"IndusInd Bank's Q2FY13 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the IndusInd Bank's Q2FY13 results conference call hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of this conference, all participant 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 Financials. 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 second quarterly 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 Puneet. Good afternoon to you all. Welcome to this conference call. We have already uploaded the investor presentation on the site and I hope that you have been able to access that. That gives normal details that we give every quarter. So every line there is explained, all our initiatives are explained.

Let me start by just doing a very broad recount of the quarter that has passed in terms of the macros. I think what we did see was slightly improved global cues, although most of the global cues were still sort of weak, but there was some stability, but from India's point of view I think the generation and release of large amount of liquidity, some of it has found its way into the Indian markets and I think most markets in India have reacted to that. So the currency market did show rupee appreciating pretty sharply on the back of flows, the stock markets we all are participants, so you know as well how the stock market has reacted. The only market that has not reacted to changed circumstances are the money markets where because G-Sec still remains flat and I think that is in the expectation that there will be some cues given in the new monetary policy that will come. So slightly improved sentiment on the domestic side. The hint of a wave of reforms coming, some of them already being launched. I think people are just holding their powder to see how many of these exactly go through and get parliamentary sanction. At least we are now seeing an improved resolve on the part of the government to sort of push through these reforms. The RBI of course achieved this objective of bringing the borrowings from the LAF facility within that one percent of NDTL which is their comfort zone. So liquidity is no longer an issue. So, if you really see the three stages that really progress into improvement in say credit growth, the first stage is liquidity, the second stage is drop in interest rate and the third stage is the dilution of risk aversion that really comes when there are stressed situations . The first two stages are passed; I think. rates has started dropping; you don't see them in the base rate drops so far. But margins over base rate dropped before the base rate itself drops, because the base rates causes across the board cut. So, selected customers already are getting the benefit of that. The third element is the risk aversion and I think that is still there. But to be fair overall credit growth never fell to the level that is empirically established through GDP growth rates. Overall credit growth has been in the 16-17% range and that has been a surprise element. So, that is the summary of the market situation. As far as IndusInd bank is concerned, see the set of numbers, I think, for the 18th quarter now we have delivered top-line and bottom-line growth. So, there is a first increase in our after tax profit which is fueled by top-line growth on both fee and net interest income. Fee, on the core fee side which is customer elements has surpassed even our expectations by growing at about 40%. Overall fee grew by 34% and the overall fee was depressed as compared to core fee only on account of one particular line which is the trading income. Trading income, we can get more into it if you have a question, but trading income is a function of volatility in the market. While there was volatility in the FX market, we leveraged that. The money markets were absolutely flat and there was no opportunity to lay out risk and manage the risk. So that is the only element there. Otherwise all fee lines have shown pretty robust growth, whether it is trade or it is trade and remittances or foreign exchange which is the customer part of it, the distribution income, loan processing fees, of course there has been a lumpy increase in our investment banking income, shows a huge increase. But all lines are positive not only year on year but quarter on quarter itself. The other element is the interest income. So we have seen an uptake in our interest margin, which has improved on the back of a drop in our cost of deposits. Cost of deposits fell by 18 basis points during the quarter, but cost of funds fell by 7 basis points. The difference between these two is essentially the cost of other borrowings. So, we have foreign currency borrowings and that cost actually showed a slight uptick as a consequence of the premiums on the dollar rupee. So, yields are more or less flat. I think you see a pretty small downturn on yield **of** 4 basis points as a consequence of which we have a slight uptick in our interest margins as we had hoped. Deposit rates continue to downtrend pretty sharply. The question is how quickly will they translate into reduction in our cost of deposits; that is really a function of the residual maturity profile of your fixed deposits. So we have a good sort of grip on that. We have seen some repricing happening in the last month, we have seen some repricing happening in this quarter as well. So we hope that the uptrend in NIM will become more secular in quarter 3 and a larger benefit then comes in quarter IV. Yields have by and large held up; yields on the corporate side show a slight improvement of almost about 6 basis points that is on the back of one off deals and on the consumer finance side still remains above 16% but we see a reduction there from the last quarter; that is really a consequence of the change in the mix of financing; that is really a function of how much of which vehicle category you financed and which grew faster than the others. As you know the medium and high CVs come at a lower rate and the two wheeler three wheeler etc come at a higher rate; so just to change in mix really that makes an impact, but overall yield on the consumer finance side holding above 16%. So overall yield on assets is almost flat; it was down 3-4% *(Correction: please read % as basis points)* Going forward we don't expect yield on consumer finance side to be showing any down trending. Corporate yields at the top end, corporate yields definitely will come under pressure as deposit rates fall and I think the market will enforce a reduction in the yield on assets on the corporate side. But I don't expect quarter 3 that to fall by more than 10-12 basis points. So that is our yield and deposit forecast, we have already spoken about. Finally, I think the quality of the book by and large has remained stable.

