IDFC BANK

IDFC Bank

Q3 FY16 Earnings Conference Call Transcript
January 28, 2016

Moderator

Ladies and gentlemen good day and welcome to the IDFC Bank Q3 FY16 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode and 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 now hand the conference over to Mr. Bimal Giri of IDFC Bank.

Bimal Giri

I welcome you to this conference call organized to discuss our financial results for Q3 Fiscal 16. I have with me Rajiv Lall, 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 Q3 Fiscal 16.

Sunil Kakar

I will first focus on the progress of the bank and then briefly dwell on the financials for the Q3 Fiscal 16 which are actually the first quarterly results of the bank. So for the maiden results, welcome all of you.

As we have already shared with you the growth of the three businesses of the bank in terms of products, branches and channels will be calibrated. The commercial and wholesale bank is now operating out of 8 cities and its spectrum of product offerings include all non-fund based products like LCs, bank guarantees. Further on the funding side we have introduced working capital products, the trade finance products and market risk products like FX and derivatives.

In one quarter non-fund base products have contributed almost 5% of the overall credit outstanding. The feedback on our corporate internet banking portal is very positive with 42 customers on board. The business now has over 100 customers on the liability side and over 200 plus customers on the asset side. In an environment of tepid corporate credit growth we are confident that this business will demonstrate significant momentum over the coming few quarters.

Our Bharat Banking Division is operating out of 16 branches across 4 districts in Madhya Pradesh. It now has over 2,500 customers on the liability side and 3,300 plus customers on the asset side. And we also have partnerships with 4 MFIs. We have provided micro insurance to over 6,500 customers. We have launched Aadhaar EKYC enabled account opening and a few micro ATMs.

We will strengthen our distribution reach by using micro ATM enabled banking correspondence and partnership. We have opened as far as the personal and business banking or consumer banking is concerned to the public only in January.

IDFC BANK

So the first quarter was more of a beta testing. We now have 6 branches in Mumbai, Delhi, Bangalore and Ahmedabad. We have over 2,150 customers on the liability side largely, of course, they are our internal employees. Our retail CASA deposits are around Rs. 30 crore as of December end. We have launched a unique customer acquisition program called IDFC One which will offer exclusive benefits.

On the financial side, our balance sheet as of December 31st was Rs. 85,000 crore; Rs. 85,500 crore to be more exact. The asset quality has been stable and capital adequacy is strong. There was no further change witnessed in our infrastructure portfolio and we have repeatedly shared in the past that the book is well provided for and on this book we do not anticipate any further increase in credit costs.

Our net profit was Rs. 242 crore largely driven by treasury gains. The cost to income ratio was 35.6% but we need to remember that this is only the first quarter and our investment phase of the bank is still to accelerate. In retail banking, the cost-to-income ratios will change as we go further. The Bank has been awarded the highest rating domestically on its CDs, NCDs and infra bonds. We were awarded the India Bond House by IFR Asia and the best HR and Talent Practices Award by banking frontiers.

We are in the midst of a detailed planning exercise for the Bank and over the next quarters we will add more color on the coming fiscal's financials. I have purposely left out talking about the standard numbers because they have been posted and sent to you and there is nothing to compare with. This is the maiden set of numbers. So I will open the floor to Q&A and respond more in details as we take the Q&As. Thank you. We are now open for questions.

Moderator Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Varun Khandelwal of Bullero Capital.

Varun Khandelwal I have a question with respect to the cost-to-income ratio which came in at 35% this time around. So my understanding was that you guided for a cost-to-income ratio of 35% five, six years down the line. So should one assume that this is very low because you have just launched and this will go up in subsequent quarters?

Sunil Kakar Yes, it is like an inverted U or a U shape, so it will go up and then come down and stabilize at around 35% because at the start the rationale as I mentioned, that we have not yet made all our investments in the branch rollout for example in the retail bank.

Varun Khandelwal I have a second question with respect to asset quality. So there is a lot of news and articles have been focused on the 150 so called problem accounts which the RBI has been discussing with various banks. And I was just wondering if there is any impact of that on IDFC's book?

Sunil Kakar So factual statement is we have not received anything from RBI. I will just leave it at the fact that we have not got any communication from RBI yet.

Moderator We will take the next question from the line of Nitin Kumar of Prabhudas Lilladher.

Nitin Kumar What is our adjusted net bank credit currently and how are we tracking on the priority sector requirements?

