IDFC BANK

IDFC Bank Limited

Q3 FY17 Earnings Conference Call Transcript
January 27, 2017

Moderator Good Day Ladies and Gentlemen and welcome to the Q3 FY17 Earnings Conference Call of IDFC Bank Limited. As a reminder, all participant 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bimal Giri from IDFC Bank Limited.

Bimal Giri Good morning everyone. I welcome you to the conference call organized to discuss our financial results for Q3 fiscal 17. I have with me Rajiv Lall and Sunil Kakar.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance have been emailed to all of you. The documents have also been posted on our corporate website.

I now invite Sunil to provide key highlights of performance for Q3 fiscal 17.

Sunil Kakar We will share the Bank's progress for the quarter and talk more about events. To start with, the growth of a startup Bank is measured not only through its financials, but through its customers and networks.

Let me share some progress on those two fronts before I get into the financials:

As of December-end, we had 12.5 lakh customers with us. No doubt, almost 9.9 lakh out of that were acquired inorganically, but 2.5 lakh were organic customers which were acquired organically, and more importantly, we have almost reached a run rate of between 45,000 to 50,000 customers every month. So that is what our customer acquisition engine is running at. Similarly, our points of presence in this digital world as we all know branches no longer measure the kind of distribution network we have. As of December-end, we had 4,684 points of presence consisting of almost 4,275 ATMs and micro ATMs. A micro-ATM, just to remind all of you, is a Bank in a box. It is a human-enabled Bank, an ATM which acts like a Bank's branch. Through our VC network, we had 335 points of presence and our own branches are at 74. Overall, we have 4,684 points of presence, which reflect our growth in the network and distribution network.

Getting back to financials:

Our balance sheet grew by 33% from Rs. 86,625 crore as of December 15 to Rs.1.16 lakh crore as of December 16. Q-o-Q, our balance sheet grew 6%. Now just to remind everybody, we are defining our outstanding credit as funded plus non-funded, which sequentially grew by 5% from Rs. 67,862 as of September '16 to Rs. 71,354 as of December 16. Of this outstanding credit, the funded credit was almost flat or maybe slightly down by 1% coming to about Rs. 56,641 crore as of December 16.

Our non-funded business, as a percentage of funded business, grew from 20% to 26% as of December 31st, 2016.

Our other key strategic direction of setting up the Bank has always been retailization of the balance sheet. The contribution of Retail and SME including buyouts and on lending was Rs.7,832 crore which is approximately 13% of the gross fund credit as of December 2016. The direct component which includes direct assignment was around 5% whereas the indirect component which include on-lending and PTC was at 8%. As on December 2016, we mobilized Rs. 27,000 crore of deposits, of this CASA was around Rs. 900 crores. We have already spoken about net worth and customers. Our franchise fee is an important measure. Our non-interest franchise fee income was roughly a third of our total non-interest income and about 12% of the operating income.

The details of the financials are already available with you, I will not get in to too much details but I will take a few minutes to explain the provision numbers. Our operating income, net interest income, and non-interest income increased by 42%, 32% and 60%, respectively. Operating expenses also increased 76% from Rs. 215 as of Q3 in FY15 to Rs. 380 crore in Q3 of FY17, i.e December 2016. Our cost-to-income ratio for the nine months was around 40%. Now our Pre-Provisioning Operating Profit, the PPOP, it is a measure of the regular business, actually grew by 22% compared to December 2015, but after provisioning, our PAT was down 21% YOY. So the key number which I would like to share with you is that of pre-provisioning, where we grew 22% whereas post-provisioning, the PAT was down by 21%.

Let us just spend a minute trying to understand the provisioning entries:

There were three factors which caused this high level of provisions which I will share. But at a broad level, I would like to use a word which is in my mind reflects what has happened in that quarter. It is more of an 'aberration' rather than a reflection of our credit quality. So the three factors let me take them one by one. A small portion is actually driven by mark-to-market on investments. We are all aware that on December 6th against the market expectations, the interest rates were not cut by the Reserve Bank and that had some effect. Having said that, as we speak at the end of the January, I think almost all of that has been recovered, so that is a temporary blip.

