IndusInd Bank Limited
Q4 FY14Investor/Analyst Meet Conference Call

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Romesh Sobti Thank you very much for joining us here for this Investor Analyst Meet. We are delighted to present to you our Quarter 4 results as well as the full year results. I have with me the entire management team of the bank here. So whatever questions you need to direct at the end of the presentation we will be more than happy to take those questions and if there is additional information you want like data etc., of course that we can give off line because this forum may be too cumbersome to share that sort of data. I am going to just take you through a few headlines which come to my mind as far as Quarter 4 is concerned. Not going to go into detail of the operating environment because the same thing gets repeated again and again. But I think one thing is the credit policy. The credit policy gives you a very clear vision of the stance of the Reserve Bank of India vis-à-vis rates and it is very clear that although REPO rates were not touched, the actual cost of borrowing for banks went up through the mechanism of shifting the bank's borrowing from REPO to the MSF window. As a consequence of that there was actually 60 to 70 basis points extra cost for those who borrow from MSF. So in effect there was a slight movement upwards even in the credit policy. The overall stance therefore is clear from this particular move. RBI remains uncomfortable with the inflationary situations and we keep going back to what we have said that we do not see visibility of reduction in interest rates at least for the next two quarters. Our business plan is actually predicated on that basis. RBI is pretty data focused as far as rates are concerned so they want to see data on a very stabilized trend on inflation before they make any moves in terms of reducing rates.

The other feature of course is the new bank licenses on which we have had plentiful discussions over the last two years but at the end of the day we got two licenses. One of them is a bottom of the pyramid player who is got to upgrade upwards to a bank and the other is top of the pyramid player which is infrastructure who has got to move downwards to becoming a bank. So I think a lot of hype around how many licenses to be issued is all over now. For licenses on tap let us see how that plays out; when will the next license be actually issued. If it is to be issued in the next six months then why was it not issued right away. So my own sensing is that licenses on tap will happen but I think before you see the next license being issued, it will be quite a time interval between that.

As far as our own performance during quarter 4 is concerned, I think there are some key highlights. I can go through all the numbers. I will go through the numbers very, very quickly. But the highlights that stick in my mind really are the improvement in our Net Interest Margin that moved up by 10 basis points from 3.65% to 3.75%. Although there is a sensing caused by what happened in March; in March, of course, as there was some tightness, there was an overall sensing that money was tight during the quarter. But money was not tight right through the quarter. So there were plentiful liquidity during the quarter and we saw our cost of funds go down actually by almost 28 basis points and that happened also because we had large current account floats as a consequence of the dividend warrants that we processed for public sector units. So that is one big highlight for us.

The other is that we did achieve a 29% growth in our Net Profit for the quarter and 33% for the full year after absorbing mark-to-market losses. For the full year our mark-to-market losses on the G-Sec book were Rs. 88 crores and during this quarter they were Rs. 35 crores. So if you want to normalize the profit, you know which way to go. Asset quality has been stable. Gross non-performing assets have actually fallen and the credit cost has come well within the target that we had set for ourselves. We had said credit cost budget of 60 basis points and the credit cost has actually come at 48 basis points and during the quarter our credit cost was 13 basis points. Net of recoveries our credit cost was 11 basis points. So there is stability in the book. The CV asset quality we think is definitely bottoming out. We see clear indications and of course the CV business as a whole, we think, has bottomed out as well and over the next sort of two quarters we might see an uptick.

I also, at the end of this presentation, want to talk a little bit about what we plan to do for the next three years. So with this quarter we finished our second Planning Cycle, we call it PC2 and we have now embarked from 1st April on our Planning Cycle 3. We have not shared with you what our vision for Planning Cycle 3 is. So I have got a few slides to really discuss what Planning Cycle 3 is all about. What are we going to change? Are we going to do more of the same? Or are we going to do something different?

Let me quickly run through the presentation. So as I said Quarter 4 marks the end of Planning Cycle 2 which had a theme of “Scale with Profitability” and this is how we actually delivered during Planning Cycle 2. So if you look almost every vector has doubled or has grown by 2.5 times. So whether it is revenue or net profit or deposits or advances during this three year period has actually doubled. And this is how some of the other vectors work out like net worth, CASA, branches have doubled and the number of customers have moved up actually 2.5 times. This was our target. And these were the key initiatives that carried us through Planning Cycle 2. So we were to scale up our investment banking practice and investment banking has given very good dividends to us. You have seen quarter-on-quarter how we have constantly delivered results. The credit cards business was launched; full suite on assets were launched. There is no asset product left for us to launch even personal loans, business loans, gold loans; everything now stands launched.

