“IndusInd Bank Q1 FY 2014 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Q1 FY'14 Results Conference Call. As a reminder all participants' line will in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touch tone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Romesh Sobti – MD and CEO at IndusInd Bank. Thank you and over to you sir.

Romesh Sobti: Thank you. Good afternoon to you all; thanks for joining the call. I think the discipline of the call remains that once you finish then we will take the questions. Our website now has the uploaded quarter 1 investor presentation, so we trust all of you have gone through that. I am going to take you through some of the headlines, talk about few highlights and of course the challenges and successes that we had during the quarter. So to begin with one of the parameters that we have never judged ourselves by is the total business that the bank has done and that for us, this quarter crossed the 100,000 crore mark which is a good bench mark for us and just for your information total business is the sum of advances and deposits. Together with that of course we crossed another bench mark which has a lot of zeros in it which is a 1000 ATM benchmark.

Other highlights of the quarter was that the quarter afforded us ability to do more trading and we did record handsome mark to market gains but as I will talk later I will tell you what we did with those gains. Of course what we did mostly with those gains was to create a 50 crore floating provision for the first time in our history and as a consequence of that we actually raised our provision coverage ratio from 70% to 80%. This is in line with our stated objective to increase provision coverage ratio and we always said that any unusual gains will be put into provisions and the beginning has now been made. As you already know we already have a counter cyclical provision of about 27 crores. So these are not large numbers but they certainly are comforting numbers because we were able to raise our provision coverage ratio.

The other highlight I think before we get into the detail was about recoveries; I think few of you have raised some issues about the sales of assets to ARCs that has happened in the banking system as a whole. As far as we are concerned we actually reduced our security receipts book which is now down to 85crores as we recovered about 45crores. So our SR book is now only 85 crores and just to share with you some statistics because there is some always some skepticism around what happens to SR - is that a way of parking bad debts somewhere and do you take losses later. If you exclude one account which is Deccan then our recovery rate on SRs is a 106% so in almost every case we have recovered more than the original principal value of the SR. And even if you do include Deccan even then our recovery rate is over 86%. So I think these are a few highlights which you may not sort of immediately catch from the numbers, other than that the quarter still sort of showed deteriorating economic environment, very very stressful all around. You have seen how credit growth has fallen down to almost about 13%, we have seen for the industry as a whole fee pools have also shrunk and of course the stress wave has not yet gone through the banking system. So view the results in the light of this background, I think we have declared pretty robust numbers. Both interest income and fee income have grown apace. Interest income actually grew by almost 40% and even quarter-on-quarter we showed a decent increase of 3%. Non-Interest Income of course shows very healthy growth of 41% but that includes these gains, mark to market gains but even if you exclude those, core fee income still grew by 31% and remained ahead of our loan growth at 27%. So overall loan growth was 27% year on year and 7% quarter-on-quarter. We will take about how this is broken up, I think there has been a slight shift between the corporate bank and the retail bank but this is in line with the expectation that by and large we will be in the 50:50 range, 50 corporate and 50 this thing. This time around it is 51 corporate and 49 retail.

As far as the quality of the book is concerned the fact that we have low exposures to the stress factors has actually played out and is validated by the fact that our credit cost, gross credit cost was 13 basis points and net credit cost after recoveries was as low as 9 basis points as a consequence of which the net NPA has fallen down to 21 basis points. Other than that I think most of the parameters by which we judge ourselves have shown an upward movement so net interest margin has moved up albeit by a small 2 basis points but view that in the light of the fact that cost of deposits actually went up during the quarter. I expect that for the industry as a whole you will also see that sort of a happening. So our cost of deposit actually went up by 9 basis points but we were able to reduce the cost of funds by about 6 basis points and that is why we have shown an increase in our net interest margin. So that is in line with what we have said that margin will hold or expand. Other than that the Return of Assets is also up by 5 basis points and we have crossed the 1.8 mark which we said is our ambition. Return on Equity continues to grow by almost a percent every quarter so we are bouncing back from the capital raise that we did because earnings growth has remained with degree of momentum. Cost to income ratio because of the unusual gain that came out of the mark to market gains that we got on the securities book shows a depressed figure of 44% as against 47% last quarter but even if you net it off we have a stable cost income ratio in the vicinity of what it was last quarter. Gross and net NPA is already talked about. There is some movement in the yield; overall yield on assets has gone down by about 9 basis points so not very dramatic and lot of it actually happened on the corporate bank side so even though base rates have not reduced there is a margins have come off at least at the top end of the corporate book where there is competitive pressure now on going after good assets. The consumer yield is down by about 10 basis points which is really a function of the mix of the book. The fact that our loan against property LAP figure has grown now it is sizeable at about 1600crores and that is at the lower yield than the blended yield of the consumer bank. Capital adequacy we have switched now to Basel-III as per RBI guidelines, Basel-III allows you to accrue profits for the quarter so if you see as per Basel-III our total capital adequacy is 14.85 and our Tier-I is at 13.49. On Basel-II basis the same figures will be 14.4 and close to 13% on Tier-I.

