Q4 FY16 Earnings Conference Call Transcript
April 27, 2016

Moderator: Ladies and gentlemen good day and welcome to the IDFC Bank Q4 FY16 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bimal Giri of IDFC Bank

Bimal Giri: Good evening everyone. I welcome you to this conference call organized to discuss our financial results for FY16. I have with me Rajiv Lall, Sunil Kakar and Pavan Kaushal. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties.

Documents related 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 FY16.

Sunil Kakar: Thank you Bimal. I will highlight the bank's progress and then open the floor for Q & A.

Growth for this quarter was quite strong. Our funded credit (Advances + NCD) grew by 9% from INR 44,370 crore as on December 31, 2015 to INR 48,474 as on March 31, 2016. If we include non-funded credit, then growth was even stronger at 15% i.e. total outstanding credit grew by 15% from INR 46,713 crore as on December 31, 2015 to INR 53,580 crore as on March 31, 2016. I am happy to share that of this INR 2,200 crore+ is PSL eligible.

As we have been sharing with all of you in the past, as a bank, we will focus on growing the proportion of our non-funded business. Our non-funded business as a percentage of funded business is gaining significant traction. As on December 31, 2015 it was ~5% and as on March 31, 2016 it has more than doubled to about 11%. Also, since its launch, the bank has processed FX volumes of about USD 1.7 billion.

We have expanded our branch network. We now have 60 branches in all. Of these 45 are Bharat Bank branches – 35 in MP and 10 in Karnataka. Our consumer bank has 11 branches located in 5 cities i.e. Mumbai, Delhi, Bengaluru, Chennai and Ahmedabad. Our wholesale bank has 7 branches. I need to emphasize here that our branch network roll-out will be modular. Our focus now will be to sweat this branch infrastructure through customer acquisition and new product roll-out. Future expansion of this network will be calibrated based on the success of what we have rolled-out so far.

We have also rolled-out 11 ATMs (9 in consumer bank and 2 in Bharat Bank) and 33 micro-ATMs. Our micro-ATMs are connected to the Aadhaar network and serve multiple purposes. If you have an Aadhaar Id then we can open your savings account in minutes. In FY17, we will be rolling-out the micro-ATM network meaningfully to facilitate payments and remittances. Also, we received the "NetApp Innovation Award 2016" for our micro-ATM.

We now have close to 16,500 customers. Of these, Bharat Bank customers are over 10,000; consumer bank customers are close to 6,000 and wholesale bank customers are close to 550. Very early days for the bank but the progress so far on customer acquisition across businesses has been encouraging.

Our CASA and fixed deposits as of March 31, 2016, were about INR 4,700 crore. Of this, CASA was about 10%.

We have shared the stress in respect our infrastructure portfolio and the provisions that we have made for it. I need to re-emphasize here that our stressed book is well provided for and on this book we do not anticipate any additional credit costs. That said our GNPLs as on March 31, 2016 increased to 6.2% from 3.1% as on December 31, 2015. This increase was largely on account of movement from restructured loans to NPLs. Most of this increase pertained to the power sector. Our total regulatory stressed loans i.e. NNPLs + Net RSAs + Net SRs in % terms have remained stable at around 5.5% over Q3 and Q4. I need to emphasize again that these assets are ring-fenced and do not affect profitability although there may be reclassification within the book.

Our net profits for H2 FY16 were INR 407 crore. Although our cost to income was 44%, we need to be mindful that we are still in the investment phase of the bank and it will take some more quarters before this metric stabilises.

In my last call I had shared with all of you that based on our budgeting exercise for FY17 I will share with you the way forward for the bank. If it was possible, I would have shared with all of you a roadmap for the next 3/5 years but in an increasingly changing and dynamic macro and banking context, it does not make sense for me to do so. Hence, confining my guidance to FY17.

In FY17, our focus will be on:

- Growing the eligible infrastructure business in a risk mitigated manner;
- Growing total outstanding credit, including PSL requirements, by 25-30%+;
- Credibly demonstrating growth in the mid-market, SME, business banking, rural and consumer lending such that it constitutes about 20-25% of total advances;
- Targeting more than half a million customers directly or indirectly (through BCs and partnerships);
- Partnerships and pilots to expand our network and reach for both assets and liabilities; and maintaining RoAs at ~1%. Now, we open the floor to Q&A.

Q&A Session.

Moderator Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Gaurav Agarwal from E&R Advisors.

