Q1 FY17 Earnings Conference Call Transcript
July 28, 2016

Moderator Good Day, Ladies and Gentlemen, and Welcome to the IDFC Bank Limited Q1 FY17 Earnings Conference Call. 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, you may signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Bimal Giri from IDFC Bank.

BimalGiri Good morning, everyone. I welcome you to the conference call organized to discuss our financial results for Q1 fiscal 2017. 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 discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance and strategy have been emailed 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 Q1 fiscal 2017.

Sunil Kakar I will start with the Bank's progress in Q1 2017 and then I will invite Rajiv to detail the Bank's strategy. Post that we will open the floor to Q&A.

During the quarter, our funded credit grew by 4% from Rs. 48,474 crore as on March 2016 to Rs. 50,410 crore as on June 30th, 2016. If we include the non-funded growth credit also, then the growth was stronger. Total outstanding credit including non-funded grew by 7% from Rs. 53,580 crore as of March 2016 to Rs. 57,470 crore as of June 30th, 2016. Our non-funded business as a percentage of funded business is gaining traction, from 11% as on March 2016, it is now at 14% as of June 2016. Our CASA and fixed deposits as of June 30th, 2016, were Rs. 7,700 crore of which CASA was Rs. 869 crore.

Sequentially, the NII grew by 25% from Rs. 411 crore in the last quarter of FY16 to Rs. 515 crore in Q1 FY17, significantly driven by stronger cash realizations on our stressed portfolio. Our non-interest income grew by 37% from Rs.143 crore to nearly Rs. 200 crore. Within this, the franchise driven fees and commission grew at a healthy 40% from Rs. 55 crore to Rs. 77 crore. We now have 89 unique clients for cash management and 150 active customers for trade and corporate linked finance. Our trade assets are now over USD1 billion. Trading contributed significantly at Rs. 117 crore to the non-interest income. Although, operating expenses sequentially were lower by 6%, we are still in the investment phase of the Bank and going forward these expenses could move up.

PAT increased by 60% from Rs. 165 crore in Q4 FY16 to Rs. 265 crore in Q1 FY17. Our network now comprises of 409 points of presence across 5 states, 22 districts and 15 cities. The network consists of 65 branches, 330 micro ATMs and 14 e-lobbies. We now have around 60,000 customers, of which 59,000 are retail.

The Corporate Bank has 663 customers in Q1 FY17, witnessing 190 new-to-Bank customers.

Our product suite for retail and Corporate Customers is now almost complete. Our business experience platform for Corporate Banking was acknowledged by Global Finance in its list of innovators 2016 for transaction services. We have also announced the strategic acquisition of Grama Vidiyal Microfinance Limited. Grama Vidiyal has around Rs. 1,500 crore of assets under management, 1.1 million customers and over 300 branches in 7 states. It's FY16 ROA was 3% and ROE of 30% and asset quality is pristine. The acquisition was at around two times FY16 price to book.

Now, I invite Rajiv to share the Bank's strategies.

Rajiv Lall This is a somewhat unusual session today because we thought as management it is time now to unveil in more granular detail, various aspects of our strategy and how it is being implemented till date. You all have received an electronic copy of the presentation that I am about to take you through. If for some reason you do not have a copy, I urge you to visit IDFC Bank's website There is nothing like images to clarify things, no matter how much I verbalize you really don't get a sense of what we are trying to do until you see it. And therefore I really encourage you to check out the videos that are also available at the IDFC Bank website.

So let me now turn to this strategy presentation. My remarks are divided into four sections, I will start with big picture, the context and setting, I will be describing and explaining to you and analytically justifying the strategic direction that we have chosen for the Bank. Then I will take you through various aspects of our Retail Banking franchise as they are unfolding. Corporate Banking next, and then finally I would like to leave you with some benchmarks along our journey of transformation, these are benchmarks that I expect, we are certainly following, that the investment community rather all of you will measure our performance by in over the next couple of years.

So first, context and direction. There are really two points I wanted to make about the context of the Indian banking. As you have heard a lot about changing customer behavior, the WhatsApp moment for Indian banking, the importance of technology, smartphones, the declining importance of branches, all of that. The two insights are really to do with the balance sheet of the banking system that I wanted to share with you and I do not think we could have focused enough on this.

First, Slide Nos. 5, if you have access to it, is really the asset side of the banking system balance sheet. This is characterized by extreme concentration, you just take a look at the numbers, we have done some research on this. 45% of all banking credit outstanding in this country goes to only 300 corporates, if you do it by corporate groups the concentration is even higher. That is extreme concentration on the asset side of the Bank's balance sheet. What this means is that there is hyper competition in the large corporate space, all our large corporates, 300 of them are just spoilt for choice, they get loans at very-very fine rates, what this is doing is driving spreads down in the corporate business, I think this is a secular decline. The expectation and hope, I know Reserve Bank of India, is trying to push the community and system in a direction to get the large corporate out of the banking system and into the bond market, so that the banking system can actually focus on providing credit, intermediating credit to smaller player in the landscape. So that is on the asset side.

