"IndusInd Analyst Call Q2 FY19 Earnings Conference Call"

November 1, 2018

MANAGEMENT:

MR. ROMESH SOBTI – MANAGING DIRECTOR & CEO
MR. PAUL ABRAHAM - COO
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. ARUN KHURANA – HEAD, GLOBAL MARKETS GROUP
MR. SANJEEV ANAND – DEPUTY HEAD, CORPORATE & COMMERCIAL BANKING
MR. BIJU PATTNAIK – HEAD, GEMS & JEWELLERY
MR. MANISH MODI – HEAD, CORPORATE BANKING

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Moderator: Good day ladies and gentlemen and a very warm welcome to the IndusInd Bank Analyst Call to discuss events post the Q2 FY19 Earnings. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Romesh Sobti from IndusInd Bank. Thank you and over to you, sir.

Romesh Sobti: Good afternoon thank you for joining us this afternoon. As was mentioned in the introduction this is a short call to specifically address some issues, observations, questions and mostly speculations post the Q2 Results, mostly around the disclosure or in retrospect non-disclosure of the exposure to a particular group that we had mentioned in the notes to our quarter two results to a group in the infrastructure sector.

So, in this call, we are looking forward to explain the why and the how; there are lot of questions being raised on why the exposure was taken, how the exposure was taken, what is the risk process in the assessment of this sort of exposure and also address the apprehensions around checks and balances that the bank has when we are taking an assumed risk of this nature. As a collateral I think a lot of queries and questions have also been raised on giving some color on the portfolios that we have excluding this particular group which is like NBFCs, real estate, gems and jewelry, microfinance. We hope to give some color to that and for that we have both our risk team and our business team also around the table as well.

Then of course we have to start looking forward and then going forward, what are the business prospects including the opportunities as a consequence of what has happened in the market and finally I think because some questions are raised again and again although we have explained them several times on the whole issue of succession which is also one of the issues which have been floating around I believe in the last week or 10 days.

So, I will begin by asking a basic question on why this disclosure that we made yesterday and to begin with that, we made a stock exchange intimation yesterday where we provided more granularity on the exposure. The question here is why did you not disclose earlier? And I think that to begin with we had in a way disclosed it in the next days itself and I still recall that in an interview with CNBC I quantified the exposure to the NBFC sector excluding this particular exposure, but of course that was not so explicit and so this whole rationale of why this was not disclosed earlier. I think there is a hint to why this did not happen is in the note that we gave to our quarter two results. Note number 6 actually says that we were linking any further actions around this exposure to the resolution plan which was under way and we felt at that stage that once that was known we would be able to give a better color to the exposure because merely giving out the exposure without an action plan on what you intend to do, I think would not have been sort of so comforting.

So, the resolution plan was out yesterday and I think it is a broad based plan which is giving directions and more granularity on this plan will come, but we feel that the plan indicates the way forward on the resolution of this particular group and I think in the subsequent media release that has been made by the new board of this group, we are talking of a combination of significant capital infusion, divestment and debt restructuring or a combination of these three to actually do a resolution. So, we thought it is now appropriate to do this disclosure and more meaningful in that sense.

Of course, there will be more collateral questions which will be asked around this which is of course the question of what is the degree of provisioning that you will take on this. So, to begin with we are the only bank that made a provision. I mean we have seen all the results and everybody has now, learning from our experience, disclosed these exposures, but nobody is there, of course yes today I heard that somebody has made a sort of provision of the nature that we have made which is a contingency provisioning. So, as far as we are concerned as we go forward, we have certainly the will and have the determination that as we get more clarity on which way the resolution is going we will make more provisions. We have never hesitated in making provisions and disclosing provisions and therefore we have no hesitation in making whatever degree of provisions that we think is appropriate and we should do it sooner than later that is our stance on this particular. So, the second half we will be here and there is enough time for us to make those provisions and we would like to do that as well.