New client acquisition I showed you grew 2.5 times. We did make a dent in the used commercial vehicles sector which is what we had said with one of our initiatives. The only one where we could not make a dent was in the offshore branches because we are yet to get a license for the offshore branches. That would have been a great leg up to our profitability. For instance if we had it during the FCNR regime, we would have raised a lot of money that would have helped our bottom-line. But the lack of a branch prevented us. We still raised $300 million but we could have raised a $1 billion if we had a branch overseas. Supply chain products have been done. New branch rollouts are going apace. We doubled our branch network from 300 to 600 and of course the core banking system was rolled out. So that is really a summary of what happened during the Planning Cycle 2 which we ended with quarter 4.

Now these are some headlines. I have already talked about the NIM. Apart from looking at the year-on-year figure, look at the quarter-on-quarter figure. I think that is going to give you a much better estimate of where we are headed. So quarter-on-quarter almost every line is between 7% and 8% growth. And of course the heavy line is the non-interest income. Non-Interest Income grew actually 42% year-on-year and quarter-on-quarter grew 9%. Non-Interest Income is now 40% of our total income. It is probably one of the highest in the industry as it stands.

So we have managed to grow advances 24% year-on-year and 5% quarter-on-quarter and book has remained stable. So you see hardly any movement in our gross and net NPAs. In fact gross NPAs have actually reduced and overall credit cost I have already talked about. Year-on-year if you take the full year vectors then the full year margin has actually crept up by almost 28 basis points and our ROA has grown almost also by 18 basis points. ROE was the function of the equity that we raised during the planning cycle but we are creeping back to 20%. Every quarter you see ROE going up so the earning profile is giving us that. Cost income ratio during the year has fallen almost 300 basis points inspite of opening the number of branches that we have opened, inspite of doing the core banking system. Our net NPAs are flat. This gives you the quarter-on-quarter number but we have already discussed that.

So these are the headlines for the quarter. An 18% increase in Net Interest Income. That looks low to us as well but keep in mind the base effect. In Quarter 4 of last year we had a NIM increase of 24 basis points in one quarter and there was a massive increase in NII so there is a base effect there. So if you look at the quarter-on-quarter figure that is about7%. Other numbers we have already talked about. Other income I have talked about a year-on-year growth of 39% and the Core Fee Income grew 30%. This is the topline. So what stands out here is the deposit growth, right? Deposit growth was only 12% and I think we have explained to you every time we presented quarterly results that is a conscious choice to replace deposits with funds. So you see our borrowings have gone up quite heavily compared to our deposits. But what you got to keep in mind is that borrowings have given us the much more stable base and the asset liability profile has actually improved as a consequence of the borrowings. What I mean to say is that when I borrow refinance the average tenure is well over two years. When I take deposits my tenure is 365 days. Actually there is an improvement in the tenures and the asset liability profile as a consequence of that but going forward we do see deposit growth picking up. Raising deposits is not a challenge; keeping the cost of deposits is the challenge. So it is not a question of availability; it is a question of availability at a particular cost. We have kept saying that SA is the bright spot in our balance sheet. On our liability side SA keeps growing quarter-on-quarter and year-on-year and this quarter we showed a SA growth of 41% year-on-year and quarter-on-quarter 7%.

I do not think we need to stick too much on the balance sheet. We have already taken into account the P&L. These are some key financial indicators. So if your NIM has improved, your ROA has improved and if your ROA has improved, your ROE has improved and ROA is now at 1.9%. I do not think we need to focus anything else on this slide. This is the breakup. I do not know whether it is clear but this is the breakup of our loan book and what stands out here is that the retail part of our businesses has actually slipped from a peak of 49% of the total book to 45% of the book which is really a reflection of the market. The vehicle finance businesses have slowed down. Our disbursements this year are almost flat compared to last year. But we do expect going forward that this will move up. So the corporate business has therefore grown faster than the retail businesses over the last two-three quarters.

