



## **IDFC Limited**

### **Conference Call Transcript**

#### **July 10, 2017**

---

**Moderator** Good Morning, Ladies and Gentlemen, IDFC Group and Shriram Group have announced an agreement to evaluate a strategic combination. Welcome to the IDFC Limited call to discuss this development. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Sunil Kakar. Thank you and over to you, Sir.

**Sunil Kakar** Thank you and good morning everybody. Thank you for joining so early in the morning. The purpose of this conference is to share with you the intent, vision and the various aspects of this mega merger. A lot of it has already been in the news space but we just want to apologize that the speed at which things were getting done, this is the earliest we could get together and I hope you will utilize this hour or so productively to share our thoughts and vision. To start with, the merger envisions the creation of India's largest mass retail bank. This is in line with our strategy which we have been communicating for quite a few months now.

It is our belief that together we can create a financial conglomerate with a mass retail universal bank at its core with the focus and ability to provide the full range of financial products from savings and credit to wealth management and protection to millions, in particular to the millions of small customers and entrepreneurs that are the backbone of our country and are today underserved. What is important to know that the underpinnings of any merger and especially this proposed merger lies in two fundamental pillars, one, the alignment of purpose, I keep going back to the simple word, alignment of purpose, this is what drives a successful merger and the other, equally important is the complementarity of businesses. Alignment of purposes and complementarity of businesses is the underpinning of the proposed merger, it is very critical that all of us are on the same page with regard to the drivers of this merger as we evaluate this. There is no need for me to elaborate on the entities, you guys are highly familiar with all the large businesses which are being merged here.

The Shriram Capital is a diversified retail financial services business group, largely the biggest ones are A, the Shriram Transport Finance Company, it is the market leader in the pre-owned commercial vehicle financing with AUMs of INR 800 billion, market cap of 250 billion and a very large market share of almost 80% in that space with 1.4 million customers. The other one is Shriram City Union Finance, this is the financier of small businesses and two wheeler vehicles, AUM of 230 billion, market cap of 16.5 billion and 3.6 million customers, life insurance and general insurance are the other two important businesses which is the JV with Sanlam of South Africa and the general insurance is quite a profitable business as we are

aware of and life insurance itself has started giving dividends. In addition, there is a Shriram Credit Company a small business, but it has got interesting sub-businesses out there which are quite a good match, financial product distribution, retail equity, wealth management, and a very small asset management company.

IDFC Limited, you all are fully familiar with us. We have the bank which is the core of our business, which has an AUM of 66,500 crore, last year's PAT was 1,000 odd crore and a healthy capital adequacy of 19%. We have a mutual fund, a thriving mutual fund and an investment advisory business with an average AUM of almost 60,000 crore as of March '17, and it offers a bouquet of equity and debt oriented and hybrid schemes. It manages nine funds, we also have an alternate business and we have an NBFC IDF which is an Infrastructure Debt Fund that finances infra projects which have been in operation for the last one year and the loans out there are about 2700 crore with a tier 1 capital ratio of 29%, and last but not the least, I have IDFC Securities, which provides equity research and institutional broking, so that is the broad business description of both the groups.

The contours of the proposed merger, all operating businesses of the respective group will come together under the flagship of IDFC Limited, but one point I do want to share here is the brands are very important in the operating businesses, Shriram brand is very valuable, so all operating businesses, operating businesses I repeat, will be cobranded. The exact wording, which one will have, what size, what font all that has to be worked out.

The retail customer centric business of Shriram Capital, which is named SCUF will be absorbed into the bank, the transport finance business of Shriram Capital will remain a standalone NBFC that would be under the NOFHC of IDFC Limited. Similarly, the life and general insurance business will also become subsidiaries of IDFC Limited and we will have a substantial control, substantial shareholding in these two entities also. That is the broad line.

