IndusInd Bank

Q1FY24 Earnings Conference Call

Management:	**Mr. Sumant Kathpalia – Managing Director and CEO** **Mr. Arun Khurana – Deputy CEO** **Mr. Gobind Jain – Chief Financial Officer** **Mr. Indrajit Yadav – Head, Investor Relations and Strategy**

July 18, 2023

Moderator: Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q1 FY '24 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 question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero, on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kathpalia, Managing Director and CEO, IndusInd Bank. Thank you, and over to you, sir.

Sumant Kathpalia: Thanks for joining this call. Let me start with some macro commentary and then go into the bank specific details.

Economic activity gained momentum during the quarter as is visible from various high frequency indicators such as PMI. Monetary policy pause was extended with CPI inflation easing below 5% level and liquidity conditions in the banking system improved over the quarter. Bank credit growth stabilised around 15% with personal loans category continuing as the main contributor. Deposit growth picked up, helping to bridge the gap with higher credit growth.

On the demand side, private consumption and public investments helped support activity. The strong ongoing pick-up in the services sector is supporting urban demand, recovery in rural demand and improving conditions for capital formation would help growth remain reasonably strong. Relatively bright growth prospects, easing inflation and overall macro-economic stability has revived foreign investor interest in India with net inflows in debt and equity surpassing $10 billion in last quarter.

Coming to the quarter specific developments. Our focus areas for the quarter were:

- <u>Loan Growth Momentum</u> – We maintained our healthy loan growth of 22% YoY and 4% QoQ driven equally by consumer and corporate businesses. Our Vehicle business maintained 21% growth, BFIL originated loan growth improved to 14% YoY. Other Retail growth remains strong at 27%. We are thus seeing loan growth momentum across segments.
- <u>Maintaining Deposit Traction</u>– Our retail deposit growth as per LCR accelerated to 21% yoy vs 19% in previous quarter. Share of retail deposits improved to 43.4% vs 42.6% in previous quarter. Our Savings Account book too grew by 6% QoQ reversing the attrition trend for the past few quarters. Overall we achieved total deposit growth of 15% YoY and 3% QoQ driven by granular retail growth.
- <u>Continued investment in new initiatives</u> – We continue to invest in our franchise both in physical as well as digital distribution scaling up our presence in new products and customer segments. Our affluent deposits grew to Rs.44,400cr up 22% YoY. NRI deposits grew to Rs.37,200cr up 39% YoY. Loan book under merchant acquiring business via BFIL grown 89% YoY to Rs.4,229cr. Our home loans pilot has reached Rs.665crores. We have soft launched our digital platform "Indie" and open for public access. We have hired around 12,600 employees in our distribution over last 4 quarters. This all is reflected in opex growth of 24% YoY and 6% QoQ.
- <u>Improving Asset Quality</u> – Our gross slippages reduced from Rs.1,603cr to Rs.1,376cr QoQ i.e. from 0.59% to 0.47% of loans QoQ. Our Restructured book too reduced by Rs.475crores from 0.84% to 0.66% QoQ. Our NNPA is at 0.58% with provision coverage ratio stable at 71%. Our contingent provisions are at Rs.1,700crores with total loan related provisions at 121% of GNPAs. Our credit cost has reduced to 33bps from 36bps QoQ.
- <u>Sustaining profitability of the franchise</u> – Our Net Interest Margin improved by 1bps QoQ and 8bps YoY to 4.29% with effective balance sheet management. Client fee income grew by 19% YoY driven by continued retail momentum. Our PPOP margin to loans for the quarter was at 5.5% vs 5.6% QoQ.

- Steady Improvement in Return Ratios – Our Profit After Tax grew by 4% QoQ and 30% YoY to 2,124 crores. Our Return on Assets was at 1.90% and Return on Equity was at 15.24% for Q1. Our Capital Adequacy Ratio remains healthy with CET1 of 16.44% and overall CRAR at 18.40%.

Now coming to individual businesses.

1. **Vehicle Finance:**

- The vehicle finance maintained healthy loan growth of 21% YoY and disbursement growth of 18% YoY.
- The segments showing strong disbursements were Commercial Vehicles, Utility Vehicles, Cars. Disbursements were muted in tractors and two wheeler segments.
- The bank has maintained or improved its market share across all vehicle categories.
- We have also implemented salesforce loan originating system across all our locations for cars & two wheelers. This should further improve our efficiency and bring down turn around time for these segments.
- Historically, first quarter has been a seasonally weak quarter whereas Q4 is seasonally stronger. The second half of a year contributes larger share of disbursements as well as recoveries and we expect that trend to continue this year too.
- The gross slippages in vehicle improved to 0.77% vs. 1.11% YoY whereas higher than 0.61% QoQ due to seasonally weak quarter vs. Q4. The slippages are expected to come down as the year progresses.
- The restructured book in vehicle finance also reduced from 1,475 crores to 1,182 crores QoQ. The collection efficiency of these customers remains comfortable with bulk of the reduction happening through upgrades and recoveries.
- The vehicle portfolio has now shown strong disbursements for two years. This also reflects into increased share of new loans and repayment drag coming down steadily. The loan growth thus should now move broadly in line or ahead of disbursement growth. The asset quality should improve from here with seasonality benefits coming in the rest of the year.