Sunil Kakar First of all we are not 100% sure when our priority sector requirements are to be linked on ANBC of December 31st 2016 or March 31st 2017. But assuming that we have to meet the target and the relevant date is December 31st 2016 when we have to reach, so ANBC of '15 our requirement of PSL is approximately Rs. 15,000 crore. So that is if we have to do it on December '16. If it is March '17 it will change a little bit.

Nitin Kumar And this quarter there was a very sharp increase in borrowing to be put into the investments, so what has cater that? I mean we are taking a very cautious approach in branch opening but the balance sheet growth seems pretty bizarre?

Sunil Kakar Yes, so you would see that our investments are comparatively very high, right Rs. 32,000 crore, Rs. 33,000 crore. So they have been funded out of these increased borrowings and to maintain liquidity, but these borrowings were in the overnight market CBLO markets. So they did not have any drag on our interest income side, they had a positive carry. And you also must appreciate that we had an interest rate view which we have been telling you about for the last two quarters and it seems to have played out.

Nitin Kumar One data question. What is the headcount of IDFC now, I think IDFC bank you have given, but for IDFC?

Sunil Kakar But it will be some five, six people at best. We will answer that further but it is not more than 5, 6 I think. And can you have that offline.

Moderator Our next question is from the line of K Sivakumar of Unifi Capital.

Sivakumar You mentioned that you had launched five retail branches in January this year. So what is the plan for the year and how many branches do you plan to set up over the year and what is the cost structure, any rough estimate?

Rajiv Lall The plan is a dynamic plan but for now we expect to get between 50 and 60 branches over the next couple of quarters. The bulk of these will continue to be in rural India although in a measured basis and on a consistent basis we will continue to open branches in all the major cities as well. The cost per branch is something that is still evolving - we will get a line on sight on those kinds of numbers in a couple of quarters. I will say though that since we launched our consumer banking offering on January 15, the initial reaction to the proposition has been really quite encouraging and we have also launched the internet offering – it is now on. The mobile apps will go live mid-April. Our internet banking for the consumer bank is already live. So I encourage you to actually navigate the website, experience it and your reactions to it are quite welcome.

Sivakumar Any sense about the investments in technology which would be happening over the next two, three quarters?

Rajiv Lall No, so I think the bulk of our technology investments are pretty much made. Now there is a run rate to the technology spend that we will carry and that will remain calibrated to the expansion in our operations but the major CAPEX related to technology has been done and I would say that reflecting on the last 18 months, we are very pleased and fortunate that we have been able to stabilize what is an extremely complex technology infrastructure to launch operations in the corporate bank, in Bharat Banking as well now in the consumer bank without turbulence.

Sunil Kakar I also want to add from an accounting perspective although the capital expenditure large part of it is done. It is still not capitalized yet because some of the projects are still work in progress. So from a balance sheet you will see it on a WIP which is the work in progress line and not as capitalized already.

IDFC
IDFC BANK

Moderator Our next question is from the line of Mitul Patel of Laburnum Capital.

Mitul Patel I just wanted to know what is the total stressed portion of the book and how does the bank now in the new avatar define stressed assets?

Sunil Kakar So all our stressed assets are legacy assets which we transferred at the opening of the bank and we have shared that number in the last call and it remains in that, nothing has changed.

Mitul Patel What is that number right now the last communication?

Sunil Kakar The last communication is now you are asking me to go back a few quarters but I think it is around 8,800, 9,000 in that range, 8,800.

Mitul Patel And any slippage is expected out of that into NPA over the next coming year or so?

Rajiv Lall Yes so there could be some slippages into NPA but that will not increase our provisioning, right? There is no P&L impact. There could be sops so again I do not think yes, one is the absolute NPA number may increase but the NPA ratio may not increase. So we do not know, it depends on how the balance sheet pans out.

Sunil Kakar So I think the way to summarize and we have been saying this again and again that we are well provided for and therefore the new bank should not have any cause of concern and no hits on the P&L. Just repeating that although statistical numbers may move up and down it will be within that ring fenced number and we are well provided for and there is no reason for us to have any incremental P&L impact.

Mitul Patel And last question is that lot of projects which are say standard assets right now, they could be delayed or something of that sort. So have you tried to quantify it that if something happens, if further delays are happening or there is an equity write off in that particular project or something then?

Rajiv Lall I will ask Pavan to respond to that. Actually over the last quarter the quality of our overall book has improved. So we do our internal rating of these products so Pavan maybe you want to elaborate?

Pavan Kushal Yes so firstly I think whatever we have spoken about on the 8,800 number that covers everything that will be coming down over the next quarters. If you look at the book itself, in the last quarter we have seen our overall ratings improved from about 1.1 to about 0.88. So we are seeing a lot of new business coming in the better end of the curve.

