# "Q1 FY20 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen good day and welcome to the IndusInd Bank Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Romesh Sobti – Managing Director & CEO, IndusInd Bank Limited. Thank you and over to you sir.

**Romesh Sobti:** Good afternoon. Thank you for joining us. We have the whole management team as we normally have around the table. But today we have an additional member in the forum, Mr. M.R. Rao – the erstwhile MD & CEO of Bharat and also we have two of his colleagues from the management team, Ashish Damani and Ashish Pipaliya. So the whole team is in force here to answer any questions that you would have at the end of the 10 minutes that I will spend introducing.

Let me begin by talking about the headline. The headline for us this quarter of course is the merger, finally between the two entities, IndusInd Bank and Bharat Financial Inclusion. We had to wait about 2 years for this merger. But we are finally delighted that it has happened and if you were shareholders of Bharat Financial Inclusion then you would be happy to know that those shares are also being traded today. So in record time we have not only allotted shares but also made them eligible for trading as of today.

Other than that let me talk very broadly about the industry, the banking industry as a whole. I think the system deposit growth has been sort of around stable, around 10% or so. But credit growth seems to have come off a little bit. As far as deposits are concerned, we are certainly finding more liquidity in the market. Overall, the market was illiquid for a long time, was deficit I would say, not illiquid, for a long time. But liquidity turned positive and surplus from June onwards, and I think we have therefore seen a pretty sharp drop in June, especially in the second half of June in the cost of deposits. And just as an indicator, CD rates in that 1-2 year band are coming in the vicinity of 50 basis points lower than they were in the months of April and May. I think that is going to be a relief for the industry as a whole and especially a bank like us, which has seen an escalation in cost of deposits in the past couple of quarters.

Loan growth has come off, I think to around the 12% level from the 15% level due to the NBFC and sort of other liquidity issues, consumption slowdown, the pre-election sentiment, deleveraging in a tighter sort of credit environment generally. But in our book, of course, we saw a pretty handsome growth on both sides of the balance sheet. We saw a 26% growth in deposits, following a 29% growth in deposits that we saw in quarter 4. And our drive towards retailization of fixed deposits has continued to gather momentum, and that part of the deposit franchise grew 42% during quarter 1 of this year.

We are also seeing transmission of the MCLR. The margin transmission is happening at lower rates. But hopefully, as this happens, our fixed-rate book will be supportive to margin, so too is of course Bharat Financial Inclusion Ltd.

So the highlight for the quarter as I said was the merger, but other headlines I think would be very strong capital adequacy as was envisaged under the merger process. We have declared capital adequacy with quarter 1 profits goes to 15.5%, but in that, we have not yet included the preference capital that came in from the promoters. And if you take that, then I think we are nudging close to 16% with the promoter warrant subscription money on total capital adequacy.

The revenue side growth, and these are of course what we have presented today are consolidated results, but we also give you some flavors on the standalone figures for IndusInd Bank. So the consolidated revenue growth came at 32%, and that was supported by a fee growth of 28% and a net interest income growth of 34%.

So core fee also grew. We always show the core fee, and you see that in the investor presentation which has been uploaded on the site that the core fee continued to grow in the 20s. So it is a 22% growth there. And if you were to take IndusInd Bank on a standalone basis, then the overall fee actually grew by 23%. Consolidated fee growth is 28%, stand-alone fee growth of 23%. The other vectors that are noticeable are the reduction in the cost-to-income ratio, which is down to 2% from 44% to 42%.

If you look at now breakup of the loan book, firstly, I think in spite of the gloom and doom and the stories that we hear every day in the newspapers about the slowdown in the vehicle industry, the vehicle finance book grew by 24%, and this growth has been secular across all products despite the market slowdown. So I mean just to give you an indication, the commercial vehicle book grew by 20% while the utility vehicles grew 27%, cars grew 21%; 3-wheelers, 19%; 2-wheelers, 24%; tractors, 32% and so on. Overall, this growth is 24%.