2. **Bharat Financial Inclusion Limited:**

- The YoY loan growth in microfinance and merchant acquiring book accelerated to 14% vs. 11% in previous quarter. The share of non microfinance book increased from 7% to 12% YoY.
- The Bharat Financial Inclusion consists of three key segments of Microfinance, Bharat Super Shop and Bharat Money Stores models and I will update on all three segments.
- Microfinance
  - We had disbursement of ₹8,406 Crore during the quarter registering a growth of 12% YoY. Our New-to-Bank disbursements were up by 19% YoY in terms of number of borrowers. Historically Q1 is seasonally weaker vs Q4 and reflected in QoQ reduction in disbursements.
  - MFI book at the end of Q1 was ₹31,981Crore, up 9% YoY. Active borrower base of about 78 Lakh micro finance borrowers up by 5%. New customers added during Q1 of around 504,000.
  - MFI standard book net collection efficiency for Q1 was at 99.2%.
- Bharat Super Shop i.e. the merchant acquiring business
  - With strong demand and large pockets of growth available, we continue to expand our merchant acquiring business under the banner of Bharat Super Shop.
  - Portfolio sourced through BFIL under this business has grown to ₹4,229cr, up 89% YoY and 5% QoQ, with 660k active borrowers.
  - The total disbursement during the quarter was ₹1,522 Cr. The book continues to report healthy growth along with strong asset quality.

- Our standard book net collection efficiency from this book during Q1 FY24 was 99.2%.
- Bharat Money Stores i.e. the kirana shop model
  - We have around 115,000 active Bharat Money Stores providing banking at the doorstep in remote areas.
  - Liability book sourced from customers serviced through BFIL increased by 44% YoY to reach ₹2,108cr through 1.45cr accounts. Our focus remains to be the banker of choice of our customer segment in Bharat.
- Overall on the asset quality side, MFI gross slippages during the quarter reduced to ₹369 Crore as compared to ₹599 Crore in Q4FY23. We are adding emphasis on recovery with recovery of ₹52 crores from NPAs & 32 Cr from ARC/Write-off accounts during the quarter.
- The BFIL standard 30 DPD loan book remains stable at 1.1% of loans.
- We expect disbursements from microfinance to pick up as we progress the year. We continue to work on the diversification initiatives and becoming a micro-banker from a micro-financer. The asset quality has improved this quarter and we expect the trends to continue in rest of the year as well.

3. Corporate Bank:

- Our corporate loan book maintained healthy growth trajectory of 4% QoQ growth.
- The overall growth continues to be led by growth in small corporates with small corporates growing by 10% QoQ. Within small corporates, our focused strategy on Corporates with < 500 crs turnover segment has been bearing results – growing 14% q-o-q.
- Growth across large and mid-corporates was 3% q-o-q and 19% y-o-y in line with our expectations.
- Majority of the corporate loan book is floating rate in nature and we were able to pass on increased rates for customers due for reset. Our yield in corporate book thus improved by 10 bps QoQ. Yield increase hereon will be muted with benchmark yields stabilising or coming down.
- The proportion of A and above rated customers has improved from 73% to 76% YoY with weighted average rating improving to 2.61 from 2.63 YoY.
- The Gross Slippages in corporate book were only Rs 43cr for the quarter. Our corporate restructured book too remains low at Rs.327cr.
- Over the last couple of years, we have consciously changed our guidelines, policies and coverage model. We have put in place tighter policy norms for complex transaction, rationalized borrower limits linked to internal rating and much below regulatory threshold, conservative capping of sensitive sectors, strengthened post disbursement checks and developed early warning system etc.
- Similarly, coverage model was reoriented with a focus to scale up small businesses and increase wallet share from identified large strategic client groups thereby improving our risk density and RORWA.
- Overall, we continue to progress on the granularization of the corporate franchise through small businesses and diversification. Our small business as a % is planned to increase from current 10% to 20% of corporate book. Within our large & mid corporate verticals, our focus is diversification across regions and more acquisition especially in mid corporate segment.

4. Global Diamond & Jewellery Business

- The demand for diamond remained muted with sluggish growth in key consumer markets of US and China. Our diamond book thus was up 10% YoY but down 7% QoQ with working capital utilisation running down.
- The slowdown however does not have any impact on asset quality with no clients getting into SMA1 & SMA2 category.

- Overall we remain comfortable on the diamond portfolio asset quality while the growth will be dependent on the recovery in global economy.

5. **Other Retail Assets:**

- We saw another quarter of growth momentum in Other Retail Loan book growing by 7% QoQ and 27% YoY.
- The growth was broad-based across business units. The secured assets including LAP, Business Banking grew 5% QoQ while unsecured assets of credit cards and personal loans grew by 10% QoQ.
- The secured asset growth has bounced back as with pick up in new to bank acquisition maintaining the momentum gathered in quarter 4.
- We are scaling up our home loan pilot with book size growing to Rs.665crores. We will go full steam with marketing plan during the course of the year as the pilot stabilises.
- Our digital lending platform for small business banking segment was launched for term loan and non fund products on Easy Credit last quarter. With this we have all inclusive asset suite on digital platform for less than 2 crs segment. The stack is fully enabled to process sanction within a single day backed by Bureau, Banking and GST backed data for the small business customers.
- On unsecured side, the Credit card growth was driven by new cards acquisitions & highest ever quarterly spends. Credit Card spends were at 20,189 crores growing by 20% YoY.
- Overall, with focus on branch sourcing and digitisation of small ticket acquisitions, we expect growth momentum in retail business to continue in the current financial year. We do however remain watchful of inflationary economic conditions particularly on the unsecured consumption spends.