While on the subject of disclosure, I think I need to sort of emphasize that we have a 42-quarter track record on disclosures which I think sometimes is forgotten. We have set new standards on disclosures in the quarterly results and when we started disclosing these details for instance, we disclose product wise delinquencies, we disclose slippages, we disclose credit cost, the rating profiles of our corporate portfolio, from two quarters the rating profile of our retail portfolio we have set new benchmarks in the industry. Therefore disclosures per se is not something that frightens us, but there was a strong rationale for not doing this and of course part of the rationale was that there was hardly any precedent of disclosure being made on standard assets in the past. Of course, we have recognized that this was a peculiar sort of situation, a more complex sort of situation and therefore at least we started by saying let us make a provision on that. So, that is how the decision was taken yesterday night to actually make that disclosure and I think it is safe for the market to assume that going forward we will keep the high standards of disclosures that we have maintained over the last 10.5 years.

Secondly, I think they say is why did you do this transaction? I think that question has also been raised to us. So, you know just to give you a background, the Group there is an old relationship, we have a good history on the specific entities notably on roads. In the case of the SPV the first exposures were taken earlier. But I think about four months or five months ago the board recognized an imminent sort of problem in their liquidity situation and decided to raise about 8,500 crores to stabilize mismatches and of course that will link to some partial releases of money from NHAI and all that.

So, part of the solution was that the board, will raise the right issues and/or liquidity support to the organization and thus we were approached to do a partial sort of bridge on that, the due diligence that the bank exercised on this was pretty extensive. There was almost certainty of the flow of the monies and we had assurances from the shareholders who we explicitly approached.

On this particular purpose there were assurances, they were not guarantees, I must admit, but they were assurances given by entities who have sat on the board who approved board resolution for raising the money and also did all the collateral that had to be done. So, another resolution was passed to increase the capital, open the escrow account with us and escrow account was opened on us, a specific date was given for the rights issue towards the end of September and of course ironically the issue did open of course then subsequently lot of other events happened which are overtaking the destiny of this particular company. So, that was the decision-making process. The process was not dictated by an individual who decided that this was a good deal. It went through credit committees including the committee of directors and executive credit committee before that. So, the natural process that we have embedded in our risk management process was followed in this particular case.

Now I think the other issues that are being raised is what are the learnings out of this and then are you as a consequence of this sharpening your risk management processes and how do you make sure an accident like this does not happen again? I think one of the major learnings and takeaways here is that a complex sort of holding company structures like this is, it is difficult to sort of quantify the risks because I mean there is no particular entity like this particular entity which has 348 subsidiaries and normally what you do in a holding company proposal you start to aggregate the cash flows and see whether on an aggregated basis the cash flow matches the debt and the servicing of the debt. This of course is a much more complex sort of an organization. So, I think looking at holding companies that is one of the issues; of course there is a full review which is being done on looking at what is the prudential norms for exposures as you know RBI raised on prudential norms for the exposures to individual entities and also to groups. Our internal prudential norms are lower and more stringent than those norms and going forward maybe there is a need to sharpen them even further. So, as far as the comfort goes, I mean one has to look at 42 quarters preceding this quarter to sort of seek comfort on our risk practices. You know that we have been through several turns of the cycle whether it is a vehicle finance cycle that happens, whether it is the infrastructure cycle that happens in large blowouts that happened in the market and we did not get affected by those.

So, I think this was in a way an exception which was based on assurances, it was short term in nature that means in three month time or six month time it would have been liquidated and there was visibility of the takeout’s that were happening. So, that is how we plan to approach future exposures on this thing and of course keep these learnings in mind and wherever these practices need to be sharpened certainly we will sharpen them and they will be mostly around what is the prudential level of exposure that you want to take on one entity and also a group as a whole that is a second part.

So, next just to give you a color on the other portfolios because there are questions being raised on NBFC portfolio, real estate portfolio, there is talk about what is happening on the gem and jewelry portfolio and things like that. So, just to give you a quick sort of summary we do not want to get into detail, but we can talk about details with you all individually and maybe we can go through first NBFC portfolio Ramu you would like to take that.

