“IndusInd Bank Q2FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Q2 FY19 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. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Romesh Sobti. Thank you and over to you sir.

Romesh Sobti: Thank you, good afternoon and thank you for joining us. The quarter 2 Investor Presentation is already loaded on the site and so you would have accessed it by now. So I am going to start by spending a few minutes on the operating environment and some of the developments that we saw in quarter 2 which turned out to be as eventful a quarter as we have seen and without getting into the economics and the macros etc. I think just purely on the operating environment was dominated by concerns on liquidity on the one side and a sort of long shadow that a particular infrastructure group, IL&FS group cast on the entire lending community.

So I think starting with the liquidity aspect, I think liquidity has been slowly tightened and I think this was exacerbated by the fact that RBI sold about $34 billion to defend the rupee which means to that extent rupees got sucked out of the market and that is why I think we are now seeing a strong push from the RBI to put liquidity into the market and series of OMOs have been done and also OMOs have been announced for October and we are seeing some attempts now to put liquidity back into the system.

The particular scare that we saw was of course as you all know was triggered by a particular event on a bond sale which was out of market pricing and that sort of triggered off a whole sort of spate of runs on the stocks, but I think what is surfaced subsequently is that a fresh look is needed to the asset liability profile of the NBFCs, so you know that banks are subjected to a very rigorous liquidity management profile through the structural liquidity and the liquidity coverage ratio, LCR; and banks are supposed to be monitoring the liquidity and outflows, etc., based on some caps for overnight, 2 days, 7 days, 14 days and things like that but for the NBFC sector, it starts in a month. I think there is an indication that there is a tightening that is going to happen and my sensing is that they will move more towards the asset liability management of banks and the measurement of those liquidity profiles through LCR and the structural liquidity elements of it, but I think there are calming voices now in the market, banks probably have gone through a sort of revalidation of their NBFC portfolios where we presented our whole NBFC book to the Board last week and we looked closely at the ALM profiles of this thing and we sort of came out of that review with some assurances that I think the quality of the book is pretty robust on that score. So I think these are two events which really come to mind, several others like rupee depreciation and things like that but I think you know that as much as we all do.

Now if you look at the quarter results, I think we had the underlying results as strong as they have been and whether you take the headline numbers in terms of growth or you take the quality of the loan book per se, we are seeing significant improvements. So I think the lead was taken by the loan growth. Loan book grew by 32% and that split between Corporate which grew 35%

and Retail which grew about 29% and the Corporate growth mind you came after we sold down 8,500 crores during the quarter. Even last quarter we sold down something like almost 8000 crores and this was funded by deposit growth of 19% and a strong borrowings growth because cost of deposits started moving up and therefore we looked for alternative sources of funding and that is why cost of funds didn't go up to the same extent as cost of deposits went up, so we saw that repricing of the books also happened during the quarter but we found that the pricing of deposits and liabilities has sort of grown faster than the repricing of the asset book and that is why we will explain how the interest margin is affected by that.

So deposit growth is 19%, loan growth is 32%, pretty secular spread across vehicle retail, nonvehicle retail and the corporate book across the segments of business banking, commercial banking and the large corporates and this resulted in NII growth of 21% and a core fee growth also close to 20% and so that is the pretty robust double digit growth as far as the underlyings are concerned, on the headline numbers and also quality of the book we saw significant improvement as well, gross NPAs fell, net NPAs fell, cost of credit fell to 12 basis points and for the half year is at 24 basis points. The ARC book is about 30 basis points and I think the restructured book and the NPA book combined remained at 1.2% and restructured advances are only at 0.11%, so the quality of the loan book was robust, I will come to some specific elements of that when we come in here. So I think pretty sound underlying growth on a BAU basis. I will come to other elements but in terms of the PAT growth that you actually see PAT growth without a specific contingency provision that we made was 25% and the core PAT growth comes to 35%.

Now we come to this contingency provisioning that we made during the quarter, so there has been a sort of overhang of curiosity on what we have in the books in terms of the exposure to this large infrastructure group which is under stress and probably is going through a resolution plan and we felt that because the underlying flows are pretty good and the underlying businesses are doing well, it is the right time to take a judgement on making a potential contingent exposure. So it is a judgement call which has been sort of also validated by our statutory auditors on the basis of which we have taken what we call a contingency provisioning. So this is an accounting provision, it does not sit in any other provision category, it is not specific provision, it is not floating provision, therefore as an accounting provision, it can be clawed back if things work out better than we expect. So that's what has depressed the declared profit growth to 5%, but otherwise the underlying growth is pretty strong at 25% or the core is pretty strong at 35%.