The second one which I would like to some spend time on is there is a one-off deterioration in the non-legacy asset credit for which we have taken a significantly large provision compared to what the regulatory requirement is and that is the blip or aberration I am speaking of. It is just one-off. I can tell you had we been following only regulatory requirement, the number would have been much lower. But we, and this is a reflection of our philosophy that we take provisions more on economic value basis rather than regulatory requirement. We continue with our philosophy of addressing the problem head on and taking whatever we believe is a fair value of the provision requirement and not necessarily follow only regulatory requirements.

The third factor which also needs a little bit more of elaboration. Although if I recollect, I have spoken about this quite a number of times at various forums, that when we took the provision for our legacy assets, we have been saying at a portfolio level, the provision is adequate. However, at an asset level there could be some deviations from time to time.

Let me put it another way. See, had this provision being a floating provision instead of a specific asset provision, I do not think we would have required to make any entries, but because this is a specific provision, if an asset deteriorates in our opinion, we could take additional provision. At the same time, when an asset quality improves, we can write back the provision but the timing of the two cannot be matched. So there will be and there could be as we go along some timing differences where in one quarter extra provision may have to be taken and few quarters down the road something might come back, but to be able to predict quarter-on-quarter which way it is going to go is quite challenging. I hope I have been able to clarify the third aspect which in my opinion is a timing difference at a portfolio level and the provisions we have taken for our legacy assets still are appropriate. So, that was on the provision side.

My conclusion is that it is an aberration and we should start seeing normalized levels of provision, going forward. To reiterate that the provision of 50% on our legacy stress book are sufficient at the portfolio level.

In addition, I would like to give some of the highlights on the operating front after the financials. In addition to the fixed deposit, we recently launched our straight through product for digitally opening a savings account with us, without any human assistance or intervention. This is like an STP just like the FD and first among the Banks. We also launched Aadhar pay app which is India's first Aadhar linked cashless merchant solution like using the retailer's own android smart phone to enable cashless payments. IDFC Aadhar pay can potentially enable thousands of merchants across the country to facilitate cashless purchases for customers in a cost effective and scalable manner. This supports the Government's initiative towards boosting cashless transactions.

Our digital partnerships which a) India lends, to offer personal loans to customers and capital float to offer term loans to MSME customers. We have also had a partnership with bookmyforex.com for online remittances, all of that has gone live. With NHAI, we are working on the tag facility which facilitates cash from digital conversion for toll collections using RFID technology. We are the second largest toll plaza acquirer. Using micro-ATMs in an agri *mandi* in Telangana, IDFC Bank facilitated cashless transactions with farmers operating in the *mandi*. In our last call, we had shared with you that how we have enabled cashless transactions in the context of PDS transactions, pensions, etc. in Krishna district of AP. The AP Government has now mandated us to replicate this in two additional districts of Vijayanagar and Vishakhapatnam.

At the Board level, Veena Mankar, has been appointed as the non-executive chairperson of IDFC Bank with effect from December 9, 2016, up to July 26, 2018, subject to RBI approval.

Thank you, we will now open the floor for questions.

Moderator We will now begin with the question and answer session. The first question is from the line of Rohan Juneja from Seawolf Capital.

Rohan Juneja Could you give some more color on why you think the provision from the non-legacy book is a one-off?

Rajiv Lall This is one specific case which has borderline fraud on the part of the borrower and an error in judgment on the part of management. The point that our CFO has been trying to make, Sunil has been trying to make, is that the overall stress book, the legacy stress book hasn't been growing. It is just this one particular case which pertains to something that we did recently that is an error in judgment and we have no intention for that to be repeated.

Rohan Juneja Would it be fair to say that this is non-corporate loan or is it a corporate loan that went bad?

Rajiv Lall Corporate loan.

Moderator The next question is from the line of Nilanjan Karfa from Jefferies and Company.

Nilanjan Karfa Continuing from Rohan's question, did I just hear that you did this exposure pretty recently?

Rajiv Lall Yes.

Sunil Kakar Once we became a Bank.

Nilanjan Karfa Could you elaborate what went wrong with the judgment?

Rajiv Lall There was a borderline fraud which did not pick up. So we are actually contesting this in court. It will go through court. It is a more systemic issue, there are many other Banks involved. It is a case of corporate fraud.