For IDFC Bank, the case is very simple. It is an ability to function as a universal bank in a true sense with a large product suite which will range from deposits to loans and to offer that, a wide distribution network, I mean key things in any financial services are products and distribution network, access to customers. We get to provide direct access to Shriram Group's huge customer base of almost a crore, a majority of whom are underserved and that is where the alignment of purpose comes in. This allows us to accelerate retailization, if you have been hearing us for many quarters, we have said key measure of our success is how fast can we retailize our balance sheet and all the reasons and rationale have been explained earlier also, this allows us to accelerate the retailization of bank credit book which is currently as we know overexposed to infrastructure sector. We add a 1,000 plus brick and mortar points of presence to the bank's existing network whether it is called a branch or a banking outlet that is just a name, but there are distribution points through which we can serve the desired customer segment, powerful branding, I spoke about it.

IDFC and Shriram have a strong brand name and that combined entity or the combine brand will do great in terms of providing comfort to the customer base. Significant chunk of SCUF and STFC loan assets qualify for PSL, that is another big plus for the bank, acquisition of higher ROE credit business. I know a lot of people talk about retail liabilities, retail assets, retail liability will be an opportunity to cross sell, but retail business assets obviously provide a higher yield and just through that process itself, the average yields of the bank will improve. The transaction will augment bank's capital adequacy too, we are already 19%, they are well capitalized, so there is no stress on the bank capital at all, offers direct entry into the banking market of Southern India where credit discipline is strongest

in the country from a geographical perspective you must keep that in mind. That is broadly some of the points for the IDFC Bank.

When it comes to IDFC Limited, I would just like to deviate here and say what is good for IDFC Bank is good for IDFC Limited. This is best summed up by the phrase “what is good for goose is good for the gander”. IDFC Limited, today it is a holding company, it is a conglomerate which adds up the businesses, bank businesses and bank valuation is almost 75% to 80% if not more depending on how you value the other businesses, so if it is good for IDFC Bank, it has to follow logic telling that it is excellent for IDFC Limited, so significant improvement in IDFC bank will result in a better outcome for IDFC Limited. Further, it gains a 100% in a highly profitable transport business throwing up, last year there was around 1,250 crore of PAT and you guys are better expert on how that market is evolving, whether the site is changing but as the economy arises, it is a good growing business. Also it gains a majority stake in the second most or one of the most profitable general insurance companies in the country.

The insurance piece also comes in, within the insurance we all know general insurance is profitable and profits come early and they are throwing up very good profits, and it also gains a majority stake in the dividend general top-10 life insurance companies with a very reputable partner. We also have, as we have been mentioning that is there is a small AMC the other group has, but it is already a listed AMC, so that creates other possibilities. It gains a valuable retail brand for its operating businesses with a philosophically aligned well-capitalized partner, that is a very important statement in my mind. A valuable retail brand for its operating businesses with a philosophically aligned, well-capitalized partner. Strong earning streams from subsidiary companies like transport, life and general insurance. It will improve the ability of IDFC Limited to give dividend yields and I presume that should automatically follow that the shareholder return and the holding company discount would reduce significantly as we now have a large profit generating, 100% owned subsidiary.

In my opinion, the case for IDFC Bank and IDFC Limited obviously any merger, it has to be a win-win situation for all, so what is in it for Shriram Capital, this is where the word complementarity comes in, the complimentary business model and strong synergies present a good case for the merger. The transaction offers Shriram Group to join hands and have a core universal bank as its centre. The ability to retain Shriram brand, the merged entity at the operating level will be cobranded. Merger with IDFC Bank will augment Group’s leadership profile leveraging its strong independent and experienced Board of Directors. This will help in seamless transition and fill the key role played by the group patriarch, Mr. R. Thyagarajan since the group’s inception. Being in the phase of rapid expansion bank has the ability to absorb most of the Shriram’s workforce and business infrastructure thus preserving the group’s unique operating skill set.

Remember, the skill set they have is not only complementarity of business, it is complementarity of skill sets. The guidance and experience of IDFC Bank management which has already transformed from an NBFC into an bank, our IT structure, our new systems and processes, our highly developed treasury and ALM that should be very helpful, access to bank’s fast growing stable and low-cost liabilities. I understand that we do not have access to retail liabilities to a significant degree but even wholesale liability from a bank are definitely at a much lower cost compared to what an NBFC gets, so there is a clear upswing out there, unlocking the life and insurance business potential, I mean we all know how much bancassurance plays a role in the distribution of liability and general insurance and with access and distribution through the bank as well as the various hundreds and thousands of points of presence which we have, this business should grow significantly, provide potential focus investment opportunities to business partners

and financial investors and consolidation and streamlining of group businesses to enhance shareholder value for them. Obviously, the Shriram Group will also gain significantly through the synergies. I now hand over to Rajiv to say if he has to add anything or expand on items.

