IndusInd Bank Limited Q2 FY2018 Analyst Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the IndusInd Bank Limited Q2 FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the Presentation concludes. In case, 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.

I now hand the conference over to Mr. Romesh Sobti -- Managing Director and CEO, IndusInd Bank. Thank you and over to you, sir!

Romesh Sobti: Thank you and welcome to this conference call. I am going to take you through the headline numbers. We already loaded the Investor Presentation on our website. I will focus more on some of the other events.

So, just to begin on the issue of economic front, I think there is some evidence now that the economy is beginning to sort of come off the lows that we saw post demonetization and GST. And one of the indicators is the Purchase Manager's Index which seems to be now moving into the expansion territory. And therefore, there is some evidence that manufacturing will come off the low of 1.2% that we saw in quarter one.

Also, I think, the other major headline was the impact of GST and the supply chain disruption and de-inventorization that happened. I think, there is evidence now of that also sort of stabilizing and re-inventorization happening ahead of the festive season.

Monitory policy, we are seeing some of the excess liquidity that we have seen post demonetization slowly being sucked out through the open-market operations of RBI. Monitory policy we all know. No rate cuts, so obviously there is a differentiated view which RBI has on the price situation which is causing them to hold policy rates. And as a consequence of the last monitory policy we have seen firming up of the G-Sec rates as well.

So, the early trends that I talked about are also evidenced in our businesses and we have seen that in September especially CV sales touched a growth of 25% year-on-year and month-on-month we have seen an improvement there. So, I think there is some credit off take potential due to re-inventorization.

We will talk in case there is interest about the external pricing benchmark that RBI has mooted as an alternative mechanism which brings agility to the banking system in terms of transmission of rates etc.

So otherwise, the highlights of the quarter are that we had very steady quarter in all respects. PAT up 25%; NIM stable at 4%; ROA's uptick 4 basis points. Loan growth which is 5.5% for industry which is for us 24% and that is split between the corporate and the retail side. Corporate grew 26%; Retail grew 22% essentially because of the lag that we are seeing on

Vehicle Financing which hopefully will, depending on the September indications, see a much better second-half on vehicle financing than we saw in the first-half.

The other big highlight is the Savings Bank growth. It is a star performer. They have shown a growth of 95% which means SA actually doubled during the last 12 months period. Therefore, that has taken our CASA beyond the three-year target for March 2020 of 40%, we actually ended up at 42%. We will see stabilization of this base and longevity of this deposit base before we re-rate our ambitions to take our CASA up to 45%.

The client base is the other highlight. We have for the first time crossed client base now of 10 million or 1 crore clients and I think, that speaks for the accretion that we have on the CASA base which is about 100,000 new customers every month.

Other thing of interest would be the NCLT cases. I think, another lot came of 28 odd, we have exposure to 6 out of these and most of them were already recognized as NPAs, we have fully provided there and the net additional provision that we made on account of these 28 which came in the last list of RBI is about 36 crores. So, we have seen that both in quarter one when the first 12 came and in quarter two when this next lot of 28 came, they hardly moved the needle for us in terms of the provisioning because our loan recognition stipulates that we provide immediately at 60% because our provision coverage ratio is 60%.

I think, these are the highlights. In terms of other developments that we would certainly want to bring to your notice is that the Bank has sort of slowly and steadily started building a stable long-term base of funding to counter the dependency on bulk deposits. As you already know we do a lot of re-financing which is tenures of three to seven years. But now, we also find that foreign currency loans fully hedged also afford a cheaper source of funding. So, we availed of two foreign currency loans of seven year tenures at very attractive coupons, one from OPIC (the Overseas Private Investment Corporation) $225 million and one from ADB (the Asian Development Bank) $200 million to broad base our stable funding profile.

The other I think, main development during the quarter was that we entered into standstill confidentiality and exclusivity agreement with Bharat Financial on 11th of September and subsequent to that the process of due diligence, etc., is on.

Of course, on technology side, etc., things are going a pace, a new trade finance system has been commissioned already, comprehensive cyber security measures are being taken, etc. So that is really summary of the headlines.

We have key performance indicators stable. Interest income up 25%; core fee growth 23%; PAT growth 25%; deposit growth at 26%; CASA of course, is more at 46%. Stable loan book quality; net NPA is at 0.44%; as last quarter net credit cost at 17 basis points as last quarter, provision coverage ratio remains at 60%; gross NPA actually fell slightly 1 basis points to 1.08%; and slippages actually fell during the quarter. So, for the Bank as a whole, slippages fell from around 2.2 odd percent to 1.7 percent during this quarter.

