“IndusInd Bank Limited Q3 FY19 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the IndusInd Bank Limited Q3 FY19 Earnings Conference Call. 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 an 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 – Managing Director and CEO of IndusInd Bank Limited. Thank you and over to you sir.

Romesh Sobti: Good afternoon. Thank you for joining us on this call. We have already done our press releases and have uploaded the Investor Presentation. So I am just going to take you through some headlines. I would not want to repeat, but just to give you a little bit on the macro, I think we seem to have now a pretty steady bank credit growth trending 14-15% and that is supported by some shift in bonds and NBFC lending to the banks and I think with more capital for PCA banks in the future, other OMOs and some tinkering with the LCR regulation, these will provide more capital/liquidity for sustained credit growth. So, our view on credit growth is that this is at sustainable levels and could also improve. Of course, I think the whole market also talks about the same that NBFCs and the related real estate is likely to have a slower credit growth in the near-term, but clearly, I think manufacturing, mining and some CAPEX could add to the credit growth.

The rates outlook is that India still continues to have the highest real rates with the gap widening due to lower inflation. So, I think markets have corrected pretty sharply; G-Secs corrected by almost 60 or 65 basis points in the last three, four months. The market liquidity is still negative and in a deficit mode and I think the indicator of that is that overnight call rates are in excess of the repo rate which is 6.5%. So, bank lending rates have been marginally higher due to of course higher deposit cost to fund the credit growth as also the lagged effect of the MCLR.

As far as our quarter goes, I think we have had a very strong quarter in all the lines that support operating profit; we have had a strong loan growth of 35% with all round contribution, so, whether it is the corporate bank, it has grown by 34%; the vehicle finance grows by 30% and non-vehicle retail also grown by 28%, so pretty all round growth; revenue growth 22% and 24% increase in other income growth as well. But I think what is more important in terms of takeaway is that we have shown handsome QoQ growth; for instance, fee income growth QoQ is 7%; operating profit QoQ is 7%; PAT also QoQ is 7%, although PAT YoY is 5% because of the additional contingent provisioning that we have taken. So strong loan growth, stable gross NPA figure, stable net interest margin figure, ex-IL&FS, IL&FS is still a standard account, credit cost came in at 18 basis points and for the nine months period credit cost is 40 basis points. I think we are going to be well within the 60 basis points that we have always indicated as our ambition on the overall credit cost excluding IL&FS.

On IL&FS, we have made additional provisioning of Rs.255 crores during the quarter and the total attributable provision to IL&FS and is all towards the holding company because we have said repeatedly and this has now been validated by interactions with the group and the valuations of the SPVs, we do not expect any haircuts on the non-holding company exposures. But on the holding company Rs.2,000 crores we have now provided, along with the floating provision, Rs.600 crores, so we have 30% coverage. Going forward, we have said whenever we meet you individually or otherwise that the provisioning has not stopped, we will make further provisioning, but I think now we are getting a handle on the assets which actually can be attributed to the holding company. We have a number, we have a book value to those assets and we also have the loan outstanding against those assets in the holding company. We are now doing assessment, we have already done first cuts assessment of the realizable value of those assets in the hold-co which are directly attributed to the hold-co and we are now going to go deeper and fine tune the realizable value and based on that we will take further provisions for Q4 as well. It is our intention that we start the New Year 1st April having made enough and more provisions to make us comfortable that we do not have to make any more. So takeaways; there is realizable value in the asset holdings of the holding company and we have full listing of those assets and they are doing a deep dive in the realizable value.

Gross NPAs remain stable at around 1.1%, still remains amongst the lowest in the industry. In terms of new initiatives, we have continued on our innovation, we have launched the wealth vertical which we have branded as Pioneer and we are targeting 16,000 crores AUM plus Rs.300 crores fee by financial year '21 on this particular business. So, this is a new additional booster that we have given to both our fee and interest income growth.

Other than that, I think the branch opening program has remained steady. Branches are now classified either as full branches or bank outlets. As you know, the RBI has given guidelines that you can now open banking outlets, which will do all the work that you can do in a bank by renominating some of the BCs as banking outlets. So, instead of opening branches in the rural areas ourselves, we are renominating these branches of the BCs as banking outlets and therefore our coverage in terms of unbanked areas which is an obligation by RBI, that 25% of your new openings have to be in the rural areas is now met through this.

