IDFC Bank Limited

Q1 FY18 Earnings Conference Call Transcript
July 27, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to IDFC Bank Limited Q1 FY18 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. In case 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 of Q1 FY18. 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 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 18.

Sunil Kakar Thank you Bimal. At the bank level I would like to highlight a few things. Our funded credit excluding Infra y-o-y grew 1.5X, our annual CASA run rate is now approximately Rs.2,500 crore with wholesale bank contributing Rs.1,400 crore and Retail bank contributing run rate of Rs.1,100 crore. NIMs were down on account of pricing pressure on resets and the sale of, as we had mentioned earlier, about Rs.4,000 crore of stressed loans to an ARC in the previous quarter. y-o-ythe balance sheet grew by 17%, loans grew by 24%, and profits grew by 65%. Now to give you some more color on our Retail and wholesale bank. As you would have observed, the Retail bank is shaping up well. We are now doing over Rs.500 crore of gross Retail disbursements every month. On a net basis, we are at over Rs. 250 crore closer to Rs. 300 crore a month. Y-O-Y, our direct Retail book multiplied eight times from a small base of Rs.427 crore as of June '16 to Rs.3,440 crore as of June '17.

We now have over 1.6 million customers and we are acquiring about 80,000 customers every month. In urban Retail, we are digitally acquiring about 5,000 customers every month. We are expanding the network at a brisk pace, we now have close to 12,000 points of presence in 25 states, 300+ districts, 600+ cities/towns and close to 42,000 villages.

Rajiv Lall In this network expansion, the number of core branches i.e regular branches that we have currently 86 is going to 156 by April 18.

Sunil Kakar Our Retail CASA and Retail term deposits are now over Rs.4,000 crore. Our urban Retail SA customers have an average savings account balance of over Rs.20,000 and our rural Retail Savings Account customers have an average balance of over Rs. 2,000. Overall, our Retail SA customer on an average has a balance of over Rs.10,000. On our wholesale bank, notwithstanding growth and asset quality constraints in the corporate landscape, we have done well. The funded side, our focus is to grow in the emerging large corporate landscape. These are corporates with a turnover of under US $1 billion. Since inception, we have added close to 100 ELC accounts and have done over Rs.3,000 crore of funded business and over Rs.2,000 crore of non-funded business with them.

The non-funded business overall has grown exponentially, y-o-y, from June '16 to June '17, it has tripled. As on June '17, we had over 20,000 crore of non-funded business, the contribution of franchise-based fee income to total operating income is now close to 14%. Although our gross NPLs increased in the quarter because of the failed restructuring, the impact on the P&L was nil as the slippage related to a ring-fenced asset that has been already provided for. The performance of our fixed income treasury team was excellent and that has resulted in a very good quarter for us. We will now open the floor to questions.

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 Piyush Chadda from Ocean Dial.

Piyush Chadda I just wanted to figure out what are your projections or what kind of credit costs are you building in on a stable basis, I mean this year you had negative provisions and contingencies number, but on long term basis what do you see as being the normalized credit cost for the bank?

Sunil Kakar For us credit costs are a bit lumpy, let me segregate it between Legacy assets and new assets. Our Legacy assets is Infrastructure and they are very lumpy in nature so it is quite difficult to forecast on that space. What we believe is we are adequately provided for, but in lumpy assets it is very difficult to give you a basis points answer, so when we come to the new business which is more Retail oriented, it is a very young business. The portfolio has not matured and as of now, we are not seeing anything significant in the nature. We have had a very good experience overall, even after absorbing the impact of the demonetization, our portfolio and collection ratios remained quite good.

Pavan Kaushal Retail assets standard provisioning is 0.40 basis points and on a schedule date which is 2 to 3 years out, we will look at the Retail portfolio, which will typically perform in the industry which should be about under 1%.

