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IDFC Bank Limited

Q3 FY'18 Earnings Conference Call Transcript
January 19, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the IDFC Bank Limited Q3 FY '18 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. If 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. 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 Q3 Fiscal '18. I have with me Rajiv Lall, Pavan Kaushal, and Bipin Gemani. Sunil Kakar has joined us as a special invitee. 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. These documents have also been posted on our corporate website. I now invite Rajiv to provide key highlights of our performance for Q3 Fiscal '18 and the way forward.

Rajiv Lall Thank you, Bimal. Thank you all for being here, this has been quite an eventful quarter. What I wanted to do, however, is today to focus on the results. Any merger-related questions, we are happy to take them, but since we just did a dedicated call on the merger two to three days ago, I do not want to repeat those comments or introduction. Coming to the quarterly results, I would first contextualize my comments today by saying the following:

We are continually evolved hopefully in a more useful manner with respect to our communication to you on our quarterly results, so there are certain terms and sequences that I will use in today's presentation that may not be exactly the same as what I had used in previous quarters, but believe me once I start doing this for the next two to three quarters, the clarity of IDFC Bank's unfolding story should be greatly enhanced and in any case we are open to your comments and suggestions on how to further improve it.

Let me start by saying that this is actually been a tremendous quarter where we have seen very significant traction on our stated strategy of continued retailization of the balance sheet both on the asset side and on the liability side as well as on diversification away from infrastructure in the wholesale bank towards non-infrastructure business, funded business as well as non-funded business that contributes to our fee-based revenues, so on all these metrics including distribution and customer base, we have made significant progress. Let me first start with customers and distribution because that is quarter on quarter what is building momentum in our performance. At the end of this last quarter ended December 31st, we are at 2.39 million customers up from 1.94 million customers last quarter as in September quarter and you are just seeing the trajectory of growth exactly a year ago, we were at 1.13 million customers.

Our customer acquisition has now accelerated from 120,000 customers a month to 150,000 customers a month, so gaining good traction. I can give you a little more granularity of the 2.39 million, 1.29 million, 1.3 million about come from our BC Network, which is the IDFC Bharat Limited and other BC around that. That number is up from 1.1 million customers last quarter, so through the BC Network, our customer acquisition has gone from 1.1 to 1.29 million customers. Through our Bharat branches, our customer base has gone up from 550,000 to 740,000 over the quarter, and now through our Bharat plus network distribution network, our customer base has gone from 280,000 to 360,000 customers as on December 31st, so that is on customers. This customer acquisition is being driven through as I said various channels, the branch channels, the BC channels, as well as the digital channels, but let me give you a sense for our physical distribution network and how that is scaling up.

We are now up to 127 branches, we have added 27 branches over the last quarter, end of September we were at 100 branches. This time last year we were at 74 branches, so from 74 to 127 has been the expansion of our branch infrastructure network. By March 31st of this year meaning end of this fiscal year, we aim to add another 23 branches so that we get to a 150 branches before we end of this fiscal year. Our BC branch network is more or less stable at about 360 branches. We are not expanding that for the time being, that is really our asset lending machine in the lower customer segment. We are rather building up the main branch network which I just described to you. As far as our micro-ATM network is concerned, that continues to grow at a healthy rate. We are now at 13,070 micro-ATMs up from 10,258 at the end of last quarter. This time last year, we were at 4,272 micro-ATMs, so we had trebled our micro-ATM network over the last 12 months.

This is the customer and distribution network that is driving the transformation of our asset composition and growth, so let me take you through what is happening on the assets front. Our total wholesale bank has assets outstanding of about 46,500 crore. Quarter on quarter, this has been flat and why this has been flat is because our infrastructure book continues to shrink, which is a strategic decision on our part. The infrastructure book as of end of December 31st stands at 25,138 down about 4,000 crore from 29,000 crore and some at the end of September, so that is a 13% quarter-on-quarter shrinkage in our infrastructure book, year-on-year the shrinkage in the infrastructure book is about 9%. Corporate banking ex-infrastructure has seen a 16% quarter-on-quarter growth and a 22% year-on-year growth, so this quarter the growth has been particularly accelerated. We ended the quarter in corporate bank ex-infrastructure advances at 21,376 crore, up from 18,447 crore at the end of September, so that is on the wholesale part of book.

