"Q1 FY11 Result Conference Call Transcript of IndusInd Bank"

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SPEAKER: Romesh Sobti – Managing Director, IndusInd Bank

Moderator: Good afternoon everyone. At the outset, we extend you a very warm welcome to this analyst call. We are connected to the Corporate Office of IndusInd Bank from where Mr. Romesh Sobti, the Managing Director and CEO; and Mr. Paul Abraham, the COO, along with his top management team will be interacting with you all in a few seconds. While welcoming Mr. Sobti, I have pleasure in handing over the floor to him. Over to you, sir.

Romesh Sobti: Thank you and good afternoon. Thank you for joining us. I think at the very outset we need to first clarify, what were the need of this investor call. We normally do an investor call of this nature every year after the declaration of the final quarter results. But this time around we found a chorus of demand from various quarters. We also found that a lot many wanted to host the individual calls. So we thought that instead of doing that in bits and pieces, we might host the call for everyone. So we opened the platform out for everyone to join in.

There is no special agenda, but I think we take this occasion more to answer questions because I think the disclosures that we give every quarter as we did in the last quarter are very exhaustive and informative. I think the highlights of the quarter results are well known. We are now nine quarters old. As a new management team, our quarterly momentum in most of the vectors that we have set for ourselves that we measure ourselves by, continue to run at best.

Just a few headlines on what we want to do in the future, more than what we have done in the past because the past is history and I think it's well known to you. Essentially, as we have said in our March quarter results when we did an open call, we did say that our next three years' aspirations are now strictly focused on scale with profitability in a sense that we are reasonably confident that we have a sustainable business model that we are confident of the main drivers, and therefore we now want to plant this model on a wider scale, so our challenges of scale essentially over the next three years. Scale for us means scale in the balance sheet, scale in all the products and services that we have whether insurance or funds or CASA and all these boiling down to really scalier branch distribution. The branch distribution is the key element of our strategy and that's why we apply for 127 licenses, we have got them, and we are ruling them out.

Before we set our sight on expanding the branch network, we also did some validations because it's not just a question of opening branches. It's a question of what do we get out of these branches. And our focus clearly on these branches is that they should get a fee and they should get a CASA. Then we'll see balance sheet. When we say balance sheet at the branch level, we only mean

CASA because even fixed deposits are not such a big deal because you can open a tap and get fixed deposits. So it's CASA and fee.

So first the story of the branch expansion plan, this is one of being very certain about the breakeven of the branch network, and that's why we did a validation through a 30-branch pilot trust that we did last year to validate our ambition that all branches should break-even in a period of about 10 months. And there are different categories of branches, category A, B, C. And in line with this thinking, therefore we have drilled down on what kind of revenues we expect from every category of branch and what sort of costs that we are willing to incur on every category of branch.

So having validated that through these 30 branches, we are now embarking our opening at least 100 branches if not more in the current year and taking our branch network fast to 300 mark. And we expect that to have a beneficial impact both on our CASA and also our fee flows. When we talk about a branch P&L, we do not include lending income in the profit and loss. No lending income is attributed to branches. So essentially it is fee that the branches generate through clients as well as the CASA in that facility. So that's our tax. Tax is also resulting in the re-rating of our ambitions on the six parameters that we have measured by over the last two and a half years. So whether it's net interest margin or internal assets and equity, quality of our book in terms of NPAs, cost to income ratio and the revenue per employee. So that's a very quick summary of what we expect in the future. And I think more than that, we would want to answer your specific questions on this call. So we will open this up for questions please.

Moderator: Thank you, sir. We will now begin with our question-and-answer session. At this time if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "0" "2". I will repeat "0" "1" to ask a question and "0" "2" to cancel your request. Our first question comes from Naga Deepika from Capital Market.

Naga Deepika: My question was based on the restructured assets and the movement of NPA rather. Can you just give us a following?

Romesh Sobti: As far as restructured assets are concerned, it's about Rs. 45 crores at the end of the first quarter and net comes down in fact from the figure that we reported in March business of Rs. 50 crores.

Naga Deepika: Okay.

Romesh Sobti: In terms of base point, it is about 21 billion points on total environment portfolio.

Naga Deepika: Okay.

Romesh Sobti: That has been practically no new asset which brought the restructure.

Naga Deepika: Right. The movement of NPA?

Romesh Sobti: Gross NPAs and net NPAs are 1.26% of gross NPA as compared to 1.40% last quarter. And the net NPA has come down now to 0.38 from 1.0%.

