"IndusInd Bank Limited Q2 FY20 Earnings Conference Call"

October 10, 2019

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. M. R. RAO – CEO, BHARAT FINANCIAL INCLUSION LIMITED

Moderator: Good day, ladies and gentlemen and a very warm welcome to the IndusInd Bank Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Romesh Sobti – Managing Director & CEO of IndusInd Bank Limited. Thank you and over to you, Sir.

Romesh Sobti: Thank you. Good afternoon. Thank you for joining us. I will just go through some of the headlines on the operating environment and then talk more about the bank. The set of numbers are already loaded and the investor presentation is already on our site. This quarter we saw a rapid deceleration in GDP growth but consequently we saw some very agile and fleet-footed responses from both the RBI and the government to ease the situation. So a slew of measures have been taken. Some of them are sectoral, for instance sectoral measures for NBFC sector or auto sector, real estate sector etc. These are meant to release liquidity and capital in the hands of banks to persuade banks to start relending. I think the other major headline was moving to an external benchmark; this shows that banks have made a choice to move some benchmarks from first of October. I will talk about that later. These are the broad headlines.

The tax cut has beneficial impact and we will talk about this later on this call. The general sensing is that the cyclical elements that are prevailing and also contributing to the slowdown may show some signs of easing out especially over the next couple of quarters. Some of the structural elements might linger on for a longer time. So that is a quick review of the operating environment. The market is liquid, banks have surplus liquidity of almost 2 lakh crores. So there is plenty of money in the bag. The question is about banks risk averseness and if there is a way out of the risk averseness.

System credit, overall we have seen came down 10% and deposit growth also came down by almost the same level to around 10%. So in this operating environment, I think we have come up with a good set of results. The highlights here of course are growth in both revenue and our fee income, which has supported 32% growth in our overall revenue. Good growth I am saying in interest income and also in fee income, both of which have grown by 32%. More importantly, quarter-on-quarter also we have seen some good growth levels of 2% on NII, 4% on fee and 3% on overall revenue. So this number is pretty robust. Of course, this has been supported by loan growth of 21% and we will talk a little bit more about the breakup of that and deposit growth has remained strong at 23%.

For several quarters now, we have shown deposit growth well into the 20s. The quality of the loan book has remained steady. In fact, for reasons that we will explain, net NPAs have actually gone down. The actual profit and we are talking of here is the consolidated profit because subsidiary is a very thin subsidiary. In any case, this will be a consolidated number as we had reported last time and the consolidated figure that we have shown for profit is 1,401 crores which is up 52%. I think the point to be highlighted here is that the actual profit that we have was something like 1,667 crores because it was fed also by tax cut benefits that we got that also contributed to the very strong growth in the PAT up to 1,667 crores, but we have chosen to strengthen the balance sheet by improving the provision coverage ratio, which has now moved up from 43% to 50% through an accelerated provisioning of 355 crores. So while the natural profit would have been higher, we have kept the profit low by making a provision and I think this is a good first step towards moving towards well past 60% that we hope to achieve in terms of provision coverage ratio, which is what we have said in the last couple of quarters.

Let me talk about the tax benefit. We did have a tax benefit for the half year net of the mark to market on the DTA, which is a deferred tax asset. They have been marked down and net of the mark down itself, we still had a good contribution from taxation in the vicinity of about 186 odd crores. So that has contributed to profit and of course there has been natural growth which also contributed to the profit figure if you are talking of the figure of 1,667 odd crores.

Other than that, let us talk about credit growth. Credit growth is 21% and if you are looking for breakup of the credit growth, then we have seen the vehicle finance book grow by 21%, the non-vehicle retail at 18%, MFI grew 32%, the corporate bank, if you took on an average basis, was actually almost 14%, but because we have had very good size repayments and recoveries on a quarter end to quarter end basis which is ENR basis, it grew 7%. That is depressed only to the extent of actual repayments because I think in the process we had also sold some assets, we sold assets of 3,000 crores compared to I think last quarter in the vicinity of 6,000 odd crores. So the average growth of course is almost 14%. So that is the colour on the loan book. As far as fee is concerned, fee grew by 31% and quarter on quarter grew as much as 4%. Breakup of that fee is given in the presentation almost all the lines that we declare have shown a positive growth. General banking fee is flat. Investment banking fee has a small variation because investment banking fee moves up and down in terms of its overall lumpiness. So core fee growth still in 21%. Total fee growth of 32 odd percent.