6. **Now coming to Liabilities:**

- Our deposits grew 15% YoY and 3% QoQ.
- The growth was driven by granular acquisition with retail deposit as per LCR growing by 21%. The share of retail deposits improved to 43.4% as we progress towards our ambition of 45% to 50% by PC-6.
- Our Savings Account deposits too showed robust growth of 6% QoQ reversing the attrition seen in the last 3 quarters. Current Accounts moderated as some of the quarter end floats of previous quarter ran off. Overall, CASA was stable QoQ at 40%.
- Our Affluent segment deposits grew 22% YoY to 44,400 crores during the quarter. Affluent AUM was also up to 68,750 crores showing a growth of 17% YoY.
- Our NR deposits grew 39% YoY and 9% QoQ to 37,200 crores. We continue to gain market share in Non Resident segment with market share above 3% as of last available data.
- We have 30 branches launch ready currently and another 27 have leases finalised. We will aim towards adding 250-300 branches during the course of the year.
- Contribution of Certificate of Deposits remains low at 3% of deposits.
- We reduced borrowings during the quarter by 7% QoQ. The borrowings form only 10% of the liabilities and almost all are long term in nature.
- We continue to carry healthy liquidity position with LCR at 132% and average surplus liquidity at Rs.44,000crores for the quarter.
- Overall, we remain focused and comfortable towards achieving our Retailisation objectives. The liquidity in the system has improved during the year and rates in certain buckets are coming off. With continued investment in physical and digital distribution along with maturity of branches will aid our retailisation drive going forward.

7. Digital Traction:

- Bank continued to register strong growth in its monthly active user base on both IndusMobile and IndusMerchantSolutions – 30% YoY and 20% QoQ respectively
- Mobile transaction volumes for the bank grew 82% YoY
- On retail and MSME business – across products most of the business is now digital. In some products like savings, wealth, credit cards it is almost completely digital while in MSME it is still about 65-70% digital
- Share of digital unassisted direct to client acquisition continues to grow – in cards it is ~25%, in liabilities it is ~40%, in personal loans it is ~15% in terms of loans to new to bank / non pre-approved customers with real time decisioning
- Bank continued to focus on optimising digital platform marketing and across products we sell digitally, customer acquisition costs have come down substantially YoY. In loans it has come down by 60-70%.
- During the quarter bank also launched its CBDC app and joined other pilot banks in RBI's initiative on digital currency
- Last but not the least, Bank has soft launched INDIE – its digital banking platform open for public access. INDIE has seen an installed user base of 50,000+ and customer base of 10,000+ on the app. We will be do a full scale launch during the quarter.

8. Coming to ESG:

- We are committed to integrate ESG principles deeply into our business, products, risk management and operations
- We are proud to announce that all our pioneer branches have achieved LEED certification, showcasing our commitment to environmentally friendly operations. Additionally, we have mandated a leading Big4 consultant to formulate a strategy to make IBL carbon neutral by 2032
- We are honoured to have been recognized as the 'Best Bank in India for ESG' by Asiamoney for FY-2023. This prestigious award, received for the second consecutive year, is a testament to our dedication to environmental and social responsibility. We extend our heartfelt gratitude to all our partners for their invaluable support in helping us achieve this remarkable milestone.

9. Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 18% YoY and 4% QoQ in line with our loan growth. Net Interest Margin improved at 4.29% vs. 4.21% YoY and 4.28% QoQ.
2. The Net Interest Margin was supported by repricing on the asset side as well as active management of the liabilities. The cost of funds as well as yield on assets increased by around 40bps each during the quarter resulting in stable margin QoQ.
3. Other income grew by 14% YoY and 3% QoQ. Core client fees excluding trading income grew by 19% YoY and 2% QoQ. We had positive non core income of Rs.91crores during the quarter. Share of Retail fees improved to 73% from 70% YoY.
4. Our total revenue for the quarter was at Rs 7,077 crores with 17% YoY growth.
5. Operating expenses grew by 6% QoQ with Cost to Income ratio at 45.9%. The opex growth was driven by employee addition, investment in distribution, technology spends for the new platform launches and preparing for annual appraisal actions.
6. The operating profit for the quarter was at 3,831 crores growing 12% YoY and 2% QoQ. The PPOP margin to loans continues to be healthy at 5.5%. Core PPOP growth was at 14% YoY and 1% QoQ.
7. On the asset quality and the provisioning front:

    - Our provisions for the quarter have further reduced to 991 crores and are below 1,000 crore mark for the first time in last 3 years. The annualised provisions to

loans are thus down to 132bps now vs. 142bps for previous quarter and 155bps for previous year.
- As expected, we saw reduction in gross slippages from microfinance, corporate and other retail segments. The vehicle finance unit saw increase in slippages given Q1 is seasonally weak than Q4.
- On the restructured book side, the retail slippages were lower QoQ and there was no corporate slippages. The restructured book has reduced by 475cr during the quarter from 0.84% to 0.65% QoQ with bulk of the reduction due to upgrades and recoveries.
- The Net Security Receipts have reduced from 51bps to 44bps. The bank made additional provisions of Rs 129 crores towards the SR book during the quarter.
- Overall, the GNPAs for the bank were at 1.94% and Net NPAs stable at 0.58%. We have maintained provision coverage ratio of 71%.
- Our contingent provisions excluding specific provisions are at 1,700 crores. Total slippages from the restructured book in the last 5 quarters were at Rs.2,324crores. We have utilised contingent provisions of Rs.1,628crores during the same period. With this we expect to the utilisation of contingent buffers to be behind us and will aim towards adding into the buffers with support from operating environment.
- Total loan related provisions are at 2.4% of loans or 121% of the GNPAs.
- Our SMA1 and SMA2 book was at 4bps and 19bps respectively.

8. Profit after Tax for the quarter was at Rs 2,124 crores growing 4% QoQ and 30% YoY. Our CRAR including profits remains healthy at 18.40%. Return on Assets was at 1.9% and Return on Equity at 15.24%.

Overall, the first quarter of our Planning Cycle 6 strategy saw progression towards the stated objectives.

- Loan growth was at 22% against our expected range of 18% to 23%. Seasonally, the first quarter is softer quarter for vehicle and microfinance businesses and seasonality should support the loan momentum during the rest of the year.
- Retailisation of liabilities continues with 21% growth in Retail deposits as per LCR and healthy 6% QoQ growth in SA deposits. The share of Retail Deposits as per LCR improved to 43.4% and we aim moving towards 45% to 50% in PC-6.
- Asset quality improved in all businesses except for vehicle due to seasonality. The annualised credit costs are down to 132bps inching towards our expected range of 110bps to 130bps for the year.
- All key profitability metrics across NIMs, PPOP margin, RoA and RoE have maintained healthy position in line with our communicated aspirations.
- We continue to scale up new initiatives like affluent, NRI, tractors, merchant acquiring, home loans and digital launches. These provide further growth avenues for the Bank.

We have thus began well on the PC-6 strategy execution and are committed to the ambitions outlined in our strategic plan.

With this we can begin Q&A session.

Moderator: Thank you very much. The first question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Yes. Hi Sumant. Congratulation on good quarter. A few questions from my side. Firstly, like, we have seen a sharp rise in cost of deposits over the past one year. So how are you looking at the deposit repricing over the next few quarters? When will this likely peak out? And if you can also give some color on what has driven this strong SA mobilization and how sustainable this growth rate is?

Sumant Kathpalia: So, our cost of deposit, you should see the peaking out in quarter 2. And what has happened in quarter 1 is a lot of maturities, which are coming in, which were contracted at a lower price, got re-price in the retail side of the book as well as on the wholesale banking side of the book. That's number one. And of course, the renewal process, which has happened at a higher rate because our rates on the term deposits were higher. So that's the reason. And you should start seeing a stabilization or a bit rise in the quarter 2 and then a stable pace and a decreasing cost of deposits as we get into quarter 4. So, we've always said that, by quarter 4, we should see a cost of deposits declined by 10 to 15 basis points.

Having said that, our savings accounts, we always said that the savings account growth was affected because the bulkiness on our portfolio. And there was one such account where the bulkiness of the portfolio was there. And once that bulkiness reduced in the portfolio, the acquisition ramp up as well has helped us to grow the savings account. And what we have seen in the last three quarters is the bulkiness of the portfolio is moving down and the growth has come back. Even if you look at the LCR growth, you would see that the LCR growth is about INR7,800 crores to INR8,000 crores, as a consequence of that.

Nitin Aggarwal: Right. And if I look at Slide 20, we have a 10-odd basis point increase in the wholesale banking yield and another 8 basis points in consumer banking, but our total yield has gone up by 22 basis points. So, what am I missing here?

Indrajit Yadav: That is because of the mix change is in favor of retail. Quarter 4, if you remember, there was strong microfinance disbursements. So, during the course of this quarter, averages were higher for retail compared to last quarter.

Nitin Aggarwal: Okay. Sure. and Sumant, one more question on the cost income ratio. Cost to income ratio has been increasing over the past few years. We have now close to 45%, 46% now. So how should we look at this as you go on to add more branches and invest in the business?

Sumant Kathpalia: I've said that this year, we will end the year at 45% cost-to-income ratio. And that is what we said going to 41% to 43% in year two and stabilizing at about 40% to 41% in year three. While we may go up, at the end of the year you will see us stabilizing at 45% and we'll come back to 41% to 43% by year two. We have some initiatives and of course, the salary actions. So, this quarter has the salary appraisal part also. So that is all stabilized.

Nitin Aggarwal: Right. And one clarification, like have you got any RBI circular in respect to overdue ECLGS loans in the MFI segment, any impact that you have seen from that?