Now, let me turn to Retail. In the past, I have been using the term which is direct and indirect Retail. Most of you are actually interested only in the direct Retail portion. The indirect Retail comprises essentially our PSL buyout book, so I am not being polite or cute anymore, I am calling direct Retail basically Retail and I am dropping the nomenclature of indirect Retail. I am just substituting that with PSL buyout, so our Retail book organically grown through our distribution network and our sales force stood at 5,991 crore at the end of December up 27% quarter on quarter from 4,733 at the end of September. This organic Retail book end of December last year was only at 1,700 crore, it is now close to 6,000 crore, so organic Retail we are doing on average at a monthly run rate of at least 600 crore a month. This is the pace at which organic Retail is growing and I can tell you about 50% of that in Bharat Plus and its range of products and 50% of that roughly it in Bharat and its range of products. Our PSL buyout book which was the indirect Retail has actually come down, it has come down to 7,760 crore from 9,200 at the end of September. There is a 17% shrinkage in our PSL buyout book which is a good sign because it shows that we are generating organically PSL through our Bharat network lending. That is on the asset side, that is the story I wanted to share with you. Provisions, quarter on quarter, no change and I will come back to the question of stressed assets at the very end, but the headline is no additional credit provisions this quarter.

Now, let me turn to the liability side of the balance sheet, which is an equally compelling story, and I want to focus your attention on two particular metrics. First and foremost, it is CASA. We ended December 31st this last quarter 33% up quarter on quarter with the CASA of 4,254 crore up from 3,200 crore at the end of September. Our CASA this time last year in December was only 900 crore, so it has almost quadrupled over the last 12 months and I will give you some more color on the nature of CASA in just a minute. Second data point on the liabilities side I wanted to draw your attention to is core deposits. Core deposits is CASA plus Retail fixed deposits. It says something about our Retail depository franchise.

Core deposits stood at 7,991 crore as of December 31st up 13% quarter on quarter from 7,043 at the end of September '17. Core deposits last year this time was 3,100 crore, so year-on-year the growth in core deposits has been 157%, so headline message both on the asset side and on the liability side, the pace quarter on quarter of retailization continues as we had indicated to you. Let me now give you a little more color on the nature of CASA. As I said, CASA stood at 4,254 crore at the end of last quarter. Of this, Savings Accounts were about 1,900 crore and Current Accounts were 2,300 crore. Now, let me break up CASA in another way by the type of business that is generating that CASA, so there is the Retail business that generates CASA, there is the government business that generates CASA and there is a corporate business that generates CASA. Of the 4,254 crore that we have CASA at end of December, 1,171 were pure Retail CASA. Retail CASA from last quarter was up from 810 crore, so just in one quarter, Retail CASA went from 810 to 1,171 crore over the quarter.

Government business accounted for about 1,300 crore of the CASA as of period end, so of the 4,200-odd crore of CASA end of December, 1,300 crore comes from the Government business, which is a sticky business and 1,770 crore comes from the corporate business. We are seeing real traction quarter on quarter on CASA. Couple more data points on CASA, because this has a bearing on what is happening to our cost of funding. CASA as a share of deposits, which is the number that you guys track end of last quarter was 8.2%, end of this quarter is 10.1%. This time last year, the CASA ratio, CASA divided by deposits was 3.3%, we are now at 10.1%. Just to give you quarterly increases, this is important for you to focus on, this ratio has gone from 3.3% in December '16 to 5.2% in March '17 to 6.8% in June '17 to 8.2% in September '17 to 10.1% in December '17, so solid traction on the share of CASA in total deposits. Likewise, CASA as a share of total deposits plus borrowing is now up to 4.4%, it was 0.9% this time last year. Last quarter this ratio was 3.2%, that is, CASA as a share of deposits and total borrowings is now up to 4.4% and is beginning to have some impact on our average cost of funds. If you look at core deposits, which is CASA plus Retail fixed deposits as a share of our total deposits, we are now up to close to 19%, end of December core deposit as a share of total deposits was 19%, this time last year the same ratio was 11.5%. Core deposits as a share of total deposits and borrowing is now up to 8.3%, it was 3.3% this time last year, so much for balance sheet.

