd crore. ₹ 4,500 crore under various categories.

Amit Ganatra Would this ₹ 2500 crore not include the additional provisions that you have made in this quarter?

Sunil Kakar ₹ 2,500 is part of the provisions.

Amit Ganatra But in the previous quarter you had loan-loss reserve ratio of around 4.9%?

Vikram Limaye: But total provision that Sunil mentioned of ₹ 4,600 crore, our loan book is approximately ₹ 46,000 crore or ₹ 47,000 crore.

Amit Ganatra So, is the total provisions which you are currently carrying is ₹ 4,600 crore?

Sunil Kakar Yes which includes the ₹ 2,500 crore that we made in this quarter. The exceptional which we did from 45-IC.

Amit Ganatra So if I want to do a like to like comparison, previous quarter you are carrying a reserve of around ₹ 2,400 odd crore which is now increased to ₹ 4,600 crore?

Sunil Kakar Approximately.

Amit Ganatra So that is the way the movement has happened. My question is with respect to the investment book for IDFC Ltd. The balance investment book seems to be around ₹ 2,000 crore. What does it comprise of?

Vikram Limaye Investment in various subsidiaries, like Asset Management Company, Alternatives, IDF-NBFC…

Amit Ganatra What about the equity stakes that you would own for example NSE…?

Sunil Kakar All that has moved to the Bank.

Amit Ganatra So**,** all those investments stakes have moved to the Bank. Now it is only the investment in the subsidiaries which is sitting in IDFC holding.

Sunil Kakar IDFC Limited is just an investment Company now.

Amit Ganatra For example, with a 20% stake in payment Bank, where would the future investments be routed through? Will it be routed through IDFC holding or the Bank?

Sunil Kakar It is not a straight answer. Specifically for the payments Bank, the approval has come subject to RBI and accepting it will be at the Bank level but other investments could be made from IDFC Limited also.

Amit Ganatra Could you tell me the current Capital Adequacy Ratio of the Bank?

Sunil Kakar It is about 19%.

Amit Ganatra Would this be for entirely Tier-1?

Sunil Kakar Yes and it is very small. The loan provisions which we make are also accounted for the standard loan provision and is counted for Tier-2. But 95-98 percent is Tier 1.

Moderator We will take the next question from the line of Ajitesh Nair from Premji Invest.

Ajitesh Nair My question is with respect to the IDFC Bank disclosures that you have given. So, out of about ₹ 24,000 crore investment book, ₹ 10,800 crore is SLR, what is the rest?

Sunil Kakar They are also G-secs, corporate bonds other types of investments.

Ajitesh Nair Is it a fixed income?

Sunil Kakar Yes, fixed income. As you would be aware that the interest rate scenario was declining, therefore we made investments in the fixed income securities.

Ajitesh Nair So we are starting off with an SLR ratio of around 23% in the Bank, it may be roughly so not excess of SLR. I also wanted to check on the IDFC holding. So what is the Company future going to look like? As you need to bring down the stake in the Bank from 53% to 15% over the next 10 years, what is the management thinking about the utilization? As it cannot be only primary dilutions of the Bank there has to be secondary sale and there will be some monetization. So what is the future of the holding Company per se that the management is thinking?

Vikram Limaye We have to address that question a bit later. Obviously there is thought being given to what IDFC Limited could evolve to but we will share that at an appropriate time.

Sunil Kakar One of the areas if I may share some color is on the Infrastructure Debt Fund. So that is going to be on a growth part. Some money will be utilized there and other investments as and when the opportunity comes through. The detailed strategy will have to be built on that. Right now, we are all focused on just getting the Bank up and running.

Vikram Limaye The dilution as you know even in the Bank scenario is after three years if not now. We have to come down from 53% to 40% at the end of three years and it is not imminent.

Ajitesh Nair The only thing we wanted to suggest was that as you have to do a secondary transaction sometime over the next 10 years in the Bank, then why not give the minority shareholders of IDFC Limited just the way we have done in this demerger. This is because that will take care to a large extent the holding Company in discount issue which is currently getting factored in?

Sunil Kakar You are right. We will have to think through all this holding Company discount issue and what is the quantum of discount of course will be discovered this Friday and we are conscious and aware of it and we will think this through.