Capital adequacy, we did consume about 50 basis points or 55 basis points during the quarter. That is because of the growth on the corporate side of the business but CRAR is still at healthy 15.63% of which Tier-I is 15.09% so in spite of the usage that we saw this quarter we remain pretty capital adequate.

Other than this, I think that if you look at the core fee income break-up is given in slide 20 and we are seeing a pretty healthy growth in trade finance, remittances, foreign exchange. Distribution remains the star because of the residual impact of demonetization and movement of funds between savings and current on the one side and AUMs being created on the Mutual Fund side. Only one which is showing only a growth of 6% is in Loan Processing. Loan Processing is not a sort of budget figure but it depends on when there is a bunching of annual renewal because loan processing is a function of annual renewal and as well as new disbursements.

The cost of funds fell by about 25 basis points and yield fell by almost a similar 26 basis points, therefore NIM remained same. We have seen a reduction in our Corporate Bank yields by about 38 basis points and that is a consequence of some repayment and of course, the repayment of that big cement asset that you will recall was resolved in quarter one for which we had taken a provision in quarter four. That resolution actually inflated our income side especially interest income etc. in the quarter one and that is why we see quarter-on-quarter the growth in say NII for instance remains around 2% or 3% while normal growth is 4% to 5%. I think that is just a base effect that is taking place but year-on-year it still remains healthy at 25%.

I already talked about the slippages, slippages are actually down. The restructured advances are at 0.16% this quarter. It was 17 basis points last quarter. The ARC book which is the security receipts remains at about 0.3% and if you look at gross restructured and gross NPAs to advances they are actually slightly down at 1.25%.

The delinquency profiles product wise we also give and you are seeing that especially on the vehicle finance side we are seeing an improvement all around in all vehicle category.

So that is a summary of the headlines and more than happy to take questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just had a question on what would be the large benefit which you see in having the microfinance portfolio under the banking platform as compared to the BC route and in case, decision is made to acquire the business will the management remain the same?

Romesh Sobti: Yes, I think we have talked about this in the past in terms of microfinance business whether organic or inorganic. Now, in case of inorganic growth I think there are four or five benefits that accrue almost immediately. Of course, apart from the benefits, our commitment to the microfinance sector is absolutely steadfast. We have held it steadfast right through this whole demonetization issues and we were very confident that these things will play out sooner than later and they have played out. I think the industry is already showing signs of resurgence. So, in the hands of the bank I think the first thing that happens to a portfolio that gets transferred from a microfinance institution is that the cost of funds falls pretty dramatically and that is an accrual on day one. So, if you look at average cost of funding for MFI sector anything between 9% and 10% and see the cost of funds in the hands of bank like us at 5% - 5.5% and you see a spread of 3.5% - 4% - 4.5% immediately on day one the entire portfolio gets sort of re-priced. So, therefore, that is a good boost to ROA. The second one is that capital gets released in the books of the bank immediately. So, risk weightages for the microfinance portfolio in the hands of a microfinance institution is 100% and in the books of the bank it falls to 75% - that's immediate release of capital. The third element is that the entire portfolio is classified as priority sector. And bank like us is already surplus on priority sector overall which means you have a very solid play possible in what they call priority sector lending certificate market which is being created by the Reserve Bank of India where you can sell the asset classification to another bank and yet keep the assets. And the certificate then gives you a commission of anything up to 2%. The market is developed and we are already participating in it and imagine another 12,000 crores - 13,000 crores - 14,000 crores being played in that market at a margin of whatever 1.5% to 2% that is the other one. The fourth benefit is really the whole liability play and you see why these MFIs all opted for a bank license? What was missing in MFI that they wanted a bank license? And clearly it was the liability side of the business and I think Bandhan is a very good example of what you can do on liabilities. So, imagine 5 million or 6 million customers and you cross sell deposit products to them. Forget everything else. Forget the insurance and all this sort of thing cross-sell and two-wheelers and tractors and all those sort of things you can do. But just focus on liabilities and just see what that does to a low-cost deposit base spread across rural India. These are four sort of advantages that accrue to you on day one. And of course, the rural distribution we have suddenly built up our own distribution. We have about 300 or 350 branches in the rural areas and now, you got certainly whole lot of branches opening up. So, I mean that is the benefit where I was being specific on inorganic play. Those are the benefits that can certainly accrue this thing.

