"IndusInd Bank Limited Q3 FY-16 Analysts Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the IndusInd Bank Q3 FY-16 Analysts Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Romesh Sobti – Managing Director and CEO at IndusInd Bank. Thank you and over to you sir.

Romesh Sobti: Thank you and good afternoon and welcome to this Analysts Call, we already uploaded the Q3 investor presentation on the site and the press release also on record. So let me take you through Q3 performance and then we will open the session to questions.

The highlight of the quarter is clearly starting with the bottom line a very healthy PAT growth of 30% YoY and 4% QoQ and this has been supported by very strong revenue growth of 33% which in turn has been supported by a 29% increase in our loan book and 3 bps improvement in the Net Interest Margin which goes up to 3.91%.

The highlights are that both Corporate and Consumer grew, Corporate 30% YoY and Consumer 27% YoY. But sequentially the Consumer book grew faster than the Corporate book, the Consumer book grew by 7% and the Corporate book by 3%. So the buttons we had pressed to start balancing the book seem to be activated and working now and in later part of the presentation I will tell you what the loan book now looks like and where I think it is going to end by this fiscal.

The other part of course is the core fee income growth that has come out with 30%. So for 31st quarter now we are showing core fee growth ahead of loan growth. And the other highlight is I think is the good traction on CASA 28% YoY with both SA and CA contributing healthily but SA grew faster and SA grew at 32%. That is the main headlines of Q3 performance, qualitatively I would say that the vehicle finance business has continued to show pretty good recovery, robust recovery and the trending has become definitive. Disbursements were up 28% YoY and 6% QoQ. Disbursements came up at around Rs. 5,250 crores, last quarter it was about Rs. 4,900 crores so each quarter comes up slightly better than the previous quarter. We saw a pretty healthy growth in M&HCVs and after a hiatus we also saw growth in the two wheeler book which is more meaningful for us because of high yielding book that it is. So that plus the highlights were that we accelerated the branch opening program. 51 branches were opened during the quarter and we are now at the end of the quarter at 905 branches.

So those are the headlines just to take you through quickly some of the other features in this, revenue growth was 30% of which NII growth was as high as 36%. So the NII engine in that sense has also started kicking in and you know that two years we suffered because of low NII growth which used to be in the low double-digit at 18-19-20%, Q3 NII growth is 36% and sequentially also NII growth has been 7%. Other income as I mentioned up 29%, operating profit up 37% and net profit up 30%. We also have given the nine month figures and the nine month figures are collations and reflect the same healthy profile that we see in Q3 numbers.

Other than that all the vectors that we measure the earnings profile, the key financial indicators the Return on Assets stable at 1.92%, NIM slightly up from 3.88% to 3.91%. ROE of course is down sequentially because of the impact of the capital that was raised in July. So we work this out on the average capital base and the average in this quarter of course is higher than the average for last quarter so we are at around 14% and the objective is always to bring it back into the 20s soon as possible. The net NPA did not move the needle so much. It is up 2 bps at 0.33%. And total capital base now exceeds close to Rs. 17,000 crores. As far as the loan book composition is concerned, we look at the slide 15 of the presentation you see that if you exclude the Diamond portfolio then the Consumer book retail book is at 44% of the total book and the Corporate is 56% and last quarter it was 42%, last year actually it was 41%. So this has moved up nicely along the lines that we expected. The loan book remains as diversified as ever. One or two new sectors have emerged in the loan book we can talk about it if you're interested and you can ask us questions on that.

CASA traction, the CA and SA combination is now moved securely in favor of SA. So out of the total book of Rs 30,200 crores savings accounts for Rs 16,000 crores and the current account is Rs 14,000 crores and if you recall two years ago it was just the opposite of what we're seeing now.