Other than that, I think the cost-to-income ratio has also shown downward trend and it came in at 43.4%, almost 1% drop in the cost-to-income ratio during the quarter. The other elements are capital adequacy, capital adequacy came at 14.28% so we used up something like 42 odd basis points of capital. That is explained by the fact that we had a loan growth of 32%. Also the downgrade of this particular infrastructure group from AAA to D also increased our risk weightages and the PAT was low. The capital adequacy still remains pretty good at 14.28%.

In terms of the client acquisition and the other measurements that we have for tracking our progress at the core, we acquired another million customers during the quarter and the total number now goes to 13 million, so we are going apace on new client acquisitions which include savings and current account customers which is around 120,000 a month now and we have gone apace with the growth in our branch network which moved up by 56 branches, so we ended up with 1466 branches. I think we are on track on that score as well.

Other than that, provision coverage ratio has remained static at 56%. I have already talked about the credit cost, etc., A little more detail on the loan growth. I think I have already talked about the corporate loan book growth which is 32% after the sell down of over 8000 crores. Then we have in the retail the vehicle finance book is surging, disbursements went up by 40% during the quarter and disbursement for CVs went up by 44%. The book itself went up by 30% on the overall portfolio, so it is a pretty strong and robust growth and we continue to see that and we hope that the following quarters also we see similar sort of growth profile.

In the nonvehicle consumer as well, we are seeing a return of growth into the business banking group which grew pretty handsomely this quarter and the only one that we are pulling back a little bit is loan against property. Loan against property grew by 10% and so that is the conscious call that we have taken because we are seeing irrational pricing. Hopefully that irrationality will now be mitigated by the fact that the NBFC themselves are going to be recounting their numbers. So other than that, the core fee income grew by 20%, but the securities and trading income actually fell quarter-on-quarter and also I think year-on-year. So that is why we are saying when we say core fee and then we take core profit, we exclude the trading gains, etc., I think the underlying is pretty strong.

Net interest margin, a word on that, I have talked about a sort of lead lag between the repricing of the loan book and the repricing of the funds book, so in this quarter the cost of funds went up by 20 basis points and yield on assets went up by 12 basis points. There is a contraction of 8 basis point on the margin and that is really happening because of the repricing lags. Although repricing is happening, so our corporate book repriced by almost 53 basis points during the quarter and our retail book repriced by 17 basis points during the quarter because as you know there is a large-ish fixed rate book re-pricing on the vehicle finance side.

So I think that is there, the RBI audit for March 18 has been completed and we have all the final reports yet to come. We have reason to believe that we may not have any divergences or AQR issues to report, so that is the summary and we will now open the floor to questions.

Moderator: Sure, thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Sir just a couple of questions. Firstly that could you quantify the exposure to IL&FS in any form? that is my first question and my second question is on your NBFC exposure, so are you close to the limit and if you are, would you be looking to expand that limit to the internal limit that the board sets and had you stopped lending to the sector for sometime when the bad news came out and have you resumed? How did you deal with the problem and I know you in your initial comments you did say that you submitted to your board a full review of the NBFC exposure, but just some more color because there is so much of news flow floating around so it would help us understand the issues in the sector. And the third question is really on your exposure to real estate and gems and jewellery that has risen sharply sequentially, any comments on that?

Romesh Sobti: That's lot of questions, Mahrukh but we will try to address all of them. First question is will we disclose the extent of our exposure in any form you said, so in a form we have actually disclosed it so when we say that we feel a judgmental call on the provisioning requirement is 275 crores. I think that would give you a fair indication if you look at the vectors basis which provisions are made. Other than that, we are not disclosing the total amount of exposure, but I can only tell you that we have exposures on two counts. One set of exposures is to SPVs with specific projects with underlying project flows that we have and in fact is dominated by one particular project which is a large tunnel project already completed and tolling which has been just been rated AAA *(provisional)* so that is one set of exposures and the other set of exposures, one exposure is to the holding company where the expectation was very clearly that this would be repaid out of identified cash flows whether it is liquidity support, whether it is rights issue or any other support that would come into the whole thing. So there was a method in computing the figure of 275 crores and I think you will have to do a little bit of work in figuring out how that methodology works, but I think it is an indication of, the judgement is really on at this point of time what is prudential in terms of making a call on the provisions and prudence. That is one part and the other part of the question is on the NBFC exposure, have you reviewed our exposure, have you stopped lending to NBFC, so yes, we did a review of the companies that we have on our books and we have presented that to our Board and the review encompassed a variety of parameters including the asset liability profiles of these companies and I think the Board came out satisfied that the quality of the book that we have on the books and the way these clients manage their asset liability portfolio is prudential. Did we stop lending to this thing? only for the time that the review was being conducted and post that review, we have not been put under any embargo as far as lending to the NBFC book is concerned. Then I think there are questions on the real estate and the gem and jewelry sector and who will take that?