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

Mahrukh Adajania: On savings would you be able to quantify how much comes from Government?

Sumant Kathpalia: Yes. 15% of our book is Government business book.

Mahrukh Adajania: And what was it last quarter, last year?

Sumant Kathpalia: Last quarter would be around 10% to 12%.

Mahrukh Adajania: Okay. And last year would insignificant, correct?

Sumant Kathpalia: It was about Rs 3,000 cr and now it is about Rs 4,600 cr and that is the difference.

Mahrukh Adajania: Okay. Got it. And the other question is that in terms of the corporate growth that you are seeing would that be acquisition from PSU bank's or what would be the profile of the corporate growth?

Suhail Chander: Yes. There are all kinds of assets. But yes, generally the growth is coming from transfer of assets from other organizations. It could be PSU banks, it could be NBFC's it could other private sector bank. But the growth is coming from there and the general overall growth that happens but fresh investments of projects are of course limited at this point. But we do participate in those areas too based on what is available. So, we pick and choose.

Romesh Sobti: Basically, there are corporates and there are sectors which are growing, right? So, our participation in those that grow is much stronger because in certain part of the banking system is not participating. So, I think the participation level has gone up. It is not just transfer of existing assets from one bank to another bank, it is not that. It is a share of the pie that somebody else is not taking. That is certainly there and then your existing client base is also in terms of growing in terms of its requirements. So, I think it is a combination of these names. We are also getting into new names as well in some of the larger groups etc. because our pricing is now much more competitive than it used to be. Then of course, there is a growth happening because of the GIFT city and our ability to fund in dollars and therefore, overseas funding is also happening. I think it is a variety of factors that is happening.

Mahrukh Adajania: Got it. And just in terms of the base rate MCLR thing, there is a mixed view, right? Some believe that this is a more scientific methods, so why not? But a lot of other banks say that the base rates some of them have actually calculated it on one-year average cost of funds. So, they are saying that no matter what there is a big differential between base rate and MCLR. And if the discussion paper goes through as guidelines then there would a lot of pressure. So, what is the true picture?

Romesh Sobti: So see, the base rate books in the hands of banks have already started decay in the sense that they have slowly gone away. The MCLR came two years ago, right? So, there has been a re-pricing already in the books of bank. So, it is not that certainly there will be a drop. So, it is not a question of between base rate and MCLR. It is a question of between MCLR and the new benchmark this thing. I think that is the big debate. So, what remains is the residual amount on base rate will continue at the base rate till it matures.

Suhail Chander: The client rates I mean where I base it on, the client is not going to continue to pay more to you because he is linked to base rate.

Romesh Sobti: Correct. That is what I am saying, the re-pricing has already largely happened. So, large parts of the book are already moved to MCLR. So, the base rate element is minimal now already.

Mahrukh Adajania: Okay. And in terms of MCLR external linking with a high proportion of fixed liabilities for the sector, would that go through?

Romesh Sobti: No, see that is a challenge. I mean that is why there is a debate going on. Yesterday RBI had a meeting of all the banks and some action points taken out. We have to give a feedback I think by 25th of October on external benchmarking and also the floating rate deposits. I mean the only way you can manage both sides of the balance sheet is that you have benchmarking both for your deposits and your liabilities. So, you cannot just say benchmarking one side to something and the other side sort of keep suffering and therefore, you squeeze your margins. And I think in one of the RBI reports they have also mentioned that there could be the possibility of floating rate deposit as well**.** Arun, do you want to comment?

Arun Khurana: Yes, I think the issue comes in terms of if you have a different curve being used for an asset versus a liability, so liabilities are typically fixed rate basis and going for the new benchmark which could either of the three. One doesn't know at this point in time, there are discussions within RBI as well. But each of them have their own nuances in terms of having an ALM hedge to manage your balance sheet. So I think that becomes key. Otherwise it could have a big challenge banks to hedge their ALM.

Moderator: Thank you. We have the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Sir, with respect to this entire Savings Deposit given that we are seeing such a huge inflow even outside of the Government deposit. So, any plans to reduce the savings rate further cross any of the buckets?