Fee income I have already talked about, core fee has grown nicely. The other trading part YoY is of course up 28% but trading QoQ was more subdued and came in at 3%. Within the core fee income all the vectors are showing upward movements. The foreign exchange income this quarter for reasons that we can explain remain a little subdued, sequentially it grew only 1% YoY also it grew only 1% but that is because of the uncertainty in the market and lots of clients deferred hedging their bets because of waiting for the Fed announcements. Other than that I think all the vectors are growing nicely whether it is trade and remittances or distribution fees, general banking, loan processing, investment banking have moved up pretty smartly.

An explanation of the increase in NIM comes from slide 21 where you see the yield on assets falling by 9 bps and the cost of funds falling by 12 bps therefore an accretion of 3 bps to the NIM which comes at 3.91%. The credit cost has remained within our target range and has been very range bound. Our credit cost for the quarter was 17 bps and if you take net of recoveries then is actually 15 bps and for the nine-month period 43 bps and the net of recovery is 40 bps. So everything that the market has been talking about whether it is the assets quality review or whatever slippages and all have been built into this and you see that the needle has not moved too much and we are well and secured within our stated range and stated objective of credit costs. We have given the NPA composition of consumer finance - the vehicle part and you see that MHCV continues down trending in its gross NPAs which came up at 1.05% against 1.1% so most of the vehicle categories are showing the downward movement except a little movement on two wheelers which is not material in terms of the absolute figure and a slight uptick in the LAP side. The LAP, home loans and PL all combined by about 16 bps. So all range bound. The Capital Adequacy Ratio, this time we did not consume too much capital. There was conservation of capital because of the variety of factors we can go into that later but CRAR for the quarter was 16.43% and Tier 1 came up at 15.64%.

The other part is about of course branch network which we already have talked about. Branch network has increased to 905. And last slide is actually on the shareholding pattern which does not show too much of change. So that is in a nutshell is the performance for the quarter and we are more than happy to take up questions.

Moderator: Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Vikesh Gandhi of Bank of America. Please go ahead.

Vikesh Gandhi: I had couple of questions - one is your investment banking fees running very strong so if you can give some color any particular deal that you would have done this quarter and any pipeline. The second question I had was on your Slide #17 you have a rating portfolio chart in that I'm just noticing maybe it's a typo or something but until last quarter your cut off for investment grade used to be BB+ and this quarter it is showing cut off at BB which is one notch lower.

Suhail Chander: Okay first question is on investment banking this is Suhail. I will just talk about investment banking and I think we have spoken about it in the past. Investment banking for us is effectively debt side businesses. We do not have at this point any equity businesses. The way it works is that if you see the number over the last three quarters you will find it at approximately the same level few crores up or down approximately at the same level. It is about 6 to 7 deals maybe sometimes 8 or 9 depending but say between 7 and 9 deals that close every quarter. So there is a pipeline which generates that kind of activity and with that pipeline we end up closing approximately 7 to 9 deals and the number is from those transactions comes to about this. I cannot really comment on specific transactions but generally there are 7 to 9 transactions on this side which close during the quarter and we end up at this number.

Roopa Satish: This is Roopa here, three broad nature of transactions - one was in the project fund financing assets. We had started the initiative about a couple of quarters earlier and we find that there are interesting refinancing opportunities of projects that have been operational recently and people really are looking forward some benefits in interest change. So there is an opportunity to underwrite and syndicate these projects out in the market. So we did something in that space 2-3 transactions there. There were some interesting opportunities in the real estate space where we financed largely almost constructed properties and then do the top-up kind of financing and then enable them to lease it out to a corporate so that within a very short period exposure then moves out into an LRD kind of situation which then find very good market with nationalized banks. So few transactions in that space we did with very large real estate developers. And then the rest of the thing was largely syndication deals that we have got completed. So we did reasonably well with close to Rs. 3,500 odd crores of overall loan syndicated into the market over the last 12 months if you look at league tables, etc., so we did well in that aspect.

Vikesh Gandhi: Basically is it safe to assume 14-15 crores every deal that you make would it be as high as that?

Suhail Chander: No it is not as high as that I wish you made 14-15 crores.

