IndusInd Bank

"Q4 FY19 Earnings Analyst Meet"

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MANAGAMENT:

MR. ROMESH SOBTI – MANAGING DIRECTOR & CEO
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 – HEAD, COMMERCIAL BANKING
MR. BIJU PATTNAIK – HEAD, GEMS & JEWELLERY

Mr. Romesh Sobti: Good afternoon, thank you for joining us once again. We normally don't wait so long for declaring our results. But this quarter we have had to wait longer than we normally do. Our results normally come out before the 15th of the following month. But there is a reason behind this and so I am going to start my presentation by explaining that reason.

About the time the quarter ended, we had a strong sensing that the merger between the Bharat Finance and IndusInd Bank would be complete therefore it made a lot of administrative sense to actually declare consolidated results. That is why we did not declare individual results to begin with. The status of the merger is that we have every approval that you require from all the regulatory authorities. So, RBI, Competition Commission, SEBI, exchanges and of course the last leg is the approval from the courts, which is the NCLT. So, in the NCLT, I think arguments and all have been done and at the last hearing, it has been reserved for orders. After that, of course the court went off on vacation and the courts will actually open on the 27th and we are then hopeful for a favorable outcome as a consequence of that order.

There is speculation that the merger has been delayed, in fact there is a WhatsApp message today which says it has been called off. So, that sort of speculation is pointless. We are in the last leg of that and the only thing is why we want it to happen as soon as possible is because synergies kick in. It is not just 2+2, it is not just Bharat Finance and IndusInd put together 2+2, it is actually not 4, it is 4.5 because there is a synergy element that kicks in and that synergy we want as early as possible. So, I think that is the starting point of this whole thing.

Let me begin with a little bit of commentary on the underlying growth factors and whether they are intact or not. So, if you look at quarter 4 on a standalone basis and I think there are very strong indicators that our growth is going apace. So, we have had a loan growth of 29% and the loan growth has been pretty secular, secular in the sense that corporate grew in the early 20s. The non-vehicle retail grew 27%. Vehicle retail grew at 26%. Microfinance of course grows, I will explain why it has grown so much. After about 6 or 8 quarters, I think we have also shown a deposit growth which matches our loan growth. So, the deposit growth is also at 29%. There has been a huge push by the Consumer Bank on retailization of deposits and over the last 3 quarters, each quarter we have seen 5,000 or 6,000 crores of retail fixed deposits actually coming in. Within that deposit growth, the growth of CASA still remains intact at 26%. I think the balance sheet growth drivers are absolutely intact. Before I come to the net interest income because that has an element that I need to explain, fee growth has also remained very strong. Fee growth actually for the quarter came up at 29%. But what we measure more closely is the core fee growth. Core fee growth means what we earn from clients and the non-core part of it -which we also like - is the trading income, so 27% growth in the core fee income as of today.

So, I am going to add some color to each one of these vectors. Let us start with the loan growth part of it. This is the construct of the book, it hasn't changed so dramatically. We still are 60% on the corporate side. But as we have explained in the past the 60% corporate includes micro finance and also includes what we call S of the SME which other banks show in retail. Actually if you segregate it as that, the percentages workout very differently at 55% in favor of retail and

45% in favor of the corporate. Otherwise the construct hasn't changed over this. Sectorally, we have been disclosing sectoral exposures every quarter for the last 11 years and this quarter we have added one element to it. We have also added the element of SMA-2 data next to the sectoral growth that we are showing. That is something which to my knowledge not many banks disclose. We have also not disclosed in the past, but we are going to make this an annual feature. So, sector wise, you are seeing is pretty well disbursed and if you look at the one bunching that happens in other industry, other industry is the largest part which is 24.2%. Now, this constitutes industries to which we have less than 1% exposure. So, bunched together these are 24.27%, otherwise you are seeing that apart from microfinance everything is sub 4%. But you look to the right hand column, that is the new addition that throws some color on what is the quality of the book and I think one of the biggest indicators of stress in a book is really how much of it has slipped into SMA-0, SMA-1 and SMA-2 because before it becomes NPA, it becomes SMA-2. So, we have given SMA-2 data on the book quality and these figures are in crores. So, you see down the line there is nothing on SMA-2 expect for services you got a figure of 7 crores, gems and Jewellery you got a figure of 5 crores and then you go down it all jumbles into one big pot which is other industry. This part there are 45 exposures. So, there is no lumpiness. So, you would say that these 555 crores is it lumpy? There are 45 names in there, spread across a number of industries. So, I think not only that SMA-1 data also is only 0.3% of our book. SMA-2 data is also 0.34%. Total number is 641 crores, as of yesterday, it is a weekly figure, the figure is actually down to 548 odd crores. We take a lot of comfort on this because this is what we watch, right? So, it is not what we hear in the market, it is what we watch in our books. And what you see in our books is that there are no slippages or no meaningful slippages into the SMA-2 book. This is another data that we may give on the corporate book every quarter. Right of the vertical line is the sub investment grade and you see there is the entire sub-investment grade is fully collateralized and securitized and left of that is the investment grade and there are two sets of ratings there, there is external rating and there is also the internal rating that is also present.

Continuing on the book quality, I think we started disclosing the weighted average risk score of our vehicle finance book about 4 quarters ago. It is a very interesting slide. First of all you look at the trending of the weighted average score. The best is one, that means you have insignificant risk and the next best is low two. Our books lies in between one and two. And if you see the trending, it has actually come off, it now lies at weighted average score of 1.75. Then we go back to this part of it, I think there is a lot of speculation in the market and we have heard it over the last 2 months or so on what is our exposure to certain companies or groups. There is talk about media companies, talk about a diversified group, we talk about the NBFC conglomerate, the HFC, housing finance companies, one or two more have been added in the recent part to this speculation. Our stance is this, every time somebody circulates a Whatsapp message we are not going to go to the exchanges to explain what our actual exposure is. Banks do not explain their exposures, but we are taking this opportunity to actually tell you on a consolidated basis, the watch list, you can call it potential stress list, you can call it whatever you want. All these names put together are coming to less than 2% of our book, 1.9% exactly and we are saying funded and non-funded exposures. Each one of them is well secured. There are no overdues in our book as we speak today and they are standard, so there is no question of any provisions having being made this year.