Other than these numbers, we have continued investing in the businesses so as I said we have crossed 1000 ATM mark, we opened another 30 branches during the quarter, 530 branches as a whole. We are on our way to being anything between 625 and 650 branches by the end of the year as we have the licenses in our hands. So we have continued to invest to grow which is our philosophy. Other than that, during the quarter as we did in previous quarters, we did sell down about 2000 crores of assets which as you all know is part of our balance sheet management initiative. I think that really covers things I don't what to go through each slide of the presentation but we are happy to take questions unless anyone of you want to add, Okay so we can take question, you can open the lines for questions now please.

Moderator: Thank you very much sir. Participants we will now begin with the question and answer session. Anyone who wishes to ask a question, you may press '*' and'1' on the touch tone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handset while asking a question. We have the first question from the line of Rajatdeep Anand from ICICI Prudential. Please go ahead.

Rajatdeep Anand: Good Evening can you hear me? Yes sir congrats and thanks for a great set of numbers. I had a few questions you know the first one is about CV cycle and what we can observe as outside participants is that probably freight rates are holding up and increasing. So is that something that you people are also seeing and if that underlying business of freight is it getting better over the last 2-3 quarters that is one. Secondly as I can see from your presentation I think LAP is your key focus for next planning cycle so I am just trying to understand what are the key risks associated with LAP and how are you trying to mitigate them? And then last question is on your core fee income I think FOREX is a key driver of this core fee income so if you can tell us if you can give us more color about what constitutes this FOREX income what is the split between retail, small businesses and corporates? So these are my questions sir.

Romesh & Sanjay : So first we see CV and then freight.

S.V. Parthasarathy : Actually the freight rates have not fallen down, I mean I don't see a great increase between last quarter and this quarter. In line with economical decline, it was expected that freight rates will also come down which did not happen. As a result our portfolio has remained more or less stable so did others I suppose. And we do expect this trend to continue for the next 3-4 months and there is a glimmer of hope for freight rate and the markets for CV to improve beyond September.

Rajatdeep Anand: Are the freight are they able to pass on the diesel price hikes? Are they able to do better than that?

S.V. Parthasarathy: Diesel price hikes are not very significant but the last time around when the freight rates improved it improved substantially so that there is a definite cut in margins. I am not saying that they will able to pass, see the small increases in diesel prices normally cannot be passed on to the customers, it is very difficult. Whereas the people will have to bear it in terms of their own contractual yield and things like that. That applies to most of the contracted rates. On market loads they will be able to pass it down to the customer.

Sumant Kathpalia: Okay on the LAP side, I think the risk which we see are three types of risks one is on the LAP you know surrogate programs specifically on the balance transfers-in since everybody seems to be pushing up LAP portfolio. I think we only do cash flow based lending we do not do surrogate based lending. Second really is on the property defaults and the type, wrong documentation or I think the collateral is not being valid collateral. We have a dual check on the collateral and we have a very good legal as well as a credit process on the collateral process in the organization. Third we do not do developer funding for large ticket items neither do we do lease rent at a very high peak so we do not do developer funding at all. Fourth I think do we have a process as we mature into our business to do an annual reassessment of client, we started and annual reassessment of our clients. We started this process and we do it on an ongoing basis now and we take actions on basis data scrubbings basis CIBIL score and we go into the client and see what their performance has been. So we have an ongoing process which we do on the LAP process now so these are the four items and this is the way we handle them.

Arun Khurana : On the FX income what you have seen is the for a larger deeper penetration into existing, the wholesale client based whereas with the increase in the retail branches we have also FX from the retail flow and the ratio stands between around 60 to 40% but we expect that the retail flows will have higher impact going forward because those are new businesses opportunities that are coming forward for FX.

Rajatdeep Anand: So retail is about 40% now, right now?

Sanjay Mallik: Yes.

Rajatdeep Anand: And when you say retail you mean retail plus small businesses?

Sanjay Mallik: Retail plus small businesses.

