IDFC Bank Limited

Q2 FY17 Earnings Conference Call Transcript
October 26, 2016

Moderator: Ladies and gentlemen, good day and welcome to the IDFC Bank Limited Q2 FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need any assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bimal Giri from IDFC Bank Limited. Thank you and over to you, sir.

Bimal Giri: Good morning everyone and welcome you to this conference call organized to discuss our financial results for H1 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 discussions may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance have been e-mailed to all of you. These documents have also been posted on our corporate website.

I now invite Sunil to provide the key highlights of our performance for H1 Fiscal 2017.

Sunil Kakar: Thank you, Bimal. First, we will share the bank's progress in H1 Fiscal 2017. The update will cover growth and diversification of assets, liabilities, networks, customers and financial highlights. Then we will open the floor for Q&A.

On growth front, our balance sheet grew by 31% from Rs. 83,216 crore as of March 31, 2016 to Rs. 109,000 crore as of September 30, 2016. Year-to-date our outstanding credit and I want us to focus on this metric. Outstanding credit which includes funded and non-funded grew by 26% from Rs. 53,919 crore as on March 31, 2016 to Rs. 67,862 crore as on September 30, 2016. If you look only at the funded credits, the funded credits grew by 17% from Rs. 48,813 crore as on March 31, 2016 to Rs. 57,138 crore as on September 30, 2016.

Our next metrics which we will cover is about de-risking the infra books. The contribution of infra to the credit reduced from 88% as on March 31, 2016 to 78% as on September 30, 2016. The other focus area of our strategy has been to diversify the balance sheet which basically implies about retailization of the balance sheet. The contribution of retail, SME and mid-market credit increased from 8% as on March 31, 2016 to 17% as of September 30, 2016.

The funded retail assets delivered by Bharat Banking and Bharat Plus as on September 30 were around Rs. 1,800 crore which include Rs. 1,300 crore of Grama Vidiyal Assets. The non-funded growth, our non-funded business as a percentage of funded business grew from around 11% as on March 2016 to 19% as of September 30, 2016.

Our deposits and CASA as of September 30, 2016 we have a deposits of around Rs. 23,000 crore. Of this CASA was Rs. 1,800 crore translating to an approximate ratio of around 8%. On the network front, our network now comprises of 1,154 points of presence across 15 states and 61 districts. These includes 71 branches which includes branches in the rural area, 727 micro ATMs and almost 322 Grama Vidiyal's BC outlets.

Customers, on the customer front we have now over 1.1 million customers as of September 30 including over 1 million from Grama Vidiyal. Our organic customer base was 125,000. And in the month of September 2016 alone we acquired over 25,000 customers, of this 18,000 odd were in the Bharat Banking customers and 7,000 were Bharat Plus customers.

Now on financials, details of the financials are already available with all of you. Just a few highlights. Sequentially in the second quarter our operating income grew by 27% over the first quarter. Of this the net interest income was flat whereas non-interest income doubled however mainly driven by a one-off investment gain on sale of an investment asset of around Rs. 166 crore. Within the non-interest income fees and commission sequentially grew by 46%. The contribution of our fees and commission to operating income increased from 7% last fiscal to 12% in this second quarter of this fiscal.

Operating expenses in the second quarter were at Rs. 323 crore, a growth of 17% over first quarter. Our cost to income ratio for the first half of the fiscal was around 37%. Net profits grew 46% in the second quarter to Rs. 388 crore from Rs. 265 crore in the first quarter. As explained earlier the large part of the contribution comes from the gain on sale of investment.

Other highlights. We have recently launched our straight through product for digitally opening a fixed deposit with us without any human assistance or intervention. This is a first amongst banks and we will urge all of you to try this STP product and share your feedback. We have also gone live with UPI. We have also used our micro ATM network extensively in the Krishna District of Andhra Pradesh to facilitate cashless public distribution of food grains, pensions and other benefits that flow from the government to the citizens.

What has happened in this district is catching the attention of many stakeholders and it has the potential to change government citizen connect as far as the remittances and benefits are concerned.

We will now open the floor for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We have the first question from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: My first question is relating to the Opex run rate, so we are already annualizing around Rs. 1,200 crore on an annualized basis. So do you see further increase to this run rate?

