IDFC Bank Limited
Conference Call Transcript
October 26, 2017

Moderator Ladies and gentlemen, good day and welcome to the IDFC Bank Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note 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 morning everyone. I welcome you to this conference call organized to discuss our financial results for Q2 Fiscal 18. I have with me Rajiv Lall and Pavan Kaushal. Sunil Kakar has joined us as a special invitee.

Before we begin, I would like to state that some of the statements made in today's discussions maybe forward looking in nature and may involve risk and uncertainties. Documents relating to our financial performance have been emailed to all of you. These documents have also been posted on our corporate website. I now invite Rajiv to provide key highlights of our performance for Q2 Fiscal 18 and the way forward.

Rajiv Lall Hi, good morning everybody and thank you Bimal. Also thanks to Sunil for joining this investor call. So, we have been thinking about different ways in which to better communicate to all of you the progress of IDFC Bank. Much of what we have achieved since launching operations in October 2015 has unfortunately been clouded by issues relating to our legacy. So what we are henceforth going to try to do is to isolate the drag that we carry on account of our legacy from the metrics that will allow you to better track the progress of what we call "the good bank". So today's narrative, at least my narrative is our first attempt to give you a sense for our financials from this good bank and bad bank kind of perspective and we expect in the coming quarters to actually refine this communication for you so that it is also then reflected more systematically in a similar format in the investor pack itself.

So let me now turn to giving you a more granular sense for our legacy challenges. Our legacy challenges comprise two critical aspects. The first is the impact on our earnings on account of our stressed assets and the second is the impact on our earnings on account of our legacy fixed rate long term liabilities, that we have carried from our previous incarnation as an infrastructure finance company. Let me first talk about our stressed assets. Now our total stressed assets portfolio has been since the inception of the bank and remained around Rs. 9,000 crore. Of this, you will recall we sold 4,000 crore to an ARC and the net of provisions and cash that we received from that sale, we now hold 1,700 crore of security receipts. On the remaining 5,000 crore of stressed assets, so from the 9,000 you take out the 4,000 that leaves 5,000 crore of stressed assets. We currently hold about 60%, about 3,000 crore of provisions. Hence the net stressed assets that we carry on our books today is 3,700 crore. So 2,000 crore net from the 5,000 crore and after the sale of 4,000 crore to the ARC, 1,700 crore is the security receipt – that means that we have 3,700 crore of net stressed assets sitting on our books. Now because of the way this 3,700 crore is funded, right, it is generating an estimated annualized NII drag of about 175-200 crore. So 175 to 200 crore in NII, we are giving ourselves on account of the net funding negative carry that we have on the net stressed asset book. So that is the first point impact on our earning of our stressed asset book.

Now let me turn to our fixed rate liabilities. Now I don't know how many of you have really looked at this carefully. But we have been carrying a big burden to tell you the truth. We have been carrying a stock of 36,000 crore in long-term fixed rate bonds which on average cost us 8.9% per annum. And this 36,000 crore in bonds was used to fund our legacy book and its transformation into the bank. The annualized drag on account of the high cost liabilities is around 400 crore.

So between 575 and 600 crore in NII, pretax income is what we are paying to carry the burden of our legacy on an annual basis. It has a huge amount of earning that is really 100 branches in a year. There are people often wonder why aren't we expanding, why haven't we been expanding our retail branch network. Well, we could have done 100 branches in the year more for the last two years, but we are not for this drag, but it is what it is. In other words, our legacy has been costing us an estimated 35 basis points in ROA drag. So the 575 to 600 crore per annum translates into an estimated ROA drag of 35 basis points. Now this drag will decline but it will take time. It will decline as our long term liabilities mature and the corresponding ROA drag will begin to decline, as the liabilities mature and as our balance sheet grows. So two things will decline the ROA drag, one obviously is the maturity profile of the 36,000 crore in liabilities itself and then the denominator will grow as the balance sheet grows, both of these things will bring down this drag.