Other than that, CASA we showed was 41.5%. I think on the last day of the quarter, there were some withdrawals on the SA side which had subsequently come back. So we are not so worried on the trending, but in spite of that the SA growth was 14% and still quarter-on-quarter, it grew about 1%. Also, there was a large escrow that was lying in the current account on account of a particular resolution where we have recovered lot of money that has gone and now sort of petered off and gone down significantly. So other than that, I think in terms of the book quality, GNPA was 2.15% last quarter, now 2.19%, but net NPA fallen from 1.23% to 1.12% and the business as usual credit cost is coming to 18 basis points. Besides which, we had as I mentioned made the accelerated provisioning of 355 odd crores.

Other than that, I think the only thing to be talked about is given in the investor presentation, we have detailed that in the investor presentation that there were 3 groups; one each in media diversified group and the housing finance sectors which have been circulated as being stressed. We had declared the Bank's net funded and nonfunded exposure to these groups in quarter 4. In quarter 4, it was 1.9%; in quarter 1, it was 1.7%; in quarter 2 end, it is down to 1.1% and it is our expectation that in the next week or 10 days, this should be down to 0.8%, so there has been significant repayments that have happened. These accounts remained standard in our books and we continue to have consolidated security cover of 160% for the exposures which are held by us and as I said, all the above accounts remained standard in the books.

Additionally, since there was conjecture in the market on a particular housing finance cum real estate company, for that group we had disclosed to the stock exchanges an exposure of 0.35% of loans to their financing business, not just housing, their financing business. Mostly it is housing as on date that has gone down to 0.27% from that 0.35%-odd, so of course there is exposure also to the real estate part of that group. That exposure as on date is 0.45% and we expect to reduce that to 0.2% with scheduled repayments and prepayments which are going to happen in this particular quarter and as we have said repeatedly, all exposures are fully strongly collateralized with no overdues. So I think this conjecture and to some extent misread and misreporting of the figures relating to this particular group are not borne out. We have declared to the exchanges the real picture and we have also shown you how the exposures have actually reduced overtime. That is, I think the summary of the numbers. Anything else do you want to talk about?

Sanjay Mallik: Yes, may be a couple of things, so I think one of the things people talk about is the retail deposit traction. I am happy to state that the retail deposits on an LCR basis are up roughly 51% year-on-year. The other element I think is that quarter on quarter as a consequence of the subscription to warrants by the promoters, the capital of the bank is now 15.7% on a CRAR basis and if I take the residual portion of the warrants to come in, then we would be past the 16.7% type of number, so just a couple of quick points.

Romesh Sobti: Okay, we will open to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pranav Gupta from Birla Sun Life. Please go ahead.

Pranav Gupta: Just a couple of questions, so this quarter obviously and including last quarter we reported including Bharat Financial whereas the same quarter last year we didn't, if you could give us some colour on how the NII has moved, if you look at IndusInd Bank on a standalone basis it will be helpful.

Romesh Sobti: You see the NIM expansion of 5 basis points, that expansion can be attributed entirely to IndusInd Bank on a standalone basis. I think we had shown in quarter 4 a NIM for the bank at 3.59% that has moved to 3.64% in quarter 1 and now it is around 3.69% in quarter 2, so that is the split, so as we had said and forecast, the benefits of falling cost of deposits on the one hand and the fixed rate book on the other hand is beginning to give us those benefits and I think that we will continue seeing more accretion on the interest margin. I mean our ambition really is that at the peak if you would remember the NIM of the bank alone was 3.98% or close to that figure and then when that event happened, when we suspended interest on the large infrastructure exposure, the NIM actually fell to that figure of 3.59% and our experience is that in a falling interest rate scenario, clearly we have benefits in terms of margin because of the fixed rate book that we have, clearly. In every downturn in terms of interest rates, we have increased our margin, so our ambition here is that we slowly move away up to that figure of at least 3.9% and then I think Bharat's contribution remains in the range of 35 basis points or 40 basis points and therefore that should be the ambition that you should be upward the 4.25% on the interest margin.

Pranav Gupta: Secondly, if I were to understand this correctly, there were bids which were received for certain road assets in the IL&FS group, one of those assets which we had an exposure to as well, what is the progress there if you could help us with that?