Our cost of credit which is really our benchmarking for the ultimate hit to the P&L is actually down one basis point over the last quarter. Last quarter was 12 basis points and this quarter is 11 basis points. The half year is 22 basis points which is annualized and taken into account the growing loan book would be projected for the full year at about 40 basis points, but we will go quarter by quarter on that. On the CASA side also, a slight uptick is there. Finally, CASA has started moving. The mix of course is there, has changed slightly. We have seen current accounts growing pretty robustly and you know current accounts had vanished from the system but this quarter current accounts came back in the form of floats. We got a pretty heavy pipeline of dividend warrant mandates that brought in a higher inflow of this thing. Savings bank also grew year on year and quarter on quarter, but the percentage of saving in the total CASA was slightly down compared to last quarter. Apart from that cost to income ratio, we told you we are not backing out from our branch expansion plan so we are stuck to that. We crossed 440 branches and we are heading to about 470 odd by the third quarter end. So we are well on our way to achieving our 500 branch net work target for current fiscal year. Cost to income ratio has been kept steady in fact there is a slight reduction compared to last quarter of may be 10-12 basis points, but that's the stable part of our. So overall I think about operating profit, net profit by and large on track as per our budget expectations. Capital adequacy still remains well within our threshold. So, although the loan book grew by 31%, the deposit book grew by 24%, but in spite of that loan book growth our Tier-I is still above 11% at 11.02 if you include profit and that is the way to really look at it. But last quarter it was, I think 11.19. So there hasn't been too much of a reduction in our Tier-I but we are getting close to our what you call a discomfort level on Tier-I and therefore we are actively looking at the possibility of raising fresh equity, timing of course has to be sort of worked out on that. The other issues on the profile of our loan book on the corporate side, there is a particular slide that we give every quarter, and that profile hasn't changed by any significance over this quarter as well. Anything else you guys want to talk about.

Sanjay Mallik: I think the other thing is on the quality of the book. The trending on gross and net NPA has been fairly stable, if you look at the example our PCR has remained at 72%, our restructure advances have actually come down from 0.24% to 0.19% and the absolute number is actually 76 crores. We have had no addition to our restructure advances in this quarter and as regard cost of credit, cost of credit has actually come down by one basis point over the last quarter so this quarter our cost of credit was 11 basis point and for the whole half year we are now at 22 basis point. So, very much tracking in line with our budgeted figure of about 60 basis points for the year.

Romesh Sobti: On the loan book growth, the loan book grew by 31%, in which you see a growth of slightly over 40% on CFD, consumer finance, but the corporate book also grew by 25% and the 25% is after the sell down of about 3000 crores of assets, so if you really add it back, then I think it is not a muted growth on the corporate side as well. So the mix of consumer to corporate is slightly changed in the quarter. Retail lending is now about 52% and the corporate is about 48% but I think that is still within the range that we have broadly been 50:50 on the mix between the two. Anything else you want to add, anybody? Okay that is the heads up on the quarter and we will be happy to answer any questions that you have.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Rajatdeep Anand of ICICI Prudential Life Please go ahead.

Rajatdeep Anand: Good set of numbers! First question is on the way consumer finance has started to dominate loan book growth, so how far away are we from the time when the growth is more balanced, and secondly within consumer finance I think the retail piece which is credit cards, personal loans, LAPs, it's expanding, but are there any plans to introduce more retail products. That is the second question and then I think the momentum that we saw post savings bank deregulation in SA has come off in Q1 and that is also the case in Q2. So, your comments on the same?

Romesh Sobti: First is the balancing of the portfolio. I think we are in that range. If you see where we began was 65% retail, way back in 2008, then retail went down to 45% and we have always indicated that you know by and large retail to corporate would be a 50:50 sort of a mix, but you know on a quarterly basis you could see some variations. Now the question is, if we have not sold down the 3000 crores, we would still be 50:50. So that is a little bit of balance sheet management and that we have explained why that happens every quarter. I think we are not at large variance to our desired book mix. By and large you will see this sort of mix remaining. The 2-3% up and down may be variations but they will even out over a period of time or a period of one year. Now retail products, we are seeing now momentum growing on these products that we launched which is really loan against property. So you will see that the run rates are improving and I will ask Sumant to actually, Sumant is also here our head of consumer bank. Apart from loan against products and credit cards, there is very little left, home loans as you know we already determined that we do not want to underwrite; that's giving us pretty handsome fees now. So keep it that way. So the only one left is personal loans and the personal loans has a debate within the bank for and against but you know our desire to keep a book mostly secured is really a driver, so even on the consumer side on the credit card side we have very good fees and income out of credit cards, our book is only 300 crores. So I don't thing you are going to see new product entries but certainly you are going to see a strong momentum.

Rajatdeep Anand: And this car loan that I see on your book, this is entirely to retail customers?

Romesh Sobti: Yes. So, you know, you already have personal products by way of two wheelers and cars.

Rajatdeep Anand: Two wheeler is also I suppose to all individuals.

Romesh Sobti: Yes, so you have these two already; we are adding loan against property; we are giving home loans through a third party and we got credit cards. Before I go to the third one maybe Sumant wants to add something on the way LAP and home loans are growing.

Sumant Kathpalia: Currently we do about 90-95 crores of LAP disbursal and about 85 crores of home loan disbursal. We've seen 40% growth quarter on quarter on our LAP book. We are seeing the momentum build up and I believe that this will grow by another 250 to 300 crores next quarter. So we are seeing the good growth, good momentum in our LAP. Home loans as we said is the distribution product we launched it across the 210 branches now across 210 branches and we will see the momentum coming up so we believe that will be a good revenue generating or a fee earning product, but not a balance sheet item for us as of now. Credit cards like Romesh said, we are 180,000 cards at a 303 crores of book. We create a very healthy fee and a PBT out of this portfolio. So we do about 6-6.5 crores of fee and a PBT of about 3-3.5 crores month on month on this portfolio. So the revolve rates are around 50-55%; we will continue to maintain that and all our cards are fee paying cards and we do not sell free cards in the market.