Now basis our current plan, we believe that it will take between 3 and 3.5 years for us to grow out of this challenge. So from 35 basis points, on our current plans right, by FY21 we believe this ROA drag on an annual basis will be down to 10 basis points. So it is 3-3.5 year period that we have to carry the continuing burden of this legacy. Now so much for our challenges. Let us put that aside.

I am going to now focus on good energy. I want to focus on our achievements. And do this in several buckets. Let me start with credit growth. So on credit growth, we have focused on as you well know on accelerating our diversification away from infrastructure and building credit exposure sensibly in a diversified manner. In retail including SMEs, in emerging large corporates which are mid size corporate and large corporate but outside of the infrastructure segment. Right, so these are the two segments that we have been focused on developing our credit book. But here are the numbers. Excluding infra, our funded credit outstanding has grown about 76% year-on-year from Rs. 13,900 odd crore on September 30th 2016 to we are now at the end of last quarter, which is September 30th 2017 at 24,434 crore. So from about 14,000 crore to over 25,000 crore. Quarter-on-quarter, our funded credit excluding infra has grown 15%. These are much higher than the industry averages which tells you that in the non-infra space, we are very rapidly acquiring market share.

Now more specifically give you more color. Our direct retail portfolio, because it is our stated strategy not surprisingly, that we want to grow our retail book. Our direct retail portfolio which 24 months ago was zero, it is now close to 5,000 crore quarter-on-quarter, it has grown 38% and it is now growing at a monthly net rate, net of repayments of 450 crore. So an annualized rate from direct retail credit portfolio growth of about 5,000 crore that we are now achieving. So diversified range of products in retail is developing very rapidly. In addition to the direct retail portfolio, we have 13,000 crore in indirect retail credit which is primarily in the form of portfolio purchases. A good chunk of this we do for PSL requirements and we do it, we like to believe quite intelligently so that the limited drag on that is the minimum. Some of it is actually profitable. So direct and indirect retail exposure on our balance sheet, as of September 20th, 2017 is now 18,000 crore and it represents 28% of our total funded credit outstanding. So much for retail.

Let me turn to our corporate banks. In the corporate banks, specifically just to repeat the point we are trying to go everything but infra and that numbers are as follows. Funded credit to emerging large corporate and to non-infra large corporates has grown year-on-year by 60% from Rs. 4,000 crore as of September 30th, 2016 to 6,374 as of the end of last quarter. Quarter-on-quarter, our growth in funded credit to this segment which is ELCs and non-infra large corporate has been over 30%. Again much faster than industry averages suggesting that we are taking market share even in wholesale banking. So that, our achievements to date on credit growth.

Now let me turn to the non-funded business. This is very important because it generates fee income for us and what we call, you will see in the investor pack, we call it franchises that has several components. Then it is quite diversified. So let me tell you what we have achieved on that. We have been equally focused on driving the growth of our franchise based fee income which in substantial path as I just said I am ready to go is linked to our non-funded business. Year-on-year our non-funded business has grown 2.4 times from 10,700 crore as on September 30th last year to over 25,000 crore as on September 30th, 2017. Correspondingly, our franchise fee income has now consistently been over 100 crore every quarter and today our franchise fee income comprises about 15% of our total operating income. So that is pretty good progress we have reached.

Third, let us talk about how our network is expanding. And we are expanding our network notwithstanding the earnings drag that I started this commentary with. Our network for distribution of asset and liability banking product now comprises 100 branches, 383 corporate BC outlets and over 10,000 micro ATMs. Why do I keep repeating this number on the micro ATMs because the micro ATMs are individual machines capable of providing, also the liability side products of the bank. So you can open bank accounts through the MATMs that is why it is an important part of our distribution network. Our branch network in metros and tier I locations is expanding from 17 branches to 31 branches by December end/ first week of January. By first week of January, we would have opened another 14 odd branches. And on the semi-urban and rural side, we are now up to 83 branches and as I already mentioned they come along with a network of 10,000 micro ATMs.