Nothing else has changed. The commercial vehicle part is slipped from 19% to 17% but two wheelers have improved that is the bright spot on the asset side of our balance sheet. This is a breakup of our exposures. Not much change. Almost in every industry category you will see actually a reduction in the overall exposure. For instance in the construction related infra industry, this has come down from about 1.75% to 1.5%. We have added food credit but that is really the Food Corporation of India, we do not do any other item. So by-and-large no major movements here. This is the abstract chart. Actually it is got to be deciphered. This really tells you the profile of our corporate loan book in terms of the rating profile of our corporate loan book. Not much change except in that beige colored spike that you see on the left side in the investment grid. That was caused by one large guarantee that was issued for a very large telecom operator which was very well secured.

I have talked about the CASA part of our business. CASA has steadily moved up. We did not hit our target of 35% but that was the consequence of changes in the market but we are pretty close to that 35% mark. We are at 32.6%. I have talked about SA. SA has grown much better than CA but CA during quarter 4 was a surprise to us and that is one of the reasons why we have shown improvement in our NIM. That is the breakup of our fee income. Overall fee growth was 42% of which Core Fee growth was 28% and this is the breakup of the overall fee. So most of the vectors have grown nicely. Distribution fees you have seen over the last two-three quarters is stagnating at almost the previous year’s level and that is the consequence of what is happening in markets especially on life insurance. Life insurance is not giving us the traction that we expected because the whole market is collapsed. General banking fees is not an item for worry. General banking fees really is the lot of fees that you incurred to get out of minimum deposit charges and things like that which means that people are not paying these charges which means that balances have improved in the savings bank side which itself is a good sign. The investment banking practice continues to deliver a high double digit growth and if there are any questions that you have on that we can answer at the end of the presentation.

The NIM improvement is a consequence of a reduction in our cost of funds by 28 basis points. Our yield on assets fell by 18 basis points. As a consequence of it, NIM went up by 10 basis points. This is finally the credit cost. Credit costs for the quarter were 13 basis points. As I said for the full year, credit cost was 48 basis points and net of recoveries actually for the quarter it came to 11 basis points. So there is nothing unusual; nothing spiky about the asset quality of our book. We think that as I said the CV part has bottomed out. We expect to be extremely range bound as far as our NPAs are concerned and our credit cost is concerned.

This is a summary again of the additions and deductions on the gross NPAs. So if you notice that our additions were Rs. 188 crores and our deductions were Rs. 193 crores. So overall very little movement. Restructured advances are still in the 30 basis point category at 0.33%.Two smaller accounts were restructured during the quarter but did not make a major difference to our existing. That is the profile that we show every quarter on the product wise delinquencies. And as we had forecast in the commercial vehicle side, the gross NPAs moved up by another 10 basis points but credit cost did not move up by 10 basis points. And I think in the growth product which is two-wheelers, actually our gross NPAs have improved by almost 23 basis points.

That is the capital adequacy. In the fourth quarter every year operational risks for the full year is reckoned for the purposes of capital adequacy. So that happens once in every four quarters and that is why you are seeing a reduction in our CRAR by almost 55 basis points. But still we remain pretty adequately capitalized and there is enough fuel in our tanks for the next two years. The branch network we expanded we have crossed 600 branches. We have said we attempted to get to 625 and we have got to 602 branches and ATMs have grown apace as well. So I think that is the summary. This is the promoter shareholding and the shareholding pattern nothing has changed much in here.

I will just spend 5- 7 minutes on Planning Cycle 3 which starts from 1st April now so 2014-17. The questions that we asked ourselves – do we need to do anything different in the next three years? In the next three years, will we be a different bank or do we need to do more of the same? And the answer to that there will be more of the same but we will add some fee and interest boosters as we go along.

So our strategy over Planning Cycle 3 is that in certain areas we want market share. We never talked about market share but in certain areas we want market share. And in certain areas we will dominate. For instance in the vehicle financing industry as we see revival coming up. Because we have improved our market share, we want to stick with that market share on the way up and this is what we call intelligent domination. We do not want to dominate every space but the space where we have domain expertise we are certainly going to dominate. So vehicle finance for instance we want to be number one in every category of vehicle finance. So "Market Share with Profitability" is our theme and we will focus on new yield and fee boosters; I will talk about them. We will focus on scaling up our client base, to create density in our branch networks and of course the business as usual growth will continue.