Other than that, customer base has expanded. We added 1 million customers last quarter and we have added 1 million customers this quarter to take our total customer base to 14 million.

Other than that, the question that is asked more is RBI has completed its audit, the final report has been given to us and we have no divergence to report for the financial year '18 as of March 2018.

Other than that, there has been an overwhelming vote for the BHAFIN merger and we appreciate both sets of shareholders for having supported this, I think 99.9% of shareholders on both sides supported this merger.

So that is the headlines. I am not going to make any repetition except point out a few things: One is of course people ask about total stress book of the bank. If you look at the components, then our net NPA is 59 basis points, our sales to ARC which is the security receipt book is 34 basis points and our restructured book is 11 basis points. We put all these together and we are at 1.04%.

One more question is really on the provision coverage ratio. There is arithmetical sort of explanation to that. We had a portfolio which is fully provided which means it has been through all the stages of aging as an NPA or has been through the NCLT process where resolution is not happening & fully provided, and there is a benefit of taxation if you write off that portfolio. So, Rs.345 crores was fully provided, written off and the entire amount is tax deductible and arithmetically that reduces your provision coverage ratio. It is not that we have under provided or anything like that. It is arithmetic that we write-off the numerator and denominator, both go off and therefore the PCR actually falls. So that is the only reason for the fall in the provision coverage ratio.

Other than that, I think the bank's net slippage ratio, Q3 last year was 50 basis points and Q3 this year is 46 basis points, QoQ there is certainly an uptick in the slippages but that is on account of two or three accounts, not of any large significant value which we have taken particularly in this quarter.

I think that is what we would want to say and now we are opening the floor to questions.

Moderator: Thank you very much Mr. Sobti for an insightful presentation. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: I had a few questions. Firstly, on the corporate loan growth, on a sequential basis there has been a sharp increase in power and also a sharp decline in steel and in general the corporate loan growth has been very strong consistently for the last few quarters. So your outlook there as well apart from comments on these two sectors?

Romesh Sobti: So yes, we are seeing underlying growth which is sort of across the sectors, it is not sort of focused on a particular quarter, one particular sector may go up or another particular sector may go down. For instance, you are seeing that power has gone up but NBFCs, HFCs, gems and jewellery has actually fallen. So maybe from the corporate bank…

Roopa Satish: Mahrukh, Roopa here. In steel, the sharp reduction was because we had financed one specific NCLT steel company acquisition which got repaid and refinanced subsequently by other bankers, so that has got down our steel advances. Power, really the exposure has gone up because of drawdown of certain approved exposures that we have given to some PSU companies which had got drawn down.

Mahrukh Adajania: My other question is on IL&FS. In terms of the subsidiaries, what is the current understanding -- have the subsidiaries stopped paying even if they are operationally sound or they can still repay the lenders with operating assets?

Romesh Sobti: It is like this; with operating assets if you have an escrow or you have what they call DSRA (Debt Service Reserve Account) and the escrow is being funded from the annuities that flow in. Then you can apply those flows towards debt servicing, etc., to keep the account alive. But you know that in the moratorium application that IL&FS has moved the NCLAT, they are seeking moratorium even on the application of these funds and we were the first bank to actually approach the NCLAT to say that funds held by us prior to 1st October, before it was taken over, should be allowed. We are not opposing the moratorium, in fact, the moratorium is the right way to go to avoid confusion but there should be relaxation for funds already held. So, I think some banks have used those funds. We are going by the fact that there is a temporary stay even on these funds. We too hold funds as well but we do not want to be in contempt of court. So we have moved the court to allow banks to use that and now all lenders have joined in that particular sort of petition that has been filed and it is being heard in the NCLT, I think the next hearing date is 20th of Jan.

Mahrukh Adajania: Even if the operating assets are strong, just for technical reasons, they could be classified as NPL and then the provisions can be written back when they are sold, is that the way to look at it?

Romesh Sobti: That is true and I think that will apply to most banks, but what we are doing is that we are moving ahead and providing more than the requirement that would occur if it moves from standard to NPA.

