Q2 FY17 Earnings Conference Call Transcript
October 28, 2016

Moderator: Ladies and gentlemen, good evening and welcome to the IDFC Limited Q2 FY17 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 "*" and 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. Thank you and over to you sir.

Bimal Giri: Good evening everyone. I welcome you to this conference call organized to discuss our financial results for H1 fiscal '17. I have with me Vikram Limaye, Bipin Gemani, and Sunil Kakar who is a special invitee representing IDFC Bank.

Before we begin, I would like to state 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 e-mailed to all of you. These documents have also been posted on our corporate website. I now invite Bipin to provide key highlights of our performance for H1 fiscal '17.

Bipin Gemani: Thank you Bimal. I will briefly take you all through the progress in respect of IDFC consolidated financials, Bank, Mutual Fund, IDF Alternatives and IDFC Securities.

The consolidated balance sheet of IDFC as on September 30th 2016 was 114,000 crore. In H1 FY17, the consolidated PAT was 463 crore. The consolidated net worth as on September 30th 2016 was 10,573 crore. Performance of our bank in H1 FY17 was strong. The balance sheet of our bank grew by 31% from 83,200 crore as on March 31, 2016 to 109,000 crore as on September 30th 2016. Year-to-date outstanding credit, funded plus non-funded grew by 26% from 53,900 crore as on March 31, 2016 to INR 67,800 crore as on September 30th 2016. In H1 FY17, operating income of our bank was 1,617 cores, a growth of 40% over H2 FY16. Within that, NII grew by 27% from 808 crore in H2 FY16 to INR 1,025 crore in H1 FY17. Non-interest income grew by 69% to INR 592 crore. Net profits of our bank grew by 60% from 407 crore in H2 FY16 to 653 crore in H1 FY17. Network of our bank has now 1,154 points of presence across 15 states and 61 districts. Our bank has over 1.1 million customers as on September 30th 2016 and in the month of September, we acquired over 25,000 customers.

Our Mutual Fund business has been growing very profitably. In the month of September, the average AUM of our Mutual Fund was around 58,000 crore, of this equity AUM were 23% of the total AUM. PAT in H1 FY17 was 47 crore. Vishal Kapoor has joined us as the CEO of IDFC AMC. Vishal joins us from Standard Chartered Bank where he was Managing Director and Head of Wealth Management, India. He has over 2 decades of experience in financial services.

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Our IDF as on September 30th 2016 has a loan book of 1,931 crore across 34 companies. Portfolio is well diversified across renewables, IT SEZs, roads, education and healthcare. PAT in H1 FY17 was 32 crore. In Alternatives, our AUMs are over 17,700 crore in 9 funds across 3 asset classes in infrastructure, private equity and real estate. During the second quarter, we have achieved the domestic first close of our Private Equity Fund IV with an AUM of 576 crore and the final close of our second real estate fund with the AUM of 761 crore. Our PAT from this business in H1 FY17 was 12 crore.

In our Securities business notwithstanding the structural issues faced by the industry, we continue to do well. We have strengthened our institutional sales and research to service FII and domestic institutional investors. We increased our market share in broking across FII, mutual fund and DII segments and we continue to have a healthy pipeline of capital market deals. In H1 FY17, our security business delivered a PAT of Rs. 7 crore.

To conclude, all businesses owned by IDFC are profitable and are well-positioned for growth. On the bank call on Wednesday, we shared metrics with all of you to indicate the bank is progressing well. With this update, we open the floor to Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Thank you, I have a few questions. I will do them two at a time and come back in the queue. So my first two would be you had mentioned last time that you are in discussions with the RBI on potentially merging, you said we could not merge the bank and IDFC Limited but we could collapse 1 layer by may be merging the holdco and that you are in discussions with RBI on this and we would have a better sense of where things stood closer to the end of the year. I was curious if there is any update on that and by when we can expect clarity on that? The second question is on the AMC side, the AUMs especially when you factor in the fact that markets have gone up at least on the equity side. The AUMs aren't that much higher and the profit is not that much higher either. So I was just curious, how should we be thinking about the AUM evolution and the profitability evolution on the AMC side and if you could give us some numbers on what is the growth has been in equity AUM, not just because of market going up but because of fresh inflows, that will be very helpful.