Second, the liability side, look at the depositary franchise. We all know, and you keep reminding us that the holygrail for a bank is the CASA depository franchise. Look at where the CASA depository franchise for the banking system is coming from. 86% of the CASA deposits mobilized by the Banking system come from the affluent and mass-affluent in HNI segments of the customer base. 81% of all CASA deposits mobilized by the Banking system comes from only the top 50 centers in the country, very-very high degree of concentration, these number you know, but why are they significant and I urge you to look on Page 6 at the table at the bottom which says, with title proportion of financial savings and its composition. These are numbers for fiscal year 2015, these are GDP numbers. If you look at total household savings as a share of GDP, they were 18.7%, but off this 18.7% only 40% or the equivalent of 7.5% of GDP were financial savings, meaning that they were intermediated through a formal financial system, largely banks. What this means is that 60% of savings in this country, household savings are not even captured by the banking system. So the traditional view, the long held view that the bulk of the savings in this country are just with the wealthy people and the affluent communities in the society. And therefore everybody should mine those is plainly incorrect, the banking system has not mined the very substantial savings that sit outside the top 50 cities and outside the mass affluent and affluent customer segment in this country. This is why there is a great preoccupation with financial inclusion, an agenda that the banking system has singularly failed to deliver on despite the rapidly increasing number of branches across the country. So two messages from the macro context, as far as the balance sheet of the banking system are concerned, very high concentration on both the asset side of the balance sheet as well as the liability side of the balance sheet.

Let’s turn to Slide No. 7. This context very clearly, defines the agenda for a new bank and it is there in the title of that slide. Given this context, our goal as IDFC Bank is to penetrate progressively deeper into the customer base on both sides of the balance sheet, asset side as well as the liability side this means that our goal over the next several years is to build a mass retail bank. Specifically, four particular strategic goals are defined on that page, two for Retail Banking, two for our Corporate Banking franchise which is obviously the starting point for IDFC Bank.

For the Retail Bank, goal number one, rapidly increase retail share and total advances across all customer segments to raise our average asset yield. I have described what the situation with yields is for the large corporate space, if you go deeper into the customer base you will get higher asset yield,that is our first objective to “retailize”, our advances. Second, pursue cost effective; acquisition at scale, especially of mass affluent and mass retail customers for deposit mobilization and to drive down the cost of our funds. This is well understood; this is what building the CASA franchise is about. What I am saying, however, that is slightly different is that to build our CASA franchise we will attack not only the affluent and mass affluent customer base but we will also attack mass affluent and the mass market.

Two goal for Corporate Banking, first, our goal is to diversify our Corporate Customer base beyond the large corporate segment, again to raise our spreads. And finally, to diversify our Corporate Banking revenues which comprise a bulk of our revenues today beyond funded products which was our historical legacy to non-funded products and fee based sources of income to systematically improve our ROAs. So it is not that we are giving up on our Corporate franchise, no, we are saying that we cannot rely on our Corporate franchise to generate significant contribution to revenues in relative terms going forward from funded business. We aim to mine our relationships in corporate India to deliver best in class services such that we can generate systematic, sticky franchise fee revenues from that franchise.

So I just wanted to look at one chart on the left hand side of the Page which is the first one, the asset yields and cost of fund. This is just illustrative; it is a usual visual to keep in mind. What our strategy does is it widens the jaws between the asset yield and our cost of funds over time. And because driving the cost of funds down through building the retail depository franchise that I am talking about is going to be a marathon, is going to take a long time, our expectation is that the jaws in this graph will widen first through the change in our asset composition and therefore our asset yields incrementally are likely to rise faster than our cost of funds is likely to fall.

So that is the context and as I said this is our strategic goals. Now I want to spend a few minutes on Retail Banking, which is Section 2 of the presentation that you have.

Here I want to answer four questions, call them A, B, C, D.

A. What customer segments are we targeting in retail? I have said, yes we want to go deeper into the customer tissue but I want to be more granular about what we are trying to do

B. How are we acquiring customers, how are customers coming to the Bank, what is our value proposition?

C. How are we managing the cost of acquisition and servicing customers? This is extremely critical because we believe that we have found a way of driving our cost down.

D. And finally, on all these three metrics, I want to share with you what have we achieved in the nine months that we have been in operation? Remember, it has only been nine months since we launched the Bank.

Turn to Page #10. What customer segments, what granularity are we pursuing in the retail customer base? If you look at this triangle, at the top you have affluent customers, then you have mass affluent, you have the mass market. We are in the affluent segment, we are particularly focused on the self-employed, what we call the business banking segment, these are people, traders, manufacturers, start-up companies, wedding planners, lawyers, doctors, very large community of people in the services industry, mostly with turnover less than Rs. 35 crore. That based on our experience before we launched the bank and our research before the bank was launched, and in the nine months that we have been in operation, is an underserved community of customers where banks typically treat them either or deal with them either at the bottom of the total fold in the corporate offering or as HNI, neither of these value propositions actually speaks coherently to this customer base. And therefore we feel there is a big opportunity. That is the affluent segment.

In the mass affluent, we are focused on salaried customers. And particularly to start with, we are focused on the corporate salaried customers. The reason is obvious, we have a corporate franchise to start with, and we have very deep corporate relationship. We aim to systematically convert these into corporate salaried accounts and we have started doing that. Also, our digital acquisition and offering speaks very clearly and more persuasively to salaried people and that is where we are therefore focused in the mass affluent segment.

Finally, in the mass market we are focused on two sub-segments – one is the micro enterprises and second is self-employed women. So four customer segments, broadly divided into two internal divisions – one you know and recognize, we have been calling Bharat Bank but the mass affluent and affluent, just for consistency and to make a point rhetorically of being a unified nation, we are calling that Bharat Plus. So Bharat and Bharat Plus are the two internal divisions, that's how we are organized.