Romesh Sobti: So that is going to pickup and we remain on track to bring our LAP portfolio to about say around 5000 crores by March 2014, this is exactly what we have said and the final question was on the SA part. So you know on the SA. There are two elements to it; the new to bank customer acquisition is our biggest driver as we have always indicated. So, the new to bank customer acquisition continues to track well above 50,000 new accounts per month. But this quarter we saw some attrition in certain higher value saving accounts to deposits and some to investment. So that is why you will see slight slow down in the momentum, but I think with liquidity and the rate cycle pointing to a lower rates, this kind of attrition is likely to reverse. We do expect our SA momentum to sort of remain on track, but more important is new to bank customer acquisition which is on track.

Sumant Kathpalia: So there are two components of the SA book, the retail book and a large value ticket book. The large value ticket is about 10% of the book. Retail book continues to grow 10% to 15% quarter on quarter. Whereas we are seeing some fluctuation in the 10% book where we lost some money either to an FD or to another bank all which was taken out for a project by the government. So that is where you are seeing a growth, but you are not see but more importantly is the retail book growing, yes it is growing very healthy.

Sanjay Mallik : Rajat, just to add one perspective to that. We are still maintaining the momentum on new to bank acquisition. So we are growing well over 50,000 accounts per month and if you quickly relate that to the money that we make on a customer. For example on a 40,000 average savings account, even if you take into account transaction cost and you have left with a margin of 2%, you make about Rs. 800. But if you are cross selling efficiently and we cross sell three products per customer you can make much more money. For example if you cross sell a locker, we make Rs. 4000. If you cross sell insurance you make Rs. 8000, if you cross sell cards you make Rs. 25,000. So it is more about the NTB, **more** than just the balances.

Rajatdeep Anand: Those were my questions. Thanks for answering them.

Moderator: Thank you very much. Our next question is from Anand Vasudevan of Franklin Templeton. Please go ahead.

Anand Vasudevan: Question on branch breakeven, how your experience has been and also you can share with us as to how many branches today would you classify as having broken even?

Romesh Sobti: We just share this information with the media, so we are more than happy to share with you.

Sumant Kathpalia: We only have 7 branches which are not broken even live to date on branches which are one year old. Out of the 240 branches which are operational now 260 branches which are operational from the time the new management came in, the only 8 branches which are greater than one year are non breakeven. That is it and when I talk about breakeven I talk about fee revenue from the consumer bank, I talk about the transfer pricing on the CASA and I talk about fully loaded expenses taken into account including allocated expenses and no loan revenue or interest income is taken into account for computing the breakeven.

Anand Vasudevan: And in terms of the trends, are they inline with your planned expectations of breakeven?

Sumant Kathpalia: Absolutely, except for the seven branches which are high rental branches and I am telling you the reason why it did not because we took them at high street at high rental cost that is the example is Juhu branch in Bombay or Pedder road branch, I am giving you example so that you will understand that why the branches did not break even; absolutely in line; no issue.

Moderator: Thank you very much. Our next question is from Suresh Ganapathy of Macquarie. Please go ahead.

Suresh Ganapathy: Just can you give us some update on your capital raising and also the promoter stake sale; does the December deadline still hold? Just some color on that?

Romesh Sobti: Capital raising is as I mentioned to you guys we are still at 11% Tier-I therefore we could say we don't need money as the way we use up capital for the next say 10-12 months, but you know are pretty close to our threshold of comfort and the sort of guidance given to us by the board on Tier-I. So keeping this in mind we certainly are engaging on the subject of the capital raise. We always said that there would be a capital raise in this fiscal year. The question is, when do we time it? That sort we are going to be guided on by our investment banking community. But it does look like that we may access the market. The extent of dilution of capital would be may be in the 10-12% range but that is subject to our board approval. So that's one timing from now to the end of the fiscal there are two potential slots, one is pre December, one is pre March, we are going to be seeing on the basis of engagement with our investment banker when that should be done. The second element is the ownership profile. As things stand the owners stand committed to reducing their stake to 10% by December 2012. But of course between now and December 2012, a lot many things can happen. One of them is that now there is an expectation that the new guidelines for new licenses would be now fast forwarded and as you know that those guidelines have a 15% dispensation of ownership from the new promoters. It is now expected that the same dispensation will be given to existing promoters so if that happens you are in the range, means if you do 10-12% dilution, there is a 6-7% employee stock option scheme which if exercised also dilutes. So if you take that together you are in that 16.5 odd range, so you are not off more than 1.5-2%. So that's how things stand we will see how it plays out between now and the end of December, but the commitment of the promoters to dilute still stands.

Suresh Ganapathy: No, but is it really commitment of the promoters or is RBI given a final December 2012 hard deadline, or do you thing even that is subjected to changes, in the sense is there any negotiations which you have carried out which said that RBI is okay by March 13 or April 13 or whatever it is?

Romesh Sobti: No, these two are related you know. The commitment given by the promoters is basis the mile stoning and the roadmap, which RBI has asked for. So it is basis that only and you cannot ever rule out further negotiations.

Suresh Ganapathy: This just one last question on your credit cost. I mean it is actually, I just wanted to understand better, for a business that makes 16% yield on retail business, retail advances, your credit cost on the retail book is as low as 50 basis points, it looks like too utopian or unrealistic. Of course understand that the NPA levels are also very low. But would prudence not demand that for a 16% yield on a 50 basis point credit cost, you need to make more prudential provisions to create some kind of a buffer in any way or the other?