Rajiv Lall On our corporate book, there is no additional provisioning of any significance that we are expecting because we have been guiding the market again and again that we are pretty well provided for, but there is always some residual uncertainty in that number which is why we have this continuing debate and conversation with the market that if the resolution of certain assets happens in a significantly worse manner than our current conservative projection then we cannot say whether or not we may have to at that point make additional provisions, but as far as our judgment is concerned, we are very different from the other banks in that respect, we do not believe that we have under provided on our stress portfolio in the corporate book. Now, the Retail book which is small but growing very rapidly that is where you will see emerging credit cost of the new bank, 26% of our advances today are Retail, direct and indirect. Our standard provisioning on that is 40 basis points, but maybe that goes up to 60 basis points over two years, we do not know, but we are starting with a 40 basis points credit cost on that book.

Piyush Chadda Sir, that is on the incremental book I presume, so that is fair. Second thing on this trading gains, were any of these sort of one-time gain booked on the sale of long-held equity shares, is there any disclosure on the HTM portfolio sale, but was there anything similar to that on the equity side as well?

Sunil Kakar No equity sales of any significant amount, a large amount of it comes through the G6.

Piyush Chadda Finally on the non-HR cost which are up to Rs. 220 crore, would this be a level at which they will stabilize or do we see further increases in the coming quarters, so just looking two to three quarters out?

Sunil Kakar They should be standard 3 to 4% up and down, but nothing more than that, it should stabilize. We are also in the process of investing.

Rajiv Lall That is why I said we are at 86 branches today, we are going to get to 156 branches by April 2018, so I do not know on the top of my head what the corresponding number is

Sunil Kakar The occupancy cost etc. would go up, but the bulk of the technology investment is already done, so that should not hurt and by the time when we opened, when this happened, so as I said 5 to 10% plus/minus, nothing more than that.

Moderator We have the next question from the line of Aditya Solanki from Dalal & Broacha.

Aditya Solanki I wanted to understand that with our NIIs down at the moment, so what kind of pricing pressure are we facing and will we continue to face this pressure or how will we go about this exactly?

Rajiv Lall We are going about it in two ways, just to refresh everybody's memory, we are facing this downward pressure on NII because of the composition of our balance sheet, both assets and liabilities. On the asset side, its because of the disproportionate share of Infrastructure assets which post-demonetization, the asset yields have been falling faster than our ability to re-price the corresponding liabilities. On the liability side of the balance sheet for the Legacy Infrastructure book, we had long-term Infrastructure bonds that would fix price, and therefore, we could not re-price them as our corresponding asset yields have fallen, hence there is compression of NII on that significant segment of the book. Starting next fiscal year, some share of the liabilities will be refinanced, and therefore, some downward pressure on NIIs on account of our inflexibility on the liability side will abate. The pressure from the liability side on compressing NIIs will abate starting next year. On the asset side, the composition of our asset is changing very rapidly, so that is why it was important for us to explain that we are doing close to Rs.250 - Rs.300 crore a month in organic Retail assets, so Rs.3,000 to Rs.5,000 crore a year is what we are adding in higher yield Retail assets, so the average yield on a Retail asset is between 13%- -15% whereas the yield on our Infrastructure asset is around 9%, so as the composition of the asset book changes our NII downward pressure will come down and as our flexibility on refinancing our long-term bonds also increases starting next year, from the liability side also down downward NII pressure will come down, so in short the pressure of compression we are beginning to expect will significantly abate by next fiscal year.

Moderator We have the next question from the line of Harshit Toshniwal from ICICI Securities.

Harshit Toshniwal Sir, just one question in the balance sheet we report net advances, this was a Rs.46,000 crore figure, if you can just give what was the gross advance corresponding to this number?

Sunil Kakar I do not have it in front of me right now but whatever Rs.3,000 – Rs.4,000 crore of provisions we are carrying, you add it back you will get to gross.

Harshit Toshniwal Basically, it is Rs.1,200 crore provisioning in the book which relates to specified NPS, so standard asset provisioning can you tell us?

Sunil Kakar It is separate, standard asset provisioning is not reduced from the advances.

Moderator We have the next question from the line of Aditya Shah from Vikram Advisory Services Private Limited.

