“IndusInd Bank Q1 FY13 Results Conference Call”

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MANAGEMENT

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MODERATOR
MR. PUNEET GULATI - JM FINANCIAL

Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank's Q1 FY13 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder, for the duration of this conference, 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 this conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Puneet Gulati from JM Financial. Thank you. And over to you, Mr. Gulati.

Puneet Gulati: Thank you, Inba. Good evening, everyone and welcome to IndusInd Bank's Earnings Call to discuss the First Quarter Results. To discuss the results we have on the call Mr. Romesh Sobti – the Managing Director and CEO along with the top management team of the bank. While welcoming Mr. Sobti, may I request him to take us through the financial highlights and subsequent to which we can open the floor for question-and-answer session. Thank you. And over to you, sir.

Romesh Sobti: Thank you. Good afternoon. Thank you for joining us. I will take you through the headlines and also a few features which you may not see in the numbers that have been put up on the web site and then we will open ourselves to questions. I hope everyone of you has got a copy of the investor presentation which is up on the web site now.

Overall I think the quarter has certainly put out another decent set of numbers and we have maintained the quarter-on-quarter trending which remains positive. I think there is a steady performance in a sort of deteriorating macroeconomic environment, but in this environment we were able to move up our interest income accompanied by a pretty decent size balance sheet growth; Loan growth of 31% which resulted in a Net Interest Income growth of 24%. I think there was always this issue about deposit growth. We have always maintained that deposits are available. It is a question of bank's choosing what funding sources they need to support the balance sheet. But this quarter, we did swing a little bit back to deposit and you saw a deposit growth also up 28%. I think the feature that we have demonstrated over the last four or five quarters has always been that our Fee growth has exceeded our Loan growth. So, it is this quarter as well. While Interest Income grew 24% overall non-interest income grew by as high as 48%. But we are happy about is that the core fee income which is really what we talk about client fee income has also grown 44%. Having said that there was one part of our income stream which was a little sort of low key and we have talked about it to you all individually whenever we met. We have revamped and resourced our treasury function, the global market function and I think that is also showing results. And if you notice from the investor presentation that trading income this quarter also grew quite handsomely; in fact grew as high as almost 78 or 79%. So Credit growth I think will far exceed the industry growth. It is not only year-on-year but it is also quarter-on-quarter that we showed a growth of 6%. So, sequentially also you see that almost under every vector there is a positive growth sequentially.

The other issue is about always the low exposure to the stressed and the sensitive sectors. I think that is now manifested in the reduction; in our gross and net NPA percentage figures and the fact that no restructured loans were added during the quarter; as a consequence restructured assets are now down to 24 basis points on the whole book.

Credit costs overall has come up at 12 basis points and when we take you through the breakup of the Credit costs you notice that the Credit cost is really – even this 12 basis points is a low figure and has been caused only by one account, it was a Gem and Jewellery account which has been nursed for 12 months where we finally felt that we should provide, although we have a recovery opportunity of almost 50% to 60% because there is a lot of mortgages supporting this exposure.

The highlights are stable or slightly improved, quality of book, no addition to restructured assets. Net interest margin we have always maintained will swing by 5 to 7 basis points, so this time around it has swung by 7 basis points downwards, because we did anticipate that this quarter there would be a relief on the cost of funding. That relief did not come at least in the month of April and May and some relief is actually been seen later in June and now we are certainly seeing a down-trending at least in the short-term deposit rate. So I expect that coming quarter you would see some reduction in our overall cost of deposits and therefore overall cost of funding.

CASA is the other feature. CASA has shown an uptick. SA has grown 9% QoQ and overall CASA has shown growth by about 1000 crores during this quarter.

On the yield side we have been able to improve the yield marginally. So we did not let the pressure off on the yield side. So, yields have actually moved up by about 4 basis points. I think our gross yield is now about 13.95 against last year quarter was actually 13.91. The overall yield on assets moved up by 28 basis points from 10.56 to 10.84, that is about 28 basis points. But the cost of funds moved up by 35 basis points to 7.62 and that is why you saw a small swing in our overall net interest margin. So, I think stable trending, stable delinquencies, especially on the Retail side. We would have expected actually our credit cost to be even lower but we felt that this account should be provided so we have made a provision but we do expect some recovery in the next three to six months.

Capital adequacy – we did use capital this quarter. But if you add back the profit then I think the fall in our overall capital adequacy is not so large, it has come down; Tier 1 is down from 11.37 to 11.19, so Tier 1 is only down by 18 basis points and the overall capital adequacy I think last quarter was about 13.6-odd so, we are now at 13.42 if you include the profit.

So, our stance that we are generating capital from our operations and by and large that capital is taking care of large part of our balance sheet growth. That has been maintained during this quarter as well. Apart from that our commitment to the infrastructure growth continues. apace we have not sort of backed off from our branch opening. So, branches have now crossed 421. Given the licenses that we have already in hand we are on our way to crossing the 500 branches mark as of March 31st 2013 and we still remain determined that we will increase our overall network to about 625-650 branches by March 2014 together with an ATM network it should be upwards of 1500; ATM network now is about 735.