**Rajiv Lall**

No, I think you have pretty much covered everything, just to embellish this point about complementarity, it is not just about complementarity of businesses but as you just mentioned, I would like to emphasize it is also about the complementarity of skill sets as well as the ability for the joint enterprise to leverage IDFC bank's considerable investment in the technology platform. I think one of the real values of bringing the enterprises together in a manner that it is proposed, is that it allows us to actually create a distribution network that is going to be really quite differentiated from the traditional banking enterprise and this is being made possible by two things; one is technology particularly Aadhar-based technology and what we have seen some of that already in operation, very effectively in IDFC Bank but that technology combined with the changes in RBI regulation with respect to how you can distribute banking products, banking correspondence that could be owned by NBFCs so that actually unlocks the potential for significant synergies between the monoline credit company that would be the transport finance company of Shriram and the combined entity of bank and SCUF because between the two, our distribution ability across a very large customer base at very low cost points become feasible. That is one point I wanted to add.

The other one is just to remind everybody that at Saturday's board meeting, there is no transaction that is being finalized. We have a 90-day period of exclusivity where we will do some serious diligence at the end of which we will seek approval from our respective boards as well then and only then a final approval from the various regulators concerned. That is all I had to add. I think we should open it up for Q&A now.

**Moderator**

Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

**Nishchint Chawathe**

My question pertains to regulatory approvals, if I recollect rightly at the time of getting the bank license, there was a condition which said that any business that can be departmentally undertaken by the bank should be a part of the bank, so do you think there is some change in the regulatory thought process out there?

**Rajiv Lall**

Since 2013, there has been some evolution in the banking regulation, so in 2016 when the RBI came with a huge regulation on banking on tap, there has been some evolution, as is evident from that notification, in their thinking and one of the things that emerges from the 2016 notification is that the RBI has now very much the discretion to allow certain kinds of businesses to remain outside the bank provided, however, they are not conducted within the bank. So basis that, it is our belief that our proposal for the proposed structure will be viewed constructively by the RBI. However, the final approval obviously rests with them.

**Nishchint Chawathe**

If I can just add, is there any specific that we know in terms of which businesses are we talking about, is it like you can separate the infra business...

**Rajiv Lall**

The infra business is already an exception carved out in the 2013 regulation so that does not need revisiting, what I am saying applies really to the transport finance business, so if our research and whatever work we have done, discussions we have had are correct, then what it would mean is that the transport finance company will be allowed to operate outside the bank as a focused monoline and the bank will not do any transport financing.