Aditya Shah Sir, my question is regarding the Retailization of funded book, could you just explain the breakup of Retailization of funded book and the another question is on the PSD2, which comes in Europe two years back, so do you have any expectations of that coming into India as well?

Sunil Kakar Retailization of funded book is around 26% which is Rs.16,438 crore, now we break it down into direct and indirect. Indirect is what we buy from the market largely to meet our PSL requirements, but from an exposure point of view the risk is Retail in nature and the direct one is what we have done through our Bharat plus branches, the SME, and the Bharat Bank that is about 5.5% which will be about Rs.3,400 crore.

Rajiv Lall Out of Rs.16,000 crore that is described as Retail assets, Rs.3,440 crore is organically originated Retail loans by various asset of our Retail bank. Of that Rs.3,440 crore, it comprises of different types of products, it comprises home loans, we have a breakdown of that, we can give you that.

Aditya Shah That is okay, just the direct part and indirect part I wanted and what comprises of the indirect part?

Sunil Kakar On the 3,400 is the stock, the key number there is, our disbursement is growing Rs. 500 crore a month, so net it off 300 or so per month which is what we mentioned. These are PTCs which we buy, IBBCs, we are lending to certain MFIs, lending to certain NBFCs that are focused on priority sector, so by doing that we meet our priority sector obligations which are quite significant.

Aditya Shah About the PSD2 directives in Europe which is going on since last two years, so do you expect that to come to India and if at all if that comes to India, what do you think the impact on the banking sector, it is a Payment Service Directive which enables third-party, let us say Google or Facebook to use banking APIs and because of that they will be actually providing service to the customers rather than the bank?

Rajiv Lall I am embarrassed to say we have not really studied this but…

Aditya Shah It is really a big thing in Europe, that is why.

Rajiv Lall We will study it and come back to you, but there is nobody doing banking services on our behalf in the intact world in that sense, but we will study it and maybe in the next quarter we will have a more intelligent answer for you?

Moderator We have the next question from the line of Aditya Singhania from Enam Holdings.

Aditya Singhania Just wanted to understand the NIM pressure due to the sale of stressed loans to ARC, if you could just explain this in a bit detail that would be helpful?

Sunil Kakar Conceptually what happens is if those loans were on our book, we have waiver on a cash basis and whatever money used to come were recognized even on a cash basis not on accrual basis into the income lines. Once you sell an asset to an ARC then even if the same amount of money is coming, you cannot recognize it as an income but it goes to offset the principal down, so that is the accounting change where you maybe still getting…

Aditya Singhania That income will still be coming, but it is not coming in income from investments also.

Sunil Kakar Yes, it goes to reduce the value of investment.

Aditya Singhania Is that income being earned on a cash basis, at what point in time does it accrue to you?

Sunil Kakar It is not income, you are receiving cash, it is a question of where do you apply it, you either apply to income or you can apply it to the balance sheet, so the way this works is when the asset value comes to 0 after that you take it into income.

Aditya Singhania In this case ~ Rs.4,000 crore of gross loans is what you sold right?

Sunil Kakar Yes.

Aditya Singhania What is the amount of SRs you are holding on the book for this?

Sunil Kakar I think like 1,800-2,000 that was inclusive last quarter, I do not have it right now but roughly 50% if I remember.

Aditya Singhania Balance was the provision that you had which obviously you have not sold.

Sunil Kakar Yes, correct.

Aditya Singhania Under the stress book of roughly Rs.9,000 crore, just wanted to clarify, the NPA of this quarter was part of that book, right?

Sunil Kakar Yes.

Aditya Singhania On that book there is no addition of any sort.

Sunil Kakar No.

Aditya Singhania Now since the ARC sale is done of Rs.4,000 crore and you have recognized about Rs.2,000 crore of NPAs, could you just take us through what is left of that stress book on the balance sheet and sort of how much provision you are carrying on it?

Sunil Kakar Obviously, 9-4 , 5 is the answer of which sector, some of it continues, I mean that is a detailed breakup, I do not have it right now.

Aditya Singhania So 9-4 and then 2 you already recognized as NPA?

Sunil Kakar Yes.