Ramaswamy Meyyappan: From the NBFC portfolio our overall NBFC exposure is about 3.5% as we disclosed excluding this Group, we expect this will be the level of exposure that is maintained through the upcoming quarter because you know, we have looked at our portfolio, done a thorough review of the portfolio and the various entities in the portfolio, the asset liability position, what are the dependencies on various funding sources, this was presented to the board very recently. We are comfortable at positions we are in where we have current exposures to and what we would like to do so there are no concerns that we have on this particular one. These are generally very well rated NBFCs internally as well as externally, have good parentage, so we do not see any challenges there. Solvency position we expect them to be fine some of them have already raised funding you would have noticed last few days the CP market they have been able to raise money/NCD also there has been fund raising that has happened and continuously we will be looking at the ALM profiling in detail in future at all our NBFC portfolios. We have specialized teams covering this both in the business and the risk side and we are looking at them in much detail as we add on if any exposure we add on.

Romesh Sobti: Real estate again that is the other question being raised this is about 4% of the market, so I think just to give a flavor of how granular this portfolio is.

Ramaswamy Meyyappan: So, we would have across 75 different projects average exposure per project will be around 100 crores, not even 100 crores, it will be lesser. We are mainly construction finance and in the commercial ones convert into lease rental discounting; in all of the residential projects we have these cash flows in our control. They are regularly monitored, there is no dependency on any NBFCs or anything for takeover from these project. These are purely on sale have taken off. The portfolio is quite granular. There is no concentration in any particular cities or locations which is spread across the country in the west, in the NCR, its in south in Bangalore, it is in Hyderabad. So, we do monitor on a region specific concentration. We have a specialized teams again here looking at it, we monitor on a monthly basis every cash flow out of the account is monitored and approved by the specialized team that sits in the real estate verticals.

The portfolio has performed well we do not have any account in overdue situation as of today. Actually, we have seen prepayment. We have also been able to distribute these exposures to other banks. We continue to manage the booking exposure and selling them down. So, overall this portfolio has performed well we have not seen any challenges and we continued to be very cautious of this exposure and our target is over the next two quarters we maintain reducing percentage of exposure levels from the current level.

Romesh Sobti: So, I think just to mention on the NBFC side I mean there is a question being raised about bank climbing down on taking further exposures in our book I think the well rated good parentage NBFCs we continue to remain committed to those companies. There are top ends HFCs, housing finance companies where certainly we are considering exposures and even during this quarter you could see specially for top end of housing finance companies some disbursement will happen where sanctions had already taken place and so we have reviewed that position. So, it is not we are sort of suddenly clamping down because we are seeing turbulence in our portfolio.

Ramu mentioned that portfolios are stable, we do not have over dues and we are not going to sort of run shy of taking exposures to the top end companies so that is the real estate and NBFC sector. I think some questions have been raised on the gem and jewelry sector, so we have the head of gem and jewelry group, Biju.

Biju Pattnaik: Our portfolio is very stable in this and there are no delinquencies not even one SMA2 account in our portfolio. We are tracking the risk associated with this business and staying safe from any issues and we are tracking all the markets, consuming market is a global business. We finance in US dollar denominated on exports to various countries and we track those markets and the buyers by us. So, the portfolio that we have has never shown any sort of delinquencies or difficulties and portfolio quality has also been de-risked to a larger extent through credit insurance and receivable finance and we are also ring-fenced to a larger extent in way out collaterals. Portfolio revenue remains robust and we are comfortable with the risk that we have taken. Portfolio is mostly stable, temporarily increase is because of the function of currency depreciation because of outstanding that generally is in US dollar. Rather in US dollar term the outstanding are lesser than what it was prevalent in September 2017 than in September 2018 or today but because the currency has depreciated that looks larger.

Romesh Sobti: So, essentially in summary the dollar denominator portfolio in that sense it has not grown in dollar term, rupee term of course it has, but the portfolio remains pretty stable it is short term trade finance, it is a 90 day pre shipment followed by 90 day post shipment and in that sense sort of self-liquidating portfolio and we are not seeing any stress here the quality of the portfolio remains as good as it was six months or one year ago. I think very quickly we will also some queries have been raised on the microfinance portfolio and I think related to that the position of Bharat Financial Inclusion **(**BHAFIN**)** merger. We have Sanjeev Anand who has that part of the business. Sanjeev can you take two minutes for that.