Nilanjan Karfa My next question is with respect to the Part C of this provision, which we have discussed relating to this specific provision. I understand what Sunil was trying to explain. I thought that before we convert it to a Bank, we had undergone this entire exercise of creating this provision. I am sure we did it on an asset by asset basis and then came to a portfolio number because this is our large individual assets. We still had to make an excess provision. But, again it seems like that something we anticipated, did not work out. Otherwise, we need not have to do this provision?

Rajiv Lall No, that is not the case. Ideally, since we were making provisions not on a regulatory basis, we were making provisions on the basis of judgment on the overall portfolio quality. In an ideal world, we would have wanted to set aside all the provisions that we did in a floating manner. It is very difficult to allocate on a loan specific basis. So what happens in the portfolio is that there could be some loans that continue to deteriorate and there are other loans that improve. But as the regulations are such that we cannot make floating provisions. There were some, necessarily by design, arbitrariness and how the provisions were allocated across specific assets. So now what is happening is that some loans are going to improve and are improving, others are deteriorating, but I cannot seamlessly in real time, allocate the gains from the write backs from one against the write off against the other.

Sunil Kakar I do understand and you are also partially correct because having done that at an asset level where you have assigned the particular. If you remember we did this in July 15 and there are 50 portfolios, so to be right 50 times, probability wise is almost impossible whereas you will be right at a portfolio level of the 50 group. And yes, I am saying even now that even today there will be some asset which will still require more than what we provided. A specific case in example, without getting into names, is that 18 months have passed almost since we did that and the gas-based power plant, their level of expectations, the thing is happening around that in terms of improvement has not lived up to our expectations. So we keep reviewing them on a regular basis. So gas-based power plants continue not to improve at a speed at which we would like it to, but other assets have shown good improvement. So our portfolio level provision which we continue to review continue to give us confidence that is appropriate and adequate, whereas at asset level, yes, it is very difficult to be right 50 out of 50 times.

Nilanjan Karfa To delve with this CASA number, what just happened, why did the number go down by almost half?

Sunil Kakar	This is point to point, gentlemen, so maybe I think it is better to start sharing averages. This is because on point to time, on September 30 some large ticket might have come in which went out on October 2nd that thing did not happen on 31st and so it dropped. On an average basis, I can reassure you and we can share this thing. On an average basis, the quarterly average has improved. It has almost moved from Rs. 600 odd crore of quarterly average to almost the Rs. 800-900 crore.
Nilanjan Karfa	Is it possible to get a SA number, how this moved, may be on an average basis, even that will be very useful.
Sunil Kakar	We will share it with everybody next time.
Nilanjan Karfa	My next question is with regards to the fee income. If I look at some of the disclosures under Pillar-3, it seems like there is lot of off-balance sheet growth that has happened and where I think the credit multiplier is very close to 100. Did that play a very large role in this fee income growth, at least in this quarter?
Sunil Kakar	When we say fee income, obviously it is equally driven by non-funded business. If you will see my earlier comments also I had said that funded credit growth quarter-on-quarter was almost flat, actually negative 1% whereas total growth which includes the non-funded business went up by 5% Q-on-Q. So yes, the non-funded credit growth has driven the fee income and corresponding the capital charge.
Nilanjan Karfa	How did the 30 DPD perform on your new businesses that you are doing? Did you see any material dislocations in the market?
Sunil Kakar	I should have shared this, we are very happy to share with you that our DPD and collection especially in the Banking Grama Vidiyal VC was not impacted at all. We have been very good as 99% plus collection efficiency is taking place in our VC collection. Whereas the second order effect i.e due to the demonetization, the lack of currency led to muted growth in assets in those places, but collection efficiency has been excellent.
Moderator	The next question is from the line of Manish Karwa from Deutsche Bank.
Manish Karwa	Could you please provide me some data points. What has been the movement of NPLs as in slippages and recoveries?
Sunil Kakar	NPLs have moved gross from 6% to 7%, net is at 2.6%.
Manish Karwa	I am asking what is the addition to the NPLs during the quarter?
Sunil Kakar	Rs. 350 odd crore.
Manish Karwa	Okay. Also, did you have any recoveries or upgrades on the old NPLs?
Sunil Kakar	They are small ones. The net is Rs.350 crore and that is what we have shared.
Manish Karwa	Is it possible to give the breakup of provisions that you have made as in how much has been for investments and how much has been for NPS?
Sunil Kakar	The investment number is small, after total number 10-15% is investment number, the rest is for the credit.