Mahrukh Adajania: And also any level of provisioning…50%, 60% you have in mind on the hold-co?

Romesh Sobti: Yes, so far it is all sort of guestimates, how much should you made, should you make 50 or 100 or 25 or whatever. Now we are getting to a stage that we have a good fix on the assets which belongs straight only to the holding company, not the SPVs and we have a number, we have a list and we have done a first cut analysis of the realizable value, we have made some provisions this quarter as well and I think we are going deeper into it to check with buyers on what value they are willing to give for their assets, because ultimately that is the realizable value and therefore we will get this quarter a much stronger fix on how much we would need to provide and our current sensing is it could be anything between 40% and 50%.

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

Kunal Shah: Overall in terms of the retail book, how much has been the buyouts from NBFCs if any during the quarter?

Romesh Sobti: Nothing.

Kunal Shah: So this entire growth is the organic growth which we are seeing on the retail side and the vehicle financing side?

Romesh Sobti: Yes, no buyouts.

Kunal Shah: Overall looking at maybe the underlying sales so in the auto segment and maybe what the traction we have seen, what are the expectations particularly with respect to the vehicle loans, are we seeing the market share shift happening from the NBFCs and do we expect this kind of a trend to sustain for us on the vehicle financing side?

S V Parthasarathy: The market share shift is not something which is recent. It has been happening fairly gradually over a period of time. If I put you in perspective, about a decade ago, market share of NBFCs on most vehicles used to be close to about 70%. Now it is other way around, the banks hold close to more than 60%. There has been a gradual shift, which got accelerated of late, recent happenings, whatever has been happening in NBFC sector. We see a very positive trend in terms of most private sector banks, fairly serious players in the field getting higher and higher market share and we are no exception.

Kunal Shah: So despite whatever is the underlying sales trend, we still expect this kind of momentum to sustain?

S V Parthasarathy: December figures are not out, but compared to the previous quarter in commercial vehicles especially there will be something like close to about 15-20% decrease QoQ, but our disbursement has been higher, but generally Jan to March is a fairly robust period for the industry and I do not see any reason why it should not be better this year as well.

Kunal Shah: Within the deposits, when we look at particularly on the savings side, there is some decline obviously Q2 was also slightly higher base, so was there any one-off element in Q2 which is coming off in this quarter or is there anything to read into the absolute decline which is there in the savings deposit and more so on the CA we have seen the increase, so any accounts, maybe in corporate which have moved from one account to the other, is that the reason?

Sanjay Mallik: No-no, on both the sides, you are right about what you are saying. On the savings side, we lost a little bit of government deposits. I think that is transitory, we will see it coming back. Similarly, on the current account side, we saw a short-term spike. All of that is not going to be sustainable. The normal sort of accretion is Rs.600 crores to Rs.1,000 crores. But we saw an increase on the current account side by Rs.4,000 crores. So some of that will be transitory as well, it will come down.

Kunal Shah: In terms of the fee income trend, so when we look at the core fee income given where our balance sheet growth is still when we look at it is somewhere around 18%-odd and particularly maybe on the distribution side in the loan processing is where we have seen slow traction. So, do we expect it maybe to catch up with the overall balance sheet or could it remain much lower than the overall balance sheet growth?

Sumanth Kathpalia: I think for distribution fee, there is nothing wrong in it, it is just the regulations which have changed now and the investment income now which was about Rs.65 crores of our income QoQ has actually now started getting amortized because of the new regulations where the upfront income is now being stopped and you got to take it over a period of time.

Kunal Shah: Maybe on distribution it would be more regulatory, maybe MF regulations, but finally when you look at it in terms of the loan fee or maybe the overall, so is that largely on account of amortization or maybe almost like say 14% year-on-year growth compared to balance sheet growth of 35?