Rajatdeep Anand: Thank you for taking my questions

Moderator: Thank you. We have the next question from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal: Congratulations on good set of numbers Sir. My question on the CV book side, during this quarter the MHCV and LCV sales volume were down whereas we have reported 15% YoY growth and 2% quarter-on-quarter growth so could you share your market share position currently and what is the gain last couple of quarters and the space for further market share gain going forward. And please comment on overall asset quality trend in the CV book especially MHCV segment and what is the proportion of your old CV segment?

S.V. Parthasarthy: There are actually three questions. One on SIAM data or the official data for the quarter is likely to be published only on 12th of this month, Friday. Therefore I will have to make the market share position based on certain amount of estimates. Sum arising out of April and May the overall commercial vehicle market has de-grown whereas the LCV market has grown, it is the other way around. The M&HCV market has registered a fall whereas LCV market has grown; okay. In our proportion M&HCV as well as LCV both have remained reasonably stagnant vis-à-vis comparison with the last year as well as the last quarter. That means that while the market has shrunk we have remained more or less static and that we have improved our market share. That is on the one portion, two is we also have given details in relation to NPA figures and things like that more or less my NPA figures there is a very, very marginal deterioration in our NPA figures vis-à-vis the last quarter. This has happened predominantly only in commercial vehicle segment which is seasonal. The first quarter of every year we have certain amount of very, very marginal blip primarily on account of onset of monsoon which affects certain industries especially mining and so many other industries which gets rectified in the second quarter partially and definitely after the 3rd and 4th quarter. As such in comparison with the previous years and things like that we have been much better position we are today than we were in similar position couple of years back.

Manish Ostwal: Secondly sir this the equipment finance book has grown 22% YoY and this sector has been under significant stress last couple of quarters and some of the NBFCs have reported higher delinquency in this space, so why we are growing this book and how do you see the asset quality in the overall book and what is your growth expectation over the next couple of quarters.

S.V. Parthasarthy : Fundamentally, our equipment finance is predominantly on construction equipments which are similar to the tough commercial vehicles. We do basically equipments like JCB backhoe loaders and similar equipments like that which are more or less complimentary to that of a commercial vehicle; it is used for small road projects and things like that. This sector is performing extremely well and this sector asset quality has been almost at the same level. Our gross NPA percentage is more or less at 80 basis points for the last few quarters it has not shown any kind of decline at all and this particular area we have been doing business for more than one and a half decades or so. There has not been any perceptible shift or change in asset quality it has been behaving exactly the same way as commercial vehicles.

Manish Ostwal: And lastly sir two quick questions on the, one is the why loan processing fees declining last two quarters number one and secondly why market risk has increased during this quarter again?

Sanjay Mallik : So on market risk we had a higher proportion of derivatives and that was the prime reason and loan processing fee as you know is a function of when the annual reviews and the new loans disbursement take place so it is purely a timing issue. You have to look at this more in terms of the processing fee over a period of time.

Manish Ostwal: Yeah because in June quarter of last year there was a significant growth in a quarterly basis so that is why I am asking this question.

Sanjay Mallik : Yeah so the answer to that is that there is a bunching of renewals in a particular quarter and that could cause a slight variation on a quarter-to-quarter basis.

Moderator: Thank you. We have the next question is from the line of Jigar Walia from OHM Group. Please go ahead sir

Jigar Walia: Congratulations to the team for great numbers and thanks for the opportunity. Sir two questions, first is a broader question, given the sharp currency movements that we have seen recently it seems highly unlikely that there wouldn't be any collateral damage in terms of more stress coming into the systems, so how do you read into this and how do you study for your set of clients and what is your view for the system? That is the first question.

K.S. Sridhar : There are two aspects to it, impact of the currency movements on the corporate in terms of their profitability and that is bound to be there, I think if you see a 10-15% movement in one quarter you will see some amount of impact on a next quarterly performance. The bank impact would be in case I am going to suffer a loss on the FOREX transaction that I have undertaken with the client. Now with regard to that we haven't come across any perceptible stress. Where ever we do FOREX forwards or derivatives with customers, we have mark-to-market triggers and as soon as he comes near the mark-to-market triggers we call additional cash margin; just like lending against cash, and till now whatever mark to market figures that we see are well within the triggers that we have set for yourselves.

Jigar Walia: Great sir so only FOREX business it is fine but as far as the losses that the client would suffer on their own books in terms of the profitability. Would that lead to stress coming in terms of more NPAs if that probably would come up in the next quarter or next two quarters?

K.S. Sridhar: It may or may not be. In the initial phase it will be an accounting, it will be a non-cash impact. Progressively of course if it does not correct eventually it will translate into a real loss. We will have to see how it pans out over the next two quarters.