Romesh Sobti: Well, you know, the buffer is intrinsic to the business. Today you see, you see the way this book behaves. You have 55 basis points on credit cost; the variation in credit cost on this book over a 15 to 20 year period is between 50 basis points and 75 basis points. That's number one. The loan given default on this book is in the 25-30% range, right? So if you do that, you see the amount of security actually holding against this book, right? So it is a secured book. If this was an unsecured book then certainly you would say that you would need to make more provisions. Now how do you go for provisions of more than 100% right? I don't think your accountants are going to allow you to do that as well, even if you do want to do that. So I think we are in a pretty prudent range, not only that I would ask Partha to explain to you what is the profile of the non performing book that we have here. How much of that is up to 12 months and how much is that up to 24 months, because that's also a very clear bearing on the way we sort of look at this book and the way we provide for this book.

Suresh Ganapathy: So, can you just share with us what would have been the loss rates on this, I don't want category wise but at least in retail, what has been the historical loss rate at peak at the bottom and so we just get an understanding whether this 50 basis point is reasonable or not?

Romesh Sobti: That is what I told just now, but Partha will repeat it.

SV Parthasarthy: Actually this book has its origin right from 1985 and we have been having this, this book is from the early avatar of Ashok Leyland Finance as you may be aware. Therefore, we have seen several cycles like this even in the past and no particular point of time the credit cost, the credit cost meaning the provisions whatever we have to make the repossessed loses and the write offs together have crossed anywhere above 75 basis point in the past 25 years one and two is to also give you certain amount on the perspective on the book on the way it behaves. For example, the NPLs whatever is shown, out of the NPL 224 crores; the vehicle finance portfolio is close to about 195 crores; 195 crores of the gross NPAs, if you start looking at the gross NPA of this quarter and compare it to the next quarter, it would be totally different from this quarter and the next quarter primarily because there is a huge amount of churning as seen by the amount of additions and deletions whatever, these are all really technical NPAs; a person slips and then comes back to the normalcy one and two is the commercial vehicle control close to about 50% of the NPAs; 50% of the book size and 50% of the NPA. In the commercial vehicle, the loan to asset value if you consider the past relationship whatever we have with the various customers, it is as good as more than 50%. Therefore really it is a fully secured portfolio for which the present provisions whatever we make itself is fairly large in the sense that, out of the 192 crores in RBI prudential purposes we have created provisions for nearly 72%. 72% provisions has been created for a fully recoverable assets one and two in terms of in respect of cars, two wheelers and all, a moment vehicle is beyond 6 months and certain categories the vehicle beyond 12 months, it is fully provided for, 100% provided. There is nothing in this book which has got a doubtful category. Everything is substandard. All doubtful categories have been fully provided for. And we have been making an accelerated provision much ahead of RBI stipulation and if that is what we are allowed to do, we are allowed to do provision figures would have been lesser by about 70-80 crores, going by RBI norms.

Sanjay Mallik: Suresh, I can just add to that. If I just give you some forward and backward numbers, if you look at the cost of credit in 99, going back to 99 - 2000 and also in 2004 and we had a slightly longer period of slowdown, the cost of credit was 70 basis points. Of course Partha was there in those two cycles and also more recently in 2008 - 09, also the cost of credit was 70 basis points; so we have seen three cycles like this not too long ago which were probably as bad if not worse than what the market might perceive today. Also going forward I can tell you that, we also very closely monitor lagged delinquency and we are monitoring lagged delinquency by product and by vintage and we are not seeing any material change in our lagged delinquency and I can also tell you that the book that we put on in 2009, today is the best part of our book.

S.V.Parathasarthy: Yes, one more thing if you can travel through the history from 2008 onwards. 2008 our gross NPA was 2.5 and our net NPA was 1.8. 2009, I mean I am taking about the year end, 2009 it is 1.86 and 1.23 and 2011, it is 1.30 and 0.54 and 2012 it is 1.22 and 0.47. You can see a progressive decline. Net NPA does not give any kind of comfort. Net NPA is what you can afford. Gross NPA is the thing which you will have to measure and there has been a systematic movement or systematic reduction in terms of gross NPA in terms of percentage.

Moderator: Thank you very much. Our next question is from Ashish Sharma of Enam Asset Management. Please go ahead.

Ashish Sharma: Good Evening Sir and congratulations on good set of numbers. Just wanted your sense on the CV portfolio, post diesel price hike. Do you expect this portfolio to be under any pressure sir and specifically commercial vehicle and utility vehicle sir?

S.V.Parthasarthy: See fundamentally the diesel price increase has not been all that very significant one and this price has already been factored in terms of its rates, in fact the September freight rates have risen reasonably smartly to take care of diesel price increases and there are press reports now which says that there is no immediate further increase in terms of diesel.

Ashish Sharma: Sir because I think Q2 results doesn't reflect the increase in the cost of operating the whole vehicle for the operator, but I think Q3 and if we see expect for utility vehicle both commercial vehicle and your small CV has seen a sort of uptick in gross NPA sir from Q1 to Q2. Do you expect a little bit of weakening in asset quality in these segments?