Let me now turn to the profit and loss account. Let us first talk about Net Interest Income. Net Interest Income for December 31, 2017, was 511 crore, year-on-year it was down 5% and quarter on quarter, Net Interest Income up 7%. Non-interest income, fees and commission is the most important point which is a part of non-interest income which is what we have asked you to focus on, this is what we are building primarily on the back of our non-funded asset growth. Fees and commissions was up 30% quarter on quarter, 27% year-on-year. It stood at 138 crore as of December ‘17 up from 106 crore in September ‘17, so steady traction on fees and commissions. Trading gain is where we have taken a hit this quarter and that is because of the volatility in the markets. Our trading gains net of mark-to-market provisions, we saw a loss of 33 crore as of December end and this obviously is a one-off event and which is what is dragging our overall performance on non-interest income.

Profits after tax, so I wanted to give you a sense of what is driving profit after tax, so profits after tax stood at 146 crore for the quarter ended December. They were down 37% quarter on quarter. They were down 24% year-on-year, but the major driver for this decline in the profits after tax line is actually trading gains which turned into losses in this last quarter. The second consecutive factor to the decline in profits after tax is our investment in our network and people, so if you look at our non-HR operating expenses, they were up 33% year-on-year, 18% quarter on quarter which is a reflection of the accelerated pace of our network expansion across the board. So two reasons why our profits after tax were down - one is investment in building out our Retail network at an accelerated pace, and second, one-off trading losses in this quarter.

A little more color on the P&L, so I wanted to give you a sense for our asset yields and again flesh out the story of our retailization. The average asset yield in our wholesale book, wholesale lending which comprises infrastructure and ex-infrastructure corporate banking was 9.55% end of last quarter. Asset yield was 9.55%. It declined somewhat from the first quarter of this year and the first quarter of this year, it was 9.68, so over three quarters of this financial year, we have seen a slight decline along with the market and competitive pressure etc. in the asset yields on our wholesale book. Retail book, our asset yield at end of Quarter-3 stood at 12.47. That too has drifted down a little bit, but the important point is that the retail asset yield average is about 300 basis points higher than our wholesale banking asset yield, and therefore, the faster we retailize the balance sheet, the better outcome we will get on our NII on a blended basis, that is for the asset yield.

Now, let me give you a sense of the cost of funds:

Our average cost of funds has come down from 7.38 at the end of Q1 of this year to 7.23 at the end of the last quarter, and one of the primary driving forces for this decline in the cost of funds is actually the changing composition of our liabilities and at the margin, the rapidly rising share of CASA as a share of our total deposits and borrowing, so a decline in our cost of funds also a slight decline in our asset yield, but the net-net a rise in our Net Interest Income. Next thing, I want to talk to you about asset yields, I have talked to you about cost of funds, I have talked to you about the general P&L, I wanted to shine the light, a more granular light on another important aspect of our P&L and that is on fees, which is what we are very focused on. So fees and commission as I had shared with you earlier, quarter on quarter, we saw a growth of 30%, year-on-year 27% and particularly if you look at our fees coming from trade and cash management, this saw a quarter on quarter growth of 5%, a year-on-year growth of 75%, at the end of Quarter-3, trade and cash management related fees stood at 33 crore out of the total fees and commission of 138 crore.

Investment banking and syndication fees have done particularly well for us. They tend to be a little more volatile admittedly, but it has been a very good year for investment banking and syndication. The fees contributed by this line item, end of Quarter-3 was close to 43 crore up from 18 crore at the end of last quarter. Final point I wanted to make is what is the driver for the trade and cash management fees which are staying steady quarter on quarter growth, and therefore, a rising contribution to our fees and commission line item on a quarterly basis. It is the growth in our non-funded exposure, non-funded exposure trade related stood at

27,258 crore at the end of December 2017 up from 25,000 crore in the previous quarter and up from 14,700 from this time last year. The point I am making is that we continue to drive quarter on quarter development of the non-fund business that is contributing and improving quality of our fees and commission line item in the P&L.