- Nishchint Chawathe** So what you are saying is that any specific single line could be kept outside whether it is a CV transport or housing or any one line can be kept outside, I think that is what you are trying to say?
- Rajiv Lall** At the discretion of the RBI.
- Moderator** Thank you. Our next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.
- Amit Ganatra** Two question, one is that in terms of the next steps to be undertaken, would it be basically the approvals first or the swap ratios physically those getting finalized first, what is the next step from this process now?
- Rajiv Lall** The next step actually is our own internal diligence and getting the swap ratios fixed by our respective Boards and more importantly getting the approval of our respective Boards. We will obviously engage regulators in parallel and we will through that process get a much better sense, a much more granular sense for how that is evolving, but our experience from how we handle a much smaller but process wise we learned several things about how to deal with this situation when we acquired Grama Vidiyal last year, so we had a board Besolution which was shared with the RBI declaring our joint intent for what we wanted to do. On that basis, the RBI started evaluating our proposal pending a final approval but that conversation was constructive in that is allowed us to continue with the process of preparing for the final acquisition of Grama Vidiyal, which happened only after we received in writing the final approval. So getting a final approval from a regulator is a dynamic process, they have certain expectations of certain conditions being met and the onus is on us to demonstrate to them at each point that we are respectful of those conditions. If we demonstrate that to them adequately then the process will be gaining momentum, it is a bit interactive but that is how I suspect it will roll out.
- Sunil Kakar** If I may just add a point here that the full process is envisaged to take around 12 months or so.
- Amit Ganatra** The second question is that since there are multiple regulators involved, the fact that we are a thought process that suppose if part of the merger is allowed, so for example, Shriram City Union Finance merger is allowed and Shriram Transport Finance structure is not allowed then, can part of the transaction go through or how does it work for you?
- Rajiv Lall** Broadly speaking, there are four regulators involved, there is the RBI, there is SEBI, there is IRDA and then there will also be the competition commission. We will have to navigate each one of them. So for all the credit businesses it is RBI that is really critical and that is really the most important because the critical question there is the status of Shriram Transport Finance. As far as the IRDA regulator is concerned, we will engage them simultaneously, but the bar, if you like, for what the IRDA has to approve, our judgment is that it is significantly lower, so the risk with respect to IRDA is significantly lower.
- Amit Ganatra** What the question is that even within RBI if they approve partly and if they are not comfortable with the other part still the transaction, whatever has been approved goes through of the entire merger basically goes...?
- Rajiv Lall** This is important, we are conceiving this as one composite scheme of amalgamation and it can cut both ways but on balance it is our judgment that this is the simplest way of going about it because it requires one-time regulatory approval

by all concerned and one-time Board approval for the entire scheme which will become effective all at once.

**Moderator**

Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

**Dhaval Gada**

Thanks and congratulations on taking the first step, Sir, firstly what would be the role of Piramal Enterprises post the merger and eventually do you think they are lending business is also something that could sold into IDFC given that they would be one of the large shareholders?

**Rajiv Lall**

I do not know if you have heard the Mr. Piramal's statement yesterday. What is clear is that the Piramal Enterprise, PEL's role in the joint entity will be that of a meaningful investor, but they will be a minority shareholder in the group, it is nothing more and nothing less and whatever their shareholding will be, it will be respectful and I am only repeating what Mr. Piramal has already shared with the market, has to be 100% respectful of all stipulations and conditions placed upon us by the RBI, so that with respect to the role going forward, whether or not their financial services businesses will be combined with group's, there is no such discussion as of now and at the joint press conference that Mr. Thyagarajan and I were at together, he very clearly said that whole business of his is going to be run quite separately from the IDFC Shriram merger.

**Sunil Kakar**

If I may just add here one of the good things about technologies, I encourage all of you to go and look into the YouTube, all of you who were not physically not there whatever were given at the press conference in the video forms are all up there on YouTube, this is for IDFC Shriram and you will hear directly from Mr. Thyagarajan, Mr. Piramal, and Dr. Lall, of course we are hearing him here again, so I would encourage you to look at that.

**Dhaval Gada**

Second question was on the Shriram Chits Business which is also part of Shriram Capital, how does that figure in the entire equation?

**Sunil Kakar**

I do not think that is part of the merger.

**Dhaval Gada**

Okay, the third question was on this transport structure, if I understand correctly even the 2016 guidelines, it has to be a part of NOFHC, and therefore, will it lead to our shareholding falling below 51% if we give the NOFHC shareholding to the Shriram Group, I am just trying to understand how that structure figure out and, Sir, related question here, why did we keep transport separately, why not via the bank, I just wanted to understand that part?

**Sunil Kakar**

First of all, NOFHC will be a 100% subsidiary IDFC Limited and Shriram Transport Finance renamed whatever the brand name is will also be a 100% subsidiary, so there is no dilution there, that is the envisaged thing. Now, why did we keep it out there, if you have understood our group and hundreds of times we have said that we will follow the guidelines as pertaining to this whole structure merger as prescribed by RBI. One of the key conditions is that NOFHC must hold 40% of the bank within three years, which would happen in October '18 or so and maintain 40% for five years. Now you can do the simple math and I am coming from the regulatory perspective first and there are other two-three reasons also I will add to it, so if you do the math, there is no way those conditions can be met if we try and do a megamerger of almost 100,000 loan book, you can do your math yourself, it does not work, 40% and stay at 40. If you do everything together upfront in the bank, the NOFHC holding falls down significantly and you can do permutations and combinations, you will find that and even if you were to account 40% goes up and regulatory and math and you guys are experts at it, this is one of the reasons.