Sunil Kakar: Yes, the simple answer is yes but you will recollect we are right now in the investment phase and growing. Our head count we added around 440 head counts this quarter and we will continue to make investments in strengthening our productive and distribution network. So yes, there is a head count and correspondingly the Opex run rate will increase. Hopefully the revenues will start flowing and this is the phase where we are going to expand and grow in our strategic sense the retail book and diversify our risk and dependence in the corporate book.

Sri Karthik: And in fact during the quarter we have added MFI to our balance sheet and yet the margin sort of declined sequentially, any particular reason for that?

Sunil Kakar: That is just the timing effect what the MFI was added I think on 28 September or something the effect of that we will be seeing next quarter.

Sri Karthik: So what would per se explain a 20 bps decline on a sequential basis?

Sunil Kakar: It is if you will recollect our stressed assets, are accounted for on a cash basis, so there could be some volatility and at the same point in time as you know our Treasury assets and the benefit of that is not looked only upon through the NII line. The benefit of that goes through the trading lines. So just looking purely at the NII may not reflect the correct picture. If you look at the NII or the NIMs of the loans they have not declined. I think we have given the breakup between NII of loans and Treasury the spreads are also shared with you. So the core operating income from loans continue to remain stable. But yes, our significant activity in Treasury which is actually reflected in our trading income line does suppress the NII a bit.

Sri Karthik: Yes and it actually does bring us to the next question which is the trading investment portfolio did declined by about Rs. 6,000 odd crore sequentially. So this is something which will eventually play out as you continue to book gains and move to a more normalized balance sheet structure?

Sunil Kakar: Yes, these are opportunistic positions one takes it is a read on the interest rate cycle. Looking at the rate of decrease of interest rate during the first six months we do not anticipate the same in the next six months and appropriately the trading positions are adjusted.

Sri Karthik: I have just a couple of data keeping questions. You used to disclose restructured outstanding and the stressed portfolio which is recognized so far. Could you just disclose those two numbers, please?

Sunil Kakar: So I think I will ask my IR team to share that with you but the net restructured assets continue to remain same. There is no significant change. I know the net restructured asset ratio is at 2.6% and net security receipts are at 0.1%. The gross NPL is at 6% and net NPL is 2.4%. If there is any further specific data point please get in touch with Bimal.

Moderator: Thank you. We have the next question from the line of Ashit Toshniwal from ICICI Securities. Please go ahead.

Ashit Toshniwal: Just one question that what is the amount of gross advances for the current quarter ending?

Sunil Kakar: I mean net advances is Rs. 50,180 crore and the gross would be about, sorry what was the question?

Ashit Toshniwal: So what is the gross advances at the end of this quarter?

Sunil Kakar: Advances outstanding would be about Rs. 54,000 crore.

Moderator: Thank you. We have the next question from the line of Varun Khandelwal from Bullero Capital. Please go ahead.

Varun Khandelwal: I wanted to get some idea of how is the stressed asset book looking? So Rs. 9,000 crore that have been put into a bad bank of sorts, do you see any improvement in the operating environment for any of those assets and any possibility of any recoveries from there?

Rajiv Lall: It is too early to tell. There is no deterioration, there is no perceptible improvement. Maybe by the end of the financial year we will have a better read on possibility for 'at the margin' improvement. But I do not want to suggest that we have turned the corner and that things are just secularly improving.

Moderator: Thank you. We have the next question from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: Yes, this question is about the bank. If you look at the BASEL III disclosures, we have fund based net outstanding of Rs. 70,000 crore and out of that broadly half is in energy transport and telecom understandably so because that was your business earlier. But if you were to see and look at maybe a three year horizon what percentage of your book will be in these sectors and which are the sectors you are focusing on as a bank apart from the retail asset portfolio?

Rajiv Lall: As we have said we are on a record in March 31 2020, 60% of our advances will be in everything outside large corporate. So that means that there will be a mid-market, SME, business banking, and retail banking of different kinds. That is 60% of our advances. What that implies almost certainly is that infrastructure as historically categorized would be definitely less than 50% of our advances within 36 to 40 months. That is the goal. So if you see what has happened quarter-on-quarter infrastructure went from 88% to 78%. I expect that trend to continue maybe not in a straight line continuous fashion but over an annual trends for almost certain. It will come down to under 50%.