Ajitesh Nair In the loan book movement during this quarter, there is a rundown of about ₹ 8,000 crore quarter-on-quarter. So has there been any sell down of loans that you have done or it is just a repayment that has happened?

Sunil Kakar It is just a repayment. Some of it has moved to (not a very large number) to the Infrastructure Debt Fund. The large part is all repayment or I would call it prepayment.

Vikram Limaye There was a large telecom loans that got prepaid because as you know we had exposure to some very high quality telecom Companies and given the rates that are available in the bond market some of these guys have refinanced their loans from bond markets or from asset sales. So that is what has happened and almost ₹ 5,000 crore of telecom related loans were prepaid and that is not unique to us because we were obviously part of the consortium. So, the entire consortium actually got prepaid on those loans.

Moderator The next question is on the line of Adarsh Parasrampuria of Nomura.

Adarsh Parasrampuria You mentioned ₹ 1.4 billion of interest reversal and you mentioned this to be one time. Is it just from the NPL or from the whole 8 odd thousand crore of stressed book?

Sunil Kakar It is not from NPL because the NPL reversals go out of the net interest income. It is from the 'others'.

Adarsh Parasrampuria If it is from the 'others' would it not be a recurring item? This is because if it is a one-time provision this quarter and most of them may not recover in the next 6 or 12 months which means if you do it on cash accruals basis, you will continue to have an impact. I mean they will not pay and you will need this provisioning?

Sunil Kakar If you are not even accruing, I do not have to reverse the accrual. So in the Bank we will not be accruing these incomes, we will realize on a cash basis. Now think it through if an account does not pay for 90 days, it will any way move into NPL. What this does is it makes our P&L less volatile or less income reversal will take place should an account move to an NPL.

Adarsh Parasrampuria Would it mean that when you report a 90 day NPL and on cash basis your margin spread that you report will significantly be lower. This is because a large part of the book i.e at least 5 to 10% is not going to accrue to income?

Sunil Kakar No, I just want to clarify for all on the call we are not saying it is not accruing income. We are saying it is being recognized on cash basis. So it is very difficult for me to tell you how many of them will not pay at all, but if they do not pay they will become NPL. I do not expect 10% gross NPL next quarter. So most of them will pay but how many days past due they will be it is something…. But yes, overall income recognition from these assets will be muted, but it is not going to be zero. So that is where I want to say one quarter or at best in two quarters we will have a behavioral pattern to look at and therefore we will be in much better position to share the numbers with you.

Adarsh Parasrampuria When you provide say ₹ 4,500-4,600 crore on ₹ 8,000 crore stress book, does that to some extent take care of these incomes also not coming through or that is more than a principal basis and interest is something that will not accrue to you and it will have NIM impact?

Sunil Kakar Yes this is mostly for the principal.

Adarsh Parasrampuria My next question is on the margins side. You reported a spread of 1.3% which is like a 12 month number. It will be useful because since now we have seen migration of the balance sheet which is very different from where it was 6 quarters back. What would be this on a quarter basis? I know it is 12 month rolling but at some time this number keeps going down…?

Sunil Kakar I hear you, we are estimating. In the Bank we will be sharing the quarterly numbers. So this was anyway a transition mode, so we did not recalculate everything. But in the Bank onwards, we will share quarterly numbers with you. Give us a quarter, some numbers will start appearing at the Bank and we both will be in a much better position to interpret those numbers.

Vikram Limaye Once the Bank is listed you will have all the disclosures for the Bank.

Adarsh Parasrampuria You had a ₹ 6.1 billion NII. So, did the loans run down in the last bit of the quarter or you had fairly early quarter exit of this whole telecom book. This is because when I look at the NII, the NII has not changed materially….?

Sunil Kakar No last, towards the end of the quarter.

Moderator The next question is from the line of Alpesh Mehta of Motilal Oswal Securities.

Alpesh Mehta In interest reversal, we have reversed interest and against that we have made the provision during the quarter. Is that right?

Sunil Kakar Yes in effect the provision has been made, so effectively we have reversed the interest.

Alpesh Mehta But this is a kind of a FITL kind of treatment funded term loan…

Sunil Kakar Yes that is probably a better way to put it, it is quasi FITL.

Alpesh Mehta We have also reported the CRR and the SLR numbers in the Banking balance sheet but it looks like there is almost like ₹ 12,000 crore of additional investment which are sitting there. How much of that would be required for LCR requirement and what is the excess liquidity we are carrying in the balance sheet?