Roopa Satish: Mahrukh, Roopa here. Real estate exposures, yes quarter-on-quarter it has been growing. We have noticed that. We detailed our strategy, there we have been quite selective. It is a project wise sort of granular exposure. It is just opportunistic based on what deal we have done because of which the amount has gone up slightly; however, it is an interim sort of position. As the selldowns complete, you will see by year end it will normalize and the percentages will come down to a far more acceptable level. We have always kept it between 2% and 3% to our total portfolio level and I am sure as we complete some of these sell downs, it will reach that level.

Biju Pattnaik: Gem and jewelry, quarter 1 to quarter 2 has gone up by 200 crores, little more than that. That is because we have one AIG insurance backed receivable financing during the period which is really derisking our portfolio because counter party is AIG.

Mahrukh Adajania: Again on the IL&FS thing, actually there is a lot of complication as in that some people talking about forensic audit and more subsidiaries were discovered after the new board took over, so in that light, could it be that the haircuts are higher than similar assets in normal cases? Do you think that is a possibility even if the asset is good just because of the subsidiary and accounting issues?

Romesh Sobti: No, I think there is a strong pool of underlying assets and we have seen a very strong interest from many buyers of these assets, but I think what the current management, the new board has said that there will be orderly sort of monetization when it happens and I think there is also this issue about preservation of value while this whole thing is monetized. So there are underlying assets, so the discovery of new this things may not mean that there are big holes which have been discovered. But anyway, it is too early for us to speculate on that and this will only come out in the final resolution plan.

Moderator: Thank you. The next question is from the line of Anisha Khandelwal from Edelweiss. Please go ahead.

Kunal: Kunal over here. Firstly in terms of may be the liquidity situation under the way NBFCs are placed, how do we see the overall competitive dynamics emerging and do we see higher growth opportunities out there and given this kind of an environment what would be our stance in terms of buying out the portfolios from the NBFCs as again pricing out there would be attractive?

Romesh Sobti: First is the opportunities. The issue here is that our sensing is that the NBFCs themselves have now gone to start looking for good quality assets, so it is not that asset sales will now happen into the banking sector. Secondly, we are not hard-pressed to do asset growth because asset growth is happening on a handsome basis as things stand today. What we do expect is that as the consequence of this NBFC scare that we saw that there will be more rational pricing. We are more concerned on the pricing front than on the acquisition of asset front, acquisition is not a problem for us, but there was some element of irrational pricing as I think that extended to both corporate loans and also extended to the retail loans. We hope that, that pricing rationality will come back into this thing. As of now, we have no sort of calls or intention to buy assets from the NBFC community.

Kunal: And in terms of a few of the retail segments, do we see the growth moderation out there if this kind of liquidity scenario continues, then do we see may be particularly with respect to our auto loan portfolio may be industry wide there could be some moderation out there, be it in terms of commercial vehicles as well may be the other segments?

S. V. Parthasarathy: The commercial vehicle manufacturers don’t see any reduction in growth at all. In fact if you start looking at SIAM figures, their production levels are much higher than the sales levels by huge margin. Also one is commercial vehicle industry is dependent on the GDP and the growth of the country and it is not sector oriented. All studies across people do expect India to grow fairly well and the second half is always a much better period than the first half. There are indications that pent-up demand even now on commercial vehicle has been fairly high. The freight rates have ruled fairly firm. I don't see immediate threat in terms of commercial vehicle volumes going down.

Kunal: And lastly in terms of apart from IL&FS, have you seen the trend of downgrades in ratings as such because when we look at AAA rated exposure particularly on the secure fund so that has come down from say 4.7% to 3% so is it purely IL&FS or we have seen more downgrades out there?