Vibha Batra: So would that mean you would not take any incremental exposure to infrastructure over next two to three years?

Rajiv Lall: We are calibrating that exposure. We are not looking to expand the size of the infrastructure book unless the world changes very dramatically which we do not see happening at this point. We are at best replacing assets that are running off so we are not looking to expand that book. And even as we are replacing those assets we are focused only on certain sub-sectors in the infrastructure space.

Moderator: Thank you. We have the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just one question from my side. If you could give some color on the fee and commission income during the quarter?

Sunil Kakar: Yes, the fee and commission income broadly comes from our corporate banking which relates to cash management services and loan related fees, some structured deals which we have done. So these are regular client businesses which as we grow and our relationship deepens with our corporate clients this is what it is. So it is loan related fees, trade and cash management fees and some DCM and syndication fees. These have been the key drivers of the improved fees and commission. I also want to share that continuously our client FX margins are also growing along with it and over a period of time that will also become a significant portion of the fees and commissions.

Nischint Chawathe: Any broad break up if you could share between retail and non-retail segments?

Sunil Kakar: Fees and commissions is largely corporate.

Moderator: Thank you. We have the next question from the line of Prashant Kumar from Credit Suisse. Please go ahead.

Prashant Kumar: I just wanted to understand that we have earlier given roughly a guidance that we will reach Rs. 75,000 crore kind of loan book by year end and within that almost like Rs. 14,000 crore, Rs. 15,000 crore would be acquired portfolio. So just wanted to understand that with this not really new but with this PSLC trading now it has started in a meaningful way so would we still look to acquire that Rs. 14,000 crore, Rs. 15,000 crore or like we would look to do more PSLC or does this changes our priority sector strategy in any way a loan growth kind of guidance in any way?

Sunil Kakar: First of all the PSL certificate market is just about getting stable. Some deals have happened so not in significant size but yes directionally it will be an economic decision to see whether investing in PSLC certificate makes sense or buying out portfolio makes sense. So as we go along as the market develops, as of now if you want me to say I think both will happen PSLC certificate will remain a minor but an important portion of our portfolio and objective to meet the PSLC target. But as of now we have not seen too much activity we have not done anything also as of for the first time.

Rajiv Lall: But I can add that philosophically our preference would be to acquire portfolios because our goal is to change the risk profile of our balance sheet. So we want to take on additional risk relative to large corporate and infrastructure risk on our balance sheet and therefore to the extent that we can manage it we will actually expand the portfolio through acquisitions or organically.

Prashant Kumar: Sir, have you done any buy out in this quarter?

Sunil Kakar: Any what?

Prashant Kumar: Any buy outs in this quarter?

Sunil Kakar: Yes, the portfolio buyout is a regular process I mean every quarter or every day, every week.

Prashant Kumar: What would be the quantum, sir?

Sunil Kakar: Rs. 300 odd crore.

Prashant Kumar: Okay and sir in terms of your loan margin it is kind of holding up well at close to around 3%. So just wanted to get a sense that most of the banks are kind of seeing pressure on corporate margins because there is very high competition for high rated corporates. So how do you see this, so what is your experience and do you think this 3% kind of number is sustainable or could there be some benefit from moderation in funding cost or like most of this is going to be can you retain some of it or most of it is going to be passed to larger corporates? Just wanted to understand that how this 3% number can pan out?

Rajiv Lall: So our aim is to move out of the large corporate landscape because I think those forces are too powerful and secular in nature in that competition and concentration for everybody's attention on the top corporates remains very high. And as interest rates declines those banks will have lower cost of funds where we will drop there and even faster than we are able to. So we were always being under margin pressure if we keep focused just on the largest corporates, which is why strategically we are very determined to reduce our historical dependence as quickly as possible on that customer segment.

Sunil Kakar: So let me just add. So obviously that is our strategic goal. But in the short run say in the next two, three quarters, margin pressures will continue.

Prashant Kumar: Okay and sir one final question on this branch opening. So RBI has recently relaxed this rural branch opening norms in the sense that smaller outlets with really linear kind of requirements can be treated as rural branches. So with that development or do you recalibrate your branch opening strategy or any change that you are thinking in terms of your branch opening plans?

Rajiv Lall: So that can only help us.