Gaurav Agarwal I just wanted to check this target of these SME and the consumer retail part of the business which you said it will become 20% of the total book by August ’17, so what all books do we try to grow in this piece SME and retail and when you say retail, what exact do you mean?

Dr. Rajiv B. Lall It is a combination of products; so it will be mortgage financing, there is some unsecured personal lending. There is short term lending for Business Banking. Then there is a similar working capital financing for SMEs. The difference between Business Banking and SME is really a turnover cut off. So that is the combination of things, this is supplemented with selected buyout of portfolios of the same type of assets because for us to grow that fast organically in 12 months is not going to be possible. And we have significant PSL targets also to chase and we have a systematic strategy for monthly acquisition of all these portfolios through partly strategic relationships with the other entities that are originating these for us and partly just through market transactions.

Gaurav Agarwal So when you say, this transaction is other entities? Would it entail only NBFCs or NBFCs and banks?

Dr. Rajiv B. Lall No, it is basically NBFCs and MFIs.

Gaurav Agarwal So it is possible for this book to reach Rs. 10,000 crore kind of a size by FY ’17.

Dr. Rajiv B. Lall Yes, we believe so. It is a combination of organic and purchases and inorganic.

Gaurav Agarwal What would be the yield which you target on these transactions?

Dr. Rajiv B. Lall I cannot tell you what the blended yield is going to be.

Gaurav Agarwal The one which you target for, as in what will be your now expectation?

Dr. Rajiv B. Lall See the overall, give you very macro sense for it. I keep going back to the big point that I make that our transition is from large corporates to a Mass Retail Bank. In transitioning to a Mass Retail Bank, we have to systematically target lending opportunities that are generating superior yield and let us say the average large corporate books is on a market benchmark basis let us say x%, then yield on this book should be at least 150-250 basis points higher than that.

Gaurav Agarwal For growing your organic retail arm, have you done any major hiring or do we intend to hire more people?

Dr. Rajiv B. Lall Yes, we have a significant number of people already in the consumer bank. The consumer bank has very well-defined businesses. So just to give you a sense, because I am anticipating questions from others as well, we have the consumer banking operations of ours are focused on two principle customer segments – one is salaried and the other is self-employed. Then to each of these customer segments we are feeding three types of products – the first is the Mortgage Financing and Unsecured Personal Lending and the second one is a combination of Working Capital Financing and a suite of Non-Funded Products; which is cash management and FX. And there, I have talked about it in different fora where we have designed solutions, where the initial feedback on that is very positive. It is an integrated solution for small businesses that other banks are only able to provide to SMEs and above. Our goal is to provide the same comprehensive suite of services to really small businesses. That is why it sits actually in the retail bank as part of Business Banking, it does not fit as part of the Corporate Bank. And the third line of products that we will be launching, that will still take a couple of months that will be in July-August, will be Wealth Management and Advisory Products. So those are the three big lines of products and then obviously there is everything that goes with the savings account. So that is how we are organized, the asset teams are very focused, they are going out and underwriting business as we speak. You shall see that in the numbers by next quarter.

Gaurav Agarwal Just a little bit more on the small businesses which you said for working capital and for growing your own fund part of the business, so what is the typical definition of this small business entities?

Dr. Rajiv B. Lall Up to Rs. 75 crore in turnover.

Gaurav Agarwal Okay, are there any specific geographies where you will focus on it first and then you know, after a testing that it is all fine...

Dr. Rajiv B. Lall Only top 5 cities, that is 80% of the market.

Moderator Thank you. Next question is from the line of Manish Karwa from Deutsche Bank.

Manish Karwa I just have two questions; one on the 'stressed' book which has now been quarantined, is it a good environment to see some recoveries from that book or you think more improvement is needed in the economy?

Dr. Rajiv B. Lall I think it is still early to look at recoveries but what we are seeing is that there is some improvement in getting to address issues pertaining to resolution. So although, we have not yet seen it in concrete numbers. For example, in the number of SDR cases but templates for getting to an SDR situation, those templates are falling into place. I think that over the next few quarters, we expect to get several really large situations, at least procedurally converting into an SDR kind of situations and then we can actually focus on recovery. So early, not at the pace that we like but moving in the right direction.

Manish Karwa Okay and you have been still getting cash interest from these 'Stressed' accounts as such?

Sunil Kakar Yes, we have been on cash basis of accounting for these assets.