Aditya Singhania The provision on this 3,000 would still be the rough 50% that you had or would it be different?

Rajiv Lall Same order of magnitude.

Aditya Singhania This 80,000 customers a month that you mentioned you are adding on a monthly basis, could you break it down for us in terms of savings and loans?

Rajiv Lall No, that number I do not have readily, but I can give you what segment of Retail, what customer segment it is, 80,000 customers a month of which 25,000 customers are in Bharat Plus, that is urban so that is the top 18 centers or whatever that number is, 25,000 customers, their average SA per customer is about Rs. 21,000. The other 55,000 to 60,000 remaining customers, there will be a combination of loan only, savings only and loan and savings, but the average saving mobilized per customer on those 55,000 is Rs. 2100, so that gives you a sense. This is very approximate, so if you take this composition where the composition is changing and it is changing in favor of Bharat Plus, because the Bharat Plus branches are now going to 50 by April they will be 50, so the acquisition number for Bharat Plus customers will accelerate from 25,000, we expect it to at least double, but if you just assume the current composition then 80,000 customers a month adding roughly Rs. 10,000 in Savings Account per customer

Moderator We have the next question from the line of Kaushal Patel from Dion Global.

Kaushal Patel Sir, you mentioned that you have branch expansions on from 84 to 156 by the end of this financial year, so would like to know some more detail like what is the game plan on this branch expansion like Bharat, Bharat Plus and geographically how we are going to?

Rajiv Lall I can tell you it is quite straightforward of the 156 branches, 105 will be Bharat and 50 will be Bharat Plus, the 50 Bharat Plus branches will now cover a footprint of 35 cities and the location for the Bharat branches will be another 80 odd locations, so we will be aiming 50 in Tier-1 towns and 80 in Tier-2, -3, and -4 towns.

Kaushal Patel Sir, what kind of cost you expect that will add to your operating expenses especially the branches of Bharat Plus?

Rajiv Lall These are very meager, lean branch design. I am in a position to, but I am not willing at this point to share the branch economics model with you this quarter, but in the next quarter or two we will start sharing that as well.

Moderator We have the next question from the line of Rishindra Goswami from Locus Investment

Rishindra Goswami Could you just give some color on other operating expenses, I was specifically looking for some color around the professional fees which is running at around Rs.40 crore from quite a few quarters and then on the other operating expenses which is about Rs.115 crore, so one is on the professional fees, what is the nature of the these fees and how long will this continue, and second part of the question is about Rs.115 crore of other expenses within the other OPEX part, what are the major heads within that, some color on that would also be helpful?

Sunil Kakar Some of it again in accounting sense are related to revenue side of the equation, but has to be booked where it is being booked, for example, DICGC premium has to be booked there, similarly we are having brokerage charges and PSLC certificate. When we buy PSLC which is actually the substitute for PSL, normally if I buy a loan, I would have shown it as a reduction in NII all of that has close down into the OPEX part of the equation, so overall I can tell you that is that the Rs.220 crore of non-HR cost which you are seeing now there is reflective within our budget, we have all planned for it and there is no excess run rate compared to budget as we see. On more granular level of details, we do not have it on hand, we can send you the major heads of this Rs.220 crore, it is not a big deal.

Rishindra Goswami Just some color on the professional fees, what does that pertain to?

Sunil Kakar Professional fees as I said some of it is getting booked there and I will have to get you the details on that,

Rajiv Lall There are no major consulting contracts I can tell you that, so we will get back to you.

Moderator We have the next question from the line of Ajitesh Nair from Premji Invest.

Ajitesh Nair Sir, I was just referring to your remarks on the margin side, you had mentioned the pressure on margins, on the asset side there is another factor which is the high level of your trading investment, it is close to Rs.31,000 crore on a balance sheet of 1,00,020, so anything that you can share and this has been the case even the last year as well, so why do we have so much of liquidity on your balance sheet?