Vikram Limaye: So to address the first question, what I said was that from a regulatory perspective, it appears feasible that the NOFHC and IDFC could combine at some point. What you need to know is that right now the structure the way it stands does not have any tax leakage relating to dividend distribution because all the entities that are owned by the NOFHC are subsidiaries of the NOFHC. The dividend distribution, tax leakage comes into effect only if any of these entities are non-subsidiaries. So there isn't any inefficiency on account of tax leakage in the current structure. At some point in the future, if one or two of these entities were to become non-subsidiaries and from a regulatory perspective, certainly the bank would at some point, because by regulation we are required to bring the shareholding in the bank down from the current 53% to 40% over the next 2-3 years. Then at that point in time, it would certainly make sense to try and see how we could collapse the two. As such, there is no leakage on account of double dividend distribution tax.

So there is no immediate urgency to change this structure in any way that would give any kind of incremental efficiency in terms of the dividend distribution or the money available at IDFC for distribution to shareholders. So that is one from a structure perspective.

Second, in terms of the asset management business, I think it is fair to say that we should have grown faster than what we have so far. The industry has grown at about 10%, we have grown at about 5%. That has to do with couple of things. We had a new Head of Equity who has come on board only about 6-7 months ago. We are in the process of ramping up different products within the equity's platforms. Historically, our strength was in mid-cap space. We are changing that to focus on other products within the equity space as well including large cap diversified sectors. As you know over the last few months, there has been some degree of nervousness in terms of valuations in the mid-cap, small-cap space and people are in fact reallocating away from the mid-cap space to other areas in the equity space. So we are focused on making sure that we ramp up our large-cap diversified funds and our balance fund for which we have just recently got approval so that we have a more broad-based products within equities to be able to grow that business and I am happy to report that the large-cap funds that Anoop Bhaskar who came on board as Head of Equity has taken ownership of, has actually delivered a very good performance and is actually in quartile 1 in terms of performance over the last 3 months and 6 months, since he has come on board. We are seeing good inflows into that fund and there are lot of distributors who have signed up to distribute that fund.

So I think overtime you will see that the equities business within our mutual funds will grow much larger than what it is today. Right now, the mix of equity debt is about 23% equities and 77% debt. We certainly expect the equity AUM to grow even larger than what it is including the mix as well as diversity of products. Profitability is more or less in line with, maybe marginally lower, than what it was last year and that has to do with a change in mix and the change in mix has to do with one within the fixed income side. Again, there has been a reallocation from an asset allocation perspective from the long duration funds to the ultra-short term category or to other types of debt funds where the margins are much lower than the traditional duration product. So while our AUMs on the debt side again have grown because the mix has changed, there is some impact on the overall profitability but it is not significantly different.

What I would say is that we are investing in the business and I think if you were to look at our asset management business relative to other asset management businesses in terms of profitability for AUM as a metric, then while we are number 9 in terms of overall AUM based on profitability per AUM, we are in fact in the top 5 and I think there is a conscious decision to invest in the business in order to gain more scale and size even if it comes with the cost of some profitability because I think it is important for us to scale up some of these areas to much higher levels than where we are today because we have the team, we have the track record, we have the performance, etc.. If we have to invest more and spend more from a distribution perspective etc., then that is what we plan to do. So that is broadly what I would say in terms of your questions surrounding asset management.

Moderator: Thank you. Next question is from the line V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: If I remember correctly, there was some conversation or discussion around ramping up the NBFC, so your capital adequacy is so high, I was curious if you could provide some update on that front?

