IndusInd Bank

IndusInd Bank Q4 FY16 Results Conference Call

MANAGEMENT:
MR. ROMESH SOBTI – MANAGING DIRECTOR & CEO
MR. PAUL ABRAHAM – CHIEF OPERATING OFFICER
MR. S.V. ZAREGAONKAR – CHIEF FINANCIAL OFFICER
MR. SUHAIL CHANDER – HEAD, CORPORATE & COMMERCIAL BANKING
MR. SUMANT KATHPALIA – HEAD, CONSUMER BANKING
MR. S. V. PARTHASARATHY – HEAD, CONSUMER FINANCE
MR. SANJAY MALLIK – HEAD, INVESTOR RELATIONS & STRATEGY
MR. KALPATHI SRIDHAR – SENIOR EXECUTIVE VICE PRESIDENT
MR. RAMASWAMY MEYYAPPAN – CHIEF RISK OFFICER
MS. ROOPA SATISH – HEAD, CORPORATE & INVESTMENT BANKING
MR. ZUBIN MODY – HEAD, HUMAN RESOURCES
MR. RAMESH GANESAN – HEAD, TRANSACTION BANKING GROUP
MR. SANJEEV ANAND – DEPUTY HEAD, CORPORATE & COMMERCIAL BANKING
MR. BIJU PATNAIK – HEAD, GEMS AND JEWELLERY

April 21, 2016

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the IndusInd Bank Q4 FY-'16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Romesh Sobti: Good Afternoon. Welcome to this Investor Conference Analyst Call. In addition to the physical presence, I think we also have many listening in on a listen-only mode and welcome to them as well. So the numbers are already been loaded on the site, I am sure most of you have already seen that, so I am not going to labor through the numbers, but I am going to look at some of the headlines for Q4 and of course for the full year as well.

So let me start the other way around and say that one of the milestones that we reached in Q4 was the breaching of the 1,000 branch network as we had said. When we started this 3-year plan 2-years-ago we had said that we will double our branch network and double our client base, so we are on our way and another 200 branches next fiscal year takes us to 1,200 branches, up from 600, and if you recall the previous 3-years also we had doubled our branches from 300 to 600. Likewise, the client base is on its way to doubling.

Apart from that, I think the big takeaway for the quarter is very strong revenue growth and probably the highest growth in Net Interest Income that we have ever shown at least in the last eight or ten quarters. Net Interest Income came up at a growth of 37%. So the interest engine is now we can feel is pumping and off-course it is well supported by the fee income as well. So I think we have a robust growth of 34% in our top line. Of course there is a cost increase as well. We are putting money into new refreshes on technology, putting money into the branch network and into people, but the cost-income ratio still is showing steadiness and actually has shown a half percent reduction during this particular quarter.

On the Balance Sheet side, we have shown a good top line growth of 29% and we are actually back to now doing what we used to do 2-years ago, which is selling assets. So the throughput through the funnel is pretty strong. That is because Retail part of our businesses is also pumping now; Retail grew by 29%, of course Corporate also grew by about 28%.In the Retail it is both the Vehicle, the Vehicle Finance of course that part is running along nicely now, but the Non-Vehicle Retail is also pumping. So top line growth on the Loan book is in spite of the fact that we sold Rs.2,000 crores during this quarter, last quarter we sold about Rs.700 crores. So that has also been accompanied by liabilities growth. So if you look at the way we fund our book, we toggle between the lowest cost of funds of borrowings versus deposits. So we could borrow Foreign Currency, we could borrow Refinance, we could take Deposits and we toggle between these various rates. So most of the last year as Deposits rates remained elevated we went for borrowings. Now as Deposit rates are falling, you are seeing a larger inflow of Deposits. Deposits grew by 25%. So you will probably see a reduction in our CD ratio as we go forward into the new fiscal.

On the Liability side, of course, the SA story continues. If you recollect that a few quarters ago we have started changing the SA rate structure downwards and steadily we have reduced our SA rate, so now up to Rs 1,00,000 we give 4% which is a normal rate for Savings Bank and between Rs 1,00,000 to Rs 1mn, we give 5% and above Rs 1mn only it is 6%. In spite of that downward, movement in our SA rate, we are finding good traction on the SA balances. So SA grew by almost 35% during this particular quarter although CASA grew by only 29% because the Current Account is lumpy sort of a business.

The other part is that I will take you through a slide also is on the balancing of the Loan book which is one of the buttons that we had pressed 12-months ago and we will show you how that balancing is underway and the balancing is not just between Corporate and Retail, it is also balancing within Retail between Vehicle and Non-Vehicle.