Second point, B, on the Retail side. Customer acquisition, how are we going about it? let me explain more granularly what is that we are doing. Two ways in which we are acquiring customers – #1. By filling identified product and service gaps within the targeted customer segments. And #2.Through with the judicious use of price incentives. So if you turn to Page #12 – these are illustrations, examples, the list is much more exhaustive but I am sharing some examples with you. How product and service gaps are allowing us to actually acquire customers as we speak. And I will take you through one or two examples in each of the customer basis.

So in the affluent, which is the Business Banking segment for us a bulk of these customer segments are not recognized as one for their personal and their business needs. So for them we have created what we call the Truly One Account, the distinguishing feature of which is the seamless integration between their current account and savings account. Now it is not that some other banks are not trying to do this, some are, but our offering is truly different, and I will give you an example. So if you are business person and you write a cheque for your vendors against your current account and there are insufficient funds in your current account, in our integrated Truly One Account, your savings account will pay the difference. So the two accounts are seamlessly integrated. If I want to view my personal accounts in parallel with my business accounts, I can do it on just the one screen in the Truly One Account. If I want to view my daughter's accounts, if she is a minor but she is a partner in the business and I want to view my business finances at the same time, I can do it and control it seamlessly through this just one account and one page. So, I can tell you as we sell this proposition it has connected very-very deeply with this customer base and we are having great success with this product.

Second example, standardized products that do not address customer needs, they are very frustrated with this, for them we have created what we call the World Business Account. This is a single account for domestic and international transactions, if you talk to a small trader and their banking relationship, for any domestic business that they have, they have to enter one system for their bank to get that information. If they have any FX dealings, they have to get out of that system and then access another system to get the information they need. Simple thing but this requires technological sophistication and at the backend we have integrated the two. So the fellow can find out his FX exposure, how his trade finance is doing and how isworking capital is doing, all on the same page. Convenient, simple, transparent, quick - makes a big difference in our conversation for acquisition of customers.

Final example, bulk cash handling. Again we talk about the trader community. This customer base likes bank branches, they want proximity to bank branches because they have peons running back and forth between their shop or place of work and the bank branch ferrying bulk cash. We have created a subscription service for them that using couriers manages their bulk cash need at their doorstep. So this again is a big hit, this is going to become more sophisticated over time. And what it is convincing our customers that we are acquiring in this space is that after all there is a way not necessary to depend on a peon or a bank branch within close proximity to your place of business.

Very quickly, example of the mass affluent, this is a very important one. The biggest frustration for most customers in this space is the cumbersome nature and paper heavy nature of any interface with the bank. We have exploited Aadhaar based technologies and authentication protocols to the hilt and we are now opening bank accounts for anybody within four minutes if you have your Aadhaar card or your Aadhaar number. And it is not just opening a bank account in four minutes, you can set up your internet banking, you can download our banking app, and be functioning within minutes. For the app and internet banking, as well as for your debit card, you have your own Green Pin, you do not have to wait for somebody to mail to you a pin that you do not remember. Simple things again. So when, for example, we are going to corporates and offering bank account opening for corporate salaried customers, this is the single biggest hit that we find. They are astonished by the simplicity and speed with which we open bank accounts for them. This does not guarantee that I will get the person's entire savings account, but it is certainly enough to intrigue him or her to try our services and open an account, even if to start with it has a modest savings balance in it.

Another example of customer gaps in the mass affluent. Standardized asset products are offered by competitors that do not consider the earnings and savings profile of individuals. For our mortgage products, we have created what we are calling the booster home loan. And again this is to do with our technology backend which allows us to offer a mortgage loan, the EMI of which is tailored to your income. So that as your income increases, your EMI can also increase. All in one documentation, onetime approval, it is not as if you have to recast your loan in order to be the beneficiary of this simplifying product.

Finally, I will just give you a glimpse for the mass market and what is the service gap that we are filling there. In the mass market, the biggest gap is just last mile access. There are very few ATMs outside the cities in this country, there are number of branches but they are still quite inaccessible; most importantly, customers in these communities find dealing with bank branches quite a daunting experience, they do not like it. We have just used, again, Aadhaar based technologies and tablets using 2G telecom signal to take banking to the community. So we can open bank accounts, offer bank statements, remit money, allow customers to withdraw money or to deposit money pretty much at their doorstep using the local kirana store. And I will talk more about the micro ATMs which is a technology that is powering that.

So that customer acquisition based on product and service gaps. We are not relying just on those to acquire customers. We are also using price incentives. We had, basis an internal debate, come to the conclusion that to start with we will not offer a 6% - 7% savings account. We decided that we could always turn to that strategy if need be. We wanted to first test our product differentiation and offer price incentives of a more judicious nature. So here are some examples:

For all customer segments we are offering an FD at 8.25% per annum, if you keep your fund with us for a year, any amount up to Rs. 1 crore gets 8.25%, if you are senior citizen you get 50 basis points more. No charges for early withdrawal. Free sweeping into savings account in case of shortfall. That is a price incentive. In the affluent and mass affluent for the debit card, unlimited free ATM transaction. One of the important messages we are trying to convey to our customer base is you do not need our ATMs to use your debit card, please go anywhere, any ATM, anywhere in the country you can use our debit card and we will not charge you for that transaction, it is a very significant price incentive.