S.V.Parthasarthy: It is very marginal. It is very seasonal, if you start looking at the previous years also between Q1 and Q2, there has been a very marginal change, but it is from a gross NPA level of 0.71 and 0.75 and this is something which is related more towards Indian monsoon conditions and so many other conditions rather than slight increase slight decrease. Normally in all business between July, August and September when the monsoon is at its peak, the road movement by itself is sluggish. That is the main reason. I don't think viability wise there has been any issues at all in terms of and what are you talking about is a very marginal change.

Romesh Sobti: The amounts are not very material.

Ashish Sharma: And in terms of credit cost, we are at 22 bps for the first half, what would be the outlook for FY13 overall sir?

Romesh Sobti: We never give outlook.

Ashish Sharma: I mean sort of guidance.

Romesh Sobti: I will tell you very broadly last year we had budgeted for 60 basis points, we came up with 41 basis points right?

Ashish Sharma: Yes.

Romesh Sobti: This year we have budgeted for 65 basis points. So far it has come out to 22 basis points. We hope that we will be able to keep our credit cost well within our budgets.

Ashish Sharma: Fine sir. You have been giving guidance on your advances loan growth. We have mentioned about 25-30%, but we have been growing pretty strongly in the first half and the first half wasn't strong overall if you consider the macro environment. Do you expect FY13, you will be able to hit your higher end of your guidance at around 30%?

Romesh Sobti: See first half last quarter was 31, this quarter is 31. So the way we are going, we should be more at the 30% level than the 25% level.

Ashish Sharma: Thanks a lot and all the best for the next quarter.

Moderator: Thank you very much. Our next question is from Amit Ganatra of Religare Asset Management. Please go ahead.

Amit Ganatra: My question is on Slide #25 where you have provided this additions and deductions to your NPAs. Just one question, this sale to ARC is actually a part of deduction right?

SV Parthasarthy: Yes, it is part of deduction netted.

Amit Ganatra: It is not part of addition right in that sense.

SV Parthasarthy: It is netted from there.

Amit Ganatra: So can you provide the further breakup of deductions?

K. Sridhar: They are on both addition as well as deduction. So first it becomes an NPL and then when it is sold it goes off from NPL.

Amit Ganatra: Yes, so that way, but can you give further breakup of deductions?

SV Parthasarthy: Sale to ARC of 15 and 21 crores has been given in presentation.

Amit Ganatra: What is the write-off?

K. Sridhar: Gross value is about 21 crores and the net value is 15 crores.

Amit Ganatra: The other question is on the fee income breakup that you have provided, so this distribution fees of 67 crores that you have earned, can we get the breakup in terms of what is from insurance, mutual fund and credit card.

Sumant Kathpalia: I will give you a broad level percentage there. About 40-45% is insurance and GI, about 15% is investment, about 20% is cards and about 10% is home loans and others. So that's the broad level distribution.

Amit Ganatra: See the reason for asking this question is that the growth in this segment has been pretty strong for you, but these two industries on their own actually are not growing right? So insurance and mutual fund industry is not growing.

Sumant Kathpalia: I will tell you why it is growing for us. Two reasons, one is the branch distribution is expanding as you expand, our resources is the feet on street. Insurance is a feet on street game and as the client base is expanding, so is the cross sell penetration expanding that is number one. Number two on the mutual fund side, most of our revenue comes from what we call as exclusive and select RM channel where we have increased our staff strength from about 250 to about 400 people. So we see a lot of client base on…..

Romesh Sobti: Plus I think the other element is that higher market share of our partner's business.

S.V. Parthasarthy: Fundamentally one other reason is that large portion of our insurance commission also comes out of non-Life business and it is directly proportional to the amount we disbursed in terms of vehicle financing.

Sumant Kathpalia: So these three components are adding up to wealth revenue.

Amit Ganatra: And for this non-Life, you are basically taking about the general insurance, but do people take comprehensive insurance policies?

S.V. Parthasarthy: In vehicle financing, we insist on comprehensive insurance while financing. It is a mandatory condition for us because otherwise our assets will not get protected, should there be an accident.

Amit Ganatra: And last is on the investment banking. So now last two quarters basically we have seen very strong numbers as far as investment banking income is concerned, can you provide some example as to what kind of fees are you basically getting there and what is the pipeline out there?

Suhail Chander: Our investment banking business is essentially a debt focus business like we have said before and we do basically two kinds of activities on the debt side, one relates to of course syndication of debt. So that is getting a mandate and distributing that out into the market and the second relates to structured debt where you actually do a solution for a funding requirement of a customer. Those are the two kinds of transactions which form bulk of our fee. There is also some private equity advisory work that we do and some fee comes from there but that is a longer gestation business. So essentially these are three activities that cover this fee.

Amit Ganatra: And what is the pipeline?

Suhail Chander: The way it works is that there is always a robust pipeline. This fee is a function of how many transactions closed in a quarter. Mostly you will find that the investment banking transactions are fairly complex and structured and it depends on how many close. I cannot really tell you what is the value of the pipeline.

Amit Ganatra: Okay, no I got. So basically it depends on the success rate.

Moderator: Thank you very much. Our next question is from Vijay Sarathi of Nomura. Please go ahead.

Vijay Sarathi: In the last quarter earnings call, you had given some indicative numbers about the savings account per branch or at least the targets that you would like to work towards, if I remember right it was about 17 crores per branch that you said that you would work towards, just wanted to know where you are right now and how the progress has been towards that?