Romesh Sobti: Loan fee has got nothing to do with it, loan fee is a very different cup of tea. Loan fee is processing fee, processing fee tends to not only fresh disbursements, it is also linked to renewals. So you see one or two quarters ago, this figure was not so high. So it depends on where the renewals are bunched. So, processing fee is not a trend one way or the other, it moves up and down. Distribution fee has certainly been impacted partially by that particular SEBI regulation. But we are not worried about that. I think it is only a deferment of income and soon I think in the next 12-months that whole catch up will happen on the trail income. The other income, I think foreign exchange income is handsome because of volatility, our treasury has ridden that quite nicely, trade and remittance says it all. So, otherwise I think core fee income is showing pretty sort of steady traction except for distribution.

Moderator: Thank you. We will take the next question from the line of Ravi Singh from HSBC. Please go ahead.

Ravi Singh: Sir, could you share some flavor on the slippages in the corporate book which is around Rs.460 crores?

Sanjay Mallik: What has changed over and above the normal run rate is basically a slippage in three accounts and all of these three accounts are mid cap accounts, two digit numbers. I think two of them are from the EPC construction space.

Ravi Singh: What sort of run rate do you expect in the corporate slippages?

Sanjay Mallik: Overall slippages are down.

Romesh Sobti: Year-on-year 50 basis points down to 45 basis points. Quarter-on-quarter there is some uptick because of those two, three accounts.

Ravi Singh: Sir, just a clarification; you mentioned this one big write-off of around Rs.360 crores taken for tax gain. Where does it reflect in P&L because tax rate in this quarter was in fact slightly higher than normal run rate. So is it something which will play out in the next quarter or how should we look at it?

Romesh Sobti: It is not one account. These are several accounts which have been fully provided over the years. So they go through stages of ageing and as they full age, they have to be fully provided for. They were on our book last quarter and quarter before that also and so on. They are now tax deductible. They can be offered for tax deductions.

S. V. Zaregaonkar: It is just provision getting reversed. I have a buildup of provision of 100%. So wherever it has reached 100%, we take those accounts and then write off the book. Whenever account is written off to the credit of borrow account which is called actual write-off as against the technical write-off, it becomes deductible expenditure under income tax assessment.

Sanjay Mallik: Otherwise you would have deferred tax assets. So you would not have deferred tax assets which also carries and has the capital implication.

Moderator: Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Just one question pertaining to this yield on corporate loans. If we include write-off amount, then what would be the corporate segment credit yield because the written off account would impact because of denominator effect?

Romesh Sobti: That interest is always suspended.

Suhail Chander: There is no impact on yield because once the account becomes non-performing, the income is not taken into account.

Rakesh Kumar: Yes, the income is not taken but it is reflecting in the net advances number till the time it is not written off. So now it is since written off, so that number has gone out from the denominators and the yield has got impacted because of this?

Suhail Chander: This account is fully provisioned. So the advances that you see in the balance sheet are net of provisions. So it has no impact on yield.

Romesh Sobti: Any case 345 on 105,000 crores is not meaningful.

Suhail Chander: Yes, makes no difference.

Suhail Chander: But even though it would have been a marginal impact, it actually has no impact because net of full provision or write off is the same thing, it has no impact on the denominator.

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

Nishant Shah: Just one more clarification; you mentioned earlier in the call that you may need to provide about 40, 50% for the exposure to IL&FS. Have I understood this correctly? You currently hold about 30% provision, that Rs.600 crores on total exposure of Rs.2,000 crores to the hold-co. Does this need to go up to like 40, 50% in your assessment or what were the comments in context of? I missed that part, sorry.

Romesh Sobti: That was basically a question on where do you think the provisioning should stop. So we said that we already provided 30% and based on our assessment of the realizable value of assets now held in hold-co, we fine-tune that and our sensing is that full provisioning may be in the range of 40-50%.

Nishant Shah: What about the exposures to the SPVs – will they require any haircuts?

Romesh Sobti: No haircuts over there. Of course, all these accounts will turn NPA sooner than later and you will need to make a provision as per norms but the point is that this is recoverable. We expect no haircut here. You may temporarily pass a provision figure. That figure we will take in our 60 basis points. Number of 60 basis points that we talk about, business as usual, we will be able to take that. That is why we are addressing the Rs. 2,000 crores in the hold-co and not this particular SPV exposure. SPV we have seen the valuation, we are pretty certain that our original view that for instance on the tunnel project, there will be no haircut.