Jigar Walia: Sir my second question pertains to our retail book particularly the auto and CV books, in terms of just to understand how do we go about in terms of sourcing and do we do trade advance and how important is that for us in terms of gaining market share and probably getting business per se?

S.V Parthasarathy : Sourcing mainly on commercial vehicles we have been in this state for more than two and half decades or something like that as a result 70% of our customers are repeat customers and most of them in fact quite a lot of dealers and manufactures source through us - it is the other way around okay. Who in terms of cars as well as small commercial vehicles and two wheelers we will have to source it as any other person does it through the manufacturers as well as the dealer tie up. We do have certain amount of dealer advances for vast majority of the products and we have manufacturers backstop in terms of securing those advances.

Jigar Walia: Sir just one more question related to this are we constrained as a bank because most of the other competitors are NBFCs? As a bank are we constrained in terms of handling cash transactions and KYC, probably will have an upper edge right now.

S.V Parthasarathy: Banks do have restriction on acceptance of cash and dealing with cash and I don't know whether we have got hampered because of that because we had been in the NBFC in the earlier era and right now our market shares, everything have improved much better KYC. The leaders in this trade are HDFC Bank and us, therefore you know the answer yourself.

Jigar Walia: **It is surprising. It is really great – really commendable but intriguing.**

Moderator: Thank you. Before we take the next question, a reminder to all the participants, anyone who wishes to ask a question at this time, you may press '*' and '1'. We have the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Nilesh Parikh: Hello, hi this is Nilesh here just wanted to check on our base rate, now base rate currently is at about 10.75 which is almost higher than the peers had, almost 100 bps higher than some of the private sector banks and we have seen the wholesale rates after easing of significantly despite some uptick recently but just wanted to check our ability to kind of attract the AAAs and the AA corporates given this with our base rates which is slightly higher, just wanted to get your thoughts on that.

Suhail Chander: The base rate is higher but not all lending takes place at SBI's base rate fortunately for us. They do have assets at base rate but they are also assets which are above their base rates. So as of now we are able to maintain our growth at the current base rate. As we move forward we will see how the pressure builds and what happens in the market of course we have to play within the markets but at this point of time, we are able to maintain our asset growth with our current base rate.

Nilesh Parikh: Because you know most of our loans are largely working capital in nature and we have seen whole sale rate also come off so for AA to AAA entity, we have seen rates coming off significantly.

Suhail Chander : So you have to get a bit creative in the sense that there are other instruments in the market you can always use if you are really losing a good asset and you need to adjust interest rate, you can use the CP route, you can re-use the NCD route depending on the nature of the loans that you are targeting. So there are ways of countering that. You don't necessarily have to adjust base rate.

Romesh Sobti: The point is that our gross yield on the corporate book has fallen. Even if the base rate is not reduced we have come off by about 13 basis points quarter-on-quarter so certainly that point is valid. At the top end there is re-pricing already happening but re-pricing can happen without the base rate being changed. Because the base rate change means across the board reduction which are we are very weary off. We will do that when the whole market does but in the mean time we will manage on a client to client basis where we have to reduce to retain the business then we reduce it and that is why you are seeing; what couple of quarters now you are seeing the corporate bank yield falling.

Nilesh Parikh: The other question was on the trading income which has shot up this quarter. Is it largely fixed income market or it has got some bit of FX also, Can you just broadly give a split between?

Arun Khurana: It is a combination of both actually, and there was a question which was asked earlier about increase in exchange income as well. So overall there has been increase in revenue on both the fronts. The trading income that you primarily see is on account of the fixed income. So that has gone up significantly in this quarter. We had taken some risk positions and we did manage exiting at the right moment.

Moderator: Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: Congratulations on a good set of numbers. Just a few questions. First on Savings Account. During this quarter your Savings balances have gone up by almost 12%, pretty strong number, especially at times when trend looks a little bit weak on overall deposit growth. Anything to read into this or it is pretty all organic as such?

Sumant Kathpalia: All organic. We have launched a new campaign. We have got a lot of flows coming in because of the new campaign. So my account, my number, I think it has been a success for us. So the Average Ticket Size (ATS) for the accounts have moved up; ATS was 42,000, sitting on an ATS of about 50,000-51,000 average ticket size. So our new acquisition values have shot up that's one . Number two, we have also been able to manage the government business a little better. So we have seen about 400-500 crores incremental flow coming on to the government business.

Manish Karwa: And do you still expect a similar kind of a run rate to continue for the rest of this year or it will be too much to expect?