Mitul Patel Just a high level strategy on to gain deposit share the kind of customers that we will target on the retail side, any just a very high level thought?

Rajiv Lall Very high level thought is that we are in two very distinct customer segments. We are in Bharat Banking where we are and in both segments we are in Bharat Banking and then we are in the top urban centers as well right. But in both those geographies we are going to be attacking both the assets and liabilities side of the balance sheet. So we will even as we are gathering liabilities from those customer bases we will also be introducing asset side products which will include mortgage lending, personal lending. We have already introduced the JLG product in Bharat Banking but there will be ancillary products that are being rolled out as we speak.

On the savings mobilization side, it is not just households that we are targeting. Given our very large corporate customer base, we are going aggressively after current accounts from and term deposits from our corporate customers. Longer term obviously we are building we are focused on building, systematically, a franchise of depositors that come from the affluent to mass affluent customer segments in the top urban centers and the mass customer base in Bharat Banking. So it is actually attacking all customer segments corporate, affluent, mass affluent and mass but in a very calibrated and a measured manner. So you will see that rollout in the next couple of quarters or more.

Mitul Patel And just a last short question. What is the savings bank rate that you guys are offering?

Rajiv Lall As of now I think we are starting with 4%.

Sunil Kakar Since you and others on the call as an individual, we will encourage you if you are in Bombay, Delhi or wherever other four branches, just go and visit them. We can talk a lot about it but there is nothing better than experiencing it and we welcome all feedback.

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

Alpesh Mehta This is Alpesh here. Two, three questions from my side. One is on the stressed loans that we have recognized around Rs. 88 billion, Rs. 90 billion. How is the accounting of interest is happening on that?

Sunil Kakar I had shared that in the last quarter that interest on that is on cash basis.

Alpesh Mehta So should I just assume that the loan NIMs that you report 3.2% that would be the impact on that portfolio during the current quarter NII number?

Sunil Kakar Yes the loan NII and NIMs of 3.2% include this accounting policy.

Alpesh Mehta So if you were to recognize that on the accrual basis how your peers do that, so in that case the impact would be around Rs. 70 crore, Rs. 80 crore on your NII?

Sunil Kakar See, if we were to this is a hypothetical question. Yes, the NIIs would have been better and it is a behavioral thing so we will need a few more quarters to understand the behavior of the various borrowers. But yes based on what happened last quarter and I would caution that we should not extrapolate that because behaviors keep changing and it is too early to draw any conclusion on the behavioral aspect of the borrowers from one quarter. But yes definitely it will improve from there should the behavior stay constant or improve.

Alpesh Mehta Secondly related to your investment portfolio first of all trading ends are large part of this related to the debt markets or there is some element of equity as well?

Sunil Kakar No, this is all debt.

Alpesh Mehta Okay and any specific rationale of building up the investment book so sharply in the current quarter? One thing is for sure about your interest rate view. Apart from that anything to do with the leverage ratio or the liquidity ratio whatever?

Sunil Kakar Our liquidity ratio is more amply comfortable. It is 551% when I am required only at 70%. So there are few strategic things. As we transitioned into the bank it was a conscious call to have reasonably high levels of liquidity and the last thing you want and you move into bank is having a liquidity crisis. So that was one transition move. And second is there is a delta and it is core related, you see credit off take in the corporate world is not rocking, we all know that, right. Now there is an opportunity to get a risk free arbitrage income of borrowing from the market and investing in high quality as a matter of fact all G-Secs largely. It provides you a little bit of net interest income and that we take an opportunistic arbitrage call there. In addition to that, that ensures that you are not having a negative drag and in addition to that what is happening is that if your interest rate view call comes right, you make a significant amount of capital gain. So we could not see anything high risk in this particular strategy and we continue to believe it is a good strategy to play.

Alpesh Mehta And the last two questions. One is about few days back, some media article was floating around regarding the acquisition of the RBS portfolio. Any comments on that?

Sunil Kakar If you start believing the media the world would be a completely different place. Yes there is nothing there.

Moderator Our next question is a follow up from the line of Varun Khandelwal of Bullero Capital.

Varun Khandelwal Just one follow up question with regards to your dividend policy going forward. Could you give me a comment on that?

Sunil Kakar Most dividends from the banks, first of all we have got to make money, so it is restricted because of banking regulations. So we also need to grow although we currently do have capital enough, so we will have some dividend but there is no final decision.