Finally, of course, the quality of the book has remained steady. The question was asked is "Did the AQR affect you?" The (AQR) Asset Quality Review had no impact on this bank and what you see is business as usual that comes out of a book, whatever comes out of the book we show. So we showed 17 basis points in Q3 credit cost and 17 basis points in Q4 credit cost and we have come in below our targeted credit cost of 60 basis points.

So I will take you through few of the slides, I do not think you need to go through every one of them. This is the balancing of the book, I hope you can see this particular one. So end of last fiscal, we were almost 60% Corporate and 40% Retail and if you exclude the Diamond portfolio that sort of add-on during the year, then we have moved the Retail part up to 44% and the Corporate part is 56%. Target is to of course get on to the 50:50 and I think we are well on our way, but, of course, we are seeing robustness in the growth of our Corporate book as well. So I think that rebalancing of the book will be probably managed through sell down of Corporate assets. Now within the Retail also there is a movement happening; the Non-Vehicle Retail book was non-existent if you recall 2-years ago and now it is 10% of the total book and it is almost 30% of the Retail book. So that is 7 or 8 products which was started about 2-years ago which we tested across a few branches and then expanded geographically and I think they are showing some robust sort of a performance. So that is one of the I think big hot buttons that we have been pressing. There is hardly any movement in the dispersement of our Corporate book… no major changes there as well. The investment grading of the book remains almost stable, very slight movement towards the right, but no major changes there as well. I have already talked about SA. Then what drives the fee income. If you see that of the total fee income only about 15% actually comes from trading and most of it actually comes from client book. The client book is further then divided into these six verticals, most of them showing healthy growth except you see distribution fee is showing apparent depressed growth year-on-year but higher growth quarter-on-quarter, so quarter-on-quarter is 10%, so what happened in Q4 of last year, there was a surge in the mutual fund income that had come in. So that is why I think it is a base effect that is really coming into play. Loan processing fee also show a surge this quarter. It is essentially a function of disbursements. So you have seen a surge in our disbursements on the Corporate side as well as the Retail side plus renewals. So if there is intensity of renewals if it happens in a quarter, so this may not happen in the next quarter in terms of the intensity of renewal. So processing fee is one and Investment Banking fee, etc., is steady. So I think the headlines on the fee side are looking good. I will give you some perspective of what we hope to do in the future as well. Interest margin is creeping up, 2-3 basis points goes up every quarter because the cost of funds is falling faster than the yield on assets. So that is why you see there is a 3 basis point increase year-on-year of course is 26 basis points increase in our interest margin.

This is one slide which interests everybody is topical. It gives you the credit cost and split the credit cost between the Corporate and the Retail part of our businesses. Of course the slippages; slippages were steady Q3 - 1.29%, Q4 - 1.3%. We are actually seeing improvement in our restructured book, the restructured book has actually fallen from 58 basis points to 53 basis points. Overall credit cost has come at 57 basis points, but there is a covenant to it; this 57 includes the carry-forward of something like 15 basis points as a consequence of the amortization that we did in Q4 of last year. If you net that off actually the credit cost is coming at 43 basis points. That is the movement of the book. This is after sale to ARC of Rs.40 crores and recovery from ARC of Rs.30 crores, so we sold Rs.40 crores and we recovered Rs.30 crores so overall the impact is only about Rs.10 crores.

This is product wise NPA movement. So the largest chunk is Commercial Vehicles and that has actually shown an improvement in the gross NPA profile. So I think overall steadiness in the book, just a little perspective.

Capital Adequacy, may be a word here. So you are seeing consumption on CRAR which is higher than what we see in the other three quarters. It is just a phenomena that happens every fourth quarter. In the fourth quarter as per regulations you need to make capital provisions for operational risk which you do not do in the other three quarters. If you take that only that takes away about 35 or almost 40 basis points out of this thing. So there is a one-time consumption that happens every year and of course the dividend also hits you in Q4, that is why it is taken, but otherwise I think apart from that of course there has been loan growth, so there has got to be consumption of capital. The question is “Did you give the appropriate returns while you consumed higher capital?” I think returns are evident. So that is really the headlines of this thing.