Naga Deepika: No, I was asking in terms of gross NPA additions, you know and reductions in terms of that?

Romesh Sobti: If you actually look at our investor presentation, we have given these figures. What typically happens is that we have attrition on the consumer finance side every quarter and we also have a corresponding amount of reduction because these are more like technical NPAs.

Naga Deepika: Okay.

Romesh Sobti: That's happened in this particular quarter as well. So in terms of addition we have 56 crores of addition in the NPAs and we have a reduction in 44 crores. So the net-net increased by 12 crores also.

Naga Deepika: Okay.

Romesh Sobti: Similarly on the corporate bank, it's about 7 crores of net addition in NPA.

Naga Deepika: Okay. Where do you see the advances of growth actually this time? This quarter the credit growth was good. Which sectors do you see the growth from apart from the vehicle financing?

Romesh Sobti: If you see, our book is very, very widely distributed. We don't expect to create any conflicts growth will come in a similar fashion. We'll continue to grow in growth sectors and it will remain widely disclosed.

Naga Deepika: Okay. That's all from me. Thank you.

Moderator: Our next question is from Mr. Vijay Sarathi from BNP Paribas.

Vijay Sarathi: Good afternoon, Mr. Sobti.

Romesh Sobti: Good afternoon.

Vijay Sarathi: If you just look at your revenue growth and OPEX growth over the last eight to nine quarters, from the last quarter of '09 to almost through FY10, the revenue growth obviously outpaced the cost growth. And in the recent past, the situation has kind of reversed a little bit, cost growth outpacing the revenue growth. Now, you articulated the reasons for the survival in the past. Now at what point can this envisage the revenue growth, overtake cost growth again?

Romesh Sobti: I think, this cost growth exceeding the revenue growth has happened only in this quarter one. And one of the previous eight quarters did we have this. And this is essentially a function of the fact that in quarter one, every year we make some extra provisions strictly on our stock expenses because then bonus comes in and you know bonus has a twin impact because you provide for bonus of the last year and you also provide for bonus of the next year. So that's why if you normalize that even in this quarter the revenue growth has outstripped cost growth. It is one of our absolute, what we call it there is a cent percent for us, that revenue growth has always exceeded cost growth because every expense that we take is taken when the question of what is going to bring first by way of revenue. So whether it's capital expenditures that we incur, they are all predicated on this – on this basis that there should be a positive seizure that means cost growth vis-à-vis of cost will give you more than it would be of revenue growth. So this little tabulation that you saw was only in quarter one.

The other aspect you have to see is a big effect on the revenue side. The cost to income ratio and the revenue growth is depressed because the quarter one last year had an unusual blip in revenue. If you recall, it was the… we made almost Rs. 86 crores of revenue on money market gains.

Vijay Sarathi: That's right.

Romesh Sobti: If you normalize for that in any case our revenue growth is higher than cost growth.

Vijay Sarathi: Okay. The second question I have is what's the timing for the whole brand changing exercise? Is there any timeline for that you can give us at this point?

Romesh Sobti: The exercises have all been completed. It's now a question of when do we want to, when will it reflect, which part of the year reflect to, to go ahead and doing it. We haven't yet picked a date because we've got the Commonwealth Games that will be followed by Diwali and all the sort of things we've really got. Plus we have probably a QIP also coming in. So there is going to be a little bit of management distraction. But as far as the exercise is concerned, we have completed the exercise. We have full provisions made for the expenditure that we are going to incur. That's a question of selecting the time. We can't really say when exactly.

Vijay Sarathi: Okay. Thank you very much. That's it from me.

Moderator: Thank you, sir. Participants, I would like to remind. If you have a question you can press "0" "1" on your telephone keypad. Sir, there are no further questions in the queue.

Romesh Sobti: Okay. Maybe we can explain a little bit more on the branch network, our expansion plan and the science behind the opening of the 100 new branches that we are planning for the current year.

Paul Abraham: Okay. On branches, there are a few aspects. One is of course the actual execution and rollout of the branch network. Number two is the science behind how and where we will locate these branches. Number three is of course in terms of the payback associated with these branches. On the last one, Romesh has already alluded to the methodology being used. These branches are going to be designated consumer bank branches and their paybacks are expected to come out of the business accretion on account of primarily CASA and fee income.