Romesh Sobti: No, just one.

Kunal: That is almost like 1.7% of the exposure.

Romesh Sobti: I think there is a small one. We have not seen whole rush of downgrades.

Suhail Chander: What you are seeing is a point of time picture and it is also possible that utilizations in some names may be lower at that particular point of time, so if I got AAA name which is not utilized at that time as compared to it being utilized in the last quarter, you will see a decrease in the number so it is not only because of the downgrades so don't correlate that.

Kunal: So this number need not be correlated with that?

Suhail Chander: Of course, because this is giving you a point of time picture. I have other AAA customers who sometime borrow more or less, these are movement accounts so you could have more in one quarter and less in one quarter on the same name.

Roopa Satish: AA and AAA together if you add it up, it remains at 36% plus. So the asset profile has not really worsened of the Bank.

Moderator: Thank you. The next question is from the line of Aadarsh Parasrampure from Nomura Securities. Please go ahead.

Aadarsh Parasrampuria: I just wanted to understand on the yields and advances that had increased 30 basis points, but the asset yields increased by only 12, so just wanted to understand that how does that match, because the investment deal would not have gone down right so I just wanted to understand, if you can just explain that?

Sanjay Mallik: On the asset side, the loan book is the smaller proportion of the balance sheet and on the deposit side, it is the higher proportion of the balance sheet and in addition to that the other assets and liabilities have also gone up a little bit so it is really the mix change which causes that differential between growth in the advances yield versus the bank as a whole yield on assets.

Aadarsh Parasrampuria: Even in this quarter, advances formed about 65% of the assets, last quarter or this quarter and 30 basis points move in advances yield should have led to higher than 12 basis point yield in your total assets. So even if assuming the yield on investments is flattish, that should not have anyways been the case, so I am just trying to still understand these two numbers are still not tying up?

Sanjay Mallik: So the other asset figures may not have accruals because if you see the other asset figures, it is higher than the previous quarters, so it is not just the advances to total assets, it is also the earning assets in the residual portion, so the investment book you are right could be flattish but the other part which has become a larger proportion has no accruals.

Aadarsh Parasrampuria: The second question was on the term deposits. Can you just quantify what percentage of your term deposits is wholesale and what has been like the movement in terms of rates on that book in the last may be 6 months or 9 months?

Sanjay Mallik: I will just give you the composition. The composition is fairly steady which is CASA around 44%. The retail deposits are around 22%-23% and the rest is wholesale deposits. As far as the rates are concerned, I think it is all public information.

Arun Khurana: I think if you go as per the market, the CD rates were pretty elevated in the last quarter, so we saw three months CDs going to close to 7-8 odd levels and then 6 months to a year over 8%. Year CDs were touching probably 8.6 and 8.7 levels as well. We have seen a little bit of them coming off now starting of this quarter, but I think that the rates on the deposit side will remain a little bit elevated in this quarter as well.

Aadarsh Parasrampuria: So is it safe to assume that over 6 to 9 month period, this book would have seen an increase and it is a shorter duration book so could have increased may be north of 100 basis points?

Arun Khurana: I don’t think we have increased by 100 basis points, but the market certainly has priced in over 100 basis points if you go last December till now. So if you see the CD rates of last December till now, they have gone up over 100 basis points, more than 100 but our book has not seen that much of repricing because that duration of deposits again are towards a longer duration rather than shorter duration.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie Capital Securities. Please go ahead.

Suresh Ganapathy: I just had a question on your acquisition of IL&FS securities, so what we are hearing is that that company in turn also has some inter-corporate deposits to the group companies of IL&FS. So two things, have you done enough due diligence and you are reasonably confident that those exposures of any are manageable and secondly are those exposures really pretty large?

Sanjay Mallik: Suresh, I think in any M&A transaction, you always buy a ring fenced type of asset and anything that is not ring fenced is obviously priced in and that is the way we have done it and please understand this is not a transaction that we entertained in the recent past, it is something that because of regulatory approvals, etc., has been hanging for almost now I think 18 to 24 months.

So all our conditions precedent include the ring fencing of this transaction and a lot of the unwinding and little bit of inter-related businesses have already been unbound to position for the transaction and there are still a few conditions precedent and I think depending on how that moves forward, we will be in a position to move forward with the transaction.