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

MB Mahesh: Three questions from my side: First is on the margins front. Just wanted to understand, one, is IL&FS exposure still being accrued from an interest perspective within? And also, if you could just give us some clarification as to the borrowings profile between domestic and international? The third question within the NIMs was you did indicate that yields will improve over time. While we have seen the corporate side improvement, the retail has been reasonably sticky because of the nature of the book. Just trying to understand, when you are saying improvement will happen, where are you incrementally seeing the yields improving out there?

Romesh Sobti: First question was really accrual of interest because these accounts are standard and therefore interest is being accrued and when they become non-standard, interest will also be reversed. So that is the first question. Your third question was relating to yield. Corporate yields you can clearly see has moved up by I think 13 basis points. Retail is slower because retail has a higher element of fixed rate yield, for instance, our vehicle finance book. But what is happening is that fresh disbursements made over the last two, three quarters are going at a higher rate. But the old book which was at a still higher rate is actually dragging. So, I think at some point there will be a meeting point, then I think we will start seeing the yields beginning to move up. Yields on the non-vehicle retail has started moving up already and they are not so evident I think in this quarter but we should be seeing a better trending on the yields on non-vehicle retail from Q4 onwards.

S.V Zaregaonkar: Borrowings are Rs.44,500 crores. Borrowings outside India amounted to around Rs.15,400 crores.

Romesh Sobti: One-third.

MB Mahesh: On the outlook on the gems and jewellery portfolio, since the time of the acquisition, the portfolio as a proportion of the overall loan book has been declining. This is despite the underlying environment being reasonably kind of tight for from a disbursement standpoint given that PSU banks have been quite silent on that. So, if you could just broadly comment on how are you seeing the gems and jewellery portfolio – has there been a marked reduction in business out there, are they facing huge amount of pressure or in general cautious outlook on that front? The MFI portfolio, just trying to understand, till how much are you comfortable taking this exposure to given the fact that you will acquire BHAFIN quite soon in your books in a quarter's time?

Romesh Sobti: Gems and Jewelry, Biju will answer that question. But the portfolio in our book has almost doubled since the time we took it. It is not because we are seeing any negative trends and all but Biju is the Head of Gems and Jewelry, he will give you perspective.

Biju Patnaik: The portfolio like sir said has doubled. The outstanding as a percentage to the bank's book is lower because bank's corporate book is growing faster. So gems and jewelry is not able to catch up with that in spite of being double than what it was when acquired. QoQ there has been a little bit of reduction in the outstanding because of two reasons – One is our book is in US dollar and September to December the rupee has appreciated by around 3.8%. So since converting our US dollar outstandings to rupee it is showing lesser and traditionally you have heard that in US this time both online sales and the same-store sales during Thanksgiving, Christmas and New Year has been one of the highest in the recent tenure. So the vendors have been paid by the last few days of the December month. That is why our average outstanding during the quarter is not reduced but our month end assets are reduced. But there is no pressure or loss because any difficulty in the market. Our portfolio continues to remain robust and we have not encountered any sort of delinquencies in this portfolio.

Romesh Sobti: The MFI portfolio, the point is BHAFIN is one of our existing partners. We have ten other BC partners, right.

Sanjeev Anand: Actually, if you see the current portfolio, I would say 30% of that is anyway from BHAFIN. So once BHAFIN happens, that will all kind of net off. We have another 6, 7 BC partners with whom we will continue on the BC arrangement. We will obviously keep an overall portfolio check on the amount of MFI portfolio that we want to build between BHAFIN and the other five, six BC partners.

Romesh Sobti: Originally when we launched our Planning Cycle-IV, we had said that we will take MFI portfolio organically to Rs.10,000 crores, we are already at Rs.8,000 crores. So, Rs.3,000 crores anyway comes off on BC, we are Rs.5,000 crores. So we have still enough room to grow this portfolio on our own. This we are not going to mingle with BFIL. BFIL will stand absolutely alone as a subsidiary, this is what is being done in the bank and there is no conflict that we really see. We have gone through this whole exercise of analysis and we have also assured the other partners that we will continue. So to answer your question, where are we comfortable taking it, our comfort level was Rs.10,000 crores on the MFI portfolio other than BHAFIN.