Sanjeev Anand: So, the micro finance portfolio continues to do well we are seeing recoveries of 99.7%, 99.8%. All our partners and including Bharat finance also and all our other microfinance partners also their funding diversity is very good. I mean if you just do a rough check of their reliance on NBFC is just around 6% to 7% and that is also very high quality NBFCs. The portfolio, you know the way the business is run is they have a positive ALM in the sense that the asset run off faster than the liabilities there is no issue of that. Coming to Bharat finance the company continuous to do very well out of the total funding of around 6,500 crores NBFC is just around 400. We are working on a few pilots with them on the liabilities front and on the RDSP front. In fact, liabilities we have already opened some 5 lakh accounts so that pilot is progressing very well RDSPs we are operating with 1500 of them these 1500 kirana stores and we are seeing good results there also.

Romesh Sobti: I think today we have also informed the exchanges about one more step which has been taken towards the conclusion of the merger that was the NCLTs instructions on holding the EGMs of the two companies of shareholdings, and we have informed the exchanges today deemed that both these meetings should be held on December 11, they will be simultaneously held and post this thing we hope to get the order for the merger from the NCLT. So, I think things are going apace. There are rumors floating around the deal is not happening Bharat finance is not doing well they are baseless. It has been progressing as per track of course regulatory approvals and approvals on the NCLT have taken more time than we thought, but once these EGMs are held, final orders obtained then I think one more steps happens on issuing the shares and taking RBI final approval because once you have ticked off all the regulatory boxes then you have to go back to RBI for a final approval. I think things are on track on that basis as well.

So, that is a quick sort of color on some of the portfolios and some of the rumors and speculations around what do you have in our book and will you have more surprises and things like that and I think we have done a deep dive into every one of our portfolios. We do it regularly industry wise, segment wise, client wise. We look at group exposure etcetera and whatever learnings that we have had in terms of holding company are going to be incorporated in our risk practices going forward that is about this thing and I think we do not want to let off this call without talking about what is going to happen to business as we are going forward, what are the business prospects including the opportunities that the current turmoil in the market has actually thrown up. So, there are opportunities that have actually come up with a consequence of what has happened in the market.

So, I think firstly if you look at going forward its not that this one single event is certainly going to make us go into a shell. The basic businesses of the bank remains sound and they are growing nicely. So, our ambition, we have never given guidance, is to keep growing the portfolio in that mid-20s to slightly higher than that will continue. We can see visibility, we are seeing good and handsome growth in our retail portfolios which is driven by our vehicle finance businesses in our quarter 2 results, this part seems to have been overlooked by most people that there was an increase in our vehicle finance loan book by 30% and disbursement went up by almost 40%. So, this is going well the non-vehicle retail book is also growing significantly and also for the corporate side is more granular in terms of starting from microfinance, business banking, commercial banking and the large corporate.

So, both is in terms of loan growth then of course questions are raised how you are going to fund this growth your deposit growth is only 19% and so I think people forget that our book is not funded only on deposits. We have borrowings which nobody looks at and people are sort of focus so much on this loan deposit ratio which according to us is archaic way of looking at how you fund your balance sheet. The balance sheet is funded by deposits, borrowings can have refinance. Our book generates refinance and of course foreign currency borrowing fully hedged and I think we have been able to sort of explain not only to participant in the market, but also the regulators that we create more stability in our book through these funding sources like borrowing than actually on deposits.

Let me just give you an example that if you take refinance, it is with tenure of 1 year, 2 years to 7 years. We will take foreign currency borrowing with tenure between six months to 7 years like we have done from ADB and OPIC recently then you are actually creating a much more stable base and giving stability even better than the saving bank base. A saving bank base has a volatility of 15%. There is no volatility at all to borrowings so the whole question on how you are funding your book of course we remain extremely focused on raising deposits and there is a drive which is now happening on more retailization of deposits. We have Sumant Kathpalia, our Head of Consumer Bank also on the line and maybe quickly Sumant two minutes can you give some flavor of what is happening on retailization of our deposits.