Romesh Sobti: The net-net so is that we don't want any residual exposures; that is one of the conditions precedent that we will not keep any residual exposures to the rest of the group.

Suresh Ganapathy: Just one clarification or confirmation in other words, say your total exposure to IL&FS group entity is X today, post acquisition of IL&FS securities, it is not going to be more than the current X number?

Sanjay Mallik: The business of deposits and floats that sit in their accounts is not IL&FS, it is client money, it is broker money that is 99.9% of their business.

Suresh Ganapathy: So you are reasonably confident your current exposure to IL&FS is not going to go up because of this?

Sanjay Mallik: No, 100% confident, not 99.

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

Rohan Mandora: The corporate banking yields have gone up by 53 basis points Q-on-Q, so I just wanted to understand the mix in terms of how much of it is due to repricing and what is due to the incremental books that we have built up?

Romesh Sobti: I think it is both because your new exposures are being priced at this thing and then the existing book as it comes over for reset as you know the MCLR regime, if you got a 6-month MCLR or one year MCLR then you can only reset it once it comes. So when it comes for a reset, there is a repricing. So I think it is the combination of both. Of course we can give you the figures percentage, but offhand it is difficult to say, but the causes are both, repricing of the existing book and repricing of the new book.

Sanjay Mallik: Just to add there a lot of this is as a consequence of the MCLR rates going up, so in the last 3 quarters consecutively the rates are up by 10, 10 and 35 basis points in terms of MCLR. So the effect of the MCLR increase is being passed on and I think there is a little bit more to go.

Rohan Mandora: But most of that coming in one quarter seems unlikely, so I was just wondering?

Roopa Satish: In the last time we had said that it will kick in with the lag and so this quarter has seen the full impact of it.

Romesh Sobti: There is more to come as the rollover happens.

Roopa Satish: Correct because typically it is about 6 months to 1 year kind of loan tenures, so as they come up for repricing, it gets aggressively repriced and the money market situation what it is today allowed us to really price it well and so that helped really.

Rohan Mandora: What I understand from this conversation is that even on the corporate lending space because of the situation in the money market the pressure which was there on the yields in terms of the new business, that has come up sharply and we are able to get a good risk adjusted pricing in terms of the new business that we have done, would that be a correct assessment right now?

Romesh Sobti: That is mostly correct, but if you really look at the top end of the market, then the correction is lesser. So the AAA would demand lesser of a correction than AA and that is how it goes, but by and large what you are saying is correct.

Rohan Mandora: And sir, what is the average yield of the vehicle finance book that is getting repriced right now because that coming of a repayment basically?

Romesh Sobti: The vehicle finance yield is around 14%.

Rohan Mandora: The one that is coming up for repricing.

Sanjay Mallik: No vehicle loan don't come up for repricing, they are equated monthly installments. It is a fixed rate book.

Rohan Mandora: Sir what I meant was the loans that are getting repaid which was sourced say three years ago, what was the blended yield of that portfolio right now which is coming up for repayments?

Sanjay Mallik: That I will take offline because I don't have that with me right now. All I am trying to say is that the incremental disbursement is what is driving the yield. Incremental disbursements are happening at a higher yield than the back book.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Just one question related to this borrowing. If we see the borrowing number which has kind of doubled in the one year time, so what is the average cost of this borrowing right now?

Arun Khurana: The borrowing number that you have seen is two parts, one is on FX borrowings that we have taken from outside with all in costs coming better than the prevailing CD market rate. CD market rates, I alluded to and I said earlier on in the conversation and they are better than CD market rates by 30 to 45 basis points. The other part is the refinance. Refinance as you may be aware that it is net of stat issue, so you do not require SLRs on that and as a result even that cost of refinance is equivalent to the deposit rates that we get but if I net off the SLR cost, then it is much cheaper by around 70 odd basis points.

Rakesh Kumar: Secondly if you see the MCLR number for our bank like in the last one year like in August to August, it has gone up by around 60 bps, so that is a kind of highest in the banking systems, like you know 65 bps. So like other peer group like Kotak or maybe other bank, it has gone up by only around 45 bps or may be 30 bps, so what is that number on the liability side which is causing so much of volatility in the MCLR number, so like you know because it will be cost driven, so what is that cost which is so volatile?

Sanjay Mallik: It is a variety of things. There are some elements of the structure in MCLR which are not necessarily linked to the last month's funding cost. There is also an ROE element to it which you have to build into and there is also a liquidity premium.

