IndusInd Bank Ltd Q3 FY17 Earning 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

January 10, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3 FY17 Earning Conference Call of IndusInd Bank Limited. As a reminder, all participant lines will be in listen-only mode and 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 '*' 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, IndusInd Bank Ltd. Thank you and over to you Mr. Sobti.

Romesh Sobti: Good Evening and thank you for joining us on this call. We uploaded the 'Investor Presentation' on the site, so I am sure you all have gone through that. So I am going to take you through some headlines, then some additional information, and then we will open the forum for question-and-answer.

I think Q3 saw quite a few sort of disruptive market events, starting with the US election and then of course the demonetization. I think on demonetization, lot has been talked about, but I am going to talk about it from the perspective of what it does to the banks' balance sheet and apart from these short term aberrations that you have seen, what is the more medium and long term implication of that and then I will take you through some of the elements of results.

Demonetization, I classify it as a huge liquidity event for banks where there was a surge in liquidity, then RBI imposed a crunch on liquidity with CRR increase of 100% on the sort of incremental deposits and then of course release that CRR also and therefore again there was a surge in liquidity. So I think the biggest challenge of Q3 was balance sheet management and if you could manage your balance sheet and balance sheet management has many implications, it is not just the deployment of funds, it is also the movement of cash out of your vaults into currency chest so that it could be reckoned for the cash reserve ratio. So I think those challenges we will actually see of how banks fare in terms of the interest income into the balance sheets.

So I talked about the short-term aberrations and all. But I think we are seeing some longer themes that could emerge and one of the big ones is I think is the ability of banks to play in segments where cash used to dominate operations and underwriting of loans, and I keep giving the example of two wheelers where only 20% of two wheelers sold were actually financed, and the rest came in cash. Now with cash diminishing or vanishing I think the playing field actually increases tremendously and therefore it is a big opportunity for players like us. The other one of course I talked about is the increase in the deposit flow. What is to be watched is permanency of these deposits - how long and how much of that will actually stay with banks and how much will find its way into other alternative assets like funds, insurance and real estate. Third one of course is the distribution opportunity that is going to arise as a consequence of demonetization because if you assume that even 10% of the demonetization flow would go into mutual funds, then I think it is a big opportunity for players like us who are good and efficient distributors. The other part that can affect our business is really the mortgage businesses. I think the mortgages will become more attractive because of lower house prices, lower rates and of course the large interest subsidy that was announced by the Prime Minister. As a distributor, I think this is something that we will watch very-very closely because it is a great opportunity.

Other than that I think bond books will do well with the lower rates, but I think in the next 12-months you will see an issue on reinvestment risk in the books of banks. Also then the MCLR declines will give rise to I think refinancing opportunities, and I think some of the bonds may actually covert into banks' loan books because of pricing, that is the other one. I think these are some longer term themes which we feel are actually beneficial to banks, especially bank like us the way we are actually positioned.

So on the back of all these events I think we have come up with handsome sort of bottom line and top line growth which has shown a revenue increase of 29%, operating profit increase of 29% and profit after tax of 29%. The driver as you would see in the book is the net interest income which has grown by as much as 35% YoY and 35% is accompanied by QoQ growth of 8%. So the natural question that is asked, "Was this driven by the liquidity surge?" To answer that question, I would draw your attention to the nine-month results of net interest income which also grew by 35% YoY. So it is not that this quarter there was an event and therefore we benefited and rode the tailwinds, but nine months going. So there is a secular trend that is emerging now in the interest income and we have said it for several quarters now that given the quality of our book, the structure of our book, which has a huge percentage of fixed rate book. As rates fall we should benefit, I think that benefit is exactly coming through on the interest income side.

The core fee income grew by 22% and we will take you through some of the elements there to explain what grew and what did not grow as well and why. And as a consequence, net profit also grew by 29%.