So these are I think some of the growth themes that will drive us. One is continued domination in the vehicle financing industry. We want to be number one in every category of vehicle financing. We are practically there. Secondly, we are prioritizing scale in our home markets. Let me tell you what home markets mean. Home markets are markets where we have created or will create a density of the branch networks which equals the density of the big boys. That means if say an Axis or HDFC or an ICICI has 15 or 20 branches in a particular city, I will get to 15 or 20 branches also in that city in a period of 12 months. So those markets are called home markets where we have a market share of the branch network of at least 5%. So those are home markets. Individually when we discuss, we can talk about what is happening in the home markets. We have selected about 6 home markets which have already been launched; 6 more are going to be launched in the next 12 months as well.

In the corporate banking we are going to specialize in a few areas. Corporate banking is pretty commoditized but in the areas of say hospitality, in the area of wellness and healthcare and some areas of real estate, we will do some sort of specialization where we will hire the right sort of people so that we can differentiate the wheat from the chaff in these particular areas.

We have reckoned that at the end of Planning Cycle 3 that is in March 2017, we will have close to 1100 or 1200 branches. More than 400 branches will sit in the rural areas. So that is the thing that is staring us in the face. That is the regulation; I do not have a choice. So if one-third of my branch network is going to be in the rural areas do I have a plan for that bank? That is why the rural banking vertical has been launched which will make sure that through lending products, through savings products and through payment products we will make the rural banking branches viable and a profit center instead of being a cost center. So both the corporate bank and the consumer banks will focus on the rural banking verticals. So the corporate bank will contribute to the agri financing part of it. So these verticals have already been launched; we already have the agri verticals. So rural banking is the additional element that is going to come in to our P&L for the next three years. Then of course is building the brand and of course digitization of businesses. I think digitization is a theme that is going to be embraced by a lot of banks because the writing is on the wall. The way we do businesses on say payment products is going to change dramatically. If you ask people this question how many credit cards are sold through internet banking; nobody has an answer. The answer is very few. Very few credit cards are sold online but if you ask the next question how many credit card buying decisions are influenced by the internet; hell of a lot. So I think the writing is on the wall. We are already seeing payment products being launched by mobile operators and they will take away this business from banks if banks do not have a corresponding sort of a product to match that.

So digitization is going to influence almost every area of our activity and we have prepared ourselves to launch that. From June onwards you will see some digitization initiatives being launched. So these are I think some of the key initiatives. On the vehicle financing side the only vehicle financing category we do not finance is tractor financing. The tractor financing is there but has been dormant. Now we have worked out the whole dynamics of tractor financing. How do we sell and how do we collect and that has taken us almost 12 months. But we think we now have as a robust model to launch that. The “S” of SME that is the smallest part of SME, I think is the area of potential. We have developed the expertise for that.

The other one is of course I talked about – the full suite of rural products and I talked about payment products, savings products and lending products; all that will happen. The front and back office optimization – these are productivity initiatives that we launched. How many people do we use to sell products and how many people do we use in the back office to process the selling of those products? What is the ideal ratio between front office and back office? I think that is the productivity initiative that we will call and one finally I think our new initiative which is going to launch in the next two months is about asset reconstruction. We will do asset reconstruction within the bank but in tie-ups with ARCs. The business plan is ready. We believe that a huge stock of assets is coming into the ARCs as a business area that we need to look at and we will exploit. So these are some of the new initiatives that we think will add to fee and as well as to the interest income. And of course these are our broad targets. We do expect loan growth to be in the 25% and 30%; we do expect CASA to cross the 35% and head towards the 40%. We always said that fee growth should exceed loan growth and for 24 quarters we have demonstrated that. Branch network will double in the next three years and customer base will double again. So in a sense we doubled the bank in the last three years. We want to double the bank in the next three years as well. That is our overall target. We do not need to go through the series of awards.

We have done with this presentation. We are happy to take questions.

Participant Sir, just a couple of questions on corporate banking. Obviously we have discussed this at length even in the past so that piece is growing very rapidly amidst the macro slowdown and obviously other banks are also seeing a slowdown in loan growth and now the deposit growth has picked up. Why are not other banks chasing the same customers you are financing or what differentiation are you offering to these customers as they are not going to other banks because the growth is indeed very strong?