Sunil Kakar We have a very large excess liquidity and that excess fixed income securities is utilizing, a) it is a rate call and b) as I said our loan book is not growing very fast so we have these liabilities and we are funding it out there. We are sitting on excess fixed income securities and I presume that it is a good thing.

Alpesh Mehta I agree, but what is a requirement related to the LCR? This is because for LCR requirement also we need to keep some high-quality liquidity.

Sunil Kakar This is way above…

Pavan Kaushal LCR is above the mandatory requirement. The current requirement is 0.6% and we are at 0.6% or 0.75%. And even if you take it forward we are way ahead of what is required for March 31.

Alpesh Mehta Looking at the CRR and SLR numbers, the liabilities for the calculation of NDTL is around ₹ 47,000 crore. But are we at around ₹ 10,000 crore of infra bonds in the portfolio?

Sunil Kakar That is correct but not all of it is being. It is lower of EC, LB. So the bonds are slightly in excess about ₹ 1,000 crore. But you are right it is that number approximately.

Alpesh Mehta What is the outstanding NSE stake are we carrying and how much gain did we book during the quarter?

Sunil Kakar I have the numbers but I do not know whether we can share it exactly. It is approximately it is 2%.

Alpesh Mehta So we booked around 2.5% during the quarter.

Vikram Limaye Approximately 2%.

Sunil Kakar We had about four we split it half-half.

Alpesh Mehta So, in that case just based on the last deal valuations there are some marked to market or there are some realized losses taken in the P&L on the equity portfolio because equity portfolio is down?

Vikram Limaye Yes.

Alpesh Mehta Lot of investors are worried about their how the holding Company is going to behave. So if you could spell out some plans related to that structure?

Vikram Limaye Like I said earlier for the foreseeable future the consolidated results of IDFC Limited will reflect 53% of the Bank and all the other subsidiaries including the IDF-NBFC which has only just started and Securities, Alternatives and AMC. From a longer term perspective what other businesses IDFC Limited would get into, I would not be able to comment about on them today. But there is ongoing thinking surrounding what IDFC Limited could do longer term as a holding Company and as an investment Company which again I would not be able to share with you on this call. But from your standpoint you should know that the portfolio businesses that we have today will continue for the foreseeable future with the same amount of shareholding as I said to the earlier question the 53% shareholding in the Bank has to come down to 40% only after three years and is not coming down now. So you can model some consolidated results for IDFC Limited based on the portfolio of businesses that we have always had which was a lending business and all the other subsidiary businesses that are non-lending businesses, that lending business now is a more diversified business in a Bank with 53% owned shares. So, for the short to medium term you should be able to think about what IDFC Limited consolidated P&L looks like based on the existing portfolio of businesses as our strategy evolves surrounding what IDFC Limited could do from a medium to long-term perspective we will also share that.

Sunil Kakar As you are aware of from a regulation perspective, IDFC Limited has this financial holding Company under which only regulated financial services businesses can be done. So our area of scope is limited to regulated financial services.

Vikram Limaye IDFC Limited as a promoter of the Bank is allowed to do non-financial businesses as well as an investment Company, as a holding Company. So the point right now obviously is that we have a portfolio of financial services and all of which has enough growth potentials. Obviously, the Bank will grow but all the other businesses will also grow. The IDF-NBFC can also become a large NBFC which is in the lending business for operating infrastructure assets. Likewise there are enough growth prospects for an Asset Management business, for our alternatives business, etc. So all those businesses will continue to grow and as a strategy evolves surrounding what other non-financial businesses that we decide that IDFC could get into then at an appropriate time we will share that strategy. We do not have anything definitive to say at this point of time on that front.

Sunil Kakar I just wanted one data point which is a very positive development and which has happened very recently. The Infrastructure Debt Fund (IDF) income is tax-free, so it is completely tax-free income including for the non-PPP related projects. So, if I were sitting on the other side I would focus on the growth of this business and given where we are today obviously new businesses, additional businesses as Vikram said will be looked upon as time passes but not in the next few quarters, we have to focus on building the Bank first.