Romesh Sobti: I wish I could. What we know is probably what you know, but the bids, I believe bids have come in, bids have been opened, technical evaluations, etc., are being done, have been done, overall. Our sensing is that in early quarter 4, I think these bids will be allotted. That is what we heard, so therefore hopefully some resolution will happen before the fiscal year end happens. Now what the bids are, to what extent they cover the debt is to be seen, but I think the one particular asset that you mentioned which is the very strategic asset which we have always said should get good response, hopefully has got a good response and hopefully will cover a significant part of the exposures that we have there.

Pranav Gupta: And just lastly on the growth front, so we have seen lot of slowdown but a slight different growth and if I were to adjust for the Bharat Financial impact on a Y-o-Y basis, growth looks even slower, so how are we looking at growth overall on an overall basis?

Romesh Sobti: I think for us, it is not that we are pushing growth at a certain level, whatever goes through your credit screens is your growth. That is the way we look at it and I think Bharat is certainly going to get back on track. There was a little bit of an impact as a consequence of floods, in terms of disbursements, but that is now petering out. Month on month, we are seeing very good growth, for instance, September over August, the growth of 9% is what we have seen. Please don't forget that is after we have sold down almost 3,000 crores plus the significant recoveries or repayments that we have had from especially these so called stressed accounts, so if you allow for that then I think growing in the 20s is what we are looking for without doing an unusual stretch.

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

Kunal Shah: Firstly, in terms of the overlap between SMA1, SMA2 and the three accounts which we have disclosed, so when we look at in SMA1 and SMA2, there is something which has flown into NBFC and the other industry, so is there an overlap between this, 1.1% and may be the overall 0.96%?

Sanjay Mallik: The overlap is 15 to 20 basis points.

Kunal Shah: 15 to 20 bps and in terms of the sub-investment category which we highlighted last time was almost 3.1% of the book, so how much would that be given, there have been few downgrades which have been there across, so if you can disclose that number as well?

Sanjay Mallik: No, it is the same level. It is just very marginally up. It is exactly in line with the sub-investment grade book that we declared internally. There is virtually no difference.

Kunal Shah: And in terms of the overall MFI NPAs, that has gone up from, say 60 odd basis points to 90 plus, so any particular geographies wherein we are seeing this and what would be the overall growth in the MFI on a sequential basis as well, so last time it was more or less flat, so this time also 18,000 crores, but if we have to look at in terms of BHAFIN, the stance of going slow is still continuing?

M.R. Rao: No, the NPA number is the momentary problem because of the floods. Essentially what happens is when the floods hit this sector, especially the poor, their day to day operations are disrupted. The repayments are back almost to 98%-99% in these areas, but the areas that were there at the time of floods and the moratorium that we would have given will continue, so a 50 week loan will probably now end up becoming the 55th week or 58-week loans and when the flood happened, the disbursals also get impacted in these areas and this time unlike all the previous years, the floods have impacted multiple states; Orissa, Maharashtra, Bihar, parts of Madhya Pradesh and so on, so therefore you saw that probably across the industry, it is kind of a flat growth but once the situation normalizes, we will start seeing growth. As Mr. Sobti pointed out, in September, there was a 9% growth over August, so you see the growth momentum is back. On the conservative approach, I think we will always continue to maintain a slightly more conservative approach than the rest of the industry because that has paid off lot of dividends in the past. I hope I have answered all the questions that you asked.

Kunal Shah: And in terms of the overall IndusInd book last time we disclosed the standalone book at 1,89,900 crores, so what is that number this quarter in Q2?

Sanjay Mallik: You are talking about the loan book, right?

Kunal Shah: Yes, loan book.

Sanjay Mallik: So the loan book is you net out the microfinance business and about 2,000 odd crores is the bank's BC business outside Bharat Financial and that could be the difference.

Kunal Shah: So 18-2?

Sanjay Mallik: That is right, so Bharat is about 17 and the rest will be just under 2,000 crores.

Kunal Shah: Okay, so we have to knock that off. Sir, last time also the overall book was may be 189, but when we showed it, it was like IBL plus BHAFIN that was 193, so maybe it was not mere knocking off from the MFI and the BHAFIN portfolio, so just wanted to check if I have to look at purely IndusInd?