Vikesh Gandhi: Sir you said 7-9 deals if I take an average of 8….

Suhail Chander: 7-9 transactions that close on the syndication side if you see on the league table, but that is not only the transaction.

Roopa Satish: Overall for Q3 specifically if you add all these 3-4 types of transactions that we have done close to 21 deals and in fact if you look at the league table IndusInd Bank is number two in terms of number of deals closed just after SBI.

Suhail Chander: The Bloomberg table you will see that we are number two in terms of number of transactions taken to market. The other one is typo, it should be one to the left, we will correct that.

Moderator: Thank you. Our next question is from the line of Sameer Bhise of Macquarie Capital Securities. Please go ahead.

Sameer Bhise: The yield on the consumer book has dropped a bit sharply it is largely fixed rate book?

Romesh Sobti: I think what you have to take into account is the change of mix. The part of the book which is growing faster is the M&HCV part. M&HCV is the lower end of the interest food chain and the highest part is the two wheeler financing. So it has a mix change. And although a fixed rate book, there is a churn every quarter. There is a repayment on a monthly basis of around Rs 1,100-1,200 crores so that gets replaced at the lowest pricing in the market. So one is the change of mix between this thing and the other is really the fact that the churn is happening within that. I think we would expect overall some degree of stabilization now because we are getting into a sort of a run rate which will stabilize. This time also we are seeing a little bit uptick in the two wheeler market as well.

Sameer Bhise: stabilization in terms of yield?

Romesh Sobti: Yes.

Sameer Bhise: Secondly wanted breakup of the provision line?

S. V. Zaregaonkar: Of the total provision of Rs 177 crores you look at the credit cost Rs 141 and the rest is the other provisions which account for the standard asset provisions and other provisioning against intangible and all that, other exposures also.

Moderator: Thank you. Our next question is from the line of Mahrukh Adajania of IDFC Securities. Please go ahead.

Mahrukh Adajania: A couple of questions on your corporate loan mix, there seems to be a big uptick in steel and power some explanation there.

Romesh Sobti: Steel uptick is 12 bps that is very small, even if the existing customer utilizes the limits that goes up by 10-12 bps, it has gone up only by 12 bps.

Sanjay Mallik: There is some increase in the power transmission so it is all really about transactions with highly rated groups that increase we're very comfortable about.

Mahrukh Adajania: Okay so largely transmission?

Sanjay Mallik: If you look at the breakup you will find that the delta is on the transmission.

Moderator: Thank you. Our next question is from the line of Nitin Kumar of Prabhudas Lilladher. Please go ahead.

Nitin Kumar: Can you also throw some light on the loan processing fees because that is also one-line item which is very strong and what is the right way to look at it, if I look at and compare it to accretion in loan book and as a percentage of that how much is it coming a big number, how sustainable is that?

Romesh Sobti: I think they are two or three contributing factors on the loan processing fees. One of course is that big portfolio of Diamonds came in and there you see because we are consortium leaders. There are pretty good hefty fees that come in for processing and renewals of the loan book so that is one additional piece that has come in. Plus there has been growth in the loan book so if you are seeing a 27- 28% growth in the Corporate book as processing fees attached there. The Vehicle Finance book also has processing fee and that is also shown a pretty good growth QoQ that is growing better than the Corporate book. So I think these factors combined have resulted in this loan processing fee hike plus renewals if there is a bunching of renewals of existing loans they also add to the processing fee, so three or four factors really have contributed. Assets have grown, new disbursements have grown, the renewals have happened, the Diamond book has come in, new to bank customers have come in - all that has resulted in this increase.

Sanjay Mallik: I can also add to say that the fees on the retail side of the business which is growing faster QoQ has a higher fee than the corporate side of the business.

Nitin Kumar: So what would be this mix between the retail and wholesale?

Sanjay Mallik: Almost 40% is now retail around 35% is retail.