Vikram Limaye: So the infra debt NBFC is certainly an area that over the medium term we believe should be a good growth opportunity. We are obviously in the process of trying to grow that business as fast as we can. There are obviously certain market related factors that need to be borne in mind. Just to refresh everyone's memory this entity can invest only in operating infrastructure projects. By definition, these are low risk assets which banks or whoever it is that has linked to these assets are not willing to let go. The pipeline of new infrastructure projects in the country over the last 3 years has been in fact quite low and therefore new operating assets that have completed one year post construction is more about historical assets that have either been built a while ago or a much smaller pipeline that was under construction over the last 3-4 years. Given the interest rate environment that we are in and the fact that particularly within the infrastructure sectors, the lending to infrastructure for new projects a) is very low, b) I am not sure there is any risk appetite on part of lenders to lend to new greenfield assets. People are obviously very defensive about continuing to own the operating assets that they have on their books and therefore it is not as easy as you would think in terms of refinancing operating assets that exist with banks today.

Having said that, there is a pipeline of deals that we are focussed on. This entity has grown reasonably well so far given the macro landscapes that I described. We have 35 assets and we have disbursed more money in October, obviously it is very difficult to time this as of September 30th. So there were some deals in the pipeline that got disbursed subsequently in October. I do, like I said, this is a business that you have to take a slightly longer term view. It cannot be a quarterly basis and annual basis. I think from competitive perspective, this entity is able to lend cheaper than what banks are able to lend but there are restrictions in terms of the size of the entity and therefore what it can do on its own based on single company limits, etc., the amount of lending it can do to any single project is limited and the sizes of projects are quite large. So it has to be done in partnership with banks and therefore it has to be done in a way that is collaborative and as I said banks are very possessive about the assets that they own which are operating and therefore it poses a level of difficulty in terms of pricing and being able to refinance these assets out of the existing banking landscape. So you will see growth in this business, there is a healthy pipeline of project but there are also some headwinds given the macro environment that we are in.

V. P. Rajesh: And so I assume we will not be going international to fund infrastructure projects in the neighboring countries or anything like that right, that is not on the cards.

Vikram Limaye: This is purely financing Indian operating infrastructure assets that have completed one year post construction.

V. P. Rajesh: And I was curious if you have any thoughts on this whole Noida toll issue and I do not know if you saw Supreme Court rejected that. I am just curious what is your take on that development, obviously, it seems that the operating assets become less attractive, if things like this can happen. So I am just curious about your views on that?

Vikram Limaye: Yeah, frankly I have not gone into the detail, when was the Supreme Court thing announced?

V. P. Rajesh: A few hours ago.

Vikram Limaye: So till the last 15 minutes, I have not really had the time to. We just had a series of Board meetings etc. So I will get into the details of what happened at the Supreme Court but from what you are describing, it cannot be good obviously because volatility surrounding toll collections and all that, is never good from a lenders perspective if tolls stop. Invariably in these contracts so as you should know for instance, even as it relates to Maharashtra when there was discussion surrounding stopping tolls or not on several roads where concession agreements were already in place. These concession agreements have pretty strong compensation clauses, which require not only debt to be repaid, but also equity with some return and so if they actually honour the contract, then I do not think there is a risk to lenders because depending on what the situation is, if there is a concession agreement in place and there is a contract which requires someone to toll a road for a certain period of time. If the government decides to do a political force majeure or whatever clause they use in order to terminate the contract, it cannot be without compensation and without repayment of debt holders. So I am not aware of exactly what the Supreme Court said, but certainly if it is a termination without compensation then that would, I do not know how that would work, because it certainly would not be fair and I am sure there will be contractual clauses in there which would protect the lenders as well as the equity holders.

Moderator: Thank you. Next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.

Amit Ganatra: I joined the call 5-10 minutes late, so I do not know whether this question has been asked or whether you already answered, but this operating income in IDFC of 127 crore, then there is this 114 crore in others, what does these two items represent?

Vikram Limaye: This is basically a dividend income from the bank and the asset management business which was FY16 dividend paid in FY17.