Manish Karwa And on the branch strategy, you know, what sort of numbers do you target over the next 1, 2, 3 years; would it be a big roll out or you think it is going to be a very gradual and back ended roll out on branches, especially in the consumer bank?

Dr. Rajiv B. Lall We have 60 branches already and we will pause here for about six months and then we will see how these branches are gaining traction, we will learn from that. So these will be step functioning we say, we are not in a smooth run rate that is why every year, we get a 150 branches or 70 branches or something like that. Right now, we are done with our first phase of branches, we are going to consolidate on this, generate business from this, learn from this experience and then we will be able to calibrate the pace of future expansions.

Manish Karwa And lastly, we have to be priority sector compliant in fiscal '18, right?

Sunil Kakar Exactly as of 31st March 2017, we have to be fully 40% compliant of the ANBC.

Manish Karwa So would it also mean that you will be keep buying lot of these PSL pools which probably you bought one in this quarter?

Dr. Rajiv B. Lall Yes. So we expect to be actually, although the numbers look large, we expect to actually be pretty much meeting those numbers or be it a significant amount of that will have to come from purchases and there will be a cost to those purchases. The way we are going about it, is to minimize that regulatory penalty cost that we would have to incur.

Sunil Kakar To this, I can also add; that this new development of Priority sector loans' certificates is quite beneficial for us, but it is very early right now to see how the market develops, how many sellers come to the market, at what price these gets dealt at, but this is a very positive development for banks like us.

Moderator We take the next question from the line of Santanu Chakrabarti from ICICI Securities.

Santanu Chakrabarti Just wanted to ask; we have seen around Rs. 700 crore kind of increase in your fixed and other assets' line, so I am guessing that with only 60 branches added so far and large part of it would be capitalization of technology investments, is that true?

Sunil Kakar That is correct.

Santanu Chakrabarti And the second part of that question is; that what would be the run rate on operating cost that you project out for the next year and how would that break up to amortization of that technology cost, running cost of technology and if you can give some sense of you know employees' assessed, branch infra cost, etc., the total number in some sense of the breakup.

Sunil Kakar Yes. I mean, this is too granular information but let me tell you some numbers off my head, the rest you will; a) my headcount currently is 2,400; we expect that to be over 4,000 people roughly by the end of FY17. Your CAPEX and we have spent on IT say Rs. 400-odd crore capitalized. So that capitalization full year depreciation will flow through – a straight line methodology of 5-year depreciation is followed. Additional CAPEX in IT is still expected because we have not yet completed our full suite of products and therefore capacity building from the IT, so those numbers will increase. I had mentioned, the overall cost to income ratio, which is currently at 44, so that will move up to 51, 52. So headcount increase I have given you a flavor; I said the CAPEX on IT will increase and therefore its depreciation. Depreciation of CAPEX and the other OPEX are almost 50-50 right now.

Dr. Rajiv B. Lall But despite all that, Sunil is going to deliver a 10% to 15% growth in profits after tax next year.

Moderator The next question is from the line of Sunil Kumar from Birla Sunlife Insurance.

Sunil Kumar My question is – 1) if you could throw some light on the spurt in other expenses, which is largely through non-staff expenses, so that is one. And second is; what is your outlook on asset quality?

Sunil Kakar So as we mentioned that you see our expenses are in a matter of fact that we are growing our investments. Like as of December end, we had one branch as against that we have 11 branches in March '16, yet 45 v/s 16 in Bharat Bank also. So the non HR expenses, the large part of the growth and the fact that we have capitalized and then hence depreciated our technology also. So those were in WIP, if you look, compared to December. So the work in progress has now become a capital expenditure and depreciation has been taken with effect from there. So again and with respect to people also, as we said, we were; when we opened our business, we were at what about 1,500, 1,600 people; 1,700 by the end of December and 2,400 by end of March. So this is an investment phase and this increase in OPEX will continue and I am quite confident that this increase will give, in economic terms should be treated as an investment, in accounting terms they are an OPEX.

Sunil Kumar Like you said that you know, you have done lot of recruitment and second you are saying that you will pause at 60 branches for let us say, next six months, still you are expecting the cost to income ratio to move up from 44% to…

Dr. Rajiv B. Lall Yes, so our model is different you know, so we do not have necessarily in-branch people but we still need people for distribution purposes. The 4,000 is only a very indicative number, broad point is that our operating expenses will increase on account of basically two line items, one is people and the other is technology.