Second, look at the liquidity requirements for of a fledgling bank this Shriram transport is funded by secured debentures the way we were doing it earlier. Already, we will have to manage 20,000 to 25,000 crore of financial liabilities through the bank which we already have drawn a plan to do but trying to do that at the 100,000 number just complicates it so much that is I would say designed to create unnecessary challenges and last but not least is the cultural and the various other aspects of integration. If you do it in steps, it gives us a good timeline to take care and absorb and run the bank business well and then at the same time Shriram Transport also grows, there is a huge opportunity which does not prevent us from cross selling products, all it is preventing us is from getting the assets down to the bank level which if there was a magic wand somewhere available would have been the ideal structure, but that does not work for regulatory reasons, absorption of liability, look at the size of it and therefore this structure we believe is the best win-win situation for all concerned at this point in time.

**Rajiv Lall**

I just wanted to add something not directly pertaining to the question that is asked but going back to what you were saying about what is the rationale for the merger from an IDFC Limited point of view. This is just to remind everybody that under the guidelines for IDFC Bank, IDFC Limited was under the gun as it was obliged to reduce its ownership in the bank from its current 53% to 40% by October 2018. This merger, IDFC Limited would have had to do something, sell the stake or the bank would have had to raise significantly more capital from third parties triggering a dilution, this actually provides a very, very elegant way and value accretive way for IDFC to meet its regulatory obligations in respect to its dilution in the bank overtime.

**Dhaval Gada**

Sir, just last question on the RBI approvals, one is the structure of Shriram Transport that would be critical apart from that what all critical approvals you will need which are maybe today there is some diversion between the regulation and its interpretation and there you would need some support from RBI, if you could highlight that?

**Rajiv Lall**

We are not seeking any regulatory dispensation from the RBI whether it is on PSL, ownership restrictions, SLR, CRR, we are not seeking any kind of forbearance from them.

**Moderator**

Thank you. We take the next question from the line of Prakhar Sharma from CLSA. Please go ahead.

**Prakhar Sharma**

Good morning everybody and my best wishes for the next step. I just wanted to have one clarification that in the press release, you have mentioned that as per this agreement there will be a standstill agreement, I know the valuations are to be worked out but if this were to go through, does the standstill apply to swap ratios etc.?

**Rajiv Lall**

Once the swap ratios are fixed then it would apply to the swap ratios. In the interim, the intent of standstill agreement was just to allow the respective groups to do only that which is necessary in the ordinary cost of business, so that all value remains captured in the two entities so that it does not shift the ground if you like for any discussion on relative valuation even as we are doing the work.

**Moderator**

Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

**Roshan Chutkey**

Firstly, will IDFC Limited be raising capital to invest in the bank to meet the 40% holding level as the SCUF acquisition itself will bring down the stake below 40%?