Romesh Sobti: There is no volatility. I mean it is clear the bucket remains the same. As the bucket gets repriced, MCLR goes up automatically. So one of the biggest building blocks of the MCLR is the rate where the majority of your deposits reside. If they reside in the one year or two year this thing as the one or two year rate increases, so it is the basic structure that you had set up. There is no volatility, it is not going up and down. MCLR is steadily going up, MCLR has gone up by almost 70 basis points or 85 basis points. There is no volatility element there. As the market reprices, the repricing automatically gets into this thing because our building block is the one to two year deposits.

Rakesh Kumar: My limited submission was that sir you know on the resources side, there is continuous rise in the rates, but in some scenario if there is a growth not coming and there is some difficulty in absorption of higher lending rate, then the margin can get compressed slightly faster?

Sanjay Mallik: The basic assumption you are making is that the MCLR rate is the lending rate, so there is a differential margin that may apply vis-à-vis bank which has a slightly different MCLR rate and we are just as competitive and you can see what the net result of that is on the margin.

Romesh Sobti: MCLR rate plus, somebody quotes MCLR and somebody quotes MCLR plus 50 basis points, the rate equates because the customer is borrowing from 4 banks at the same sort of rate, it is not differential, the customer rate is not differentiated.

Sanjay Mallik: I think I can take this offline with you, we can have a discussion on this Rakesh.

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

Vishal Goel: First question on this IL&FS parent co exposure, when was this taken?

Romesh Sobti: It was taken about 3 months ago when the board passed resolutions for raising rights issue and the liquidity support.

Vishal Goel: How are we collateralized, I am sure if it was 3 months ago, obviously it was with open eyes, so how are we collateralized on these?

Romesh Sobti: We have the security which is common to all the lenders there and of course we have a first contractual right on any inflow on account of rights and/or liquidity support.

Vishal Goel: Other question is actually on the OPEX growth which has been around 10 to 12% for 3 quarters and I know you kind of guided that cost to income ratio will keep trending down, so what is the ideal like number we should look for because I thought we are like still in the investment phase of our bank?

Romesh Sobti: Our planning cycle 4 target on the cost-to-income ratio was 44% and what has happened there is that while investments are going apace, we are opening new branches, we will get to the 2000 figure, the configuration of branches for instance one part of the configuration of branches had dramatically changed. So from 4500 square feet branch, we are down to 1,000- 1,100 square feet branch; from 20 people down to 8 people and then you saw that over 4 quarters there was no net hiring because of the whole digitization initiative which caused surplus manpower which was redeployed elsewhere including the new branches, etc., So what would be ideal, we have always said early 40s. I think for a bank like ours which has a lot of retail elements to it and of course there is continuous refresh on technology but what we have seen now is that the big technology refreshes on operating systems have been completed. They have gone into a run rate as well and in fact some of them would have got depreciated as well. For instance Finacle probably is fully depreciated now, so the other refreshers on treasury systems on the money market systems, etc., also run the course for a couple of years, etc., So while we have continued investing, for instance there is huge investment going into cyber security. On the offset side is really the impact of digitization and the process reengineering that is happening which is releasing lots of people that we want to talk about just the account owning process and what it has released.

Sumant Kathpalia: I will talk to you about two processes which we have done, one is on the savings account and how we open the account, we do a face to face but it is all digitally opened through a tab, while meeting the client face to face all the checks are performed there and then and as the consequence the account is opened. They also offer us at the time of the account opening a cross-sell to credit card customers. At that time if the customer is eligible for a credit card at the time of account opening, the credit card account is also opened simultaneously. What happens as a consequence is that there is no back room. The processing is all controlled internally and the cost of acquisition of the bank continues to go down. So what you are seeing as the real game is I think the client gets the account the credit customer gets the credit card, if it is eligible for a PL, the PL comes through, there is no processing which happens in the back room, there is no mid office on the back room and the client gets the fulfillment there and then. So I think we are seeing a gain to the bank as a consequence of this digitization which is happening in the bank.

Romesh Sobti: That is merely one example. And in the process we have released about 800 people & redeployed

Vishal Goel: The reason I asked is retail portion of term deposit is 22% and we are seeing decline in cost to income ratio so is there risk of under investing in some form on the funding side or on basically getting more retail term deposit which we otherwise could have gained?