Sunil Kakar So just one more fact; that look for this year, at on an average only 3 months' of expenses have come for these guys, next year full 12 months' will come. So automatically the annualization effect will ensure that the going OPEX goes up.

Sunil Kumar Sure, second was on asset quality.

Dr. Rajiv B. Lall Asset quality; the outlook is that it is stable. The points we were making yesterday in our media interaction as well; is that you know the macro environment, etc. is such that we are not seeing any trend deterioration in overall asset quality and therefore the share in our assets; our total advances that are 'stressed'. We are not expecting to see deterioration in that number. What will happen; is that some subset of that; that is classified today as an NPA that number will increase. It will have; however, no implications on our provision that have already been made, nor will it therefore have any impact on our P&L. So it is just a regulatory classification that will change, it does not reflect and will not reflect any expected deterioration in the asset quality of the book.

Sunil Kakar I do want to say it for the benefit of all here one more time; that this will not have an impact on your profitability and hence no impact on the book value also of the company. So whatever, these are just classification movements, so book value of the company is already protected out.

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

Alpesh Mehta Just two questions; when we talk about cost to income ratio of 50%; if you can give some qualitative comments regarding the income part, what kind of margin moderation, if any, are we modeling in and what kind of trading gains, whatever we are factoring in to these assumptions?

Sunil Kakar Our NIMs are at around 2%, which is largely, so we expect some improvement in that, maybe 2.2%, 2.3% at best. And the growth in income side will come both from funded business and non-funded business, the non-funded business we have emphasized on, so fee income should improve, at least, say 15% odd and correspondingly with respect to trading income, it is very difficult to comment. My guess would be, it is not going to be very large because we think that the interest rate cycle has almost played out, I mean the expectation of interest rate cut from October to March was significant and now from March onwards to the next, in this fiscal maybe another 25 to 50 basis points at best. So the interest rate cycle has kind of bottomed out and in our opinion, but it may, given that we do expect another 25 basis points to 50 basis points at best. So, the trading income is very difficult to forecast because it is the question of how the interest rate and when we play out but the fee based income which is linked to loans and customers; that will definitely improve.

Alpesh Mehta And lastly what is the reason for sharp drop into the investment book in this quarter and what kind of technology related CAPEX you are expecting over a period of 2-3 years?

Sunil Kakar On the investment book, we have reduced it as we had said that when we became a bank we had kept significant amount of liquidity for the first 2-3 months because we were startup of a bank. We have now stabilized and now established the lines of various credit or borrowing requirement and hence the excess money which we had kept in treasury bills, etc, mutual funds, that has been reduced and offset with the payment of high cost bonds, so it is a part of

A reduction in the excess liquidity, the key word is excess liquidity which has been reduced and that is it we should be running around this level, it can keep going up and down that is about it.

Pavan Kaushal Just for the liquidity point, I think even after that reduction in excess liquidity our NCR ratio is still 496%. We still continue to be very liquid, even after this reduction in our investment book.

Alpesh Mehta What is the total CAPEX you are expecting over a period of next 3-4 years in terms of technology?

Sunil Kakar Large part of our CAPEX has been initiated as we said we have up-fronted our technology build up, so all our CAPEX, large part of it should be completed by next 3-6 months, so a year down the road onwards I don't expect anything more and we have capitalized around roughly Rs. 400 odd crore, so a similar amount maybe capitalized.

Alpesh Mehta Just a clarification on this investment book, is there any element of the REPO kind of transaction with the RBI.

Sunil Kakar Yes.

Alpesh Mehta What would be the quantum of that? I am just trying to assess the actual investment sitting on the balance sheet, which is like a normal interest earning investment because this is a very short term kind of transaction which you are doing with the RBI?

Sunil Kakar Yes that excess is there and we have repoed it out, so that is the source of funding to ensure that you get lower cost of funds, so these are tactical moves which goes up and comes down, so I don't know whether we can share the exact number or not but yes we keep doing that.

Alpesh Mehta Okay because this will be a part of annual disclosures in the annual report, so I just thought you can share to us?

Sunil Kakar If it is there then I have no problem sharing it with you but I just did not want to share something which is partial in nature. So, we will get back to you offline and share it.

Moderator We have next question from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe Just one clarification on the credit growth guidance of 25%, does this also include buy outs?

Sunil Kakar Yes.

Nischint Chawathe And what you said is you will want to take the PSL ratios somewhere close to 40%?

Sunil Kakar I have to.