The balance sheet growth also is pretty good and I think that needs some explanation in terms of loan book growing by 25%. The main question we are asked is, "How is your growth five times the growth of the industry?" I think the answer to that are really available in the construct of our loan book and I will talk about that. The loan book has grown 25%, but if you split it up then the Corporate book has grown 25%, the Vehicle Finance book grew by 21%, and the Non-Vehicle Retail book grew by as much as 42%. So that is one part of the balance sheet which we will explain.

The other one of course is the deposit side which grew 38%, that is total deposits, but CASA grew 46% and SA grew 56% YoY. So I think there is a reconfiguration of our deposit composition with some beneficial elements attached to them. That is the balance sheet part of it.

Together with that we have stability in the loan book quality. We are now for the third quarter showing credit cost of 15 basis points and for the nine-month period we have shown credit cost of 44 basis points, which if extrapolated is well within the 60 basis points that we forecast for the full year. We actually may come up slightly better than the forecast of 60 basis points.

Slippages are almost constant; they are at 1.14%. The ARC book actually has shrunk which means that your recoveries are more than your sales and the book is now down to Rs.223 crores, we have a net recovery of about Rs.14 crores during the quarter.

Restructured book is at 41 basis points. I think two accounts slipped from the restructured book into the NPA book, but these are smaller accounts, they do not move the needle so much. If you look at the break up in the gross NPAs of the Vehicle Finance book which is what we disclosed, the Retail book as well, you will find that barring I think cars where there is a small absolute figure of Rs.13 crores moving up, almost every vehicle category is showing an improvement in the gross NPA figure, whether it is the commercial vehicle, utility vehicle, construction equipment, small CVs, everything, even two wheelers are showing recovery, only cars has grown up, absolute terms actually by Rs.13-odd crores. So I think there is stability of the book.

Risk-Weighted Asset profile: I think that is the important question that several asked to us several times. So this quarter you see an improvement in our RWA profile; the percentage of RWA to total assets is now actually about 78%-79% and it used to be in the 82%-83% and went up to peak of 84%. What that implies is that the quality of our book has improved that of the AAA, the AA+ elements and you could see that clearly in that abstract chart which is the corporate portfolio profile you can see that that movement is happening now a little bit towards the left and a few quarters ago we were showing a movement to the right. So I think that also is beneficial sort of a trend.

I think you can see a reflection of this also in the consumption of the CRAR or the capital adequacy. CRAR actually moved by only 1 basis points during the quarter in spite of 25% growth in our loan book. So CRAR remains at 15.31%, last quarter was 15.32% and the Tier-1 remains at 14.74%, Tier-1 has actually improved over last quarter of 14.68%. So one of the benefits of course is on market risk, market risk went down and that explains why we did not use towards capital, but it is also explained by the fact that I think the quality of the book has also improved. So that is about it.

The loan book configuration is showing the improvement that we want in terms of retail. So if you include the Business Banking part which most banks include in the retail part, then we have shown 1% shift in favor of retail which we have always said is beneficial shift and our target is to move this to 50-50 over the next three years.

Cost-to-income ratio moves up by only 20 basis points. That is also a consequence of the fact that this quarter again the branch network went up; 40 new branches, 339 new ATMs and of course hiring of almost 3,500 employees during the year to support the growth of all the business units. So we have a branch network now of 1,075 branches, and I think looking at the pipeline that we have, we are set to achieve the target of 1,200 branches by Q4.

We have seen some other elements which perhaps need sort of articulation. The other question we were asked also in the press and all, "What does demonetization do to your Retail book?" I will just give you an example of some of the benefits that we have seen. One is of course you have seen the significant impact on CASA book; CASA ratio has moved up past 37% and last quarter we were at 36.4%, and this is in spite of the fact that last quarter we had huge amount of IPO inflows if you remember at the end of the quarter, something like Rs.8,000 crores, that Rs.8,000 crores went out. In spite of that the CASA book went up. The next question is "How much of your CASA book growth was a consequence of demonetization and how much of it a consequence of your normal growth?" I would say 50-50, that 50% if you take is because of demonetization because some money actually went out. So we have covered that as well. So it is not just arithmetically the increase that you see in the SBNs that we got, you got to add the money that went out, Rs.8,000 crores that actually went out. So that is CASA.