The consolidated security cover for these exposures that are being discussed is 140%. Of which, close to 60% is by way of listed liquid securities. I mean this is just to quell some of the rumors, we are not going to do this every time, we are not going to talk about names.

The last point is something that I really want to talk about because as analysts where do you get this data from? Unless the bank gives you the data, what is the other source of getting this data. The other source is the charges filed with the registrar of companies. You got to the ROCs books and look at the charges filed. Let me explain to you how this can be misread and misinterpreted. So, I will give you an example that this is a live example where an exposure was secured by book debts and shares. 500 crores exposure secured by book debt and shares. When you file the charge, you file a charge for the 500 crores against book debts and you file a charge for 500 crores against stocks. This is being misread as 1000 crores but it is one charge, that is one. The other part is that a charge was filed 3 years ago at 500 crores, 300 crores have been repaid, you do not know the current outstanding and that is why one house actually gave a clarification after we explained to the house that this is not the way you should read it. If you are really interested, you come and ask us, we may or may not disclose it to you but I think the misread on this ROC discovery that was made 2, 3 years ago, I think it can lead to misinterpretation and in the cases that we are talking about, it has led to misinterpretation.

I will go back now to the start and talk a little bit about financial performance and then I want to give a little bit color on the fee businesses because there is a lot of speculation also on the fee businesses and how they will be impacted because of exposure to certain groups and things like that.

Before that, let me talk about the infrastructure group exposure. I think we had a stated intent which was made 2 quarters ago in quarter 2 that we will make an aggressive provisioning, but we had staged that provisioning. So, to this particular infrastructure group, we had made a contingent provisioning in quarter 2 and another contingent provisioning in quarter 3. In quarter 4, the entire exposure became NPA. Therefore, there is no question of contingent provisioning. You have got to make specific provisioning. Specific provisioning has happened. So, the total additional provision that we had to make in this quarter was 1,120 crores. In addition to the 1,120 crores, we have reversed 2 quarters of interest. So, 153 crores has been reversed on the interest. So, actually 1,120 plus 150 that means 1,273 crores is actually what we have taken out of the P&L for this particular quarter. Out of which, 153 crores is directly attributed to interest income. So, NII is therefore also impacted, it is not all below the operating profit level. It is also NII.

So, let me show you data which is after this provisioning and without this provisioning and the idea is not to justify the fact that we had to make a provision, the idea is to explain going forward what is the book looking like, what is the forward look, what is our business as usual performance. So, the green is if you exclude the impact of the large group in the infrastructure that we are talking about and you see that NII if you add back that number, that actually grew 19%, but what has declared is 11%. Fee income has not impacted at all by any of this provisioning, so it has remained at 29%. Operating profit is impacted because the 153 crores was taken out. I will explain to you why this 153 crores is not a perpetual debit to NII and of course therefore operating profits excluding that infrastructure group provision is 26% and net profit is 25%, but the declared profit of course is 360 crores and that is the reality. Similarly therefore if you look at a full year, the profit growth would be 24% excluding the infra provisioning. Otherwise, it is (-8%) compared to the full year.

This, I think I have already talked about, topline momentum is pretty strong. I have explained to you that loan book growth has been pretty secular all around. So, it is not only the year-on-year figures, but also, I think the quarter-on-quarter figures also are pretty strong. This slide actually gives you the quarter 4 numbers, if you exclude the impact of that group in the infrastructure sector. So, actually if you see NIM, for instance if you were to exclude that, the NIM actually improved by 1 basis point over the quarter.

Let us go to fee income. So, that is the fees construct. The core fee grew by 27%, total fee grew by 29% and this is the breakup of the fee. We explained this breakup, every quarter we give this breakup. So, you see there are 6 headings under which the fee is made, but we have heard speculation in the market and conjecture that is unfounded on how the fee is made. Therefore, this quarter we are going to disclose more than what we do and explain to you where this fee is made from and that is actually reflected in this particular slide. So, there are three color bands here in the segments. So, it shows that 42% of our fee is Corporate, 48% is Retail and 10% is Trading & Other Income. And if you go deeper within that, then you see how it is constructed. So, for instance look at investment banking fees because lot of conjecture and a lot of comparisons have been made to a peer bank on how this fee was made and I think these are completely unfounded comparisons.

If you look at the investment banking fee, structured finance is 7% of the fee and of course the rest is loan syndication and project advisory and project finance advisory that we do that is 1%. So, structured finance which is where a lot of the speculation has happened is only 7% of our fees. The other part that people are focusing on is loan processing fees. They say loan processing fee is a proxy for fee taken out of interest income and things like that, it does not work that way and see how it works. If you look at the corporate bank loan processing fees, it is lower than the consumer bank loan processing fees. The loan processing fee of consumer bank is 13% and the corporate side is 7%, that is the difference, right. And you see that within that, what is the loan processing fee of the large corporates, 2% of the total fee, right. Similarly, foreign exchange, trade and remittances, I think this gives you a pretty granular feel of how our fees is actually made up and why it is sustainable. Half the fee of the Bank has no linkage to balance sheet that we have been explaining for a while, but I think this data will establish that a little bit more.

One more feature that we see and we have been queried by analysts and investors on the fact that we have gone into higher yielding corporate exposures. So, we have stripped that down because we used to show a misclassified figure. So, when we say corporate bank 1,13,000 crores, this includes microfinance and this includes the S of the SME and that is why you are seeing this figure of 9.29%. If you take that out, your aggregate corporate yield is close to 9% and how is this different from the yield shown by the best in class banks and all? Not much of a difference between that. So, that is on the yield side.

Let us come to credit cost. What people are interested in knowing is if in the infrastructure group a one-off and what does the book look like without the one-off, right and I think this data shows you that. If you take out the infrastructure exposure that we have provided for, the credit cost for the quarter was 19 basis points, right. The credit cost for the full year excluding that infrastructure group is 57 basis points that is the business as usual. Last year, it was 62 basis points, year before that it was 59 basis points. I think this shows the steadiness of the book without this one-off that hit us which is now being fully provided for. Of course the one-off is a reality, you cannot hide from that and that is why the actual credit cost is actually coming to about 107 basis points, but what we want to show is excluding that what is the book looking like. This also is interesting right. So, if you strip out again that infra exposure, gross NPAs have actually fallen from 1.13% to 1.03%. Net NPA has also fallen from 0.59% to 0.48%. This is the impact of that exposure and what we are saying is that this is the sort of one-off element that hit us. We should not cloud our judgment in terms of the business as usual and I think look at the last two lines. The restructured book is only 9 basis points of our total book, it used to be 11 and the total of gross NPA and restructured ex the infra is only 1.13%. This is NPA composition on the consumer finance business which is our vehicle finance business.