Vikram Limaye As Sunil said the IDF-NBFC which we have just started is not dissimilar to what IDFC was doing. It is effectively IDFC for operating infrastructure assets, so that as you know the volume of operating infrastructure assets in the current landscape is quite large and therefore the refinancing and growth opportunities for this NBFC is quite large. Also this entity could become a large entity and at the appropriate time will also necessarily get listed, not immediately, this I am telling you over the next 3 to 5 years.

Alpesh Mehta Did we transfer all the operating infrastructure exposure to this entity?

Vikram Limaye No, we transferred only a very small portion because obviously we want to protect the income in the Bank as well. So there are enough assets in the landscape that this entity can also refinance. But we have started the NBFC with some internal assets and some external assets have been already refinanced.

Alpesh Mehta What is the cash at the IDFC Limited that we are keeping now?

Sunil Kakar There is cash out there and I do not know if we can speak enough about it.

Vikram Limaye I think, it is suffice to say that obviously there are certain commitments that were made to various businesses from an IDFC stand point. So we had to keep adequate capital at the IDFC Limited level in order to satisfy those commitments whether it is through our funds, whether it is equity infusion in IDF-NBFC, etc. Those commitments would be approximately ₹ 700 to 800 crore that need to be made not immediately but over the next, 2 to 3 years. But unless we keep enough capital to honor those commitments, we have done that in order to make sure that all known commitments to other businesses are taken care of from a capital and cash standpoint.

Alpesh Mehta And there is some tax liabilities included…

Pavan Kaushal It is about ₹ 700 to 800 crore, will be answer to your question.

Moderator We will take the next question from the line of Manish Shukla of Deutsche Bank.

Manish Shukla What is the size of IDF in terms of net worth and assets?

Vikram Limaye Right now we have capitalized the IDF with ₹ 440 crore of IDFC capital all Tier-1 pure equity. We think by the end of this quarter December 31st, we will probably. As

	there are some ongoing conversations with some external investors because as you know over time we have to bring down the shareholding of IDFC in IDF-NBFC to 49% regulatory. You do not have to do it now but we have asked for another two years to do that, but we have had some conversations with external shareholders for investing in this NBFC. Ideally we would like this NBFC to be capitalized starting out with approximately ₹ 600 crore, ₹ 440 crore we have already capitalized with IDFC money, therefore IDFC own 100% of IDF right now. We might get an incremental ₹ 100 to 150 crore in this coming quarter and we will close the capitalization at that level, we have obviously got assets that we have transferred and from IDFC as well as some that we have acquired externally and that is approximately ₹ 700 crore. But there are obviously many assets in the pipeline in terms of refinancing opportunities so as I said the volume of operating infrastructure assets in the landscape is actually quite large. So, I expect this entity to grow quite large over time. You should know that we have got ratings for this entity and the rating for IDF-NBFC is AAA. So we have done some market borrowings already like I said you should think about this entity not dissimilar to how you were looking at IDFC Limited, the only difference being IDFC Limited was financing under construction assets as well as operating infrastructure assets. This entity will finance only operating infrastructure assets and therefore to that extent there is much lower risk business. As Sunil outlined it is tax exempt from income perspective. So from that standpoint the IDF can be quite competitive in providing appropriate rates to borrowers. I see this business as a 15% ROE business over time and obviously we have to grow into the capital that we have infused and some borrowings that we have done We have done approximately ₹ 300 crore of bond borrowings already and as we are a AAA entity, those have been at reasonable rate but the growth in the book over the next couple of years can be quite significant depending on the operating assets that we choose to refinance. This is now broadened to PPP assets and non-PPP assets. Originally if you recall the definition of IDFC was constrained only to PPP infrastructure assets, now it has broadened out to all infrastructure assets and therefore the opportunity landscape for this NBFC is quite attractive. As I said it is tax exempt. I certainly believe it will be a 15% ROE business if not higher over time and it is an AAA rated entity at this point.
Manish Shukla	My next question is on stressed assets. Your internal assessment is of ₹ 8,800 odd crore. So if I had to assume, is your entire stressed assets is in the Banking book now?
Vikram Limaye	Yes.
Manish Shukla	So out of ₹ 42,000 crore of loan as per your assessment around ₹ 8,800 crore is stressed?
Vikram Limaye	₹ 46,700 crore approximately 47,000 crore of gross loan book.
Manish Shukla	What is the equity component in ₹ 25,000 crore Banking investment book?
Sunil Kakar	What is the equity component?
Manish Shukla	Yes, the equity investments in that.
Sunil Kakar	It is about ₹ 2,000 crore.
Moderator	Our next question is from the line of Nishchint Chawathe of Kotak Securities.