The other component of course is the growth in the microfinance portfolio. That has of course grown by a humongous percentage, but that doesn't matter because the base is different with the addition of Bharat's book which as you would know that was migrating gradually already into IndusInd Bank's book because we were anticipating the merger to happen earlier than it actually happened. But the residual figures are also now included to our loan book. So that has grown pretty handsomely. The non-vehicle retail book grew in the early 20s, and the corporate book, I think, grew between, in the sort of late 15% to 20%.

The other, I think, feature to highlight really is the fact that the stressed book if you measure as the gross NPA has remained stable. So if you look at the total of gross NPA at 2.15 plus the restructured book at 9 basis points and the securities receipts at 30 basis points is stable quarter-on-quarter. But in line with the ambition that we have stated in terms of the credit cost, the net credit costs for the quarter was 15 basis points.

As we did last quarter, we have also declared the sectoral SMA-1 and SMA-2 data and you will notice from the presentation that these are actually half of what it was in quarter 4. So SMA-1 outstanding is at 18 basis points. SMA-2 outstanding is at 17 basis points and you can look at the sectoral breakup of that. Except for the bunching of a variety of industries, you don't see any sort of any large thing which is sticking out in terms of the SMA data.

The other, I think, highlight is the overall growth in the customer base, which is now at 21 million, which is boosted by the BFIL merger. And of course, fresh acquisitions continue apace. M.R. Rao will talk about the savings bank piece. And generally speaking, I think we have now quickened the pace of putting a savings bank behind every microfinance borrower. And yesterday, for instance, the run rate was 44,000 new savings bank accounts opened on the books of the bank on account of borrowers of Bharat Financial Inclusion. And we hope that the entire 7.5 million would be done if not in the calendar year, certainly in the financial year. And this is all paperless, digital onboarding on opening of the savings bank account. So we saw a customer base of 21 million as we closed the books.

Bharat Financial update, I think M.R. Rao will do that. But other than that, I think the only thing to mention is that the branch opening program has gone apace. We passed the 1,700 mark, and we are committed and stand committed to getting to the 2,000 branch network number at the end of this financial year and the closing of Planning Cycle 4 ahead of March 2020.

So again, for the planning cycle, I think we have stuck to most of the outcomes versus the plan in terms of loan growth, CASA ratio, revenue growth, return on risk weighted assets, branch network and the customer base. I will hand over to M.R. to talk about AUM growth et cetera, and the wholesale bank initiative as far as BFIL is concerned.

**M. R. Rao:** Sir, thank you. The portfolio outstanding as of June is at 17,497 crores, which is a 26% year-on-year growth while the quarter-on-quarter growth is flat. That is partly due to the fact that we tightened credit lending norms in a couple of states. We obviously felt that there was a bit of overheating. So just to illustrate a point, earlier, we were looking at an overall indebtedness of 80,000 per borrower and maybe 3 lenders as per the MFIN directive. We tightened the norms to 60,000 overall indebtedness and 2 lenders, and that has resulted in lower growth. We started this process in January itself. So while result was kind of finally came subsequently, we feel that there's a lot of over lending and the recent report that came out has kind of validated our thought process that there has been a bit of overheating. The recent report claims Orissa has 4% of its book which has more than 4 lenders and so on.

I think this is a temporary measure. Once the situation eases out, we will get back to our normal policies of lending at looking at the indebtedness at 80,000 and 3 borrowers. But this is not all over the country. This is just for a couple of more months, then the situation comes back to normal. Not all the states, only in these states of Orissa and West Bengal. Notwithstanding the tightening of norms, we are confident of growing at 35% for the year, backed on 20% to 25% growth in borrower base and a marginal increase in ticket size of 10% to 15% as the borrowers graduate from one cycle to the other.