Manish Karwa On the loan growth that we have seen sequentially, how much is PSL driven and how much is actual loan growth that you would have done?

Sunil Kakar First of all on the loan basis between Q3 and Q4, there is no growth. But even if there is no growth and I keep repeating that point, our disbursements are almost Rs. 5,000 to Rs. 6,000 crore. There was a large payback in this October to December period from certain telecom companies as with the kind of demand they borrowed or rather they received money from the headquarters, etc. So that is why you do not see a loan growth in terms of the corporate world, but it is also a fact that the corporate world loan growth is quite muted as we speak.

Rajiv Lall I have a comment on this. You know, this is reflecting on the overall market. In corporate loan, the growth is non-existent, so given that historically the bulk of our loan book is all been corporate, the macro situation is what it is. So at the margin our overall book is growing only at the pace that which we are able to retailize it. This would focus on the growth on direct and indirect retail exposure, the bulk of which is PSL and actually despite the fact that it is PSL, the average spread on that is pretty good, notwithstanding the fact that we have to purchase some portfolios at rates that give us appropriate PSL credit, that is the difference, if you like, in the overall asset yield average on the type of retail book we are building and the asset yield on the cost of book. So that is why we keep emphasizing that strategically what is key for us during this transition is the pace at which we retailize our balance sheet. So quarter-on-quarter, we are really focused on that and so should you.

Manish Karwa What you are saying is that even as you are building your PSL book which is still spread positive and has not negatively impacted on your overall earnings as such?

Sunil Kakar For the nine month period, yes, and as the last quarter come through, it may change.

Manish Karwa Lastly, one question on Grama Vidiyal, has that book been bought in to IDFC now or all of it is sitting in the subsidiary only?

Sunil Kakar All the assets are now in the Bank except for some fixed assets out there.

Rajiv Lall This is actually an important point I will only take 30 seconds on this as this also is an important element of our future strategy. So the Grama Vidiyal deal is an important structure for us because it allows us to shift the entire distribution into a BC framework which lies in the subsidiary, but all the balance sheet is with the Bank.

Manish Karwa And that is how you are going to build it as well in the future?

Rajiv Lall Yes, exactly.

Manish Karwa Lastly, why were the salary costs up during the quarter? Why did it go up, so sharply?

Sunil Kakar It is a catch up of some accruals.

Manish Karwa As in, is there a one-off thing on this?

Sunil Kakar To that extent it is one-off because it reflects some under-provisioning in the first two quarters maybe. In the third quarter that number would be lower.

Manish Karwa Is it a pension kind of under provisioning or bonus under provisioning that was there? I do not think we have any staff which would be under pension or something?

Sunil Kakar No. It is not a pension, it is bonus.

Manish Karwa You are saying this is a one-off and it should come back to normal trends going forward.

Sunil Kakar Yes, I can confirm that to you.

Moderator The next question is from the line of V. P. Rajesh from Banyan Capital Advisors LLP.

V. P. Rajesh My first question is regarding the net credit investment line item. We are seeing quite a bit of growth both on quarter-over-quarter as well as year-over-year. So just wondering if you can give some commentary around that growth?

Sunil Kakar So it is another form of loan. So instead of investing in loans, we are now focusing on purchase of bonds issued by the same borrower and in that sense it is an increment difference. The benefits of that are two-fold. A) It does not attract PSL; B) These are fixed rate bonds whereas getting fixed rate loans is almost negligible in this country. So what you do is, even the interest rate, so it is a strategy keeping in mind the interest rate scenario prevailing given the fact that interest rates are expected to press downwards, it has been our strategy for quite some time to increase the credit, but not through a loan but through a bond which gets reflected as a net credit investment.

V. P. Rajesh And there are no plans to sort of sell it down in the future or is there a plan to keep holding them on the balance sheet till their maturity?

Sunil Kakar See as I say, read on our interest rates view also. So depending on it, if that view changes. So just to say accounting wise and technically they are classified as available for sale. Therefore, we have the ability to sell it down as and when we decide.