Sunil Kakar When you are seeing this trading gains, they come from nothing, I mean they come from the fact that we are carrying these position. These assets are self-funded because these are G6 in nature, so you can do a CBLO overnight against them, so net-net and they give me some 30-40 basis points of carry sometimes may be even lower, but the whole idea there was if you go back to our Legacy book since we had long liability from an interest rate perspective, the assets were much shorter because of reset, consciously we took the call of running a large duration and funding through borrowings against the CBLO overnight, so these are self-funded assets. In an MIS terms I would net it off with the borrowings, as long as I am getting even 10 to 15 basis points of carry, remember capital is not being used because these are risk-free assets, so to answer in short-term we ran this large levels of trading assets to ensure that we get trading gains out of it.

Rajiv Lall Let me elaborate, See as we saw the compression in our NII coming some time ago on account of the elaborate explanation I gave you in an answer to one of the question, so our strategy has been to mitigate the impact on overall operating earnings of that declining NII until such time as we are able to systematically completely re-position and restructure our balance sheet towards Retail and shorter term liabilities, so that repositioning we are booking Retail assets organically, inorganically very, very fast at the rate of we think Rs.4,000 to Rs.,5,000 crore a year and that is only going to accelerate, that is on the asset side and we are going into non-Infra and midmarket at a very rapid pace but that will take 24 months. Within 24 months, our liabilities will become more flexible so we will have greater flexibility in managing our NII, and that time, we can reduce our dependence on trading gains to shore up our operating expenses, then we would be back to business as usual, so this is an interim way of cushioning the transition from a very Infrastructure focused asset book and the liabilities book completely caught up in fixed rate bonds to a much more flexible balance sheet that transition will take another 18 to 24 months, in the interim we decided, it was a calculated bet, it was a risk we took that we are going to bet on declining interest rates and harvest through our Treasury book as much trading gains as we can, so this is a not a sustainable business, it is a transition to a more robust balance sheet.

Ajitesh Nair The second question now is on the Bharat Plus side of business that Rs. 500 crore run rate that you were doing on a quarterly basis, what is the color of products here that we are targeting?

Rajiv Lall It is home loans, it is Loan Against Property, it is unsecured personal lending, it is JLG loans, it is two wheeler loans, and it is micro-SME loans, that six products.

Ajitesh Nair Okay, on the Bharat side will be Grama Vidiyal plus?

Rajiv Lall Grama Vidiyal plus our own branch is about 85 odd Bharat branches

Moderator We have the next question from the line of Prakash Bajpai from Blue Bull Stock Investor & Trader.

Prakash Bajpai We were just discussing now that interest rate positioning, if I remember correctly last quarter you said that you are closing your bet from the interest rate, because RBI came up with different view on the interest rate, so you said that you were closing your bets on the interest rate, what is the current positioning because last quarter you said that you are no more taking a bet on the downward revision of the existing?

Rajiv Lall I will give you a big picture answer then I will ask Sunil and Pavan to compliment it. Just to place it in very clear context and the answer is the last question, I said that we turned to a calculated bet behind declining interest rates to play the treasury book in order to cushion the impact on our NII of structural problems in our balance sheet, as we rebuild the balance sheet to something much more robust. Now, we all know that making calculated bets is not an easy thing, so sometimes you get it right, sometimes you get it wrong. The trajectory of interest rates has not been smoothly downwards and there has been at least one quarter in which we were wrong footed, but by and large that bet has played out reasonably well. Our current interest rate view is that the interest rate decline is more or less done and therefore this strategy of playing the treasury book is not something we can do indefinitely, so exactly till when we can get away playing this game, I cannot tell you in any certainty, but right now we do not think that we can play this game beyond September. If the macro is an indication changes, if inflation keeps very low and the market is expecting further cuts in interest rates that are not today maintained, then there might still be room to play the game.