Suhail Chander: In quarter one, the numbers would have included loans to Bharat Finance also because it was not yet merged and so you cannot just net it off because it is not applicable. In quarter 1, there were term loans given by IndusInd to Bharat Finance because we were already replacing other banks, so there is an overlap there, so if you just net off, you won't come to the right number.

Kunal Shah: Sir, just to understand IndusInd book growth, how much would that be?

Sanjay Mallik: IndusInd book growth, if you look at the retail business for example, the vehicle finance business has grown 21%, nonvehicle retail has grown 18%, MFI which is all put together has grown 32%, the corporate business has grown slower, the average is at around 14 to 15% but the ENR (Period End) numbers are in single digits, 7% mainly because of these repayments and the overall Bank growth would be around 14% without counting the fact that the underlying repayments have happened and the sell downs which have happened, otherwise the numbers would have been in the high teens.

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

Saikiran Pulavarthi: Just quickly on the liabilities, I think the CASA has been weakened; however, the retail liabilities as a percentage of the overall deposits have been improving, how do you look at what I can say the deposits, while at the same point of time, the cost of deposits have come down, but similarly the cost of funds has not come down meaningfully, how do you want to look at your funding profile going forward? Thanks.

Romesh Sobti: I think first of all, this retailization drive is going to continue. That clearly has many benefits to us, mobilization of the retail deposits we have been doing this at a rate of about 5,000 crores, 6,000 crores every quarter, this is certainly going to continue. You will see one trend this quarter is actually that borrowings have come down. There is 10% degrowth in our borrowings because we found that the cost of deposits is now actually lower than the cost of the borrowings and in fact during the quarter end, we repaid or prepaid some $450 millions of borrowing and there was a small cost which was linked to that and that has not been factored in when you look at the cost of funds. So that is why you have not seen the cost of funds fall to the same extent but I think the benefits that are growing to us from the prepayment, I think will have impact in the next few quarters, so that is how we view this continued impetus in growth on retailizations of deposits. The toggle between borrowings and deposits will continue with a strong focus on retail deposits.

Sumanth Kathpalia: And on the CASA side, I think we have always said that we will continue to grow the SA piece at about 25% to 30% CAGR, I think this quarter we have grown 14% because we did lose a significant amount of money in the last day of the quarter and I think we see the growth happening, the retailization growth continues, we continue to acquire 1,30,000 accounts, we continue to see our average ticket size being around Rs. 70,000 now. We will continue to do this drive and I think with two new initiatives on the way, one is Pioneer and the other is the NRI business which have taken off, I think you will continue to see this drive happening.

Romesh Sobti: Pioneer is the wealth management platform which we have launched in 7 cities, so that I think will bring in significant AUMs and the other one is, the NRI business where we are making a very strong push to boost up this particular segment, which in the past has not been addressed with the same vigor.

Saikiran Pulavarthi: And the second question, on the corporate slippages and then the overall slippages as well has been relatively higher even if one has to adjust for the technical, what I can say the slippages this quarter, would you like to comment on the reasons and then what you expect going forward?

Romesh Sobti: I think what you need to see is additions and deductions, so if you look at it on a net basis, net slippages have actually fallen, I think they have fallen from a figure of 0.54% to a figure of 0.35%, so these additions and subtractions were of a technical nature**.** You see that the net addition to gross NPA was only 170 crores in the whole process, but the gross block looks larger because the deduction figure is also pretty large, so I think you should be looking at the net slippage. The net slippage is only 35 basis points. Actually in quarter one this year, it was 0.54 and net slippage is now down to 0.35.

Saikiran Pulavarthi: Sir, is there any change in the recognition policy of NPAs probably this year or it is the same?

Romesh Sobti: No. See, you can't make changes on your own as they are all defined by RBI, I mean the only thing is that now we have fully moved to a fully automated basis recognition of NPA on a daily basis.

Saikiran Pulavarthi: Even in the last year also remain the same, that is on the daily basis or is that the daily basis has happened this year?

Romesh Sobti: No. It is progressively growing. Portfolios after portfolio, we started going in. So last year was partial. Actually last year corporate was pretty significant and retail, of course now we will get on to the daily basis recognition of retail also, but corporate we had moved pretty significantly last year also.

Saikiran Pulavarthi: Got it. So essentially the better way to look at this number is on the net slippage number there than the gross slippage number is what you are saying?