Although we grew the book by 29%, we did not use much capital, but of course we did Additional Tier I issuance of close to 1,500 crores which also helped us maintain the capital adequacy on the whole book. Otherwise, the business is as usual. We opened 107 new branches during the quarter. We are at 1,665 and our target is to get to 2,000 branches at the end of this fiscal. We also brought in a million new customers during the quarter which is our run rate. Last quarter also, we had brought in a million new customers.

Just talk of what do we have to look forward to. What are the drivers for financial year 2020? Of course the biggest on our minds is merger with Bharat Finance that confirmation is subject to the final approval of the NCLT. Of course, Bharat declared its results yesterday, in the meantime I think some of the elements of synergy are being worked out. Liability raising is already getting embedded in their DNA and some pilots have been run now for 8-9 months which are showing pretty encouraging results and the other is the experiment around the Kirana store which will take a long time to explain, but we can talk about it when we meet individually. The second one is we want to create a surge in our liabilities, you already saw that in quarter 4 and there are 2-3 elements to that surge. We have launched 3 months ago a wealth management platform, it is called PIONEER, it is not banking the wealthy, it is banking the well-off. It is a segmented offering. So, we do the mass affluent, we do the affluent, we now do the well-off and ultimately we will do what we call private banking which is the wealthy. So, branches are being specifically ear-marked and refurbished to accommodate this particular offering and I think this is going to be a source of liabilities as well.

The other area is the non-resident part of it and admittedly, I think over the last 5-6 years, we have not been very aggressive on the NRI businesses. So, this is now being completely revamped, new hiring's have been done, new separate vertical has been made with separate operational and servicing capability and we hope to take a bite out of the NRI market as well. There is this other element of retailization via household acquisition ramp-up and maybe I can ask Sumant to talk about this.

Sumant Kathpalia: This is all about acquiring accounts and converting them into household relationships. So, we are feeling that when you convert an account into a household relationship, the average balance which is about Rs. 65,000 in an account moves up to about Rs. 90,000 - Rs. 95,000 and the stability of that account moves away from 15 to 18 months to about 2 to 3 years and I think that is something which is really helping us. The transaction intensity moves up to about 7 transaction from 4.5 and the product holding in the account moves up from 3.2 to 3.3, which we have on generic level to about 7 products. So, we are seeing a huge transaction intensity surge, we are seeing a huge adoption of the household as a clear vector**.**

Romesh Sobti: Of course on fee growth, we do not have to say too much. Fee growth remains a huge area of focus, but we expect higher distribution fee coming out of the wealth products and retail trade and FX, there is a new drive which is being now ramped up. Retail asset growth is the other one. We are sub-scale in the non-vehicle retail asset growth, although the book is now worth around 30,000 crores.

Sumant Kathpalia: It is about 30,000 crores today and we slowed down the LAP portfolio. The LAP portfolio was slowed down because the risk adjusted return for LAP was not to our advantage and not within our bandwidth which we wanted to do and I think this is the business which is coming back. We still have to be cautious about this business because now what is happening is that the NBFCs have stopped lending and the balance transfer is happening and we have to see whether that is the right business to get into.

Romesh Sobti: On the digitalization part of it, of course we have not spoken too much about it, but there is a huge initiative on digitization which is reflected in productivity gains that we have benefitted from. Front office, mid office, back office, robotic processes, 57 processes are now robotic and other 60-odd processes are now becoming robotic which is actually releasing manpower and therefore going forward, we expect in this financial year to reduce our cost-to-income ratio by may be another 1.5%. The normalized cost-to-income ratio is 43.5%. We expect that to go down to around 42% by March of this year. Our approach to digitalization has been collaborative. So, we do not want to create everything ourselves, but there are very good people; we have tied up with 13 or 14 Fintech companies both on the liability side, fee side and also on the asset side. We can show you a slide on what is actually happening in by way of digitization within the bank. So, on the left side, you see quarter four 2018 figures and the extent of digitization that has happened in specific areas of our business. So, 30% of our deposit booking used to be digitized, now it is 73%. 33% of personal loans originated were digitized, now it is 47%. Credit cards 14 to 22%, FOREX has actually gone to 40% and we expect that in this coming year this will go across the 60% mark.

And if you look at the other side, digital now constitutes 92% of total transaction value and 80% of total transaction volume. So, digital is happening. It is a way of life now. I think banks have stopped talking about digitization because it is becoming part of their DNA. It is not I came there first sort of thing, it is going to be part of your business as usual. So, that is the productivity benefit I have already talked about. Within the corporate bank, a special unit has been setup which is corporate risk management unit. It is separate from the independent risk that does not report to the businesses, but this will be embedded within the businesses which will measure business level portfolio monitoring, diversification by ticket size, what is the size of tickets you are taking on, geographies, sectors, tenures, industries, all those things. And of course, higher degree of specialization is going to happen in select domains.

The last thing is para banking. Para banking means insurance, asset management etc. where we have declared our intent to become a manufacturer ourselves basis our contribution as a distributor and the value we add to our partners through the distribution part of it. But this has a regulatory element to it. The regulators have said about 3-4 months ago that some guidelines are going to come on financial subsidiaries for banks. Subject to that, we are ready. The discussions have happened, but it has all been held up only because we are awaiting regulatory clarification on that. So, those are few initiatives.