Finally, let us talk about asset quality, so you would have seen our credit provisions grow this quarter. NPAs went up quarter on quarter from 1,990 to 2,766, but important point is there was no hit to P&L, there was no additional provisioning taken on account of this NPA. I wanted to spend a minute explaining that, you will recall, I am going back into some context that we had some 9,000 odd crore in terms of stressed assets of which we sold 4,000 crore through an ARC of which against which we got 2,000 crore in SRs, so including SRs what you currently see at the end of quarter on our book as stressed assets including 2,760 crore of NPAs is a total of 7,314 in stressed assets, this includes SRs of about 2,000 crore, so if I strip out this 2,000 crore, I am left with 5,300 odd crore of stressed assets against which I have a provision cover of 3,495, so even of this 5,300 crore, some additional asset are reclassified from identified to NPA, the provisioning cover against these asset is not declining, it will remain at 60% and hence we are signaling very strongly to you that our stressed asset situation overall has not changed at all, it is as we have advertised to-date. I think I have covered all the points I wanted to touch on, if there are any questions I am very happy to take that in Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on your Retail book, can you give some color in terms of product segments where we are growing such as fast pace, and secondly, on cost of deposit side, what is the average cost of deposit in Quarter-4?

Rajiv Lall: On the asset side as I said of the 6,000 crore of Retail assets outstanding, roughly half is Bharat banking, so it is JLG and associated products and the other half is a range of housing loans and personal loans, secured and unsecured. The average cost of core deposits in the last quarter is 5.63%.

Manish Ostwal: Second question on the kind of investment we are making on distribution side and brand expansion, so over the medium term, you said 25 branches you will be heading in this quarter, so over the medium term what kind of size we envisage because now the digital thing, many of the large banks also cutting their long-term branch expansion target and now physical branches are less relevant in the current parlance, so what is your realistic target for the IDFC Bank in terms of branch network over the next two to three years?

Rajiv Lall: We said we will be up to 300 branches over the next couple of years, so we will double our branch network from 150 to 300. You have to understand that the branch format is very different from a traditional branch format, ours is much lower cost branch format and over the next quarter, we will be happy to share more about branch economics as that data begins to mature.

Manish Ostwal: Last, one request to you and the management team of the IDFC Bank, please put the presentation for the merger because what is the timeline or schedule of approval is very relevant for us.

Rajiv Lall: When you said the presentation of the merger, what do you mean?

Manish Ostwal Generally, the transaction details are placed into a presentation that is posted by listed companies?

Rajiv Lall We will do that.

Sunil Kakar The timeline just in case you were asking for as I said it is a sequence of events, but most likely we are targeting around October-November 2018.

Manish Ostwal But it will be effective for April 1, 2018, Sir?

Sunil Kakar Effective date, appointed date as they call in the scheme of arrangement as most of consolidation purposes will be 1/4/2018.

Manish Ostwal Sir, if we get approval in October 2018, we will be restate our numbers, right?

Sunil Kakar Yes.

Moderator Thank you. We have the next question from the line of Naveen Baid from Aditya Birla Money. Please go ahead.

Naveen Baid If I understand you correctly Sir, you said that the overall stressed pool has not changed so what was about 9,000 crore in the previous quarter is 9,000 crore this year, so if I understand and get the numbers correct, there has been around fresh slippage from within the stressed pool to gross NPA of about 800 crore, is that correct?

Rajiv Lall That is correct but with no increase in provisions, so this is a pure asset classification name and this is important point because we have been ahead of the curve in taking provisions against assets in our judgment that we felt were stressed irrespective of that classification.

Naveen Baid Out of this 800 crore, is there a lumpy account or this is broad based in terms of slippage?

Pavan Kaushal It is no lumpy account, there are several accounts which have been reclassified to NPAs.

Moderator Thank you. We have the next question from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane Sir, last quarter you had given a number that 2,000 crore is a net stressed asset number, right, so where do we stand today?

Rajiv Lall It is exactly the same.

Amit Rane Your outlook going forward on this number?

Rajiv Lall Outlook that depends, we have had this conversation before, it really depends on NCLT and how all that plays out. We have taken the view that we have made sufficient provisions, but if the NCLT process becomes dysfunctional then we will revisit it. To give you a sense of the overall number, this is it.

Moderator Thank you. We have the next question from the line of Rahul Agarwal from Stewart & Mackertich. Please go ahead.