Rajiv Lall But it is fair to say that it will be a little time before IDFC bank becomes a reliable dividend yield play**.**

Varun Khandelwal Okay so to rephrase my question there are two levels of dividend distribution taxations right that will come into play if you do give a dividend?

Sunil Kakar No, so lets be very clear on that. The dividend which will be paid by the bank as long as and in this case it is, my NOFHC which is the Non-Operating Financial Holding Company owns more than 51% but as long as we are a subsidiary there is no double dividend taxation because of the structure. Obviously one time you have to pay around 18%, 20%, right. So there is no double dividend as long as we remain from an IDFC perspective more than 50% or the definition of subsidiary. Now that moment and it will happen but not immediately. The moment we come below 50%, so as you know regulatory we are required to be at 40% within three years I mean from third year to fifth year. So three years down the road, definitely yes but not yet. But we may move down from 53% down to less than 50% also over a period of time. So I cannot predict that, but as long as we are higher than 50% there is no double dividend taxation.

Moderator The next question is from the line of Mudit Painuly of Max Life Insurance.

Mudit Painuly A couple of questions. One is in the P&L the treasury line item, that Rs. 171 crore treasury income, how much of it is interest income from investments ?

Sunil Kakar There was no interest income that is purely the capital gains.

Mudit Painuly And the other question is on your loan growth. You are well-capitalized, so could you give us an outlook for the year, basically corporate lending as well as non-corporate lending what sort of growth you can reasonably estimate for yourself?

Sunil Kakar
This is if you are looking for this quarter which is March ending 2016. Now subject to again I would say subject to the credit environment and credit pick up, see our growth can come in two forms and I do not want to share this again. It is not necessary that we will grow only in the loan side, we may take the same level of credit exposure which is acceptable to us through the bond route. So you may see growth in the bond book but that is not necessarily on our treasury plate. It is actually a credit growth itself. Even in last quarter about Rs. 930 crore almost Rs. 1,000 crore of credit growth came through the bond route and you should be able to understand that doing credit through the bond route has certain advantages, specifically there is no PSL requirement. So etc, etc and therefore we will grow our book so you have to measure credit growth both from loan book as well as the bond investment book. And to give you an exact number it is a bit too early as a startup company I am not too confident to give you an exact number. But hopefully there will definitely be growth in that space.

Mudit Painuly
And just as a follow up. What would be the difference in yields approximately between comparable bond and comparable loan that you would be probably be give?

Sunil Kakar
So while I guess there is some difference maybe 50, 60 basis points or even lower than that. So it is a market play as you know.

Moderator
Our next question is from the line of Pavan Ahluwalia of Laburnum Capital.

Pavan Ahluwalia
I had two questions. One is just to understand on the NPA on the stressed asset side, when we look at that Rs. 8,000 crore, Rs. 9,000 crore number how are we defining what is stressed as an asset? Do we have any is there kind of rule of thumb we are using or is that more a subjective evaluation by the bank that this is something that may cause trouble?

Sunil Kakar
It is a subjective evaluation.

Rajiv Lall
It is based on sectoral exposure type of apportioning.

Sunil Kakar
So we had done and again I am trying to repeat things here. So we had shared with the market also that we have done asset-by-asset evaluation before we transitioned to the bank and at IDFC Limited based on our judgment of future cash flows and its ability to service debt. So we arrived at these numbers. These numbers are far in excess of what the regulatory definition of even an NPL or restructured asset would be. That number is also shared with you.

Pavan Kaushal
It is a management assessment.

Pavan Ahluwalia
I realized you shared it before. The only thing I wanted to know is whether it is subjective or is there any kind of quantitative process or that has been there is a number of payments or something?

Sunil Kakar
No, it is subjective to the extent that when you look at the future cash flows, to that extent there is a judgment involved. Other than that it is purely based on mathematical models and I will ask Pavan to explain.

Pavan Kaushal
We have looked at all the assets in the book and looked at the assumptions on the future of cash flows of these assets and serviceability of the debt on the balance sheet of these companies. Based on which we have come to a management assessment of what is stressed and provisioning.

IDFC BANK

Pavan Ahluwalia Just taking that to the next level given that your exposure is to infrastructure, given that these assets typically tend to be highly levered, where even one or two-year delay can in many cases wipe out the equity, right. So it is if and given the number of delays we see across the infrastructure landscape and especially in projects that aren't yet commissioned so the question of that missing payments or us getting any objective sign that they are in trouble does not really arise. It is just the amount that that debt has gone up and eaten into equity. Do we have a sense of how much we would likely lose, have we tried to do a kind of write down of the book based on this subjective assessment or it is too early to do that?