Sunil Kakar: Yes but you see this is just a language, a classification. The key point is point of presence where we are able to provide service to our customers. Whether we do it through a BC network that is why during in my speech also I said we have 1,154 points of presence. Now some of them may be classified tomorrow as branches because RBI has relaxed certain definitional thing. But that does not change the fact that we are aggressively increasing our distribution network to be connected to our customers and be able to provide them all relevant services. Whether we call it branches, whether I call it BC outlets, whether I call it micro ATMs is just a classification.

Rajiv Lall: Just to clarify when we use points of presence, our goal is to communicate that through a point of presence, all basic banking services are being offered to our customers. Now whether the RBI calls it a branch or not is quite irrelevant.

Prashant Kumar: Sure, I actually meant more from this one branch opening perspective that because you are now more lenient this 25% early you needed to open 25% branches in rural area and that was bit of a constraint?

Rajiv Lall: So what really was a constraint that was not applying to us because out of our 71 branches that are so recognized by RBI only 11 or 13 odd branches are urban, the rest are all rural anyway.

Sunil Kakar: Yes 56 and 15 that is between corporate and wholesale. So we were never faced with that constraint. If you will see our strategy the key word is Mass Retail. In that Mass Retail strategy geographically focus is on rural areas and hence our presence there is there. In the urban section, we are doing what we may call digitally assisted, digitally enabled customer acquisitions which in our opinion does not require large density of physical presence. And today branches are there impact on customers and services is coming down over a period of time as technology is taking over. So the key would be as we mentioned we are focusing on customer acquisitions, we will be sharing with you quarter-on-quarter number of customers acquired both in the Mass Retail Segment and in the Mass affluent segment.

Moderator: Thank you. We have the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Just on this branches, what would be your plan for the rest of the year and also what would be the hiring plan or hiring agenda for the rest of the year?

Rajiv Lall: Look we are I think we are going to reach about 1,400 odd points of presence on March 31.

Sunil Kakar: Yes, 1,400 to 1,500 points of presence.

Rajiv Lall: We have 1,100 right now

Sunil Kakar: And on our head count we continuously evaluate the need.

Rajiv Lall: Yes, we want to minimize the growth of the head count as much as possible.

Sunil Kakar: And still invest.

Abhishek Murarka: So I understand that points of presence are obviously important and your strategy is gear towards increasing that. But purely in terms of branches that 71 what?

Rajiv Lall: Zero branches between now and March 31.

Sunil Kakar: So two are already in progress.

Rajiv Lall: DN Road is the only one. I mean there are two branches that were already almost done we did not have what you call regulatory approval for them some last minute change. But now we have received that so two branches that had got delayed opening, they will be opened but beyond that nothing between now and March 31.

Abhishek Murarka And in terms of hiring could we anticipate a sort of 300, 400 people kind of addition every quarter right now?

Rajiv Lall: No, not every quarter. I think you can anticipate some growth in people between now and March 31. But between for next year the rate at which we are hiring new people will slow down quite significantly.

Sunil Kakar: So this question owes for the next quarter for any modeling where we can update this thing. But you see till March 31 we will ensure that whatever is required investments are done so that next fiscal we are monetizing most of our investments or rather productively utilizing those investments.

Abhishek Murarka: And typically how are you staffing your branches, how many people roughly would be there in a branch?

Rajiv Lall: That is still being experimented with but it depends, there are different kinds of branches, they go from 6 people all the way to 15 people in some branches and rural areas. But in the rural geography a lot of the asset products are managed out of the branch, whereas in urban geographies none of the asset products are actually handled out of the branch. They are handled out of feet on the street that sit elsewhere in hubs or we rely on third parties or DHAs to help us. So there is no fixed model right now. I think in six months we will be in a better position to share with you two, three point of presence types that will allow you to better model cost dynamics if you like as the projections of our points of presence grow. So give us six months, you will have greater visibility into the design of two, three points of presence type.

Abhishek Murarka: Sure. Just lastly you know we had about Rs. 8,800 crore as an entire stressed asset portfolio and we were holding about Rs. 5,500 crore of provisions roughly on that. Now just two questions there. One, has there been any SDR as for a sale out of that and secondly do you see the need to increase provisioning in any of that or do you estimates of air cut etc. remain the same on that portfolio?