Amit Ganatra: Basically, if I look at the breakup, under IDFC there is 127 crore which you just explained that is the dividend income, then there is this other, under 'others' what does it constitute.

Bipin Gemani: 'Others' is the financial holding company, one of the companies where the dividend came from IDFC Asset Management Company and Bank and from FHCL, the dividend was given to IDFC limited. So both the companies have the dividend income.

Amit Ganatra: But then if you consolidate then basically…..

Vikram Limaye: In consolidation, we have eliminated, so the results that Bipin went through on consolidated basis obviously eliminated the offsetting dividends.

Amit Ganatra: In previous quarter, you had also provided PAT of each of these entities, this quarter basically you just talked at PBT level and then a consolidated entry for tax.

Vikram Limaye: Actually Bipin, when he went through his remarks went through the PAT of each entity, you joined late, so I would encourage you to look at that. He has gone through the PAT of regulative subsidies.

Amit Ganatra: Because in terms of trying to understand how to value IDFC, since bank is anyways listed, we typically tend to look at all other entities PAT and then arrive at some valuations, so it is important that ex bank numbers are available separately from a tracking perspective?

Vikram Limaye: Those are generally has been disclosed for first half, Bipin went through the subsidiary PAT. It is also in the presentation.

Amit Ganatra: Presentation it is there but it is not consolidated….

Vikram Limaye: No, it is for subsidiary as well. Please go through the slide number 4 of the presentation.

Amit Ganatra: On slide number 4, it is separately provided. And one more last thing is that IDF, it seems that the portfolio has gone up significantly Q-o-Q, is it correct? 1,390 has become some 1,900 crore?

Vikram Limaye: Yeah, that is true, but obviously there are challenges surrounding growth. So while it has grown, it can grow even faster, I have described some of the macro headwinds that exist surrounding refinancing of operating assets that banks are unwilling to let go.

Amit Ganatra: No, the question was that assets have grown, but Q-o-Q profitability or operating income and all is same as first quarter?

Vikram Limaye: No, it also depends on when these assets are disbursed right, so you get your income after you disburse, if you disbursed something in September, you will see it only in the future.

Amit Ganatra: So, it is the timing challenge basically, it is not spreads have suddenly contracted very sharply or something like that?

Vikram Limaye: No, but spreads have contracted because that is the competitive environment, but there is also a timing effect.

Moderator: Thank you. Next question is from the line of Mithilesh Gupta, individual investor. Please go ahead.

Mithilesh Gupta: Sir, actually wanted to come back to the first question that gentlemen has asked regarding the collapsing of the holding company. See because initially our thought was there is a lot of holding company discount and that was one of the reasons we were going to RBI to get this done. So what is our thought right now because the discount keeps on widening from there onwards because stock of IDFC bank has moved up, unfortunately at the same time the limited stock has not moved up. What is your thought on that sir, right?

Vikram Limaye: So actually the stock of limited has also moved up as the bank's stock and in fact if you want to take like-to-like comparison in fact it has been narrowed, but having said that there is a holding company discount today even in IDFC which is larger than what we would like. I do not have a solution to that at this point.

Mithilesh Gupta: But our thought we will go to RBI and ask them if you can collapse it ….

Vikram Limaye: I already went through that, when you say collapse I don't know what you mean, I actually answered that question.

Mithilesh Gupta: No, because the way you answer because there is no dividend leakage….

Vikram Limaye: Collapsing NOFHC with IDFC does not change the character of IDFC as a holding company, right? So if you are talking about holding company discount because it is a holding company, it will continue to remain a holding company even if I collapse the NOFHC with IDFC, IDFC will effectively become the NOFHC.

Mithilesh Gupta: And one more thing sir. In case whenever you decide like 2 years down the line if this is not allowed and you are forced to sell 13% of your stake in the market, what kind of taxation you have to pay on that, sir?

Bipin Gemani: So because it will result into capital gains in the selling company which is IDFC, a Financial Holding company. It will be subjected to minimum alternate tax liability which is approximately 20%.