Sumant Kathpalia: Broadly we can classify our initiatives into two parts which is one is business as usual and the other is new initiatives which we are going to launch and which are on the way to launch. On the business as usual if you see we do 125,000 accounts per month and we continue to grow we do that very well and our average ATS continuous to be around Rs. 45,000 to Rs. 50,000 average ticket size that is. Also, we have launched a campaign on the 8% term deposit right now and we are seeing a huge pickup on the term deposits side. We are already almost 2x of what we have been mobilizing. We expect about 10,000 crore of mobilization in the next two quarters in this campaign and we are seeing a huge ramp up and lot of new to bank clients coming in as a consequence of this campaign.

On the new initiatives which we are going to launch and we have pilot launched it already. One is the affluent segment which is the Pioneer launch and we expect to enter this segment with a new product preposition. We have already got the RMs in place we have soft launched it in two cities Delhi and Mumbai. We are seeing a huge pick up in this business and officially launch it in the month of December in the market. The second business which we think are home market expansions. The earlier 16 markets have already given us 4% branch share. We expect the three new home markets to be up and running this year and we expect a momentum in the liability franchise as a consequence of that.

Number three is the NRI business and I think that we have been very quiet about it. We have a 0.4 % market share in the NRI business. We believe in the next two years and we have got a strategy in place to capture 1.8% market share in this business. So, we are on the way, these are the top three initiatives which are on our way to do the retailization of liability specifically in the individual segment.

Romesh Sobti: So that is on the deposit side, there is some things around the margins going forward and I think that is where we come to opportunities that have arisen as a consequence of what has happened in the last two weeks or three weeks. I think if you have looked at our book, we had seen pricing pressure for several quarters and the pricing pressure was caused by some irrational pricing and that extended to all areas from commercial vehicle to SME financing, to the corporate book as well and I think that pricing pressure is already coming off. We are seeing little bit of pricing power coming back into our hands and you will see re-pricing of the existing book also happening. So, it is not that we are going and fetching new books at higher pricing. For instance, of course, vehicle finance itself you will see this quarter pricing upgrades happening. So, I think one of the opportunities that has come is that even with the existing portfolio you should be getting better yields, and going forward disbursement should be happening at a higher yield structure and that includes the corporate bank as well where I think nothing has been disbursed recently at less than 10%. So, I think we should be seeing stability in the interest margin and as a catch up between the lead- lag happens between assets and liabilities which is happening, we saw it last quarter as well, we should see some positive movements on interest margin and we are not including Bharat Finance in this whole scheme.

Then of course is the cost to income ratio where there are assumptions being made that we are squeezing cost and things like that. Let me tell you that costs are being reduced as a consequence of initiatives taken over the last two years. I mean the whole digitization process has affected the way our branches work, affected the way our processing is done front office, back office, acquisition cost all that thing is sort of reflecting and we hope that we will be able to maintain the sort of cost-to-income ratio. And finally, I think looking at the credit cost prospects and if you were to exclude this group impact which will be one-time and play out over the next few quarters, our business as usual run rate if you saw for the half year was 24 basis points, annualized at 48 basis points and even if you take off small little one-off that are happening then I think we would still be under the overall sort of 60 basis points that we have always said that we will maintain.

I think a few more issues, for instance, there are collateral questions on what sort of a haircut do you expect out of the group exposure? I think we have indicated in the disclosure to the exchanges yesterday in the SPVs and OpCos based on our latest sort of valuation which are in turn based on the valuation which prospective buyers are willing to give and we talked about a special tunnel project where we have realized that pre the management takeover we had seen a valuation which was well above the total exposure of the lenders including senior and junior lenders. I am not sure whether subordinated debt maybe covered, but one valuation released equity to the holding company and even the latest value that we are seeing and we know the company which is interested in buying the seven or eight assets which includes the tunnel project. How it is going to happen we are not sure that is up to their management but even that sort of covers. So, I think it is reasonable to believe there will always be cynics about that, but we have reason to believe that at least in the operating companies there will be either no or low haircut that we would expect. So, therefore we will come to the holding company where I think any presumption that you make today will be precisely that, presumptive. So, the issue is that if you look at the resolution plan, the progress report that we have seen that includes as I said, a strong infusion of capital. So, there are three possible ways out and I think all three will determine the extent of the compromise that banks will have to make on the holding company. So, I think it is presumptive to now say that but we are going to progress on making provisioning. Even if it is an over provisioning if that happens and we have to write-back if we are fortunate, we were willing to go that route as well.