The format is that branches will breakeven in a 9-10 months' period largely on the bank backlog of the fee income that there is. The strategy that we are adopting in terms locating these branches is basically working with the most consulting group. We've got a very elaborate exercise on the demographics that you know are existing across the country. What we are wanting to do is that try and see that the branches are meaningfully presenting a particular geography. To that extent we are saying that we would like to have at the minimum relevant market share, but preferably a dominant market share, which in the typical parlance to cap you know assume to be roughly 4 to 5 percent of the share of the branches present in a particular geography or market.

So what we are saying is that we will look at 20 cities where we would like to focus the density of our branches and a fair amount of that will be in the western and northern zones. They are already fairly heavily concentrated in the southern zones. So that will certainly enhance our footprint in these geographies. We will certainly maintain our network presence across the country and we are already on our way in terms of the branch rollout. We have signed up a partnership with Wipro who will be the outsourcing partner for not only the IT associated with these branches, but also the brick and mortar. So in quarter one, we've already opened 16 branches. We are now on track for quarter two to have 40 branches and then the rest would be split over quarter three and four. So that's a quick summary on branch expansion.

Moderator: To begin with the Q&A again, we have few questions lined up. And our question is from Mr. Paresh Jain from Asit C. Mehta Investment.

Paresh Jain: Good afternoon. I just want to know like at what loan to deposit ratio are you comfortable with? Because from last five quarters your loan to deposit ratio has been increasing.

Romesh Sobti: We always maintain that range of 75 to 80%.

Paresh Jain: Okay.

Romesh Sobti: As you will see that over the last nine quarters we have maintained at this range of 75 to 80%.

Paresh Jain: So can you provide me the breakup of your SLR and non-SLR investments?

Romesh Sobti: Breakup of SLR and non-SLR?

Paresh Jain: Yes.

Paul Abraham: Non-SLR is a very minuscule part of the overall investment.

Paresh Jain: Okay. Also the breakup of your current and savings account?

Romesh Sobti: Yes. CASA breakup.

[Indiscernible]

Paresh Jain: Hello.

Romesh Sobti: Did you hear that?

Paresh Jain: No sir.

Romesh Sobti: Okay, it's 2,040 crores for saving and 4,600 for current.

Paresh Jain: 4,600 for current. All right. Thank you.

Moderator: So the next question is from Darshana Joshi from Sahara Asset Management.

Darshana Joshi: Good afternoon, sir. Just a small clarification, our current capital adequacy has been 13.7%. When do we see further dilution?

Romesh Sobti: Certainly we have already announced. Our total capital adequacy is about 13.7 and our tier 1 was 8.7. So when we declared our June results we also announced our capital raising plans that we would want to raise up to a 1000 crores before the end of this calendar year.

Darshana Joshi: Right.

Romesh Sobti: So that should bring our capital adequacy back, but you take a little bit of one sector, that the profit accrual for the quarter has not been taken for the purpose of calculating tier 1 because that's the new RBI guideline. Unless they audit it they must be taken.

Darshana Joshi: Okay. So with this 1000 crores of capitalizing our tier 1 would be how much, sir, approximately?

Romesh Sobti: 1000 crores of tier 1 would be well close to 11%.

Darshana Joshi: 11% and that is for how many years, sir?

Romesh Sobti: Well this capital raising together with profit accrual that we have should keep us out of the market for at least 18 to 24 months.

Darshana Joshi: Okay. That's it from my side. Thank you.

Moderator: Our next question is from Jayprakash Toshniwal from Taurus Mutual Fund.

Jayprakash Toshniwal: Good afternoon, sir.

Romesh Sobti: Good afternoon.

Jayprakash Toshniwal: I just wanted to understand the cost of funding cost side. Your funding cost is actually parallel when compared to Q-o-Q basis but the short term rates have moved up. So how are you able to manage those things?

Romesh Sobti: Well the blended cost of funds is a question of the mix of the wallets. We have fixed deposits on the one side and you actually have CASA.

Jayprakash Toshniwal: Okay.

Romesh Sobti: So when the CASA did move up by I think for this quarter almost 60 basis points.

Jayprakash Toshniwal: Okay.

Romesh Sobti: And I think the blended cost of your fixed deposits also went down. That's why we had blended cost about 5.98.

Jayprakash Toshniwal: Okay.

Romesh Sobti: And previous year it was 7.65.

Jayprakash Toshniwal: Okay. So can I have the breakup of the maturity of term deposit let's say how much of the maturing in the next six months?

Romesh Sobti: We have the maturity profile. We can give that to you offline.

Jayprakash Toshniwal: Okay.