The other is this new to bank (NTB) customer acquisition. We normally acquire about 75,000-80,000 new accounts every month and in December we acquired 133,000, that is almost doubling of the NTB. Apart from this we are seeing growth in our activation rates, we are seeing a huge growth in our debit card spends, we are seeing a growth in our credit card spends, we have seen a huge increase in our mobile transactions and specific questions on that I think we will answer.

Incidentally, the entire management team is here, as also our head of diamond financing, so any questions you have on any of the part of the bank in more detail we are more than happy to answer those things. One item of balance sheet on which probably you will have a question. I can preempt that question is our balances with banks moved up from Rs.7,800 crores to almost Rs.13,000 crores. We would only say that this is the point of time positioning. We saw a surge as I said of additional deposits that came in towards the end of the quarter and that money then was put into things like reverse repo, etc., etc., otherwise the money that came in earlier were deployed well in time so that we could get the beneficial impact. So this is a just a point of time sort of event, it does not stay and you will see next quarter it will normalize. So that is what all I have to say. I think we can open the floor to questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on the balance sheet. During this quarter we have seen the borrowings up from Rs.15,000 crores of September quarter to Rs.20,000 crores of December quarter. So could you highlight the reason for that?

Romesh Sobti: year on year if you see, its down.

Sanjay Mallik: No, for the borrowings if you look at Q2 was Rs.19,078 crores and Q3 was Rs.20,303 crores, so it was pretty flat. The only item I can add is we did an infra bond of Rs.1,500 crores so that added to borrowing and the second element is that there was a regrouping for the purpose of last quarter where repo borrowings which were netted have now been grossed up and that resulted in borrowings going up by Rs.4,000 crores and investments going up by Rs.4,000 crores last quarter.

Manish Ostwal: Second question on the overall loan book growth. We have said that Vehicle portfolio grown relatively strongly compared to the market. So whether we have gained the market share during the quarter?

Romesh Sobti: Yes, the Vehicle Finance grew by 21%. Parthasarathy is here, he will explain.

S.V. Parthasarathy: Yes, we have gained market share in Vehicle Financing in most of the segments.

Manish Ostwal: Could you talk about the tractor or car, which segment we have gained the market share?

Management: Tractors we have gained handsomely, cars we have gained and Commercial Vehicles also we have gained market share. We operate Commercial Vehicles where we gained market share, Construction Equipments we gained market share, Cars we have gained market share, Three Wheelers also we have gained market share, only area where we are flat or slightly lost market share has been Two Wheelers.

Manish Ostwal: Because of demonetization the loan against property portfolio will see asset quality issue also and the growth also declined, but we have seen that the portfolio quality marginally deteriorate and the growth is pretty strong. So how do you assess the overall quality in the growth aspect of this portfolio?

Sumant Kathpalia: We are not seeing any adverse trends on portfolio. In the month of November we did see a slowdown in the LAP booking and that was more internal because the valuation reports as well as our credit policies were getting aligned, but I think in the month of December we are back on track. On the delinquency front also we are not seeing any major blip; however, I can see that there are some interest rate declines which are happening on the pricing front of the market.

Manish Ostwal: What is the outstanding SR book as on 31st December?

Sanjay Mallik: Rs.223 crores.

Moderator: Thank you sir. We have next question from the line of Shubhranshu Mishra from Anand Rathi. Please go ahead.

Shubhranshu Mishra: Congratulations Sir, on thriving through the disruption that we have faced Q3. I have a few questions in my mind. First is with regards to the foreign exchange income which has gone up slightly on QoQ basis. Any reason for that?