- Sunil Kakar** No, there is no requirement to raise capital.
- Roshan Chutkey** Then how will you meet the 40% holding threshold?
- Sunil Kakar** We have worked it out, it will happen.
- Roshan Chutkey** Okay, will we create a shell company beneath IDFC Limited which will be merged with Shriram Transport Finance business on a share swap basis because we cannot be doing the share swap of IDFC Limited and Shriram Transport business and have Shriram Transport business under IDFC Limited?
- Rajiv Lall** Sorry I did not understand that.
- Roshan Chutkey** How do you intend to merge Shriram Transport Finance business into IDFC Limited, will you be doing a share swap between IDFC Limited and Shriram Transport Finance business?
- Rajiv Lall** We cannot get into the details of the design of the scheme, when the scheme is fully baked then we can help the analyst community understand its various steps. At this point, you would just have to be satisfied with our statements that we have done enough work, we have got tax advice, we have looked at various angles, to be pretty confident that all the necessary steps to facilitate the swap in a tax efficient manner can be executed.
- Roshan Chutkey** Just one last question, have you run the deal past the regulator at least with the RBI on approval of sort basis?
- Rajiv Lall** We talk with the RBI all the time so what we are sharing with you today will not come as a surprise to RBI.
- Moderator** Thank you. Our next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.
- Alpesh Mehta** Just first question as far as the clear clarification, the Shriram Transport would be a share swap, there will not be any cash consideration in that deal, right?
- Rajiv Lall** Correct.
- Alpesh Mehta** Secondly just to harp on the previous question of Roshan because when we just do the share swap at the current market price, the shareholding of IDFC Limited in bank comes down to 30%, so how would we maintain this 40%, just a broader idea would also work?
- Sunil Kakar** Just to compress the curiosity which has reached to some level, as Rajiv mentioned what the exact details and processes are being worked out, we are pretty confident it will happen, so the way we are thinking how we are starting a one lumpsum here and there two block, but if you go down little deeper, there are various sub companies out there and you can split the various companies from two large ones to smaller ones and work the process around that which will result in maintaining the 40% and as and when we get more information we will share with you, but at this time we will need to do some modeling we have to assume that the structure as presented by the management is a feasible structure.
- Rajiv Lall** Can I suggest something Sunil is that we really have to be very careful about what is disclosed and what is not disclosed at this point. It is early days, we will get appropriate legal advice and depending upon what advice we get then we may or

may not be able to share more details in the coming weeks, so for now please bear with us.

- Alpesh Mehta** There is one more related question not exactly but the share holding of any strategic investor increasing to more than 10%, would RBI be okay with that?
- Rajiv Lall** No that is not going to happen...
- Alpesh Mehta** Whether directly or indirectly?
- Rajiv Lall** That is something that we will, I can just repeat for this transaction to go through, we will be 100% respectful for any and every requirement that the RBI imposes.
- Alpesh Mehta** Lastly, what percentage of the portfolio qualifies for the PEL, any rough idea on that?
- Rajiv Lall** For SCUF more than 50%, is it not right, Sunil?
- Sunil Kakar** Yes.
- Alpesh Mehta** The CRR and SLR requirement would be taken care of because we have excess SLR sitting on our balance sheet?
- Sunil Kakar** Right, you know our balance sheet better than me.
- Moderator** Thank you. Our next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa** Sir, two questions earlier in the call you had mentioned that the benefits to SCUF come from complementarity of assets and skill sets and access to liabilities etc., now given that we were predominantly wholesale funded whereas SCUF has a very, very rich retail portfolio whose returns are higher, I am not sure whether SCUF actually needed these assets in the first place, so does it mean that we may have to pay a significant premium in order to convince SCUF minority shareholders because their portfolio is much more profitable than ours, and my second question is have you sounded out this deal to some of the bigger shareholders outside of the promoter group both within transport and SCUF and do you like have at least an overall buy in?
- Rajiv Lall** This is a question that is better or more appropriately asked of the Shriram Group but it is our understanding that the largest minority shareholders in STFC and SCUF are aware and have been consulted.
- Sunil Kakar** On the first question if I may say from SCUF perspective, the liability benefit now again as I am saying, yes we are wholesale funded but for the bank to raise the wholesale liabilities is at least 200 basis points cheaper than what an NBFC does, so that benefit will straight away flow to the bank and more importantly today SCUF is only an asset play. If you remember we as a bank can provide many other financial products and services which will mean the customer is now linked at an asset level. The bonding with the customer will become stronger and it will be financially much better for the combined entity.
- Karthik Chellappa** Sir, just one clarification to a comment you made earlier, you said you see this as one composite scheme of amalgamation which means only the SCUF thing going through and transport not going through is not an option at least for the Board of IDFC Limited?