Romesh Sobti: But if you want… just a second.

Jayprakash Toshniwal: Sure.

Moderator: Our next question is from Mr. Deepak Radhakrishnan from Unified Capital.

Romesh Sobti: We will have to give that answer to the previous question before we take the next question. Just a second.

Paul Abraham: We can take the question. We will just give you the number. Go ahead with the next question.

Moderator: All right. Deepak, you may please go ahead and ask your question.

Deepak Radhakrishnan: You are looking at adding branches in the tier 2 cities?

Romesh Sobti: Yes. Tier 1, tier 2, tier 3, tier 4, tier 6, every tier, tier 1 to 6.

Deepak Radhakrishnan: Okay. And that capital addition of Rs. 1000 crores would be in the second quarter?

Romesh Sobti: Well, that's certainly in this calendar year.

Deepak Radhakrishnan: Should be in parts of 500 or is it going to be in one shot? Are you looking at raising it in one shot or?

Romesh Sobti: One shot.

Deepak Radhakrishnan: Thank you.

Moderator: Sir, can we answer Mr. Toshniwal's question? He is there in the queue again.

Paul Abraham: This will be roughly around 40%.

Jayprakash Toshniwal: Okay sir. Sir and my last question on the growth side is, where do we see the growth? It should be in a consumer finance book or it should be in a normal banking lending side?

Romesh Sobti: I think both the books are going to show a bit. The last two years, the corporate book grew faster than the retail finance book. That was the condition of the market but now the vehicle finance side is also showing a pretty good momentum. So I think in a few quarters you will see growth rates in the vehicle finance or exceeding growth rates in the corporate side. That's why we will steadily increase the share of our vehicle finance in our total loan book from 42% today for our stated ambition of 45%.

Jayprakash Toshniwal: Okay, sir. Thank you.

Moderator: Our next question is from Mr. Porko Elango from Sequoia Capital.

Porko Elango: So just quickly on consumer lending, you mentioned commercial vehicles. First question, are there any other segments that you are looking at that other finance companies are now considering, case in points being gold lending as well as construction equipment. And on vehicle financing, which segments do you see growing the fastest?

Romesh Sobti: First question is that, are we going to diversify?

Porko Elango: Yes.

Romesh Sobti: See, we are already into pretty diverse – our spectrum of financing is pretty diverse. So if the vehicle finance is two wheelers, three wheelers, we are already number one in construction equipment in the retail segment with a 90% market share. Then of course commercial vehicles, utility vehicles, three wheelers as well. So it's pretty diverse. Now we are adding to this portfolio, the loans against properties as different from being home loans. Once again properties are really loans given to businesses but they are processed just like home loans. That product has already commenced from last month. Then I think the new initiatives are in the second-hand vehicles. So both on commercial vehicles and in auto loans, cars we will build up the portfolio of pre-owned or second-hand vehicles as well.

Apart from this, gold loans are not on our radar screen immediately. I think gold loans require a special competency and a special way of handling especially if we want to do volume business. It's certainly not in a radar screen immediately. And of course the loan against securities is the other one that we will start building back.

Porko Elango: Thank you.

Moderator: Our next question is from Mr. Alpesh Mehta from Motilal Oswal Securities.

Alpesh Mehta: Good afternoon, sir.

Romesh Sobti: Good afternoon.

Alpesh Mehta: Sir, I just wanted to take your outlook on the corporate demand per se in the system and the outlook on the interest rates?

Romesh Sobti: The corporate demand outlook, Mr. Chander will talk about the interest rates.

Suhail Chander: Yes, corporate demand both for working capital we see first I talk about working capital. I think working capital demand is certainly being deserted, and in both sectors around the country, we see growth in corporate businesses as a result demand is coming back and therefore working capital demand is going up that is a positive. We also see investments coming back into the corporate area. Many projects, which had been mothballed or had not during the course of the crisis had not really taken off or had being pushed back are all starting again. So we also see demand key up for longer term investment funds. So overall I would say that certainly if you compare it to 12 months ago, corporate demand for funds is much better than it was. It's certainly a positive outlook.

Alpesh Mehta: And are we going to grow our book faster than in the corporate segment as compared to retail or the mix is like likely to remain the same?

Paul Abraham: I think Romesh answered that question a little while back. Today, our mix is about 42% in vehicles and about 58% in the corporate books.

Alpesh Mehta: Okay.