Sunil Kakar: So as mentioned earlier that we are not seeing any significant change in the total stressed portfolio. Reclassification between what we called as S4A or SDR versus restructured 5/25 again these are just movements within the same referenced portfolio. And at this point in time as Rajeev had mentioned, we have the good news is we are not seeing any deterioration, the bad news is we are not seeing any improvement. So it is kind of range bound and I have mentioned in many other conversations also the exact timing of how each one of the assets will play out is almost impossible to predict. So in some case at a portfolio level our overall provisioning is adequate but at specific asset level there may be a few changes here and there.

Moderator: Thank you. We have the next question from the line of Amesh Kanani from JM Financials. Please go ahead.

Amesh Kanani: Sir, two questions from my side. One is how do you see the trading gain as a part of our operating income which seems to be high as a percentage though I will give a lot of credit to treasury team for taking the calls aggressively and making good money. How do you see that is it possible to understand what is sustainable or in terms of risk perspective how do you view this income and understanding the sustainability of it?

Sunil Kakar: See by definition trading income is not predictable. So I would not say it is sustainable. So it is also a view of how the interest rate movements are taking place and so yes if you are seeing from a modeling perspective how much would I forecast a future that is going to be a bit difficult. But directionally we can say that the quantum of trading gains which we are able to achieve during the first six month is exceptionally good. The run rate as we might say is going to stabilize a bit lower as we go forward and that is primarily driven by our interest rate call that I think the quantum of interest rates cut which the Governor and RBI had to do. Large part of it has already taken place during the first six and even on the first October call. So for the next six months the quantum of interest rate cuts appeared to be muted and therefore correspondingly the trading gains will appropriately get muted in that respect. The idea is we are supporting us at this point in time by the time we grow and invest in our retail and more sustainable form of the business which is through the customer and client franchise revenue. But during this period of transition our Treasury has played and will continue to play an important role such that we are able to deliver the expected profitability for the shareholders.

Amesh Kanani: And sir, second is point of presence, a large part of it is micro ATMs and GVFL network. So one, if you can just update us how this Grama Vidiyal acquisition is going in terms of experience and synergy drawing out of that? I think right now it is working as a subsidiary for us. And how do you harness the point of presence of both GVFL as well as micro ATM from our income perspective?

Rajiv Lall: So we have managed to complete the acquisition and initial integration of GV in record time. I think all the work process flows, risk management, technology interface all that has been sorted out. Over the next six months we would be focused on precisely the things that you have mentioned which is how do we now extract going forward greater value from the acquisition. And that will take the form of product diversification and revenue diversification, thickening of the last mile infrastructure by adding to micro ATMs to direct listing points of presence.

So GV is currently basically a MFI DNA organization which is focused only on the asset side of the balance sheet. Our initial goal will be to introduce liability products such that as large as possible share of their 1.2 million customer base begins to have a depository relationship with the bank. In terms of synergies the obvious synergy is that on a standalone basis GV had a very high cost of fund. Now that its balance sheet is integrated into IDFC Bank its cost of fund goes down quite significantly. And that will lead to commensurate improvement in profitability some of which will be reinvested into the initiatives that we talked about. So we are so far actually it is all going on track and as we learn from this acquisition we hope to make more acquisitions to the extent that we can in the future.

Moderator: Thank you. We have the next question from the line of Smriti Shekhar from NN Investments. Please go ahead.

Smriti Shekhar: I have just two questions. One is could you just explain little bit about the statement you made on NIM where you mentioned that it will continue to be pressured or the loan NIM is 3% and overall is in the 2.3% range. So would margin pressure will continue could you just explain that?

Rajiv Lall: So I want to make a strategic point about that then Sunil can give you more color. See we have been repeatedly saying that the large corporate infra space is very crowded. And (a) the largest corporates are moving to bond markets (b) a disproportionate share of competing banks are focused precisely on that customer segment. So in that segment margins will continue to be under pressure. In relative terms therefore for us strategically the faster we diversify out of that segment, the better chance we will have on maintaining if not expanding our NIMs and our margins. So that is what we are trying to do.

So if you see the share of our total advances that is retail either through a wide portfolios or organic portfolios, our focus is entirely on that and on building the SME and mid-market books. Our bet is that whatever pressure there is on the large corporate book will be made up through a combination of the changing composition of our advances and through a robust traction on fee based income.