Sumant Kathpalia: We are expecting a similar flow Insha'Allah.

Manish Karwa: And the second thing on the provisioning front, the 50 crore provision is a part of provision and that is reducing your net NPAs, is that right?

Romesh Sobti: Correct.

Manish Karwa: And you are going to use a similar strategy going forward as well whatever provisions that you make you will use it to reduce net NPA?

Romesh Sobti: If you have surpluses you can do a couple of things; declare higher profits. We have chosen to depress the profit. So we have said unusual gain make unusual provision. And if we make gains like this in the future we will make these provisions. So ultimately our ambition is that we will at some stage get back to the 100% provision coverage. So this is the dispensation available from RBI and this time around we have said that we will use it for this purpose.

Manish Karwa: And you are making that 50 crores just because you are getting the gain in case in the next quarter you do not have a lot of treasury gains you may choose…?

Romesh Sobti: Yes, absolutely. It is not a quarterly compulsion.

Manish Karwa: Sure, but the thought process is that whenever you have got abnormal gains you would probably use it?

Romesh Sobti: Yes, absolutely.

Manish Karwa: And lastly, just wanted to understand on your Basel-III disclosure. On your Slide #23, compared to Basel-II and Basel-III your Tier-I capital funds in Basel-III actually go up. What is causing this to go up?

S V Zaregaonkar: Quarterly profits have been considered in Tier-I now.

Manish Karwa: Why there is a little bit of difference in Tier-I ratios between Basel-III and Basel-II like 13.55 vs 13.49 and similarly, for Tier-II also 1.46 and 1.36? What actually is causing this. Just wanted to understand that.

S V Zaregaonkar: Tier-II is because of the higher haircut in case of Basel-III and Tier-II is the total profit taken into account while arriving at Basel-II.

Manish Karwa: Higher haircut on what?

S V Zaregaonkar : In case of Tier-II instrument, in Basel-III it is that NPOV instrument, right. Existing Tier-II has got a sun-set clause. So you have to do additional haircut.

Manish Karwa: No, for the Tier-I what is the additional haircut?

S V Zaregaonkar: In case of Basel-II we have taken total profit. And in this we have deducted the proportionate dividend.

Manish Karwa: Under Basel-III?

S V Zaregaonkar: Yeah.

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

Karthik: Just want a broad breakup of your FOREX income between proprietary and customer FOREX if you can share? And in light of newer RBI regulations, do you foresee any impact on the revenues going forward?

Sanjay Mallik: The breakup has already been given to you. So if you look at Slide #17 of our presentation, not the core fee, the part that says Securities/Money Market/FX trading, that is the proprietary portion. And the part reflects under core fee is the client portion. And the client portion has broadly broken up into Corporate and Retail in the ratio of 60/40.

Karthik: And will you foresee any change to the proprietary trading going forward in light of newer RBI regulations?

Arun Khurana: Yes, in fact, on the fixed income side, as I said, it is more of risk-taking ability and taking the risk based on what the market views are at that point in time. Certainly, I think given the period of volatility that we have seen in the last month and a half or so and we say that this is going to continue, obviously, we are going to pouring our risk appetite to where we deem fit it is and probably it is not going to be aggressive as what it was earlier. So yes, we would see a slight differentiation in the trading profit. In terms of FX, yes, client flows are going to come under severe pressure with the new norms that have been announced also on the futures market as well but as I said we are expanding our retail side of the business. So, we should be able to expand that part of the activity. So overall I would say that seems to be in line. I do not see too much of impact on our client business on the FX part of the product line.

Karthik: One added question. Any change to the capital requirement specifically considering the margin requirements going forward?

Sanjay Mallik: Sorry. Can you just explain that question?

Karthik: The margin requirements have been doubled. Just wondering whether there will be any impact on the capital consumption specifically for the proprietary trading?

Arun Khurana: No, we do not expect anything to have significant impact on that account.

Karthik: Just a few data questions, just want the disbursements in the Consumer Finance and the number of employees?

S.V Parthasarathy Disbursement for the current quarter is 3700 crore

Sanjay Mallik : **Employees number is 12394**

Romesh Sobti : Disbursement for the current quarter is 3700 crores plus 400 crores on LAP so 4100 crores

for consumer

Karthik: What is the breakup of the term deposits between retail and then bulk?

Sanjay Mallik: It has pretty much remained like before. So 30% of our deposits is CASA, just over 20% is Retail and just under 50% is Wholesale.

Moderator: Thank you. The next question is from the line of Jatin Mamtani from Barclays. Please go ahead.