V. P. Rajesh Just going back to the earlier question regarding provisioning on the legacy side. So I understand what you said earlier but is it fair to conclude then that the figure that you had earlier stated for the portfolio of Rs. 4,500 crore incrementally that is sort of coming down, meaning once this all is said and done, it will not exceed that particular number?

Sunil Kakar It should not exceed that particular number.

V. P. Rajesh I mean you would have more confidence in that number, is it fair to conclude that or you see some more unexpected developments out of that portfolio?

Sunil Kakar We keep reviewing it on a quarter-on-quarter basis, and we do not except any significant changes out there.

V. P. Rajesh On the flip side, because there have not been any upgrades in the last 18 months, is it fair to say that we should not expect any upgrades coming out of that portfolio?

Sunil Kakar As I said that, there will be movement, we have not seen it. See, the standard for upgrade is far higher than standard for downgrade. So upgrade is a more time consuming aspect. I would rather say instead of upgrade, there could be settlement kind of thing, so it takes a little bit more time. It is almost impossible for me to give you any guidance on a quarter basis, but overall we standby the statement that the kind of provision we have made at a portfolio level remain adequate.

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

Pavan Ahluwalia My question was really around the evolution of the bond market in India and our strategy. You had talked about this when you had initially given us your strategy presentation a couple of quarters ago. In a world where large corporate credit is increasingly moving to the bond market, could you give us your perspective on what is going to bound or limit that move, so is there a threshold above which borrowers are likely to go to the bond market, are there certain types of companies may be in the mid-corporate space that would not be able to access the bond market that we could approach for traditional Bank lending, so that would be one thing that would be helpful because a lot of Banks are trying to grow in the mid-corporate space where yields might be slightly higher and access to the bond market is more limited, so it would be good to hear your perspective on that opportunity and what we might be able to do there? My second question is around NIM compression, so obviously in an environment where rates are headed down, a lot of our liabilities are fixed rate and there is increased competition in corporate lending, we should expect to see tighter and tighter spreads. Do you have any sense on how low this could go, what would be a sort of worst case NIM on the corporate side that you would underwrite to? Is there a spread level below which you just would not do the business, so you can give us some guidance on that, that would be very helpful?

Rajiv Lall The objective reality is that the corporate lending market in this country is pretty pathetic. I keep banging about this number – I will repeat it again, 45% of all Bank credit outstanding is only to 300 companies in this country and a good share of these companies are now moving to the bond markets. We have inherited this very large corporate book. So, you are absolutely right, the interest rate environment and the competitive dynamics of the overall market as such is strategically imperative for us to retailize our balance sheet as quickly as possible and that is what we are focused on. We are very confident about doing that. Quarter-on-quarter you will see the share of our direct and indirect risk to retail and when I say retail, I mean SME down all the way to micro-lending, that whole range is a part of our advances book that is going to grow very, very rapidly organically and inorganically in the coming months. You are also seeing, therefore, creative strategies on our part to try and facilitate this transition and deal with the downward competitive pressure on asset yields on the corporate book, which is why we are seeing our credit substitute book also growing opportunistically. We are playing in bond market with a certain interest rate view. We are very important DCMs player, so we extract fees from doing that. We churn the book in the market, in order to make some capital gains and we will only hold that credit book until such time as we are able to materially shift to the next spinner of our growth which is going to be retail lending.

Pavan Ahluwalia Any idea of how on the NIM side, on the legacy corporate book, as things re-price downwards, is there a level below which you would just either encourage customers to do a balance transfer or something or do we have a sense of how compressed things could get there?