Sanjeev: Rs.10,000 crores as on March '20.

MB Mahesh: One clarification on this; MFI portfolio you reported in which line item in the loan book?

Suhail Chander: Right now it is reported in the corporate book but if you look at the presentation this time on the front in the main sheet, we have actually segregated it, because we know that next quarter when we get BHAFIN it is going to become a sizeable amount and it is better for us to display it independently.

MB Mahesh: But you reported under mid-size or you reported under small corporates?

Suhail Chander: It is small.

MB Mahesh: The impact of third-party fees which you had discussed earlier, it appears that on QoQ basis, the impact has not been too high and so has the investment banking fees. Any broad logic as to was the throughput volumes which is kind of broadly compensating it or the impact would be visible from next quarter onwards?

Romesh Sobti: QoQ it is down 4%.

Sumanth Kathpalia: Investment fee which is the mutual fund which is our investment product has actually gone down.

MB Mahesh: So it has already reflected today? Rs.260-270 crores is the run rate which we can expect?

Management: Already reflected. The only thing is we got first 15-days of October. So what you will see is the 15-day impact will come in January. Otherwise, the run rate is already there.

MB Mahesh: The investment banking fees of Rs.200 crores seems to be a run rate which can be attained over the next few quarters as well?

Suhail Chander: It is consistently around that number for the last many quarters. These are deal-based transactions and fee amounts are large. So Rs.10, 12 crores up or down in a quarter is not really relevant. Effectively maybe one or two deals that get done at a different time.

Moderator: Thank you. We will take the next question from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Just two questions: One, sir, you mentioned that you are also observing some sort of moratorium to the escrow account which is available to you basically prior to 1st October. So just wanted to check is there any let us say change in the exposure to IL&FS that you have or that remains the same as was disclosed earlier in the press release?

Romesh Sobti: No-no, exposure remains the same. One form or the other, not all banks, lot of banks are holding some cash in the form of escrow or debt service reserve accounts or fixed deposits which were meant to service the debt. So the overall debt remain the same. This would have serviced the interest because there is no principal repayment which actually fell due in book. It would service the interest. Some banks have used this to service interest but we believe that since there is a temporary stay which has been granted by the NCLAT, using that money, we have that money also, may amount to contempt of court and therefore we have moved a separate petition to the NCLAT asking for relaxation of this part of the moratorium. We are not opposing the moratorium. Moratorium is desirable because it is the only structured way of doing it without creating chaos. All we have asked for is this relaxation should be done that money held before 1st October should be allowed to be used for servicing the debt.

Jai Mundhra: Second and last question sir, your views on the external benchmarking which has been proposed by the Reserve Bank of India and if that indeed comes in this form, roughly what percentage of our loan book could qualify under this benchmarking and if we are anyway doing some sort of external benchmarking apart from the foreign loan?

Sanjay Mallik: Firstly, I think two parts here; one, the absolute amount of loans that are currently on external benchmarks are very-very small. Secondly, in terms of the loans going forward, not a large part of our book is on floating, most of our book in retail is on fixed especially the vehicle finance and the LAP book. And that part which is on floating is really a function of understanding how to adjust the spread if required for that small portion or for that matter converting it to fixed rate. Both options are available. Sometimes for the smaller loans, customers actually just look at the rate at the rate of disbursement. So you have an option to play it either way.

Moderator: Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just want an update on the retirement age of MD and CEO. There have been reports that there is some rethink or some expectation of a rethink at the government and RBI to increase it from 70 to 75. Is there any smoke there or is it just a speculation?

Romesh Sobti: Look, this is all speculation. There is a particular section of the Companies Act that actually lays down that the age of CEO should be 70, but the same section goes on to say that you can pass a special resolution of the shareholder and go beyond 70. So a few months ago, that particular part was amended to say that now you do not need a special resolution, you can do an ordinary resolution. I think that has sparkled some sort of speculation on maybe this is to increase age and things like that. We have not heard anything, we have not heard RBI say anything, market is saying various things. So let us see how it finally is but as we know today the only thing is that people are now raising this issue and I know this being raised issues at higher quarters as well. Why should the regulator intervene? Why should not the Board decide the age? If the Board believes and the shareholders believe that some person is fit and able, then why should you actually do that? So there is a little bit of motivated debate which is sort of going on but other than that we have not heard anything.