The other 2 initiatives that I want to talk about as Mr. Sobti said savings account. But also I wanted to link that to be RDSP strategy that we have been talking about for quite a few years. So we have rolled out about 3,500 kirana stores in Orissa and Karnataka. About 2,500 are operational, and we see, in the last quarter, these kirana stores have done transactions worth 56 crores, out of which about 18 crores is by the borrowers and 38 crores is by the non-borrowers. This basically validates our theory that there is a huge need for branch banking transaction points in rural regions because the nearest banking outlet for most of these borrowers in these villages is about 5 to 10 kilometers. In terms of number of people who transacted in the last quarter, the borrowers were 19,000. We are yet to link the cashless centers to these kirana stores. The non-borrowers are about 1,23,000. So we are rolling out more and more kirana stores. Over the next couple of months, we will take this number to 10,000. And once we get a handle on the process, both in terms of rollout and the cash-in and cash-out process, the next phase of rollout will be much faster than what we have seen so far.

On the savings account front, we have launched the paperless savings account process based on Aadhaar e-KYC. And the whole process is taking about 30 seconds to 1 minute, and we intend to get every borrower to open a savings account and disburse the loan into that savings account. But more than that, we are encouraging the borrowers to park their small savings into these savings account. So there is a scheme of recurring deposit that we have launched to these borrowers, which is recurring deposit of Rs 50 to 100 per week. 50% of the borrowers are voluntarily opting for this. It is not a compulsory product. The fact that 50% of the women are opting for this small savings product is a testimony to the fact that we are fulfilling a basic need out in rural India for small savings product. Eventually, by the time we open the accounts for all the 7.5 million borrowers who are there now, by the time we open all of that probably we will have 9 million borrowers, we expect 4.5 million to 5 million borrowers to have recurring deposit accounts.

Going forward, we want to use the cash flow data in these savings account because we are disbursing into these account as well, the savings pattern based on recurring deposits in savings account and start lending to borrowers based on data analytics. And we can choose our customers for loans like education loan, 2-wheeler loan or even a housing loan. We have been telling strategy as well to investor community for quite some time. And I think this year we have laying a strong foundation for this to take off in the next couple of years.

With that, I'll hand it over back to Mr. Sobti.

**Romesh Sobti:** Yes. Thank you. Before we close, of course, there is much more that we want to tell you about the vehicle finance business, so maybe we can take it up in the Q&A. Just some data on the slippages. I think the bank wise slippages show that we came down year-on-year, actually even compared to the quarter 4, down to 1.56%, and the net slippage ratio was 0.5%.

With that, I think we can open the session to Q&A.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

**Kunal:** This is Kunal over here. Firstly, in terms of the corporate banking yield, so that seems to have now declined another 23 basis points over and above maybe last time there was IL&FS interest income reversal as well. So what is leading to this, you highlighted in terms of MCLR pass through, but is there anything further because in last 2 quarters, it has declined more than 80 odd basis points?

**Sanjay Mallik:** Yes. So I think if you look at the investor presentation, we have highlighted upfront two things: One is that we have consolidated numbers. So it is not comparative with the previous period. So second is that as per the practice of the banking sector, this is something that is even requested by investors to do, is to put the business banking and the micro financing into the consumer banking business. And so we just followed what everyone else does. So when you look at the yield on corporate banking versus consumer banking, the comparatives are not sort of there because in the previous period, we had business banking and microfinance as part of corporate and now it is part of consumer. And therefore, the 9.29% yield falling to 9.06% is only because of that change. And if you recall, last quarter we had given the same numbers excluding business banking and excluding MFI and excluding the IL&FS impact in a blurb and that was 9.06%. So essentially, corporate banking yield has not changed at all. The two quarters are not comparable.

**Kunal:** Okay. So last time, in this 9.06%, again, there would have been interest income reversal, which would have been booked out there. So I think this includes the impact of the interest income reversal in 9.06% while, this time, there is no such reversal and still there is a decline. So just broadly wanted to gauge what is the…?