Jatin Mamtani: I just had a couple of questions. Is there any update on the windfall gains that you mentioned in the last couple of calls, any update on the judgment that you were expecting there? And the second, was there any sale of NPAs to ARCs this quarter? It was not indicated in the presentation. Assuming that there is nothing…

Romesh Sobti: One particular account which was a blockbuster, that now I think coming up, final hearing we just heard on the 22nd of this month, we hope that we get a final judgment and that will be put to rest, we have got our fingers crossed, legal system affords many remedies and people have used these remedies for the last 10 years, we hope they exhausted them. So I think those are still a work-in progress, but we hope it will come to an end now.

Jatin Mamtani: If that happens, will it load a floating provision, should we expect that?

Romesh Sobti: That will take us well past the 100%.

Jatin Mamtani: ARCs I am assuming that did not happen this quarter, asset reconstruction company.

K S Sridhar : No, we did not do any sale, but we did have a very large recovery. So our overall security receipts have come down drastically.

Romesh Sobti: Down to I think 85 crores now.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: On the margin front, what we see here is that the loan composition has been changing like in the favor of Corporate book, and within the retail book, there is a drift happening in the CV book over a period of time if you look at the loan composition. So is this a design thing or is it happening by compulsion? First, if you could explain that.

Romesh Sobti: I think by design we should be 50/50. But designs do not work perfectly because market conditions come into play. So if you see variations it was 51% then went to 49%, then went to 51%, that is the Corporate book. Likewise, the Retail book from 49% went to 51%, back to 49%. So there are some variations caused by market situations. Although we have kept apace on our disbursements, our disbursements even on vehicle finance are almost the same as Q1 of last year in spite of the fact that the market is shrunk, but we were expecting even larger if the market had remained as stable as we thought it would. So I think the variations are not reflective of any trending. We do not see any trending. By and large the trending should be 50/50 over time.

Rakesh Kumar: But change of the incremental buildup, what is happening in the NPL side in the CV book in particular, like in the fourth quarter and this quarter, so would that restrict us further increase in the CV book or not?

Romesh Sobti: Changes are extremely marginal. So they would not reflect in any kneejerk reaction on our part. But if you see the overall CV book I think the gross NPAs gone up by just about 5 or 7 basis points and if you look at individual product categories, then apart from the CV book all other categories at least show a slight improvement. So I do not think there is any trending here which warrants us taking any different actions today on this portfolio.

Rakesh Kumar: Secondly, on the asset side again, basically the investment book yield has gone up quite fast and if you look at the total investment book size has come down from fourth quarter to first quarter so the interest income on that book has gone up. So what is happening on this asset side?

Arun Khurana: What we did was that we did rebalance a part of our portfolio. So we did some refinancing by way of LAF which is allowed as per RBI which is considered of that particular book. So that is how we did that. And plus we have also slowly started building a much more healthier, smaller corporate bond books which has a higher yield. So that is why you see that.

Rakesh Kumar: Refinancing of the LAF book which is in the credit book, but here I am just talking about the investment book, so like you….

S. V Zaregaonkar: Yeah, investment book is down because the investments under LAF are deducted.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Jatinder Agarwal: This is Jatinder Agarwal from CIMB. On your Consumer Finance book, can we get the approximate repayment that would happen on this book in this financial year?

S V Parthasarathy : Repayment meaning?

Jatinder Agarwal: The scheduled repayment that will happen on your Consumer Finance book.

S. V Parthasarathy : Ballpark is anywhere around 900 to 1000 crores per month.

Jatinder Agarwal: How much would have been about same as last year?

S. V Parthasarathy : Last year the repayment run down was about 800 crores per month, right now it could be closer to anywhere between 800 to 900 crores per month.

Jatinder Agarwal: The reason that I am asking is when you look at your asset/liability or maturity profile, that is as per the annual report, practically, all the loans that have increased during FY13 over FY12 have happened in the 6 months to 1 year category. There is an increase of about 9,500 odd crores in that bucket and the full year loan book has almost grown by the same amount. Is this a very large part of the Corporate book that is sitting there?

Sanjay Mallik : Corporate book is a short-term book.

Romesh Sobti: The average tenor of the corporate book is about 270 days. Large part of it is working capital. Within that you have got a lot of 90-day loans which keep getting sort of rolled over. So they keep shifting in the buckets.

Jatinder Agarwal: So a large part of this which is sitting in the 6 months to 1 year would be Corporate book?

Suhail Chander: It will be calculated as per maturity. On the Consumer Finance book only what is maturing in that portion will come there, it will only change on a year-to-year basis by the growth in the Consumer Finance book because the tenor for the Consumer Finance book are not changing.