Amit Premchandani: How is your Board approaching this?

Romesh Sobti: Our Board is not taking any of these things for granted. Our Board has fixed its sights on a succession plan four years ago. When at my age of 64, they were not certain whether 65 would be crossed. So the Board put into place a succession plan, all the sort of things, grooming people, not at the first level, second level also, replacement, this and that, all that stuff is going on. The Board therefore has said that we are committed to creating an orderly and non-disruptive sort of succession and that is the responsibility that we owe not only to employees, regulators, but also shareholders. So the Board is going ahead with its plan on succession and if something happens in the meantime, 70 or 75, then I think the Board will take stock of it again.

Amit Premchandani: Another question sir, when will BHAFIN get consolidated? I do not know whether you have answered already this question but just a guidance on that.

Sanjay Mallik : We expect that to happen in this quarter itself. As you probably know and thanks to all shareholders, we got 99.9% vote from both sets of shareholders last month and now the whole thing is before the NCLT tribunal, they have to hear, give us a date for the final hearing and then there has to be a final hearing held, after which there are certain operational procedures like some filings, stamp duty, shares to be issued to Bharat Finance shareholders and preferential issue. These are all sort of very quick kill once the NCLT process is over. So these things we expect sometime in Feb that we should be able to complete assuming that all parties, regulators play their role.

Amit Premchandani: Is there any timeline to NCLT hearing?

Sanjay Mallik: There is no timeline. Normally what happens is they admit your petition and then for that matter I can share that we have just got the petition number, then they give you a date and once they give you a date, they confirm when the final hearing can be held, that final hearing is held within 30-days, that is the finite period. Once that is done, we get an amalgamation order, and that order is presented to the ROC, to the stamp authorities for stamp duty adjudication which is Rs.25 crores and then we hold a Board meeting to announce the effective date to exchange shares for Bharat Financial and also to conclude the preferential offer.

Amit Premchandani: Have you got the intimation of the date?

Sanjay Mallik: That is awaited anytime now.

Moderator: Thank you. We will take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Two, three questions. First, on salary expenses, when I am looking at the last five or six quarters, they are roughly at Rs.450 crores or so per quarter and considering you have been adding branches and potentially also adding a few employees plus wage inflation. So how long do you think this kind of run rate can sustain and when does it normalize?

Zubin Mody: Actually, the numbers that you are seeing Rs.450-odd crores is not just a factor of the wages and the salaries of the employees, but they are also provisions on bonus and other liabilities such as provident fund, gratuity, leave encashment and LTA. Based on actuarial valuations which take into account for discounting rate which is normally the new 10-year bond rate yield and the mortality and attrition rates, these numbers keep varying on QoQ basis. So for the past one year it has worked in our favor. We saw these bond rates going up and therefore the discounting rate came down. But the last one quarter we have seen these rates come down. So you might start seeing a slight increase in our employee cost. Also, we keep taking a judgment call on what our bonus should be for the ensuing year and obviously these provisions have to be done more or less evenly across the financial year. So, all these come into account and we have been adding about 350-400 people in a quarter. Staff strength stands at 26,800 people. So I think you will see a fairly similar number in the coming quarter.

Abhishek Murarka: The second question if I look at your GNPL in the vehicle segment, just going to commercial vehicles, the sequential movement seems to be pretty sharp and Rs.40 crores for that portfolio it has never been there in the past if I look at your history. So any particular bucket trend, vehicle segment?

S. V. Parthasarthy: Actually, these are 180-days dispensation which has been given. They have all moved to the 180th day. This is one-time. As you said, it is not within the run rate. Usually it is about Rs.30 crores, now it is about Rs.60 crores.

Abhishek Murarka: Third sir, when you are saying that you will be able to subsume the additional provision on IL&FS in your 60 bps credit cost guidance, and when I look at your PCR of about 47, 48%, directionally if you want to take it up plus if you have to make this additional provision on IL&FS, plus the fact that your slippage rates have also inched up a bit in the mid-corporate as well, what gives you the confidence that you can stick to the 60 bps and potentially not move higher than 60?