**Sanjay Mallik:** There is no decline. It's just that we still have a net NPA sitting in our books, which is effectively a dead asset. There's no interest accrual on that asset, right? So out of the 3,000 crores that we lent to the infra group, we wrote off 1,000 crores, that left 2,000 crores. On the 2,000, we are holding provisions. So the net amount is what is sitting as a dead asset on our books. It has something like 60 crores-70 crores impact on net interest income. And I think just to add to that, I think it was mentioned in the opening remarks that the promoter money sort of came in on the 3rd or 4th of July, that actually even neutralized some of this impact. So we will have some free float to account for this dead asset as well.

**Kunal:** Okay. So what would be the margins for IndusInd standalone this quarter?

**Sanjay Mallik:** Standalone margins, obviously, I mean, it is a fairly straightforward computation. If you take Bharat Financial overall standalone, 5%-6% of the bank's book, we are talking about almost a 35 basis point movement.

**Kunal:** Yes, okay. So maybe from this overall consolidated just exclude that thing?

**Sanjay Mallik:** Yes.

**Romesh Sobti:** Margin has gone up compared to quarter 4 on a stand-alone basis also.

**Kunal:** Okay. And then, secondly, in terms of the vehicles, definitely, this quarter, we have done much better in terms of the overall growth. But the underlying feel I think they are quite disappointing at the OEM level. So how should we see the trend going forward? And it will have not gotten entirely reflected in one quarter itself, so do we see the moderation coming through? Maybe the market share gains will help us to report a very strong set.

**S V Parthasarathy:** Predominantly, I would say that when the market slows, only the serious players do operate. Well, we have close to about 25 to 30 players in the vehicle segment. 15 of them become dormant, only the stronger players always have market share gains. It not only applies to us but also to other serious players. We should be looking at probably the other serious players in the NBFC segment as well as the banking segment will also gain market share. Okay, one. Well, next quarter is also likely, I mean from whatever we have spoken with the manufacturers as well as the economic indications are that the next quarter is also likely to be more or less the same in terms of patterns. It is likely to be like this and real momentum should start coming to us from the festival season only. Come September, we would see that the market would improve for commercial vehicles as they move into BS-VI. And also sentiments on cars and other things will also improve. Until then, we will continue the same pattern.

**Moderator:** Okay. Thank you. The next question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

**Mahrukh Adajania:** On the BFIL liability repricing, is that impact entirely into the numbers now?

**Sanjay Mallik:** No. It is not entirely into the numbers because there are two things over here. The entire Bharat Financial liabilities have been taken out because in an M&A, you cannot grandfather even Rs. 1. So to that extent everything has been taken out. But I think if you look at it going forward, there is, for example, if you look at last quarter, when you do the amalgamation, when you do the pro forma, we have basically taken onboard Bharat Financials' cost for its residual balance sheet for last quarter which will effectively get refinanced by us at our cost of funds in the current quarter. And secondly, there is a certain amount of off-balance-sheet book, not the term loans from banks, but there are some sort of residual 1,811 crores of assigned assets sitting with other banks. They are in the process of running off. And I think in the next 6 months to 9 months that entire thing will also come back on to our books. Thirdly, I think it was mentioned earlier that this is largely a fixed-yield book. So the fixed-rate book, not just vehicle financing but also micro financing will take the fixed-rate book to 50% and because rates are falling quite sharply from probably around the middle of June, I think that benefit will also start to come through. So I think we are yet to see more in terms of margin potential.

**Mahrukh Adajania:** Maybe just on the liability repricing, is there a substantial thing left?

**Sanjay Mallik:** Yes, so in the last quarter, Bharat had about 4,000 odd crores residual that we still need to reprice. Then there will be overall 6,000 crores with assigned book. And in addition to that, the fact that we took on this balance sheet when rates were the highest will also start to play out.

**Mahrukh Adajania:** Okay. And just in terms of IL&FS, what would be the status on resolution, as in would we need more provisioning down the line on the holdco or what we hold is enough for the moment?

**Romesh Sobti:** I think we hold enough. And if things move along the lines that we anticipate, especially on the SPVs, the operating companies, where I think the bids I gathered will be opened shortly and from what we see is that the bids might be able to cover the whole debt, secured, unsecured subordinated and all that, in which case I think there is the possibility of an upside on the provisions that we have made 25% provisions that we made on the SPVs. At this point of time, we certainly don't feel the need for making any more provisions.