Romesh Sobti: Absolutely. That is what really comes into your book.

Saikiran Pulavarthi: Got it. And the final question on the SMA-1 and SMA-2, again there is significant deterioration and also the SMA-2 is primarily higher on the other industry. Would you like to comment on that?

Romesh Sobti: Yeah. First of all, this is not so singnificant. I mean, we are talking about 0.58% SMA-2 data and that also you know there is one particular account which is in the process of getting resolved because we are monetizing the securities that we hold, where of course significant recoveries already happened. You take that off, it is in the vicinity of 0.45%, and I think it remains well in control. The others segment are really spread across a few accounts. So there are no large figures that sit in there, it is spread across a number of accounts of small values.

Saikiran Pulavarthi: Do you foresee that getting into the corporate slippages as such or do you think that these are primarily technical in nature might get resolved over a period of time?

Romesh Sobti: Yeah, I think we expect a very high degree of resolution here. We do not expect many of these to actually slip into a doubtful nature or substandard.

Romesh Sobti: Yeah, if you see SMA-1 number is much smaller.

Ramaswamy Meyyapan: SMA number is much smaller showing rest of the book is okay. So these are only specific accounts where resolution is being worked on.

Sanjay Mallik: We have also highlighted that there is one which should get resolved pretty soon in the course of this month, so that is also a significant part of the SMA-2.

Saikiran Pulavarthi: Got it. And one final thing, one of your interviews early this month, you hinted about the potential CEO change announcement this month, would you like to comment on that?

Romesh Sobti: I think the comment has been made, you have to wait for the announcement. But that is the prerogative of the Board. We have said many times, it is the Board that decides, so management doesn’t really take those decisions.

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

Jai Mundra: Sir, on these 3 large bulky stressed exposures, can you sort of revisit the LGD assumption because now a lot of things have changed, in one of the groups there has been some stake sale. The other there was some resolution which was prepared by the consortium leader and third group also there was some resolution which was proposed. So can you highlight what is your sense of LGD in each of these names?

Romesh Sobti: I think fair indication of that would be from the trending that we could see over the last 2 quarters. So from 1.9% they are already down to 1.1% and with the resolution that we are expecting, we made a note of this thing that we should actually go down even further because of the monetization that is happening to figure of about 0.8%. Our best case scenario is that there is no residual impact on the P&L on these, especially if the resolution happens of that particular HFC and for the other two, actually we don’t see any residual impact. The HFC one is what we are watching the way the resolution plan plays out, but that is where we are a bond holder. There we have already done mark-to-market mark-downs

already. So we hope that the best case scenario here is that no residual loss is given or residual loss is a small and a more digestible number.

Jai Mundra: Sure Sir. And Sir could you also talk about the ICA which you would have signed in standard cases or would be in pipeline, maybe the number of cases where you would have signed the ICA and the quantum?

Sanjay Mallik: So the total ICA signed is 0.18% of our loan book.

Jai Mundra: Okay, great Sir. And this would include the sign as well as pipeline. I mean, very near term pipeline or…

Sanjay Mallik: Yes.

Jai Mundra: Sure. And second question is Sir, I mean the Chairman position is vacant as of now, so I don't know if you can comment if you want to fill that position now nor you are waiting for of course some other contingent events?

Romesh Sobti: That decision also lies with the Board. But I don't think anybody is going to wait for contingencies. That position is going to be filled up and you will probably see that happening sooner than later.

Ja Mundra: Sure Sir. And Sir if you have the write-off number for second quarter that would be helpful. And as you mentioned in your previous question that in retail slippages we are still not on fully daily stamping basis as in full portfolio, right?

Sanjay Mallik: Everything is on daily basis. Only the vehicle part is moving product by product, it is on monthly, so that is moving to daily.

Jai Mundra: Sure Sir. I just need the write-off amount in second quarter and if you have the first quarter as well, thank you.

Sanjay Mallik: Can I give it you separately, we don't have it ready here?

Jai Mundra: Sure, no issues. Thanks.

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

Adarsh Parasrampuria: Sir, just wanted your comments on growth, on the non-vehicle or non-retail side, in the context that if we try and see the YoY trend, it is almost not growing for some time and pulling down the overall growth. And in the same context you have been able to migrate the portfolio a lot towards the retail because vehicles have continued to grow and in that context your margin improvement has not been adequate for the loan mix change for the improving liquidity and the slower growth which kind of helps improve your balance sheet composition if you can comment on both these things?