Sumant Kathpalia: We keep on reducing the rates and we had reduced the rates last quarter also. And we continue to benchmark ourselves to the one-year FD rate and it will be lower than the one year FD rate at any point of time by about 50 basis points to 75 basis points. So, that is what we do and we reduced the rates last quarter and we are again evaluating whether we want to do something this quarter.

Romesh Sobti: And on reducing rates, we are also changing the slabs.

Kunal Shah: Yes, that sort. So, may be in terms of getting so that may be in terms of the lower rate being given to say a larger set of customers would that come to in terms of rate slabs, that is what we are evaluating for this quarter as well?

Romesh Sobti: No, we already moved. For instance, our rate slabs were 0 to 1 lakh have moved to 4%; and then 1 lakh to 10 lakh use to be 5%; now 10 lakh to 1 crore is 5%. So, I mean that is making a difference. Go ahead.

Sumant Kathpalia: So, we have four slabs right now. So, we are up to 10 lakh 4%; we are up to 1 crore 5%; we are about 5.5% up to 10 crores; and above Rs. 10 crores we are 6%. So, and the sub slabs and we continue to evaluate these slabs. We have not seen any reduction in client acquisition or the balance sheet deepening.

Kunal Shah: Yes, okay. No, that is why, so we also would want to take to say somewhere 3.5 in the first slab.

Romesh Sobti: Yes, not outside the realm of possibility.

Kunal Shah: Okay. Good. And secondly, in terms of the fee income, so have we done may be in terms of say once we transition to IFRS given that, our fee income streams have been pretty strong. So, what could be the impact and how much proportion do we need to amortize as compared to that of saying booking it upfront?

S. V. Zaregaonkar: So the amortization of fee. You know that interest on loans and advances will have to amortize the service fee recovered. So, from P&L accounts which we have submitted to RBI last did not throw up any serious differences, one is compensating, one is adding, one is sort of a deducting. We are finding that there is no major disconnect in that.

Kunal Shah: Okay. So, ideally the entire debts syndication as well if we look at it, so debt syndication and may be needs to get done.

Sanjay Mallik: So, I will tell you, based on the initial estimates it looks like it could have earnings per share impact of Rs. 1.5.

Kunal Shah: Rs. 1.5 earnings per share.

Sanjay Mallik: But this is an estimate because there are certain ECL guidelines which still need to be understood, they have not come in for that matter from RBI and on things like loans syndication, etc., once the asset is out of your books there is no question of amortization. It is gone. This is only for assets which are on your books and the same is true of investment banking. So, if you are doing a transaction which is linked to milestones and the fees are paid on milestone there is no question of any amortization. It is only in certain products like for example in a two-wheeler charge 1% or 2% processing fee. But you pay out almost 75% of that as a subvention. So, the variable cost and the upfront fee get amortized at the same time. And it is only the differential that has really impacted. So, all these sorts of different moving parts translate into Rs. 1.5.

Kunal Shah: Rs. 1.5 of EPS based on FY 2017 numbers.

Sanjay Mallik: Yes.

Kunal Shah: Okay, cool. And lastly in terms of the LAP segment when we look the GNPAs out there so obviously in terms of quantum it is not so high but we had seen some uptick in Q1 and all of sudden there is again significant reduction as compared to that of say the average which we had over last 5 to 6 odd quarters. So, is it like there is a rundown in that book or maybe that is the recovery which has happened or may be the write off which is there?

Sanjay Mallik: No, so the business continues to grow. It was growing nicely on period average basis but the end of period sort of did not grow as fast because of the twin impacts over the last two quarters of demonetization and of course, de-inventorization as a consequence of GST. So, that pick-up is happening but it is a bit gradual. I think in a quarter or two you will start to see it will come back. And meanwhile there has been some good recoveries. Also, a little of asset sales and the gross NPA in LAP has come down from something like Rs. 100 crores to Rs. 40 crores.

Kunal Shah: Yes. So, was that may be a write off or that was purely a recovery?

Sanjay Mallik: Recovery and also sell down.

Kunal Shah: Okay. So, sell down also is included in this?

Sanjay Mallik: Yes.

Moderator: Thank you. We have the next question from the line of Vishal Goel from UBS Securities. Please go ahead.

Vishal Goel: So, one question actually on the asset quality especially on the corporate and mid corporate side, what is the outlook and how do you think your watch list is moving? Plus what are the sectors, we hear construction, power are still troubled sector, if you can just help with some color?