In the affluent and mass affluent and the mortgage loan, again an example of a price incentive. It is a product called Short & Sweet, it is a mortgage loan called Short & Sweet which allows you to use your savings balance to reduce the effective interest rate you pay on your borrowed amount. So if I have Rs. 50 lakhs in savings and I have taken Rs. 1 crore in a mortgage loan, those Rs. 50 lakhs in savings are credited against the Rs. 1 crore borrowing that you have, we charge our mortgage interest rate only on the net difference between the two, Rs. 1 crore minus Rs. 50 lakh is what we pay your mortgage on. What does that do for me as IDFC Bank? It allows me to motivate the customer to move his savings account to me and offer effectively a very significant price incentive to him on a mortgage loan. It adds to my cost of acquisition, it is a price incentive, but it is proving to be quite effective.

Finally, in the mass market, what are the price incentives that we are using? Well, on all our lending products in the mass market, whether it is an MFI, joint liability loan, micro enterprise loan, vehicle loan or a scooter loan that I am offering to this community of customers in the mass market, it is at a significantly lower rate then what they are getting from competitors who are the only dominant people offering last mile services to them and they all are NBFCs. So we are 200 - 300 basis points at least lower than the NBFC that is offering them the same product. And that is the advantage of being a bank in that space, that is a significant price advantage or price incentives that we are offering to the mass market segment.

Turning to Slide Nos14, Point #3 in the retail bank. I have dealt with customer acquisition, how we are doing it. As I said, to summarize that, we are doing it on the basis of product and service gaps and on the basis of price or be it in a judicious manner. Now I want to spend a couple of minutes explaining to you how we are managing the cost of acquiring and servicing customers? This is extremely important, look at Slide #14. The distribution architecture that we have already created. This is fully functioning across all customer segments today. And what the message of this distribution and architecture is, that it is branch agnostic, we rely much less on branches for reaching out to customers and on a continuing basis servicing them. How are we doing that? Well, we extend our presence beyond the branch by using partnerships of different kinds and technologies of different kinds and channels of different kinds. So we use business correspondence and DSAs and this has been facilitated now thanks to regulatory changes, I can now open bank accounts using a business correspondent, I could not do that two years ago. So that means that I do not have to hire as many people on my own rolls, I do not have fixed cost architecture, I have a variable cost architecture and this variable cost is actually per transaction, per customer on average is much lower because the work force that DCEs and DSAs employs are at a much lower cost than a fully loaded employee with real-estate sitting on my books. Similarly, in the cities we are using ATMs and e-lobbies, we may have a branch but we can project our presence beyond that branch by creating e-lobbies. We are providing a banker on-call service that allows the customer to reach out to a live human being and resolve all their queries without having to come into our branch.

Our digital offering and channels, internet banking and mobile app are fully functioning. The micro ATM is a really novel exercise to extend our reach way beyond the branch in rural geographies and that is why we are particularly confident to reduce the cost of distribution there. And finally, there is door step banking. Point being, branch agnostic what this does is, A) it significantly reduces the number of bank branches per customer acquired and serviced, B) it significantly reduces the number of bank employees per customer acquired and serviced.

Page #15 just gives you a sense for our digital banking. Likewise, Page #16 gives you a sense for our doorstep banking offering. Micro ATMs which is on Page #17,

Micro ATM is basically an Aadhaar authenticated device that serves as a bank in a box. So any customer that presents themselves to an IDFC Bank's micro ATM, with the touch of their thumb can do the following things:

Get a bank account statement, can withdraw money, deposit money, remit money, open a bank account and we have started opening recurring deposit accounts from micro ATMs, that we will launch on August 1. Similarly, you can open an FD at a micro ATM. So you can get very substantial amount of your banking services there at the micro ATMs. The micro ATM is managed by a kirana store owner who is legally a banking correspondent of IDFC Bank. So now you imagine a branch, in the catchment area of the branch we are flooding the catchment area with IDFC Bank micro ATMs, we have suddenly extended our reach to our customer base way beyond the branch, very deep into the community at a cost that is less than 1/15th of a regular ATM and the functionality is fivefold. This has been such a major hit in Andhra Pradesh where in Krishna district the Government of Andhra Pradesh has retained IDFC Bank as their partner, using our micro ATM network to deliver pension benefits, DBTs, cash subsidies, fertilizer subsidies, cash less payments for PDS and your ration products for the citizens and residents of Krishna district. This has been a hugely successful pilot. It has been rolled out in incredibly short period of time. Based on this success, we are expecting that we can roll this out to a very much larger customer base, this is potentially explosive growth for us.

Slide #19, and this is extremely important and this is my big task of communication to you. What have we achieved in the nine months since we launched on October 1? So here is the snapshot of it. We have created a network presence across the country, five states, 22 districts, 15 cities with 409 points of presence, that comprises only 65 traditional branches and it is projected and extended through the technology and channels that we have described to you. In terms of number of customers, we already have 60,000 customers, what is more important is that our monthly run rate for customer acquisition is now 14,000 and I aim to double this by March 31st on a monthly basis. So we expect to be close to 25,000 - 26,000 customers per month, organically acquired customers by March 31st. We have been consistently for the last couple of quarters now, as per NPCI data, the single larger contributor to volumes of transactions through interoperable micro ATMs across the country. We have a 22% market share of payments, transactions through the micro ATM network in the country, that places us at higher number of transactions than even State Bank of India.