That is really a summary of I think the headlines. Unless you guys want to add something to this, otherwise we will open ourselves to questions. We have got the whole management team here. The Consumer Bank, Consumer Finance, Corporate Bank, Transaction Banking, Global Markets, all our Functional Heads, all are here and we are open to any questions that you may want to ask. Thank you.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mahrukh Adajania of Standard Chartered Bank. Please go ahead.

Mahrukh Adajania: Just a couple of questions. Firstly, what would be your outstanding second-hand CV loans be? There are two, three components, right? There are CVs, UVs and then there are small three-wheelers and small CVs. So in each of these what is the used vehicle outstanding loans?

Sanjay Mallik The outstanding used vehicle loans are 10% of our total consumer book.

Mahrukh Adajania: And the quarterly disbursement would be what?

Sanjay Mallik Quarterly disbursements are about 13-15% of our monthly disbursements.

Mahrukh Adajania: For the total consumer book would you have a quarterly disbursement figure, would you be in a position to share that?

SV Parthasarathy For the total consumer book, our total disbursement for the quarter is 3766 crores compares favorably with 2506 crores first quarter of last year, it is about 50% growth.

Mahrukh Adajania: And 13-15% of that would be used CVs?

SV Parthasarathy: Roughly about 13-15%, correct.

Mahrukh Adajania: And the other question I had is that you said that credit costs relates to a single account. So the slippage also relates to a single account. Is that correct?

Romesh Sobti: Yeah, I think largely you will see that. That too in the Gems and Jewelry account. On the Retail side also you have additions but there are larger amount of deductions. So if you see the Slide 22 in our 'Investor Presentation' you will get clarity on that.

Sanjay Mallik: If I can just add the major change over last quarter was the additions to NPA in corporate bank which went up from 21 crores to 51 crores. So, within these 51 crores is basically one medium sized account where there was an addition to NPA.

Moderator: Thank you. The next question is from Ajitesh Nair of UBS Securities. Please go ahead.

Ajitesh Nair: Just one data point, on the non-CASA deposits, what is the breakup between Retail and Non-Retail?

Sanjay Mallik: The breakup of our total customer deposits is 50% wholesale fixed deposits; 22% retail term deposits and 28% CASA.

Ajitesh Nair: So this is basically the 50% wholesale deposits will be bulk plus CDs, that is classified?

Sanjay Mallik: Yes, that is correct.

Ajitesh Nair: And the provisions is entirely credit cost that we made or there is some element of standard or anything else on that?

Romesh Sobti: If you take total provision that includes standard.

Ajitesh Nair: So how much is basically….?

Sanjay Mallik: There is 10 crores standard asset provision.

Ajitesh Nair: Balance will be NPAs?

Sanjay Mallik: Yes.

Ajitesh Nair: And this 50 crores is trading income, this has been contributed by which segment sir, FX or bonds?

Arun Khurana: It's a mix of both FX, bonds and interest rate, so that is the trading part. So, it is a mix of all these three components.

Ajitesh Nair: And finally, on the promoter stake we had a deadline of about December 2012, for that to come down to 10%. Any word from RBI on that?

Romesh Sobti: No, I think that deadline stands. There hasn't been any negotiations on that. of course, there are some expectations in the market apart from this mile posting, that has happened, that expectation is that the new guidelines will come and the new guidelines will have at least 15% stake. Anyway, that is an aside. But as things stand today, the commitment to reduce it to 10% by December 2012 stands.

Ajitesh Nair: And given that there is very less timeline to December, what happens if that condition is not met and there is no new guidelines which come out? Can there be a fall out on the business because of that?

Romesh Sobti: It is like this. Not because of this, but this aside the business as you know may require additional capital in any case. So, we have said that we are certainly looking at say about 10% dilution as we have done over the last two years as well. If that happens in this timeframe, well and good because then that dilutes them down in any case. But if you notice the dilution for the promoter holding from a high of 35% to 19% actually happened through primary issuances. So, this primary issuance itself will sort of take them down to a figure which is well in sort of reach. That will still leave an overhang of maybe 5%- 6% which I think the promoter will have to manage. So, the deadline stands but relief may come out as a primary issuance, fresh issuance.

Moderator: Thank you. The next question is from Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley: I had two questions. One was on yields and second was on the loan book. On yields, the loan yield has moved up only 4 bps but the yield on assets have moved up by 28 bps. So, is that because of very strong improvement in the yield on investments because the LDR has not moved much in the quarter?

Romesh Sobti Absolutely. You are bang on.

Anish Tawakley: And what has driven that, is it something around if those investments you have locked up in against priority sector lending or something else?

Romesh Sobti: No, it has got nothing to do with priority sector lending.

Anish Tawakley: No, I am talking not about loan book, but you have those investments which are locked up for a seven-year period if …..