**Moderator:** Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

**Nishant Shah:** Yes. So couple of questions. So I think one, you have already firstly answered. So the loan growth on a standalone basis was 26% but the revenue growth was only 17%. If I understand correctly, this was entirely explained by the NIM, the 35 basis.

**Romesh Sobti:** Certainly, because the fee growth has been pretty strong.

**Nishant Shah:** Correct. Okay, fine. So that part is fine. Secondly, last quarter you mentioned that your stressed book was 1.9% of advances. This time it has come down to 1.67%, but this 1.67% is on a larger base I am assuming, right?

**Romesh Sobti:** No, plus also reduction and the larger base. Both are there. And we have also, I think, in the presentation said clearly that these are all standard in our books. Whatever repayments were due have been made. Interest has been serviced. So there are no overdoes in our books.

**Nishant Shah:** Fair enough. Could you just tell me what kind of absolute movements have happened like so if I calculate it roughly around 3,500 crores last quarter, what is the absolute amount today as of 1Q?

**Sanjay Mallik:** No, you can calculate it, right? So it is just a number which is 1.9 into the last quarter, now it's 1.67 into the current quarter, I mean, it is a simple number. Part of it is the base and more than half of it is because of reductions.

**Nishant Shah:** Okay, so basically, there is a 300 crores reduction, 150 crores is from upgrades or recoveries and the other is because of the base movement, correct?

**Sanjay Mallik:** No. 300 crores is the absolute reduction.

**Nishant Shah:** Okay. And just one last quick question. Has there been any yield increases taken in the BHAFIN micro finance book?

**M. R. Rao:** Interest rate continues to be 19.75%. There's no question of any yield increase.

**Moderator:** Thank you. The next question is from the line of Saikiran Pulavarthi from Haitong International. Please go ahead.

**Saikiran Pulavarthi:** Just 2 questions. So I think in the opening remarks, you mentioned that retail deposits have shown an absolute growth. If you can quantify that number as percentage of the overall deposits, that will be really helpful.

**Romesh Sobti:** So we have grown. If you look at our LCR also you'll see that our retail deposits have grown by about 5,600 crores in the quarter.

**Saikiran Pulavarthi:** Correct. And on the second thing actually if I look at the slippage number, retail slippages are higher than the historical run rate. Would you like to comment on that?

**Romesh Sobti:** No. I think again this is back to an earlier question that was asked about the yields. Because we have classified MFI and the business banking, the base has gone up. In percentage wise it has come down.

**Saikiran Pulavarthi:** Understood. And finally, on the PSLC fees, I think this is a new line item, which would have come in after the BHAFIN. Would you like to comment on how does this going to behave going forward?

**Suhail Chander:** So yes, PSLC fees are a function of trading in the priority sector portfolio. And as the portfolio has grown, the opportunity to trade has increased. The quantum that we can do is just like any other trading, it is a matter of our pricing is available in the market and is opportunistic. So whenever the pricing is good, we can sell and buy the portfolio. We have more than enough priority sector in order to meet our regulatory objectives. That gives us an opportunity to actually trade in this portfolio.

**Saikiran Pulavarthi:** And generally what are the yields which are available because post BHAFIN, you will be meeting the PSLC Board and above, what is regulatory required?

**Suhail Chander:** So it depends on the nature of the portfolio being sold because there are certain kinds of assets get better returns and others get left. But if I were to average it out, it is somewhere between 0.75% and 1%.

**Saikiran Pulavarthi:** Got it. And finally, on the vehicle finance portfolio. Is it fair to assume that the majority of the growth has come from the new vehicles or is there any contribution you would have seen on the used vehicles both on the commercial as well as passenger?

**S V Parthasarathy:** See, fundamentally we have been maintaining more or less the same kind of ratio. Our used to new is close to about the 20% of the books. Therefore, more or less the same kind of ratio has been maintained for this quarter as well.