One more bit of information on how our network is expanding. Our semi-urban and rural branches are breaking even on average in less than 18 months and our metro branches are on track to achieve cash breakeven we believe in an average of 36 months. So network continues to expand and the business per branch is growing at a pace that is delivering cash breakeven within targeted timeline, 18 months for semi-urban and rural and under 36 months for metro branches.

Next, give you a sense of our customer basis tracking. Our monthly customer acquisition run rate is now in excess of 100,000, of which a quarter of 25,000 customers are being acquired just in the 8 metros that we have our 17 tier I branches. So 25,000 customers a month are coming just from the 17 branches that we have in metro and tier I locations. The other 75,000 are coming from our semi-urban and rural network. We have now serviced about 2 million customers and we are very confident that the pace of customer acquisition will continue to expand significantly in the coming quarters.

Now let me talk about the liabilities franchise, extremely important. Year-on-year our CASA has increased by 80% from 1,800 crore on September 30th last year to 3,200 crore as of the end of last quarter. Our CASA ratio is now over 8%. On a per branch basis, our mature branches saw an increase in CASA from 15 crore last year to 40 crore on an average per branch this year. Our core deposits that comprise CASA and retail TDs, they grew by 140% from 3,000 crore on September 30th, 2016, we are now at 7,000 crore at the end of last quarter. And our total deposits that comprise CASA and all TDs have almost doubled from 13,500 crore, 30th September last year to about 27,000 crore at the end of last quarter. So if you just look at what we call the good bank, those on the asset side and on the liability side we had seen very significant traction quarter-on-quarter, notwithstanding what has so far been a relatively unique distribution network which is now going to become more muscular in the coming quarters.

So that leaves me to my final set of observations because I want to give you now a sense for our future plan. We actually have very concrete business plan that take us all the way to FY22, but FY22 is far away. So let me just give you again, for what we are very confident we will achieve by the end of this fiscal year and what we aim to achieve by FY2020.

Okay, so let me start with the network again. By the end of this fiscal year, we will be at 156 branches, of which 50 branches will be in metros and tier I locations, alright and we have 106 branches that will be semi-rural and rural and we will be close to 12,000 micro ATMs, if not more than that. So 50 branches in metro and tier I, 106 branches in rural and semi-urban and 12,000 micro ATMs that is what we will achieve by March 31st, 2018. We are currently at 2 million customers by the end of this fiscal, we will definitely be at 2.5 million customers – that for the network and customer base at the end of this fiscal year. At this current rate that we are tracking, we are pretty confident that by March 2020, we will be up to at least 150 branches in metro and tier I cities. Our semi-urban and rural branch and corporate BC network will be at least 650 location or branches and our MATM network will be at 30,000. So from 12,000 at the end of this fiscal year, MATM will be at 30,000. Our BC network and semi-rural network from 450 odd at the end of this fiscal year, 450 odd will be close to 650 if not more and our metro and tier I branches from 50 at the end of this fiscal year will go up to 150, this is all by March 2020. In terms of geographical reach, we will be at 35 cities, metros and tier I by the end of this fiscal. From 35, we will be up to 60 cities, we will be present in 25 states and I can even give you the number of districts, over 350 districts and over 50,000 villages.

So point being that the network is expanding in a diversified manner to cover all aspects of our geographies starting with the liability in which metros and tier I to rural and semi-urban covering districts across the nation over 25 states. Okay, so with so much for our plan on network, correspondingly at the current tracking rate. If we just continue to do what we have been doing for the last 3-4 quarters, from 2.5 million customers that we expect to be serving by March 2018, we should be quite comfortably serving 3 times the customer base by March 2020. So from 2.5 million to 7.5 million and by the way these plans, this is all purely organic growth, I repeat organic growth. Should there be inorganic growth, it already be in excess of this. So this is happening we have expected.