Romesh Sobti I do not think there are so many differentiated products. If you are part of a consortium then you share in the natural growth of that consortium and increasingly we have entered consortiums. The only differentiation we have is that we focus so much more on the working capital part and through thick and thin you have seen that the working capital kept on drawing credit from the banking system. And since we were there in the working capital side we have sort of benefitted from that. Two things are happening. One is that there is the natural expansion that happens in the credit needs of the existing clients. So without going in to capacity expansions, just on inflationary basis 10% to 12% increase happens in the credit growth in any case, just on pure inflation that is the requirement. Secondly, the coverage has increased. So I mean in terms of our corporate franchise, the corporate franchise is much bigger this year than it was last year and last year was bigger than what it was in previous year. We have penetrated quite a few names that we had not penetrated. Thirdly, the breakthrough in the public sector units. That has taken us a long time and now that is reaping results. So we are also doing lending products to the public sector units. So we start with just pure liability products, go into trade finance and FX & then get into the lending products side. So the pools are the same but we have entered those pools and we have taken a little bit of market share and market share is pretty small. It is 0.7% or 0.8%, right? So getting to a growth of 24% for a bank like us is not tough. But if you have a balance sheet of Rs. 500,000 crores then you start growing 24% then you are asking a different set of numbers. Suhail you want to add anything?

Suhail Chander No, I think you said it all Romesh but again just two things essentially. One is deepening of existing relationships that is making high quality products available. So there were certain products that we were not marketing to our existing customers. We have started to do that. And the second thing is to improve and make sure that you have the best quality coverage on the street so that you can continue to acquire high quality corporate names. Those are the two things Romesh mentioned and that is what we have been doing. And that is paying dividends compared to market. We have a fairly small balance sheet so 24-25% or even higher growth in absolute numbers is not that much.

Romesh Sobti I think at the end of the day if you want to grow your book there is one ingredient you need that is called capital. If you do not have capital, you do not have growth. But when you have capital you decide how much you want to grow. You do not want to throw away your capital. Fortunately we have the capital and we have used it not to grow recklessly. We have used it to get the returns we want. So without throwing balance sheet, but capital is needed and that is one of the big ingredients of growth.

Participant Just quickly on your outlook on ROA for the phase 3 looking at the way you are growing or the target of growth of 25% to 30% and then fee income growth over and above the balance sheet growth. How do you see ROAs moving for the next three years?

Romesh Sobti Yes, so ROA is a function of NIM and fees, right? So really if you want to ask us where we are headed towards on ROAs is to ask us where are you heading towards the NIM and the fee income, right? Because they are the boosters of ROA. Now on NIM, we have always said that look at the construct of our yield and cost structure on assets and liabilities. We have probably the highest gross yields in the industry today. What we do not have is the highest CASA. Our CASA is 32% to 33% vis-à-vis say somebody's 45% or 50%. So essentially what we are saying is maintain the construct of your loan book so that your yields remain elevated by at least 100 to 150 basis points compared to our competition, and slowly move up the CASA part of your businesses and therefore you should be ambitious enough to say that we will look for a NIM for 4%, right? A 4% NIM is not unrealistic. If you get to that that means your NIM on an average basis goes up by 25 to 30 basis points compared to say the full year this year and the NIM goes up by 30 basis points then the NIM contributes 60% of your ROA for instance which means ROA should go up by 20 basis points, right? So I think it is not unrealistic to say that you should have a ROA of more than 2%, right? At least you can aspire to do that and if you do that then your ROE automatically is a derived element of that, that your ROE should be in the 20s for instance. That is I think what we are aiming at but the market must support us.

Participant And a follow up question especially on the vehicle financing you mentioned that in this up cycle you would like to maintain the current market share. Just wanted to understand your thoughts how different is this strategy versus earlier cycles and whether that could impact the profitability?

Romesh Sobti Yes, so in the earlier cycle which is just finished, two years out of the three years' cycle was a down cycle for vehicle finance. What happened during this part is that the number of players in the vehicle finance industry shrank massively, right? So they shrank from about 40-45 players down to about to 10 odd players. As a consequence the people who stayed back; so the top 5 for instance, we are one of the top 5 financiers, they improved their market share from 40% to 70% of the total pie. Although disbursements did not go up, market share went up because the market shrank. So it is a question of whether you had the staying power. If you had the staying power so those people who have stayed back and improved market share are going to reap the benefit when the market rebounds. So the strategy is no different. We are neither going to be more aggressive nor going to be less aggressive. We are not going to drop our credits screens. The credit quality remains the same in good times or bad times. But because we stayed we have got a certain market share. We say that when on the way up we will try to retain that market share without sacrificing either pricing or quality.

Participant Sir, first question is when we started our Planning Cycle 2 that time also we were looking at adding scale to the balance sheet. Probably just a thought that probably would fee contribute as much to the profitability and would the contribution of fee quarter-on-quarter growth decline but fee has definitely surprised. I hope it continues for Planning Cycle 3 as well I am sure and you said that you have some levers. Key thing which would have helped us is the investment banking and just wanted to know that the balance sheet that we attribute for the investment IB book would that increase at a much fast pace in Tier-3?