Prakash Bajpai That is clear, now the question is because of this other income because of the treasury gains it is becoming so unpredictable, so we do not know basically that how to look for the sustained earnings from the bank, because even this quarter

Rajiv Lall You are absolutely right, which is why you have to look at how our Retail bank is shaping up and you have to develop your views on our ability to restructure and reposition our balance sheet in a finite period of time which is why I re-emphasized the message I have been trying to give on this call, we are doing above Rs.5,000 crore of organic Retail assets incrementally every year, today that is our current run rate. Out of our total advances book that is Rs.62,000 crore so every year we are adding little less than 10% in high yielding Retail assets even as the absolute size of our large corporate book continues to shrink. On the liability side, starting from next fiscal year, 30% of our long-term bonds which were fixed rate will be re-priced downwards so that will help us again, so my sense is by the middle of next fiscal year, you will have a very clear sense of what are sustainable emerging earning power is of the new bank basis a more flexible liability base with significantly more CASA that we have today and significantly lower long-term fixed-rate bonds and an asset book that is significantly more robustly Retailed and organic Retail by this time next year. What can I tell you, we are in this transition, so you will have to make a judgment basis our ability to navigate this transition.

Prakash Bajpai Basically, we have a problem because without this other income, we are finding that even this quarter you would have turned red?

Rajiv Lall We have not turned red, that is not true, but if you will come in and meet us directly, you need to get some more granular idea, we are happy to spend more time, this is very important for us to communicate to all market participants. If we pace at which we are building out the new bank, the pace at which the products are proliferating and are stabilizing, now it is just a matter of very systematic aggressive execution in the build out of the bank, which is why till now we are being somewhat defensive about expanding our branch network. Today, I am telling you very confidently our branch network is going from 85 to 156 this fiscal year. Next fiscal year, we still do not have the business plans, but I can tell you we will be close to 200 to 250 branches.

Prakash Bajpai so my question is that we read in some paper that in this quarter, that is end of the June, there was a report that we sold about Rs.1,000 crore to ARC, was it correct or is it wrong information?

Rajiv Lall That is incorrect information.

Moderator We have the next question from the line of Arun Rangarajan as an Individual Investor.

Arun Rangarajan My doubt is why did we go for deposit-base banks because we do not have the CASA which is a huge problem for us, so we have gone in for assets instead of which we should have gone in for holdings bank or a leading institution which would have given us liability?

Rajiv Lall let me repeat it, we have currently a very significant problem with the structure of our Legacy balance sheet, because disproportionately large corporate Infra on the asset side and on the liability side, it was disproportionately fixed-rate long-term bonds. In these circumstance, our NII was compressing very, very significantly, that has very serious consequences for the earning power of the bank, so our decision was that rather than expand the size of the balance sheet…

Arun Rangarajan Another thing is that what will be the dilution Sir, I see that in the news, will there be any guidance?

Rajiv Lall That we will only be in a position to tell you in October, we are doing very thorough diligence as we speak and we are obviously going to do our damned best to make sure that the relative valuation we get is a fair one.

Arun Rangarajan The other thing that I want to know what is the position of the wholesale bank, if there is businesswill we go aggressively and do that if it is possible for us, so what is the strategy on the wholesale bank because we were expert in that field so suddenly we are shifting to Retail and focus on what happens, the other thing is because of this acquisition are our plans in somewhat of a cold storage or something like that for the Retail expansion?

Rajiv Lall In a nutshell, if you see in our wholesale bank our focus is on midmarket and what we are calling Emerging Large Corporate and non-Infra large corporate, that exposure, funded credit from June '16 of June '17 has gone from Rs.2,800 crore to Rs.4,800 crore, so our strategy is to grow funded credit to Emerging Large Corporate, mid-market and non-Infra. Secondly, our strategy is to grow non-funded credit very aggressively. We now have Rs.20,000 crore of non-funded credit, it has grown like from a very small base, it has grown to 20,000 crore and as a result of that, we are now earning Rs.142 crore in fees, so two things for the wholesale bank, change the composition away from large Infra to Emerging Large Corporate, midmarket and non-Infra, and second, do as much non-funded business as we can to generate as much fee-based income as we can.

Sunil Kakar We were 7,000 last year, funded to 20,000.

Rajiv Lall June to June the growth in our non-funded business is three-fold, Rs.7,000 crore June ‘16 to close to Rs.21,000 crore in June ‘17.