Nishchint Chawathe You have some investments in your Private Equity fund which are more akin to seed investments. So do these investments also get transferred to the Bank?

Vikram Limaye Yes.

Nishchint Chawathe Incrementally, whenever you float funds it will be IDFC parent which will be making those investments.

Vikram Limaye Yes.

Nishchint Chawathe It may be a little too early to ask but if you could give some color on dividend policy of the Bank.

Sunil Kakar You have answered, it is a bit too early to talk about this.

Moderator Our next question is from the line of Umang Shah of Emkay Global.

Umang Shah What would the gross NPLs look like on the Bank balance sheet? So we are at 3.5% at the consol level, will this number move up in the Bank?

Sunil Kakar As we have mentioned it time and again that total stressed assets regulatorily is about ₹ 5,000 crore including management judgement it is about ₹ 8,800 crore. This total will not change. But between them the classification could move i.e some restructuring could come down and they could move to NPL or some of the NPLs could go out, some could be sold down. But what we can say to you is that the total number should remain constant. But yes, there is a possibility that the gross NPLs as regulatorily defined can move up. But having said that I just want to ensure and tell you that it will not have a P&L impact.

Umang Shah One of the media reports had quoted Mr. Lall stating that even in the initial 1 to 2 years the Bank can easily clock 20% kind of loan growth run rate. Just wanted to confirm would you like to speak anything on that?

Sunil Kakar Well, the boss has spoken. Over a 4-5 years period 20-25% CAGR on loan book is required. Just remember the kind of my PSL requirement; you can easily calculate given the book we have to do that much, so the numbers will move.

Moderator Our next question is from the line of Suruchi Jain of Morning Star.

Suruchi Jain I wanted to confirm the ₹ 138 crore that you realized in terms of interest that did not come through. Going forward, will you do that at the 90 day mark or at the 120 day mark?

Vikram Limaye 90 day. We are the Bank so ninety-day norms have to be followed.

Suruchi Jain You will recognize it as interest income on accrual basis until those 90 days and once when it hits that 90 days you will immediately recognize that as not coming through?

Sunil Kakar What we are saying is for these stressed assets which are other than NPLs. See currently, I have around ₹ 1,467 crore of NPL, obviously these are on non-accrual basis, on the balance stressed assets which we have in cases we are going to recognize income on cash basis. So we will see as I mentioned over one or two quarters what is the behavioral pattern and we will be able to judge what the income is going to be. So we will follow the accounting norms as specified. We have been prudent not to recognize upfront income which has to be reversed later on as at the end of 90 days.

Suruchi Jain How can part of your P&L be on accrual basis and part be on cash basis?

Vikram Limaye No, understand that from an accounting standard perspective there is a thing that wherever the income is doubtful in nature you need not recognize it. So that is the accounting standard we are looking at Actually, this has been told to us by our auditors and the Board has accepted that for these assets where the income is doubtful in nature, it is prudent not to recognize it.

Moderator Our next question is from the line of Sameer Bhise of Macquarie.

Sameer Bhise My question is on the priority sector for the Bank. So we would be appraised as on March 2016 and which is when if at all there is a shortfall the penalty will kick in March 2017? Is it the right way to read it?

Sunil Kakar Approximately. But we would be appraised on December 2016 because now it has moved to quarterly. So December 2015 will be the ANBC on which the appraisal will happen on or shortfall calculation will happen as of December 2016.

Sameer Bhise I also wanted to understand the movement in net restructured loans for this quarter, there is sharp drop?

Sunil Kakar Yes that is because of provisioning.

Sameer Bhise So, some part of the provisions have gone towards the restructured assets which is why the outstanding net loan has come down.

Sunil Kakar That is correct.

Sameer Bhise Also, I need one clarification. As the NPLs have gone up from 1.5% to 3.2%, is that transition to 90 days or some additional NPLs have been added?

Vikram Limaye No, additional NPLs is in the power sector.

Sameer Bhise You will be moving to 90 days from next quarter onwards?

Vikram Limaye That is correct.

Sameer Bhise All in all our understanding is that ₹ 8,800 crore is the total stressed assets and it does not matter what the transition is, you have provided adequately for ₹ 8,800 crore.