Romesh Sobti So the investment banking piece is not predicated so much on balance sheet usage and I think a clear indication of that is that we do not have for instance a corporate bond book. Our corporate bond book is sub Rs. 1,000 crores. We have not built a corporate bond book because when you do lot of the debt structuring and debt syndications there are lot of stuff; actually the off spin of that is building up the corporate bond book, right? So that is not happened in our case. Balance sheet usage is temporary which means that I do a syndication I hold it for 90 days and I am out. So the total balance sheet attributed to the investment banking should not change over time technically, right? And in our case it may be Rs. 2,500 crores or Rs. 3,000 crores. It is remained steady which means I take it in, put it on my books and put it out. I do not want to use balance sheet. Then you are not doing investment banking you are doing corporate banking. If this is investment banking, you should get bonuses of corporate banks then. If you use my balance sheet and generate fee by holding back the syndications then you are doing a corporate banking business, it is not an investment banking business. So that is the way we want to play it. That is the way we have played it and that is the way we want to play it. We have a lot of what we call trust and confidence in that business we will grow up. We are going to put more resources behind that business and maybe we have Roopa here; Roopa heads our large corporate and the investment banking business and maybe she can share with you some thoughts on how we want to grow this business and how do we use balance sheet.

Roopa Satish So I have explained this business in detail to some of you but just to reiterate. So today we are entirely focused on debt. We provide debt solutions. The target is the existing client base of our bank. We are focused on the midcap business and we will continue to be focused in that space. I think it is a very nice spot overlooked by many large IB firms. These are strong client relationships of ours. We ride on our strong corporate banking relationships and provide structured IB solutions which are debt focused to these players. So we have also expanded into the group companies of larger corporates. So that is a very nice spot that we are operating in high growth midcap companies and group companies of very large corporates like the Tatas, Birlas, etc. So what is like Mr. Sobti said is the model which is completely imbibed is you originate loans. It is not a bond base model. We do loans largely, the model is to originate loans with the intention to sell it down and so what is very consciously trapped in the business is how much asset is used for generating fees and fee as a percentage of assets and we continuously churn this portfolio and report it quarterly internally to see that it is not the loan which is generating the fee but it is the solution which is provided around that which is necessarily the structuring advice given and the skim that you make when you sell down the asset. So last quarter for example we have done very nice transactions. We have completed, we have underwritten and syndicated project loans. We have sold down real estate transactions, LRDs. We have done some very nice sell down of structured loans and this is what has given the momentum in the IB business. And it will continue to, so we are focused on this completely. We do not track this very, very closely but we are pleasantly surprised to find ourselves moving up in the lead table. So last quarter in Bloomberg we figured as number 5 but no promises on that count because we really do not track this but hope to figure somewhere there in the next few quarters also.

Participant Ma'am, fair to assume that you would also get into equity side of investment banking in this phase?

Romesh Sobti Not in the near future.

Roopa Satish Yes, no equities at all. It is focused on debt. We have a small advisory business which we are going to invest in so that we are focused on providing M&A solutions and private equity solutions to the same set of clients I described before but that is yet to pick up and we are investing in on boarding high quality resources there.

Romesh Sobti I mean you get into the equity business then you run into the big boys; the big boys on Wall Street who do not have balance sheets. So we are keeping away from that. The only thing is private equity.

Participant During this year we have seen the cost-to-income ratio reduction around 300 basis points. So what is the scope of further reduction in this number, number one? And number two, on the rural branches of around 400 branches you are targeting so the strategy would be liability focus or asset focus what is the focus there?

Romesh Sobti So the first question was cost-to-income. Look if you are in the retail businesses, building retail businesses means investing every year. If nothing else then in the branch network, right? We did 100 branches per year. We will do 150 branches now in the next phase may be 150 branches a year or 175 branches a year which means constant expenses will go out. But you get in to a steady state because the matured branches percentage increases. Matured means which have done more than 12 months. To get the cost-to-income ratio decrease means you have to really squeeze hard. We personally feel that a full-fledged retail bank and a universal bank is good at a cost income ratio in the early 40s. We do not anticipate us going down to below 40% on our cost-to-income ratio. Certainly not in the next three years, right. Unless we go and build our corporate businesses with corporate becomes 70% and retail becomes 30%, I guarantee you our cost income ratio will be 35%. But we have chosen consciously to work on a universal bank model. In fact in retail something or the other is always giving you revenues. So the short answer to your question is that I think that 42%, 43% or 44% is almost ideal for a full-fledged retail bank.