I will end up by summarizing what our expectations are for financial year 2020. We do expect loan growth to remain in the mid-20s or slightly higher. We expect fee growth to also be around that mid 20s level. I told you our cost-to-income ratio we expect to go down to 42%. And this is all standalone. We are not talking yet of numbers on a combined basis. Interest margins, the market does not allow for transmission to happen today. So, in spite of 2 rate cuts, you are not seeing any transmission happening. MCLRs are flat because banks are deficit on liquidity and there is a 60,000-70,000 crore liquidity deficit, but we are hoping that the policy which comes in the first week of June gives us some cues on liquidity. Cost of funds remains elevated. So, our expectation or ambition on NIM is this. We took a 150 crore out of our interest income in quarter 4, right, that is not going to happen every quarter because that was 2 quarters, now it become one quarter and I forgot to tell you that in the provisioning that we have made for that particular infrastructure account which is total of 1800 crores including the interest, we have actually also written off 1000 crores. So, there is a write-off of 1000 crores which has also happened. So, a dead asset actually therefore goes out and therefore it is replaced by an earning asset. So, I think the net impact, residual impact of that particular infrastructure group interest suspension is not going to be more than 15 or 20 crores on a quarterly basis. So, I think over the next 2-3 quarters, our expectation is that NIM will be restored in that 3.85% to 3.9% mark and of course with Bharat it is well past the 4%. With Bharat, everything else changes, but we are monitoring the Bank on standalone basis. Bharat is sort of an add-on to this whole thing.

The credit cost target remains sub 60 basis points. As you see that every year we have talked about credit cost, last year it was 62 basis points. This financial year, 57 basis points. The year before that was 59 basis points. So, we are keeping our ambition on credit cost around that figure. There is a question that was raised on do you think that the provision that you have made on that infrastructure account is sufficient or not and would you have to make more provisions going forward. So, I think that also we would like to address. So, we made a 70% provision on the holding company and a 25% provision on the operating company as I said. Now, our sensing is, this is not based on pure guess work, it is based on talking to bidders. So, the bidding process is on and I believe it is going to be concluded in June and the large exposure we have on the operating company where we have provided substantial amount which is 250 crores, there is a good chance, I am not seeing certainty, but there is a good chance that this could be covered between 90% and 100% because that is based on the bid values and whether the bid value covers the entire debt secured, unsecured and subordinated debt and there is a sensing that yes, that is possible. So, we have that cushion in case we have to provide anything more on the holding company and we have also not used the floating provisions that we have already have in our books so that can also be used as such. So, that is it, more than happy to answer any questions.

Suresh Ganapathy: Mr. Sobti, unfortunately as per RBI, maybe one year down the line, you may not be there to do this analyst meet. So, is there any search committee which has been established to find a replacement for you, anything that you can guide us on that aspect? The second aspect is that you have had a very strong deposit growth 11% QoQ, can you clarify whether there has been any bulk deposits or corporate deposits or has this growth has been entirely retail and finally on this 3000 crores plus slippages, has the entire 3000 crore ILFS been recognized as NPL or rather as a slippage or only the holding company of 2000 crores has been recognized as a slippage?

Romesh Sobti: The entire 3000 crores has been recognized as NPA. So, your first comment was on the unfortunate events that might happen of RBI not agreeing to an extension. I do not know whether it is unfortunate or fortunate. We are not banking on any assumption, the succession process, I think I had mentioned it earlier as well, started when at the age of 64, it was not certain whether you will be allowed to cross 65, right, that was 5 years ago and at that stage, I think the board sat down and said supposing they do not allow you to cross 65, the Board then went into a whole exercise of succession planning. It is documented, it is visible to inspectors, auditors, everybody but of course it is not visible to the people who could be possible successors, that never happens. So, that process has been on and we are assuming that there will be no extension. If there is any extension, then of course there is a whole new set of possibilities, right. If there is no extension, we have plan A in place where the grooming process has been on for the last few years now. It is not that suddenly we pick up somebody out of the hat and say okay, hello, you go and sit in that hot seat. What has been going on and I have said many times that grooming is not about combing a person's hair every morning, grooming is about actually preparing that person for a more rounded exposure. So, in the corporate bank, do you know anything about the retail part, do you sit in the ALCO, do you sit in the risk committees and things like that. If you are on the other side in the consumer bank, do you do that, all those sorts of things. If you are a treasury person, have you got exposures to retail and how they do business, that is the way it happens and I think that if there is no word from RBI, from the regulator of a change in this, then you would have visibility of the successor 5 or 6 months before my term expires. The politically correct answer is we will look externally and internally. If you ask the Board that will be the answer, so I will give you that answer only. But I am saying internal preparation for internal candidates is happening along those lines and so there is a very strong commitment from the Board, I am personally committed to it to ensure that there is smooth succession, in case that event that everybody sort of is talking about in terms of extension does not happen. So, there was a third question part to your question, deposit growth. There is no lumpiness in the deposit growth. So, I told you that consumer banks started a retailization effort 3 quarters ago, this is the third quarter. Every quarter 5000 crores to 6000 crores of retail deposits are directly coming in. Slightly more expensive on the pricing, but I think it gives us a huge relief on other things like liquidity coverage ratio and things like that. Maybe on deposits, I can ask Sumant to talk bit more on whether there is lumpiness or things like that?

Sumant Kathpalia: I think deposit is made up of three components. The term deposit is all retail. We are doing a retail drive and really we are acquiring term deposits as a New to Bank and getting the transaction account going, so we are seeing that value in the term deposit and all these deposits are long term deposits, it is one year and above. We are not focusing on 6 months, we are looking at long term deposits. That is number one. We are acquiring 5,000 to 6,000 crores of deposits per quarter and that is really helping the retailization of this deposit and will continue. This year we have planned to acquire around Rs. 35,000 crores to Rs. 40,000 crores of these deposits. The savings account growth continues as a part of new to bank client acquisition. We acquired around 1, 10,000 accounts and they have an ATS of 62,000 and we too have a deepening which happens as a consequence of household penetration and that is clearly the Rs. 3,500 Cr. to Rs. 4,000 Cr. growth which continues as is completely retail, the growth which has happened, but our government quotient of the money continues to be around 15% to 20%. We have said that before and continues to remain. On the current account side, we did get some escrow accounts that came as a part of the ENR and not as a part of the ANR, the average balances. It did not affect the average, it affected the ENR. So, there was about Rs. 2,500 to Rs. 3000 crores which came in, 2500 that you may call it a bulky part, but it is part of the current account business that escrows do come in on and off and that is the part of our regular flow of business.

Moderator: As we take the next question, we request you to kindly introduce yourself and your organization.