Page #20, assets and liabilities – what have we done so far in nine months. We had talked about the retailization of our asset franchise in the first nine months we have booked Rs.4,500 crores of advances, direct and indirect through retail. In terms of liabilities, we have got Rs. 412 crore of term deposits already, Rs. 123

crore of retail CASA. And what this tells you how is our price hook on the fixed deposit is actually working to also mobilize complementary savings accounts. So it is not as if people are just going for the fixed deposits for the sake of the high rates, when they open a fixed deposit they are also opening a savings account. The average savings account so far, small numbers but still indicative in Bharat, savings per account in Bharat in the mass market segment is about Rs. 2,300 and in the affluent and mass affluent segment it is Rs. 94,000, now Rs. 94,000 will not stay there but it tells you that it is a very high number for such a young bank.

Final achievement on the retail side is the comprehensiveness of our product suites across customer segments. Just look at Page #21 and you will get a sense for all the products that are being offered today – secured, unsecured, liabilities as well as fee products including wealth management, trade and cash, FX, and payment solutions. We are offering cash management and trade finance solutions in a package that is easily as sophisticated as for large corporate but we are offering it for business banking clients in retail.

So that is on Retail Banking.

Now let me turn briefly to what we have done with our starting franchise which is the Corporate Customer base. If you look at the particular customers that we are focused on in this diversification drive on Page #24, I have a same pyramid for the Corporate Customer segment. We want to diversify out of large corporate, infra and non-infra into government banking, mid-market and SMEs, SMEs we define as Rs. 75 crore to Rs. 500 crore turnover, mid-market is Rs. 500 crore to Rs. 1,750 crore.

How are we diversifying our products and revenues? Turn to Page #26, you will see the comprehensive product suites that we are already offering our Corporate Customer base. It's not just the project finance that we used to do, we are doing all non-funded products and we have already developed a cash management, trade finance, FX and treasury product suite that is literally best in class, that is winning us very sophisticated customers as you will see from Page #27. I am not at liberty to share with you individual names, but if you go down the list of people and customers or examples of the type of customers to whom we have sold cash management, penetrated very difficult to penetrate accounts, they range from education sector to hospitals, retail, consumer durables, utilities. And you look at Page #28, in the trade and corporate link finance areas we have oil and gas majors that we have broken through, we have broken through infrastructure players and telecom players, we are in the top conglomerates in the country, in engineering majors and even airlines.

Second point about our customer diversification and revenue diversification drive in the corporate segment is, again, the use of technology. These are simple things but the root to a cash management contract or a significant fee generating franchise for a corporate is largely through the CFOs complex in the corporate, you win his heart or her heart, you have the contract. And using a very simple state of the art information interface that allows the CFO and his professionals or her professionals to find out the full nature of the relationship and their status thereof with IDFC Bank, we call it the business experience platform, it is already winning awards and a lot of support from CFOs in large corporates.

Page #30, in the nine months we have 663 corporate customers of which 74 are SMEs, 78 are government and transaction banking customers. We have 663 customers so far in corporate space out of which 190 customers acquired during the first quarter, 89 unique clients for cash management, 150 active customers for trade and CLF. Now this is a very important number, 190 new customers because as I was explaining to you at the very start of my comments, the bulk of banking in this country is done with only 300 customers, so we have penetrated a significant share of those customers with our full array of corporate product suite.

Our loan book has started to build up and quarter-on-quarter in a tough environment our funded credit grew 4%, non-funded volumes are now 13% as a share of total funded volumes and franchise base fee income from customers has grown dramatically, it stands at 40% of non-interest income or 10% of all operating income in quarter one. And in terms of trade assets our throughput is a billion.

This brings me to the conclusion. I am looking forward to the transformation roadmap for IDFC Bank. And I wanted to give you a sense for what we aim to achieve by March 31st, 2017, so our goal for this fiscal year on top of what we have already achieved in the first nine months. In terms of our bank network, we are today at 400-odd points of presence, by March 31st we would be at 1,400 points of presence across 10 states, 55 districts and 20 cities. Part of this will happen as a result of our acquisition of Grama Vidiyal, that will give us 306 points of presence in six states.

Page #34, in terms of what we aim to achieve by March 31st for Retail Banking, we are at 60,000 customers today, by March 31st we will be at 1.5 million customers, including the 1.1 million customers from Grama Vidiyal. This means that we aim to increase our organic customer base also significantly between now and then, quite apart from what we are acquiring through Grama Vidiyal. Retail Advances, today we stand at Rs. 4,500 crore, by March 31st our goal is to be at Rs. 18,000 crore, direct and indirect Retail Advances which will be 20% of the Bank's total advances and will very substantially take care, I should add, of our PSL requirements. And on retail liabilities, we aim to be at about Rs. 2,800 crore which would be 12% of the total deposits of the Bank, which includes CDs.

On Corporate Banking – we aim by March 31st to have 25% of our advances outside of large corporates and mid-corporate and SMEs, we expect will contribute 5% to total funded credit for the overall Bank.

Revenue diversification – non-fund volumes will be at 20% and our fee-based income should be stable at a third of non-interest income and will remain at 10% of contribution from fees in total corporate revenues by March 31st will obviously be significantly higher than what we are today.

I am done with what I think may have been a tad too comprehensive of a presentation, but I am glad I got this off my chest. I feel much more confident about the way we are executing and we are rolling our proposition I can assure you that in the coming months Sunil and I will now come and do a comprehensive road show to more granularly explain what it is that we are much more confident about. I will now open the floor to question-and-answers.