Paul Abraham: Over time we would like to take this mix to 45:55. So that essentially applies that over the next two to three years, the retail book should grow faster than the corporate book. That's the only way the mix will change. So both the books will grow. But the corporate growth may be slightly faster than the retail.

Alpesh Mehta: And which are the segments are we targeting to grow our corporate book?

Paul Abraham: Again this is something I answered a little while back.

Alpesh Mehta: Sorry for that.

Paul Abraham: We've got a very, very networked book. We don't have a sector concentration and we intend to keep our book that way.

Alpesh Mehta: Okay. And outlook on the interest rates?

Romesh Sobti: Yes. Clearly the signals are tightening as we think the yields on shorter end have already been given. That's a 364 days… yield is now up to 5.9%.

Alpesh Mehta: Okay.

Romesh Sobti: And clearly that is indicating that the regulators want the shorter ends deepened, which also – of course it is slightly infecting the medium and the longer term as well.

Alpesh Mehta: Okay.

Romesh Sobti: And I think this is also indicative of the outlook that the regulator has that till inflation comes under control, which means October, November keep the short term rates higher and therefore the expectation is that money market rates, bond yields etcetera will keep sustained at a higher level till around October, November. And then I think both deposit rates and this thing - the view is that then the rates will start easing. So I think that was the last quarter the expectation is that the rates will start easing.

Alpesh Mehta: Okay. And thanks a lot. I am sorry for being very a repetitive.

Romesh Sobti: Not at all. You are most welcome.

Alpesh Mehta: Thanks a lot.

Moderator: Our next question is from Mr. Abhishek Sasmal from VCK.

Abhishek Sasmal: Hi congrats on good second number. I just want to know, in a increasing interest rate scenario, how confident are you maintaining this net interest margins of 3.32.

Romesh Sobti: Interest margin is a function of yield and cost. Our yield is holding pretty steadily and I think we have seen the bottom end of the yield, the quarter ended March. After that our yields have actually improved as we have seen in the presentation. We have given a breakup of the yields, both the corporate yields as well as the consumer yields breakup in this quarter ended June. So going forward, we expect the yields not to fall and yields actually to consolidate. Together with the fact that our CASA momentum is continuing and that gives us the confidence that we are the highest gross yield in the industry. And we are certainly cutting into the CASA game and managing our overall blended cost of deposits pretty decently. We are confident that we should be looking upward on the nip.

Abhishek Sasmal: Okay. And the secondly as of – what is the average duration of your assets and liabilities separately?

Romesh Sobti: Come again.

Abhishek Sasmal: What is the average duration of your assets and liabilities?

Romesh Sobti: I think – on the vehicle finance side, the assets average duration of about 20 plus

Abhishek Sasmal: Okay.

Romesh Sobti: And on the corporate side, I think the average that are about 180

Abhishek Sasmal: Okay, okay. And sir percentage wise, how much of your assets is do falling at repricing?

Romesh Sobti: Well, the entire corporate book because dup repricing. So this is a short thinner book – capital book.

Abhishek Sasmal: Okay.

Romesh Sobti: And of course, the vehicle finance book is fixed rate book. That also get repriced in a way through you know EMI rate book say every year cost the repayments. And repayments are replaced by high yield mislending on a monthly basis.

Abhishek Sasmal: Okay.

Romesh Sobti: So, there is repricing there also. But the corporate book is floating replace it.

Abhishek Sasmal: Okay. Thank sir and good luck for next quarters.

Romesh Sobti: Thank you.

Moderator: Thank you, Abhishek. Participants I'd like to remind if you have a question you can press 01 on your telephone keypad. And sir, there are no further questions in the queue now.

Romesh Sobti: Okay. Is there any other general information that do you want to give them …

Male What our book coverage?

Romesh Sobti: Yes, I think coverage ratio and the quality of the book maybe, we can give you some more respective as fuel fall further questions.

Male: As far as our loan coverage – provision coverage ratios are concerned it's been steadily increasing, if you recall two years back it's used to be as low as 20% and that after year-on-year if you compare with quarter one of last year because they are 31%. From there, we went to 60% end of year and today we are 70%. So we have reached the minimum provision coverage, which RBI expects all bank to achieve by September end, ahead of that tenure. Provision coverage in our case is actually you know need to be viewed from the context that almost 40% of our loan in the consumer finance are entirely secured loans. So they don't really require a high provision to begin with given the churn that we have in NPA. We keep having accretions as well as deductions almost the same level, but despite that given the RBI detect we have gone ahead and provided also. We have adequate amount of cushion, which has been built-in. so that's – that's on the provision coverage in terms of credit cost. Our credit costs have been at the level of about 1.01% last year given the – given the need for higher provisioning to reach the requisite amount of provision coverage. And some amount of that higher provisioning has happened in this quarter as well. So this particular first quarter we had a credit costs of 22 basis points. Out of that 22 basis points about 17 basis point was an account of higher provisioning that we did for reaching the 70%. So only five basis points was the actual provisioning cost. And for the year as whole, we expect that our overall credit costs should be in the region of about 70 out of – 60 to 70 basis points.