Sumant Kathpalia: We are at 5312 as of now, around 440 branches and the average number of branches today is about 380 for the year. I believe that we will move to about 6500 by year end. I don't see a problem in us moving to 6500. So we will be around 16.5 to 17 crores at average number of branches and on year end number of branches we will be about 15.5 to 16.

Vijay Sarathi: And second question is you did explain why the Consumer yields have dropped, may be you can repeat that and then on the corporate side, I would think there is an improvement in the rating profile of your book, but yield seems to have picked up. So can you explain that please?

Romesh Sobti: You wanted to repeat the consumer this thing which is the change in the mix Vijay. On vehicle finance side, there is change in the mix. So if we do a slightly higher percentage of say MHCV's that is around 13% right, so that sort of moves the overall yield down plus there is an increase in contribution coming still small, increase in contribution coming from loan against property which is at 13.25. So I mean these are couple of elements which has moved in by 15-20 basis points, but otherwise I don't think there is any particular drop in yield that we have seen because I think change is in the mix of the CV categories that you finance at different rates. The corporate side, Suhail you can talk about there is an increase.

Suhail Chander: The corporate side increase, basically if you look at it the gross yields are more or less flat in the quarter as would be expected, but we take some portfolio actions in the quarter and that is essentially, portfolio actions means sale of certain assets at various times during the quarter and this time around our spread on that sale has been better than it was previously. As a consequence, the net yield is higher on the portfolio.

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

Anish Tawakley: I guess my question is really on the savings account strategy. In a falling rate environment, under what circumstances would you revisit your decision to pay 6% interest rate and if I were to just do some simple numbers right, before the rates were deregulated your savings balances were about 3200 crores. You are paying 2% extra on that, that is about 65 crores. Your savings bank balances have grown by 2000 crores. Let us say you saved 3% on that. That is 60 crores. So it doesn't seem that at least on these numbers that paying extra on savings bank account is making money here and how would that work in a falling rate environment?

Romesh Sobti: So what do you link your savings bank rate to? Why do you want this saving bank? So there are two elements to it. One is that if you look at the bulk savings bank, there is a rate differential. What is the savings bank equate to in terms of a fixed deposit. I would say a one year fixed deposit. The cost of a one year fixed deposit and the savings bank rate should be fixed. I used to think 180 days, but savings bank is much more perennial. So if you see the difference between a savings bank rate and the one year fixed deposit today is more than 300 basis points. So at what point of time will you reduce your savings bank rate. So if you are saying that the 6% today costs, you say 7.5% or 8% if you include transaction cost. If the differential falls below 2%, you will start thinking of revising your rate because then you are now giving to the savings bank customer more than you would give to a fixed deposit customer, but that is only one part of the story. The other part of the story is that the numbers work out very straight forward. On the savings bank, they think on an average balance of Rs. 40,000. I think Sanjay has got that worked out very well. Rs. 40,000 you make 2% on the savings bank, you make Rs. 800 only. If this Rs. 800 shrinks there is no rationale for you to book the account. You would rather do a fixed deposit. But that is not the way we work. We want the customer because we do a lot of cross sell to him. Three products are sold on an average to every savings bank customer. The Rs. 800 is supplemented by say you sell a typical example a locker, you make Rs. 4000 out of that. You sell an insurance, you would make say Rs. 6000-7000 on that. If you sell a credit card, you will make Rs. 25,000 on that. So then you stack up this cost. The total revenue that you generate vis-à-vis the cost that you have and you will find that at some stage there is good rational for you, even giving a savings banks rate higher than fixed deposit rate.

Anish Tawakley: I understand that sir, I guess my real question is how much of this customer would you have anyway got if you had kept the savings bank account rate lower because you did have a reasonable franchise even before you started paying a higher rate?

Romesh Sobti: I think the uptick we have got as a consequence, there is about 10% to our run rate. So if you doing 45-50,000 customers, we are now doing 50-55,000 customers.

Sumant Kathpalia: So there is a 10% increase. And the second uptick is the acquisition value of the client has moved up from 33,000 to 40,000.

Anish Tawakley: And if I may ask just one more question. In the last quarter your yield on assets had some support from I think you used the term opportunistic investment transactions. Are there similar yields this time because the yield overall has held up, I am wondering whether the investment yield has some of that kind of gains as well.

Suhail Chander: Investment yield is actually not very different from what it was in the previous quarter right, but it is the asset yield that we are looking at. The asset yield gets impacted like I said a little while back by portfolio actions that we take, we do that every quarter which means basically…..

Anish Tawakley: But I guess the question was that if the yield was unusually high last quarter, did it come down this quarter or not?

Suhail Chander: Are you talking about investment or assets or loan?

Anish Tawakley: The premise of my question is that in the last conference call, you had mentioned that investment yield had some opportunistic gains, right? So if those go away I would have expected it to drop this quarter, has that happened?

Romesh Sobti: I think what you are talking about those CPs and all that we do, we take some CDs.

Suhail Chander: But the yield is lower right?

Romesh Sobti: Yes, the yield is lower now.

Suhail Chander: The investment yield is lower I think.

Sanjay Mallik: By 10 basis points.

Anish Tawakley: Okay, that is all I wanted to clarify.

Romesh Sobti: It is down by 10 basis points.

Moderator: Thank you. Our next question is from Rounak Agarwal of Catamaran Capital. Please go ahead.