Rajiv Lall Yes, that is the basis on which we have taken the provisioning of Rs. 4,500 crore.

Pavan Ahluwalia Okay so you are saying your provisioning reflects what you would actually so we should interpret that provision as your assessment of what the whole actually is?

Rajiv Lall Yes, I mean the provisioning has been done on the basis that even in the worst case circumstances what amount of capital that we will have to set aside to prevent future erosion of our P&L. So that is the basis on which the provisioning number was arrived at. So it answers your question about is it calibrated to our estimate of the size of the whole.

Pavan Ahluwalia Okay last question on this. Since you are really at the vanguard of infrastructure lending if we look across the banking system as a whole are you reasonably confident that the infrastructure related stress in the banking system is today adequately captured in either gross NPAs or restructured or do you think we could see further assets turning either stressed or I guess the slip from the restructured to NPAs is always there. But do you think you could see further assets that are currently not classified as either stressed or NPA turning into one or the other infrastructure?

Rajiv Lall I have not looked at their respective numbers or balance sheets very carefully. But I guess it would be fair to say that the RBI seemed to feel that disclosure and provisioning and recognition has not been sufficient. And so part of the purpose of this focus on 150 assets and the contract that they had with the banks recently is to nudge the banks in the direction of recognizing more sooner. One thing I can so I am not privy to any of that so I do not know any more on that. But I mean judging from what we have done in our own balance sheet, what is clear is that we have been very proactive about recognizing and provisioning way in excess of the regulatory requirements. I do not believe that even for those assets that have been recognized being stressed that most banks have provisioned more than what is regulatory required.

Pavan Ahluwalia So over the next two to three quarters then you could see if the RBI continues to demonstrate the seriousness within the next few quarters at least the infrastructure side of things you could see a big clean up on. There is obviously other second order stuff like metals and commodity prices and the impact of that. But at least on the infra side you should be able to see some sort, if not a cleanup at least transparency over the next few quarters system wide?

Rajiv Lall Like I said the RBI is certainly hoping that is the case.

Moderator Our next question is from the line of Manjeet G of Solidarity Advisors.

Manjeet G You know if you could throw some more light on how you are partnering with the four MFIs you have mentioned and the business you are generating through them?

Rajiv Lall So for the time being there are two types of partnerships. We are exploring a third kind. One type of partnership is where we have taken a minority equity stake which is what we did in ASA for example, which is focused in the North East. So the equity stake comes along with an understanding which is embedded in a business arrangement really. That has ASA originating loans PSL loans for us to our underwriting standards. So in fact they are investing in and creating a branch infrastructure that will be dedicated basically to IDFC Bank's business. So that is one model.

The other model is really where it is an opportunistic or a regular buy out of portfolios that may or may not be linked to balance sheet support from IDFC Bank. That is the second one. And the third one is really a strategic alliance but it is still early days where those MFIs they did not get let us say a small finance bank license, they may wish to partner with the bank to offer their customers a full array of products that would include that banking products. So we are exploring that, still early days. So there is a whole bunch of different types of partnerships that we are pursuing.

Manjeet G Okay just a follow up on this. Like what are the services which a small finance bank cannot offer to its customers which you can help for them to be partner with you?

Rajiv Lall No, it is not a partnership with small banks. MFI's that did not get the SFB license.

Manjeet G And one final question on this is basically your MFI investments which you are doing, the minority investments, they are all currently **NDFC MFIs** according to RBI definition? And have there been any disclosures on this before?

Rajiv Lall No, we have only made the one. So far we have only made that one, that has been disclosed to the market.

Moderator Our next question is from the line of Alok Ramachandran of Future Generali.

Alok Ramachandran First one would be what is your target for adding branches in this financial year, I guess you have just done few almost 10 or so and whether you will be able to meet the guidance that you had given for the year?

Rajiv Lall About 50.

Alok Ramachandran So you would be able to meet it by in the next two months since you are at the far end of January?

Rajiv Lall Yes, if we really wanted to we could meet it. So but I keep making this point and I will reiterate it once more. That really over time you should track how many customers we are acquiring rather than the number of branches because we are still testing the acquisition effectiveness of different models right and we want to pursue that model that is obviously the most cost effective and that is the least branch intensive.

Alok Ramachandran But then 60 is the target that still remains, right?

Sunil Kakar 50.

Alok Ramachandran Okay, any target for the customer size base that you are targeting for the end of this year or maybe next year?

Rajiv Lall See you have those targets which I am not willing to share them with you at this point. In the fullness of time share facts with you as we go along.