Jatinder Agarwal: **I think that was very helpful.** Thanks

Moderator: Thank you. The next question is from the line of Mr. Adarsh from PL India. Please go ahead.

Adarsh: On the ratings chart that you have put out. In that I see some move from AAA, some move from there to say A- and A+ category. So just wanted to understand is it like incremental origination done at A or is there some downgrades in your rating polls, how do you see that particular book? And you have had a fairly low restructured book till now. So just wanted to understand there have been a lot more names coming in the media of getting restructuring. So just wanted to understand how is the pipeline now for you all on the Corporate side?

Suhail Chander : I think from AAA to (A-) not going to be restructured very quickly hopefully.

K.S Sridhar : I can add to that, weighted average credit rating actually has improved over last year.

Suhail Chander : The thing is that it is a function of what is drawn and how facilities get drawn at a point of time. So there could be some maturities in AA or AAA and then you see a little bit lower there. But the change is not that significant if I am not mistaken.

Adarsh: I agree, there was some marginal change. I just wanted to check whether that is down…?

Suhail Chander : That will happen on a quarter-to-quarter basis. Since we started reporting this you will see that every quarter numbers will move marginally up and down because it depends on how it is drawn, but basically meant to give you a macro picture of where the book lies.

Romesh Sobti: AAA-rated public sector unit suddenly withdraws, takes large facility. You will see the first spike shoot up, 27- 28%. If that is repaid it goes down to 24- 25%.

Adarsh: And the second part, have you all seen any change in your pipeline or you do not see any change in pipeline for restructuring on the Corporate side?

K S Sridhar : Actually, restructuring book is more or less constant. We had one addition and we had one deletion. In absolute terms, there is a small increase, but in percentage terms it is about the same.

Adarsh: You had 2,000 crores sale of assets you said. That number last year if I am not wrong was 3,500 crores or?

Sanjay Mallik : Yeah, it has come down.

Adarsh: So that may come down further if disbursement growth is not very great in the Auto book, something of that sort?

Suhail Chander : That is a portfolio management tool little bit. They will happen when the portfolio also it has to make profitable, depends on the rates that are available, there are many vector that come into play when we look at sales, it is not purely an asset management tool, it is a portfolio management tool. So we have to see what kind of portfolio we have, what can be sold, what cannot be sold, do we get a yield benefit when we sell it, so many vectors come into play. If the market is not conducive, we are not going to sell just because we have a book that is there. It has to make economic sense.

Moderator: Thank you. The next question is from the line of Nitin Kumar from Quant Capital. Please go ahead.

Nitin Kumar: My question is on the distribution income. It has still shown 18% YoY growth. So if you can add some color to it as to what segments are driving this growth?

Sumant Kathpalia: Our distribution income includes different types of income. One is the home loan. We have seen a growth in the home loan disbursement. So we are doing about 150 crores of home loan disbursement per month now. So that is something which is giving us 1%, we are doing distribution of HDFC products so that is giving us some growth. I think our credit card distribution is giving us another growth and we are seeing a growth in that.

Our LI business is still going strong, and while the rates would have come down but our volumes have grown, so it is seeing the growth over last year, quarter-on-quarter you may not see a growth but over last year it is still showing significant growth over the first quarter of last year, so that is where the growth is coming. GI income pass on is still going strong because the disbursements are almost equal to the last quarter. So we are still going strong on the GI. So that is where the distribution is. So we are still strong on volumes. The margins may have disappeared a little bit on the LI business, but otherwise we are still going strong on the distribution income.

Nitin Kumar: Secondly, what is the outlook on deposit cost? This quarter we have seen an increase in the deposit cost and at a time when the other peer banks are cutting base rate, would it be a limiting factor for us to go and cut base rate and impact our ability to compete in the market?

Romesh Sobti: I think we mentioned in a previous question that you do not have to be competitive only by cutting base rates. The base rates may vary but nobody lends at base rates. It is a question of how much margin you charge over the base rate. And if you see that if our corporate banking yield has fallen by 13 basis points without cutting the base rate. So to remain competitive, you can play around with the margins. As far as cost of deposit is concerned, there was a spike in April. So the deposits that were brought in April I think did spike, because 90-day CD rates and all shot up during that period but rates have now come off quite significantly.

Arun Khurana: I think there is enough liquidity now in the system. Just we have seen a sharp drop in the CD rates across tenors right from 3 to 6 months something like 7.40 and 12 months, just a shade over 8. So we too perceive the deposit rates will come off going forward.