Ramaswamy Meyyappan: So, on the watch list we have not seen any material changes in our watch list, whatever we have been tracking have not been any material additions or others. Clearly, we are focused and we have done a very detail review of our renewables and other sector exposures. We always had very tight underwriting standards for us renewable sector exposure. So, we have not seen, we have always look at the kind of counterparties that we are dealing with also the buyers where the PPAs have been signed state Discoms. So that exposure is not a material number in the entire balance sheet and it is under control. Construction companies: there is a set of them that survived. Those who have survived are still doing well. So, there is activity there but the others have already slipped the older ones that there were problems back into this year they have all slipped into non-performing categories. So, newer construction we are seeing some request coming in which we are evaluating much more stringently and then taking on exposure. No other material trends that we are seeing most of the post-demonetization that dispensation period is over we have not seen any material blips in our portfolio in the mid-market or the large corporate relating to that. And in the Microfinance we have already spoken about that, that part of it is done and the vehicle finance also most of it is taken care of.

Vishal Goel: So, if you were to quantify some numbers should it be like close to 1% or 2% or will it be higher than that?

Sanjay Mallik: So, look, we do not give those numbers. But I can certainly tell you there has been slight down trending in the last two quarters or three quarters on the mid-corporates and the large corporates. And I think, part of it is also due to the fact that we are participating much more in the AA, AAA category. So, you have seen that we have used a bit of the margin and increased the quality profile on the corporate side and that is also visible in the sense of the lower risk weightage and as a consequence of profitability the higher return on risk weighted assets. So, it is all connected and it seems to be slightly better.

Vishal Goel: Okay. And one additional question on the same line is on the telecom exposure that we understand one of the large company you had exposure earlier for around Rs. 1,500 crores as per the MCA data. So, we hear that it has gone out, whether it has gone out from funded or still outstanding as non-funded?

Romesh Sobti: No, no exposure to RCOM

Moderator: Thank you. We have the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: On the CASA question, we have seen that the CASA per branch and specific metrics which is Savings Deposit per branch has really improved for IndusInd Bank and it is closer to the peers. Your internal assessment, is it because of maturing of the older branches and as you mentioned apart from the Government deposit which we have really seen an increase in share, what are the reason for such a strong traction in Savings Deposits?

Sumant Kathpalia: So there are couple of factors. In fact, you said some of them. But let me tell you, you are right on maturing of branches. 75% of our branches are greater than two years and we have seen after the two years there is a takeoff on the CASA per branch share, if you go back to history of any bank you will see that the CASA per branch and SA per branch undergoes a dramatic change after two years. So that is something which we are seeing in our portfolio. Second, I think, we played the “home market” strategy about 3.5 years back and we are seeing market share gain in the home markets where our market share on CASA is about 4%. So, we are seeing gain on the “home market” strategy and as the branches mature, we will see this uptick happening to 6% to 7%. We are seeing that as a huge take-off for us. Third, our acquisition and the quality of acquisition is only going up and we are seeing increasing our average ticket sizes increasing as a consequence of that which is helping us increase our CASA business. Fourth, we now started seeing the deepening happening in a very good way in our balance sheet and it is affecting our clients and specifically in the managed book which is the relationship managed book we are seeing huge household relationships and growth of CASA balance sheet and the last point is yes, the Government business is a big break through and is a focus area for us. Government business is not about bulk, it is also about retailing the Government business. So, we get the Panchayat accounts. We get the big account of a big firm but we also get the project account for the 300 project accounts. We follow it up with the farmers’ account of those projects as a consequence at last we go to the last mile and get as many. So, it is all classified under Government but it is all retail to a large extent.

Ashish Sharma: Okay. And just a follow-up on that, so what will be the deviation in terms of performance the matured branches which is two years old, that is one? And secondly, we had revised earlier our PC4 target for CASA ratio to 40% now we are above that whether we will be revising it again, that will be the two questions.

Sumant Kathpalia: So, I think to answer the first. I think, I just answered that question. 75% of our branch network today is greater than two years old and as it goes into three year the CASA per share on the fourth year it almost doubles. So, you will see the CASA per branch now the benefit of the branch network and the growing of the branch network and the maturity of the branch network is giving the benefit to the bank. On restating the CASA targets I think it is too early to do that. I think, we want to wait and watch 40% is the target which we had given and we want to remain at 40%. We are today at 42%. If we see stability on our book and we see us being stable at this level, we will redo the targets.