Now, let me turn to credit growth, our plan for credit growth. On a current run rate, we expect to finish this fiscal year at about 8,000 crore of direct retail assets and a total retail book of 22,000 crore. By March 2020, our direct retail book we expect will reach between 25,000-30,000 crore and our total retail book will be in excess of 40,000 crore. Overtime, our dependence on indirect retail will come down because we will not have to acquire portfolio as our own PSL focused retail book will grow. So direct and indirect retail by 2020 to be 40,000. By just the end of this fiscal year, it will be up to 22,000. So that is the retailization of the credit book.

Let me turn now to emerging large corporates. So on the wholesale bank that is a big area of portion focus for us. By 2020, our ELC book is expected to touch 10,000 crore. And by the end of this fiscal, our ELC book and our large corporate non-infra book are targeted to get close to 20,000 crore. So that is on the non-infra book. By 2020, we are pretty confident that the share of Infra in our total advances will come down to under a quarter, it will be under 25%, that is the broad points that I want to really give you, right.

Now let me turn to the non-funded book, so because this has to do with the fee based income. By March 18, our non-funded book is expected to cross 28,000 crore and franchise fees as a percentage of operating income which is already 15% will be in the order of 16%-17%. By March 2020, we aim to go this non-funded credit exposure from 28,000 crore to over 40,000 crore and our goal is to bring the franchise fees and the share of our operating income to about 25%.

Finally, our plan with respect to our liability franchise. We are very confident by the end of this fiscal i.e. by March '18, our CASA will be north of 5,500 crore and we will touch 10%, we are currently at 8%, we expect to be at 10%. By March 2020, our CASA, our target is to cross 15,000 crore and as a ratio it should cross 15% and these are conservative estimates, but giving you a sense for basis, just projecting, what we are seeing in terms of the performance on a per branch basis so far, if that we continue to execute at this stage we should very comfortably be able to deliver these results by March 2020. So much for the future plans.

I think before just to summarize then, what is the message I am trying to convey to you. We have and we continue to face very challenging time because of the drag on our earnings that is linked to our legacy portfolio, this drag in our earnings comes both from our stressed assets and our fixed rate liabilities. However, what we have to do is to progressively grow out of this. To do that, we are executing at a furious space, I have given you some metrics to give you a sense for what we are doing on network expansion, customer acquisition, liability acquisition and retailization of our credit book and diversification of the wholesale book away from infrastructure and developing our fee based earnings. So far traction looks very good. The momentum is strong and has given us enough confidence to give you some glimpse into our targets not only for the end of this fiscal year but for fiscal FY2020.

Before I open up to questions, I would like to address the issue that some of you may have read in the press with respect to a penalty that was imposed on us by the RBI. So that penalty first tends to clarify is 2 crore, not 130 crore at the time we were reported and those 2 crore, it relates to an operational lapse, I guess it is the appropriate way of characterizing it which has to do with the misinterpretation of what is the appropriate approving authority for granting loans to any company in which any of their directors are common with any other bank. So a company borrowing from us has a director in any other bank, it has to be approved by the Board of IDFC Bank, we had delegated this to a management credit committee and the RBI felt that this was not appropriate, hence the penalty of 2 crore. That is what the penalty is about, it is nothing more, it is nothing less. So thank you for your patient hearing. Let us open now the floor for questions.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Arun Rangarasan, an Individual Investor. Please go ahead.

Arun Rangarasan This is Arun. I just wanted to know by 2020, I see that ROE of 15% or something like that or is there any guidance on that of ROE of 15%-16%, when will be like that?

Rajiv Lall I wish I could tell you that we have an ROE of 15% by 2020. But because of this continuing drag on earnings, I don't believe that we will be able to deliver 15% by 2020 that will require more patience. When we launched the bank, I recall telling everybody that this is a 10-year journey, but at that time we were all hoping that we will be able to accelerate that. But I think that is the learning in the last 24 months is that for many reasons that the legacy doing an important aspect of it getting to that kind of ROE will take us longer than that.