**Moderator:** Thank you. The next question is from the line of from Piyush Chadda from Serendip. Please go ahead.

**Piyush Chadda:** I just wanted some color on the stress book since the last time you guided, I mean, rather do you spoke about a 1.9% exposure less than 3 months and I believe there's been a fair amount of activity in all of these 3 accounts? Is there now increasing confidence that a successful resolution of this stressed cases is possible?

**Romesh Sobti:** Certainly, I think the level of confidence is more than that was at the end of quarter 4. And I think that keeping in mind some of the initiatives that have been taken, in the case of one of them or two of them, also, I think the value of the securities that we hold gives us I think more confidence that this should get resolved sooner than later.

**Piyush Chadda:** Sure. And that translates into a consistent 60 basis point credit cost guidance for the year?

**Romesh Sobti:** Yes, 60 basis points we are seeking too. And I think the first quarter really reflects that on an annualized basis, actually on the end base, this should come out to 55 basis points if you were to annualize this as the base also keeps increasing. So we hope that we will keep this slippage of 5 basis points here and there I think it has to be accommodated.

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

**Jay Mundra:** First, just on this stressed asset movement. I believe you mentioned there are some 300 crores odd reduction. If you can also quantify now this time around we are seeing that this is net of the provisioning, standard asset provisioning that we would have done and there seems to be 126 crores of standard asset provisioning. So if you can bifurcate as to what is reduction is due to the repayment, normal repayment, if any? And what is due to the provisioning that we would have made?

**Romesh Sobti:** No standard provisioning. We don't set off against this.

**Sanjay Mallik:** Not standard provisioning. So as part of that, there is something in the investment books. So we have taken a mark-to-market provision. That's a little over 100 crores and the rest is repayment.

**Jay Mundra:** Sure, sir. And second is the clarification sir. In the press release we have said that this allotment of equity shares to BHAFIN is now shown under shares expense and does not form part of paid up capital, whereas if I look at the balance sheet in the PPT, that seems to having that transaction. So if you can clarify.

**S V Zaregaonkar:** Yes, this is the consolidation in line with the accounting standard 6 and accounting standard 14. This being an event happening will see a merger and effectively has happened on 4th of July. So as far as 1st April to 30th June is concerned, BFIL is not existing and that is why this is why the results are consolidated. The shares were issued to BFIL shareholders on 4th of July. So naturally, we cannot that as a share capital but we can assure that there's a share equivalence so it is shown as shares expense.

**Jay Mundra:** Okay. So this capital of 693 million, that includes the share allotment that we have done?

**Romesh Sobti:** That's right.

**Moderator:** Thank you. The next question is from the line of Adarsh P. from Nomura Securities. Please go ahead.

**Adarsh P.:** This on the credit risk weight. Wanted to understand the movement from 4Q that we had on IndusInd standalone, there is 17,000 crores increase from 1,82,000 crore to about 2,00,000 crore, about 17,000 crores. Firstly, this 7,000 crores - 8,000 crores of BHAFIN loan under the bank, how much of risk weight does that consume? And can you like add up the maths for the 17,000 crores of risk weight addition we have had in this quarter?

**S V Zaregaonkar:** The book value increase is 19,832 crores during the quarter. The risk-weighted asset of that is equal to 16,479. As far as the securitization credit announcement and portfolio BFIL is concerned, the total RWA is 2,661 crores.

**Sanjay Mallik:** So I think just to be clear, part of this increase in the risk-weighted assets created as a consequence of assignments that are not on our books currently. They are with other people. As and when it comes back to us, obviously, there is not going to be a further assignment. So as that happens, it will be carried at a risk weight of 75. Whereas, the additional risk weights, which are carried because there is a FLDG equivalent on an assignment is much higher in our books currently. So there is going to be a natural release of risk-weighted assets. This is just a little bit higher because of the merger.