So that and this is to Sunil’s earlier point as well that some of the decline in the net interest margin that you might see just in the large corporate book over time, actually we have done an extremely good job over the last couple of quarters so we have been preventing that outside our stressed asset book. But to the extent that there is pressure on that the compensating revenues may not come just from NII but you will have to look at it by combining that with our franchise fee income and I do not know if you want to add to that, Sunil.

Sunil Kakar: No, so we appreciate that kind of things the strategically that is the direction and it is only a question of how much time it takes, how does the retail asset weightage of that in our overall NIMs by when it happens. So I still think that that is going to take at least two, three, four quarters before they become meaningful in the overall space. Now the NIMs or even the spreads first of all the total includes treasury as well as loans. Treasury we have explained just looking at NIMs is not appropriate so that part is out.

So now let us focus only on loans. Within the loans or advances as we call it, one is the focus of changing the mix by having retail assets and therefore a better level of margins are from the retail assets. But that weight of that in the overall mix is still low. So then it comes on what is the rest. The rest continues to be large corporate and what we call the stressed portfolio book. Now the large corporate, as we all know, have the ability and the bond markets are going through that is also a sum. That is why we have introduced the concept of funded credit and not looking only through advances.

Today we want about Rs. 7,000 crore in the bond market which is nothing but kind of loans. The other factor which is making this NIMs a bit volatile is our cash collections on the stressed book. Remember we are not on accrual on the stressed book and hence depending on quarter to quarter the cash collections could vary depending on what the effort and how much the stressed book is able to pay the interest part of the story. So keeping all these perspectives in mind and not forgetting the most important one that if we look at my liability profile yes, we are still largely funded through fixed rate bonds which we brought down as our legacy.

Those fixed rate bonds were taken up at a time when interest rates were relatively high. So as the mix of the liability changes, between current borrowings and previous borrowings, that benefit will start coming through over a period of time. So keeping in mind all these variable factors we are under I mean our forecast is the margins will come under pressure and but over a time we should be able to stabilize.

Smriti Shekhar: So my reading is that the earnings or yields are repricing on the corporate book a little faster than on the liability side and see leaving that aside on the stressed assets where you record income on a cash basis, can you tell us that between Q1 and Q2 have you seen a further I mean incrementally has that collection on the base book gone down on a cash basis?

Rajiv Lall: It is asymtoting.

Sunil Kakar: I think that is a very good word.

Rajiv Lall: So it has a short answer is that it has come down but the rate of decline is stabilizing now. So we will have sort of ongoing or sustainable earnings power of our stressed asset book is now being discovered as we speak. So in the next quarter or two, we will expect it to stabilize.

Smriti Shekhar: Okay just one more on the margin side is a little if you just think of a steady state or somewhat of a mix adjustment that you will potentially achieve in say 2020, 60% advances in segments other than large corporate, given the retail assets that you are pursuing or you would like to acquire. For that kind of loan book mix what kind of NIM do you think that book can have? I am not asking for any number?

Rajiv Lall: It is too early to say. We obviously have excel sheet model but there is no point sharing that with the world. We do a lot of scenario building ourselves. But again the short and simple answer to it is that that NIM must by definition be higher than a bank that is just focus on corporate lending.

Smriti Shekhar: Okay last question on cost is that 35% to 37% cost income ratio and your strategy to expand like you yourself just said physical branches will be nothing more than what there is today plus two. For that model of banking which is more correspondent led or micro ATM lead. What is the cost to income ratio that you can maintain keeping in mind the investment phase as well for let us say the next fiscal?

Rajiv Lall: That is difficult to say. It is too early to say. We have some goals obviously where the ongoing debate is whether those are too ambitious or realistically achievable or not. But again the simple answer the way to think about it is about IDFC Bank generally over the next let us say 36 months this is the way to think about it. That when you try to evaluate the trajectory of our ROAs over the next 36 months what we hope to achieve and expect to achieve is the following. Whereas traditional banks have depended disproportionately on the contribution of CASA the share of CASA right for their ROA in three years our share of CASA will not be what it is for the best in class banks, right. But if we get to let us say 15% CASA; 15% to 20% CASA that will be actually a very, very good result for us.