Moderator Next question is from the line of Pankaj Agarwal from Ambit Capital.

Pankaj Agarwal Sir in terms of CASA, what kind of absolute CASA you are targeting by the end of this year?

Dr. Rajiv B. Lall It is a bit early to be talking about CASA, we have just started like 6 months ago, this is going to take us 5 years to get there what we are targeting for sure is a significant share overall liabilities based will come from retail deposits. So our first actually goal is to mobilize to get a significant corpus of fixed deposits from a retail base. We will then in parallel try and convert and expect to convert some subset of those customers into savings account customers. So far we have 500 crore CASA.

Pankaj Agarwal Reason I am asking this question is that because if you are growing your balance sheet by 25% right and if your funding is not coming through CASA probably you know it might impact your margin.

Dr. Rajiv B. Lall You know, see our cost of financing historically has been very high, right. For us any reduction in the cost of financing our balance sheet that comes to a cost to funding that is less than 8.5% is welcome. We cannot be compared to other banks whose historical cost of funds is much lower, so whatever incremental funding we can get that brings our incremental cost of funding below let say 8.5%, is what we are targeting. Starting with, not limited to, mobilizing fixed deposits from a retail base, focusing on current accounts from particularly our corporate relationships, as we start making inroads into retail customer base also to convert some of those fixed deposits into current accounts and savings accounts. But the numbers for CASA will be necessarily modest. The share what we have focused in the next 12 months, is to change our liabilities base away from the corporate landscape more to the retail customer base. 24 months from now we can start then talking about how much of that is actually coming from a consumer customer base or a retail customer base.

Sunil Kakar But your hypothesis is right low cost CASA funding will be miniscule or modest in the next year for the next fiscal and therefore the cost of funds on an average will reflect whatever the market cost of funds are.

Pankaj Agarwal Ok, and Sir at this point of time what are the rates you are offering on term deposits and savings accounts?

Sunil Kakar For one year it is 8.25 and savings is standard 4%.

Moderator Thank you, next question is from the line of Arun Rangarajan, Individual Investor.

Arun Rangarajan As I live in a small city I can understand the optimism about Bharat Banking in the bank but when I go through a lot of articles in papers and journals there is a lot of rural stress which is going on and the incomes and agri-yields are low and there is a lot of problems in the rural sector that is why migration is happening and stuff. So how robust is Bharat can you explain?.

Pavan Kaushal So maybe I will try and answer that, so we look at the rural banking landscape stress which you are probably reading and hearing about is largely around the agricultural. Where we are focused on and where we are lending is really the non-agri part of rural banking. So this is what we believe is happening is that while the agriculture sector continues to be stressed, the non-agri sector actually is performing fairly well, both in our portfolio and what you have seen in other portfolios around in other banks and other MFIs.

Dr. Rajiv B. Lall All crop related funding has higher level of stress but 55% of rural activity is now non-farm and it does not depend directly on agricultural income or shall we say crop-based income per se. So there is a lot of activity for example in dairy farming, there is a lot of other small business activity service sector activity that is taking place in rural India, that all the empirical evidence says is holding up not withstanding stress in crop related agricultural activity. So that is the basis, that is the way in which we are constructing our Bharat banking portfolio at least for the time being. We will see what the monsoons do this season and then we will recalibrate or not depending on what the situation demand.

Arun Rangarajan One other thing is that this year we ending at if I annualize what is happening to the PAT it is around Rs 800 crore like that.

Dr. Rajiv B. Lall Correct.

Arun Rangarajan So on that we will be growing minimum at 10%-15%.

Dr. Rajiv B. Lall Correct.

Moderator Next question is from the line of Gaurav Agarwal from the E&R Advisors.

Gaurav Agarwal Just one clarification. Of the total borrowings, how much is going to mature in the next one year?

Dr. Rajiv B. Lall We will just get you that information.

Gaurav Agarwal And you know sir if we were to replace these maturing borrowings with the new rates, how much benefit can we get.

Sunil Kakar Yes, the current rate for borrowing compared to historical or at least 100 basis point lower.

Gaurav Agarwal Correct.

Dr. Rajiv B. Lall Wants to get a sense for?

Gaurav Agarwal Would we be again going for debentures and bonds or can we go for bulk deposits as well from corporate.

Dr. Rajiv B. Lall We are doing both.

Gaurav Agarwal It is a combination of both going forward.

Dr. Rajiv B. Lall Yes.