**Adarsh P.:** Just to get this is right, from 4Q, you had already transferred some loans from BHAFIN to the IndusInd balance sheet in 4Q. So only a smaller part or say half the book remained in Bharat Financial before 4Q, right? So the transfer of loans that would have happened would have been more like 7,000 crores - 8,000 crores, which was BHAFIN's 4Q loan book number. Is that a correct statement?

**Sanjay Mallik:** Yes. That is correct. But the point is that there are lots of moving parts. We can do this offline, if you like. The point is that when we started taking on Bharat Financials' book because we anticipated the merger, in fact in the previous quarter, we were lending to Bharat Finance. And as you know, asset finance companies have got a dispensation. They got a benefit of not having banks carry 100% risk weight but to carry risk weight in conjunction with their external rating, which is AAA in the case of Bharat Financial. So effectively when we took on their loans, we took it on at 20% risk weight. Now it has gone up to 75% risk weight. So there are various moving parts over here. There are some benefits which have been reflected in the previous quarter.

**Adarsh P.:** Okay. So that 20% of half the book has become 75%, I understood it. And then, okay, the second question is related to LAP and some parts of retail book, where NPAs have gone up and consequently if I look at the sequential growth in those 2 segments there has been a slowdown, both in terms of LAP. So if you can just kind of talk about it? What's happening there? So sir, one is LAP. It is a small increase. But just wanted to understand because consequently there is a slowdown in growth as well there.

**Sumant Kathpalia:** So, LAP growth, the delinquency growth of the gross has happened because of certain MSME release which we had taken in Quarter 4, that has come back in Quarter 1 of this year. So last year, we had taken that release and it has come back. And that we have classified that as a gross NPA now. So this is about 34 to 35cr and it will come back as a recovery. So that is what it is there and will sort that out. The growth is slow because I think we are very cautious on how we grow the LAP book and this has been the same over the last 3 quarters or 4 quarters now. So we have not been growing LAP very aggressively and that is because the risk reward relationship we find is something that we want to be clear before we start growing the book.

**Adarsh P.:** Understood. And last question in general is from a balance sheet, overall balance sheet momentum or growth perspective. If you adjust whatever you would have taken from BHAFIN even the individual growth on a sequential basis is lower. There is some impact obviously coming from the general slowdown. So was it only that general slowdown that led to a sequential lower growth for IIB? I think your balance sheet size or your loan book is almost flat on Q-o-Q basis? So just wanted to understand that part or because you are taking on liabilities you wanted to slow down or…?

**Romesh Sobti:** No. So I think we plan our growth in the mid-20s. I think that's the way you should look at it, number one. Number two, we sold almost 7,500 crores of loans. So if we wanted it to be higher, it would have been much higher. So I would not read too much into that at all. I think you will continue to see the consolidated growth in the mid-20s and above going forward.

**Sanjay Mallik:** Y-o-Y basis.

**Romesh Sobti:** On Y-on-Y basis. Yes. Q-on-Q aberrations can come, but Y-o-Y will always remain that.

**Moderator:** Thank you. The next question is from the line of Antiksh Banerjee from ICICI Mutual Fund. Please go ahead.

**Antiksh Banerjee:** Yes, my question is actually to Mr. Rao. If I heard you correct, in the initial comments you mentioned about slowing down cautiously in Odisha and probably a couple of other states. But you also said that normalcy is expected to come back in a couple of months. I just wanted to understand how does that happen. And what event takes place in a couple of months for normalcy to happen?

**M. R. Rao:** No. I think the essential thing is today we are let us say offering a 30,000 loan. Somebody else is offering a 60,000 or a 70,000 loan to the same borrower. You know some of our borrowers have been with us for 3-4 years. So obviously they will shift there. So we have seen it in the past quite a number of times. This is a segment where you don't have income documents or cash flow documents. So if you tend to give higher ticket sizes you will soon pay the price of over lending. So what I estimate and we have seen in the past also, it being clear for a couple of months and better sense will prevail and the normal lending practices are resumed. That is when we know that we can go and loosen our lending norms to be in line with the industry. Today, our lending norms are tighter than what the industry is following essentially because we don't want to compete on ticket sizes or diluted norms.