In terms of the forward-looking sort of outlook, I think we are certainly seeing as I said the interest engine is pumping, we are seeing that surge continue. We would expect that in spite of whatever you read about MCLR and the impact to MCLR, the impact is going to be almost negligible. At the end of the day the MCLR is just another benchmark, it does not push you in any particular direction, of course, it makes it more sensitive to rate movements, but the MCLR is another benchmark, at the end of the day what you give to a client is a function of the standing of the client and the market. And what it does enable us to do more than what it enabled us to do earlier through the base rate is that now I can do a client-specific rate fixation. Under the base rate, if I cut a base rate then the good, bad and ugly everybody gets it. Now I can at least choose to be more client-specific and of course there are so many dispensations given - so there is a fixed rate loan above 3-years, a lot of our stuff happens on that basis especially on the Retail side, then there is no linkage to MCLR, right. So I think MCLR overall has given more flexibility. If there was a disadvantage that we had in terms of pricing competitiveness I think this takes it away for specific clients. Even if there is another rate cut, , during the year I do not see impact of that more than 3 or 4 basis points on us basically. So we treat it as another sort of benchmark. So the interest engine I think is going a pace, loan book growth is going a pace, therefore interest income will go a pace. The fee vectors will get a boost because of the new tie-up that we did with TATA AIA for our Life Insurance distribution. Life Insurance for instance. you know that for 2-years we saw a very sluggish Life Insurance income because the partner that we had sort of lost steam and had to make up the mind whether they want to exist in India or not and therefore we did this switch. We started from October-November last year and we have had a very good Q4 with them. I think we just surprised them as well. So I think there is going to be a little boost on the fee side as a consequence of that. So we anticipate fee growth to still exceed loan growth which is one of our objectives that fee growth will exceed loan growth as it has done this quarter as well.

The loan book quality has stabilized. We see a reduction in our credit cost overall because that carry forward of this will last only three quarters in this year and secondly, we are seeing improvement in the credit cost on the Retail side of the businesses. So especially on Commercial Vehicles where there is more money in the hands of the transport operator as a consequence of the fall in the prices of diesel as well as the freight rates which are still holding up. So days overdue are reducing and they have reflected in credit cost on that part of the business is going down. So I think we should see a downward movement in our credit cost in this particular year.

So that is the summary of what we have and more than happy to take questions. The whole team is here and you can pick any particular part of our business, we are here to answer your questions. Thank you very much for joining me.

Participant: Retail has done quite well for you and we hear a lot about other banks trying to focus on Retail. With increased focus on Retail from so many banks, some sense of numbers of how big Retail is and what can be seen going forward?

Romesh Sobti: So this Retail buzz is cyclical; it happens every 5-years. So whenever the Corporate part of the business starts hurting, everybody turns to Retail and says "I am now going into Retail." I heard this 6 or 7-years ago as well. None of the players who said that actually went Retail. So what is "going Retail" really means, right? Does it mean doing Home Loans? They are the first port of call is Home Loans. Home loans are the bottom end of the food chain as far as interest rates are concerned and the second port of call is Auto Loans. That is where people get it. But did you have the courage to do a full-fledged launch of credit cards? So that is the hard core Retail. I want my plastic in your wallet, right. That is the best branding you can do in Retail. So there has not been a new credit card player in the market since we bought Deutsche Bank's card business 5-years ago. So I think it is easier to say that you are getting into Retail. But suppose if people do get into Retail, what does it mean? You will be worried if it is a stagnant pie, the pie is just the size and 20 more players come in and therefore they hurt my pricing and those sort of things and then suddenly you are worried. The issue is that most people have become conscious of two things in Retail -- one is margins, do not give up margins, that is it; two is do income-based lending, that means do more rational lending which is income-based lending and therefore you have lower delinquencies and things like that. So if it is a stagnant market then we would worry that somebody will do irrational pricing. But I think by and large most people are now rational in their pricing, even those who left and came back, for instance, in Commercial Vehicles came back with a very rational approach to pricing and margins. So I think it is a growing cake, we have been in certain businesses for 30-years, longevity always makes a difference, and some new businesses that were started but they are smaller value for us, but our chunk is really still Vehicle Financing where we have gained market share during this downturn. Some of the market share is going to stick to us over the next 2-years as well. So in sum, I would say that more and more players are welcome. Retail is very granular requires time, money and patience. Believe you me it has entry barriers although people believe there are no entry barriers. There are entry barriers of sheer logistics of managing scale. There is entry barrier for instance in Commercial Vehicles on manufacturer loyalty. Who does the manufacturer go to? Somebody who has been around for 30-years, not somebody who left 5-years ago and wants to come back. Those sorts of things are there. So there are some sort of barriers. But you cannot get away from the fact that competition will increase, but we believe that the cake is also increasing. So there are other elements there. For instance, we did not talk about that part which is Micro Finance, is Retail- Retail, is the bottom end of Retail. Four years ago we started building up that business and it also takes a lot of process control to build. It looks very attractive with 22% yields, we have built up, so have others. So I think there are new avenues also coming on Retail which will help us hold up our margins and face competitive situations on pricing.