Romesh Sobti: RIDF overall there is a reduction. So, if you see outstanding over the last 12 months have actually reduced because we are getting repayments now. There is a net inflow on RIDF because we are meeting our targets on priority sector. So, RIDF there is no change. That is a low yielding asset. So, as balance reduces it helps our overall investment yield. But I think it is the combination of securities that we have put in there opportunistically, there is a combination of CDs, and we have got some CDs in there, what else?

Arun Khurana: And we have some CDs and we have invested at times into short-term mutual fund. So that is what resulted increase in our yields.

Romesh Sobti: But nothing to do with RIDF.

Anish Tawakley: Second question, obviously, credit quality has been very solid. Could you talk a little bit about how the watch list of your loan book is looking, should we expect any sort of step up or are we likely to remain as low as current levels?

K S Sridhar: We have said that we wanted to keep our credit costs around 50 basis points for the year as a whole and at this point we still hold on to that figure. Credit quality by and large is stable. We have not added anything to our restructured books today. In fact, as a percentage to the total portfolio it has come down. There has not been even one single restructuring during the quarter. Going forward there could be odd restructuring could happen if we are part of a consortium and the consortium decides to restructure. We do not have anything at this point in time.

Moderator: Thank you. The next question is from Venkatesh Sanjeevi of ICICI Prudential Asset Management. Please go ahead.

Venkatesh Sanjeevi: I have a question on your current account. Now, it has been second or third quarter current account growth has not been really strong. Could you just talk about this, what is happening here?

Romesh Sobti: In these times of such tough liquidity situation, nobody leaves interest-free money with banks. So the increase that we have got has also surprised us. As you know the demand liabilities in the whole system has shrunk over this period of six to 12 months. So, whatever CA you are getting now is out of new relationships, we are now breaking; for instance, on the government business, we are certainly breaking into that business, that CA has come in. There have not been any primary issuances because that has actually fueled; last year it had fueled a lot of our CA growth. So, if you look at IPOs, etc. our bond issuances from the public sector, those are the things with the large sources of CA, and those have certainly slowed down over the last three to six months. But now we expect that the government's program on raising money for the public sector will now take off from Q2 and we hope that we will partake of that. So, CA is not a surprising situation. I think it is a industry situation. It is not going to be so easy to raise CA. Our focus still remains on the SA part. SA is more granular but SA still continues to grow by 9% - 10% QoQ. I think the government business will be a huge source of opportunity. Sumant, do you want to talk about that?

Sumant Kathpalia I think what we are doing on the government business is that we created teams and focus on the government business. We are capturing the district where the government business and the corporation/state level businesses are being done. Second, we are getting empanelled. As per the latest circular, we are trying to get empanelled to collect direct taxes on the government segment. That is we believe is the game changer and we have already in the first quarter mobilized about 200 crores on the SA book as a consequence of our focus in the government business. We believe this will be a book which will give us about 1500-1600 crores by the year-end. That is something which we believe will be a game changer to push up our CASA percentage.

Venkatesh Sanjeevi: So is it right to say that the CA growth has come in the last one or two quarters, because of new customer acquisition rather the existing ones?

Sumant Kathpalia: No, it will be wrong. I think we have seen a deepening as well as we have seen acquisitions. If you look at over the past two quarters, if you look at SA growth, it is a mix of both. We have deepened the book by about 7% as well as we have seen a customer acquisition of about 55,000 accounts per month which has helped us grow the book. So, it is a consequence of both.

Venkatesh Sanjeevi: I was asking specifically on CA, 55,000 is CA or SA?

Romesh Sobti : Its is SA

Sumant Kathpalia: We acquire about 3500 current accounts per month. About 10,000-11,000 in a quarter and we do about 200 crores of acquisition in current account in a quarter.

Venkatesh Sanjeevi: This actually leads me to next question which is on one of your slides you talk about your LDR-cum-CD ratio coming down to about 75-80% which is currently 83% and you were also talking about loan book growth of 25-30%. So to get this in place you need to have your deposits growth in excess of 30-35%. What is your thoughts on this side of projections?

Romesh Sobti: See, the issue here is certainly deposits growth will ramp up as soon as we see rates in the 90-180 days buckets fall. We are already seeing that rate fall. And you know that when we were in a steady state when liquidity was much better than it is today, our CD ratio was typically around 75%. In the past two quarters we have found that the cost of borrowing is lower than the cost of deposits and therefore we did shift opportunistically to borrowings, be the foreign currency borrowings or refinance or CBLO borrowing from the repo and all that. And that is why you saw CD ratio at 83%. But if you see a past three year track record we have always been in the mid-70s and we do expect deposit uptick happening in the coming quarters. Even this quarter itself we have increased our deposit base by almost 28%.

Moderator: Thank you. The next question is from Subramaniam PS of Sundaram Mutual Fund. Please go ahead.