Mithilesh Gupta: And sir one more last question sir. Any thoughts on dividend policy, have you announced anything on the….

Vikram Limaye: So we have actually put something out we will put something because we just got the policy approved by the Board today and that broadly says that any cash that is available for distribution after accounting for statutory reserves and any deployment for business reasons where we distributed shareholders.

Mithilesh Gupta: And how much excess capital are you holding, I am just trying to understand because none of our businesses require too much of capital apart from IDF?

Vikram Limaye: We don't have surplus capital that the business is holding. So when we went through the demerger exercise, what we did was we kept aside capital that was required for known commitments such as when we raised our private equity fund, we generally commit to a certain amount in each fund likewise if there were any other known commitments that we have to make for the next 12 to 18 months. We have provided for that in deciding how much capital would remain at IDFC and how much would move to the bank. So from that perspective what I can say is that there is no surplus capital that is lying around that will not be put to use based on what our known commitments are at this point.

Moderator: Thank you. We have a follow-up question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia I think you answered, it is interesting you said that the scope for growth in the IDF side looks more limited in the near term than you really thought, but actually if I look at how much progress we have been making there probably a little bit ahead of where we thought we did 6 months ago, we are almost at 2,000 crore of book value and I think you indicated that might be at 2,500 by the end of the year, so far the progress looks pretty good, is it more that the progress has been fine so far but it may not be maintained next year or am I misunderstanding this? And the second question really has to do with the bank right? So when we look at bank, banking is a fairly commoditized business, so you either have some kind of differential advantage on the lending side because of unique capabilities. IDFC bank may acquire that over time, but right now it is hard to see what kind of lending you could do that everybody else could not do. On the deposit side because you do not start out with a legacy entrenched position, you will have reasonably high cost of deposits and obviously the PSL, SLR, CRR all that stuff that you need to take, though one place where you do have the ability to do something very differently and create value for shareholders is on the cost structure because you are starting at a clean slate, you do not have legacy branches, legacy overheads all that you may be able to build a banking operation of a certain size at a much lower cost than it taken your competitors to build. Do you have any kind of medium term guidance for us in terms of what kind of OpEx to assets ratio we might expect, should we expect a significant cost differential between you and others for a similar level of assets on your interest income?

Vikram Limaye: So I will answer the first question and then Sunil will take the cost to income expectations for bank. I am glad that you are happy with the progress of IDF, but I am just saying that when you look at the macro environment and I am just articulating some headwinds that I see may have, we have achieved progress for sure. We ramped up to 2,000 crore within a year. If you would look any other IDFs, then they are not significantly larger over, they have been in business for probably

2 or 3 years. So from that perspective, we have grown reasonably well so far. I am not saying that we are not continuing to grow or that there isn't a pipeline in the second half, I am just making a broader point that I would have liked this business to grow even faster because it is starting from the small base and the volume of operating infrastructure assets in theory in the country is reasonably large. But to try and get them to refinance is becoming more and more difficult because in infrastructure, nobody is doing anything else and therefore they are hanging on to all the good quality assets that they have and therefore it becomes more difficult to refinance.

Pavan Ahluwalia: Sir, just one follow-up on that Vikram which is, is one driver of opportunity for us the fact that banks may need liquidity while you have a lot of PSU banks that are just stuck, they have capital issues, liquidity issues so could that be a potential driver for us, even if it is a good asset, the bank just leads the liquidity and so they come to us or is that not likely to be a significant driver?

Vikram Limaye: We haven't seen that as yet and while they need liquidity, they also need income generating assets, they need to hang on to their good quality assets. If they get rid of their good quality income generating assets, then none of your quoted numbers would like in the P&L. So the idea of comment was more to just reflect the macro environment and we will see how it moves, but I just wanted people to be aware of the context in which we are operating. On the cost-to-income side, Sunil you want to address.