Romesh Sobti: Year-on-year you are seeing 5%, quarter-on-quarter you are seeing 15%. I think the only conclusion you can draw from this is that there was a surge in Q3 last year, I think it is the base effect which is actually coming into play, but otherwise the flow is pretty good, which is reflected in the quarter-on-quarter growth.

Shubhranshu Mishra: Any effect of a GIFT City branch on this?

Arun Khurana: This income is predominantly what is clients' booking in India also had improved, partly what is booked overseas, but overseas GIFT City is a small branch, so it is in its initial stages. But predominantly I think looking at how the markets behave, the Forward just come down sharply right and there is no clarity with the US rate decision happening, as a result clients did come and hedge their long term exposures plus you saw a bit volatility, long-term hedges that did take place quite a bit in this quarter. That is why you see this movement in the foreign exchange income.

Shubhranshu Mishra: I also see a huge uptick in insurance income. Any specific reason that have there been a channel expansion or new tie up with the insurance company?

Sumant Kathpalia: No, I think the whole industry has seen an insurance premium expansion so have we, so the distribution products - mutual funds as well as insurance have seen an expansion in the industry itself.

Shubhranshu Mishra: The growth rate is likely to remain the same going forward?

Sumant Kathpalia: January, February, March are very good months for insurance and investment products.

Shubhranshu Mishra: One qualitative question, with regards to your fee income. How do you see your fee income sustainability over a horizon of two to three years?

Romesh Sobti: You see how the fee income has diversified, some of it is really built into a solid annuity plan in the sense that loan processing fee. The processing fee is a function of not only the fresh business you do but also is function of renewal. As your base grows I think you will see a pretty linear sort of growth also in this income. Then distribution income I think is on a sounder footing as our branch network crosses 1,200 and then goes onto 2,000 because there is a straight linearity between distribution income and the branch network. Other than that I think the fee line coming out of investment banking is stabilized, so you are not likely to see big surges in the investment banking income, but it will be a stable sort of a figure, as a percentage our total fee it may actually fall. Other than that I think FX etc., is a function of number of clients you have on the retail side and the corporate side. Retail client base is now almost about 4 million and growing, and retail is now sort of into a variety of FX-related products. Corporate side of course is deepening its relationships and penetrating the non-fund base business even more and FX is mostly related to the non-fund business, etc. We have a crack team in our treasury who are able to give structured solutions to clients. So it is a deepening of the wallet as a consequence of deepening and widening of the corporate relationship. On Trade and remittances I think we are increasing our tie-ups around the world, so we are seeing remittances and the trade finance growing at a pretty secular sort of rate. I think it is not that new lines are being added to our fee income, but I think the existing lines are deepening and widening.

Shubhranshu Mishra: Since you alluded to the investment banking income sir, can you briefly tell me about the structure how much of it is from equity capital markets and how much is from debt capital markets, what is the breakup?

Suhail Chander: We do not do any equity-related activity, so we are not in the equity markets at all, so all of our income is related to debt, either structured or distribution.

Shubhranshu Mishra: If you can give me the total credit card and debit card swipes transactions in November 2016?

Sumant Kathpalia: I do not have the data point but I will give you that our credit card swipes increased by about 2.5x, debit card swipes increased by 3.5x. Spends on the debit card increased 4x and the spends on the credit card were almost flat in spite of the increase in the number of swipes because the ticket size went down.

Moderator: Thank you. Next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Sir, a question on your funding side. On the term deposits side, if you can just quantify what is the bulk deposit share within the TD pieces and what is your definition of it? We have seen a lot of pricing change by large banks in the bulk deposits side. Is that also aiding your margins quite significantly at this point of time?