Gaurav Agarwal 100 and 150 basis point kind of a benefit we can definitely get, right.

Dr. Rajiv B. Lall 100 basis point is my sense but any liabilities that are re-pricing certainly if that securities or if the bulk deposit that is what we should be able to get, but you know the other side of the coin is that the assets are also re-pricing downward, it is not the easiest of environments but you know.

Gaurav Agarwal Yes, at least it will protect our…

Dr. Rajiv B. Lall Yes, it will, so that is why very active balance sheet management is required for us and that is what we are trying to do.

Gaurav Agarwal What is that number which is going to be re-priced.

Sunil Kakar We will have to get we actually currently we do not have it.

Dr. Rajiv B. Lall You may contact us, send us an e-mail.

Moderator We will move on to the next question. That is from the line of Kaushal Patel from India Nivesh Securities.

Kaushal Patel As you have been mentioning in some of the calls or the India interaction that in future the banking will be less on branches and more on non-branches channels.

Dr. Rajiv B. Lall Right.

Kaushal Patel So first of all, I would like to know your six months of experience especially in Bharat Banking side, like do you think so especially in rural areas banking like from different channels what was your experience like whether they are quite open to different mode of channels to bank or like I just would like to have understanding on it.

Dr. Rajiv B. Lall In Bharat Banking our model is different, so we are not looking for digital acquisition driven by the customer in rural India. Our reduced dependence on branch infrastructure for customer aggregation comes really from our ability to use handheld technology with an ambulatory sales force, so each branch is a hub that allows us to service a very large catchment area with a sales force that has handheld technology and now with the authentication and KYC norms that are gaining currency in the market, it is therefore possible to acquire customers and accounts through the salesforce without having to have people come in to the branches. That said, we have had an interesting initial experience in our rural branches, where our sense is that customers seemed to be quite starved of basic banking services, so the volume of walk-in customers into whatever branches we have in rural India for the purpose of bank account opening, savings account opening has actually been much larger than we had anticipated. So that is so far the experience in Bharat Banking.

Kaushal Patel Right and second question, your overall strategy like it is too early to ask but still as you mentioned it first phase of branch expansion is over and now you will wait and once you experience the first phase then you will go for the next phase.

Dr. Rajiv B. Lall But we will wait but it is not we are not waiting for several years, it is a pause meaning we will wait for six months and then we will start again. So it is not that I have a monthly target for branch opening. We have opened 60 branches, now we will wait 6 months and then we will start again.

Kaushal Patel At least on digital side, like what has been the progress on particularly mobile app and other mobile products?

Dr. Rajiv B. Lall We have had good progress so far. Our net banking proposition is up and running. Our mobile app should be launched into the market within the next fortnight I expect and then over the next few weeks not months, we expect also to launch our version of the wallet, so three propositions on the digital side, net banking, mobile banking and the wallet. By July, I would say all three will be very much in the market.

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

Pavan Ahluwalia Yes, I just wanted to come back to the savings account strategy. You had mentioned that you were offering about 4%, now we have seen several banks especially relatively new banks try and entice customers by offering 6% rate, just curious as to, you know, why you decided to not go with that strategy, has that not worked for the people that have done it especially given that as you said any improvement on cost of funds for us relative to the 8% to 8.5% historic rate is welcome.

Dr. Rajiv B. Lall The environment and context is changing very-very rapidly. Once you embark on a strategy of offering a significantly higher rate on the savings account, it has implications on your entire accumulating deposit base, so rather than do that, we have not said no to the idea but what we want to first experiment with is raising fixed deposits from retail customer base, the non interest cost of acquiring a fixed deposit is much lower, it is also much easier to execute and we believe there are digital offerings, interesting enough, that we would like to try and convert some of the customers who engage with us at a superior fixed deposit rate into then a savings account. We will see how that experience is going and then make some decisions about what additional acquisition book in terms of pricing we may or may not need to convert the leads generated from fixed account creation from a retail customer base into a savings account, so it is a calibrated strategy that will take a few months to play out. The first arrow which, I said, we want to shoot from that quiver is having developed a value proposition to attract a critical mass of fixed deposit holders with the intention of converting some subset of them into savings account holders depending upon how that experiment goes, we will revisit the pricing of our savings account, I mean I can tell you that from whatever little experience we have had in a very short period of time, we are very confident that the quality of service and the range of products we have already introduced on the consumer bank are good enough that if we were to proceed with the tried and tested traditional formula for acquiring customers, right, we would succeed. We will take market shares, we will get customers, I have zero doubt about that. What we are trying to do is to first experiment with strategies that bring down the cost of acquisition of customers to levels lower than the traditional model. Let us play that out first then we will recalibrate.