Arun Rangarasan Okay. Another question I wanted to ask is that, relating collapsing of the holding company structure of IDFC Limited you were talking about last year in the press, did you get any feedback from the Reserve Bank on this and what is the future plan for that? Do we ever able to collapse the holding company structure in IDFC Limited?

Rajiv Lall Yes. I am afraid that I cannot report any progress on that.

Arun Rangarasan Okay. The other thing is that, now we have November 8th, deadline for this acquisition date announcement sir, so can we expect any concrete announcement on that day or how is it going on sir?

Rajiv Lall You can expect a concrete announcement before that date.

Moderator Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please go ahead.

Praful Kumar Sir, just wanted to understand your strategy on the investment book since we have a huge chunk of money blocked in the investment book and given the way interest rate regime looks, so what is your thought on that and how do we see that incrementally, the thought would be to move this to the loan book, so that the margins can look better over next say 1 to 2 years?

Rajiv Lall Yes. That is exactly right. Praful, now that we are talking openly about the so called bad bank and 600 crore drag, right, the whole strategy in the investment book was if you like strategic response to carrying that drag. So in order to mitigate the impact of the legacy on our overall earnings, we took on an opportunistic basis bets on the strategy which actually have played out, on the whole have played out and have helped us beef up our earning if you like, but that is only a temporary salves. The reality is that we cannot, that is not a business. That is not a long term sustainable business and the idea was to allow it to give us more runway time as we build up the core business of the bank which is what I tried to describe in some detail during today.

Praful Kumar And Rajiv, you can just comment on the PSL status and the strategy how this will evolve over next 3 years in the bank by FY20?

Rajiv Lall So, even last year we have managed to achieve on very large balance sheet, our 40% targets are overall PSL and we did this as I said partly through organic growth through our retail book which has diversified enough strategy, is generating PSL which is generating surplus PSL, right, and through portfolio acquisition that we then used to plug the gap. Overtime, we expect the dependence on portfolio purchases for PSL for meeting PSL targets to come down, currently that annual purchase is running at about 13,000 crore. Over the next 24-36 months, we expect the dependence on portfolio purchases to come down to 10,000 crore on a much larger balance sheet which implies that definition that the surplus generated through our direct retail asset book will continue to grow. So proportionately the share of our PSL that will come from portfolio acquisition will come down and because we continue to build our semi-urban and rural branch network we will get into agri. Agri is the one sub area in the 40% that we have a shortfall and we are not unique as a bank to have a shortfall in that. But we are trying to plug that gap by consciously also developing the rural and semi-urban branch network as well as corresponding aggregate products.

Praful Kumar Rajiv, final question on this scale up of organic retail, given the factor of that you have a significant capital infusion in PSU banks at a time when you want to scale this franchise, how easy or difficult would it be for Biju and all the other guys, if you can give some granularity on this scaling up of this organic retail over next 3 years, that will be great?

Rajiv Lall So I am giving you a sense of how it is, if you look at the investor pack also, I have given you a sense for how it has grown quarter-on-quarter, right. So far the competition on this diversified portfolio has really been coming primarily from NBFC, not even so much from private sector banks. So our experience has been that there are two things that are important. One is the diversification of the retail portfolio. So it has to be a well-diversified mix of products, all the way from secured mortgages, to loan against properties, to personal loans, to working capital loans to JLG loans, to Kisan Credit, whole range of things has to be done, you cannot just depend disproportionately on one type of product. We will put on our website, some of granular information on how quarter-on-quarter this full range of products has been growing, so that you get a more granular sense for our ability to do this. So the second thing I am saying is one is diversification that is important and the other is just a product design and quality of service. So if you talk to Biju, he will explain to you that both on our personal lending portfolio as well as on our home loan products, the number of process innovations that we have brought out quite significant and the customer experience has been encouraging and they have been quite responsive. So despite the fact that the rates are competitive, it is depending on more competitive market. We have had no difficulty actually in developing this book at a rapid pace. So, so far so good. We will find out in the next 12 months how this continues to track.