Participant: Any guidance on growth?

Romesh Sobti: We do not give these sort of numbers but by and large we have said that our loan book will grow by 25% to 30%. We have held this view for 32 quarters and half of it should be Retail. That is the perspective. So I think that is the arithmetic going forward.

Participant: A part of the promoter families also coming out with another IPO shortly. Any impact that would have on the brand or the business?

Romesh Sobti: We will give you a little bit of history on that front. Some of the investors and analysts who have done one-on-one with us know this history, so it is well known. Eight years ago when the change in management happened, at that stage IndusInd Bank and Ashok Leyland Finance had just merged but almost captive to Ashok Leyland because Ashok Leyland Finance was a captive company when it merged. Eight years ago of course when management change happened, it was clearly sort of indicated that we will go as per market practice, whatever the market asks for we will give. If they ask for a Tata truck, we will finance the Tata truck. And then suddenly if you see that over 6-8-months you found that the shift was happening. And at that stage as a manufacturer you would be worried because every manufacturer has a captive company and that is why I think Ashok Leyland also raised the same issue and it was the management here which suggested that you should set up your own company. So the genesis is this - you set up your own company because captive finance companies will do a few things which a standalone commercial bank will not do, whether it is pricing or whether it is risk levels, because the manufacturer's finance company has a perspective of getting the truck out of the factory. Our perspective is to do a commercially viable loan. That sort of thing. So that is the genesis of that. We know exactly what that company is doing. We are getting what we want. The question is if that company did not do it, some other bank would have done it. So it does not make so much of a difference to us.

Participant: Could you give us the disbursements for say Commercial Vehicles for the fourth quarter this year and last year?

Romesh Sobti: Partha, do you want to take that?

S.V. Parthasarathy: We have done close to about Rs.2,750 crores in quarter for the current year as against Rs.2,000 crores last year. Full year total disbursements for the division is about Rs.20,000 crores, out of which Commercial Vehicles comes to close to 50% or around Rs 9,850cr. Proportion of used vehicles remains the same.

Participant: The other question I had generally was on Retail Deposit growth and Retail Deposit rate more in terms of what is happening in the system. So, do you think what is happening in the system is one-off because Deposit growth is really losing or how do you read into it and how would that impact your own Retail Deposit rate, system deposit growth first and then your own Retail Deposit rate?

Romesh Sobti: Retail, there are a couple of things that were there; there was a little surge in liquidity tightness which caused a surge in rates in the last 3-months which was pretty contrarian to the fact that we were expecting rate transition to happen but Deposit rates went up because there was a little bit of tightness on the liquidity side. So the rates went up, but post the credit policy rates have fallen again. So you take just 90-days CD rate used to be about 7.90% and then it surged to about 8.40%, is now down to 7.40%. So rates are beginning to stabilize and taking a downturn. Overall Deposit growth in our book, of course our book being much small whether we saw SA growth of 35% and all, it does not mean the system is growing that way. But I think the system growth of 9% for deposits, credit growth came at 10.5% or 10.6% or something like that. So that is sort of thing but I think that is not a consequence of availability, it is a consequence of desire to take deposits. What do you do with them if you do not have credit growth? So there is a question of extra liquidity in the markets, you do not want to raise money, if you do not have credit growth on the other side. Our Deposit growth came up at 25%, because the Loan book growth is coming at 29%. I think that is the thing.

Participant: How do you see your Deposit rate from here on?

Romesh Sobti: One is the rates on the Retail which is the Savings Bank rates and the other is overall Fixed Deposit rates. So Saving Bank rates that we had also moved to that 6% band for above Rs.100,000 3-4-years ago, but we have steadily cut the rates as we have found higher stickiness with customers. So up to Rs 100,000 we are now actually back to 4%, Rs 100,000 to 10 lakhs we are at 5% and above Rs 10 lakhs we are at 6%. Our objective is to steadily move it downwards, may be Sumant can talk about ….

Sumant Kathpalia: Depends on the rate of the term deposit. So we benchmark a specific tenure on the term deposit. As we see the rates moving down, we see continuously downgrading our rates. So we will continuously do that, we are watching that space. Right now it is 4%,5%,6% and we may change it.

Participant: One of the areas within the non-vehicle retail finance that you are looking to grow is on the micro finance where you want to grow your book multifold. How comfortable are you with the underlying asset quality given the sharp increases in the ticket sizes? Secondly, how do we go about in identifying the right business correspondent we are tying up with, how we ensure the right people out there?

Romesh Sobti: Suhail, do you want to take it?