Rounak Agarwal: A few questions on CV business Sir. What is the value proposition in CV business between a bank versus NBFC. Second would be what is the interest rate differential that a bank offers versus a large NBFCs and is the CV customer really interest rate sensitive or is it a dealer driven financing business?

Romesh Sobti: I think this is a philosophical question which we can deal on a one-to-one basis. On this call, I thought we will focus more on the quarterly results, but they are more philosophical. The difference of value proposition between NBFC and this thing, we can talk an hour on that, but if you want to give a 5 minute summary, then Partha go ahead. He has worked in the NBFC and the bank so.

SV Parthasarthy: Between a real large NBFC who specializes in commercial vehicle and a bank, there is not much of a difference to the customer nor to that of a bank. For example, a large NBFC like Sundaram Finance and somebody like us is not much to the customer and in terms of rates also it is not anyway different. In commercial vehicle, the business is normally a person who has a very high market share, the business is driven out of their own database and their own network rather than dealers. Dealers normally will not be able to influence on a financial decision in a commercial vehicle. While in cars and two-wheeler dealers do make a difference. I suppose this answers yours question.

Rounak Agarwal: Yes sir, it does.

Romesh Sobti: For the customer value proposition, there is hardly any difference.

SV Parthasarthy: There are, see between a bank running a CV business and a NBFC running a CV business, there are regulatory impacts on this. The banks do have much stringent norms in terms of asset classification, NPA classification, KYC so many other things, banks have got a much stringent norms.

Sanjay Mallik: Just to add we have an NBFC sitting in the banks, so we have both value proposition.

Romesh Sobti: We absorbed the NBFC.

Moderator: Thank you. Our next question is from Adarsh P of Prabhudas Lilladher. Please go ahead.

Prabhudas Lilladher: Yes just one question on the cost side. When I see the overheads, the ex-employee costs, it remains relatively flat last two quarters actually and we have seen a decent buildup in infrastructure. So my question is whether are there some parts of the fixed overheads that we are seeing which are not growing at the moment.

Romesh Sobti: See a lot of the infrastructure was invested upfront in the first two years. For instance the whole initiative of centralization, we centralize into two hubs in Bombay and in Chennai, some benefits of that are now appearing, we don't have to invest into the same infrastructure. The fact that when our branches open, there is hardly any activity on operations for instance apart from cash dealing that are done in the branches, everything is done on the back office. Even the cost management for instance all the cost processing is actually done on a centralized basis. So there is an infrastructure cost that was put in upfront for the first two years that you are not going to see any increase in so far. So that's why the primary increase you are seeing in a cost structure is in the people cost, not so much in our other OPEX run rates. Paul do you want to add something to that?

Paul Abraham: Yes, the other thing is that you know as the branches are growing and to the extent that branches are breaking even within the calendar period of 12 months from opening, we are quite agnostic in that sense. You know really speaking the economies of the larger network are kicking in because of the centralization efforts. So the substantive investments if you see the lines, one is of course people, the other is IT and third is the branch expansion and branch expansion to that extent is cost agnostic . IT is anyway a cost that is spread over a lifetime of the life cycle of the project and it then finally boils down to how efficiently you are breaking even on your branch network and expansion. So it is really that.

Romesh Sobti: And I think the next, I won't call it a surge, it would come with some of a new initiatives on managing or processing come into place. So the first phase of initiatives on process management are over. We are now reaping the benefits of that. Now we go into the for instance the new core banking system. The banking system will suddenly impact on our run rates say from next year onwards, if we really go live in November or December, not so much impact this year. So really it is the phased investment that we have done, the first phase of investment we took the cost. If we look back two years and you see how the OPEX cost grew nonstop OPEX cost, now it is at the stable side. But once the new system and new infrastructure comes in, again you will see a sort of blip there.

Adarsh P: Right, sir just one question, very broad indications. We have about 250 crores of overheads or so called non-employee expenses. What part of this could be relatively fixed not agnostic to say expansion of branches in that sense?

Romesh Sobti: Well I think the back offices, we can't give you a full percentage but really the back office costs are fixed. They don't grow linearly. Most of the linearity is in manpower cost and there also senior management we hope there is no linearity.

Sanjay Mallik: Just to interject, I think this is going to be now, just enough time for the last two or three questions.

Moderator: Thank you. Our next question is from Karthik Lakshmanan of BNP Paribas. Please go ahead.

Karthik Lakshmanan: Sir, I had couple of questions. One on fee to assets, I mean what is the kind of targets or achievable limits that we look at because fee income has been growing much faster than the overall book, so I mean internally do we feel current run rate is achievable one and second is one corporate account which has been in the news, what is the kind of exposure that we have to that and what is the status?

Romesh Sobti: Okay, fee to assets if you really watch the last say 12 quarters, our fee as a percentage to total income has really grown from around 30% mark to today it is 39% and the sharp growth actually happened in the last 4-5 quarters. As you saw that the NIM growth slowed down. So you see net interest income sort of slowed down because of the cost of funds and things like that and that is why fee growth kept that momentum. Now fee growth momentum, we expect to continue, but in percentage terms as NIM expands, you would see some sort of normalization again happening of fee to total income and I would expect that we would be in that 35% range of fee to total income. So as NIM expands and as we go back to what we used to do on our NIM on the back of reduction in the cost to deposits over the next whatever 2, 3, 4 quarters then I would say that we would normalize back, but still I think we would remain in the mid 30s which is a pretty good mix of fee to total income. The other part is the exposure to that particular thing.