Subramaniam PS: My query was on the unmatched fixed rate loans to CASA. You have always articulated that you would want to grow your fixed rate loans in line with the CASA growth, but last three quarters this unmatched fixed rate loans to CASA has been moving up. So, just wanted to gain an understanding on this?

Romesh Sobti: I think we said that in our end mile post certainly is that the book will be funded entirely out of CASA, but in the interim it is CASA plus refinance plus long-term fixed deposits from the retail side which are stickier. If you add all these certainly, I think we are covering our fixed rate book out of steady longer-term funding. For instance, if you take our CASA today say about 12500 crores, 3500 crores of refinance, this itself is about 16000 crores and we have retail fixed deposits which are 22% of our total. So, essentially we cover that. So the fixed rate book we have not created any extra mismatches out of the growth of the fixed rate book. Ideally in the end stage it is the only CASA, but in the interim it is CASA plus refinance. The book itself generate refinance as you know. And the refinance is of tenors of one to seven year and our fixed deposits on the retail side of a longer tenor. So, it is a combination of these three.

Subramaniam PS: Fair to understand the interest rate resets on this unmatched portion on the refinance and the retail deposits would be similar?

Romesh Sobti: The point is the bulk of it is financed by CASA. There is no reset there at all. Refinance is fixed for up to seven years.

Moderator: Thank you. The next question is from Parag Jeriwala of Macquarie. Please go ahead.

Parag Jeriwala: Our current Tier 1 capital is far adequate as 11% plus. So, if we dilute in FY13, that would be like bring down our return ratio. So, what is our thought on this?

Romesh Sobti: The issue here is do you leverage your balance sheet to show higher return on equity or do you take comfort from a particular threshold of capital. And certainly, our sensing is in the management team also at the board level is that I think you should be treading both these paths carefully. You are right, if we really manage our capital well and stretch a little bit we can allow our tier one to fall to 9% and show ROE of 25%. But I do not think that gives us so much comfort. We have a threshold on tier one. Ideally we do not want tier one to fall below 10%. Pushed to the wall we will go down to 9%. So, our sensing is be better capitalized; it is a very, very dynamic environment. We do not know which way things are going to swing. So, if you are better capitalized you are better off. You are not desperate to raise money at any cost. So there is a philosophy that we should raise money not only when you need it but also when it is available. So, we combine these two things and combine it with a higher threshold of tier one and that is why this thought process of raising capital and keeping it in your piggybank and then not going to market for the next three years.

Parag Jeriwala: And another question is that we have added almost 120 branches in FY11 which is like close to 30-35% of our overall branches. So, is there any difference between saving deposits which we mobilize from these 120 branches and the branches which are say, matured for like two years? The reason I am asking this is, is there any scope for saving deposit to go up on a same branch level basis?

Sumant Kathpalia If you look at our saving account deposits on a BAU branches we are about 22-23 crores. On a savings account deposit base which are branches which are less than one year old on an average we are 7-8 crores. Now, it depends on each categorization of branch. We believe that on an average we will end this year at about 17 crores per branch.

Parag Jeriwala: So this 17 crores is from the new branches, right?

Sumant Kathpalia: No, we have 500 branches. We will end at 17 crores per branch as of year end.

Parag Jeriwala: This is like an average?

Sumant Kathpalia: Yeah.

Parag Jeriwala: And last question is in asset quality. On the retail front, we have done exceptionally well but not for you but generally for the every bank the retail asset quality has been phenomenally well. Are you seeing any some early signs of delayed payments or something like that which can potentially come up in next one or two quarters or…?

SV Parthasarathy: So Far for the current quarter we are not seeing any stress in retail asset quality in any pocket.

Moderator: Thank you. The next question is from Sudhanshu Asthana of Axis Mutual Fund. Please go ahead.

Sudhanshu Asthana: Just wanted to know that the asset quality has been so good on the retail side. Even if we look at the private sector banks, especially the ones facing consumer financing and the credit costs have been below trended, even the ones who have been there for a longer period of time in the larger book, would you like to put additional provisions if the cycle normalizes and you would require more provision. So would you like to proactively provide more, do you think you would do that in the future?

Romesh Sobti: On the retail book, as you know that our book is fully secured book. There are hardly any components, just that 260-odd crores of credit cards. So if you look at a combination of things on the retail side the loan-to-values that we do, number one, the Loss Given Default that we have on this, number two, Loss Given Default maybe vary between 20% and 30% and a fully secured book with a residual value which is very high. Even without that we have a provision coverage of well over 50%. If you take residual value of the security given the two factors that we have, LGD and LTV probably have a 100% coverage of the retail book. Nevertheless, we have a countercyclical provision already there of about 27 crores, we have put in there. And we are determined that any bonanza gain that we have whether it comes from global markets or whether it comes from held-to-maturity books or mark-to-market gains and things like that will go into a countercyclical buffer. And certainly, it is our determination that we build this buffer up to about 150 crores. We only hope that we get some bonanza gains. You would not see an increase in dividend payouts but you will see an increase in our countercyclical which would mean that you would be well over 100% provision coverage there.