Moderator Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Kashyap Zaveri from Capital 72 Advisors.

Kashyap Zaveri on the ROA tree in one of the slides on strategy, Slide #number 7 to be precise, you have given some illustrative charts. Would you like to sort of quantify both the axis over there, time as well as the number, or should one deduce from time one being as of today and deduce the number?

Rajiv Lall No, this is not to give you a sense on how to deduce, I was just using this as a visual aid to give you a sense for, to just convey one message that our improvement in incremental spreads will be driven first by the changing composition of our advances and the inter alia by the changing composition of our depositary franchise. That was the limited goal of that slide.

Kashyap Zaveri And if I look at your last three quarters' numbers as a bank, margins have expanded from less than 2% to almost 2.2% now, fees has seen a quite progressive growth. Let's say at least on the non-funded or fees side, do you have any targets in mind that it should be an X% of assets in the whole ROA tree?

Sunil Kakar Yes, as Rajiv mentioned that by the end of the year non-funded business will be at least 20%, so you have to breakdown the non-interest income into, and we have given it in our quarterly financials also, based on fee and commission which is franchise based and trading gains which is basically mostly on the interest rate market. So fees and commissions are expected to remain at least 20% of the total income. Or rather I would say that we are targeting to ensure that almost 40% of the non-interest income fee based income which includes basically franchise income to be in the range of 35% to 40%. And those more details are there in Rajiv's presentation for the year.

Kashyap Zaveri And 35% to 40% of?

Sunil Kakar Total non-interest income. So it depends on which denominator we are looking at, 10% of total operating income.

Kashyap Zaveri Second question is on this acquisition of GVMFL, now along with that we also get about 1.1 million customers, there is a Slide #in the presentation which gives a bit of an idea about the company and what went into. But let's say in terms of what more can be explored from this 1.1 million customers apart from whatever loans that we have acquired?

Rajiv Lall We can expect for this customer base to grow, first of all. Second, we can expect to feed into this customer base, so the full array of banking products that we are offering to the mass market, including most importantly our liabilities product. So as I said, each Bharat Banking customer today is, on average, giving us Rs. 2,300 - RS. 2,400 in savings accounts, this number will grow over time, we intend to convert this 1.1 million customers into depositors with IDFC Bank.

Kashyap Zaveri And last question is on, about service gaps in the retail banking which is visible in the market and you wish to fill that up and acquire customers. Where you combine some of these services, any concerns that you get from your customers in terms of security or safety or is this sort of being acceptable in the market?

Rajiv Lall So far it has been accepted in the market, we have not had any concerns about safety.

Moderator We have the next question from the line of Alpesh Mehta from Motilal Oswal Securities.

Alpesh Mehta Coming to the Slide #number 34, wherein you have mentioned that the retail advances will become around Rs. 180 billion which would around 20% of the advances, so are we trying to reach a loan book of around Rs. 90,000 crore by end of this year?

Sunil Kakar Yes, it is 18 - 20 in that ratio, it's 17, Rs. 75,000 is the number roughly. Right answer to your question is, 20% will be 25% of our book.

Alpesh Mehta So book would be around Rs. 18,000 crore?

Rajiv Lall Yes, Rs. 18,000 crore is correct, the loan book on the other side will be 70, 75, 80, let's see where it ends up.

Alpesh Mehta And during that Slide I heard the comment that currently it's around Rs. 4,500 crore, in which segment are we reporting this number?

Sunil Kakar So as I said it is inclusive of direct and indirect, so in the statement it may have gone into the corporate.

Rajiv Lall So these are direct and indirect loans We cannot do Rs. 18,000 crore in 12 months just from organic distribution. So off the Rs. 18,000 crore, Rs. 14,000-odd crore are going to be done indirectly which are done through purchase of portfolios or through lending let's say to MFIs or other intermediaries of that kind. About Rs. 4,000-odd crore is what we are expecting to do organically.

Alpesh Mehta And this Rs. 4,000 crore would include the recent acquisition as well?

Rajiv Lall Yes, it will.

Alpesh Mehta So that means the pure organic growth would be around Rs. 2,000 crore to Rs. 2,500 crore, roughly Rs. 2,500 crore?

Rajiv Lall Yes, that is right. But in terms of the risk, the nature of risk on the advances book has changed very dramatically from large corporate to retail.

Alpesh Mehta Secondly, during the current quarter we have seen again the sharp rise into the investment books, what is the thought process over there, is it just to take the advantage of the excess liquidity in the system? Because in the first quarter it was more to do with the transitions, fourth quarter it reduced sharply, again it has gone up. So is that taking advantage of the excess liquidity in to the system?

Rajiv Lall Yes, the current market conditions allow you to take advantage of the differential and easy liquidity prevailing and a reasonably comfortable view that the interest rates are not rising. So in that scenario you can easily manage this for some period of time.

Alpesh Mehta when we talk about non-fund based business, it only includes LC/BG or it also includes the foreign currency related transactions as well?

Rajiv Lall All of it.

Alpesh Mehta So the FOREX income would also be a part of the guidance which is given one-third of the non-interest income?

Rajiv Lall Yes, FOREX income from clients, customers and not from the trading.

Alpesh Mehta while you have shared lot of details related to your journey, would you like to put any number related to the ROAs over the, it may not be in the current year but maybe after two or three years, any specific number that you would like to achieve on the ROA side?