Suhail Chander: So I will answer the ticket size question first; yes, the ticket size whilst on a regulatory basis micro finance is now permitted to increase ticket sizes. From experience of our own book, the ticket size increase is only marginal. As we move along, yes, I am sure the size will increase, but we will do it gradually as we understand the market better, it is not going to go from Rs 15,000 to 1 lakh overnight. It has to be calibrated, we will understand the business and then we will see how much it has to increase. In fact, most micro finance companies are not doing 1 lakh loans even today. So as we move along we will take a look at how it goes, we will have our own credit policies. That does not necessarily mean that just because the maximum has been increased I will go and lend at the maximum. That will be function of how the credit looks and how the program works out. That is one. The other thing is partner selection. So we have 11 partners now whom we work with and we have a very extensive process on how we select partners. It takes a few months actually to make those arrangements, we do extremely tough due diligence, we have to understand their culture, we have to understand their technologies that they use, we have to make sure that their technology talks to ours, we understand their processes, we make sure that our credit diligence can easily be transported on to their systems and can easily be explained to their sales staff and to their recovery staff. So it is an extremely complicated process, it goes through every level of operations that a micro finance company has before we make the choice and then we choose not only districts but we choose cities, villages, we have a lot of data we support them with the analytics and we choose where we want to operate. So it is a very well established process; we spent 3-years doing this, and we understand the industry very well now.

Participant: Just a follow up to your first point; while you might not be increasing the ticket sizes, it seems like already players in the industry are and to that extent the customers lending could be getting overleveraged which will still hurt you?

Suhail Chander: Yes, people will play in different places right, and it does not mean every customer is going to get Rs.1 lakh, and I do not think every micro finance company is going to Rs.1 lakh, everybody is increasing in steps also. So there are micro SME loans which are going to that level now because they are permitted but individual loans have not yet reached that size.

Participant: If I look at this book about 3-5years out, how big a size?

Suhail Chander: I do not think we can give you a number but yes, it will grow very fast.

Participant: Now that we are selling down our corporate loan book and you have got good momentum on the retail, is it fair to say that are we looking to see acceleration in the Investment Banking fees going forward driven by sell down?

Suhail Chander: I think our investment banking fees are fairly accelerated already. I do not think the momentum is going to change going forward, so you can expect it to continue to move in the direction it has been moving.

Romesh Sobti: The question is whether they have peaked or the rate of growth. Then I think it is a function of your client base and also it is a function of what else are you going to do. So we have added the project advisory function and we have added the M&A. So we have hired some very good people on the M&A advisory as well. So I think there are a few new product groups that have come in and there is expanding client base. I hope Investment Banking will continue apace.

Sanjay Mallik: Just the first part of your question - so the sell down is not linked to Investment Banking. The sell down is a funding and capital management exercise. Debt syndication, loan syndication is part of the Investment Banking business, so these two are not linked.

Participant: What percentage of your book is fixed and how much is floating purely from the perspective of MCLR impact?

Romesh Sobti: I think last time we checked 72% of our book was fixed.

Participant: Are you reading into improvement in LCV and MHCV numbers like if we go by the latest SIAM data, even LCVs have now entered into positive territory, so how do you see the Vehicle Finance industry per se picking up going forward and how would it translate into our Vehicle Finance portfolio growth for us?

S.V. Parthasarathy: For the current year as a whole, LCV has remained stagnant and M&HCV has grown close to about 30%. While M&HCV for the industry has grown by 30% we have been growing at 45%. We do expect the same trend to continue for the next year as well; next year is expected to be a very-very promising year not only for M&HCV but also for LCV. If at all for the near horizon, next year looks the best.

Participant: Can you throw some light on the integration of the RBS acquisition? And also a little bit on the Real Estate thing. You are just trying to grow that. So…

Romesh Sobti: So on Gem and Jewelry, the question was anticipated. So the manager who heads the Gem and Jewelry business who came from ABN Amro and who has run this business for the last some 25-years or so, Biju is here. So your perspective is outlook for the industry and the quality of the portfolio and how is holding up. Biju, you want to take up?

Biju Patnaik: Portfolio is very good, there has been no problem. We do not have any delinquency in the portfolio and the prospect for the industry is good because our clients or the market is the entire world, so it is not restricted to any specific market. It is only a manufacturing base in India where most of the diamonds are manufactured, so we do not see any issues there. On Integration, Mr. Sobti was there in ABN Amro and we worked under him there and now here so there was nothing to be integrated, it is a similar line continuing very linearly. So there is no integration issue and the business is good and it gives good returns. We take the risks we understand and there are no issues. On growth, we always look at for everything else that is how much more revenue we earn, then look at how much more loans we can do. So we see if there are possibilities if the business picks up, then we have clients, our outstandings are around 55% of our approved limits, so just from the level transaction we can increase the revenue from the interest line, otherwise, it is very perfectly poised for growth the moment when the market picks up.