Indrajit Yadav: We don't have a significant book there which impacts us.

Nitin Aggarwal: Okay. But did you see some downgrades because of that circular this quarter?

Indrajit Yadav: No, we don't have any significant impact because of that. The numbers reflect all the circulars that are out there.

Nitin Aggarwal: Right. And lastly, if I can squeeze in one more question. Any thoughts on the promoter shareholding plans because this has been in the news for some time. And so where is the application really with RBI, what state it is? And any color as to what are the promoter plans in terms of increasing stake if you can give some color on this?

Sumant Kathpalia: The promoter has issued a press release, and we can only talk what is in the public domain that they want to increase the stake. The bank does not need the capital as of now. We also know that the process is still continuing, and there is no approval from RBI on the form A, as of now. So, we have to wait for the formal communication of the form A, which is the due diligence form from RBI, and that's a process which takes three months, almost two months are over. And I think, we have to wait for that announcement from the RBI or from the promoter.

Nitin Aggarwal: Thanks, Sumant. Thanks so much and wish you all the best.

Moderator: Thank you. Next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: Hi Sumant. Congrats on good numbers. A couple of questions. One on the cost of fund. I just wanted to understand...

Moderator: Adarsh, sorry to interrupt you. You're sounding a little distant. May I request you to speak a little louder?

Adarsh: Yes. So hopefully, this is better. On the cost of funds, Sumant, just wanted to understand from a deposit maturity and a renewal perspective, where are we in that journey? Like is it 50% done broadly, any sense that would help because you said maybe one more quarter of cost of fund increase. So where are we in that journey?

Sumant Kathpalia: I think, you would see that the yield curve between 90 days to year is almost flat. And it has come down, what happened in March was we had to raise some borrowings also as a consequence of the effect, which was happening in the US market in the liquidity market, we raised cost of borrowings at a little bit higher cost and that impact you were seeing happening.

With the deposits now bulk deposit rates are stabilizing and our retail journey growing, I think over a period of time, maybe this quarter, you should start seeing the stability in the cost of deposit as we go forward into the years as in the quarter 3 and quarter 4. So, you should start seeing that. And I've said that, you should start seeing a 10 to 15 basis point decline in our cost of deposits as we go forward.

Adarsh: And if I use that data with the fact that, our loan mix is improving, it then looks like our margin guidance is kind of conservative, right? We are already at the higher end. And if it's a quarter more of cost of fund increase with improving loan mix, is there any upside risk to the margins? Or what are we missing here?

Sumant Kathpalia: Adarsh, we have always said that margins will be between 4.2% to 4.3%. Don't forget, we have a book which is 45% corporate, 44% to 45% corporate book. On this book, you would see a margin suppression as because the MCLR or the EBLR will continue to change as we go forward. If they don't, you will start seeing the margin expansion. Otherwise, you will see what we've said, 4.2% to 4.3%.

We are assuming that there will be a decline in the corporate yields as we move forward into quarter 3 and quarter 4. But yes, those will more or less be substituted by the gains, which we will get in the cost of deposits. So, in our opinion, our margins and if you look at six quarters in the presentation, we've been very stable and will continue to be stable in our margins.

Adarsh: Got it. And my second question is on capital consumption. Risk weight assets have come down in the quarter with a decent balance sheet growth. So, if you can explain that and your credit risk weight to loans are probably lowest, I've seen for many years so?

Indrajit Yadav: So, a couple of key reasons for that. One is that some of the unrated portfolio got rated during the quarter, so that released some of the risk weights. And we also had some of the non-utilized limits getting reduced quarter-on-quarter, both for funded as well as non-funded, which caused release in the RWA.

Adarsh: And we are done with that process?

Indrajit Yadav: Unutilized limits vary depending on the customer preferences. But unrated to rated, that's behind us to a large extent.

Adarsh: Perfect. Congrats again and thanks, That’s it.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. Hi, Sumant. Congratulations for good set of numbers. So firstly, on the slippages and the credit cost, credit cost is still at the upper end of the guidance. And when we look at it, in fact, we have utilized the INR200 crores of contingency buffer as well. And you highlighted earlier, that maybe, we are largely done with the utilization, and we will try to create further buffer as well.

So, how confident we would be with respect to the credit cost trajectory of 1.1% to 1.3% odd percent? And even on the slippages side, it seems we are relatively high, maybe you mentioned because of seasonality in 1Q. But maybe, you can just highlight in terms of how much was vehicle and kind of, within the same?

Sumant Kathpalia: So first of all, I'm comfortable with the 110 to 130 basis points, including the contingent reserve of INR400 crores to INR500 crores. We will add to the contingent resources. We've said that, and we will make sure that we do that. So that's number one. And we are very comfortable with our numbers. And with the recovery focus, which we put on the MFI, we believe that we will be able to manage that.

Indrajit Yadav: Slippages from vehicle increased from INR383 crores to INR581 crores. We will upload as usual, the segment-wise slippages in our opening remarks when we upload on the website, so you'll get the segment-wise slippages.

Kunal Shah: Okay. And MFI would be -- sorry, if you can just highlight that number as well?

Indrajit Yadav: MFI has come down from INR599 crores to INR369 crores.