Moderator: Thank you. We have the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a few questions. One, first is on the gems and jewellery as well as the two-wheeler business. The gems and jewellery business has been broadly stable at least since the time you have acquired that business. If you can just kind of provide some update on the same? And on the two-wheeler business are you seeing some loss of market share given the fact that growth has been fairly strong on the underlying volumes as you do not see it translating into a loan growth?

Romesh Sobti: Gem and jewellery first.

Biju Patnaik: Yes, gem and jewellery. Yes, the business has been stable, we are growing, but the outstanding are not remaining same. The outstanding are going up. And the business remains stable because it is very well risk managed and we have a very stable portfolio.

Romesh Sobti: Yes, so in the market one or two accounts seem to catch the news. We have no hits on that account. That is why the quality of the portfolio is absolutely clean. And the book has actually grown pretty well since we acquired and I think, we are showing growth of almost about mid-20's. Last quarter this year to this quarter we have grown 30%.

MB Mahesh: And the two-wheeler business?

S. V. Parthasarathy: Yes, on two-wheeler Mahesh, we are doing close to about 70,000 vehicles per month. And the manufacturing figure as well as our market share goes with the lag, it takes almost one month for sales to reach the financials. Probably we can see some sort of uptick in the next quarter.

MB Mahesh: Okay. And the second question is on the costs on the savings part where do you see the maximum flow coming into your buckets and what would be the average interest cost on savings as you speak today?

Sumant Kathpalia: We do not give average cost of deposit. We see growth in the retail piece much faster than the retail on the high-end. So, we are seeing the growth in the 5% and 5.5% bucket. So, our target market is 1 lakh to 10 crores that is where we get most of our deposits. We do not do corporate salaries so much which is the in the less than 1 lakh. So, we see more of 1 lakh to 10 crores.

MB Mahesh: Okay. Sir, as a secondary question for this, how do you explain the difference of MCLR rates between you and let us say HDFC Bank given that today the cost of funds convergence seems to be fairly good or almost close to each other as we speak today? Is it only the ROE differential or is there anything more to see into it?

Romesh Sobti: ROE differential is one of them. The biggest one.

MB Mahesh: Okay. And the last question is on the acquisition of MFI business, the business model would be similar to an SFB from a customer standpoint where the experience is more different from what he or she gets from an SFB as compare to what you would be offering to table or would you keep it as a separate line of business which essentially means that the activity level of the customer is going to be different across the two players?

Romesh Sobti: We will answer this question after the deal is done, if it is done.

MB Mahesh: It is just hypothetical question. If you were to take this acquisition forward, how would you kind of look at this business?

Romesh Sobti: Hypothetically, we will say that nothing should change for the customer.

MB Mahesh: In a sense you will give the entire product portfolio both on assets as well as liabilities to the customer?

Romesh Sobti: Absolutely, that is the synergy that you derive out of this whole because a company like that works on the asset side of the business, right? And why all of them sought bank licenses because they wanted to become bank and therefore work on the liability side of the business and do other cross sell products and all that. So, I think that is a big boost really comes out of the liability side in the first phase and then of course the large client base in the rural areas where you can do a variety of other products which are, for instance our vehicle finance is imbedded in rural areas, that is two wheelers, tractors, small utility vehicles, commercial vehicles the works, imagine what you can do with the distribution network which is so deeply embedded and so spread out in the rural areas.

MB Mahesh: Sure. No, the question is just for standpoint that you have disproportionate different now customer segments who are now walking into the branches so just trying to say how are you kind of approaching this entire space?

Romesh Sobti: No. See, I will just give you an example of what happen when Ashok Leyland Finance moved into the bank. So, I am not sure whether you know in 2004 - 2005 which was exactly a similar sort of NBFC deeply embedded branch network. So, essentially there is no comingling of the bank's branches with the outlets they are very-very different. Even today we do not do tractor financing, etc., through the bank's branches. We do them through original branches of Ashok Leyland Finance which are in a separate entity.

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

Nilanjan Karfa: Could I have the outstanding security receipts number?

Romesh Sobti: Yes, I will give it to you. It is Rs 407cr.

Nilanjan Karfa: Right. Is it gross book or the net carrying value?

Sanjay Mallik: It is a net book.