Moderator The next question is from Aditi Thapliyal from Execution Noble.

Aditi Thapliyal Thanks most of my questions have been answered. I just wanted to get an idea on what kind of CASA numbers they are likely to end this year with?

Romesh Sobti: We have – every quarter received almost a 1% decrease that for the last nine quarters when we move from 14 to 24 nine quarters.

Aditi Thapliyal: Sure, sure.

Romesh Sobti: So, you know throughout a percentage increase every quarter in what we are aiming at so if you go by that as we go from the 24 about 6.5% is service tax.

Aditi Thapliyal: Okay, It sounds about right. I was just little curious about the statement you made earlier in the call about entering financing of old commercial vehicles, did I hear that right. I just wanted to understand what's the thought process behind that and what would be your, what would be your strategy in entering this segment considering that, a lot of your private sectors peers have had limited success in this segment?

Romesh Sobti: We're predominantly going to be a new vehicle player. As you know, take the Sri Ram transporter predominantly old vehicle finance. We are not going to encroach on those territories.

Aditi Thapliyal: Sure, sure.

Romesh Sobti: The issue is that we do get opportunity for secondhand vehicle financing, which we will utilize when they come to us. We are not going to create a separate vertical before secondhand vehicle financing. Because we know that there are competitive thing to it. Some people do it much better. We have network with all those replicates asset class. So some of I would say that we'll predominantly do new vehicles as a whole, but it does still have predominantly do….

Aditi Thapliyal: Old commercial vehicle. Sure, sure.

Romesh Sobti: So it's not a conscious strategy to break into a sort of not an area. It's an opportunity that pays us, and we don't want to miss that.

Aditi Thapliyal: Yes. Okay. That's it's from my side. Just a little curious why was there a two week gap between the results in the conference call.

Romesh Sobti: No. actually we had no intention of doing the conference call.

Aditi Thapliyal: Okay. I thought so okay.

Romesh Sobti: We don't do quarterly calls because we do once a year.

Aditi Thapliyal: Yes. Yes.

Romesh Sobti: At the end of March. You know

Aditi Thapliyal: And the presentations are very helpful.

Romesh Sobti: But there was a chorus.

Aditi Thapliyal: Yes.

Romesh Sobti: That lot's of our investor banking friends and all wanted to host calls definitely so we said why don't we host one, if there is such a demand.

Aditi Thapliyal: Yes.

Romesh Sobti: I think it was more a demand based than end of the year.

Aditi Thapliyal: Okay. Probably we will hear from you guys nearer to the results next time.

Romesh Sobti: All right.

Aditi Thapliyal: Yes. Thank you, thank you. That's it from my side.

Romesh Sobti: Okay.

Romesh Sobti: We will take our next question from Mr. Amit Ganatra from Religare Asset Management.

Amit Ganatra: Hello?

Romesh Sobti: Yes.

Amit Ganatra: Yes. Just wanted to understand have you guys done some working with, if you would have added these current profitability to our tier 1 then what should the tier 1 would have been.

Romesh Sobti: Okay. We have added a bit.

Paul Abraham: 45 points are higher than the – on which we are for.

Amit Ganatra: Okay. Also just for an observation just correct me if I am wrong. During this quarter your risk weighted assets are almost grown normal than what the advances growth has been. Is it correct and if it is then what could be the reason?

Romesh Sobti: At a times the risk weighted change say for example if I bought bills discounting, the risk weighted it is was gone back to risk weighted 20%, by doing for the corporation on that, the risk rate goes 200%. That is perhaps the only reason why the risk rate weighted assets advances as well. There was a substitution.

Amit Ganatra: Okay.

Romesh Sobti: Those have a risk weightage of 20%. But in this quarter probably there was – not probably there was certainly a shift out of the LC billing which is low, very low interest rate bearing.

Amit Ganatra: Okay.