- Rajiv Lall** On balance, this is how we are approaching it, both Groups are approaching it as a composite scheme.
- Moderator** Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.
- Abhishek Murarka** My question is does Shriram, what I understand is Shriram Capital continues to remain as a separate legal entity with a stake in IDFC and IDFC Bank separately, is that correct or does Shriram Capital also get folded into IDFC?
- Sunil Kakar** Look, Shriram Capital on its own does not have much business left out there so I don't see if they want to keep that and do some other businesses which are not part of this transaction that is left to them, but I do not see how that works.
- Rajiv Lall** A short answer is they will merge with IDFC Limited.
- Abhishek Murarka** Okay, because the shares that you would be issuing to them that would also then basically convert into shares held by IDFC in the bank?
- Rajiv Lall** That is correct.
- Moderator** Thank you. Our next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal** Sir, my question on the Shriram Transport with IDFC transaction, so what Shriram Transport is getting in return because Shriram Transport does not need any wholesale business per se, focus on the pre-owned transport finance business in doing well, so how the IDFC will give synergy to the Shriram Transport as a company?
- Rajiv Lall** I do not know if you heard Mr. Thyagarajan and Mr. Piramal yesterday on what is in it for STFC, so the answer is two-fold, it is similar to Sunil's answer on SCUF, so the expectation is that today STFC has built a phenomenal franchise with their customers, but it is a narrow relationship which is focused on just asset products. The synergy that we can offer the customers of STFC after all most of the customers of STFC are equivalent of small entrepreneurs, they own one truck, two trucks, their banking needs can be met by IDFC Bank, so there is a significant room for mutually-beneficial synergy there. The customer for STFC becomes much more holistically served through a single service provider and as far as the bank is concerned, it allows the bank to accelerate the pace of building its retail liability base. Second thing is that we believe that the technologies that IDFC and IDFC Bank has invested in can find fruitful and interesting expression and utilization in the Shriram Transport Finance Company business over time, so technology and liability. Third is that there is a certain sense as well that becoming part of the IDFC Limited Group that even the cost of wholesale financing for STFC standalone monoline as part of the group may be lower than what it is today. I do not know Sunil if you want to add to that.
- Sunil Kakar** No, I think you have covered. The only thing I would agree is that the borrowing cost especially for the STFC that is difficult to quantify whereas it was much easier to quantify for SCUF, in fact on STFC as part of the group it should definitely be lower, but I am not able to put a number around that.
- Manish Ostwal** Last question, in your assessment when do you see this entire transaction complete and the benefit of synergy to realize in two year's timeframe or three year's timeframe, what is our assessment at this point of time?

- Rajiv Lall** Transaction just to get it executed will take about 12 months, the synergies at the level of the bank should be evident actually very, very quickly. The synergy group wise could take another couple of years. Broadly speaking, the way we are looking at it is about a three-year journey that includes execution and then getting the synergies unlocked.
- Manish Ostwal** Lastly one small point, do we have any target holding in mind in Shriram Transport in IDFC Limited or that cannot be disclosed right now?
- Rajiv Lall** Shriram Transport Finance Company will be a 100% wholly-owned, unlisted subsidiary of IDFC Limited.
- Moderator** Thank you. Our next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia** My question is will there be any sequence of transactions or one has to take everything simultaneously, to be more specific just for example, if a SCUF deal can happen quickly compared to STFC and therefore STFC you look at IDFC right now or you look at IDFC with insurance and with SCUF and the larger banking piece?
- Sunil Kakar** It is a composite scheme and even the natural process just look at the timeline irrespective of whether there is entity one, two, three, it is about three-month period to just to do the due diligence and arrive at a particular swap ratio and the natural process to NCLT and other legal processes will take us 12 months or so, so it is a composite scheme and everything will happen together.
- Jigar Walia** I get it but for the swap ratio, is the sequence important or does one look at Shriram Group and IDFC Group as it is where it is right now?
- Rajiv Lall** The sequence is not important, in the composite scheme, the swap ratios will then be contingent upon everything happening at once.
- Jigar Walia** Just a clarification, if you can repeat on the chit business, we are not taking the chit business but in terms of what happens to the chit business?
- Rajiv Lall** It will remain outside.
- Jigar Walia** Okay, but it will continue to function and remain outside and the synergies with SCUF, that continues in formula?
- Sunil Kakar** That business thing is better answered by Shriram actually.
- Jigar Walia** IDF should also continue, AMC we can evaluate in terms of there are any, we can plug the two AMC?
- Sunil Kakar** Yes.
- Moderator** Thank you. Our next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta** One question, Sir, qualitatively what kind of challenges do you see to SCUF and IDFC Bank merger, what are the key three things where you might face challenges in terms of integration?