Moderator Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe Just one data question which actually I didn't catch up in the opening comment and this was the emerging large corporate and the non-infra book guidance that you give for 2018 and 2020?

Rajiv Lall I will just give you that. We expect to be at 10,000 crore of ELCs by 2020. Now, if you take the non-infra large corporate and what we call conglomerates, that number is actually much higher. The number for you to focus on is that overall infra exposure, it is another way of explaining it as a share of advances will be our target is to bring it to less than 25% by fiscal 2020. I am not sounding as clear as I should and that is because we have been changing some of the nomenclature of subcategories internally. We will clarify that by close of business today and we will put it on the website for you.

Nischint Chawathe And would you be in a position to give any guidance on the non-infra large corporate book?

Rajiv Lall That is what I am saying, we will give that guidance to you. By tomorrow, we will put it up as part of the investor pack for you, okay?

Nischint Chawathe But very broad numbers seem to suggest that your infra book will actually go down over the next three years?

Rajiv Lall Yes, absolutely. So actually you know, I want to be a little more granular on that. Internally, we are making a distinction between what we call good infra and bad infra. But broadly speaking infra, our goal is to keep exposure only in operating assets and get out of everything else.

Nischint Chawathe Great. Just on the retail side, if you could give us some color as to what could be housing and non-housing? The profiles are very different so.

Rajiv Lall So, you are talking about fiscal 18 or fiscal 2020. Fiscal 18, I can give you a sense. So our total advances on home loans as of September 17, are about 1000 crore and the rest, so we are doing about 450 crore a month, right, in total retail lending. Our stock on home loan as of 30th September is about 1000 crore.

Nischint Chawathe Sure. And any guidance for towards the end of the year or 2020?

Rajiv Lall I thought I gave you the numbers for fiscal 18.

Nischint Chawathe On the home loan side.

Rajiv Lall But I don't have that. I am not carrying that number with me. I can again like I promise the other guy, we will put up a table that gives you a more granular sense for the diversification in the retail book, the projected diversification in the retail book, what it is today, what we expected to be by FY18 and some broad guidance for FY20, we would do that for the retail book. You have it on the investor pack by tomorrow morning.

Moderator Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah I think most of my questions are related to the retail advances. I think I will refer to the investor pack once you upload it tomorrow. Just like a quick question on the infra book. Can you quantify how much is operating, how much is non-operating in your book currently?

Rajiv Lall Our exposure in telecom, in telecom towers and in renewable that has been operating. So what we are doing is to the extent that we want to maintain our infrastructure exposure, we continue to keep telecom and renewable for now…you want to add something.

Sunil Kakar Outside the stressed book pure Greenfield still existing as of date would be negligible in my opinion. Outside our stressed asset book, everything else is now converted into operating…..

Rajiv Lall I didn't want to answer it this way, but bulk of our stressed assets are all Greenfield.

Nishant Shah Okay. And just like one clarification on this emerging corporates like how do you define this emerging large corporate. So what are the ticket sizes of loans you are, like how much revenue are these entities doing, like some guidance there?

Rajiv Lall So there are companies with turnovers up to a billion dollar, roughly 6,500 crore of turnover, starting with 2-3 crore as the lower end. Typically, they are companies where we are either a consortium of multiple banking arrangements doing working capital and credit finance facility. Our typical exposures would be 15%-20% of the consortium size or the multiple banking arrangement depending on the size of the company.

Moderator Thank you. The next question is from the line of Neha Ganatra from Subhkam Capital. Please go ahead.

Neha Ganatra Sir, considering this expansion in the branches and the expansion on the credit growth and the focus on the non-funded income, where do you see your cost-to-income panning out by FY18 and by FY20?