Kunal Shah: Okay. So INR370 crores of MFI and INR580 crores of vehicle?

Indrajit Yadav: Correct.

Kunal Shah: Okay. And secondly, in terms of, say, the overall opex, so not much of addition to the branches, which, we are expecting. But still so is it maybe whatever has been the rise primarily because of the annual incentives that was in 1Q? Or maybe we have that the employee cost regularly would be at the current level?

Sumant Kathpalia: So, the employee costs will be elevated. Some of it is fixed, but I also believe that, we've expanded our distribution, specifically in the microfinance segment, where we've had, if you look at the cost, INR65crores to INR70 crores of that cost has come from the microfinance segment because we are expanding our distribution in the microfinance to get the business done in a diverse way and get new to client customers to add up.

And on the vehicle finance side also, there's a INR30 crores cost increase. The other thing is the full cost of the new branches have now got absorbed into the quarter, that has also come in. You remember in quarter 4, we had a huge expansion of branches. That cost has fully got absorbed because it would have come for 30 days or 45 days in last quarter which has come for the full 90 days this quarter. So that cost has also come in into this quarter.

Kunal Shah: Okay. And no branch expansion this quarter, but still quite a rise of almost like 7% odd in the overhead cost. So, what would have led to that?

Sumant Kathpalia: No. So, I have told you, there is an increase in number of employees. There is an increase in the digital capabilities and the cost, we are incurring on microfinance expansion. Our cost on the retail assets, which we have grown, at a faster pace. That cost is coming in. And of course, the vehicle finance cost where we are expanding our businesses into new domains like affordable housing and two-wheelers, where we're seeing some costs coming in. That's a matter of time that you will start seeing stability of that cost coming in. And like I said, you will see 45% to 46% cost in quarter 1 and quarter 2, stabilizing to 45% as we end the year. And you should see year 2 of 41% to 43% cost-to-income ratio.

Kunal Shah: Okay. And lastly, in terms of MFI. So still, in compared to where the peer competitors are, in fact, our growth rates are relatively slow. Maybe last time also you highlighted. But when do we see maybe we were expecting some kind of a sequential momentum in this quarter?

And you highlighted that, maybe the MFI will be one of the growth drivers. So, when do we see that change in trends in terms of sequential momentum catching up with the peers, given that investment has also been done in this franchising here?

Sumant Kathpalia: So, we've said the overall micro banking book will grow at 28% to 30%. But within that, microfinance will grow at 18% to 20%, we are at 14% year-on-year. You will see an 18% to 20% growth. That should start coming in the second quarter. And what you will see is the other business is growing at a fast pace and we will start seeing that growth also.

So, quarter 1 is relatively a weaker quarter in the microfinance segment. And in the second half of the year, where the growth actually comes in, but you will see that in quarter 2 itself. That our growth will be there in the microfinance segment. And in quarter 1, we have implemented a new technology. We also wanted to make sure that, our gross flows reduced, and that's what, we wanted to get into. And the momentum is now back. And we're already seeing in the first 15 days of the month a good momentum in the disbursements in the microfinance segment.

Kunal Shah: Okay. Yes. Thanks and all the best.

Moderator: Thank you. Next question is from the line of Abhishek from HSBC. Please go ahead.

Abhishek: Yes. Hi, good evening, Sumant and team. And congratulations for the quarter. So, most of my questions are answered. Maybe I just need a couple of data points. If you can share the weighted average cost of term deposits and SA, that will be great? Thanks.

Sumant Kathpalia: We don't give those numbers.

Abhishek: Sure. Okay. Thanks then and all the best for the following quarters.

Sumant Kathpalia: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Hi, sir. Just one question. So, your credit cost guidance this year would factor in any additional provision for the security receipt contingent build-out and the net slippage, right? So that 110 and 130 includes all the three, right?

Sumant Kathpalia: So, we actually believe that all these costs are part of 110 basis points to 130 basis points.

Saurabh Kumar: Okay. And just in terms of, are you were to move to this ECL now, how much do you think you will need as a buffer?

Sumant Kathpalia: So, our contingent provisioning is what we are doing to make sure that, we are ready for ECL.

Saurabh Kumar: Yes. But how much would you kind of need?

Sumant Kathpalia: See, the attributes are still not finalized by the Reserve Bank of India. So, I think it's very difficult. We said that our ECL will be in the range of 1% to 1.5% or 1% to 1.2% of the book. And I think that's what we are working on. It may be amortized over five years. We don't want to wait for it, and that's what we are working on.

Saurabh Kumar: Okay. Got it. Thank you.

Moderator: Thank you. Next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes. Hi, Sumant. Congratulations on a good quarter. My question is, sir, on loan growth, right? So, we have delivered 22% Y-o-Y growth, and it is fairly broad-based in terms of large corporate, mid and small corporate and then retail, within retail vehicle and every major segment seems to be doing at 21%, 22%. And the question is, do you see within your broad 18% to 23% guidance, the divergence of retail growing at a faster pace. When do we see retail growing at a faster pace versus corporate?