Alok Ramachandran Okay and regarding your current GNP that you have on your book, if your advances are not growing which you said in the call that with this being the system actually not being growing at the pace that it should be growing and with the macro environment situation being there and the absolute number may go up. So as a percentage it may also go up in some sense. And also on the statement of the RBI. And with the RBI's 150 accounts that they are doing any exposure from those accounts in your book currently which you feel there might be another kind of further provisioning that you might have to do for those accounts if you have them?

Rajiv Lall So let me take your second question first. We do not expect any further provisioning on account of our legacy book. And actually we do not even know what are the 150 accounts that are involved because we were not invited to that meeting.

Alok Ramachandran Okay but now you might be perhaps since your bank now maybe this quarter or maybe next quarter since?

Rajiv Lall No, I do not think so. They will take banks that they felt have not provisioned adequately. Clearly we do not fall into that category.

Alok Ramachandran Okay so those accounts are not with you?

Rajiv Lall I do not know. I mean there are only so many corporate entities in the infrastructure world. I would be 100% certain that there are lot of those accounts if not all of them overlap with ours. But we were not invited to that meeting and maybe somewhat boldly we are reading into that that they do not see that we need to make any additional provisions. Since we have gone out of our way to make such a huge amount of provision that are way in excess of what the regulator is required.

Alok Ramachandran Alright but you had submitted data for all your books to RBI when you are actually transferring?

Rajiv Lall They know our books pretty well, they will get to know even better when they come to inspect them.

Alok Ramachandran So going forward so if you have any targeting CASA that you are targeting maybe over the next two three years sir?

Rajiv Lall Yes of course.

Alok Ramachandran What is the CASA mix that you are looking at?

Rajiv Lall No, I mean the higher the CASA the better it is.

Alok Ramachandran I know but then any?

Rajiv Lall No, we have targets but right now it is a bit theoretical. You have to give us a couple of quarters to see what value proposition what approach to CASA gathering actually catches with the customer. As that develops momentum then we will have greater confidence in our own targets. I can assure you that we internally have pretty aggressive targets. We are encouraged that the initial reaction to the value proposition in the consumer banks as well in Bharat Banking on the liability side has been really quite encouraging. But it would really be a bit premature for us to say yes, we have traction of this kind or that, and by this date certain we will have

IDFC BANK

so many CASA accounts and this volume. But you will get that we will share that with you in the coming quarters.

Sunil Kakkar So what we have already achieved I can just share in the first quarter where even our retail was not yet open. We have total deposits at around Rs. 1,640 crore and out of which CASA was Rs. 350 crore or Rs. 324 crore to be more exact it is there in our highlights. So yes, it started well but as you said it is the first ball in a long test match.

Alok Ramachandran One question was in the context I asked CASA because you guys will be actually competing with maybe a small regional players banks per se whose CASA is actually very small or a regional rural bank. Now since you are tying up with major MFIs also so or some MFIs which you mentioned right now on how to actually getting more low costs deposits just for your book altogether. So how are you going to compete with them in terms of getting more deposits for your bank?

Rajiv Lall Two different, retails also in Bharat Banking it is really not very different from, I do not know if you have been following Bandhan bank at all, right. So what has Bandhan done? They have actually got something like 10 million customers that they have acquired over a decade, right. To each of these customers they do small ticket lending. Now some share of the loans that they are actually giving these customers come back into Bandhan Bank as savings. So and they have actually they have been working at it for a while but it is really quite encouraging what they have done. They have actually been able to accumulate and gather Rs. 5,000 crore in savings deposits, right. So it is from a very large customer base.

Alok Ramachandran And that is quite a large amount to in some sense?

Rajiv Lall Their customer acquisition strategy has been a very simple one. It is only to give a loan right. So what we have seen just in barely two, three months of operations in Bharat Banking, that doing that it is actually very feasible, right. So these are very small numbers because this is a scale game. But so far from a zero start what we have seen in one quarter is pretty encouraging.

Moderator Our next question is from the line of Sandeep Chopra of Karma Capital.

Sandeep Chopra Can I just get the sectoral exposure of your corporate loan book or the gross advances in terms of the like infra sectors, metals or sub sectors?

Sunil Kakar It is there on our website in our **list of** disclosures which is on the website. We have the sectoral exposures.

Rajiv Lall If you cannot find it on the website, please contact us. But it is very much there.

Moderator Our next question is from the line of Raghav Garg of Banyan Capital.