K.Sridhar: It is the corporate asset which you are talking about, we have an exposure of about 100 crores on this corporate asset and as of now it is a standard asset, interest has been serviced in this quarter. We need to see how it will pan out during the next quarter. This particular client case is in consideration in the CDR. As far as we are concerned, we are secured fully. So if it does become an NPL, then we may have to provide as per the IRAC norms.

Karthik Lakshmanan: But the security is realized.

K.Sridhar: Yes, we have a proper documented security.

Moderator: Thank you very much. Our next question is from Manish Oswal of KR Choksey. Please go ahead.

Manish Oswal: My question on one is during the quarter the borrowing declined by 2000 crores, so could you highlight the specific reason for such a large drop?

Romesh Sobti: Okay, I think call borrowings and all came down. 1000 crores-1100 crores of call borrowings.

Suhail Chander: As the prices start to come off, you move from deposit. What happens is you know that borrowings and deposits are two ways to fund your balance sheet right on the liability side and as the prices of deposit start to come out, you effectively choose the most cost effective way of funding a balance sheet. So there is always movement between borrowings and deposits. So you have seen deposit growth would have gone up in this quarter and borrowings would have come down.

Manish Oswal: And secondly sir on absolute basis, our accretion to SB balances on quarter-on-quarter has declined significantly from 445 crores per quarter to 173 crores. So considering the 10% piece of your high value ticket SB account, there is some movement to investment and term deposit, but going forward how this run rate will shape up?

Sumant Kathpalia: It will because I think we have normalized the high value balance sheet now and the retail balance sheet will take over as the acquisition ramps up. So you will see us back to 500 crores or 445 to 500 crores growth quarter-on-quarter, you will come back to that growth.

Manish Oswal: Ok.My question is on the treasury performance during the quarter sir. Both the bond yield declined by 5 basis points quarter-on-quarter and equity market also surged during the quarter, but treasury performance sequential basis subdued. So where is that we are making under performance?

Romesh Sobti: So when you say treasury, that has two parts, one is the trading part and the other is the client part. So the client part, if you see Slide #22 has grown by 26% and sequentially also 4%, it is the trading part really that you are referring to. We don't have any equity trading so we are divorced from that part and on the money market for instance, you trade on G-Secs, we trade mostly on G-Secs and G-Secs were flat. The 10-year G-Sec is flat almost through the quarter with few spikes here and there. So the opportunity to take on more risks was very limited, but on the asset side on the trading side, we made money.

Arun Khurana: Yes on the trading side primarily on the securities, we did not put on risk because there was not really any reason to pack on risk on the back of non-existing or sort of what is going on in the market, i.e., not really movement of yield. On the FX side, we had a robust quarter again in terms of the trading environment that we saw with rupee going up towards 57 and now again back to 53 odd levels. So that continues.

Manish Oswal: Okay and last is two data point, what is the employee strength and size of the used CV book, thank you.

Romesh Sobti: 10% of our portfolio.

Manish Oswal: 10% and the employee strength?

Sanjay Mallik: 10% of the consumer portfolio.

Romesh Sobti: Employee strength or portfolio size?

Manish Oswal: Employee strength and the size of the used CV book?

Sanjay Mallik: The employee strength is 11,229.

Moderator: Thank you very much. We will take our last question from M.B. Mahesh of Kotak Securities. Please go ahead.

M.B. Mahesh: The first question is on the net interest margin. You had mentioned that you had paid some premium on dollar borrowings because of which your cost of funds actually did not decline as per the pace at which the cost of deposit is declined. Could you just elaborate on this part?

Romesh Sobti: Yes, there are two elements there. Also you know in the borrowings, we also have Refinance . So as we saw sort of rates stabilizing, we do need some long term funding as well because you have to manage your structural liquidity as per RBI norms, so we did take on some more refinance. That we refinance of course comes at a higher rate than the fixed deposit, although it does not have any SLR and CRR requirements on that basis, that is one component. The other component was the foreign currency borrowings.

Arun Khurana: The FX borrowings if you see the forward premiums have remained high, so we have a component of FX borrowings to fund our trade book as well as the foreign currency loan book and for that when you generate your dollars, you swap them into INR that cost has remained high through the quarter. So the premiums have not really come off. You have seen the action in the rupee side. The forwards have remained higher at around close to anywhere between 6.5 to 7%. So that has resulted in slight increase in the foreign currency borrowings.

M.B. Mahesh: So basically the foreign currency borrowings have remained more or less flat, it is just the cost of funds on the deposit book has kind of declined because of which you didn't see an overall decline in deposit rates, overall decline in the overall borrowings and funds.

Arun Khurana: Yes.

M.B. Mahesh: Just one more on the total disbursements that you have made on the vehicle portfolio, could we have some number on that both between used CVs and new CVs.

SV Parthasarthy: For this quarter?

M.B. Mahesh: Yes sir.

SV Parthasarthy: Used CV total for the half year is about 1000 crores.

M.B. Mahesh: 1000 crores is for the half yearly.

SV Parthasarthy: It is about 900 crores to be sharp and out of the total disbursement of 7671 crores.

M.B. Mahesh: In the vehicle portfolio?

SV Parthasarthy: Yes, in the vehicle portfolio.

Moderator: Thank you very much. I would now like to hand the floor back to Mr. Puneet Gulati for closing comments.

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

Romesh Sobti: Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of JM Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.