So, that I think the last part is quickly on succession then we'll have about 20 minutes of question and answers. On the succession this thing I think we are always on a one-on-one talked about how the succession has occupied the minds of the board not today but four years ago when the extension to the current Managing Director was allowed only for a period of one year because they were wondering whether to go beyond 65 or not and at that stage of course the board took stock of the fact that they may not allow more than one year and therefore, the whole succession train was put into place. The succession train is that you need to get into the grooming process, do an identification and identification is not just at the level of the CEO, also it is the level of the direct reports to the CEO. So, between the board and yours truly we have documented and clearly laid down multiple successors for each position that sort of report sent to the Board and of course a process of sort of grooming has been on for years now and therefore the boards remains committed along with the current Managing Director to ensuring its smooth handover. It is a responsibility that we have not only to shareholders, but to the regulators, to our employees and all stakeholders. So, I think that part has been I think you can take comfort that has occupied the minds of the board very actively and that is reviewed every four to six months.

I think we will close these remarks now and you may have time for 20 minutes to take questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Sir, I just wanted to know the status of the IL&FS Securities deal as in therein what stage of approval is it and with this NCLT thing does it go ahead? I mean how is it dealt with now that there is a new board that is my first question?

Romesh Sobti: Clearly, I think even after the new board came in an unequivocal sort of desire was expressed on both sides to conclude the transactions. So, even the new board has said that we want this thing to be done of course some reiterations are being done as we speak, but we do not see an aggressive revisiting of the terms on which this transaction was done earlier, but a process is being followed to create transparency which is one of the declared sort of objectives of the new board and the new management to this thing. So, I think there is a process being followed and we do expect that this will conclude successfully because there is a determination on both sides to do the transaction. I am not sure about timeframes, it could happen sooner than later.

Mahrukh Adajania: And then it will require RBI's approvals again like that, we will require the new approval again.

Sanjay Mallik: It's already been approved it does not require RBI's approvals any further.

Mahrukh Adajania: My second question is on the exposure to the parent and the operating assets if there were any fees, would they have been already booked or those were also in an amortizing structure?

Romesh Sobti: No, they were booked. That is a standard unless IndAS flows through

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the holding company exposure sir, what I understand is that if there is no surplus from the SPV level then there will be no surplus at the holding level also so then the possibility of more high amount of haircut to the lender is very much possible, so we already provided 275 crores for that and in our press release we have written that our credit cost guidance remain the same except the above exposure, so at the current point of time what is our best case assessment of the overall provisioning requirement on this exposure sir?

Romesh Sobti: Best case from our sense that we do not make any more provision, but I mean on a more serious note we have 275 crore plus we have a floating provision already so put together we have closed to 345 crores or 350 crores on the provisioning that has been done. This whole presumption about the flow through happening on surplus equities generated from the sale of the SPVs, going into the holding company and then a portion out to the lender there I think that also is presumptive at this stage because I think it is not yet sort of clear on at what level the resolution is going to happen. This is going to happen at the level of SPV that means SPV's lenders will be taken out from the sale of that SPV or will all SPV's converge as a level of ITNL and will it happen at the level of ITNL. So, some projects may generate surplus, some projects may have a deficit. So, will the lenders of the deficit fund take a haircut and the lenders of the surplus fund have a full recovery that is not clear.

And then secondly, will all the resolution happen at the level of the holding company, right, so there are so many iterations that are possible then of course we are gladdened to see the media report which said that significant infusions of equities is one of the options. It would then remain to be seen where that places us because here I think if money is put and who is going to put the money, is it a new shareholder or it old shareholders. If it is old shareholders then it is a rights issue. So, I mean all these iterations is going to take place. So, to assume that I will have 25% haircut or 40% haircut or 50% haircut, internally, of course as things will roll-out, we will take a view, on the basis of that we will make a provisioning and then finally when the plan really comes in then you may have to do adjustments, you may have to provide more or if things go well provide less, but one thing is clear that we certainly want to go ahead and create more reserves to take care of this particular asset.