Nitin Kumar: On the branch expansion side we still maintain the 1,200 target by FY 17 end because this year we have opened close to 104 branches so far?

Romesh Sobti: Yes that is the target for March 2017 the target still remains quite intact. We have taken stock of the impact of digitization and we are very clear on how the branch needs to be re-configured to accommodate the new trends on digitization, how much processing will be done in the branches, what is the staffing needs. End of the day we are convinced that the brick and mortar must grow so that target of 1,200 remains intact.

Nitin Kumar: This would not have any adverse bearing on the cost income ratio as such?

Romesh Sobti: Well cost income ratio may show fluctuations in a band of 1%-1 1/2% up or down because branches get bunched and then the depreciation comes in and plus of course the other element that affects related IT cost that come in. There are large projects on IT which are coming on stream on the Treasury side. All that really impacts. Personally we feel that remaining in the mid-40s up or down 1% I think that is going to be the range.

Moderator: Thank you. Our next question is from the line of Seshadri Sen of JP Morgan. Please go ahead.

Seshadri Sen: I had two questions. One is on the OPEX side at least optically the growth seems to be fairly high and I do appreciate there is a bit of base effect last year's third quarter YoY QoQ growth was fairly flat but is the acceleration in the retail side also leading to cost spike similar to the way fees spike, broadly where do you expect OPEX growth to stabilize at going forward.

Romesh Sobti: The first point to call is that the growth in revenue still exceeds the growth in costs we call it a positive scissor. There have been some bunching because these branches bunched together that is one impact. Then of course there is ongoing impact of two large operating system refreshes that we have done on the Treasury side of the business. The hiring of course saw a spurt during this quarter because there was a catch-up on the previous two quarters hiring. So I think that we will as I said earlier OPEX should remain in the mid-40 range moving up or down 1-2% we don't see surges and spikes to really hit us.

Moderator: Thank you. Our next question is from the line of Atul Mehra of Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: One question on the fee income front and within that specifically on insurance. So with this open architecture now being talked about and we have recently changed a partner with in the insurance space from Aviva towards Tata AIA, how do we go from here? Would we continue to have one single insurer or would we look at having three which is the regulatory the new regulatory limit as such?

Sumant Kathpalia: The regulations are still coming out in the final part and it is only going to be applicable from April 1. As of today you cannot have multiple partners that is a regulation as of now. If these regulations do change and of which we are expecting it to change I think, we may see multiple partners in different types of businesses. Which businesses will have multiple partners - too early to comment. We are evaluating it but I think we may see multiple partners in some parts of our businesses so we do health, we do general insurance and we do life. So specifically in general insurance we may see different partner and maybe in life we are evaluating a different partner.

Atul Mehra: But we have recently closed on Tata AIA??

Sumant Kathpalia: An additional partner.

Atul Mehra: So the current tie-up that we have is Tata AIA and Aviva has been replaced by Tata AIA that is the current arrangement that we have?

Sumant Kathpalia: Correct.

Moderator: Thank you. Our next question is from the line of Lakshmi Narayanan of Catamaran Capital. Please go ahead.

Lakshmi Narayanan: I was observing that for the last three years if you look at the consumer side of the business the key growth has come from three segments one is CV, second is car loan and the third is LAP. You also mentioned on the call that two wheelers is where yield is good and it is much more profitable. Now any reason why if you look at over a three-year period just comparing December '13-14-15 the growth in two wheeler business has not been that significant was it a conscious choice for you think that quite risky and you did not want to get in?

S V Parthasarathy: Basically we would like to enhance our presence in two wheeler market, only we and HDFC bank perhaps have got the capacity to do close to about a million vehicles per annum. The issue is that the two wheeler market remaining flat and the financed market is shrinking. We are maintaining the market share. We are in fact enhancing our market share and within the competition we are enhancing even though we are more or less flat we have not degrown in that particular area but compared to other segments it is slower. The mix is not favorable in terms of two-wheeler.