Raghav Garg One question just as we were talking about the NPS etc. Most of the other banks have gone through a very intensive quality review by RBI. So is it fair to assume that since we are a new bank we have not gone through that exercise?

Rajiv Lall Yes, nobody is coming yet but I think I would say that even if they were to do a quality review we are 300% confident. In fact, they will be if they do not already know and I think they do they would be very pleased and pleasantly surprised to find how proactive we have been on our provisioning cover.

IDFC BANK

Raghav Garg So that was my sense given what you had done back in July with Rs. 2,500 crore provisioning so I just wanted to confirm that. Then the second question is that provisioning basket that we have now that six months have gone by, any commentary around what has been the development on that side?

Sunil Kakar There is no change there I mean I know some people are expecting whether it is a write down so it is still too early to make any conclusive evidence that we can write back something.

Raghav Garg And then the third question is you have mentioned earlier that IDFC will potentially be reducing its stake below 51%.and I was just wondering if there is a sort of some near term timeline given how capitalized you are?

Rajiv Lall The RBI requires, as per the original bank licensing guidelines through over 36 months or 3 years after starting operations if I remember correctly right. So that would be by October 16, 17, 18 right. But that is what is on paper. We will see I mean how that we will engage with them it depends on how much capital we need in the interim there could be some natural dilution as a result of that. If that dilution still does not get us to 40% then we will revisit that perhaps with the regulator and see where it goes.

Sunil Kakar So if were to just currently capital adequacy is 20.3% with my Tier I capital at 19.6%, as we grow our balance sheet, as we grow our risk weighted assets, depending on as we said, we may need capital maybe two years down the road, may. So in that case the strategy would be that the dilution happens and we reduce from 53% down further. That question which we answered was more from a dividend point of view so even if 53% comes down to say 49% the dividend taxation will come into play. The second part will be how do we come down from 49% to 44% or 40% that, as I said, strategically the thought is as the bank grows up bank will need more capital, it will automatically dilute downward. I mean the IDFC will get diluted.

Moderator Our next question is from the line of Aditya Singhania of Enam Holdings.

Aditya Singhania Sort of get a sense on the rating mix improvement, there was some comments which suggested that the quality of book has improved. So (a) is that only driven by new sanctions which have a substantially better rating or is there an improvement in the sort of legacy or stress book as well? And some comments on what is changing in the environment that is driving this?

Pavan Kaushal The first question the improvement on the rating is essentially because of the new book, September to December we have not seen a change on the legacy books. On what is happening in environment I think we have not seen anything substantial in the last quarter environment.

Aditya Singhania Some comments would be helpful you used to talk about what is happening in gas and coal and the power sector in general so any comments there that could move the book either way?

Rajiv Lall Yes, so no significant development movement. No significant developments either negative or positive really. But in infrastructure generally beyond power the thermal power there is some activity, reasonable amount of activity actually in renewable energy as well as we are seeing some signs of revival in PPT roads because you know I do not know if you followed this, the NHAI and the Ministry for Road Transport Development have introduced a new form of PPT contract what they call hybrid. That is interesting a lot of potential investors and there have been some deals has been announced recently. So there is some resurgence of activity in renewables and in roads. Telecom also we have seen in today's announcement so there is activity there on the spectrum side. So these are positive developments which hopefully will translate into opportunities over the next few quarters.

Aditya Singhania And just in your new sort of structure as a bank how are you positioned to sort of leverage on this?

Rajiv Lall We can do whatever we did before I mean if infrastructure were to come back in a macro sense it would actually be extremely positive for us because if you recall, this is even before we became a bank. RBI had introduced the concept of long term bond financing for long term infrastructure lending and the bonds that are used to finance infrastructure in this manner are not subject to either CRR, SLR or PSL. So to the extent that we can generate in the macro environment actually allows us to under write risk adjusted good business in this sector. It is extremely good for us.

Aditya Singhania And just on your own risk appetite for doing this given that you already obviously bulk of your book is already infrastructure?

Rajiv Lall So I think what is clear is that as far as thermal energy is concerned, there is no case to expand the portfolio. But as I said in renewables and in certain types of roles there could be a case to expand our book. And even on thermal we are at the bottom of infrastructure bust in thermal power. Who knows what will happen three years from now? This sector could revive and if it does, at that point it could become interesting again, but for the foreseeable future thermal power does not seem to be touchable.

Aditya Singhania If I could just squeeze in one question. The NII line if you were to compare it to the erstwhile IDFC in the last quarter was roughly in the Rs. 600 crore range, which is now Rs. 400 crore. So could we just sort of try and understand the movement if it is possible? I understand the cash accounting part and there was a decline in the loan book at the end of the last quarter. So just some sense on that would be helpful?