Manish Ostwal: Lastly, any recent communication from RBI with respect to succession planning?

Romesh Sobti: RBI gave me an extension in January and that was the last communication we heard.

Moderator: The next question is from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

Adarsh Parasrampuria: Going back to the IL&FS exposure just simple question is earlier it was given as a bridge facility against at least that we understand it is against a rights issue or liquidity event, can you clarify apart from a rights issue what is that liquidity under the current circumstances so for example if an SPV asset is sold at higher than the carrying debt value and there is surplus equity value left in that SPV, do you have first access to those kind of cash flows or not. So, basically if there are no right issues or no infusion of incremental capital in IL&FS, what are the other liquidity options where you have your first charge to, if you can try and explain that?

Romesh Sobti: The terms of the sanctions were clearly that this is a facility being extended to the holding company, the takeout sources were A) 100% takeout if a right issue happen, B) 50% take out if any liquidity support is provided to this thing Manish you want to clarify.

Manish Modi: So, second option was that if any shareholder loan provided, 50% takeout will be done or otherwise in normal course of business whatever cash flow happens we will be in line with other lenders.

Romesh Sobti: The point is that if you look at the holding company sort of ownership structure half of it is probably equity and then half of it is in the form of possible receivable that will come in. So, if there are surplus generated they go towards the cash flow of the holding company and we are presuming, we have said in our notes that if 100% charge has been ceded at least by the trustee of the securities and NOCs have been obtained from the other banks of course there is a final document which was in the process of execution, the charge has ceded, it is acknowledged, it is on the basis of which the sanctions were accepted thats if these two do not happen, we stand in line with the normal lenders against the normal cash flows. So, normal cash flows also include whatever surpluses come in from this thing in the form of equity to the holding company. I think that is the way it stands. For instance, when ISSL is sold, that money goes straight to IL&FS the holding company.

Adarsh Parasrampuria: So, does that give you first charge or it will be split across the banks who lend to the IL&FS parent?

Romesh Sobti: At best it is pari-passu charge.

Adarsh Parasrampuria: So, in effect because you have lent so recently and after knowing a problem so in effect ended up being almost a bridge loan for a rights issue and because that is not happening now you now fall in line with pari-passu with all the all lenders that is a fair statement to make?

Romesh Sobti: No, this is the term of the sanction, it is not a subsequent development. It is the term of sanction that if right happens we take it out immediately any liquidity support 50% take it out, if it does not happens then the normal cash flows, we were always in line together with this it is not a new development. The second statement about knowing it and then doing the existing is incorrect.

Adarsh Parasrampuria: No what I was trying to refer to is that what I am trying to understand here is when you say 50% takeout from any other liquidity support, I did not get what the other liquidity support means of those liquidity support could be?

Romesh Sobti: That was the liquidity support to be provided by the shareholders as a whole. So, that is also part of the right issue which was supposed to be say 4,500 crore and there were separate liquidity support to be provided by the shareholders which is LIC, SBI which was 3,500 crore. So, there were two components they helped that the shareholders has agreed to give to IL&FS.

Moderator: The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Sir, just on this liquidity support so that agreement that the condition still remains valid if even let say the proposed liquidity infusion has not happened, but even if it happens in the future that clause still remain standard right?

Romesh Sobti: We hope that the "contractual" obligations stand.

Jay Mundra: Was it only for a particular window let say during that particular window of two months or whatever month that requires?

Romesh Sobti: No not all there were no windows.

Jay Mundra: Secondly just to understand it correctly you mentioned the other exposure that we have to the SPV now hypothetically if SPV is doing well on its own still there is a chance that the cash flow from that SPV may be pooled at holding company level, so the lenders to this particular SPV may suffer is that the correct understanding?