Moderator: Thank you. The next question is from Hiren Dasani of Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: What would be the employee headcount as of June '12 versus June '11?

Zubin Mody: June '12 headcount is 10,460 and June '11 would be 7830.

Hiren Dasani: So we continue to grow almost one-third; 33%-odd in the headcount and the employee cost up about 38%...

Romesh Sobti: Bulk of it really goes into the branches.

Hiren Dasani: Yes, your branch addition is also in excess, closer to 30%. Should we kind of extrapolate this trend going forward as well?

Sumant Kathpalia: The branch cost you should not extrapolate because when we were growing we had to create a structure at a zonal level and I think we created that structure. The cost will now be more at a per branch cost level rather than at a structure level. So if you look at it the cost will start seeing a declining trend per branch as we move forward.

Hiren Dasani: So basically cost per branch you are saying will not really grow in that sense?

Sumant Kathpalia: Not grow.

Hiren Dasani: The other question is that on the cost of funds side what is the outlook? You said that there are some early signs of easing. Should we see this as a peak cost of funds?

Arun Khurana: I think basically looking at the scenario that exist right now and already as saidon the call earlier that a mix of the deposits versus borrowing, if you see we had shifted a bit into the borrowing more through CDs and through availing call and CBLO apart from getting some foreign currency which proved even cheaper when convert that into INR, talking about fully hedged synthetic INR cost. So, going forward I think the policy rates or what we hear across the markets today and the RBI talking about is we got to see the monetary policy, only if there is a cut in CRR possibly and a cut in the bank rate will it reduce the rates going forward.

Romesh Sobti: Now, what is the trending in the last say two, three weeks on the 90-day, the short-end curve…..

Arun Khurana: Yeah, the short-end curve in the last couple of weeks has come off and in fact I think it is steady peak from where it was. So, things look better than before because the liquidity that we have, even if you see the LAF counters, it is pretty much in tune with what RBI expects it to be, it is around 30,000 crores or 40,000 crores in that. So, I think we have seen to have sort of peaked out in term where rates are at this point in time.

Moderator: Thank you. The next question is from MB Mahesh of Kotak Securities. Please go ahead.

MB Mahesh: The first question is on the retail side. The gross NPAs was down QoQ but yet you have made a credit cost of about 24 crores. Just wanted to understand why is it? Slide No. 24 shows a decline in gross NPAs whereas there has been a credit cost of about 24 crores.

SV Parthasarathy: Every quarter we are going in the same run rate on the credit cost. Credit cost consists of two different things. One is gross NPA to net NPA and two is on loss on sale of repossessed vehicles. Whenever if we have to maintain the same kind of gross NPA, net NPA we do repossess some vehicles on a monthly basis which on sale we book the losses. The run rate for that is close to about anywhere around 4 to 5 crores. Therefore that in our book by itself will work out to about 0.2 to 0.25%.

MB Mahesh: And the balance 20 crores, sorry?

SV Parthasarathy: Total amount which is involved is 24 crores. Coverage, out of which loss on sale of reprocessed vehicle is close to about 16 crores. The balance is some net NPA and gross NPA.

MB Mahesh: And what will be the outstanding portfolio in the RIDF today?

S V Zaregaonkar: 1315 crores is RIDF.

MB Mahesh: It has been a fairly muted start on the growth in savings account for this quarter. We have done about 20% QoQ growth in 3Q and 4Q. This quarter we did about 10%. Just wanted to understand ….

Sumant Kathpalia: You should see the absolute value of growth. That is important. Because on a higher base it is important to now see we have grown exactly by 530 crores quarter-on-quarter and if you go back and see it about 500-550 crores quarter-on-quarter to grow. It may jump now but please understand that we are facing a little bit of stress and money is going into FDs also. So we have to see what the clients also want. So, I think we have not decreased. Percentages may matter but absolute value has not declined.

MB Mahesh: Any idea what would be the average cost of saving deposits today on your weighted average portfolio?

Sanjay Malik : We are at 5.5 and 6% - it has to be in between

Sumant Kathpalia: 5.7 because we have an NR book also.

MB Mahesh: Just one last question, again on the fee income side on the third-party products, this probably is the only one which has shown a fairly weak performance in terms of growth. Any comment on this, which segment of the third-party income for this decline?

Sumant Kathpalia: Yeah, there are two reasons for it. One is the March phenomena. The March phenomena will actually in the first quarter show a reduction because March historically has been a bigger month in the Insurance business that is number one. Number two we stop taking any extra commission which we were getting as part of our Non-Life arrangements into our income. So that is the effect which is now coming in.

MB Mahesh: When you say Non-Life it is the income on the housing….?

Sumant Kathpalia: This is the Non-Life Insurance business.

MB Mahesh: On the vehicles loans which is disbursed the insurance business that you report in that, is that right?