Arun Rangarajan The other thing was that because of the planned acquisition we are not cold storing any of our plans for the Retail expansion on the rural and the Tier-3 and 4 city expansion for the Retail branches, right Sir? Will we go slow because of this acquisition that is on the table or are we planning going near to that position as we plan to….

Rajiv Lall We are not slowing down anything, in fact we are accelerating everything that we are doing in Retail right now because we believe that there will be complete complementarity should the merger go through, so in fact there is every reason for us now to accelerate the growth of both our liabilities’ business and the asset business of our Retail bank.

Moderator We have the next question from the line of Abhishek Singhvi as an Individual Investor.

Abhishek Singhvi From the last two quarters, IDFC bank is not showing good results, the net interest income has fallen down, gross NP and net NPA both has sequentially shot up and the main contribution from other income, Sir, why is this so?

Rajiv Lall I do not know if you have been on the call for the last half an hour, I think I have answered your question, I am saying that the NII has been declining because of a historical problem. If you look at the earning power of the new component of the balance sheet that is much, much better than the old bank, so you will have to wait for 9 to 12 months to see our NII stabilize and then begin to rise as the composition of our asset book changes disproportionately towards Retail and the composition of our liability changes from long-term Infrastructure, fixed-rate bonds to CASA and other short-term liabilities.

Abhishek Singhvi What about Sir this asset quality, it is also worsening quarter to quarter?

Rajiv Lall Asset quality it is not worsening.

Sunil Kakar These are classification issues, so let us go back to the history if you are tracking us, if the GNPL has gone up and NPL has gone up, why is it not showing in my P&L. My provision line is not there, these were already provided for, they have been ring-fenced, say sometime in October ‘15 when we started the bank, now something which was say in a restructured category that has moved to NPA. The way Infrastructure is improving slowly is causing the classification of that asset to move within the space from restructured to NPA and things like that, but the overall has not moved and the evidence of this lies in the provision line, if otherwise you have got 200 crore, for example, asset then at a minimum 15% to 25% you should see a 50 crore return on the P&L, where is it.

Abhishek Singhvi Speaking in a nutshell, this asset quality, when shall I may see for improvement after two quarters or after three quarters?

Rajiv Lall It depends what you mean, so you could see the NPA number, as growth NPA number rise, but the net NPA is certainly as the share of assets will continue to decline, that is not rising and you should not see any provisioning increase of an ad hoc nature.

Abhishek Singhvi My second question is that what about the synergies of Shriram Group by emerging this SCUF, what impact do you see in this long term, whether in one year or two years, and by what time this merger would be completed or are you seeing any problems from the regulatory point of view also?

Rajiv Lall Let me take the last question first, from the regulatory point of view, we are reasonably confident, we are working very closely with the regulator and we hope to deal with whatever queries and issues that they have. We are confident that there is a way of getting the merger done and respect all the guidelines of the regulators concerned. How long will it take, we think this will take some time. Our expectation is that the merger if it goes through as we expect and hope that it will, will only become effective in July 2018. Your last question was what are the synergies with SCUF?The synergies with SCUF are actually similar to the synergies we got out of the acquisition of Grama Vidiyal, so the most obvious synergy is really on the cost of funding. Once we take the assets and liabilities of SCUF onto the balance sheet of the bank, the effective NII on those asset improves because their cost of funding comes down and that does not happen all at once, we do not have a very detailed granular line of sight into the duration of all the liabilities, but as the liabilities are replaced and they become lower cost, the NII for the SCUF assets and their profitability therefore will increase. Our experience in GV we do not know, but we are reasonably confident it should be similar in SCUF. For the compliance cost, of becoming a dedicated VC and integrate it with the bank, whether that compliance cost will add to the operating expenses of SCUF or not. Our experience in GV is that we have delivered on all regulatory and compliance requirements of RBI without adding to the operating cost of GV and therefore net-net, the profitability of GV has improved significantly since our acquisition. We are expecting a similar kind of synergy with SCUF.

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

Sunil Kakar Thank you Ladies and Gentlemen, we hope to meet 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.