Participant: You do not see industry picking up in next 1-2 years?

Biju Patnaik: No, we do not think that, we think the market picks up very seasonally and it happens during Christmas, Thanksgiving, New Year time and also again during Valentine Days which has some seasonal impact. So overall during these times now utilizations would pick up.

Romesh Sobti: But the industry outlook certainly has improved, it went through a rough patch for a period of two years and that roughness was created by the Chinese market. The Chinese market was the biggest sort of pull factor, but the US market has built-up very nicely now, Europe is flat, Asia is okay, Japan is picking up, India itself has picked up nicely. So prices have stabilized and actually finished goods prices have actually moved up, polished goods prices have moved up. On the other hand, the miners who were stuffing inventory down the throats of the manufacturers or the polishers, have also realized they cannot do that and they have moderated their own price structures and the throughputs that they sent through. This industry works in a very different way; if a top miner like say De Beers or whatever says, "This is yours, this box is called a sight" You have to pick it up. If you have credibility, you have to pick it up. So there are sight holders who are AAA sort of this thing. You do not pick up a sight means you lose credibility. So they were stuffing it down their throat that they realized about 6-8-months ago that if you do not make sure that both parties earn, the business is not sustainable. So the prices are moderated, actually polished prices have moved up, a lot of the big diamantaireshave not moved up prices because they do not want the nascent demand to be suppressed. I think the worst is behind this industry. Our portfolio has held up beautifully right through this downturn.

Participant: This is your largest corporate other than Vehicle Financing is one of the big things?

Romesh Sobti: Yes, on a consolidated basis.

Participant: On the real estate?

Roopa Satish: Real estate, we are very selective actually. In terms of financing developers, we have a small central unit from where we only look at developers which are prior approved during the year. The whole initiative is about two years old of financing developers. Largely, we saw opportunities coming where there are development which is left midway. So we just provide a last mile financing for them and after that the properties are then leased out by way of LRD. We had a very dominant share in the LRD financing market earlier and so it was a sort of extension. As soon as the property construction gets completed, the owner leases it out and we sell it down to nationalized banks.

Participant: Any geography that you are concentrating on?

Roopa Satish: We have been very selective. We have been present in Mumbai, Delhi, Bengaluru, some parts in Chennai. It is a very regional specific strategy depending on markets at certain points in time which are doing well and which are not doing well and overall the portfolio is fairly small; it is around 2.9% or something like that.

Participant: But is there a breakup between Commercial and Residential?

Romesh Sobti: We have not divulged the data, but broadly it is around 60% Commercial and 40% is Residential, largely because LRDs are commercial in nature, so there is a bias towards commercial financing which can then be leased out.

Participant: For entire FY16, RBI has progressively in a calibrated manner cut the interest rates. Fortunately or otherwise, transmission of only half of that has happened in the current year. Going forward, do you see the remaining half transmission happening, if so, what will be the impact?

Romesh Sobti: Transmission of more than 50% would have happened if this little liquidity surge had not happened in the last 2-3-months. I would have seen another 30-40 basis points down, but rates went up and I think the acknowledgement of that was there in the last credit policy where it said that the stance on liquidity is going to move away from deficit to neutral which was an acknowledgement that there was a deficit on liquidity. So, I think once that has happened you will see a more rapid sort of a transition mechanism. The issue is this; if cost of deposits falls faster than yield, you have to transmit more. If cost of deposits falls, that is being said by the big boys and girls as well, not the medium size guys like us, the big boys and girls drive that market, we have to follow that market. You want to give loan to AAA or AA+ company and the AA company says "I want at this rate." If I do not do it, I am out of the consortium. That is the way it works. So I do not get the loan growth. There is an emphasis that overall portfolio for us is certainly A+. So, it is not that we will do lower quality lending at a higher rate of interest. That will reflect ultimately in my credit cost. So if my credit cost is stable, I am not going into those territories. Transmission has happened more rapidly than the base rate reflects. Just watch our Corporate Banking yields over the last 12-months, see how corporate banking yields fell, although base rate did not fall, base rate fell by maybe 40-50 basis points or something, but the yield fell more, because the margin over base rate fell, that is how transmission has happened. I think we focus so much on the benchmark. But there is a margin over benchmark which determines the final rate to the customer and that has happened. So, in sum, I would say, transition is going to become more swift because of the MCLR. In terms of impact on our book, we have always calibrated this - my deposit cost must fall faster than my asset prices. That is the way we run the businesses.