Vikram Limaye That is correct.

Moderator Our next question is from the line of Pritesh Bumb of Prabhudas Liladher.

Pritesh Bumb As we are one month in the Bank, how is the growth behaving? I understand that it is too early to ask but how is the corporate book looking like?

Sunil Kakar The kid has just gone into school and you are asking what is his grade. Only a month has gone, we are stabilizing our systems. Our focus is towards non-infra loans not necessarily on infra-loans and non-fund business, rural Banking has started, there of course I can tell you we have about 1000-1500 customers but that does not move the loan book. So overall loan book has not moved much but I think it is too early to start looking at what kind of loans our total exposure we have increased in this run. But give us a quarter or two and we will be in line.

Vikram Limaye Just so that you all understand that we obviously have very strong corporate relationship which has been our starting strength. We have outlined earlier for the foreseeable future, the wholesale and commercial Bank will be the driver of balance sheet's growth and profitability. Customer growth will come more from rural and retail as those areas ramp up. On the wholesale and commercial side, I can tell you at least based on conversations that have had been with all our customers and other corporates in the landscape, the interaction has been positive. We do expect business from various Companies that we have currently got as our clients as well as new clients in non-infra-areas. So we are certainly optimistic about the prospects for the wholesale and commercial Banking business based on conversations that we have had with corporate landscape. But it will obviously take some time to feed into the numbers as you would expect.

Pritesh Bumb Basically, why I am asking this question is because a lot of private Banks have seen good corporate growth in this quarter. Also, there has been more refinancing under 525 and the new refinances also. I am asking because as we are good at corporate relationships and we should not lose out at some of the relationships so that is what the question was about?

Vikram Limaye You can be rest assured that there are enough people who are focused on making sure that the corporate wholesale Banking business has got adequate attention and that we are not going to be losing opportunities in the market place that we want to do business with.

Sunil Kakar So just as an indicator, our base rate is 9.50% which is quite competitive and that should give you an indication. Also, one more item I want to share with all of you is that our Bank is rated AAA.

Pritesh Bumb On the branch side, what kind of branches we want to see by end of this year FY16 if any statistics is there on that?

Sunil Kakar Say about 55 to 60.

Pritesh Bumb So that remains same which you have guided earlier.

Sunil Kakar Yes.

Pritesh Bumb How much of infrastructure related bonds we have done transferred into the Bank and how much it remains..

Sunil Kakar All.

Moderator Our next question is from the line of Rishindra Goswami of Locus.

Rishindra Goswami If you could share split of these stressed assets of ₹ 5,000 crore into the absolute amount of restructured, SRs and GNPL?

Vikram Limaye GNPL is ₹ 1,467 crore, SR is ₹ 222 crore and the balance you can calculate, I think is ₹ 3,328.

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Rishindra Goswami: If the internal assessment of these stressed assets is about ₹ 8,800 crore and regulatory you have taken a provision of about ₹ 4600 crore overall. So how you thinking about the additional ₹ 4,000 crore of stressed assets? Is there an additional provision that you will take against some of it or how do you think about it?

Vikram Limaye: One clarification I want to make. What we have taken as provision is not regulatorily required. We have made way in excess of what is regulatorily required. If we have to stick to regulation we would not have to make a single rupee of provision for stressed assets. So we have effectively provided against what we believe could be potential economic losses there is no resolution for any of ₹ 8,800 crore of assets. So I do not foresee it from a regulatory perspective for the next four years or five years any incremental provisioning for this talk of ₹ 8,800 crore that you are talking about.

Rishindra Goswami: So the general thinking is that you would not need to provide any more towards it.

Sunil Kakar: Against this ₹ 8,800 crore….

Sunil Kakar: There will be regular provision in the Bank also. If you are trying to do a Bank modelling there is some credit cost will be assumed for whatever standards good quality Bank is.

Rishindra Goswami: No just on the quantum of the provision that you have taken now there is nothing of that sort of coming in the near future is what your sense is.

Sunil Kakar: Yes not against the known risks that we have already outlined.

Moderator: Ladies and gentlemen that was the last question, I now hand the floor back to the management for closing comments.

Sunil Kakar: Thank you very much and we hope to share with you all the interesting developments we have as a Bank. Thank you for your support.

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