Romesh Sobti: To normal level working capital and the consequence of which, 20% weightage was reflect by on the percentage ratio. That's why we saw….

Amit Ganatra: Okay. So for new series what is the risk weightage that is acquired by RB, new series financing.

Paul Abraham: Yes, you know - new or hold any loans up to 5 crores of rupees individual loans require only 75% risk rate. There are treated as retail loans and there are just few other eligibility criteria. So unless you meet this in terms of concentration. Loans up to 5 crores, 70% is the ratio.

Amit Ganatra: 70% okay, okay, thank you.

Moderator: Our next question is from Mr. Rohit Agarwal from JP Morgan.

Amit Ghatge: Hello, Mr. Sobti, this is Amit Ghatge from JP Morgan.

Romesh Sobti: Hi.

Amit Ghatge: Hi, I had a question regarding your liabilities side. I mean you have always maintained that your balance sheet growth will be driven by liabilities and that's something you will keep focusing on. Now, given the way industry growth is happening for that, especially on the deposit side where it's lagging much below the credit growth that we are seeing right now. Do you see that going forward that growing the term deposit base could be a challenge or and it could entail some costs on your margins?

Romesh Sobti: In that case, for instance, we grew our loan book by about 31% as we grew our deposit book by 27%. So, we have kept pace.

Amit Ghatge: That's right.

Romesh Sobti: And of course, you have to take into account that they are other forms of borrowing which also replaced deposits. So you know we have also raised lot of long-term funding, auto refinance, subsidy, et cetera.

Amit Ghatge: Okay.

Romesh Sobti: As a consequence of the loan activity that we do.

Amit Ghatge: Sure.

Romesh Sobti: So, if you take that together then of course that's why we have maintained a CD ratio of between 75 and 80%. Now, going forward, I think in the short run, in a period of five, six months, there may be although – one doesn't foresee any scarcity on rate in fixed deposits there will be a higher cost linked in to it.

Amit Ghatge: Okay.

Romesh Sobti: I think that cost will very nicely passed on. But a) because you know the mid rate effect is certainly going to create an upward margin in the rates.

Amit Ghatge: Okay.

Romesh Sobti: And b) I think if you are on a working capital financial then your ability to quickly pass on the high gain rates is also pretty clean footed in doing that.

Amit Ghatge: Okay.

Romesh Sobti: We expect that both of these will be tried simultaneously.

Amit Ghatge: Okay.

Romesh Sobti: But we don't expect to see that in our margins.

Amit Ghatge: Okay. So - the deposit rates in the industry go up or there is competition for term deposits. The IndusInd Bank will be or will not get affected by that's the…

Romesh Sobti: No, we'll get affected.

Amit Ghatge: You will be able to manage I mean.

Romesh Sobti: We will pass it on.

Amit Ghatge: Okay, perfect.

Romesh Sobti: We will pass it on.

Amit Ghatge: Okay, perfect. Thank you so much.

Moderator: Next question is from Mr. Ajitesh Nair from Union Bank of Switzerland.

Ajitesh Nair: Good afternoon everyone. Thanks for the call. Sir, sorry, if I am repeating this. I joined late. I just wanted to get your comments on the incremental growth on the vehicle side is more and more being driven some of the UV, two wheeler, three wheeler side. Do you think the provisioning is in line with the normalized tendency of the asset book?

Romesh Sobti: Well, yes, we think [indiscernible] but I think we have provisions much more than needed to.

Suhail Chander: Most of the provisioning that we did in the first quarter related to our vehicle finance - once to retake the provisioning to the 70% level.

Ajitesh Nair: Right.

Romesh Sobti: So non – how the NPA growth, which doesn't grow out of that I think there might okay.

Ajitesh Nair: Right.

Romesh Sobti: We are likely to see a dip in provisioning and sort of credit…

Ajitesh Nair: Okay, and that's helpful sir. And sir, specifically on the vehicle financing side, I am sorry, if I am sure you would have tackled this perfect. Just wanted to get your thoughts on the competitive landscape right now.

Romesh Sobti: Vehicle financing?

Ajitesh Nair: Yes, vehicle financing particularly.

Romesh Sobti: Vehicle financing, the scenario was guttered 12 to 18 months ago as delinquencies arose and as a consequence of that there had been a rearrangement of market shares.

Ajitesh Nair: Okay.

Romesh Sobti: This impacts today's number one in the vehicle financing, or mostly vehicle financing. We are actually number two, number two in CASA but combined we are number one.

Ajitesh Nair: Right.