Romesh Sobti: I don’t know whether we explained, that slide was covered or not. The capital adequacy remained intact. I think we have used up only a few basis points of capital during the quarter although we grew the loan book by 29% partly because we raised additional tier 1 and partly because the growth in risk weighted assets as a percentage of total assets was much more moderate in this quarter.

Participant: If I see the last 10 years disclosure of IndusInd Bank it is one of the best in the industry, but this episode of IL&FS, first if you recall quarter 2, we made a provision of 275 crores as a remaining standard account. The third quarter, last quarter basically, in that we have provided more and then we said the recovery chances of the Holdco is around 50%. Now we are providing 70%. So, this is the first instance in the last 10 years when the communication from the bank side is relatively on a lower side. And what is your learning of this whole episode of lending Holdco and then after 6 months we are recognizing as NPA?

Romesh Sobti: So, I think there is a difference in approach between an analyst and practicing banker. That is the starting point. First of all disclosures, you name one bank which discloses exposures on standard assets. Not a single bank, in fact they cannot. You will have a problem with Reserve Bank of India. In fact if you noticed, there was an issue between SEBI and Reserve Bank of India regarding, SEBI or exchanges or whatever, disclosures of the name of willful defaulters even those were not disclosed. So, you don't disclose names. Now the other question is about staging of the provisioning, right? And I think this was a process of discovery. So, at a particular point of time, we thought this was the possibility of recovery. As we went down the quarters and finally in fourth quarter, we got a solid handle on what is the real asset of the Holdco and now it is in public domain. It was not in public domain, right? So, if you see now, there is a research report which has actually come out which talks about assets, book value of the assets at 24,000 crores. Loans outstanding against that is 17,000 crores. So, therefore no need for a provision, right? That is not the way it works. In these two quarters we have worked on the realizable value of the assets on their books. We believe that the realizable value is 20% of the book value. And therefore, we work backwards and say if that is 20% what is the provision that I have to make and from that we have concluded that you should be 70%. Now it is not necessary that this is also correct, right? So, therefore going forward you may have to provide another 100 crores or 150 crores of this thing, we have got that cushion lying on the other side which is the operating company, right? Even if it has to come it is part of my 60 basis points, business as usual. Then of course the NCLAT, has put a moratorium, one on any form of recovery, two on initiating any suits and three on declaring them as NPAs which was vacated 15 days or 20 days ago when the RBI actually approached the NCLAT and said that they have to classify them as NPAs and that is why this sort of classification happened only here. So, quarter 2 and quarter 3 they were not NPAs. In quarter 4, they became NPAs but you could not disclose them as NPAs because NCLAT did not allow it. So, therefore prudently we provided contingent provisioning. A new category of provisioning was devised by us called contingent provisioning. You have, specific provisioning and standard provisioning. We said here is the contingent provision, because we know it is coming. Now those have been reversed and specific provisioning has been made because it is now being named as NPA. I don't think we have departed from our standards of disclosure. But I think the market must understand that there are some things you can disclose and some things you cannot disclose. There are regulatory constraints on that, much as we would like to open our books to you, but I cannot, especially if it is standard. NPAs and all you will come to know that it has been sold to ARC, somehow the market comes to know. Standard account, who will disclose exposures on standard accounts. Name one bank which has said that, right? Only when they make full provision and there is a requirement, either on divergence for instance then you make those disclosures where RBI would say, "Disclose this". Other than that, it doesn't happen this way. That is not the way it really works. Now the other question is being asked is why didn't you provide fully in quarter 2? That would be shooting many arrows in the dark. That says you knew nothing about what is the value of the asset, how much you are going to recover, obviously we are going to recover, now we have got that idea and within the fiscal year we have done it. So, the conjecture around disclosures is really something that we take to heart. We set new standards on disclosures; we have set new standards on transparency. Who has disclosed SMA-2 data sector wise? That is a new standard. Now you will demand from the others, right? Who discloses rating wise profile of your corporate book? Who discloses weighted average score of the consumer book? We do that, not to please the market but because we feel that it is our responsibility to be on a transparent track. So, I think that is what it is. So, we have not departed from our desire to disclose as much as possible within the bounds of regulation and without impinging on privacy.

Gautam Jain: Hello sir. This is Gautam Jain from GCJ Financial. Sir, Bank is doing extremely good except this IL&FS. But IL&FS was so big that share price is two year’s low. What is your key learning from this IL&FS case and how bank can assure shareholders this kind of event will not happen again such a big amount? 50:50

Romesh Sobti: I think I mentioned to you that we have set up a portfolio monitoring unit, it has already been looked at and we have presented this to our Board as well. There are couple of learnings and I think those learnings are true for the entire banking system because IL&FS could be one of those companies but there could be similar entities which are holding companies. So, I think the big part of this is how do you finance holding companies? Should you finance holding companies and if you do, how do you finance holding companies? Because at the end of the day the holding company has only one cash flow which is dividends or sale of assets. But there are holding companies who directly have operating assets under them as well. So, there is cash flow. I think the big learning for the industry as a whole is that, are you doing cash flow lending or are you doing collateralized lending, right? That is one. The other is that complex holding companies and you can’t get a more complex holding company than this one, 300 subsidiaries. If you have a holding company with 3 subsidiaries, I can match the cash flow against the debt very quickly, right? If I have 300 and I put debt in here and 4 levels below it becomes equity then I cannot distinguish between debt and equity. So, that is what has happened. So, they took debt here, it became mezzanine here and became equity down there. I think that is what they are trying to unravel now, what is the debt, what is the equity, it is very complicated. I guarantee you could put an army of dozens of forensic experts and it is still going to take quite a while to sort out the complexity. So, I think these are the holding company structures learning, the other learning is that financing against future cash flows, anticipatory cash flows, example: an IPO is happening, rights issue is happening, a sale of assets is happening and if it doesn’t happen, for whatever reason, the market tanks, the IPO doesn’t happen, the rights issue is deferred, the sale of assets the buyer backs off, things like these I think are there. But these are not new learnings. These are learnings which are reemphasized because of this experience. But of course, the major learnings is, and this we have changed within our own structure, a full policy on financing holding companies, which has been approved by the Board. It is part of our risk manual now. I would imagine that maybe you will also have some regulatory guidelines because the learnings are not for one institution, there are dozens of banks which are involved in the same and they are financing other holding companies. I mean for instance, there are so many exposures to holding companies in real estate, where? What is the asset, the project? and there are banks financing projects separately. So, those sort of are the learnings.