Rahul Agarwal Sir, in page number six of the investor presentation, your provisions and contingencies have increased from 27 crore to 109 crore, that is a 309% rise on a quarter on quarter basis?

Rajiv Lall That is almost entirely due to trading losses, so it is a Mark-to-market, it is not realized loss.

Pavan Kaushal As on 31st of December when we had to revalue our ASF book, this is the amount of mark-to-market we have had to take into the accounting books.

Rahul Agarwal Thank you, Sir. My next question is Sir, since you have increased your expenditure on non-HR and HR, what is the time period which I can expect that this will be recovered as in the Retail business will grow by bringing an impact of this expenditure?

Rajiv Lall It depends on the branch format, it goes from anywhere from 18 months to 30 months.

Rahul Agarwal So it is an 18 month period which I can expect?

Rajiv Lall It will be a mixture, I do not want to give you a number but between 18 and 30 months.

Moderator Thank you. We have the next question from the line of Sneha from Subhkam Ventures. Please go ahead.

Sneha Sir, my question is on this wholesale book that we can see again declining by the same trend what we have seen in the current quarter and how the Retail growth would be picking up in the same trend?

Rajiv Lall I have explained that the wholesale book has declined deliberately because we shrunk the infrastructure book, but for the non-infrastructure wholesale book has been growing extremely rapidly, quarter on quarter it has grown 16%. The Retail book likewise has grown very, very aggressively, as I said we are growing quarter on quarter 27%, we have a run rate on Retail asset of over 600 crore a month and I aim to accelerate that run rate.

Sneha One more question on the fee income side which has grown deliberately very strong on this trend of 30% quarter on quarter, can we see this higher trend continuing on quarter on quarter basis of 30 to 30%?

Rajiv Lall On the fee-based income if you are looking at us on a medium-term basis meaning over the next two to three years, you have to track the share of fee-based income that comes from cash management and trade, and second one is the loan rated fee. These are the two that are stable, right. Investment banking, it has been a very good year, but it is a volatile business, so I have 138 crore of fees, it has grown very nicely, but what I am really focused on is growing the 33 crore of fees that come from trade and cash management, I want that to double over the next 12 months if not more.

Sneha My next question is on this cost-to-income ratio which currently stands at 57, we are planning to expand our branches around 300, so where do you see a sustainable cost-to-income ratio down the line by FY '20?

Rajiv Lall FY '20 is still early, we have to wait 24 months for us to continue investing, but I can tell you this that the format which we are using and this will become clearer to you in time, our cost-to-income ratio will be better than best-in-class for Retail banks in the country.

Sneha My last question is just wanted a clarification on the stressed book you are mentioning that SRs are standing around 2,000 crore, right?

Rajiv Lall Correct.

Sneha How much provisioning we are holding on that?

Rajiv Lall The total book that was told was 4,000 crore, against which we got 2,000 crore in SR. We have another 333 crore of provisions against this 2,000 crore, so net actually is 1700 crore. We believe that we will not need to take any more provision against this, that is our belief.

Sneha Any account we are holding on the NCLT and how much is the provisioning we are holding on that?

Pavan Kaushal We have few accounts in NCLT and all of them are adequately provided above 50% on all of them.

Sneha Can you share the amount if you do not mind on the NCLT?

Sunil Kakar I do not think we can do that.

Rajiv Lall Bear with us one quarter, stay with the headlines signaling that we are giving you is that against the 7,300 crore, we have 60% provisioning coverage and we believe we are more than adequately covered.

Sneha Last is, how do you see the outlook on the margin front, could you guide us?

Rajiv Lall The outlook on the margin, we are hoping to play the game that we have played over the last couple of quarters is that as we quarter on quarter improve our funding mix and we replace our higher cost liability with lower cost CASA, we will be able to better withstand the downward pressure on asset yields on the corporate books, A. B, as we continue to retailize aggressively on the asset side of the book we will be able to improve our average asset yields on the overall balance sheet as well, so I would like to say that we are going to be, we want to be constructive on our NIMs, that is our view, that is the pace we are going, we should be able to protect our NIMs at the very least.

Moderator Thank you. We have the next question from the line of Harshit Shah, an Individual Investor. Please go ahead.