However, our improvement in ROA will come more than the case of existing banks we expect from a lower or competitive cost to income ratio. So it is a combination so what we will be at a competitive disadvantage over the just the 36 months on a CASA ratio with other banks we should be able to draw that back through a more competitive cost to income ratio. That is the bet that we are making and this is what you should really be tracking. Now over a long period of time, as our CASA franchise begins to catch up with the top quartile banks and that could be over a five to seven year time horizon, then our ROA dynamics and all of that should very much be in the top quartile of the banking system if not at the very top.

Moderator: Thank you. We have the next question from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Just wanted to get an update on your plans to potentially raise equity capital?

Sunil Kakar: So today we have options of pure equity and AT-1 which is the different form of equity, right. So in the short run or at least I cannot see that direct or pure equity capital raise is we do not see it for the next 18 to 24 months. If required and when growth picks up then the step 1 would be to look at the opportunity of doing some AT-1 bonds. So short answer is not in the next 18 months or so.

Moderator: Thank you. We have the next question from the line of Bharat from Quest Investment Advisors. Please go ahead.

Bharat: See just want to get some sense on strategic thing on expanding our asset base with the new acquisition and which can help us in our PSL requirement. So if you can say some more because liability side you have already said a lot. But on this asset side how do we think our acquisition can play out?

Rajiv Lall: So the acquisition already has Rs. 1,300 odd crore in advances. And that has been growing at 20%, 30% a year. So we expect for that growth to continue. We do not want to accelerate the pace of growth in that acquisition to beyond 20%, 30%. But 20%, 30% I think will be a solid contribution of growth and the asset base from ground material it will be too solid for next year. And then through our organic network you will see a much faster rate of growth admittedly from a smaller base. On Bharat Banking Retail and equally in Bharat Plus Retail you will see a very sort of higher percentage growth rate again from a small base of our advances book.

So we have guided the market to two metrics. One is that by the end of this financial year between 20% to 25% of our total advances should be retail. Out of our total book of Rs. 70,000 odd crore right and over the next by March 2020 broadly speaking if we consider a balance sheet that is double the size which is today with a loan book that will commensurately be also double the size I am giving a very broad brush number we are expecting the retail component of that to be between 50% and 60%. So we have plans of very aggressive growth organically as well as inorganically in our retail advances book.

Bharat: And what kind of yield that we really look I mean while growing this book?

Rajiv Lall: So that will be a whole range and those yields will change depending upon what the interest rate environment is and what is the competitive environment is. But the range on the retail book goes from anywhere from 12% to 13% all the way to 25% to 26%.

Bharat: So that includes the yield on the acquisition subsidiary also?

Rajiv Lall: Yes, see we agree that with Grama Vidiyal which is a subsidiary is giving us substantial boost but our relationship is not limited only to subsidiary. We have a strategic partnership across and there are many more BCs with which we are having strategic relationships and will continue. So the overall retailization of the balance sheet which includes either direct having ownership control or having strategic partnership will ensure that the profit margins or NIMs through the retail book starts supporting or improving as we go along and compensate for the decline in the corporate book.

Moderator: Thank you. We have the next question from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: Just wanted to get some sense on the Bharat Plus customer acquisition, I know that you have mentioned 7,000 odd accounts a month in September. Could you give us some more color on what kind of customers are these, what kind of balances, has the sort of acquisition model stabilized in the five cities you are operating? And if so when can we expect you to sort of roll it out on a broader geography?

Sunil Kakar: Yes let me just take it so that I can. See there are three sources, three or four sources through which these customers are being acquired. One being corporate salary accounts. That is definitely a source which we had also shared which is giving at least almost one third if not more of the customer acquisitions. In the Bharat Plus we are talking Bharat Plus right now. So that is an important channel. There the customers are young, salaried say 25 to 35 in that range. And the second source is obviously we are going around with our feet on street specific areas which is direct organic acquisitions again focused marketing around the branch areas.

Rajiv Lall: And through BC. And it is not just focused on the brands catchment areas. Second channel is feet on street and BC. I am going to club them into one and that is another 2,000 to 3,000 and the remainder about 1,000 a month is purely digital.

Sunil Kakar: Yes, so I was coming to the third one.

Rajiv Lall: Yes you can elaborate on that.