Moderator The next question is from the line of Shiv Kumar from Unifi Capital.

Shiv Kumar Now that you have set up 60 branches, I was wondering whether you can share the setup cost and the monthly running cost for the Bharat Banking branches and the personal banking branches?

Dr. Rajiv B. Lall I can but I won't. It is a short answer. Because even these costs are, not to be fictitious about it. we have a certain cost of having rolled out what we have. I am not happy with the cost we have incurred to deliver what we have. I am determined to bring that cost down until such time as we have a stabilized template that I am comfortable we are saying now this is cookie cutter, this is the lowest cost of setting up a new branch in fewest number of days, until then I am going to be cagey about how much it is costing us.

Sunil Kakar I may also just add there is one more reason because we normally use to extrapolate these are if I may use the word "flagship" branches future branches will have different modifications to that, and the ranges are high Bombay branch is, within Bombay you can find rents ranging from x to 2x, so averages just make everything a bit more difficult.

Dr. Rajiv B. Lall But I mean, I understand your concern. I am trying to find the right balance between the appropriate amount of transparency and then what treadmill you guys will put me on, so and your need for information. What I can assure you is that over the next 3 or 4 quarters, we will be in a position to share with you greater insight into the economics how it is constructed of both our new businesses which are and which is the Bharat Banking businesses and the consumer bank. So please bear with us for 2 to 3 quarters, in the meanwhile cut us a little slack in terms of how much transparency you want from us.

Shiv Kumar Right, sir and my second question would be related to the consumer banking. I see that the Bharat Banking branches are mostly located in the rural areas and the current personal banking branches are located in the metro cities, so are you going to expand the personal banking branches in the Tier-2 cities given that the metro cities are already highly competitive in nature?

Dr. Rajiv B. Lall No actually not yet. Our strategy on retail banking is actually to start from two extreme ends of the customer segment or the customer population. So rural banking is one extreme end, the other end is the metros. Our belief is that you know at least for now and the foreseeable future, the bulk of household savings continue to be concentrated in basically the top 35 to 40 centers, so no matter what we do, our value proposition has to be compelling enough for us to take at least some market share away from whatever else the competition is in the 35 to 40 centers for us to be sustainable and viable long term, so I want very much for us to first concentrate our attention on announcing our arrivals in really just the top 8 metro centers as far as the consumer bank is concerned and learn and establish our ability to get our fair share of this market and overtime, we will see a convergence between our rural banking operation and our metro focused consumer banks, I do not know how quickly we will get there but overtime, they will both converge to the middle.

Moderator Next question is from the line of Simmi Chhabra from Franklin Securities.

Simmi Chhabra Yes, there is just one question. Could you please elaborate and explain the part of professional fees in the results?

Sunil Kakar Yes, I mean this is a level of granularity, one is not too sure one can share, but professional fees represents now what we have.

Dr. Rajiv B. Lall A lot of which will be related to hiring, there will be what we are paying consultants for recruitment and some professional fees for a lot of our IT-related services, there will be some payments to vendors. There will be then the usual government related payments that we make. There will be people who are helping us with info security, then we have auditors, then some legal fees, that is really the range of it but, is it really important for you to get this level of granularity because.

Simmi Chhabra Oh no, because yes, it is you know noticeably higher than the last quarter that is why I asked.

Dr. Rajiv B. Lall Yes.

Moderator We have the last question from the line of Sneha Ganatra from Shubkam ventures.

Sneha Ganatra Sir, just wanted to know at what level are we comfortable to keep our PCR as recently PCR has declined quarter-on-quarter basis?

Sunil Kakar Yes, the provision coverage ratio is actually we have to take it depending on the kind of asset we are looking at and not at a portfolio level as we have said that for our overall stress book which we have transferred, we are looking at around 50% on an average. So that is the number.

Moderator Thank you, that was the last question, with this, I now hand over the floor back to the management for the closing comments. Over to you sir.

Sunil Kakar Thank you and we shall talk to you next quarter.

Moderator Thank you very much sir. Ladies and gentleman on behalf of IDFC Bank Ltd.,that concludes this conference call, thank you for joining us and you may now disconnect your lines.