Sunil Kakar Let me answer that to you. It is expected as you would have seen that the markets have actually disconnected the market rates with the lending rates, I mean the MCLR of the large Banks and correspondingly others have come down very sharply. So it is fair to conclude that NIMs for us there will be a margin pressure and that is a fair conclusion. But to be able to quantify, there are a few things as we take a few quarters at least one or two to know. Whereas the market has dropped its MCLR, it does not mean it is lending at MCLR. So there may be a difference or change in strategy between MCLR and lending rates which is the spread aspect, we have to see how it evolves. The answer to your question is actually a bit transactional, that for every asset depending on the quality of asset, we will compete and the alternate cost of letting the asset go is actually what is my alternate source of investment? Obviously, I cannot go below my MCLR because of regulatory reasons. So broadly speaking if it is a good credit, we will compete because my alternate opportunity cost of keeping that investment, remember I have fixed rate liability then the question comes down whether I am willing to take a 25-basis point negative drag or a 50-basis point negative drag or a 0 negative drag. So, the answer lies in alternate sources of investment on the alternate schemes available and this links back to what we were saying that faster we are able to retailise our balance sheet, the faster will our NIM margin pressure disappear.

Moderator The next question is from the line of Manisha Porwal from Taurus Mutual Fund.

Manisha Porwal I just wanted to understand what is the floating provision that we hold now?

Rajiv Lall None. I wish we could hold all our positions in a floating manner, but we cannot.

Manisha Porwal Because, what I understood was one of the three factors that you had elaborated for the increase in provision was that you had a portfolio-level provision and not an asset-level provision?

Sunil Kakar I said that in an economic sense if we had a floating-level provision, we would not have had to even pass this entry, but these are all specific provisions.

Manisha Porwal In that one-off deterioration, can I say we are almost 100% provided on that account?

Sunil Kakar No, we cannot disclose the percentage of provision. I can only tell you that we had provided far in excess of the regulatory requirement. It is based on our judgment of the fair value of the asset.

Manisha Porwal Because in general cases, the fraud cases are generally fully provided by Banks?

Sunil Kakar That is why I think I should rephrase it is a borderline fraud, so it is not, and first of all without getting into very specific details, there are many players involved in this. We are very small in this whole picture. It is just that we are early to recognize the problem.

Manisha Porwal Sir, I believe like maybe in our pursuit to capture the market early, should I say it was an aggressive move from our side to actually get into a loan like this. I do not know whether it suits the way I put it, but then was it an aggressive kind of lending that led to this or you will be more cautious henceforth also because there will be lot of margin pressures. So would not the growth prospects be very difficult for IDFC Bank?

Rajiv Lall I would not use the word aggressive, I would admit to the use of the word, sloppy. Sloppiness will not be tolerated in this organization. It was a sloppy decision is all I can say. With respect to the question that will it be challenging to grow, that depends on our success in retailising our balance sheet. We are focused on basically converting ourselves as quickly as possible into a full service retail Bank and this is the progress that you will have to gauge quarter-on-quarter, our ability to do so. We are pretty confident on this because we feel that the whole range of our new businesses is developing at a good clip and over time, the contribution of our funded corporate book is important. The funded corporate book will progressively keep coming down and that is strategically what we need to do. Even after having said all of that and I am not given to providing forward guidance, I have consistently said and I will repeat myself that for the next two to three years, every year we will deliver between 10% to 15% profits after tax growth and I stand behind that.

Manisha Porwal I just wanted to understand like had there been a little more number of branches because we have been going on the digital basis from day 1, as that was our strategy. Had there been a little more number of branches, then we would have been benefited from this DeMo-related CASA garnering? Have we missed this opportunity to get into the market when there was a room available?

Rajiv Lall How many branches could we have done in a year and even my grandfather could not have imagined that demonetization would happen, that is a totally theoretical counterfactual. But the more serious question and again it is not something we could have foreseen is the following – that as a result of demonetization, actually the pace at which and the possibilities for acquiring customers through distribution systems that do not rely on traditional Bank branches that possibility has grown very dramatically and we are pursuing that aggressively. So it has actually reinforced our belief that branches have become much less important for acquiring new customers both for liabilities as well as for assets.

Moderator The next question is from the line of C. Udayraj from Udayraj Associates.

C. Udayraj Sir, is the Bank looking at further acquisition?

Rajiv Lall Yes, we are continuing to look at further acquisition.

Moderator The next question is from the line of Arun Ranganathan from IDFC.

Arun Ranganathan Sir my question is with respect to the interview Mr. Rajiv Lall gave in one of the television shows. Sir, in that interview you were talking that the CASA is becoming more and more irrelevant i.e. less important after demonetization. Could you elaborate on this?