Romesh Sobti: I will just pick up the second one first. The loan mix growth actually is more optical because these were already there in our books. So MFI for instance which is a high earner in terms of interest rate is to be part of the corporate book, right? Now I think for two quarters or three quarters ago, we sort of said that right because the legacy was that the corporate banks started doing the micro finance business and therefore it kept on and now with the addition of Bharat which adds very significant weightage to this portfolio, we have sort of declassified it from corporate and moved it to retail. The other one was the business banking group, which is always managed by the consumer bank but was classified in corporate and that has also been moved to retail. So I think this is more optical in that sense. The margin expansion is not a consequence yet of the reset in the construct of the book. The margin expansion today is happening on account of the fact that we have fixed rate book, large fixed rate book, almost half the book is fixed rate and the cost of funding and deposit is actually falling. I think going forward we will expect that more than the optics, real change happens in the mix between corporate and retail and therefore a little bit of bump up in terms of the margin should actually happen, that was the second part of your question. The first part of your question…

Adarsh Parasrampuria: Non-vehicle retail assets.

Sumanth Kathpalia: So, on the non-vehicle assets, there are different components of the non-vehicle assets, there are secured assets which are the BBG and LAP and then there is an unsecured business which is BL, PL and the cards business. And of course, and agri on the secured. I think the first two parts of the business we said about LAP, we have slowed down LAP for two years and we are growing at 8% to 10% CAGR and that is one of the reasons why the book is not growing, it's 10,000 crores of that book. The other part of the book is on the BBG piece which is the S of the SME, I think last 12 months we have not seen a good growth on that book because we are growing at 10%-14% and more importantly, it is because the balance sheets which were coming in were not very good to us and we did not approve a lot of credit as a consequence of this. Unsecured continues to grow at the pace which it was growing, we have not seen any slowdown on that. We continue to grow at the pace of 25%-30%. We are not seeing any issues on that book. So we continue to be on that, so that is one of the reasons. The big chunky part of that book which is 20,000-21,000-22,000 crores has actually slowed down and that is why the growth is looking a little damped and is looking about 18% right now.

Adarsh Parasrampuria: Now thinking about the momentum right, so when I add BHAFIN's book to your base which is the way one should look at it, you are down to like 13%-14% growth and your revenue growth is down to under 10%, so that was what I was pointing to. Nevertheless, the second question was on trying to be a little more proactive about while you have disclosed top three, you know these three accounts and how the exposure is moving, if you see in the last 3-6 months more accounts are at least facing problems, either it be the NBFC HFC space, telecom space you are seeing a lot of competition, so I am referring to names like Vodafone, Piramal, you know Indiabulls you have disclosed details. So just wanted to understand how you all are thinking about these accounts? Do you want to create contingencies given how difficult it has got for these companies to operate in the current environment?

Romesh Sobti: Yeah, I think that our preparation, first of all I think in terms of fresh accounts that are being talked about, I think even for a particular HFC cum real estate company, we disclosed our exposure because there was a lot of misconception and misreads on that. But to the larger question on this is for us is really a lot of this gets absorbed in the business as usual credit cost. I mean if I look at the last 10 years there is no year where we didn't have a few of these accounts, they always come. That is where the credit cost actually comes from, right? So the credit cost whatever 60-70-75 basis points or whatever we will achieve is a consequence of these, right? That has been sort of taken care of in our run rate in terms of our earnings profile. The other part where we are more focused now is really to bump up the provision coverage ratio and I think that is why we have, instead of showing much higher profit that we could have shown , used this to raise our PCR, you will see in quarter 3 as well, we will move aggressively towards raising our provision coverage ratio and I think we have the means and the ammunition to actually move that and in doing so, we have not yet taken into account any possible recoveries that may happen. These are repayments which have happened, the recoveries are for those already classified as NPAs and there is the large infrastructure exposure in which we hope some resolution will happen well before the fiscal year end. So that is how we are preparing for the future.