Rajiv Lall See, over four years, I am saying that every year we will deliver profit growth and 10% to 15%. And we need to break the 1% ROA in this journey. I do not want to sound cagey on this, but the reality is that I cannot give you forward guidance with any great precision at this point. The peak point that I try to convey through my presentation today is that our cost of employees per customer and our cost of branch per customer is going to be significantly lower. As we gain more granular data on that, I will be much more confident about giving you guidance when we break the 1% ROA.

Alpesh Mehta But sir, over here the problem is when we are talking about 10% to 15% profit growth, that should be the balance sheet growth as well. So it sounds like our ROA should remain more or less at the current level.

Rajiv Lall So I am being conservative here, I do not want to let too much out of the bag, but I want to assure that we will do at least this much.

Moderator Our next question is from the line of T Uday Raj from Uday Raj & Co.

T Uday Raj Sir, at the outset, **of** the management, would like to thank Mr. Rajiv Lall and the excellent team for the unique and outstanding steps the Company has taken for expanding their customer base and also its business. Second thing about the increase in the PAT, over 60% on quarter-to-quarter, operating expenses have come down significantly, for example employee cost, rental cost, furniture etc. So can you highlight the significant decrease in other operating expense. Can you probably touch upon some of the items there?

Sunil Kakar First of all, I am sorry, I couldn't hear you properly but I understand broadly, I am repeating that your question is operating expenses have come down across and why. The first six months was a transition period, and then last quarter specifically we were catching up on the various expenses and booking it properly. Just on quarter-on-quarter I would not draw a conclusion but let's stick to Q3 and Q4 average of that, that number is 255 and as against 255 we are 274, it is a modest growth. I have mentioned in my statement also that we are in the investment phase and we should expect modest growth, but it will be cost effective investment, the scale of customer acquisition would be more than offset the investments which we are making. But as we say, it is in the investment phase. So if you are looking for whether this run rate you can multiply by four, I think that would not be an appropriate answer.

Moderator We have the next question from the line of Shiv Kumar from Unifi Capital.

Shiv Kumar Sir, when you said that 74 branches is your target, can you give the split between Bharat branches and the Plus branches?

Rajiv Lall Today we have 11 branches in Bharat Plus and 50 branches in Bharat. And broadly speaking, the number of Bharat Plus branches relative to Bharat branches, will probably grow going forward but it will still be significantly smaller. So today 15 to 50 which is roughly 22-25%, you can imagine that our footprint in Bharat Plus will actually remain about the same, 25% or less actually than the total number of branches that we end up having next year and the years beyond that.

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Shiv Kumar

Sir, is this a conscious decision to go slow in the Bharat Plus division, retail banking per se in the top metros of the country? Is this a conscious decision by the management, because I was wondering within two years maybe we can be a bit more aggressive in terms of branch expansion in the metros also.

Rajiv Lall

We have already launched a digital marketing campaign about three weeks ago, that digital marketing campaign is going to be extended to five cities starting August 1st. And then by 1st week of September we will be launching a full brand marketing campaign which will be addressed actually substantially towards the cities and Bharat Plus. So to answer your question, we are not being timid about focusing on Bharat Plus far from it but our belief is that we can acquire customers in these customer segments by relying much less on branches than traditionally. One of the slides I had described to you, our distribution architecture in the cities, so if you go on Slide #number 18, there is an example of South Mumbai there. So just because we have very few branches in Mumbai does not mean that we do not have physical presence in Mumbai. So we have created our hub servicing hub, so our own employees, feet on street and RMs sit in these hubs and they extend therefore our customer reach way beyond the couple of branches that we have in Mumbai. On top of that, we are now partnering with DSAs and business correspondence in ways that was not possible, for regulatory reasons, two years ago for customer acquisition. Third, we are acquiring customers purely through digital channels. So when you take these three different ways of attacking customers in Mumbai, actually our presence is significantly greater than just the branch number gives you the sense of. What will definitely happen next year is the number of branches in Mumbai and other metros will go up, but beyond that we will also create e-lobbies, e-lobbies is the city equivalent of the micro ATM, it's banking in a poultry if you like. It is a banking in a very small space. So very small real-estate, no people, very few people involved, employees involved, but projecting the presence of the Bank way beyond the branch. And we believe that because of changing customer behavior where people don't really want to come into the branch to do anything, if you project your presence in these ways and you work through multiple channels, we will still be able to attract customers.

Shiv Kumar

This branch agnostic architecture, does it even hold for the Corporate Banking?

Rajiv Lall

Very much for the Corporate Banking, we were the most, certainly for large corporates we don't need branches, I mean we had built a Rs. 50,000 crore - Rs. 60,000 crore balance sheet with only two branches for IDFC, so we don't need branches for that. But for the business banking segment, the small trader community, the manufacturers, these people who need bulk cash handling, there the dependence on branch is generally higher. So there our doorstep banking service for bulk cash handling is our targeted solution and so far actually it's proving to be quite powerful but by next quarter I will have more to tell you about how that is working.

Shiv Kumar

Sir, and one more question on this micro ATM structure, is it necessary to have a branch in the vicinity of the micro ATM or are there villages, rural places where micro ATMs are on standalone basis?