Sanjay Mallik: The composition is broadly 37% CASA, close to 25% is Retail Deposits and the rest of it is Wholesale, and all of these things are contributing to reduction in cost of deposits, because CASA has gone up smartly and deposit costs are being priced downwards, so you are seeing all that come through in pretty sharp reduction, this quarter itself we had a 24-25 basis point reduction in our deposit cost.

Adarsh P: So Retail, TD and CASA, we would still know of. On the bulk side, if you can just say what would have been rate say 12-months back, 3-months back and what you would be offering now and what is your definition of that bulk deposits?

Suhail Chander: Bulk is also very similar to money market. It is very difficult as it is not a quantified market, but the easiest way for you to figure out how bulk deposit prices are changing if you look at the CD market and you will figure out what was the CD rate one year ago and what is the CD rate today.

Arun Khurana: Yes, CD rates dropped during the year significantly right. One year ago probably close to 7.5%, today close to 6.30%-6.40% may be lower for the three month deposit CDs. For sure we have contracted the lower rates in that. So other than that the markets have really moved on. I would say that the differentiation between bulk and normal TD is negligible here. So it is a pool of money and it depends on how you classify what constitutes that because market borrowing is actually are cheaper at times.

Suhail Chander: Money market will all move in tandem whatever products right otherwise the funding profile will change from one product to the other. If the markets are moving down, all products will move down. You cannot have one product moving in a different trajectory in that.

Adarsh P: Just trying to understand the quantum of change could have been higher in Retail, TD right from just…?

Suhail Chander: You can figure that out with the CD rates.

Adarsh P: The second question was on the fund-based exposure sequentially, you reported 1.36 trillion and now it is 1.54 trillion. When you look at the Basel-III disclosures, there is a pretty large surge in the fund-based exposure for the bank versus 2Q, moved up by Rs.20,000 crores. So can you please explain that?

Romesh Sobti: Loan book grew by 25% year-on-year and 4% quarter-on-quarter, you may be including the investments.

Sanjay Mallik: You are referring to the total balance sheet increase which includes balances with banks, etc., so for example we had a huge increase in reverse repo by about Rs.7,000 crores. You should look at the balance sheet, that is not your loan book, that is your entire balance sheet what is disclosed in the Basel numbers.

Adarsh P: So is there something which has got added to the fund-based exposure in this quarter vis-à-vis 2Q because it seems to be Rs.18,000 crores addition which is clearly not the balance sheet growth right?

Sanjay Mallik: We referred to that in the very beginning that there was a surge of deposits towards the end of the quarter, Rs.7,000 crores of that went into reverse repo and that element which would usually be netted is now grossed up.

Moderator: Thank you. Next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.

Amit Ganatra: One is that on the advances side, have you done any portfolio buyout during the quarter or all these organic growth?

Sanjay Mallik: Yes, this is all organic growth, in fact, we sold down Rs.850 crores.

Amit Ganatra: In terms of asset quality, have you taken any advantage of the RBI dispensation which was available post demonetization?

Romesh Sobti: The RBI dispensation actually is mandatory if a client asks for it. In our case the clients did ask and mostly they are on the Retail side. I think the total movement in terms of the loan book on which this dispensation was sought was about Rs.52 crores.

Sanjay Mallik: These are loan accounts, these are not NPAs.

Amit Ganatra: If we look at the loan growth that was very strong but the loan processing fees was quite weak in that aspect. So any specific reason?

Romesh Sobti: Yes, that is why there is no linearity between loan growth and loan processing fee because the loan processing fee is a function not only of the incremental loans that you give but also function of the renewals of old loans. So that is why if there is a bunching of renewals as they were say last quarter, renewals are done on a 12-months cycle, it is mandatorily done for every exposure, RBI mandates that you should do once in 12 months renewal of the loan. So every time you renew, we also charge processing fee. So how the renewal bunches up on a monthly basis actually determines the loan processing fee and not just the growth in the loan book.

Moderator: Thank you. Next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Just want to understand how much of the growth in savings deposit was driven by new accounts?