Sumant Kathpalia: What you will see is the retail deposit and we are seeing a huge gain on the retail deposits now, we are seeing huge momentum again coming back into the retail deposits. You see the quarter 3 will be better than quarter 2, quarter 2 was better than quarter 1, you are seeing a huge momentum on retail account, say transaction account also, we are now at 120,000 accounts which Mr. MD informed, we are continuously aiming for 150,000 accounts and we think that the momentum will continue. So we are not under investing, we are becoming prudent and balanced in how we want to grow the business.

Vishal Goel: And the last thing from my side is this Bharat Finance merger and there was some commentary around it, when does it become like effective for us in the sense that it gets consolidated for us?

Sanjay Mallik: Firstly, it is in last leg in the sense that the next step is the shareholder meeting and I think there will be probably very shortly be some updates we can give you on when the shareholder meeting will happen. It is not long from now which will essentially be the last leg of all regulatory approvals and shareholder approvals and then there are some operational matters beyond that to make it effective. I think as far as the accounting is concerned, it is effective from the first of January 2018 so it will be incorporating on a straight line basis. The full of this year, quarter 4 of last year and from the effective date when the amalgamation order is passed, hopefully in the next 2 to 3 months, the synergies will start to kick in as well.

Moderator: Thank you. The next question is from Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question is on the update on the merger of Bharat Financial, so when we are incorporating the numbers and all the approvals are in place or anything is pending?

Sanjay Mallik: It is the same question I just answered, so the last leg of approval is the shareholder meeting effectively, we hope the shareholder meeting happens sometime next month itself. We will update you on that shortly and after the shareholder meeting, there are a few sort of operational things to be done and I think in three months' time, we should be pretty close to closing. But having said that the accounts get merged with effect from first of January 2018 and the synergies effectively kick in from the date that the two companies effectively come together which hopefully will happen in around three months' time.

Manish Ostwal: And second question on the IL&FS provisioning of 270 crores, this is one of kind of provisioning or we can see further similar kind of provisioning in the next quarter also?

Romesh Sobti: So this is the judgement call on what we think. First of all, there is no call to make a provision, it is a standard account. We expect the accounts will remain standard. We have seen the maturity profile of our exposures and the cash that we are holding. So at this point of time, this is our judgment call on the extent of provisioning that we would need and that is the call that we have made and this had been done in sort of conjunction and with validation from our statutory auditors as well. So the best case scenario of course is that we don’t even provide this and we write it back and that scenario is equally possible. The scenario is possible that you may have to make another may be 20 to 25% of this provisioning higher than this, is possible, so both scenarios are possible is the judgment call at this point of time that this is prudential in terms of our exposure.

Moderator: Thank you. The next question is from the line of Anand Dama from B&K Securities. Please go ahead.

Anand Dama: Sir my question was also similar to what the earlier guy asked, so does that mean that we have taken care of the probable haircut that we might have to take on both the accounts that you said, so one was on the group level and second was the infra project, so does this 275 crores take care of probable haircut that might come on these two accounts?

Romesh Sobti: That is a bit of conjecture. So we don't know what sort of haircut. If there will be haircut, what sort of haircut they will be, so that is all conjecture but there is a way of provisioning that follows a certain protocol and we have adopted this provisioning from that protocol. What actually transpires let us see by end of the month we hope resolution plan will be in place and the bulk of our exposure actually is predicated on the flow of funds into the parent whether it is a rights issue or liquidity support or whatever inflows, we have first contractual right to appropriate that money. The escrow account for instance for the rights issue is already opened with us and any subscription that come in will come directly into us and that has also been sort of validated the fact that this exposure exists and that the rights issue for instance has also been validated post to change in the management.

Anand Dama: But the 275 crores provision is for both the accounts, right?

Romesh Sobti: Yes, for the group.

Anand Dama: For the group as a whole that you have exposure to? Because the other infra exposure which you have what we are hearing is that is largely operational and that is doing very well. Do we still feel that we need to make some provision on that?

Romesh Sobti: That exposure as we mentioned is it has been rated AAA *(provisional)* and our sensing is that if there is monetization of assets and assets may be sold, then I think this would be probably the most saleable asset on their book and will probably fetch not only cover the loan book of all the lenders, but may actually also release some equity to the parent.

Anand Dama: So that raises a chance of claw back on these provisions, right?

Romesh Sobti: Maybe.