Romesh Sobti: I do not think lenders are going to agree to that because lender's contractual rights are to the SPV. So, I mean if you do that pooling, I think there may be certainly opposition from the lenders. So, I think that the dilemma on which level this will be resolved I mean if it will be resolved at the SPV level or at the level of the holding company of the SPVs or at the level of the overall holding company of the group. It depends on which way it will go. We are not clear on that yet.

Jay Mundra: But still there is a possibility if the resolution is let us say at holding company so the probably of that case happening is still there and maybe low, but it is still there?

Romesh Sobti: Yeah it is possible every iteration is possible.

Moderator: The next question is from the line of Prashant Ghuge from Edelweiss. Please go ahead.

Prashant Ghuge: Firstly in terms of maybe with respect to the right issue in specific, so maybe from the resolution perspective how critical do you think is the equity infusion needed from the promoters at any point in time by way of right issue or maybe any other issuances and in that case if equity infusion is needed from the promoter then maybe if the right issue has evolved would it happen say in the near-term and then would the contractual first with IndusInd still continue or maybe today when the promoter are looking at it or maybe the existing shareholder are looking at it are they seeing that one single bank is getting benefitted from the infusion and that is the reason there is the devolvement and there should be a pari-passu distribution across all the lenders is the what they mean.

Romesh Sobti: No there are many moving parts to this thing and for us to say this is right and that is wrong maybe presumptive at this stage. So, we have seen the media release that happened today or yesterday where they are saying that significant capital infusion, it is one of the possibilities, individually or combination significant capital infusion, divestment and debt restructuring all three possibilities are there. The question is in what form the capital infusion comes in, is it deemed a rights issue? If it is deemed a rights issue then where do we stand I mean a lot of this is going to be tested so I think it will be presumptive anything on this.

Manish Modi: In normal scenario yes if there is a contractual liability for us to be repaid first. In fact, in the rights issue it was clearly mentioned and it was the object clause in the offer document it was there, but future you have to see. In the last offer document it was clearly that 2000 crore loan was to be repaid was part of the offer document.

Romesh Sobti: But that is history.

Prashant Ghuge: So, even if happens after three months we still have the right?

Romesh Sobti: We hope that we will emphasize those rights and they will accept those rights because at the end of the day where does money go because 2000 crore was used to meet other obligations they have been tracked. This was part of the solution to keep the company solvent, keep it liquid. So, it did not go into somebody else pocket it has gone to either the subsidiaries or to meet other repayment obligations and things like that. So, they have to be recognized, it has be recognized and this was part of the solution. The solution got changed and new solutions will be found and therefore maybe a new iteration will come up on this. Lets see how it goes I mean it is difficult to presume which way it is going to swing.

Moderator: We will take the last question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just two quick questions can you just share some thoughts on the NBFC exposure excluding of AFCs and HFCs and microfinance?

Romesh Sobti: I think we have talked about that. We have already given you more this thing on what type of exposures we have on our books maybe we can repeat that.

Ramaswamy Meyyappan: We have about 3.5% which is exclusive of HFCs and microfinance and it excludes IL&FS. As I had mentioned earlier these are both most of the portfolio, majority of the portfolio is well-rated both internally and externally. The parentage of these companies are very good. We have reviewed them recently as part of our approval process, we have looked at the asset liability mismatches in the funding position of these entities which we have again done a deep dive recently. We have presented a very detailed review to our board as recent as a week to 10 days ago, we are comfortable with these positions. We will continue to keep our exposures around these levels that is based on NBFCs outside of the HFCs and the microfinance and we will be careful about what we look to do in these entities. We will again be monitoring the ALM positions very closely till the liquidity issues in the market are sorted out.

Sameer Bhise: Just quickly on the airline exposure given that we are talking about sensitive sectors?

Ramaswamy Meyyappan: We have zero airline exposure.

Sameer Bhise: In September 30 BASEL says around 10139 million of airline on the funded side?

Ramaswamy Meyyappan: We have Air India as a Government of India guarantee, but it is a short-term loan with Government of India guarantee.

Moderator: I now hand the conference over to Mr. Romesh Sobti for closing comments.

Romesh Sobti: We could have taken more questions if you have the time but I am dead sure there is lot of one-on-one which are going to happen as a follow up. Thank you and good day.

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