Harshit Shah There are couple of questions, one is when do we plan to add all the functionalities in the account, I mean to say Demat and trading, tax payment, these are the basic functionalities which are not yet available?

Rajiv Lall There are two functionalities that are going to come up over the next month, one is the, there is an NRI facility which is in testing as we speak, over the next six or seven weeks, I think it will become available, that is one. Second is on the demat, we have just cut a deal with another provider who is going to be providing on behalf of our customers demat facilities, that will go live, I do not know the exact date on the top of my head, but we are expecting it that before the end of this fiscal year it will also go live.

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Harshit Shah	Sir, the tax payments, GST and all these income tax payments?
Rajiv Lall	That still I am afraid continues to be irritant, I do not have a better answer for you as of this point, but I should tell you separately that we did not present you the details on that, but our wealth management fee income is gaining very rapid traction and we can share with you, certainly next time I will share with you the AUMs on wealth management and the fee-based income associated with that that is developing.
Harshit Shah	Sir, the last question, we are opening in any branches that much time does it take to breakeven in general on the branches?
Rajiv Lall	Eighteen to 30 months depending upon the format, but I aim to bring these numbers down, today it is taking 30 months but I want to bring it down to 14 months, 24 months, so that is work in progress, but right now we are doing 18 to 30 months.
Moderator	Thank you. We have the next question from the line of Aditya Singhania from ENAM Holdings. Please go ahead.
Aditya Singhania	I just wanted to clarify the asset yield that you spoke about, the wholesale banking asset yield at 9.55, this is the entire wholesale bank including the credit substitutes?
Rajiv Lall	Yes, this is the entire wholesale bank including the credit substitutes, but excluding the stressed assets.
Aditya Singhania	Could you just remind us what is the accounting for this stress book that you have sold the SR, that you are recognizing any income yet on that?
Rajiv Lall	All our collections under the SR first go down to pay the principal.
Aditya Singhania	Has there been any pay down of principal yet?
Rajiv Lall	Yes, we have. We have received two installments so far.
Aditya Singhania	The long-term bonds that you have which you have been mentioning is causing a drag on your margins, could you clarify what is the timeline when it sort of starts to run out?
Rajiv Lall	Cost on that is 8.9%, it starts running off from FY ‘21.
Sunil Kakar	Let us say almost 50% of that should come down by FY ‘21, it is about 50% within the next three years.
Aditya Singhania	The fees breakup that you shared, there was cash management and trade fees of 33 crore, investment banking and syndication of 43 crore, could you clarify what the rest of it was?
Sunil Kakar	It is loan related fees.
Aditya Singhania	That is wholesale or Retail?
Rajiv Lall	It is both.

Aditya Singhania	Would it be possible to split fees by Retail and wholesale as well?
Rajiv Lall	We can, we don't have to split hairs here.
Moderator	Thank you. We have the next question from the line of Jai Mundra from B&K Securities. Please go ahead.
Jai Mundra	Sir, just couple of things, can you give the, I missed it in case you have provided, the breakup of the provisioning for this quarter?
Sunil Kakar	This quarter you will see a provisioning number of 108 crore all of which is mark-to-market losses because of the yields which have gone up.
Jai Mundra	Entirely is on the CFS portfolio, right?
Rajiv Lall	Yes.
Jai Mundra	Sir, if you can also provide the movement of NPA, how much was the slippages and the reduction right now?
Sunil Kakar	800 crore roughly from 1,900 to 2,711 was the gross NPA movement and almost 400 crore of provisions came with it.
Rajiv Lall	The point being again that the PCR relative to the NPA outstanding remains to be much the same as the PCR that we have against the 5,000 odd crore of stressed assets excluding the SR's.
Jai Mundra	Sir, just lastly post this let us say on a consolidated entity, what would be the future of let us say our non-lending business such as AMC and broking business if I may ask, would it be too early to ask?
Rajiv Lall	That is the question for the IDFC Limited conference call.
Moderator	Thank you. We have the next question from the line of Aditya Shah from Vikram Advisor Services. Please go ahead.
Aditya Shah	Sir, I have a question about the Net Interest Income, as explained by you previously that the major reason for the drag is high cost infra bond, but what I see Sir is that was the case even like last year as well, but why is there a reduction even from the last year by 5% quarter on quarter and 8% for nine months?
Sunil Kakar	The two reasons I could say that as assets are getting re-priced from the asset yield perspective if you will look at for the wholesale asset, they are resetting at a lower yield and the other is, the SR book which we sold off, remember Mr. Kaushal mentioned that whatever income is now coming is first going to offset the principal and the income is not recognized, so to that extent and, of course, the PSL quantum is much more this year. Last year on an average you had to keep, we started from 0, ended at 40. On an average we are 18,000 odd crore of PSL as compared to an average of 8,000 to 9,000, so that kind of gives you the variance analysis.
Aditya Shah	Regarding that further than what is the realistic NIMs that we can expect going forward let us say on a year or two-year basis, how much NIMs should we expect in terms of quarter, let us say this quarter it was 500 crore, so going forward do you expect this to go to 600 to 700 crore in the next coming years or not much?