Lakshmi Narayanan: Another question on LAP, LAP has actually grown quite significantly in the last 2-3 years and what is the kind of loan-to-value ratio you actually have in LAP, is it at a comfortable level?

Sumant Kathpalia: We do LAP at about 48%, loan-to-value on the portfolio today is 48%.

Lakshmi Narayanan: The last question on CVs you mentioned that CVs have grown significantly and also the allied fee income. In CV market what is the kind of geographical market share or if you take your book how does it split across regions?

S V Parthasarathy: We are the leaders in commercial vehicles segment and we are present in all, we do not have any geographical bias. We are more or less aligned to the market share of the manufacturers. Our presence has more or less in line with every manufacturers' market share.

Lakshmi Narayanan: Who you are taking market share away because your growth has been higher than the market growth in CVs?

S V Parthasarathy: Fundamentally, when the market really shrinks down as for the last couple of years where the non-regular players vanish from the market. When the market picks up those persons enter fairly late as a result it's the phenomena wherein the top four or five players always gain market share.

Lakshmi Narayanan: What is the market share in CVs now?

S V Parthasarathy: It is a very ticklish question to answer but we are the leaders.

Lakshmi Narayanan: But will it be in the north of 15%?

S V Parthasarathy: I won't say so.

Moderator: Thank you. Our next question is from the line of Jahnvi Goradia of Motilal Oswal Securities. Please go ahead.

Jahnvi Goradia: I have two questions one is on the LAP and credit card business as you mentioned credit cost the NPAs are actually spiked up a bit and although the base of the book is small but we have been growing very well so any color on that and how do you see the NPAs trending ahead? The second one is on construction equipment book that is also started showing some traction so what kind of growth are you seeing there? What industries and what sectors?

Sumant Kathpalia: On the credit card the RBI changed the definition of the (30+) number and that is where the flow and the happenings it is a one-time change which has happened and it will get corrected as we go along. This quarter we had to do a one-time change on the reporting because of the RBI directive. That is on the credit card. On the LAP I think there are two cases which have flown in. We do not see such a trend which is emerged which are be always under 50 basis points so we will be around 50 basis points on the gross NPA number as we go along.

S V Parthasarathy: On the construction equipment, we are present in retail construction equipment segment. Basically the segment of JCB backhoe loaders, poclains and these are predominantly meant for retail applications more so in road construction and mining industry and follows the same pattern as that of commercial vehicles. Most of our commercial vehicle customers are also construction equipment customers. Therefore when the market for commercial vehicle enhances this also piggy rides on that.

Moderator: Thank you. Our next question is from the line of M.B.Mahesh of Kotak Securities. Please go ahead.

M.B.Mahesh: Is it right that you had a disbursement of about Rs. 5,250 crores in the vehicle finance book?

Romesh Sobti: That is right this quarter.

M.B.Mahesh: Just trying to understand the number, if you look at last quarter we had a book of about Rs. 25,000 crores, Rs. 5,250 crores disbursement and if you adjust that with the change the net change that you are seeing out there the repayment rate appears to be fairly high.

S V Parthasarathy: The repayment or the monthly depletion is about Rs. 1,100-1,200 crores per month and on an average anywhere about Rs. 3,500 crores per quarter. Therefore when you do close to about Rs. 5,250 crores the net accretion to the book is about Rs. 1,600-1,700 crores.

M.B.Mahesh: But the average duration of the book is at least about 18-20 months?

S V Parthasarathy: Yes, in commercial vehicles the duration is anywhere about 36 months and in two-wheeler it is about 24 months it is a mixed bag. The average door-to-door is anywhere about 24-25 months and the average tenor is about 20-22 months.

M.B.Mahesh: Ok. The second question is on the investment book if I look at this quarter there has been some drop in the overall interest income on investments yet investment book is up on QoQ basis by about 5%, if I look at the calculated yield on investments it comes to about 6.5% are we missing something in this?