Sumant Kathpalia: Yeah, the insurance income which comes as part of the…

MB Mahesh: So it is not booked here anymore, is it?

Romesh Sobti: Yeah, we have not taken that income. Actually that does not cause a sequential reduction.

MB Mahesh: I meant on a YoY basis, it is still about a 12% growth as compared to most of the other lines showed about 40.

Romesh Sobti: Correct. I think it is largely explained by the phenomena of a surge that happens in Q4 because insurance always sees a surge in Q4.

MB Mahesh: On a YoY basis?

Romesh Sobti: Yeah, there maybe some one-offs in the first quarter last year. Also, yes, Sumant mentioned, the non-life income that we are getting from Chola MS was a last, I think six or eight months we have not taken that income into this thing because of a dispute with IRDA.

MB Mahesh: I think in third quarter you booked an income of 8 crores here, so….

Romesh Sobti: Not on Non-Life.

MB Mahesh: And why you are not booking this income any more? Sorry.

Romesh Sobti: IRDA has a difference view on these reimbursements. You know that we also have with now in public domain we had a penalty also from IRDA, Chola had a penalty first nine-ten months ago and then we got a penalty about a week or ten days ago. So we had stopped taking this income for quite a while now. I think for the last seven, eight months we have not taken this income.

MB Mahesh: And what will be the credit card income for the quarter? That will be my last question.

Sumant Kathpalia: 13 crores of income on the credit card.

Moderator: Thank you. The next question is from Amin Pirani of Deutsche Bank. Please go ahead.

Amin Pirani: My question was more on your auto loan book. Just want to understand on any of the segments, are you seeing any stress in terms of increased delinquencies or any stress in the system with respect to like meeting the EMIs or anything?

SV Parthasarathy: So far touchwood we have not seen any kind of stress in any one of the segments in auto loans. Going forward it depends upon monsoon, it depends upon so many other things but it is not that we are seeing this kind of scenario for the first time. Our organization is geared to meet it squarely**.**

Amin Pirani: And specifically on two-wheelers, obviously, the growth rate has significantly come off compared to the last two years in terms of volume growth in the market. As per your understanding what percentage of two-wheelers would be financed and in that sense is that increasing, are you like making increased efforts to like service that area among all the auto segment I think the two-wheeler was the least penetrated in terms of financing if that is correct?

SV Parthasarathy: What you said is absolutely correct. In terms of two-wheelers the growth is not a threat. The availability of financed volume is a threat. Nowadays people buy two-wheelers paying cash or swapping a credit card. What is available for a finance market is it is estimated to be less than 20%. It is a very difficult estimate to make primarily because there are several companies who themselves offer loans to the employees for buying two-wheelers. Therefore, you can call that financed or not financed. But what is available for banks and other NBFCs is less than 15%. We are the market leaders alongside HDFC Bank on two-wheelers and the market is also consolidating. It is now amongst who have been getting larger shares like us and HDFC, we are getting larger and larger every year.

Amin Pirani: And just you had mentioned your loan-to-value ratio being high as one of the strengths of your Consumer Finance business. So, could you just given a sense of what could be the loan-to-value in a two-wheeler compared to car or CV for you?

SV Parthasarathy: We have never mentioned loan-to-asset value as being high.

Amin Pirani: Low asset value, my mistake.

SV Parthasarathy: It is much-much lower and two-wheeler loan to asset value is as good as we get to about 25% margin on two-wheeler. Two-wheeler is only thing where the cost of the vehicle has not grown beyond Rs. 45,000 for the past ten years. It is more or less remaining the same. Therefore it is almost operating like a thumb rule. It is about Rs. 10,000 to 12,000 in terms of down payment and the balance is given as loan which is the market practice.

Amin Pirani: And how would it be different for a CV or a car for you?

SV Parthasarathy: CV, there are different components altogether. CV, we finance only on a chassis. Upon which customer build body and they also incur a huge amount towards getting permit depending upon whether it is a passenger vehicle or a goods vehicle and the insurance cost and putting it on road is very, very high. Therefore even though apparently it may look like we are financing close to about 80% on the chassis our loan-to-value on a completed vehicle is as low as something like 60-65%.

Moderator: Thank you. We have a follow-up question from the line of Venkatesh Sanjeevi of ICICI Prudential Asset Management. Please go ahead.

Venkatesh Sanjeevi: I actually have this question from your annual report, the last one which came out. Looking at the concentration of your advances over the last three years, you have actually increased your retail as a percentage of your overall book quite sharply but somehow your top 20 advances have still increased from 18% to 23% over this period. We have seen a fair amount of change in deposits which has come down from 32 to 25, but why is this concentration happening in advances?

Suhail Chander: Concentration is a few percentage point changes actually add or reduce concentration because that is the amount that are contributed by the top 20 and it remains about the same, it should be around the same for the industry.

Venkatesh Sanjeevi: But if we see a trend with your retail growing assets should not this advances concentration come down over a three-year period, I am not ….