Sunil Kakar It is a mix of factors, so let us see one of the reasons as we said was cash accounting the other is again just regrouping. I would like you to in the last quarter we were an NBFC. So certain of these for example let us take FITL, that FITL in the last quarter would be reflected in the provisioning line, but now that we have become a bank, we are trying to follow RBI a bit more closely. And it has now moved to say in the interest income line. So things like that and another large part has to be and is related to the high level of liquidity which we maintain as a conscious decision as a transitioning strategy. I can assure you no bank in a standard bank would have 80% ratio of investments to advances.

So having a very high level of investment book automatically implies as far as your net interest income goes, it comes down. Proportionate to that of course the gains come in your trading line. So it is not fair to compare fixed income security investments only through the lines of net interest income. So it is a combination of high level of investments and some level of regrouping. So this is what it is and I am reasonably confident that as we move forward these numbers will improve and as I said, so there is a reclassification, regrouping and higher level of liquid book and high level of investments.

Aditya Singhania And could you quantify the interest that you have booked on a cash basis from the stressed accounts?

Sunil Kakar No, such level of granular information I do not think it is fair but I think I did answer some time back. Look it is a question of behavior of the borrower and the behavioral aspect of the borrower it needs some more time at least two, three quarters before you are able to make any meaningful predictions out of it. So we have to just watch it for another quarter or two before we can start saying that whether what we saw in one particular quarter is going to be repeatable in the next few quarters but if you want my intuitive expectation is that we will see more collections as we go forward.

Moderator Our next question is from the line of Rahul Ranade of Goldman Sachs Asset Management.

Rahul Ranade I just wanted to know if we are kind of leveraging on our corporate relationships by offering say products like salary accounts or those sorts basically to drive the deposit mobilization?

Rajiv lall Once we have our products suite of the consumer bank done for a minimum product suite to attract salary accounts we will start targeting them. We have already started conversations, feedback so far seems good. We have opened small company's salary accounts already but that is a major thrust area for the consumer banks.

Moderator The next question is from the line of Nischint Chawathe of Kotak Securities.

Nischint Chawathe Sunil, did you mention that you are looking at raising capital two years out?

Sunil Kakar Depending on yes I had said hypothetically if you were to raise capital two, three years down the road depending on how our asset book grows. Today as I said my Tier 1 Capital is 19.3 . So if there is and we do expect to grow our balance sheet and then so it is a very futuristic statement.

Nischint Chawathe I mean very, very broadly what kind of a growth rate are you looking at?

Sunil Kakar 15% - 20% plus is what we were looking at but it depends it is a question of growing the risk weighted assets okay, it is not only the question of balance sheet growth. So including the non-fund business as I said and Dr. Lall also has mentioned that we will grow in a calibrated manner and let us see where we will be in a much better position to see how the macro factors change. So that question was answered given that how we will move from 53% to meet the regulatory requirement over three to four years so I am saying dilution is the most likely answer out there.

Nischint Chawathe And you have I think guided for 1% kind of an ROA in 2017. So would you be able to kind of give some more color on that, how are you positioned for that and anything on the way forward?

Sunil Kakar Next quarter we will be in a better position as I said this is just the first over of a long innings. So imagine we started all the new things, so we need to see what traction is happening and then we will be in a better positon to give you some forward-looking guidance.

Moderator We will take the last question from the line of Ameya Sathe of Tata Mutual Fund.

Ameya Sathe When you talk on the private sector bank they talk about refinancing opportunities in corporate segment. Do we see those sort of opportunities and is there any way we can probably scale up our loan book in that segment?

Sunil Kakar Yes, we do have those opportunities but one has to be as I said careful with what we are putting on subject to ours.

Rajiv Lall So we only have a very, very I would say top end corporate relationship book to which a lot of our non-funded products offerings have already been started to be offered which is cash and trade, FX so yes there are lot of opportunities for that. On the funding side, depending on the demand, depending on the opportunity of course we will look at them. But like I said we already have move to the top relationships with us now.

Ameya Sathe Okay and is there any way that we can look again to some market share from PSU banks, is that a possibility?

Sunil Kakar Yes, that is definitely is part of our strategy.

Moderator I now hand the floor back to the management for closing comments.

Sunil Kakar We wish to be able to give you much better guidance in the next quarter.

Moderator Ladies and gentlemen, on behalf of IDFC Bank that concludes this conference. Thank you for joining us and you may now disconnect your lines.