Rajiv Lall I expect the NIMs to improve at the pace with which we are able to substitute our high cost liability with CASA, so there are two things that are going to happen over the next 24 months, in that the legacy liabilities will start falling away that is one thing that will be very constructive for our NIMs. Second thing that will happen is that the share of CASA in overall liabilities is going to rise and is rising at a very rapid pace quarter on quarter. Both those things should be more than enough and third thing, this is happening on the cost of funds side, on the asset side, average asset yields will improve as a share of Retail assets and total assets continues to rise, so net-net our NIM should improve, how much they improve I cannot predict, but they should improve. We are definitely expecting them to improve.

Aditya Shah It will not be like this year when we are seeing a reduction, going forward we will not see a reduction as compared to year-on-year, that is what I am expecting?

Rajiv Lall It will not be the case.

Moderator Thank you. We have the next question from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta First question is regarding your trading book, at the time of transition we were holding higher amount of investments since we wanted to keep higher liquidity, but now what is the outlook because the size continues to remain quite high, it is almost at around 26,000 to 27,000 crore and I believe it would be a negative carry on the balance sheet, ex of trading gains?

Pavan Kaushal What you are seeing in the investment book is actually two other things, one is the credit substitutes which gets reported there, so the credit substitute book has been steadily growing, they are not Government Bonds, they are Corporate Bonds. The other thing you see in that book is the PTC that we are buying on PSL which also gets faster investments, so both of those should shrink right,

Rajiv Lall We did credit substitute instead of loans to avoid PSL, but we took a calculated risk on the mark-to-market, that is why we were doing credit substitute instead of funded business, regular advances. Second thing is the PSL buyout contributes to both of these over time will begin to shrink, so the investment book is usually going to shrink.

Sunil Kakar In addition to that we have this trading investments and you were right that number is about 26,600, but your conclusion that it is having a negative carry is not appropriate. So we will never run a negative carry book forward, but directionally if you will see, quarter on quarter this has already declined by 3,000 odd crore and it will slowly decline depending on what our view is, but we do not do any negative carry trade.

Alpesh Mehta What would be the yield on this book, only trading investment book on our balance sheet right now?

Sunil Kakar We repo it and borrow in the terms markets against this and we make something like 20 basis to 30 basis points on that, but I can give you the exact yield on the average duration if you can just get in touch with Bimal, we will give you the answer.

Alpesh Mehta Secondly, from the stressed pool you transferred some accounts to NPA and made the provisions from that stressed pool that you had done at the time of transition, what is the tax treatment related to this?

Rajiv Lall No tax implication.

Alpesh Mehta Do you have any reversal, deferred tax asset reversal something like that in the P&L?

Rajiv Lall No.

Alpesh Mehta The transaction happened through networth at that time, that is why?

Bipin Gemani We ran it through profit and loss.

Alpesh Mehta So, there is no reversal on this, right?

Rajiv Lall No.

Alpesh Mehta There are no profit on sale of HTM securities in this quarter?

Rajiv Lall No.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Rajiv Lall Thank you. It has been a tiring week, what can I say, but it has been a satisfying week. We expect to continue delivering at this stage over the next quarter even as we navigate the merger formalities, so thank you for being with us, we will talk to you again next quarter.

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