Sumant Kathpalia: Our new account acquisition in the quarter we did about 280,000 accounts and our average ticket size is about Rs.42,000 to Rs.45,000, so that is Rs.1,400 crores came out of new account acquisition.

Rohan Mandora: With respect to the total increase that has happened in savings deposit, what is the likelihood of quantum of deposits that are likely to stay and not get withdrawn?

Romesh Sobti: We would like the whole lot to stay, but how much gets withdrawn is a function of how people figure out what to do with this money and put it into mutual funds or insurance or real estate but we have started a very strong drive to create retention and retention happens not just by interest rates but also by the cross-sell. So the new to bank customers if they buy funds from us they buy insurance from us, they buy lockers from us, I think that will actually determine the extent of retention, but I think we will be very happy that if we retain even 50% of this little surge that happened.

Rohan Mandora: Like in the last 15-days or so, trend wise are we seeing withdrawals increasing because in the last fortnight report come out, the deposits have declined I believe?

Sumant Kathpalia: Our retention rates on CA and SA are different, so while our SA rates are higher, our CA rates are around 30% to 32% and our SA rates are around 60% right now.

Rohan Mandora: Sir, post this demonetization on the MFI loan book growth outlook, is there any change in strategy that we had with respect to building that book or are we continuing with that strategy?

Romesh Sobti: Yes, absolutely, it is a revalidation of our belief in the micro finance because I think they have once again shown the resilience of going through event like this, and apart from the first two weeks where the borrower actually wanted to repay but the business correspondence could not take the money because of the new restrictions, but you see the way recoveries and collections boomed after the first two weeks and how quickly and swiftly they reverted back to the 98-99%-odd, not only for banks but also for the MFI themselves. So certainly I think we have no change in stance at all, MFI remains very close to hearts, we like the business, we understand the business, we have created a business model which we think is superior, is based on partnerships and business correspondences. So we remain steadfast and we will stay where we are on the microfinance.

Rohan Mandora: Could you share the data point with respect what would be our fee income from cash management service during FY16 full year and during the quarter?

Romesh Sobti: We do not show that separately, it is subsumed in our transaction banking but also in our trade element.

Moderator: Thank you. Next question is from the line of Mahesh MB from Kotak Securities. Please go ahead.

Mahesh MB: If I look at the deposit growth for the quarter which is at around 6% on QoQ basis it is actually lower than what you have done in recent past given the fact that this was one of the best quarters on deposit mobilization, could you just broadly run through why are we seeing this? The second question is on the loan growth. If you could just broadly tell us what has happened during pre-demonetization and post, how is the December done as compared to November probably within the Retail products specifically? A question is on what will be the share of used vehicles loan portfolio in the book?

Romesh Sobti: First is your question on the deposit growth right. To this growth you add Rs.8,000 crores of IPO money which was there in last quarter. So that went out. So if you add that back then your quarter-on-quarter growth will actually come to almost 15%. So that is I think one reason. The second question related to your Retail Loan growth. I think we will break it into Vehicle and Non-Vehicle. For October, for instance, Vehicles we had a disbursement of over Rs.2,100 crores right, up to 8th November of course we had a very handsome growth, and then I think for two weeks we saw a drop in enquiries especially on the Commercial Vehicles side, but thereafter there is a pent-up demand caught up very quickly and November also was Rs.2,100 crores, so that takes you to Rs.4,200 crores, for the full quarter we have ended up at almost Rs.6,000 crores which means that December was Rs.1,800 crores and December is typically a slower month. So you could say that we had some impact, but I think we did much better than what we had forecasted at the time of demonetization.