Sunil Kakar: You see, building a bank especially a mass retail bank which is our strategy and a goal is at least a marathon if nothing else. So in your own statements, you have actually summarised overall our benefits and challenges, opportunities and challenges. So the key opportunity which we are trying to leverage upon is building a digitally enabled banking structure which over a longer period of time. I think we should all remember that technology at scale brings down the unit cost. But building up to that scale till such time the unit cost do continue to remain reasonably large and the focus of course is to get there as quickly as possible. So strategically we are moving in the right direction, of course initially our cost-to-income ratios are looking extremely healthy today at about 36% or so, but I believe these will go upwards in our forecast or internal models it almost reaches over 50% before it starts dropping down. So it is only a question of time that we will be able to take advantage of this. Once this scale gets built up, I think on a steady state basis we have no reason to believe why we should not be towards mid to high 30s. At worst, we should not be crossing 40-41 that is cost-to-income ratio. That's where we are targeting for but it is a journey we all need to be patient about it and we have to just see it how it plays out, but we have built it right. Now the question is to get the scale.

Pavan Ahluwalia: You are not building a lot of branches as far as I can see and the tax spend is what it is and you are hiring a lot of employees, what is the spend likely to be on?

Sunil Kakar: As a strategy, it is not going to be lot of branches but branches is only real estate right and that is in, so the number of the head count, the employees, the points of presence as we spoke of 1,150, of course some of it is through banking correspondents. Largely, we will be using micro ATMs and other devices to make that happen but you cannot rule out the FoS requirement which may or may not be on your roles plus the fact, of course the cost the will kind of taper off very soon once we are almost there. The rate at which we are hiring and etc. is also going to taper off very soon. We haven't yet listed, but the question of getting productivity, the question of getting the customers and therefore the revenue side of the equation especially in what we call the Bharat Plus space which is the urban retail bank. That continues to remain quite competitive or strategically we have used the word mass retail which by definition is more there in the rural space. So the costs will flatten out very soon, but then the question of getting the leverage out there of operating leverage, the technology costs overall is relatively high and again as I said if you have only 125,000 customers or even of course we are building it. Currently in our Bharat Plus, we are getting about 7,000 customers a month and hopefully we will increase that soon. So of the 3 business units, the corporate and wholesale bank, the Bharat Bank which is in the rural space and Bharat Plus which is the urban space, the other two are breakeven and making money. Of course corporate is making all sorts of, is contributing to the bottom-line, it is the build out and roll out of the Bharat Plus which is going to drag down the profitability in the short term.

Pavan Ahluwalia: And just last follow up on this, when you talk about the short-term and the long-term in steady state where you could be in the mid to high 30s, is that a 5-year goal, a 10-year goal, 15-year goal?

Sunil Kakar 5 years.

Moderator: Thank you. Next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: And the dividend, any number could you share with us?

Vikram Limaye: Which dividend for which year?

Sneha Ganatra: For the current year which IDFC Bank has paid.

Vikram Limaye: I cannot share FY17 dividend right now.

Sneha Ganatra: I am just saying on the income on the operation, there is some dividend income which you have garnered that amount I am saying?

Vikram Limaye: That as I said relates to FY16 dividend that was paid in FY17. So whatever numbers were already….

Bipin Gemani: We received the dividend of over 100 crore from AMC Bank in IDFC Financial Holding and after setting aside the reserve in financial holding which is required under statue, there was a dividend paid to IDFC Limited of 78 crore by FHCL. All these dividends have been eliminated for consol.

Moderator: Thank you. Next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.

V. P. Rajesh: We have been reading in the newspaper that thermal power plants are running at very low PLFs and the states are not necessarily buying from them and going to the exchange or going into the open market and buying power. So question for you guys is that when you see potential steps again building up again in the system because of the way State Electricity Boards are behaving?