Sunil Kakar: So digital as we had mentioned we have just started this state through processing especially on our time deposit and along with the time deposit we also open a savings account. So these are the three different channels which are working to get the customer acquisition going. The average balances keep fluctuating but I mean there is fixed deposits, there is savings account and if you take all of that into account like fixed deposits is running into averages of few lakhs I mean 3 lakhs odd number per account. Two to three lakhs it keeps varying you know but the one year tenor has got very attractive rates and that is where it is coming through. Savings is sometimes it moves to 50,000, 60,000 and so.

Rajiv Lall: Customer is hovering around 50,000, 60,000. We do not know if that is the long term stable number for us. And TD amount is close to 2 lakhs, 1.5 to 2 lakhs is my sense for customer. Again we do not know if that is a long term stable account. But compared to initial indications are that compared to industry averages the savings account per customer and the TD per customer are actually pretty healthy numbers. So far so good but it is still early days to really pass a definitive verdict on Bharat Plus.

Aditya Singhania: Right so at what stage can we expect you to roll it out beyond the five cities that you are in at the moment?

Sunil Kakar: This is not rolling out next year, next fiscal and beyond five cities so again we are not looking at too much the number of cities necessary etcetera we are focused on basically the number of customers.

Aditya Singhania: So why I was asking cities is that since we are not focusing on branches as you have been emphasizing how should we look at you know how this number can grow let us say next year or the year after?

Rajiv Lall: Well, the first thing is that we have been spending some time trying to establish proof of concept that without expanding in physical branch infrastructure we can actually deliver a pretty robust monthly run rate for customer acquisition. I wanted first to establish that. I am not fully convinced that we have all the data we need to pass a definitive judgment on that at this point, right. The initial indications of our ability to that are extremely encouraging.

And the reason why I say I am not 100% ready to pass judgment on this is that I have not decided or we have not decided whether we want to focus more deeply in the same cities or we want to spread ourselves thinner across other geographies. And there are different aspects to this because there is also the asset side of the retail book that we have to consider. From the asset side of the retail book, it makes more sense to cover more geographies.

From the liability side of the retail book, it is not clear whether we want to prematurely or very early in the game spread our focus beyond the five cities. So we are sorting through this I think in the next quarter we will have a clearer view and at which point when we start talking more about next year's plans you will get a slightly more granular sense for where this is headed.

Aditya Singhania: Right, if I may just ask sort of a related question. So what I am trying to get it is the 7,000 number can definitely increase significantly even without increasing geographies, is that?

Rajiv Lall: Yes, so that is what we want to attest right. If that is the case then my cost of expansion comes down dramatically, right. So I am not 100% confident of the answer to that question. So that is why I am hesitating.

Moderator: Thank you. Ladies and gentlemen, we will take our last question that is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Just one question related to while we have been focusing more on the growing our loan book via our business correspondent model or via our partnerships, can you give some idea about the risk management that you have been following into this business now? And secondly, in our earlier avatar when we were doing more of infrastructure financing we were doing the aggressive standard asset provisioning for the loans that we were writing. Would you be considering the same for the loans written for MFI business or you sourced via the BC model?

Pavan Kaushal: So I will answer the first part of the question. We have set up a strict management structure separately for the Bharat Plus and Bharat Banking independent of the old infrastructure risk management which is both people at the branch locations and centrally so it is slight at the front end. This is separately managed through a separate set of people with their own policies and their own procedures and product covenants. So it is a very independently managed risk management. So that is the first part of the question.

The second answer to the provisioning, we are following the Reserve Bank provisioning for the Bharat Plus and Bharat Banking.

Sunil Kakar: Yes, so just to connect with the old and the future the underlying philosophy is prudent provisioning norms based on our experience of the portfolio if it requires that we will be more prudent than what RBI is saying we will not shy away from it.

Alpesh Mehta: Okay and any kind of penalties which are in some of these partnership businesses any kind of penalties that you have with your partners?

Rajiv Lall: If there is loan origination through a partner typically this is done through what is called some first loss sharing, FLDGs kind of structure.

Pavan Kaushal: The way it works is that we work with the partner and setup risk criteria basis on which they will originate for us. Behind that there is a loss sharing arrangement of first loss with the BC partner or with the partner on any losses which will come from this portfolio. So the originating standards are agreed by us in terms of what we will book and then there is the loss sharing.

Moderator: Thank you.

Sunil Kakar: Thank you everybody. So we hope to meet with you all in the 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.