Arun Khurana: I think possibly what you're taking into account is the gross number and the period end number. Basically there is a repo that we also do with the RBI at times-to-time so that number is subtracted from that so as a result you will see the drop in the total interest amount.

M.B.Mahesh: The impact of that would come in the other interest income?

Romesh Sobti: No it comes under the same head of investments.

M.B.Mahesh: Ok. But why such a big difference in the yields?

Romesh Sobti: But you are calculating yields on the year-end, average is lower.

M.B.Mahesh: Last question is on the other provisions that you have reported this quarter you have indicated about Rs. 35 crores as general provision which pertains to standard assets. Why is that such a high number considering the last quarter you had one-off provision out there just trying to understand.

S V Zaregaonkar: No I believe that there is some disconnect what we said was that of Rs. 177 crores of total provisions Rs. 141 pertains to NPA and the rest is clubbing of other provisions which includes standard asset provisions and some other provisions.

M.B.Mahesh: Any one line item which is a dominating number in this?

S V Zaregaonkar: Yes standard asset provisions is the dominating part plus there is provision for unhedged exposures that also comes in here only. Floating provisions and this thing, all other provisions come here.

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

Hiren Dasani: If you can clarify on the communication with the RBI on some of these troubled accounts and do we yet to classify, did we have to classify anything during the quarter or are we still in dialogue with them for some accounts?

Romesh Sobti: I think the number that you see absorbs everything that has happened in the last quarter. All activities, all actions are now included in this. Having said that, I would say that there were no unpleasant surprises for us. The assets that we were going to classify as NPA in the quarter are the assets they also highlighted. There is no surprise element as far as we are concerned and that is why you see that the credit cost has moved up by just 2 basis points the net of recovery actually it is flat.

Hiren Dasani: Should we assume that going forward there are no further large accounts on which the discussions are still going on as far as IndusInd is concerned?

Romesh Sobti: The point is that RBI has given us that you do it over two quarters and the accounts that we had identified are the accounts that they had identified. So it is quite clear that there is no grey area in this regard.

Hiren Dasani: When you say two quarters what do you mean is that for you it was all December quarter?

Romesh Sobti: Those are the guidelines given by the RBI, whatever is identified needs to be done over two quarters. As far as we are concerned we are not doing that piece. Those which became NPA's are the ones we showed as NPA, period. So we were not driven by any regulatory guidelines but generally they are allowing the banks do it over two quarters.

Hiren Dasani: But just to be clear there are no large chunky accounts on which discussion are still going on whether to classify them or not as far as the IndusInd Bank is concerned with RBI?

Romesh Sobti: Yes.

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

Anish Tawakley: The Gems and Jewellery portfolio if I have to understood it correctly was a very trade finance in terms of portfolio yet the non-funded exposures they are quite small actually. In contrast if I look at steel or construction the non-funded exposures is much larger, so could you just explain what kind of non-funded business we are doing in construction or in steel versus why the non-funded exposure is so high versus trade finance portfolio like Gems and Jewellery where non-funded is 1/10th of the funded portfolio. The second is that in response to question earlier the deals that were being described for investment banking we were talking about real estate and project finance deals, could you tell whether actually you put your balance sheet in the period when you take on these unfinished projects and what would be the holding period for these assets on your own loan book before you sell them down.

Romesh Sobti: The first part is really the Diamond portfolio. Diamond portfolio does not have things like guarantees and those sort of issues. Even LCs are rare because they have established buyers and we do not have to work through LCs, so there are actually no LCs.

Anish Tawakley: So that is basically open trade?

Romesh Sobti: But the trade is done through pre-shipment and post-shipment finance. It is a funded credit pre-shipment and post-shipment. These are all sight holders, sight holders have a special stature in the market. Era of LCs are long abandoned, 20 years ago also they never worked on LCs.

Anish Tawakley: So there is not much transaction banking income from that portfolio?