**Antiksh Banerjee:** Sure. And is it only Odisha? Or are there other states also we are talking about?

**M. R. Rao:** Basically, some districts of Orissa and West Bengal. And Orissa there has been this cyclone effect also, right? While we have given voluntary moratorium and the repayments are at 99.5-plus percent, we thought this is a time to be cautious. We don't anticipate this becoming an all-India event.

**Antiksh Banerjee:** Sure. But if I got you correct, you mean there will be lesser number of players when you come back and go back to normalcy. Is that right?

**M. R. Rao:** I don't mean that. I mean, future is difficult to predict. But what I know is people who are lending high ticket sizes will soon pare down the ticket sizes as well when the portfolio starts playing up.

**Moderator:** Thank you. We have the last question from the line of Sohail Halai from Antique Stockbroking. Please go ahead.

**Sohail Halai:** Sir just on basically fees. So the corporate fees that you have given the break up. I assume that is only for first quarter FY '20 and that large corporate processing fees you have given as 5%. So that comes to roughly around 80 crores which was for the entire last year around 110 crores. So can you just explain like what is the kind of run rate that we can expect and how do we go about assessing these corporate fees, corporate loan processing fees?

**Roopa Satish:** Yes. Roopa here. The last year, the numbers are more indicative if you want to have a normalized sort of a number. The first quarter's number are typically higher because of a lot of annual activity happening in Quarter 1.

**Sohail Halai:** Okay. So this stream would actually slowdown in the quarters going forward?

**Roopa Satish:** The processing fee part for the large corporate. We do most of our large renewals and everything in this Q1.

**Sohail Halai:** Okay. And similarly, can I actually know what is the kind of a vehicle disbursement fees that we charge on an average?

**S V Parthasarathy:** It is a fairly competitive information. But I would rather say that it is directly linked to the market.

**Sohail Halai:** Okay. And sir, next question again comes to the BHAFIN merger. So in terms of if I look at your Slide 11, so is it right that the 4,000 crores of book has got transferred?

**Romesh Sobti:** Yes. In this particular quarter 4,000 crores has been transferred.

**Sohail Halai:** Yes. So last quarter, the on balance sheet book of BHAFIN was something like 7,700 crores, right? So is there a rundown from 3,000 crores?

**Romesh Sobti:** No. That was the AUM. That's the AUM because they had an off-balance sheet number as well.

**Sanjay Mallik:** The bank had given term loans to take care of their other liability. So that is already on my book.

**S V Zaregaonkar:** It is an inter-entity transaction, so it got knocked off. Here the advances have got knocked off and their borrowing has got knocked off.

**Sohail Halai:** Okay. And sir just to actually understand one more thing in terms of the merger, so now we have clocked around 4% kind of a NIM, 4.05%. So what kind of a further benefit do we expect because of the merger? Or a large part of it is already factored into our consolidated numbers of margins?

**Romesh Sobti:** So see there are 2 components to this, one is of course the standalone and of course there will be additional, the delta which has come because of Bharat. I think the Bharat, there will be some more synergies that will also improve our margins. But I think the upside there is really going to come more out of the movement in the bank's net interest income and the bank's NIM, right? There, of course we have said that we have experienced sort of harsher sort of pricing conditions in the deposit market for the industry as a whole. But that is now coming down pretty sharply. And we have seen in June it has actually come down. And so that is going to be a direct benefit accruing to us, especially because 50% of the loan book, including the loan book of Bharat Finance, which is MFI book and our vehicle finance book is a fixed rate book. I think that is going to drive margins. So the upside that we could see, whether 10 basis points or 15 basis points, could actually come out of the bank's book, a little bit out of the synergy that will happen as a consequence of the merger.

**Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Romesh Sobti:** Thank you for listening in and joining this call. We are happy to engage to answer any other queries you have on a one-to-one basis. Good day.

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