Romesh Sobti: So, I think that the sector is getting really segregated there is a large player which is emerging in the secondhand market.

Ajitesh Nair: Right.

Romesh Sobti: And we are number one in the commercial bank sector and of course there is a NBFC there you got number one. And of course then there are the captive finance companies.

Ajitesh Nair: Sure.

Romesh Sobti: So the competitive space essentially now in around, around few banks, the commercial banks, the NBFC and the captive finance company.

Ajitesh Nair: Right.

Romesh Sobti: I mean competition looks, competition ebbs and flows right.

Ajitesh Nair: Yes.

Romesh Sobti: The last 12 to 18 months that have definitely there is going to boom over the next three years. With the road network being what it is…

Ajitesh Nair: Yes.

Romesh Sobti: And improving by the rates, I think commercial vehicles they will commence higher for the next few years which will bring back competition.

Ajitesh Nair: Sure.

Romesh Sobti: But commercial vehicles year-on-year work out almost 75%.

Ajitesh Nair: Yes.

Romesh Sobti: I think this is a growth sector, growth sector is always invite competition – attract competition. So if you through these cycles I think 25 cycles have went through

Ajitesh Nair: Sure.

Romesh Sobti: If we able to cope with the luck.

Ajitesh Nair: That's very helpful. All the best. Thank you.

Moderator: Our next question is from Mr. Vijay Sarathi, from BNP Paribas.

Vijay Sarathi: Yes. So – one sector general sector related question. What kind of fraction are you seeing with another implementation of base rate among your corporate clients and secondly most specific in the sense how should we look at the two cycle credit costs I mean in terms of loan loss provisions, I mean general number that is given out is 100 to 120 basis points given that you have one of the lowest credit cost in the sector. How should we look at your through factory credit cost?

Romesh Sobti: Okay, so that credit cost separately. But let's look at the base rate effect

Vijay Sarathi: Sure.

Male Generally it is slightly less than.

Romesh Sobti: Base rate implementation I think is it will have a positive impact on I think on the sector as a whole. Because these sort of ultra low cost borrowing net corporates had access to is no longer available and the portfolios are most banker adjusting. You don't have to adjust rates immediately but as loans mature they will get repriced to base rates and all banks including ours had a percentage of the portfolio which was running below basis. So I expected over the next 60 days or so all of that entire portfolio will mature as the very short our portfolio is also on the short end. So as it matures, it will get repriced to basics. Other instruments will certainly come into vote CPs which was more or less in last calls a few months ago we will start to resurface. But again CPs have interpretation was stamp duty and therefore 90 day seems to be the optimum time and ultra sort of low cost borrowing was ready on a much shorter term than 90 days. So there will be some impact, but not much. Overall I see that the portfolio it will improve in banking as a consequence.

Male: Vijay I'll take you through on the cost of credit.

Vijay Sarathi: Yes.

Male: I will give you the figures now for last three or four years to given an indication of how these figures have moved. 2007-08 our total cost of credit which is both provision plus loss on deposits were 63 basis points. 2008-09 it was 1.02% and 2009-10 it was 0.79%. In the first quarter this year it's 22 basis points. As I mentioned earlier the 22 basis points included almost 17 basis points from accelerated provisioning.

Vijay Sarathi: Okay.

Male: Which we get to take our provision coverage to 70%. So if you look at our consumer finance alone.

Vijay Sarathi: Okay.

Male: You know the actual addition, net addition in NPA was only 12 crores, but we provided 39 crores or so only on the consumer finance. So the general trend has gone up from 63 to 1 and it drop down to 79.

Vijay Sarathi: Yes.

Male: I will think that through the cycle cost of credit is unlikely to be more than 1% or so. We could see some year vary spike a little, go above 1% and in another years like last year it will come below 1%. On an average 1% I think is a very good rate.

Vijay Sarathi: Thank you very much.

Moderator: Thank you Vijay. So we do not have any questions in the queue now.

Romesh Sobti: Okay. And then I think we want to wind up now. As there are no more questions I think thank you very much for joining us. I think a lot of the questions get answered in our quarterly coverage, which we have been told as pretty – what do you call it – disclosure oriented. The delinquency is around the same product line that we give. We are happy to answer any questions and any supplementary that you have. You can direct them towards us. Thank you once again for joining us. Good bye.

Moderator: Thank you, Mr. Sobti. Participants, thank you for using Arkadin event services. With this we conclude this call. Thank you all for your participation and have a nice evening.