K S Sridhar: I think it is also because unlike in the past we now have lots of public sector unit credit exposures and we also have if you look at our rating wise distribution we have a large number of AAA, AA credit. So, per se we are able to take now higher credit exposures on those clients than what we used to do three years back. That is one reason why I think the top 20, 30 accounts are larger amounts.

Moderator: Thank you. The next question is from Sri Karthik of Espirito Santo. Please go ahead.

Sri Karthik: Just quickly, what would be our average cost of term deposits and also just to understand the average CASA movement during the current quarter might be in the first quarter versus last quarter corresponding?

Romesh Sobti: We do not disclose those numbers.

Sri Karthik: The second thing especially on the credit risk I just want to understand what could be the percentage of the overall credit risk should be off-balance sheet versus on-balance sheet?

Sanjay Mallik: The off-balance sheet to on-balance sheet ratio is about 1.5 or 1.6 times in terms of notional.

Sri Karthik: I just want to understand on the risk weighted assets number.

S V Zaregaonkar: Yeah, our RWA for June 30^{th} were around 37,529 crores, of that fund-based are around 28,301 crores. Is fund base RWA.

Sri Karthik: And just quickly to understand out of why there is a significant difference in terms of CV vehicle financing between the banks and NBFCs. Any thoughts could be of our help in terms of understanding?

SV Parthasarathy: I do not think there is very major difference between the banks we are looking at it and the NBFCs we are looking at it. As long as you compare NBFCs which were closer to the banks size, like larger NBFCs. Smaller NBFCs do not come into the map at all, their risk perception is totally different.

Moderator: Thank you. The next question is from Jyoti Kumar of Spark Capital. Please go ahead.

Ganeshram: I just wanted to get to understand two things. One is the breakup of your CV book in terms of M&HCV and non-M&HCV, what is your new and old?

SV Parthasarathy: M&HCV and non-M&HCV if we start looking at it roughly thumb rule wise CV accounts for 50% of our total retail book. Out of which M&HCV is 50%. Of the total book whatever we have used vehicle accounts for 10 to 15% as we had explained to you earlier.

Ganeshram: Most of the used vehicles will be M&HCV?

SV Parthasarathy: Most of the used vehicles in M&HCV and most of the used vehicles are from our own customer base.

Ganeshram: Second is have you sold any loans to other banks this quarter or any of the last few quarters?

Suhail Chander: On a quarterly basis we do have some portfolio management actions that take place regularly and sale takes place in two or three different instruments, we do bill rediscounting. So if you look at it as a sale or a bill rediscounting so you can look at it as a sale or a bill rediscounting and you can look at IBPC, which is the Inter-bank Participation Certificate which is also what we used to sell down some risk .

Ganeshram: Could you quantify the amount?

Suhail Chander: Approximately 3500 crores in the last quarter and it is not very different from the previous quarter, slightly higher than the previous quarter. There is constantly portfolio management action that takes place.

K S Sridhar: You cannot aggregate it, you cannot add together because this could be short-term loan books.

Ganeshram: My last question is, any specific reason why the stake held by Ashok Leyland or by IDL Specialty or maybe even Asia Management Consulting is not classified as promoter and is there any likelihood of that coming under the other promoter/ownership restriction?

Romesh Sobti: This is how the Reserve Bank of India framed its guidelines. That is a corporate exposure and right from the beginning the local corporates have been put in a separate block and there the cap already is 10% and they are below 10% and that is treated separately. This is the acceptance of the RBI. RBI has given this proposition. So that is not clubbed together and what has really come under scrutiny in terms of further reduction is the holding held overseas by what is called IndusInd Holding which has got about 19%. This was always treated separately.

Ganeshram: So you do not see getting -- the new ownership guideline coming….

Romesh Sobti: No, that is a RBI this thing. RBI accepted that as a separate block.

Moderator: Thank you. The next question is from Nilanjan Karfa of Brics Securities. Please go ahead.

Nilanjan Karfa: Just one question, sorry if I missed it if it was discussed earlier. The cost of funds, can you really look at how the interest cost has paid out on the retail deposits as well as the wholesale three months or six months deposits? They have remained fairly at stable to slightly less on a marginal basis. So what kind of explains the steep jump in the cost of funds? Secondly, is it kind of related because you have done a much larger percentage of borrowing from the CBLO or maybe even MSF window?

Romesh Sobti: If you look at the various funding lines, if you look at foreign currency for instance, foreign currency cost is a function of the spread over LIBOR plus the hedging cost. Hedging costs have varied so dramatically, varied from 3% at one time to a high of 7.5-8%. So, they vary, depending on how the rupee moves. So that is one cost which is a variable cost. So that could jump up. Then certainly your refinance costs have also moved up. We have taken refinance as low as 7% and as high as 10% also. But refinance comes without a statutory cost. So it is still much cheaper than fixed deposits of this thing. Then of course there has been elevated cost on – well, CBLO call has been elevated but we do not have such a large component of call. Plus the largest component is fixed deposits. Fixed deposits you saw after that little rally that happened after the rates were cut it bounced back with a vengeance. Even 90-day deposit then moved up again. So, there has been a variation in the cost. There has been no down trending in deposit cost. What you see is a cosmetic. Any down trending that is actually visible it actually happened in July. A little bit in June maybe.