Sumant Kathpalia: On the non-vehicle, I think we did see a slowdown in the LAP book in the month of November but we are back in the month of December. Home Loans, we are a distributor, we did see a slowdown in the month of November, and we are at 70% of the volumes we used to do in the month of December. On Credit Card I think huge demand which is coming up. Personal Loans, there is a demand. Business Loans we did slow down a little bit which is unsecured business loans to self-employed. Gold loans, no slowdown. LAP, no slowdown. Used Vehicles, the same trend continues, is close to about 20% on disbursement and 15% on advances.

Mahesh MB: If I look at your yield on advances, last year you had a reasonably large amount of pressure coming in from the Consumer portfolio, it was probably around 15-16% fell all the way down to about 14.8-14.9%. This year the Retail Loan book yields are relatively stable for the last three quarters but you are seeing reasonably good amount of pressure on the Corporate side. How do we look at this for next financial year?

Sanjay Mallik: Earlier, you had the same situation where the non-vehicle retail had started to grow and you also had a slowdown in the two wheelers which is the highest yielding product. So that had a fair amount of impact. Now that portfolio has largely kind of stabilized and the gross yield across the portfolio is not declining so sharply. There was a mix change last year.

Mahesh MB: Essentially the Two Wheeler which has driven the change according to you?

Sanjay Mallik: Two Wheeler is one of them for sure, yes.

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

Hiren Dasani: Just a little bit more granularity on microfinance. I see on Page #15, you are showing 2.5% of the exposure. This is 2.5% of the total loan book, right?

Sanjay Mallik: That is correct and the portfolio is flat QoQ. So our total portfolio is close to Rs.3,000 crores, it is about Rs.2,600 crores on the loan book and a small amount in the investment book. The book is exactly flat QoQ. No movement in terms of credit cost.

Hiren Dasani: Even there the dispensation was sought in that segment that Rs.50 crores which you said would be Retail…?

Sanjay Mallik: Nothing at all in that segment. It is largely coming from that Rs.50 crores which is not NPA, it is loan accounts, Rs.47 crores comes from Vehicle segment.

Hiren Dasani: So it is quite surprising that even though first few weeks the collection efficiency has dropped quite sharply for most, but you are still not reporting any increase in the credit cost in that segment?

Sanjay Mallik: Yes, that market recovered very quickly, I think we mentioned it earlier on the call that in four weeks, we were well past 90% in terms of collection.

Hiren Dasani: That was a delay in installment, but it has not become NPA actually, 90-days become NPA, so 30 DPDs are also very small already, okay, so basically with every passing week people are kind of reaching the overdues?

Suhail Chander: The whole issue was because of lack of cash, not because of ability to pay or willingness to pay. Physically it was impossible to pay.

Hiren Dasani: Would it be possible to know the cumulative collection efficiency on Microfinance portfolio between let us say 8th November till 30th December or that too granular?

Suhail Chander: I do not remember the exact number, but I think at this point of time we must be 99+%.

Hiren Dasani: One more thing on microfinance, this is completely originated by you or partly through your BC network and partly through your own origination?

Suhail Chander: Our origination is entirely through BC network.

Hiren Dasani: Are you finding like very wide variation in terms of different BCs?

Suhail Chander: Not in our BCs, we have a very careful selection of BCs, we work with only the top rated in microfinance companies and there is very little difference between the collection efficiency.

Hiren Dasani: Do you have any internal caps on how big this portfolio you wanted to be as a percentage of your total book and all?

Romesh Sobti: I think we have a three year target, the three year this thing we are talking about Rs.10,000 crores, three year if you see current loan book is Rs.100,000 crores growing at 25%, that takes you to almost Rs.200,000 crores, and Rs.10,000 crores which will be 5%. I think that is the way you got to figure it out.

Suhail Chander: I do not think we will cross 5% of the bank's total loan book.

Suhail Chander: At any point of time.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Romesh Sobti for his closing comments. Over to you, sir.

Romesh Sobti: Thank you very much. I am sure there are going to be follow-up questions. We are all happy to meet you one-on one as we do every quarter. Thank you for joining us.

Moderator: Thank you very much, sir. Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.