Sumant Kathpalia: So, if you look at the retail growth, microfinance has de-grown for me. And if you add the microfinance growth, the percentage shift would have happened to 55% to 56%. That's where and you will start seeing that growth happening over this next two quarters to three quarters. And by the end of this year, we should end at 55% to 56% in favor of retail and 44% to 45% in favor of Corporate Bank. We've always said that we want to continue to maintain a very balanced view on our retail and corporate mix. And that's the way, the corporate will be in the range of 43% to 45% and retail will be in the range of 55% to 57%.

Jai Mundhra: Sure, sir. And you had mentioned the security receipts in basis points. And then, you had provided some INR129 crores this quarter. Just to confirm an absolute number that, security receipts, net of provisioning would be around¸ would be that number in INR growth?

Indrajit Yadav: INR1,333 crores.

Jai Mundhra: Sure. That is this. Thank you, sir.

Moderator: Thank you. Next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Yes. Hi. Thanks for taking my question. My question is again on the numbers given on Slide 21. So, if you look at the segmental yields across corporate and consumer banking, it's up 8 to 10 basis points. So, you mentioned the increase in yield quarter-on-quarter, 20 basis points is being driven by mix. But even the mix seems to be stable quarter-on-quarter between corporate and consumer. So, could you help us out with what you're missing over there?

Indrajit Yadav: No, you are looking at the period-end numbers. So, like we explained earlier, last quarter, microfinance disbursements were quite strong, and they happened during the course of the quarter. So, if you take the daily average mix this quarter is much better in terms of the retail portfolio and that too, particularly microfinance, which is the highest yielding segment. So that is causing the yield moving the way it has been disclosed. Whatever we disbursed in microfinance last quarter was available full quarter in this quarter.

Param Subramanian: Okay. Got that. And my next question, again, Sumant, you highlighted that, in the opening comments, but on the diamonds -- on the Gems portfolio, so it has seen some decline. If you could give us some outlook on how business is shaping up over there, both in terms of growth and asset quality as well? Yes. That's it for me. Thank you.

Sumant Kathpalia: So the growth is dependent on how the markets revive. We are in the working capital business, and we do a side business. So, we have to wait and watch for the market to revive. And it's the second half of the year is when you will see the revival. And we should grow this business at 10% to 12%. That's what the growth of the business is. We have no SMA 1 and 2 in this business at all and the portfolio looks pristine as of now.

Param Subramanian: Okay. Thank you so much and all the best. Thank you.

Moderator: Thank you. Next question is from Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Good evening and thank you for the opportunity. Can you quantify the size of the non-MFI micro banking book once it increases?

Indrajit Yadav: That's the merchant acquiring book that we disclosed in the loan mix. So, it's about INR4,222 crores.

Manish Shukla: Okay. Thanks. On the affordable housing piece, right? So, what -- how has been your experience so far? And how do you think this book scales up from where you are right now?

Sumant Kathpalia: So, we've changed the team. We've not grown that book over the last two years is INR1,700 crores to INR1,800 crores. The experience cannot be such in a small book. We've started scaling up the book now. We've got a team in place. And we see that, this book will touch about INR5,000 crores to INR5,500 crores in three years, and that's what our ambition is. INR15,000 crores of mortgages and INR5,000 crores to INR5,500 crores of affordable house.

Manish Shukla: Okay, INR15,000 crores for mortgages. And this mortgage is, I'm assuming you don't need to lap and your own books?

Sumant Kathpalia: No. As I told you, we've got into housing loan segment. We are doing a pilot right now. We have a INR665 crores. We should be around INR4,000 crores to INR5,000 crores book in a year, and then we will start scaling up the book.

Manish Shukla: Sure. There is no more question. Thank you.

Moderator: Thank you. The next question is from the line of Sumit Rathi from Centrum PMS. Please go ahead.

Sumit Rathi: Thank you for the opportunity. And congratulations on the good set of numbers, sir. I just wanted to check our MPLs in the consumer financing book across the product has gone – GNPA numbers have gone slightly up Q-on-Q, how can we see it going forward? And what could it have an impact on our credit cost prospects of 1.1% to 1.3% percentage?

Sumant Kathpalia: So, if you look at the consumer finance book, the non-microfinance, it's about 14% to 15% of our book. If you look at the numbers, which are coming on that, we had a INR280 crores of flow, which happened on that business. And the recovery rates are also very high on that business. So, while the credit card is the largest flow element in that business. So, the credit card is 3% of our book. So, we should be able to maintain our credit cost. So, when we've done our end and within our calculations of 110 basis points to 130 basis points. We said 44% to 45% of our book will be corporate, which will become at 10 to 20 basis points of credit cost. The consumer bank will be around 150 basis points to 180 basis points of credit cost. If you look at microfinance, will be 250 basis points of credit cost. And our vehicle finance business will be at 100 basis points of credit cost. If you compute it, it will come to 120 basis points to 150 basis points to 120 basis points of credit cost.

Sumit Rathi: All right, sir. On the corporate finance book, can you dwell a bit on like what is the -- you said, you had some early warning systems over there. So, what are these early warning systems? And what is the top 10 or top 20 big accounts we have, like what percentage of our book, if you can dwell on that?