Adarsh Parasrampuria: Sorry Sir. Just harping on this question again, right, while I agree that you made some disclosures incrementally on your exposure to the real estate cum NBFC group, there are more NBFCs or HFCs facing problems and then you have telecom accounts where there are both fund and non-fund exposure. So I am just trying to think, I am just trying to understand from a company angle, how much of these large exposures would worry you and how should investors from IIB's perspective look at these accounts because while you say that they get absorbed in run rate, the last 6-quarter credit cost for the bank is 170-180 basis points including ILFS and whatever has happened. It has been 2.5x – 3x of the normal credit cost. And some of these bulky names are fundamentally getting weak, I don't know if weak enough to get to this point of becoming credit cost for the banks, I was just trying to understand how do you think about some of these emerging risks because they certainly cannot be part of the normal credit cost of the bank.

Romesh Sobti: Yeah. So I think the same question would have been raised 6 months or 8 months ago when these 3 bulky accounts were mentioned, right? These 3 bulky exposures were also being mentioned there and see how they have been resolved. So there were such a lot of a hullabaloo about them. We know how we were secured, we know what the repayment programs and possibilities were. So this is how it works. If you had seen this particular diversified group exposure 6 months ago or 8 months ago, you would have said the same thing about that. Now the question here is, only we know what is the construct of our security there, what is the monetizability of our security there; we know the cash flows on these accounts and we also have a proactive way of dealing with them, in the sense that you don't sit tight and wait for repayments to happen. You work very actively towards resolution and recoveries, this is the whole job of these teams who also market, to also makes sure that we don't get hits on these accounts. So the issue here is that you can talk about the other accounts that have been mentioned are much smaller values as far as we are concerned, but even in the telecom account you particularly mentioned, yeah sure, that is the main name, but I think we are seeing the beginnings of I think a slightly more supportive regime as far as telecom is concerned because we have seen blood bath over the last 5-7 years and the number of players have shrunk from how many to down to only 3, so the question is whether India will live with the duopoly finally or a monopoly or will there 3 people who will survive. Now the particular entity you talk about, today of course has a solid sort of a net worth and has also pumped in money. Certainly I think we have a plan, so we are not sitting tight on this plan, the first part of the plan was to strengthen our security which we have done and that is why you are seeing the registration of charges which people have picked up. The exposure was already there, now it is secured and that is why a charge has been filed. That is how you actually move on this basis. So I think there is a clear cut resolution plan and of course exit plans are in place and that is how you were seeing that these particular 3 groups how we have reduced our exposures.

Adarsh Parasrampuria: I understood. Perfect. And Sir last question is what was the investment provision that you had during the quarter? Can you just split the provision, give the provision breakup?

Sanjay Mallik: Can I give it to you later? I don't have it right here.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak. Please go ahead.

M. B. Mahesh: Just a few questions again pertaining on the NPL line. On the corporate slippages for this quarter, can you just kind of give us some color as to what is the nature of these slippages and from which sectors have they come from? The reported stress that you had reported on the three accounts? And also if you can clarify the rational as to why would you declare the account as a technical one and also write-off in the same quarter.

Sanjay Mallik: No, there is nothing there from those 3 accounts. Those 3 accounts are all cash repayments. So the reduction that you have seen from 1.9% to 1.7% down to 1.1% which will soon become 0.8% is all cash repayment. There is no provision or write-off, no nothing.

M. B. Mahesh: Finally, then what would explain the slippage for the quarter?

Sanjay Mallik: So there are some technical, so for example under IRAC, I mean frankly it is an internal issue as well. There are a few accounts that were not renewed beyond 90 days and therefore once they were renewed, they were added back to deductions. So it is actually an account renewal process that unfortunately got a bit delayed.

Romesh Sobti: The credit is to be renewed every 12 months, it's a RBI requirement that there is a renewal of the facility that will be done every 12 months. Now if there is a delay in getting the, the balance sheet and all, then technically if it crosses 180 days…

Ramaswamy Meyyapan: That from the original review date if it crosses 180 days without completing the annual review, then the IRAC norms requires you to classify it as a non-substandard asset. Once the review is complete, again there is no delay in payments or dues, there was no other thing. It is purely technical in nature. Since there were some delays and receipt of the details for review, we have now…

Romesh Sobti: It could be a one day, 2 days.

Ramaswamy Meyyapan: It was only one day in these cases, but because on a daily NPA basis and we are automated, they slipped the NPAs and the reviews are complete and they have been upgraded.

Romesh Sobti: That is why you are seeing additions and deductions, very large figures on deductions as well.