Rajiv Lall To drive profitability, we have to drive NIMs, we have to make sure that the margin is expanding one way or another. There are two ways of expanding the margin. One is to drive down the cost of funding and the other one is to drive your asset yield higher. What I was saying is that it takes longer to drive your cost of funding down, but it is quicker and more effective to drive your average asset yield higher and therefore, in the current environment where incremental cost of funding, non-deposit funding in any case has come down. For the time being it is actually most effective in terms of pursuing profitability growth to change the composition of our assets such that we are doing more high-yielding assets. This is not to say that efforts to build the CASA franchise should in any way slow down, but it will take longer for that to pay dividend, it will take a shorter period of time to improve our NIMs by driving a change in the composition of asset in favor of retail assets.

Arun Ranganathan Sir, last time I saw that we were holding around 17 lakh shares around a year or year-and-a-half or so in NSE i.e. in the National Stock Exchange. Now what would be the latest number on that?

Sunil Kakar We only disclose it in our annual balance sheet. But roughly since you have asked me, we own about 1%.

Arun Ranganathan Sir did you say that this quarter in spite of the lending book being flat, we were disposing up to Rs. 6,000 crore of loan this quarter and that to in retail?

Sunil Kakar I did not say retail, I said the total disbursements are around Rs.5,000 crore.

Arun Ranganathan What we define as Retail? Even SMEs are included in it. Also, microfinance everything is included in it?

Rajiv Lall No. SME and below is broadly what we are calling Retail.

Moderator The next question is from the line of Prakash Bajpai, he is an individual investor.

Prakash Bajpai I was wondering about this segment wise reporting what you have done. I see that we are having a large investment book, but at the same time our borrowings are going up. So are we following a strategy of borrowing and investing or what it is?

Sunil Kakar As a Bank, cash for liquidity comes from the borrowing and we have explained during our answering question, investment is another form of lending because in accounting terms when we lend in the form of a bond, it is called an investment, but normally say it is fungible with loans.

Prakash Bajpai At the same time, when we see the income going down, then I do not understand that how this is working out? This is because trading gains are down, treasury income is down?

Sunil Kakar One part is accrual income, I can tell you that the marginal cost of borrowing and the marginal accrual rate we get from the bonds is positive, but accounting standards require that all these bonds are mark-to-market at the end of the quarter. So the trading gains which you see which is up and down, it could also happen through Government security, treasury bills or any other form of bond which are mark-to-market. Mark-to-market, Indian accounting standards, only the losses are to be booked but the gains are not recognized. So this conservative accounting standard, leads to a result where trading gains fluctuate at quarter ends and whereas over a longer period of time it pays back. So I also explained that because of December 6 event where the market expectations was a rate cut and the actual rate cut did not happen, there was a spike in the bond market resulting in a mark-to-market loss.

Prakash Bajpai Now you expect that this will be better going forward?

Sunil Kakar Yes.

Moderator We will move to the next question which is from the line of Harshit Toshniwal from ICICI Securities.

Harshit Toshniwal Currently, how much proportion of your asset book is in retail?

Sunil Kakar 13%.

Harshit Toshniwal Also, what is the gross advances figure at the close of the quarter?

Sunil Kakar It is Rs. 51,000 crore or something like that.

Harshit Toshniwal Do we have the breakup of NPAs separated in Retail and corporate book?

Sunil Kakar It is all corporate, Retail NPAs are not there.

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

Pankaj Agarwal There is a sharp increase in your HR expenses on QOQ basis, can you explain it?

Sunil Kakar I have answered that question in detail earlier. It is catch up of accruals; it will come down next quarter.

Pankaj Agarwal You said that you would disburse closer to Rs.5,000 crore of loans during this quarter, and despite that your advances book is down. So was there any kind of

	refinancing done by some of your borrowers? Did they moved to other Banks or it was like some schedule pre-payment?
Sunil Kakar	It is a combination of schedule and prepayment. The borrower did not refinance with any other lender, but he paid down through his equity.
Pankaj Agarwal	It was a combination of both?
Sunil Kakar	Yes.
Moderator	Ladies and Gentleman, due to time constraints, that was the last question. I will now hand the floor over to the management for closing comments.
Sunil Kakar	Thank you, we shall look forward to another productive call next quarter.
Moderator	On behalf of IDFC Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.