Vikram Limaye: So the way I would answer that question is that it is true that PLFs for power plants are low, they are in the low 50s and Discoms are not purchasing enough power and therefore you do not have long-term PPAs being signed etc. I do not think this is a new issue and therefore in terms of incremental stress, I do not see new asset quality issues cropping up because Discoms have not started buying more than what they are because this condition has existed for some time. So at least as far as our own asset quality in the bank is concerned, we have not seen deterioration, but we have not seen any material improvement either.

V. P. Rajesh: What I understood by talking to a power company is that SEBs are paying them the cost for fixed cost, but not for the variable cost. So to that extent, all these power plants have been built with lot of debt and I would assume that if cash flows are not robust, that would potentially need to some kind of delay in interest payments or am I incorrect in making those kind of conclusions?

Vikram Limaye: So the plant was built entirely on the hope that there would be a PPA done and now it is without the PPA.

V. P. Rajesh: No, these are the plants which have PPAs, that is what I am talking about.

Vikram Limaye: If you have PPAs, then you have to buy power. I think the issue is not that they are not buying power, I think there are delays in payments that people are then bleeding into their working capital requirement, but if there are merchant plants, then yes, they would certainly be compromised, but if there are plants with PPAs, then I do not think that should be an issue it is more of delay in payment issues.

Moderator: Thank you. Next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir just to kind of, if you can remind us what is the dividend policy that you said, sorry if I am asking this again because of my line got dropped in between for a couple of minutes, but that dividend policy is to share everything that comes from subsidiary after keeping the commitment and reserve requirement, you will be distributing 100% is what you said sir?

Vikram Limaye: What I said was that after keeping aside what is required for statutory requirements and for business purposes, if there is any surplus cash that is available that would be distributed to shareholders.

Amish Kanani: And sir this cycle will be this year's dividend would be a function of last year's dividend of all our subsidiary right sir?

Vikram Limaye: What you see reflected in the accounts in the first half is dividend relating to FY16, that was approved in the AGM in July of FY17.

Amish Kanani: So my question was our ability to pay dividend will be a function of last year's dividend of all our subsidiaries?

Vikram Limaye: So what you will see is dividend in FY18 will be based on this fiscal year's dividend declaration that will be approved by the AGM in July 17.

Amish Kanani: And sir is there a dividend distribution policy that all our subsidiary has put which will help us kind of understand what could be the possible payout at IDFC Limited levels and can you also share is there a tangible number right now that is residing in IDFC Limited at the standalone level which can be utilized for paying dividend if any?

Vikram Limaye: So the second question I cannot give you any clarity at this point. The first question the bank also has a dividend distribution policy which is on the website. Sunil can describe because the bank would be the largest contributor to dividend. The other businesses, generally we dividend up any kind of surplus cash flows that was available at the subsidiary level. Then depending on what the business needs are, we allocated to where the capital is required and like I said, surplus beyond that will get distributed to shareholders.

Sunil Kakar: So from the bank perspective, generally speaking is at the group levels other than bank subsidiaries, most of the units do not need much of capital. So it gets pushed up, but at the bank level, just to clarify there are guidelines given by RBI. So we do not have too much of a leeway and it is all governed by the regulations and that is what we have put in the policy out there.

Amish Kanani: And sir last question it will always be good to share the dividend in the form of buyback which is new normal from the Corporate India especially the industrial group which has large holding, of course in our case it may not be the case, but the point I was making was is there a policy in order to ensure that the holding company discount narrows further, the better way of doing of course you all will understand is buyback. So is there any thought on that side?

Vikram Limaye: We will examine that and if it makes sense, we will certainly do what is better for shareholders. The only thing you need to keep in mind is that IDFC Limited has to remain a domestic entity because it is a proper bank. Relating to buyback, it cannot be that because of the nature of the buyback that the foreign shareholding goes beyond 50%.

Sunil Kakar: That constraint is a real constraint.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor to the senior management of IDFC Limited for closing comments. Over to you.

Vikram Limaye: Thank you very much, Happy Diwali to everyone. We have had a good first half. We look forward to talking to you in next quarter. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of IDFC Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.