Nilanjan Karfa: Okay. And secondly, I was just looking at the interest rate risk on NII, I mean which you put in the Pillar-III it just seems the number has come down quite drastically over the last couple of quarters, what would explain that? I mean are we taking lesser risk than we did earlier, is that the broad conclusion?

Romesh Sobti: NII risk?

Nilanjan Karfa: Yes, the interest rate shock to NII?

Romesh Sobti: Yes, exactly.

Sanjay Mallik: I think, we have the lowest interest rate risk on the book compared to most banks and I am sure you have done that analysis.

Romesh Sobti: He is asking why, and essentially it is on the construct of your liability side of the business. As you have matched the book more and more your interest rate risk falls. It is straight linkage to the matching of the book. So, how do we fund our vehicle finance which is two years to three years as existing will be fund through CASA. The vehicle finance book is 30%; CASA is 40%, right? So, that brings stability there. How do you finance your corporate book? To the extent there is corporate book is floating rate, we link floating rate deposits to that rate as well. So, I think the interest rate risk is really a function of the liability and the tenures of the liabilities and the assets. And the more they are matched more the stability in the book and the NII book.

Nilanjan Karfa: So, basically the gaps are reducing across…

Romesh Sobti: Correct. Outflows and inflows, you have that duration gaps between borrowings and deposits.

Moderator: Thank you. We have the next question from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Thanks for the detailed disclosure on the CASA, so you have mentioned a lot of like the retail measure on the branch side how it is deepening. Pardon the naivety but like a bit of question on this Government business you said you try to realize even this with the Government business that you get by going down to the Panchayat or the farmer level can you like elaborate a little bit over here like what exactly goes on?

Sumant Kathpalia: Of course, let us say we get an 'X' Government account that is the main account and they are running projects in that, so there may be 200 - 300 projects, we go for the project accounts. So then you retailize one part of it because the money will never remain in the main account because that is a treasury account. So, it goes into the projects for funding of the project whether it is road, it is railway, whatever that project is. That project then is used for acquiring land or acquiring something to get the project going, let us say in example road, they will get that. So, they give disbursement to farmer. So, we disburse the funds to farmer and also get the farmer account as a consequence. So, you capture the whole supply chain.

Nishant Shah: Understood. So, how much of success have we had like at the farmer level like what kind of conversions so like say a project is covering say 1000?

Sumant Kathpalia: We are about 25% conversion on the farmers right now. We believe that will move up significantly 60% to 70%.

Nishant Shah: Okay. And like one small question on the CASA benefit from an inorganic opportunity or the deposit benefit so to say. How material would this opportunity be for the liability side from any potential inorganic acquisition? So, like we have seen some of the small finance banks they have not really made any important and their deposit base like from targeting their own customers, those customers do not really have the extra cash to put in a bank account. Bandhan has been an outlier almost but like the other guys do not seem to have made any difference or like any difference in their liability side. So, any thoughts here like how material could this be?

Romesh Sobti: Yes, I think we will be as much an outlier as Bandhan, that is the crux of it and Bandhan is a wonderful example of working on the liability side of the business. The slew of products that we have and the other sort of smaller cross-sells that you can do leads us to believe that this is absolute Bandhan opportunity.

Moderator: Thank you. We have the next question from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Just a few questions. First of all, just wanted to understand, the slippages in the corporate book while for the last two quarters - three quarters, they have been trending lower but still they remain materially higher than what we earlier used to have. So can you give any color as to which sector are still contributing to our stress and by when do you expect to get back to the normalized level of slippages and this book.

Romesh Sobti: Yes. So, you rightfully said that the slippages have come down. So, even the corporate slippage has fallen for instance this quarter from the 2.08% to 1.64%. And if you look at the last quarter and may be the quarter before that you see a lot of these one-offs playing out. One of the one-offs been although smaller amounts was on the MFI, microfinance sector, we had Rs. 18 crores in quarter one, and Rs. 18 crores in quarter two as well. I think that is really one play then the NCLT in those 40 accounts have played out fully in our book and therefore, we have not moved the needle so much this quarter, for instance on account of this 28 other accounts we made an extra provision of Rs. 36 crores. So, that is it. Some older CDR cases also may have slipped, one-odd case slipped from CDR into NPA. I think these are one off trending, they are all trending they are one-offs that have happened. And two of the major one-offs were the NCLT play and the microfinance play. Microfinance is completely played out and in our books, I think NCLT also has largely played out.