Romesh Sobti: The net result of the increase in our gross NPA is 170 crores.

M. B. Mahesh: Perfect. Second question is on the NBFC exposure, again, you have seen an increase on a sequential basis for other than HFC, we have seen this across the board for the entire sector as well. Can you broadly give us some color as to what are you guys seeing which is positive that the bond market is not seeing too favorably at this point in time?

Romesh Sobti: In every sector there are good companies that you still compete for. I mean for instance, the sector of the gold finance companies, those companies are doing extremely well.

Roopa Satish: Retail NBFCs and bank subsidiaries with strong sponsors we took some exposures on them. And that is where you see the increase coming from. They are you know 200-300, etc. given to few 3-4 large NBFCs that we are very comfortable, they are extremely highly rated companies.

Roopa Satish: Yeah. Largely Retail not corporate lending NBFC, they are all retail focused NBFCs, gold finance…

M. B. Mahesh: For us to get some color on what are you having in this 3.7% of loan book on the NBFC side, some color on what is the composition between retail-wholesale, within retail some color on, something more on whether it is conglomerate say as in businesses which are in multiline businesses of NBFCs or single line, some color to just get some handle on this business?

Sanjay Mallik: There is a variety, I mean there is gold, there are multinational subsidiaries, there is vehicle finance, all kinds of…

Roopa Satish: Difficult to do that because you know most NBFCs have diversified. They perhaps start in corporate and then they shift their focus into retail and over a period of time they have mix of businesses. So it is very difficult to put them into one particular slot. So we have not split the NBFC exposures like that except real estate NBFCs which kind of standout and we were not there in the NBFC that went bad, but so the real estate NBFC sort of standouts in that manner. The other NBFCs mostly have multiple businesses and it is difficult to really classify them this way or that way. So we can only say that some NBFCs have a preferred bias towards retail lending and some very specialized NBFCs like gold loans, like in gold loans NBFCs are also easy to distinguish and we have created a bias towards those, very large NBFCs with very large sponsors.

M. B. Mahesh: Just two questions, one, the retail on slippages this quarter at 600 odd levels, you have explained part of it because of MFI, is there anything if you just kind of give us some color as to what other sectors have contributed to these?

Romesh Sobti: I think the vehicle finance has these additions and deductions which also work on the same basis.

S. V. Parthasarthy: It is more or less the same. It is not significantly deteriorated or improved.

Romesh Sobti: So you see, in the consumer that mostly on the vehicle finance side, you will see additions and you will see deductions, deduction means it will be restored to its standard status because of payment of installment. That is why you have a large movement both on additions and deductions.

M. B. Mahesh: Perfect. And last one Sir, the coverage ratio calculation that you have, does it include the contingent provision as well?

Romesh Sobti: There is no contingent provisioning in our book.

Sanjay Mallik: We have a floating provision.

M. B. Mahesh: That floating provision which is there of 355 crores…

Romesh Sobti: No, that is the specific provisions. Those are accelerated provisioning. We have only one floating provision of 50 crores, we have no contingent provisioning now.

M. B. Mahesh: Sorry. There is an extra provisioning of 355 crores for the quarter, that is part of your coverage ratio?

Romesh Sobti: Yes.

Sanjay Mallik: It was done with that purpose in mind, to take it to 50%.

Romesh Sobti: This provisioning was done only for that purpose.

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

Amit Premchandani: You had clarified, but again I just want to ask, these 3 accounts, this dropped to 1.1% from 1.9%. Everything is related to repayments, right? There is no provision which you have done against these 3 accounts?

Romesh Sobti: No. All repayments.

Sanjay Mallik: There is a very small provision which is a mark-to-market on a bond, but that is immaterial frankly. It is a very small provision. All repayments from 1.9% to 1.1%. If I account for the provision it may be 1.15%, gross have come in through cash.

Amit Premchandani: And this 257 crores SMA-2 against NBFC, is there an overlap in this against the 3 accounts or if there is some other line item…

Sanjay Mallik: Yeah. So there is an item of 257 crores, I think, which is the overlap between the three accounts, one of the 3 accounts and the SMA-2 and therefore both will go down by 257 crores very shortly.

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

Romesh Sobti: Thank you again for joining us. I am sure as usual we will do a lot of one-on-ones in the coming days. Good day.

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