Romesh Sobti: Yes correct. No funding income mostly it is funding income, bills are sent for collection without any lending attached to it so collection bills are a very large volume where they do not borrow plus you have FX income out of that. Foreign exchange income comes out of trade, lending income comes out of trade, there are some floats also which comes out of this. The non-funded exposure will be more on the FX side where you would cover, forward covers, etc., so it is not a surprise this is how this portfolio works, there are no LCs, guarantees.

Anish Tawakley: What kind of guarantees are there in the construction business and the steel business, what is the term of the guarantees?

Romesh Sobti: LCs are there, Steel Authority of India opens LCs for coking coal and performance guarantees.

Suhail Chander: Actually completely different industry is there, completely different needs the raw material import for example does not need LCs in diamonds, it does need LCs in the steel.

Anish Tawakley: My question was to understand how long term are the guarantees?

Kalpathi Sridhar: The transaction typically will need a bid bond before they get the contract and once they get the contract they will need two kinds of guarantees - performance as well as advance payment guarantees. So bid bonds tenors could be three months or six months at the most and the advance payment guarantees could be for the tenor of the contract so if it is a 12 month-18 month contract it'll be for 18 months if it is three years contract it could be for three years.

Anish Tawakley: They could be fairly long term then?

Kalpathi Sridhar: It could vary from 1 year to 3 years.

Suhail Chander: Regarding the second question relating to syndication, normally if we take a loan to market we rarely take it without putting some amount on our books, so we always have some skin in the game. Very rarely do we do a syndication which is 100% sold on day 1. We may sell it down a loan over a period of time to zero but generally when we do the syndication we always have a certain amount that stays on our books because first of all we have to demonstrate confidence in the credit to ourselves and to the market. Yes, some amount of balance sheet is always there when we take loans out into the market, sell down periods usually I would say about six months is the average that we take for sell down.

Romesh Sobti: So there is a residual balance sheet which resides. There it is a transitory balance sheet, so it transits and I think we had given this figure earlier once that it is in the vicinity of about Rs. 3,000 crores that is the sort of average that we have.

Suhail Chander: Today it will be relating to 10 different transactions tomorrow it may be 10 different transactions so it comes and goes on our book.

Anish Tawakley: If it is Rs. 3000 crores then 100 crores would be about one transaction?

Management: Do not try and get into complex calculations based on averages because this 3,000 can relate to transactions that I did six months back.

Moderator: Thank you. Our next question is from the line of Jigar Valia of OHM Group. Please go ahead.

Jigar Valia: How much would be your international or FX loans and there was an RBI notification suggesting 2% standard provision so does this impact the business potential growth viability for these in the growth outlook?

Kalpathi Sridhar: The RBI guideline is where we lend from India to a company abroad. We hardly have any of those in our portfolios so it won't affect us at all. The FCY loans that we have is lending to the local corporates in FCY and that does not change the provisioning there.

Jigar Valia: That as a percentage of our corporate book would be in value?

Suhail Chander: Approximately 20% of the corporate book and not of the total assets.

Moderator: Thank you. Our next question is from the line of Nilanjan Karfa of Jefferies. Please go ahead.

Nilanjan Karfa: The construction equipment portfolio has started growing is it a broader reflection on higher utilization of equipments and could you specify where exactly is this happening?

S V Parthasarathy: I thought that I had answered this query earlier. We are basically into a retail construction equipment which are similar to that of JCB backhoe loaders, poclains and earthmoving equipments predominantly. These are used in road segments primarily and for doing small jobs like culverts, canals and things like that and they piggy ride on our existing commercial vehicles customers portfolio. It is supplementary in our complementary portfolio.

Nilanjan Karfa: If I look at the cost as a percentage of assets it has been actually growing last couple of years and quarters it is actually rising probably standing today a little north of 3% would you even look at this ratio? Does it make sense if you could have some color on this?