Nitin Kumar: And lastly, what is the guidance on cost-income ratio now because this ratio has declined for last two quarters now, and with so many branches coming in, and productivity likely improving, can we expect further fall there?

Romesh Sobti: We never give guidance on any of these vectors but overall till last quarter whatever you saw was a consequence of cost reductions. This quarter you are seeing a sharp drop of about 3% but that was a consequence of the one-off revenue that has come. So efficiency ratio has come down because of that. So if you net off that I think our cost-income ratio remains stable. We are still in that range of 47% odd. And you are right, we are beginning to see maturity of our branch network. Although we will open another 125 or 150 branches this year, I think the ratio of new branches to total branches is falling, which means that those which have reached maturity, that means they have broken even in that 12-month period, that number is increasing and that should steadily result in a downward trending. And we have said that in a steady state with the sort of investments we make and the fact that over the next 5 years we will continue opening branches at even pace. We expect that if we get on to 45% cost-income ratio; that for a bank like us which has a very good mix of Retail as well as Corporate is a very decent cost-income ratio.

Moderator: Thank You. We have the next question from the line of Ravikant Bhatt from SBI Caps Securities. Please go ahead.

Ravikant Bhatt: My questions have been answered. Thanks.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I have a question on the wealth management recent guidelines which have been issued by Reserve Bank. In your judgment what is the likely impact if they are kind of implemented in the current form especially on the cost of doing this business and the incentive structure is built in for employees in this business and as a result, what will be the profitability of doing this business?

Sumant Kathpalia: First of all these are draft guidelines. There are basically three implications which the draft guidelines are talking about. One is on the referral business that banks are not allowed to do referral and they wanted to say about insurance, but it seems to have got extended into mutual fund and alternate product and brokerage, because brokerage is also a third-party distribution for banks which do not have brokerage. This is under discussion. If we do not do alternate products of brokerage distribution, those incomes will disappear from the investment banking or the investment businesses. Second is on the financial transaction flow. So most of the business if you see which is generated through RMs, the draft guidelines do say that you should route your transaction through the client account with the existing bank. You should have the client account and the account should be debited. In some of the cases, the transactions are routed to the other bank while the client may not open the transaction account of the bank but the investment transaction happens. That has also been represented. About 35% to 40% of mutual fund business does happen through that route in the industry. Third is on the incentives. The implications what they are saying is they are not stopping the incentives, they are saying that you should take a more prudent on an annualized view on the incentives that is #1. #2, the operations staff should be excluded for all incentives programs. We did implement such incentive programs in our bank last year itself. So our frontline people are almost paid on the deferment basis in the organization, the incentive payout, some portion of it is deferred to after 12 months period. There is no issue on that. The last is they are saying that there should be certified staff. We already have a process in place that we do certify a staff for selling insurance or selling mutual fund. We do not sell without certified staff and we do have what we call as a 'Indus Pro,' a program which includes certification of a staff for wealth sales before they do wealth sales in the industry. The impact is that these draft guidelines are implemented fully. But I think these are under discussion, the banks are responding to them by July 31st. Already representations by the Mutual fund industry as well as by the insurance industry has been made to the RBI. So I think let us wait and watch, in the meantime it is (BAU) business as usual.

Amit Premchandani: Sir, generally the kind of staff who engages in this business, he is also dealing with the service of the customers. So in your case is it completely different staff who is actually selling the product and he has nothing to do with servicing the customer for normal bank operational deal?

Sumant kathpalia: In our branch there are four types of staff. There is an operation staff, which is nothing to do with the sales. So the teller or the operations that, operation staff who is sitting in the branch doing transaction has nothing to do with this. Then there are (RM) relationship managers and they have everything to do with the sales. Then there are customer service executives, who sit in the staff and they also do sales because they service, their incentive program is a balance score card and has nothing to do with only the sales, they do not get incentives only for sales, they have a balance score card that sales portion is very high percentage of their incentive payout, and they are paid incentives on an annual basis, it is like a bonus rather than an incentive.

Amit Premchandani: Just for clarification purpose I am asking this. So this customer service staff can still sell the products even after the new guideline?

Management: Yes, that is it.

Moderator: Thank You. Participants, that was the last question. I would now like to hand the floor back to Mr. Romesh Sobti for closing comments. Over to you sir,

Romesh Sobti: Thank you. I think we have covered enough. Nothing left for us to speak. Thank you for joining us.

Moderator: Thank you sir. Ladies and gentlemen on behalf of IndusInd Bank that includes this conference call. Thank you for joining us. You may now disconnect your lines.