Rahul Jain: Sir, this is Rahul from Goldman Sachs. I am on slide #16 of your presentation. So, just wanted to understand sectors such as real estate, roads and construction have SMA-2 of zero, so I am sure the underwriting would have been great. But can you just throw some more color as to what is the nature of these exposure, for example real estate are we dealing with top 10 developers or these are residential or what kind of projects these would be, similarly roads and construction. So, some more color on that would be useful.

Sanjay Mallik: I think the larger exposure is in real estate, I think roads is much smaller. Real estate we have had a conversation on that I think on the 1st of November as well. There is a transcript on that, so you can refer to that and all of that holds good. So, about 60% of the book is commercial, 40% of the book is residential. I think the book is spread across some 70-75 projects and average ticket size of 100 crores. And none of the lending is to holding companies. The lending is to individual projects where the Bank is a sole financier. That is a typical real estate that we do. In residential we do more of late stage financing. Same is true in commercial because the take out is typically through lease rental discounting and that is the way we have run the business for a long time. Typically, any real estate project will have well over one time cash cover and well over two times valuation cover.

Ramaswamy Meyyapan: Just to add to on the real estate all the escrow accounts are maintained with us. We have a specialized team monitoring all the cash flow. We have various parameters in real estate on tracking on the number of units sold, the average realization of the cash flows we are seeing prepayments and the sales are faster. So, these are structures which have worked well for us. We have stayed away from markets which are over supplied. So, we have spread our exposure in real estate across various cities with no major concentration in any single city. It has worked reasonably well, that is why we don't see SMA-2 in that. Technically there could be 4 day-5 day delays because of some technical issue but we have not seen any issues on the real estate portfolio. On the road projects we have been very selective. We have taken on transactions and HAM projects with very good developers, EPC developers which stood all the kind of issues which other developers have faced and we have been able to syndicate the exposures out and here the construction is on course. We have regular interactions with NHAI and Industry engineers. So, the road projects have been working well, the toll projects are getting paid off. So, roads we have not seen any challenges. On the product finance similarly, we have got a specialized team on the business side, on the risk side as well as on the monitoring side. So, we have specialized teams looking at the solar projects, wind projects, I mean we have gone slow on solar inventory because the tariffs have come up. Whatever we have done so far has been performing well. So, this sector we haven't seen any major challenges on the SMA side or delays and the syndications have gone up well.

Rahul Jain: Thanks. Sir, second question is on the credit cost side. So, steady state you said is about less than 60 basis points. What is the thought process? To sort of build some contingent provisioning buffer just in case, let us say, you said exposure to some of the most talked about companies, let us say 2% of the loan book, let us say some risk were to play out in those exposures, there is a thought process to build some contingent provisions or it is part of 60 basis points that you already talked about. That is about it. Thank you.

Romesh Sobti: I think the first protocol is to get the PCR up. Actually, the PCR, excluding the write off is 54% and I think we have mentioned it once earlier that there is an arithmetic attached to this whole number which is the write-off figure. But forget all that. The number is what it is. We see a target for us for financial year 2020, it is to go to up to 60% and so that I think will be an indirect sort of cushion that we would create in our book. Separate provisioning I think standard provisioning is defined by RBI, so it is not the thing. What you are suggesting is that we make some contingent provisioning. I think that may not be on the table but getting the PCR up to 60% is certainly on our radar screen.

Vishal Goyal: Hi sir. This is Vishal Goyal from UBS. Sir, first question is on the land swap disclosure which was given. So, can you just please explain that is it required by RBI to take additional provisions or this was on your own?

Romesh Sobti: See, it was like this. Debt asset swaps have been there for decades. Banks have done this debt asset swap for a long time which means that you swap NPA for land, you do the market value of the land against the NPA. RBI gave guidelines earlier in May this year on how to treat these debt asset swaps. So, so far you know, these debt asset swaps have not been touched. They go and check and lot of banks have done it. For instance, we saw Jaypee, there was a huge debt asset swap for the whole consortium. The entire consortium of lenders a part of the Jaypee resolution deal was the debt asset swap. So, in our book that is a much smaller number, but I think other banks have very large numbers on that, but we are going to forget all that. So, they came up with revised guidelines on 8th of May on how to treat debt asset swaps and there are two elements of the debt asset swap, one is that you have a market value and you should do a distressed valuation. So, if there is a difference, that difference you should provide, that is one. For us I think the difference came to about 50 odd crores that we have provided. The other one is that on the distressed value that you take treated on IRAC norms. So, age wise. So, suppose you had the asset for 2 years or 2.5 years, then you will go that 40% just like IRAC. If it is one year 15%, two year 25%, more than 2 years 40%. So, that you treat it as IRAC norms and they have given the dispensation that you can actually spread it over 4 quarters. We have done that this quarter and the total figure is 50 plus 18, about 68 odd crores has also been taken care of. So, this was the regulatory driven, not specific to the Bank, to the entire industry.

Vishal Goyal: Thank you. And sir some more color on your already disclosed 1.9%. I know the questions have been many, but what would be the largest exposure within that and also if you can give one more clarification about the diversified fees, whether it includes, I mean all kind of companies of that particular group because I think that question still remains open.

Romesh Sobti: I think you are becoming very specific. I don't think we are going to disclose more than this. We have disclosed that the figure is 1.9%, it embeds everything except IL&FS. IL&FS is now taken and it doesn't go to just 2 or 3 groups. We have taken every name that you are talking about in the market and names are added every second or third day, it is like shifting sands. If I tell you which is the largest, you will guess the company immediately therefore, I would have disclosed to you the name of the company, right? So, what we are saying is that the speculation is around a media company, a diversified company, a housing finance company and then there are some other small names being mentioned, we have clubbed them all together and this is the one number. Of course, there is no getting away that there is, if there are only 4 or 5, then obviously there is some lumpiness. That is a natural conclusion, right? But that will also be spread across 4 or 5 companies in that particular group. So, it is not concentrated. But I think the takeaway has to be this that the consolidated security of these companies is 140% of the exposure value, number one. Number two, we have taken funded and non-funded exposure and number three, of this 140% close to 60% is in the form of liquid listed securities, the values of which have actually gone up and our cover percentage which had fallen undoubtedly below that one level has now come into a comfort zone.