Rahul Jain: So, can you share how much of exposure do we carry to these 40 accounts if possible.

Romesh Sobti: We have I think six out of these accounts.

Rahul Jain: Six accounts?

Sanjay Mallik: No, I will tell you. So, there are eight cases altogether. One is going through so it will be restructured. One is a very-very small account it is a single-digit so I am not going to count that. And there are altogether of the remaining six accounts, the gross exposure is Rs. 385 crores and the total provision is 65%.

Rahul Jain: So, essentially as we move into the second-half we should this number kind of trend down to a normalized level and this will positively impact our credit cost as well, right because we already carry excess provision on these accounts. That is a fair assumption, right?

Romesh Sobti: That is our outlook as well.

Rahul Jain: All right. Second question was on the outlook on the CV growth. Now that GST has played out almost more than a quarter, how do you think the growth is going to play out in the CV portfolio? Now this quarter of course has been pretty good. But should we assume that it will kind of continue to remain fairly healthy as we move along of course, subject to macro conditions or you have any observations there.

S. V. Parthasarathy: Normally, every year trend is last two quarters are always better than the first two. More than 60% of the sales takes place only in the last two quarters and we have got no reasons to believe that this year will be different. As you rightly said, GST has sunk in and GST has got a definite benefit in terms of new commercial vehicle purchase. Therefore, I think the same kind of trend will continue for the next two quarters as well.

Rahul Jain: But we also hear that the discounting also is pretty steep in the CV segment, I mean the OEMs are offering discounts between 10% to 15%, 20%. So, is this just a market share grab that is going on or people are giving discounts to induce sales and that is why we are seeing healthy volumes in the market?

Management: I do not know from where you have got this kind of figures. But in September discounts are more or less vanished. There are deal-specific, geography-specific discounts which will continue this is towards market share and you can see market share growth in some of the manufactures which I do not want to detail.

Rahul Jain: Just on this CASA deposit number, so we have crossed 40% mark. But if I were to just look at the SA deposit ratio, do we have any target in terms of retail SA deposit proportion that we want to have. If I were to just remove the Government business out hypothetically and just look at the retail SA deposit target that we have in our mind, if you can share that number or the target that will be great, I think.

Romesh Sobti: No. See, currently we said, we will disclose that around 15% of the book which Sumant has explained also we retailized. We are very conscious of concentration risk, etc., so largely we want to keep it in the same sort of proportion going forward as well.

Moderator: All right. Thank you. We have the next question from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.

Devansh Lakhani: I just had one question, in terms of what is the attraction that we are seeing from the private sector in terms of the fresh investments or CAPEX or so to say investments that is happening from a private sector?

Romesh Sobti: I think it is a very mix bag. It is very-very sluggish. Some sectors we are seeing some flows of investment, I mean one we can identify straight away is the renewable energy sector where there has been good size CAPEX, the other one is in power transmission. So, I mean these are two sectors which really come to our mind immediately. Cement, etc., is running out of capacity. Steel prices are firming up which means it is running out of capacity already. But their CAPEX is going to take a long-long time as there is a huge lead time there. But capacity utilization in certain sectors are sort of building up. So, these are two sectors that I think. Other this thing which is showing in terms of credit pull is M&A activities. We may see M&A activity which takes also some bank credit as well.

Devansh Lakhani: So, from the above sectors that you mentioned how much exposure would we have to say for example renewable or power transmission?

Romesh Sobti: Renewable sector, we have been very careful because they are shifting sands there in terms of the power tariff rate. So, we have treaded very consciously in the sector. We have just gone with very large sponsors and book is around the 1,000 crores mark.

Devansh Lakhani: Okay. And on the power transmission front?

Romesh Sobti: If you see our disclosures power transmission is less than 1% of a book.

Devansh Lakhani: Okay. So, we are being safe on this thing, we do not see that much probably margins or something on this particular sector?

Romesh Sobti: No, see the issue is good margins. There is degree of what you call there is flux. Thermal, wind and solar power all three rates need to converge to a certain level and stabilize. There would be certainty of the power tariff rate now happening but see how rates of solar have fallen.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Romesh Sobti for closing comments. Thank you and over to you, sir.

Romesh Sobti: Yes, thank you. Thank you for joining us. We are available to answer one-on-one questions as we do every quarter. So, thank you once again.

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