Rajiv Lall Our cost-to-income ratio so far has been less than in the mid-40s, so we expect for the cost-to-income ratio to rise before it falls again. So maybe it rises to 55 odd percent at its peak before it starts trending down to low 40s over the next 36 odd months. So it will rise before it falls.

Neha Ganatra Okay. And what is the focus on this non-funded income, could you elaborate little bit in detail?

Rajiv Lall So non-funded income is basically, you are talking about the fee based income, right?

Neha Ganatra Right.

Rajiv Lall Fee based income linked to non-funded credit exposure has to do with SG, guarantees, tax management, FX, investment banking and lending related fees. So it is a whole bunch of line items that we together call franchise fee based income. Our goal for fiscal 18 for this franchise fee based income is about between 400 and 450 crore. And by FY20, we expect that number to double. That give you a sense of where we are heading. And this is broadly in line with the expansion of our non-fund credit exposure.

Neha Ganatra Okay. Got it. And my third question, any target you have set for ROE by FY20, once you mentioned that your ROEs won't be at around 15%. So any target that you set for ROEs by FY20?

Rajiv Lall By FY20-21 including the drag, right, our ROA should be about 0.9 touching one. So we were hoping that we will be way ahead of one percent by then, but because of two things, one because of drag that we get from the legacy and two because of the expansion of the network, we won't be able to stabilize at superior ROA as early as FY20. So for that also, it is a similar question you are asking too, when will our ROE be 15%? So ROE will be 15% once the ROA stabilizes and for the ROA to stabilize in the 1.3%-1.5% range, we will have to have gone past our legacy and total network should have been substantially built out.

Moderator Thank you. The next question is from the line of Anirban Sarkar from Motilal Oswal Securities. Please go ahead.

Anirban Sarkar I missed your initial commentary on franchise fee. I think you mentioned something on taking this to 25% of operating income but if you have made any comments on how you expect to drive that, so if you could kind of relate to that?

Rajiv Lall Yes. This is related to the previous question as well. The franchise fee income comprises several line items that include lending related fees, cash management fees, FX fees, health fees, guarantees and investment banking. This is the broad range of wealth management. So they are from retail, network management is an important fee based item. So these are the broad line items that comprise our franchise fee income projection. The bulk of it is linked, it is actually coming from our wholesale banking operations and that is linked to the volume of our non-funded credit. So non-funded credit meaning if I am actually doing trade finance for example, it is a contingent exposure on my balance sheet. But it gives me fee income which goes into this bucket. So just to reiterate again, the goal we expect that by end of this fiscal year which is March 2018, our franchise fee based income will be in the region of 400-450 crore, it will comprise more than 15% of our operating income. By FY20 we expect the 450 odd crore to double to over 900 crore and franchise fee income to comprise 25% of our total operating income. Is that clear?

Moderator Thank you. The next question is from the line of Raghav Garg from KR Choksey. Please go ahead.

Raghav Garg I just wanted to confirm that you have guided for a 40,000 crore worth of retail loan book for FY20, is that right?

Rajiv Lall That is correct.

Raghav Garg And if I go back to Q4 FY17 then I have seen figures where you have guided for 55,000 crore worth of retail book by FY20. So I just wanted to understand if there is some sort of a downgrade or something to your targets?

Rajiv Lall That was organic and inorganic. This is purely organic.

Raghav Garg Sir you guided some direct retail book of 25,000 crore to 30,000 crore, is that right?

Rajiv Lall That is correct.

Raghav Garg And what do you expect your total retail book to be, I mean apart from organic, or organic plus inorganic?

Rajiv Lall No. It is between 40,000 crore and 45,000 crore by FY20. So this is all organic. The difference between direct and, so maybe this is the confusion. There are three terminologies. There is direct retail, there is indirect retail and there is inorganic. When I say inorganic that means if we merge with somebody or we acquired another company, another NBFC or whatever, that would be inorganic. So let us keep that aside. Direct retail is what it is excluding purchase portfolio, so we do PTCs, we are doing indirect lending through housing finance companies, we are lending through micro finance companies and such like and portfolio purchases. Of the 43,000 crore thereabout, we are guiding to fiscal 2020, we are saying that about 13,000 of that will be indirect in this sense and the rest about 30,000 crore would be directly originated by our own people. Is that clear?