Vishal Goyal: So, but balances would be real estate, right, apart from the shares, like when you say valuation like a 140%, of collateral it has to be either property or some?

Romesh Sobti: It could be real estate.

Vishal Goyal: Okay. And sir I understand your limitation on disclosing names, but when we think about a stressed or watch list kind of concept for IndusInd Bank because some of the other banks are giving some disclosure, let us say BB and below, some of the banks are tracking those portfolios. So, should we think that our, below investment grade book is what should be watch list or you think that is also not the right way of looking at it.

Sanjay Mallik: I don't think you can club the entire sub-investment grade.

Sanjay Mallik: We have disclosed the sub investment grade book for 10 years and it has hovered around 10% of the Corporate book. Today it is about 7.5% of the Corporate book. Some of the stressed stuff you are talking about is already there; some of it may not be there. But the point is all of this last 10 year disclosure on sub-investment grade book has given us 50 basis point-60 basis point cost of credit. So, there has been cases of account bubbling 3 years ago, 5 years ago. There is some bubbling today and that is going to be part and parcel, it is the same sub investment grade and the same credit cost. Nothing has changed, if anything it has come down.

Sachin Seth: Sir, this is Sachin from I-Sec. What do you think are the changes that RBI might introduce to the 12th February circular and what you usually want out of that in terms of pragmatic changes?

Romesh Sobti: I mean, you are asking me to speak on behalf of RBI?

Sachin Seth: No, this is a very dangerous thing to do. What are you wishing for?

Romesh Sobti: I don’t think I can comment on that, but I will share with you some thoughts on this. The issue here is that the February 12 circular give special powers and mandated banks to without option, refer a case to NCLT. That option still remains with banks. That option has not been taken away by the Supreme Court judgment. I can voluntarily do it. So, what has happened is, the first two lists that came from RBI which is of 40 accounts those were mandatory. After that banks have done 100s of cases in NCLT, voluntarily without any direction from RBI because they saw it as a good way of doing it. Now, if that circular doesn’t stand, does it mean that you now go back to utilizing all the other ways you had of deferring recognitions? That is not going to happen. So, you don’t have the S4A, 5:25, CDR, those things are not going to happen. So, I am not going to preempt what the Reserve Bank is going to do. But I would say that, personally I feel that this discipline should not be dispensed with. This discipline should remain.

Sachin Seth: I understand sir. But I think one of the big potential obstructions was the whole 100% unanimous resolution required by all the lenders, you think that needs to come down?

Ramaswamy Meyyapan: So, I think there was discussion on the banks on project Sashakt, I think all of you are aware. There it was agreed that should be 66 and 2/3rd, 100% is difficult. But practically if we look at it, the banks which has Rs. 5 crores exposure and a bank that has Rs. 5000 crores is not going to give you the flow. So, that is why the banks when they formed that along with the IBA and led by Mr. Sunil Mehta and Amarchand I think was the lawyers, Sashakt was put together, it was two thirds. So, I think 100% will be difficult to achieve on a practical basis but we will have to see what Reserve Banks gives out but the banks together have indicated through their project Sashakt that two third is something for good.

Romesh Sobti: I think IBA made some recommendation, 66%.

Rakesh Kumar: Hi, Rakesh here from Elara Capital. Sir, just on the sequential basis we have seen some volatility in microfinance and developer book loan growth. So, there was a sharp jump on a sequential basis.

Romesh Sobti: Loan book growth?

Rakesh Kumar: Yes. In the MFI and the real estate developer book?

Romesh Sobti: No, the microfinance is only that in anticipation of the merger. On the date of the merger, all loans from other banks cannot stand on the books of Bharat Finance. That means the subsidiary of a bank cannot have lending from other banks. So, it is mandatory that those exposures will be extinguished and therefore we have started staging it in taking over those exposures. And that is why in March also a big chunk was taken over because in any case it would come to us. So, we have started taking that over. So, I don’t think there is volatility, there has been a steady increase and the figure you see now in our books is close to I think 13,000 crores because that embeds almost 80% of the book of Bharat already, end of March, but that has already come in. The other one you were talking about is?

Rakesh Kumar: The real estate developer book, around 600 crores…

Romesh Sobti: Very marginal. In absolute figures not very consequential.

Manish Shukla: Sir, this is Manish from Citi. Is there an overlap between the 1.9% and SMA-1 and 2?

Romesh Sobti: No, it is like this. It is the market which is calling them stressed. We are showing you our internal book, where are they? So, what would appear here, that it is 30 day overdue, 60 day overdue or 60 to 90 day overdue, that would reflect here.. It is not reflecting as on date. What is the stressed book that you have not paid me? That is what you call stressed, right? That you were not able to meet your commitments, that is the stressed part of it, right? That is part of SMA-2.

Manish Shukla: So, it is completely out of there.

Romesh Sobti: It is not there as of today.

Manish Shukla: Okay. The other thing sir is that a year back most of us would not have told that IL&FS will go the way it did. So, 140% collateral that you have against this, is there underlying cash flow problems with any of those books, any of those exposures and would you at some stage evaluate making contingency provisions even though they may not turn NPA? The point I am asking is how comfortable are you with the state of those groups or those specific exposures that you have?

Romesh Sobti: Yes. I cannot give you a definite answer. But if we do feel the need down the road for making a contingency provisioning, we will do that, even if the account is standard. We only coined this word of contingency. So, you can't be standard, you can't be specific providing for what is not NPA, so you can be distinct. So, if we see that degree of stress in a particular account, either you recognize that as a bad debt right away and you make your provisions as per your PCR or you make contingent provisioning. We have not had an occasion to do that except for that infrastructure company but going forward if there is a need we would certainly consider it.

Manish Shukla: Last data points of this MFI exposure, how much is BHAFIN of the 7%?

Romesh Sobti: We have got 80%.

Sanjay Mallik: Just wanted to clarify, that is an ENR. So, we have become a larger lender at the end of the financial year, it not an ANR. It is not an average.