Romesh Sobti: Let me clarify; what I had said is that if there is a provisioning requirement on the SPVs which is a separate Rs.1,000 crores exposure right, we do not expect haircut. But if there is a haircut of say 10% or so which is Rs.100 crores that we will absorb in our 60 basis points which is our business as usual. That is not to say that the holding company exposure and the credit cost will be absorbed in the 60 basis points. Only for that component which is the Rs.1,000 crore which is on the SPVs where there are operating companies, there if there is any, first of all we do not believe there is a haircut, but if there is a haircut of say 10% or whatever, we will absorb it in our business as usual 60 basis points.

Abhishek Murarka: 47, 48% PCR looking at this book, apart from IL&FS or any Bharat Financial amalgamation, nothing of that sort, just looking at this book, directionally, do you have a level in mind, you want to take it up to 50, 55, something like that?

Romesh Sobti: This whole PCR business of course under IND AS there will be entirely different approach through this whole thing. The issue here is that RBI itself withdrew its requirement of 60 percentage points; RBI withdrew it in September 2015 or even earlier. So they had prescribed 60 and there is no prescriptive element of provision coverage ratio. Ideally, we would also want to be 60%. Overtime we will take it back to 60%, we were actually at about 56% or so and just the arithmetic of the write-off has happened, otherwise we are also there. So for us to go from that level to 60% is not a big deal. We also want to go there but the whole issue to be examined now is this, what is more important: Loss given defaults? The history of the portfolio like for vehicle finance loss given default is only 30%. Huge margin of cushion of security lying there. That is not covered in provision coverage ratio. So I think it is a iffy sort of a thing on what should be the ideal PCR. Ideally for us we would want to maintain 60%, certainly that is our ambition. Before this quarter, till last quarter it was 56%. The write-off we have brought it down to 48%, it will go back slowly to 60%. That is our target.

Moderator: Thank you. We will take the last question from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

A Parasrampuria: This is on your margin outlook in the context of what you are seeing in the system for you as well slower deposit growth, higher borrowing growth and within that the CASA growth is moderating plus the fact that your retail book as you mentioned will have a relatively slower catch up on yield. What is the NIM outlook over say the next two, three, four quarters in that context?

Romesh Sobti: I think we have said that our NIM outlook is stable with an upward tendency. And that is a consequence of the fact that there is repricing happening. The moderation of the participation of NBFCs, certain loan products that we have good leadership, is actually causing relief in terms of the pricing. So I am saying that the existing book has to reprice. That is one part of this whole thing. Then this borrowing cost has a distinctive advantage in terms of pricing. If you look at it on a same tenor basis, fixed deposits versus corporate deposits versus foreign currency borrowing, the difference could be anything between 50, 60 to 100 basis points. That is how we are going to manage this book. We are on one side also working on retailizing our fixed deposit book. That is a big initiative that is going on. And you are seeing deposit growth now, Rs.5,000 crores of retail deposits as LCR defined as retail because the definition is also little wonky in our view, Rs.5,000 crores came in, maybe Rs.8,000 to 10,000 crores will come in this quarter as well on retail fixed deposits. So that part is going on. But we are balancing the cost of funds on the basis of borrowings, refinance and of course this thing. CASA? Yes, CASA is around 44%. There are banks which have even lower CASA than ours, because they have retail fixed deposits, then I think their cost of funds lower. We have chosen the path of balancing a certain percentage of our book has to come out of foreign currency borrowing and they are better tenors, less behaviorally volatile and better priced. That is how we are going to manage our growth. Liabilities? Yes, we will continue focusing on retail, continue focusing on CASA, but we will also balance our price and the cost of funds on the basis of mixing and toggling between the various sources of borrowing.

A Parasrampuria: The last question from my side is on the processing fee. So if you can just broadly indicate the breakup of that between retail and corporate?

Sanjay Mallik: Retail is 40%-odd and almost 60% is corporate.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Romesh Sobti for closing comments.

Romesh Sobti: Yes, thank you for joining us. I am sure there will be lot of one-on-ones to do deeper dive into what we have disclosed today. Good day.

Moderator: Thank you. 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.