Raghav Garg So that means you still retain the target of 55,000 crore to 60,000 crore, is it?

Rajiv Lall No.

Raghav Garg For the total retail book.

Rajiv Lall Without an acquisition, it is about 40,000 crore. If an acquisition takes place, we will go up to 55 or more, depends on the acquisition.

Moderator Thank you. We have next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal Sir these telecom sector accounts have shown stress, so does the stress pool include these accounts or do we have exposure to any of these accounts?

Pavan Kaushal So, we have telecom companies both operators and towers, but our exposure is largely focused on the top players in the market.

Yash Agarwal So the recent stress, you don't have any exposure to, is that right understanding?

Rajiv Lall No, we don't have any bad assets in the telecom exposure, all of them are focused towards the larger and better things.

Yash Agarwal Secondly, has RBI written to you regarding any divergence or something in the asset quality?

Rajiv Lall No.

Yash Agarwal For the year 2017, nothing?

Sunil Kakar There was one minor exception. This is Sunil here. See, our inspection for fiscal 17 has not yet happened. They came in and did in the interim period because we were a startup which ended at December instead of March and at that point in time, of course they came in Jan and Feb, so they did identify one specific asset which they felt the difference of opinion. Having said that, by June that asset was sold off and recovered 100%, 100% recovery. So there is no divergence as we speak but technically it is possible that as of March it was there and as of June it is not there. And there was not even one paisa loss on that item.

Yash Agarwal Okay. And thirdly, a direct retail book that you spoke about, does it include that micro finance book as well, that we acquired or Gram Vidiyal?

Rajiv Lall Yes, it does.

Yash Agarwal So how is that performing and what is the size right now, because micro finance has seen some stress and also strategy out there?

Rajiv Lall So, we are now at 1,800 crore in lending through what we are now calling IDFC Bharat Limited which is the acquisition of Grama Vidiyal.

Yash Agarwal What are the PAR30, PAR0 as of right now, that is what I wanted to know.

Pavan Kaushal 30 plus PAR scores are significantly better than market. They are in the sub-1%.

Yash Agarwal The PAR30?

Pavan Kaushal Yes.

Yash Agarwal And lastly if I heard you correctly, you expect an announcement on the merger before 8th of November, is that a right understanding, a concrete announcement?

Rajiv Lall That is correct.

Moderator Thank you. The next question is from the line of Prakash Bajpai from Blue Bull Stock Investor and Trader. Please go ahead.

Prakash Bajpai Many things have been discussed, so I will restrict myself to only one question. That is that you said on the infra book you will avoid the Greenfield projects. Is this also considering the recent announcement of the Prime Minister about this BharatMala and SagarMala kind of projects, you will keep away from them or you may…

Rajiv Lall BharatMala and SagarMala are primarily projects that will be undertaken by NHAI and other state agencies. We do not have a sense right now of what the share if any of the private sector is going to be in that program. But we all learned from our history, at least I hope we do and therefore unless this agreement are radically different from what they were 7-8 years ago, we would be quite reluctant to be participating in the financing of those assets.

Prakash Bajpai But these are the only big things which will happen in next 3-4 years?

Rajiv Lall Yes, but if it is all mostly doing through EPC companies, then we might be funding the EPC companies. We would not have any PPP projects to be funding.

Prakash Bajpai It will not be a direct exporter, it will be indirect through the EPC, some funding the company's route.

Rajiv Lall I think that is probably the right way to look at it, yes.

Prakash Bajpai So that will also serve the purpose. So we will be in the game.

Moderator Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Rajiv Lall Thank you so much for your time and see you next quarter.

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