Deepak Shinde: Hi sir. Deepak Shinde from SBICAP Securities. Despite the Bank's effort on CASA and retail deposits, the deposit concentration remains very high compared to some of the peer banks. So, could you share some data, how that deposit concentration trend is moving?

Romesh Sobti: You are talking about that top 20 depositors and things like that. So, it is like this. These depositors are for instance now if I have a government account on a fixed deposit and things like that, for instance we will take a PSU. PSUs for instance they have a minimum ticket size. If you want a deposit from a PSU, the minimum ticket size they would say is 1000 crores or 700 crores or 800 crores. Either you take deposit from them or you don't take deposits for them. That is why this concentration really happens in this thing. What we do to mitigate that risk is that every quarter you see new names changing in that top 20. So, it is not the same guy who is giving us every quarter, we churn because there are 30 or 40 sort of such companies that can give you deposits. So, we keep churning those deposits. So, that is the mitigation to that. But we have tried. It means that I stopped dealing with that. Now that I am dealing with the PSU and the PSU is now giving me FX business, they are opening LCs with me, all those sort of trade finance business all were doing it. I received the deposit, stopped. That is the whole issue around this thing. We have said okay, we will leave it to 700 crores or 600 crores it doesn't work. Anybody who wants to add to that?

Roopa Satish: We were conscious of the concentration in the top 20 depositors. So, we removed the CASA portion and looked at the term deposit. In the term deposit what we have done is consciously over the last 2 years reduced the concentration of the top 20. So, we put a sort of a ceiling as to how much we can take keeping in mind the constraints that Romesh just explained. Within those constraints just try to limit the per borrower bulk deposits that we can take to 800, to 1000, 1200 crores etcetera and consciously we have also given a plan on this to RBI and we have met all our targets that we have given to RBI. So, we have given a 5-year plan for reduction of this top 20 concentration in depositors and year-on-year we are reducing it.

Deepak Shinde: And my next question is on the fee income. You mentioned that substantial portion of our fee income is not even linked to balance sheet. So, how sustainable do you see this and what kind of growth we can expect on that fee income?

Romesh Sobti: We have sustained it for 11 years. I think that is a fair indication of sustainability. Even 10 years ago, 8 years ago or 7 years ago, a lot of our fee income came from without balance sheet. For instance, the entire distribution income. Distribution is what we distribute in insurance, we distribute in mutual funds, all those things. That has got no linkage to balance sheet. Then you got retail FX. No linkage to balance sheet. They are walk in businesses, this and that, no borrowings from those entities and I have shown you the numbers of retail FX versus corporate FX and things like that, so no linkage to balance sheet. Other than that I think what has linkage to balance sheet is for instance, loan processing fees, because if you give a loan only then you get this. Then general banking fees, zero linkage to balance sheet. Deposit related fees, zero linkage to balance sheet. So, that is why the construct has sustained over these years. Our attempt now is to take that from that 48% to 55% or 60%. That retail, that is why there is going to be a very strong drive to get more retail trade in FX, so this is where we are not using balance sheet or giving loans.

Deepak Shinde: One last question. What percentage of our corporate loan book would be structured financed or bridge financing?

Roopa Satish: We don't really track that number like that because the asset doesn't remain for a considerably long period within us. But typically whatever we underwrite we keep about 20% on our book and sell down 80%. So once we do that and the portion that we keep in our book is within what is acceptable to us, so it is within our overall wholesale book. So, it is mixed in the overall corporate banking book. We don't really track it and structured finance after that.

Romesh Sobti: See, the way the structured finance team is measured for success is, how much capital are we going to use because if we are going to use capital then you are not investment banking, you are corporate banking, right? I am lending and making a little bit of fees on the side and I am keeping it on my books. So, if you are saying I am going to syndicate it, then 6 months is your syndication period and beyond that you get a discount on your performance. That is the way they are measured for success. So, you cannot say that give me balance sheet and I will do structured finance, if that is the way it works, then you are a corporate banker. What is the difference between you and these things, isn't it? So, that is the way it works. We do syndicate, in fact if you see the syndication link tables in terms of number of transactions, we are #1, in terms of values of course we are #5. So, we have had pretty strong success on syndication everything and part of the fee of syndication actually reflects that success.

Nilanjan Karfa: Hi sir. Nilanjan from Jefferies. Did you just mention that you wrote off a 1000 crores from IL&FS? I mean was that a facility. I am just wondering because I thought there will be, obviously there are operating asset, 2-3 facilities and more and there will be one facility to the parent. So, what did you write-off exactly?

Romesh Sobti: See, you have total exposures, then you have provisions and within provisions say I have written off this amount. So, total provisions are 1650 crores and instead of that we wrote-off 1000 crores. Why do you write-off because of the tax benefits, right? You want to explain this?

S.V.Zaregaonkar: Now the 1000 crores written off will make us eligible to have a deduction in our tax assessment. So, that is the main reason which has driven us to write-off. Otherwise if I would have kept that entire provision in books it would have shown a higher PCR. PCR would have been instead of 43%, it would have been around 54%. So, write-off is a wise decision at this juncture because the amount involved was a significant one, so we have taken it to write-off stage and sought for the tax break.

Nilanjan Karfa: And probably a second question, I mean there is an IL&FS and then there are couple of groups of course in after 11 great years, I think the 12th year was terrible. Is there a learning, you talked about it, is there a learning that you, you know there are specific instances you will avoid and therefore do you foresee an impact on your overall ROAs?

Romesh Sobti: Of course there are learnings there. I think we talked for 10 minutes about the learnings and if an account becomes NPA it is massive impact on your ROA. So, that is the big learning. So, holding company I have already talked about, how do you finance holding companies? What do you finance holding companies against? You have only dividends and asset sales as your cash flows, so should you be financing? Yes, you could be financing against security of listed shares. Listed shares as you have seen over the last few months or quarters etcetera, how the value of listed shares also depletes very suddenly and some of these accounts that we are talking about in terms of stressed exposures the market is talking about is where there is huge amount of pledges of listed securities. So, they can cause problems. So, the learnings are huge, they have been absorbed. They have been incorporated in our risk shields and we are going forward and those sorts of pitfalls we don't fall into.

Thank you very much. Thank you for joining.