Participant: With the good monsoon there is a likelihood of another 25 basis points cut?

Romesh Sobti: Yes.

Participant: Can you talk a bit about Digital strategy, how has it panned in FY16, what initiatives you have taken and are you seeing momentum building and how has it impacted us?

Romesh Sobti: The management team spends six months clearing our heads what digitalization means because every day you wake up you see a full page ad says, "My app is better than yours. I have so many mobile downloads. Therefore, I am superior to you and things like that." As a consequence of this, we engaged with all the players in the market; 8 out of the 10 payment banks presentations were made to us. We have talked to those who did not get licenses, we have talked to those who are aggregators, so, BCs are aggregators. Then finally, we have clarity of thought on what we want to do and the clarity is so simple – Any initiative whether it is digitization or anything else must have two objectives – either it should increase my revenue or reduce my cost. Other than that there is nothing else. So you are saying, "Yes, it is a customer convenience." Customer convenience means what? He does more transactions with you, therefore my revenue should increase. You are saying he is our acquiring customer, therefore, my cost of acquisition should go down. So from that you then build your strategy. We spent six months building up a cogent digital strategy which were then is internally presented and cleared by the board, etc., which really functions on a basic theme that digitization is all about collaboration and not competition. So if somebody says that I will dis-intermediate banks, right, or I will disrupt this thing. I think a rethink will happen on that very soon. It is all about collaboration. You take a payment bank which is talking about just payments and the savings bank account. So I give you example of the largest of the lot; who probably has a lot of money as well, saying that what happens if a saving bank customer says, I have got Rs.150,000 instead of Rs.100,000. Where do you put the other Rs.50,000 in a bank? So you need to tie up with the bank. So those sort of collaboration. The collaboration ecology is huge. So banks, payments banks, you have got the other payment people like Master Card and Visa who are not going to fade away, then you have got the aggregators working on this thing, then you have got others program who run loyalty program, the fintech companies, other than that the PPI companies, the prepaid instrument charge, the e-Commerce originators, all of them are going to get into a collaborative mode. It is about collaboration, is not about this thing. So we announced the PayU collaboration when we announced the last quarter results. Subsequently we have done many more of those collaborations. But more cogently saying, what is your objective? The objective is that I will sell a lot of my business online. Therefore, you must lay down measures of success. What is the measure of success if I simply tell you my cost-to-income ratio will fall by 2%? Did it happen through digitization or did it happen through commercial vehicles sales? You would not know. So I must give you more specific measures of success. Measure of success for me is 20% of my personal loans will be sold online. Last year it happened. Next year my measure of success is 40% of my personal loans will be sold online. If I do a two wheeler loan in 4-hours today, can digitization bring it down to 2-hours. That is a measure of success that we would like to articulate. So that is a thing that we thought internally. On that basis, we have got specific targets of what we want to do in the next three years, who we are going to collaborate with and what it will do to our bottom line. So, I think digitization is not about just mobile apps, it is more than mobile apps and of course the other point is you should be aware of is that the one part of this ecology which we did not focus on is what the government is doing. See what National Payment Corporation of India done. NPCI is changing the ball game. I remember still a very large payment bank aspirant who said that “I am going to disrupt everybody through a P2P model.” P2P means, I put money in this bank and it goes into your account in another bank. So, that model has gone. Why? Because UPI came in which the governor launched. What does UPI do? It is a bus-bar which creates inter-operability. I connect here, I put money in here, zips through the bar it goes out into other bank. P2P – if you had a business model which said I am P2P and I am big, is gone because everybody is P2P now. So they are creating the basic infrastructure, Bharat bill pay etc. Around that you have to build your commerce. So basic infrastructure will become common, you build your commerce around that. We can speak for hours on this subject.

Participant: Sir, just an extension of this question, purely because of digitization what kind of cost synergy or cost benefit that you think will come ahead in 3-years, say, if you are doing a personal loan online versus offline, what is the cost differential?

Sumant Kathpalia: We do originate a personal loan in an online mode at two-third of the cost we will do in offline mode where our sales force is there. So there are three-four things which you have to see – if it is a cross-sell into your client base, there is no cost, actually that is bare minimum. So that is one part of digitization where you are using data analytics and doing cross-sell propensity models into your client base. Second model is where you go and do a collaboration with an aggregator and do a digitized end-to-end fulfillment through the aggregator; there is a paisa.com or loanbazaar. These are the type of aggregators. There the cost is two-third the cost of what you would spend in a DSA world or in your own origination or market origination. The costliest of this model is the direct sales agent or a new to bank client which is coming through your sales channel. That is the costliest model which happens. You can see all the three models; lowest in the cost model is your cross-sell model, second is your aggregator and the third is your direct sourcing model through your own field staff.