The second question was relating to rural banking. Now as I said in rural banking we will do lending products so they will lend; payment products which is really remittances and there is lot of other things and savings products. Savings products does not mean that the savings bank. A saving product is also an insurance, right? So what form of insurance, how do you template insurance; micro insurance what you can sell there. Savings, lending, payment products all sort of products will go there. They will have to be modified to suite that location. Now the lending products for instance there is the agri related products you would do. There is a Kisan Credit Card, right, that is the product that we are certainly preparing to launch. Then of course there is farmer financing backed by the corporate world. So you have sugar mill which has got farmers attached to it. You can finance the farmers and the take out is through the sugar mill; that is the corporate part of the business. But there are also things like a rural loan against property, right a

LAP could happen there, Gold loans can happen there; a two wheeler sales will happen there, right? Some auto sales will happen there as well. So all those have been put together in one vertical and it is the seamless delivery of both the asset products and liability products.

Participant Lastly, this year for FY15 could you share your budgeted credit cost guidance?

Romesh Sobti Credit cost we do not give guidance. We only give ambitions.

Participant Whichever number you gave last time so comparable number you can give?

Romesh Sobti See for each of the last two years we have said that internally we budget that we do not exceed our credit cost of 60 basis points. So financial year FY 13, 60 basis points against that we came out with 51 basis points. Financial year FY14 we have budgeted 60 basis points came up with 48 basis points. We do not want to breach the 60 basis points and that is one budget we do not want to achieve.

Participant On your savings account have seen quite a significant improvement. What was the weighted average cost because in view of that 6% product also so what would be the weighted average cost of our deposits of savings account deposits?

Sumant Kathpalia Our weighted average cost of SA is 6.6% on the whole float.

Participant And the question on your investment banking I understand that the solutions are customized for each client but looking at about Rs. 80 crores in this quarter annualized about Rs. 240 crores on a corporate balance sheet size of about Rs. 40,000 crores to Rs. 50,000 crores that still gives you a significant amount of fees about 60- 70 basis points. Apart from any solutions is there any other chunky portion included in i-banking fees or these are all largely a debt related solution fees?

Roopa Satish You said it is on the asset base of what?

Participant On a corporate loan book which is about 50?

Roopa Satish See there is no connection between the corporate loan book and the investment bank.

Participant I understand it is based on the total slot that you handle and sell down or you syndicate but I mean still Rs. 80 crores a quarter you know it is?

Roopa Satish No, it is the figure that Mr. Sobti mentioned about Rs. 3,500 crores to Rs. 4,000 crores that is the IB book and that is really there if you see purely IB. So a mandate supporting that would be about say we may be getting something like at least Rs. 8,000 crores to Rs. 9,000 crores of mandates and then you keep Rs. 3,000 to Rs. 4,000 crores with you and then you sell down the rest. So the balance is not in the book at all.

Participant I understand that but Rs. 80 crores compared to some of the other banks who are also in to the same business so I am just trying to understand. Apart from this debt solution there is nothing else over there?

Romesh Sobti Nothing else. I will show it to you in a different line. Now why should I show it in investment banking? I do not get more valuation out of investment banking. Why should I show it in investment banking? I will show it as a different line. If any line that exceeds a certain threshold we show separately. So you see how our lines have moved over the last three years. We remain we show that separately.

Participant And in this treasury line item where we include FX securities and all the number have seen significant up move in or rather large number in this quarter. Any particular segment which has contributed the FX, securities, G-Sec or equity?

Romesh Sobti So there are two elements. I will talk about one of them and Arun will talk about it. So we show the FX for instance is shown in two lines - one is client FX which is shown in the core banking income and then there is a trading FX which is shown separately. So you saw that two slides. So our client FX is almost equally split between retail and corporate. Retail contributes a lot to FX through retail FX and through a sort of "S" of SME on the FX side. So non-borrowing customers for whom we do collections of bills etc., on a dollar basis and things like that. Plus the retail FX is got a lot of things like traveler cheque, currency and also currency cards and things like that. 47% of our client based FX income really comes from retail – very, very granular income. On the trading side also I think there have been good things but Arun may talk about it.