Rajiv Lall

No, completely branch agnostic, it can be anywhere and it does not have to be an IDFC Bank customer, so even if you are an Andhra Bank customer you walk into micro ATMs, kirana store of IDFC Bank in Krishna district, you can take out your pension from your Andhra Bank account, you can transfer money into that account, you can do anything, we just get a transaction fees. At that point it becomes a POS machine giving us healthy transaction payments volume.

Shiv Kumar Yes sir, that Krishna district experiment was really an innovative one. But I was also wondering about the profitability of such a structure, any estimation, internal estimate which you can share in terms of breakeven, time and maybe ROE going forward for such kind of structure on a standalone basis?

Rajiv Lall So I can but I don't want to share all those granular details at this point, but I can tell you that the breakeven for these machines is actually very rapid, it is much more rapid than we had projected when we had started creating this infrastructure. The cost per machine is only Rs. 25,000.

Shiv Kumar And per transaction basis sir, the charges which you need to share with the owner of the machine?

Rajiv Lall Yes, so we get a significant share of those charges but he or she gets per transaction enough that he is generating Rs. 2,000 - Rs. 3,000 of extra income for these people on a monthly basis. And the interchange fee is so designed that we get actually a decent share of the overall interchange that allows us to claw back the cost of capital spend relatively quickly. And in some cases the capital spend is subsidized by government because you get a cash back from UIDAI and in other cases we are also getting some payment for the machine from the entrepreneur herself, she is willing to bear part burden for the machine.

Shiv Kumar On the HR aspect, are you bringing in someone to lead the retail banking as the Bharat Banking segment?

Rajiv Lall No, Bharat Banking, see we are all for one and one for all. So whether it's me running it or Ravi Shankar running it, doesn't matter. We have a damn good team, we have five terrific people focused on Bharat Plus, and we have six terrific people focused on Bharat. I am trying to be the glue that joins everybody and that is my role and it is functioning fine.

Moderator Our next question is from the line of Sanjay Parekh from Reliance Mutual Fund.

Sanjay Parekh: the way we did strategic acquisition of GVMFL, do we see such acquisitions in future? And if yes, which are the areas?

Rajiv Lall Yes. Any acquisition is a tricky game, it is never done until its done. But if we can find more acquisitions like Grama Vidiyal we will go for it.

Moderator Our next question is from the line of VP Rajesh from Banyan Capital Advisors.

VP Rajesh Just trying to understand this acquisition of Grama Vidiyal, what was the loan book growth in the last year?

Rajiv Lall 30%.

VP Rajesh So are you looking at more assets like these in the MFI space or we are looking at broadly other banks as well which are out there, especially some of the banks which are in the southern region?

Rajiv Lall So we are agnostic, our goal is retailization of the advances book, anything that helps us achieve that we will look at it.

VP Rajesh Some of the examples you gave on the corporate banking side on your Slide #27, 28, the question is that are these new accounts where you have sort of either displaced the incumbent or this is like totally Greenfield? And if you can just give a little bit more color on that if you have displaced.

Rajiv Lall All of these are displacing incumbents, we are acquiring share of wallet which we didn't have.

VP Rajesh And is it primarily against the public sector banks or have you replaced other private sector banks as well in these accounts?

Rajiv Lall Both.

VP Rajesh And is there a skew towards one or the other or it's not really meaningful?

Rajiv Lall Not really meaningful at this point, but in a nutshell I know what you are trying to get at is our ability to out compete even private sector banks has been demonstrated now.

VP Rajesh One quick book keeping question, on the standard restructured assets, what is the current provisioning that we have taken on total?

Rajiv Lall Can we get back to you on that number?

VP Rajesh Sure.

Moderator We take the last question from the line of Rahul Ranade from Goldman Sachs.

Rahul Ranade How did you think about competition while deciding this strategic direction of a mass retail bank? So Slide #number five and six, yes they give the facts of the concentration that is there in the credit and in the deposit franchise. Slide number 7, yes looking at it, it seems fairly obvious and as you stated there is no rocket science that this strategy should be this. But just thinking of it from a competition point of view why are there not more players in this?

Rajiv Lall See what is happening, there is greater competition in this space that we are trying to enter from non-banks. So that void in the market today is filled by different kinds of non-bank players. So whether they are specialized NBFCs, all the way down from Bajaj Finserve to the microfinance companies, they are filling this niche and they are growing very rapidly, you are seeing that because there is a huge market opportunity. On the liability side there is no competitor to banks yet until the payment banks are now going to come, now the game will heat up for the savings franchise of the customer base that we are talking about.

Rahul Ranade Just about your experience on the Aadhaar based platform where, I get the point that an account that's opened very quickly one the Aadhaar authentication actually takes place, but what is the kind of success rates that we see that a thumb print basically matches and an account gets opened very quickly?

Rajiv Lall 99%.

Rahul Ranade Okay, so that is fairly successful then.

Rajiv Lall Yes. So just before you hang up, we will just take the opportunity to answer the previous question, because we were not able to address it. Pavan?

Pavan Kaushal So as per RBI policy we require to be 5% on standard piece of asset, we hold substantially much more than that, worth +30% of provisioning of standard restructured.

Rajiv Lall So 30% is what we have set aside as provision against standard restructured as against the regulatory requirement of 5%. I think that takes care of all questions.

Moderator I now hand the conference over to Mr. Sunil Kakar – the CFO, for closing comments

Sunil Kakar Thank you, all. And I hope you appreciated the detailed presentation by Dr. Lall and we wish to see some good progress as we go along the year. Thank you very much for your patience.

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