- Rajiv Lall** On SCUF, we have learnt a lot from our integration of Grama Vidiyal last year, so that gives us much greater degree of comfort and confidence about our ability to be able to integrate SCUF. To just give you a little bit of color on that, the way we did GV to remind you was that, we were at that time only 2,000 odd employees in the bank, but GV had 3,000 or more employees. The way that integration worked was that the distribution infrastructure of Grama Vidiyal was kept as a 100% owned banking correspondent company, and therefore, the distribution network continues to operate very much as it was before whereas the assets and liabilities of Grama Vidiyal were completely absorbed in the balance sheet of the bank so it is similar approach. There will be obviously differences related to the GV, but in essence the approach will be similar to what we adopted in the GV integration.
- Adesh Mehta** You just mentioned that the Shriram chit business would be kept separate and SCUF would be having around 23,000 to 24,000 employees, would there be some benefits in terms of scale where some leverage in terms of employee efficiency where we can do the same kind of business with lesser number of employees?
- Rajiv Lall** Lesser number of employees is not the target, rather we want to improve the productivity of existing employees. I do not think there is any intent of reducing the number of employees at this point. It is already operating at very low cost point, so if we retain the integrity of their distribution architecture and we are able to do that thankfully because of the new flexibility that RBI provides in giving us the opportunity to figure out what is going to be a banking outlet versus what is going to be a banking branch, so that combination actually gives us the opportunity to motivate SCUF staff appropriately have them working in a complementary manner with the bank while giving everybody an opportunity to grow and to contribute.
- Moderator** Thank you. Our next question is from the line of Nilesh Parikh from Edelweiss. Please go ahead.
- Nilesh Parikh** I just wanted one clarification regarding, so with the Shriram Transport entity will it be under NOFHC or will it be something which will be aligned to IDFC Limited directly?
- Rajiv Lall** Under NOFHC.
- Nilesh Parikh** Okay then the shares will be given, this will be a two-layer structure for shareholders of Shriram Transport?
- Rajiv Lall** Shriram Transport shareholders will end up in IDFC Limited.
- Nilesh Parikh** They will end up but from a structure perspective their interest actually will stand below the NOFHC, I just wanted to get that clarification?
- Sunil Kakar** Just remember it is 100% ownership.
- Moderator** Thank you. We will take the last question from the line of Aditya Singhanian of Enam Holding. Please go ahead.
- Aditya Singhanian** Just wanted to get some thoughts from you on how IDFC Limited would be valued, why I am asking is that there is obviously a large holdco discount being attributed relative to the value of IDFC Bank and the transaction entails merger of effectively two listed entities of the Shriram Group as well as two large unlisted entities?
- Sunil Kakar** It is our expectation that so-called holdco discount will reduce significantly. As you know the math about how this holdco discount works, I will give you a Nobel Prize

but you know how the markets behave and how the markets are going to value it, but substantially these are large operating businesses. So what is the difference between today's IDFC Limited and the future IDFC Limited, let us just look at that. A) I can repeat - a very strong and a profitable growing retail franchise, so even if you own 40% which we had to own any which way but it is of a much larger and much more profitable bank. B) you have 100% ownership in a very profitable generating entity, and C) in addition you have life insurance and general insurance. Now you know we can easily value life insurance, whatever 2.5 or 3 times EV, etc., so if you add all that up...

**Rajiv Lall**

Sunil, I just wanted to add that with the general insurance and life insurance businesses, these businesses of Shriram in which IDFC Limited will have very substantial ownership stake as a result of the merger. These businesses are eminently listable, so there would be as and when they list, the valuation will be captured much more transparently than if they remain unlisted so across the board there will be much better price discovery and much greater revenue and earnings that will flow to IDFC Limited through the structure, and therefore, we expect it to be of value enhancing for IDFC Ltd. shareholders.

**Moderator**

Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

**Sunil Kakar**

Thank you for coming so early in the morning and I hope, not only hope, with confidence state that as the journey progresses, we will provide you with additional details as and when time is appropriate. Thank you for your support.

**Moderator**

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

---