Romesh Sobti: This is not a ratio that we really watch and the ratio we watch related to assets is the fee-to-assets ratio and I think that is much more critical for us because that is the linkage straight to capital usage, how much fee do you get out of lending using your capital and using your balance sheet. But costs-to-assets the correlation is weak because the lot of costs relate to businesses which have deposit gathering, so assets do not really come into play there. A lot of costs relate to fee raising businesses, so the branch network for instance is not asset based, the branch banking business is mostly liabilities and fees and that is where a major chunk of the cost is going.

Nilanjan Karfa: We are seeing a slight deterioration in the two wheeler portfolio, obviously you may not be providing for it enough if you look at the gross NPA number and 2 wheelers, now it is standing at 3%. Is this because of the weakness in the rural demands or how would you look at this?

S V Parthasarathy: I would rather think that absolute figures are fairly low and 3% in 2 wheelers is considered to be fairly good for the kind of spread what we make. It is in line with the industry or much better than the industry.

Romesh Sobti: The product program allows for delinquencies up to 6%.

Nilanjan Karfa: I am sorry to interrupt, you mean net credit losses not the gross?

Romesh Sobti: These are gross NPAs.

S V Parthsarathy: The net credit losses is in the region of combined net credit anywhere between 50-75 basis points.

Romesh Sobti: When you see the absolute numbers the gross NPA has increased by Rs. 9 crores, so that is the materiality of this NPA.

Nilanjan Karfa: A related question, in Slide #23 the portfolio has ARC in this quarter?

Romesh Sobti: Yes, you see an asterisk there in the same slide, Rs. 53 crores is the sale and Rs.22 crores was the recoveries so the net increase in the SR Book was Rs. 31 crores.

Nilanjan Karfa: So what is the total SR we are carrying today?

Romesh Sobti: Rs 260 crores.

Nilanjan Karfa: At the end of last year this was Rs. 160 crores roughly.

Sanjay Mallik: No it was around Rs. 200 crores, I do not have the exact figure now but last quarter was Rs. 229 crores. Last year figure I will give you later.

Nilanjan Karfa: If I look at LCR numbers Q1 it was down to around 64-65, then Q2 it went up exactly what is happening? I know there are a lot of numbers which go there depending how the liquidity fluctuates at the lower end.

Romesh Sobti: Liquidity Coverage Ratio - we meet the target up to December which was 60%.

Nilanjan Karfa: It was down in Q1 and then it went up to 74-75 in Q2 and it is again down to 65.

Romesh Sobti: That is the dynamism of the balance sheet so your deposit profile they don't remain constant but as long as we meet the 60% threshold by RBI I think we're okay.

S V Zaregaonkar: You wanted the SR numbers, it was Rs. 223 crores last year.

Moderator: Thank you. We will take the last question from the line of Rishi Arya of Canara HSBC. Please go ahead

Rishi Arya: From the dialogue with RBI there is some news that now they are probably reviewing the restructured book and probably asking banks to make additional provision, what is the view in this regard, you have also had such discussions or is it not to all banks?

Romesh Sobti: Yes what they are saying is that on the failed restructured book you should reach a figure of 15% provision by making 2.5% every quarter, not on the restructured book but those which have failed there you have to make 15% and there they are saying you should add about 2.5% every quarter starting from 1st April.

Rishi Arya: How do they define failed, is there a clarity or clear definition?

Kalpathi Sridhar: No there isn't, what they are saying is that if the restructuring terms and conditions as set out in the agreement have not been entirely adhered to so in those cases you will have to….so there isn't any clear definition of failed.

Rishi Arya: How are we placed on that any internal assessment so far?

Kalpathi Sridhar: No we are okay we have no significant figures.

Moderator: Thank you. I now hand the floor back to Mr. Romesh Sobti for closing comments, over to you Sir.

Romesh Sobti: Thank you for joining us, I am sure there will be many more questions on one-on-one basis and we will be more than happy to interact with all of you off this table. Thank you for joining us.

Moderator: Thank you members of the management. Ladies and gentleman, on behalf of IndusInd Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.