Arun Khurana Yes, I think on trading side we saw some good upticks on the long dated MIFORs and stuff like that. So it is all across the trading part of the business. G-Sec obviously we only saw one way move in the quarter so there was not really too much of action on it but on other parts of the interest rate curve yes, we did get some opportunities which we sort of took very nicely.

Participant In your opening remarks you said that CV asset quality has bottomed out and there might be you might see better times ahead as soon as may be forthcoming quarters. So just wanted to understand why you are saying that and how you have managed to do better than your peers in this particular cycle?

Romesh Sobti As vehicle finance head you have met Partha I think lot of you have met Partha.

S V Parthasarathy Yes, couple of points. One is that the current volume for M&HCV is about 200,000 vehicles which is almost the same what it was in 2008-09 to 2011; 2009-2010 was even 248,000 vehicles. But high of 360,000 vehicles it has moved to 200,000 vehicles for the past two years steadily to 260,000 and then it became 200,000. The market did have surplus capacity of close to about 100,000 vehicles which in my opinion most of the excess capacity has been absorbed. I would say that all excess capacity has been absorbed. Therefore what really happens in this scenario is that the asset quality becomes better then the market starts improving. The asset quality has become better. There are two things also which precedes this. The freight rate prevents from falling and also there is a better freight utilization. These two have happened and the asset quality has become better. I mean for the last two, three quarters I mean after the quarter ending September, people have started complaining this. In terms of both the finance companies and as well as the customers, viability of both have improved. We did have a NPA of close to about 2% which we improved it to close to about less than 1% over a period of time. Now this has got deteriorated to close to about 1.35%. I think this is the bottom. I do not see a dramatic change in the first quarter and the second quarter. A gradual betterment will happen in the first quarter as well as the second quarter. I do expect the vehicle market to become better and there will be a substantial improvement beyond September is my reckoning. Did I answer or is there any?

S V Parthasarathy It is something which I think is our core competence built over a period of time. It cannot be articulated in two minutes time. It is something which we have inherited since 1985.

Participant Just a bookkeeping question. Just need the movement of NPAs in terms of slippages and then upgradations and then recoveries and the write-offs for this quarter as well as the full year and any sale-to-ARCs if you can help us with that?

Sanjay Mallik So the movement you will see shortly we will have the annual results breakups, etc., available shortly. So if you can just wait for a few days we can get you back or I can give it to you offline. The other element is on sale to ARC – we sold about Rs. 35 crores this quarter, last quarter we sold Rs. 25 crores. I just like to say that the SR book or the Security Receipt book is about Rs. 138 crores today and we have very clear visibility on the book falling to approximately Rs. 70 crores to Rs. 75 crores in the next six months assuming that there are no inflows on the current stock.

Participant Sir, you said that in the next phase we will add six new home markets. Does this include any rural home markets also or rural would be separate and you will also follow cluster approach for rural banking?

Romesh Sobti Home markets are mostly cities. In the rural markets we do not create density. You can have one branch covering so many villages. So we do not have the density play in the rural areas. So basically these are 12 cities; 6 plus 6 whichever metro or a mini metro profile where creating density matters. In the rural areas creating density does not matter. It is a cost that become a huge cost center.

Participant Sir, one more follow up is you mentioned that you will have your own ARC cell within the bank and you also mentioned that you will also have tie-up with other ARCs. If you can just elaborate more on this?

Suhail Chander So it is not a separate ARC but yes, we are going to set up a business where we will work with distressed debt; so either we will acquire any joint venture with other ARCs or through a project with other Arcs. But we are not going to setup our own ARC but these are assets that we think that are resolvable that we will acquire now then resolve over the next year or two years depending on the time frame that it takes to resolve the asset.

Participant Would we have any book that we would or size that we would allocate for this business or something?

Suhail Chander Yes we have got a plan I cannot give you the exact numbers but yes, there is of course certain capital allocation and in a balance sheet size allocation that we will put in to this business.

Participant Sir, on your savings bank average cost if we heard it right it is 6.6% is it?

Romesh Sobti Average cost of ?

Participant Savings bank deposits?

Romesh Sobti Yes, that is the blended cost.

Participant And the maximum that you pay per account?

Romesh Sobti Cannot disclose. This is not material. What material is really – what is the blended cost. That is a competitive issue. No bank will disclose that number to you.

Thank you very much. Thank you for coming. Please do join us for tea.