Anand Dama: And sir second question was that we are now going to consume the BFIL acquisition possibly in next quarter, any thoughts on like how are we going to fund the liability side of the balance sheet of BFIL given the rising cost scenario?

Romesh Sobti: Yes, very deep thoughts have been given to that. We know exactly what we need to do in the ALCO the treasury funding, we know exactly what needs to be taken to fund that book, its 6% of the deposit book. The issue here is that on day 1, we will repay every other lender. Every other lender will be repaid and therefore on day 1 we start drawing the synergies. That is the whole idea. In any case, RBI does not allow other lending to continue.

Anand Dama: Sir do we have some refinancing window also available for the balance sheet of BFIL which we can use?

Sanjay Mallik: Yes, the book is 100% refinancible and also 100% priority sector.

Anand Dama: So that would also be helpful to us, right.

Sanjay Mallik: No, that is the conscious decision that treasury will take based on various pools of funds available whether refinance is cheaper or some other source is cheaper like Arun explained earlier, the foreign currency swap cost is now cheaper than any other form of funding. So it really depends on what the situation is at that point of time.

Anand Dama: And sir lastly, so this IL&FS Securities acquisition has taken very long. Is there any regulatory hurdle that you have seen in this approval given that possibly regulator was aware about the kind of issues which was playing this group or is it that there are some conditions that you have talked about in BSE note as well which need to be met and because of which there is a delay?

Romesh Sobti: No, if you look at the whole process which has been a hugely long drawn process. There were no regulatory queries but the point is that the whole regulatory process got stretched. Multiple regulations, say stock exchanges, SEBI, Reserve Bank of India, depository because our customers are getting transferred into depository and that sort of things and the last regulatory approval came in September towards the last week of September and we were all set to sign on the 3rd of October and then of course the change happened. So as far as the conditions precedent are concerned, they have to tick of all the boxes. One of the conditions precedent of course is that there is no residual exposures to the rest of the group. It has to come on a completely ring fenced basis and there is full agreement on that score as well and I think we are engaged with the new regime in IL&FS and we find there is complete meeting of minds that the deal must be done.

Moderator: Thank you. The last question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: I have got just few questions on the microfinance business. First, what is the total exposure of microfinance currently on our book and if you can just comment some qualitatively about how is asset quality and growth trending there. And the third one is that post the merger with Bharat Financial, would you still want to continue the BC model that you run with other companies as well because it will mean that you will be buying out your portfolio of your competitors in case you probably continue with the BC model post the merger, how are you thinking about managing that?

Romesh Sobti: I will answer the third question and the other two will be answered by Sanjeev Anand. The third question is that we will continue the BC part arrangement that we have with the other partners. We have met all of them together. We are happy by the way that is progressing, but that is not going to co-mingle with the Bharat Finance. They are two separate streams, Bharat Finance stands out as 100% subsidiary with no change, it is a lift and drop, no change and this continues on the other hand and we see no conflict at all between these two entities.

Manish Karwa: On this point, like take the state of Uttar Pradesh it seems like Bharat Financial is present at 19 to 20% yield range. The other BCs which are present in 24 to 25% yield range, but they are actually operating the same geography, may be dealing with similar clients. So doesn't it become a bit complicated to manage this?

Sanjeev Anand: Just to take example of Uttar Pradesh, the point is first of all the geographies are different as I can speak right now and thirdly also you can have this, both of them are BC. Bharat Finance will also be BC, the other 10 BCs are also BCs of ours, so it is a question of who get the client first. Today for example, Bharat Finance works as BC for us, so whoever comes to us first we do it. So it is just like competition here.

Manish Karwa: And some qualitative comments about growth, asset quality?

Sanjeev Anand: The asset quality is very good post demonetization. Post demonetization woes have all gone, so today the repayment rates are 99.5%.

Manish Karwa: And lastly what is the total exposure now?

Sanjeev Anand: Around 6,100 crores. This includes the Bharat Finance exposure also.

Manish Karwa: As in the loan that you would have given to Bharat Finance?

Sanjeev Anand: There is a BC arrangement and plus 10 more BCs of ours.

Moderator: We will take that as the last question. I would now like to hand the conference back to Mr. Romesh Sobti for closing comments.

Romesh Sobti: Thank you for joining us. I am sure as usual there will be lot of one and ones and all those questions that we said we will take offline, we will do that. Thank you.

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

IndusInd Bank

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