Participant: In terms of cost-to-income ratio over three years, any insight?

Romesh Sobti: I told you right at the beginning, it is pointless mentioning the cost-to-income ratio, I think they are better and more solid and more credible measures of success rather than just saying cost-to-income ratio because we will never be able to find out what caused the cost-to-income ratio to fall. These measures like what percentage of my sale is online, how much time do I take to do a personal loan or a car loan or things like that, can I do a car loan turnaround in so many hours. Those measures of success will come. Ultimately, they reflect on cost-to-income ratio. We have quantified it; we know our numbers, I do not think those can be shared.

Paul Abraham: Add to that, there are two or three broad trends that will happen – one will be with respect to the branch, the composition and the configuration of the typical branch. We expect as more and more origination happens online and more and more processing get centralized and more and more, to use a very crude form of work, electronified, the stuff that starts to happen at the branch will be progressively restricted to origination and service and processing per se will move either into the hubs or into national operating centers. So that is one piece of the act. The other of course like Sumant said, origination depending on the nature of the product and the partnership can drop from anything two-thirds to one-tenth in terms of cost of origination. So that depends on the product mix to some extent. Third is, of course where is the real difference? I think till date largely it was about straight through processing once the thing entered your system. What we are seeing now is that right from how you anticipate a potential sale through to the platform you provide for a customer to kind of seek and start the sales process through to the entire chain from when fulfillment is completed in every respect goes online. So that is some ways is the subtle difference from where we are today and where we will hopefully move. The second thing of course is that the reason for the partnership is someone comes with a particular USP, you still have an issue with respect to providing the entire range of products the customer may seek. If someone is really good at wallet, so be it, he does not have a card, he does not have a housing loan, he does not have a car loan, he does not have ten other products which we offer, happy to collaborate and use each other's channel to enhance sales. That exactly what has happened in the recent past. We have signed up many collaborations. We are seeing the growth rate and acquisitions going exponential in a lot of our product lines.

Participant: On the CV business, that was probably the only bright spot last year as credit growth was muted and even for the coming year it seems the credit growth will remain muted. So, are you seeing NIM pressures there and going ahead?

Romesh Sobti: CV is a fixed rate book. So the book does not go down as rates go down. It has got a tail of two years. That is a big advantage. It is a fixed rate book as well as a long tail, it takes two years for that to actually equalize even if you do fresh disbursements and something like that. There is a balancing which is happening as a consequence of the used vehicle financing that we do. So whatever little margins that you lose there will be made up by the used vehicle part which has much higher yields. So we do not see NIM compression because this actually improves your NIMs in a falling interest rate scenario. The fixed rate book at least should give you beneficial impact in a falling interest rate scenario.

Participant: As a percentage of the entire CV book, what would be the old CV part?

Romesh Sobti: 20%.

Participant: Can you split the processing fee between disbursements and renewal fee?

Romesh Sobti: We do not have it readily, but we can give it to you one-on-one.

Participant: How many deals contributed to this Rs.122 crores of Investment Banking Fee?

Romesh Sobti: 23.

Participant: Briefly, can you give us the incremental yields of all the Retail products on the lines?

Romesh Sobti: The question is not very clear, but maybe you should clear it one-on-one.

Participant: How much is your overall disbursement growth for the quarter?

Romesh Sobti: The loan growth is the disbursement growth; it is 29%, because repayments happen only on the Vehicle side, so that we gave you that figure of disbursements separately, Rs.20,000 crores is the disbursement.

Participant: Provision coverage ratio we were having earlier 70% and steadily it is going down. So any plan to increase back to 70% say next one year?

Romesh Sobti: Plans are even more ambitious; ambition is that we take it to 100%.

Participant: No-no, you said the credit cost will go down. So that means the coverage will remain there?

Romesh Sobti: The point is this; there is no coverage benchmark today, internally, we have said that we want to if possible take it back to at least 70%. To take it back to 70% either I sacrifice profitability on one or two quarters and do provision coverage ratio or I wait for a bonanza to happen and bonanza could happen through a treasury gain if the coupon rates fall on G-Secs for instance, you could have good treasury rates, we will not show it in a spike in our profit, we will put it into provisions. First, we want to get back to our floating provision. The floating provision if you recall in Q4 last year we used up when we had done that ARC sale of about Rs.390-odd crores. So we will get into the PCR through the floating provision route. So certainly, internally, we are pretty fixated on getting back past to 70% if not more. Thank you very much.

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