Sumant Kathpalia: So the top 20 accounts on the large corporate side, which we don't disclose, is a very small percentage left of our book. It was at a very high, but it has now reduced sharply on our book, and it's about 10% to 12% of our overall book now. Having said that, on early warning indicators, I don't know how to explain it to you. There are 200 attributes, which we use. Now I can't explain each and every attribute. There are different attributes, which we use to identify early warning indicators. And we use them very effectively and manage our portfolio. We also use it in the MSME and the SME side of the business or any business on the segment side of our business.

Sumit Rathi: All right, sir. Those were my two questions. Thank you for it.

Moderator: Thank you. Next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

Jignesh Shial: Our CD ratio has been inching up. And now right now we have somewhere around 86.8%-- so at what level are we comfortable? Or do you think, it can still we have enough room to grow it further? What's -- how comfort level for the CD ratio, overall?

Sumant Kathpalia: Our comfort level on CD ratio is 86% to 89%.

Jignesh Shial: Okay. Understood. Secondly, if you see it up, there has been a sequential jump also that we are seeing it up, on the investment book as well. So, anything specific that we did to, or it's just generalized, and we should see normalizing over coming quarters? Or can you give us some idea on it?

Arun Khurana: Yes, so the increase in investment book is primarily due to excess cash being deployed in short-term treasury bills. So, you all know that the rate cycle is sort of benign at this point in time. So, the idea is that the excess cash that we get, we've got to ensure we get ample returns by way of having a secured portion through government securities and that can come in help whenever we wish to if we see a higher credit growth. But having that, there are 2 or 3 avenues that you must see together. So that's the cash and bank balances, the investment book as well as balances in RBI. So, you'll see a proportionate increase or a decrease in some of those getting mix or getting a change in mix in that. So, it gives me a high yield of around 130-odd basis points.

Jignesh Shial: Understood. And just lastly, on the corporate banking side, we have been seeing consistent sequential surge on the smart corporate portfolio. So, want to know, proportion or the quantum is still pretty smaller compared to large and mid. But can you give us some flavor on what kind of lending is happening out here or not? And how much you're comfortable growing it up further, from here on? That's it from my side. Thanks.

Sanjeev Anand: Yes. So, a small corporate book, 2.5 to three years back was around 4% of our total corporate book. Today, as we speak, it's around 10.5% and the idea is to take it to around 20% in the next 2.5 years of the corporate book.

Jignesh Shial: Understood. Perfect. But just one adding to it. Will the yields would be relatively better off compared to mid- and large corporate? Will that be a fair understanding, yes?

Sanjeev Anand: Yes. Yields are better. Obviously, the granularity is much more diversified in terms of the ticket size and stuff like that and these are all secured.

Jignesh Shial: Perfect. Sounds great. Thanks a lot, and all the best, sir.

Moderator: Thank you very much. I now hand the conference over to Mr. Sumant Kathpalia for closing comments.

Sumant Kathpalia: Thank you for participating in the call. As usual, me and Indrajit are available for any further questions, which you may have. Thank you, and God bless.

Moderator: Thank you very much. On behalf of IndusInd Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Disclaimer:

This document has been prepared by IndusInd Bank Limited (the "Bank") solely for information purposes, without regard to any specific objectives, financial situations or informational needs of any particular person. All information contained has been prepared solely by the Bank. No information contained herein has been independently verified by anyone else. This document may not be copied, distributed, redistributed or disseminated, directly or indirectly, in any manner.

This document does not constitute an offer or invitation, directly or indirectly, to purchase or subscribe for any securities of the Bank by any person in any jurisdiction, including India and the United States. No part of it should form the basis of or be relied upon in connection with any investment decision or any contract or commitment to purchase or subscribe for any securities. Any person placing reliance on the information contained in this document or any other communication by the Bank does so at his or her own risk and the Bank shall not be liable for any loss or damage caused pursuant to any act or omission based on or in reliance upon the information contained herein.

No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained in this document. Such information and opinions are in all events not current after the date of this document. Further, past performance is not necessarily indicative of future results.

This document is not a complete description of the Bank. This document may contain statements that constitute forward looking statements. All forward looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially include, among others, future changes or developments in the Bank's business, its competitive environment and political, economic, legal and social conditions. Given these risks, uncertainties and other factors, viewers of this document are cautioned not to place undue reliance on these forward-looking statements. The Bank disclaims any obligation to update these forward-looking statements to reflect future events or developments.

Except as otherwise noted, all of the information contained herein is indicative and is based on management information, current plans and estimates in the form as it has been disclosed in this document. Any opinion, estimate or projection herein constitutes a judgment as of the date of this document and there can be no assurance that future results or events will be consistent with any such opinion, estimate or projection. The Bank may alter, modify or otherwise change in any manner the content of this document, without obligation to notify any person of such change or changes. The accuracy of this document is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the Bank. Minor inaccuracies during the analyst call discussion may be corrected by the Bank at the time of uploading this document. This document is not intended to be an offer document or a prospectus under the Companies Act, 2013 and Rules made thereafter , as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended or any other applicable law.

Figures for the previous period / year have been regrouped wherever necessary to conform to the current period's / year's document. Note: All financial numbers in the document are from Audited Financials or Limited Reviewed financials or based on Management estimates.