Nilanjan Karfa: Building up on that, can you kind of talk of a little bit about the maturity profile on the liability side, on the funding side last quarter versus this quarter? Has it changed in terms of how you are taking up funds?

Romesh Sobti: The funding profile remains the same. The books have remained matched. We have always said the fixed rate book which is the consumer finance book will be funded through CASA refinance, and longer-term fixed deposits, that remains unchanged. On the corporate side, certainly the development was that if you saw industry as a whole three quarters ago the industry started expecting a interest rate coming off. So people went short. So bank as a whole, you will find the whole banking profile of fixed deposits going short to say 60, 90 days. So what happened was the expectation that next quarter rate will fall, today I take a 90-day deposit. 90-days go past and there is a repricing upwards. This is what has happened to the industry as a whole. But from the past two months we have started building the long tenors because we found that the rate difference between 90-day and long tenor had almost zeroed out. The rate has flattened out. So we started building our long tenor book. So, I think that by next quarter we will be completely sort of balanced in terms of tenor again on the corporate side of the business because corporate side our book is average tenor of about 210 days and we have always maintained our average tenor beyond that on the bulk deposits side. But because of the movement that have happened and the expectations that banks have had has shortened. Now, we are lengthening it back again.

Nilanjan Karfa: Do you see that is happening across the industry the broad understanding?

Romesh Sobti: Absolutely. The point is that most banks will behave in the same rationale manner. You have an expectation that rates will come off but that expectation started three quarters ago, rate never came off so the book kept getting re-priced. Everybody went short and getting re-priced. Now, we are seeing that they have peaked and the longer tenors are emerging.

Sanjay Mallik: I think we are running out of time. So, we will have to just take now the last couple of questions.

Moderator: Sure sir. Thank you. The next question is from Prakhar Sharma of CLSA. Please go ahead.

Prakhar Sharma: My question is on the CV side of the book. I just wanted to get a sense that book has been growing quite well at about 40, 44% consistently whereas the industry volumes have generally been lackluster. So, could you just help me envisage what exactly is driving such a market share gain and what is the outlook, what is the strategy to ensure that this growth does not slow down dramatically?

SV Parthasarthy: You are correct in stating that Q1 of the previous year that is ’11 and Q1 for the current year the disbursement grew by about 50%. If you take it sequentially the disbursement has not grown that kind of percentage. It is much, much lower. So between the first of last previous year and this first quarter of current year there has been a fair amount of stagnation for the past six, seven months in terms of CV market. In a market which is stagnating or in a market which is not growing, we have the tendency to consolidate and the market share gets more for established players. For example, the established players like IndusInd Bank, HDFC and possibly Sundaram Finance and others they will gain market share. That has been the trend even in the past.

Prakhar Sharma: Are you seeing that some of the even larger NBFCs are growing slower like in the same market ….?

SV Parthasarthy: Larger NBFC will grow almost at the same pace. If we start looking at a percentage growth there will be more or less in the same percentage what it was. Maybe we had grown 50%, they might no have grown 50%, they would have grown something close to anywhere between 35 and 40%, but they would have still outgrown the market.

Prakhar Sharma: Could you give me assumption of among the total CVs, in the new CV sale segment, I believe the credit penetration could be as high as 80%-odd levels and within that loan financed CVs what could be the proportion of the top ten players odd. So, any broad sense, I do not need the exact…..

SV Parthasarthy: In a broad sense what I would say is close to about 320,000 vehicles sold last year, I mean it is about 75,000 vehicles which have been sold in M&HCV segment for the first quarter. To start looking at the top NBFC and the top banks, five or six of them will take close to about 50% maybe.

Prakhar Sharma: And all of them are actually seeing a very good growth. So that is what ….

SV Parthasarthy: All of them will see a fairly good growth.

Prakhar Sharma: Is it the old smaller ones that are actually stepping back?

SV Parthasarthy: Yeah, smaller ones are stepping back; smaller ones may not be very deeply interested. In today scenario any person who comes new to the finance line would not like to venture because into CV market which is stagnant like that.

Moderator: Thank you. Due to time constraints that was the last question. I would now like to hand the conference over to Mr. Puneet Gulati for closing comments.

Puneet Gulati: Thank you. On behalf of JM Financial, I would like to thank Mr. Sobti and the management team of IndusInd Bank and all the participating for joining us on the call today. Thanks a lot.

Romesh Sobti: Thank you.

Moderator: Thank you very much. On behalf of JM Financial Institutional Securities Private Limited we conclude this conference call. Thank you for joining us and you may now disconnect your lines.