IndusInd Bank

"IndusInd Bank Limited Q1 FY-21 Earnings Conference Call"

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IndusInd Bank

CHORUS CALL®

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Moderator: Ladies and gentlemen good day and welcome to the IndusInd Bank Limited Q1 FY21 Earnings Conference call. As reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kathpalia - Managing Director & CEO, IndusInd Bank. Thank you and over to you, sir.

Sumant Kathpalia: Good evening. I know it has been a hectic day for you with lot of banks declaring their results so thank you for joining the call. I will start with some macro commentary and then go into some bank specific details.

At the macro level, India has been through one of the most stringent lockdowns across the world. The country is however opening up in a phased manner since May. Many ultra-high-frequency indicators such as power demand, fuel consumption, E-Way bills, toll collections, et cetera, have shown rapid improvement in the last couple of months. The economic activity implied by these indicators is now down only 10% to 15% year-on-year. However, pace of recovery may slow going forward as the pent-up demand due to lockdown eases and reintroduction of lockdowns in some containment zones.

Rural economy, nevertheless, continues to be faring better than the urban side, and that is evident in our portfolio as well. Overall credit growth is still hovering around 6%, and the issues remain due to risk awareness in the financial system from redemption pressure on mutual fund, lower appetite for non AAA bonds, also due to some perception around credit funds. Credit growth may benefit with some shift from the bond market to banks, interest capitalization and MSME schemes.

I believe the government and RBI are taking a calibrated approach to assess the actual economic impact of COVID-19 and the measures announced so far. There is room for further fiscal and monetary measures depending on how economic activity pans out. The Rs. 3 trillion support for MSME's is a very good initiative with sanctions by the bank reaching 40% of the target.

Now coming to the bank specific commentary. During the quarter, we focused on:

- Ensuring minimal disruption due to COVID-19. Over 90% of our branches were operational at all times with no disruption in client servicing.
- Deposit mobilization, we saw 5% quarter-on-quarter growth with retail deposits growth of greater than Rs. 5,000 crores despite the lockdown.
- Building liquidity buffers - we now carry Rs. 30,000 crores, as evident in our balance sheet, of excess liquidity.
- Stability in operating profits - Q1 PPOP margin at 3.95%,
- conservative asset recognition and provisioning, accelerated slippages by not allowing day count freeze and improved PCR to 67%.
- Raising capital to boost CRAR.

I will first talk about capital, and you all would have seen the Board has approved a preferential issue of capital of Rs. 3,288 crores or $440 million. The fund raise will add 125 basis points to our capital adequacy, taking our overall CRAR to around 16.5%. This includes the existing 15.16% plus 14 basis point points of current quarter profit, plus 1.25% from the capital raised.

The issue saw participation from strategic as well as long-term investors. The promoters of the bank are also participating in the fundraise to maintain their 15% holding, reflecting their continued support and confidence they have in the bank. Shares to be issued to Route One, Tata, ICICI Prudential and AIA will have a one-year lock-in being qualified institutional buyers while issue to promoters and Hinduja Capital will be locked in for 3 years being nonqualified institutional buyers.

With stable and growing liability base and comfortable capital buffers, the bank is well positioned for growth as and when the economy recovers. In terms of some of the operational highlights, in the context of COVID, we changed our approach from moratorium 1.0 to moratorium 2.0. In moratorium 1.0, we had offered a lockdown to all eligible retail customers and opt-in for corporate customers. In 2.0, we are following an opt-in for all customers across retail and corporate segments, except microfinance, which remains an opt-out due to the nature of the business.

We continue to run educational campaigns on collections across the portfolio, notwithstanding the availability of moratorium. At the overall bank level, the portfolio under moratorium is 14%, excluding microfinance. Of this, 90% is secured. As said earlier, microfinance is on opt-out model, but we are seeing good traction on collections. Adjusting for MFI customers who have paid more than 4 installments, bank-level moratorium will be 16%. These numbers are all by value of the loan. And if we use volume numbers for retail, then the respective numbers would be 8% and 11%. About 92% of the customers in moratorium 2.0 have also availed moratorium 1.0.

At the segment level, we have retail portfolio at 19% under moratorium and corporate at 9% by value. A considerable section of our customer base is eligible for guaranteed emergency credit line and have cumulatively sanctions of Rs. 3,200 crores. However, less than 2% of the eligible customers have so far taken this facility amounting to Rs. 117 crores disbursement, impaling comfortable liquidity position with these borrowers. We have seen sizable number of customers taking moratorium and still paying their dues. There has been numerous combinations of customers who have taken moratorium for 1 or 2 months, taken just for interest or principal or have paid money in the account, but not applied towards installment, et cetera. All these combinations create confusion, and I believe the right metric to look at is the trend in collection efficiency and by when it will get back to normalcy for assessing the recovery rather than just the moratorium number.

Keeping that in mind, I want to share recent performance of some of our portfolios to give you broader color on how we are trending. A significant part of our portfolio is in rural, semi-urban areas, which are comparatively less affected and hence have seen good recovery post relaxation in lockdown.

Vehicle financing: We believe our focus on small road transport operators will keep us in good stead in this crisis as well. This being a largely owner-operator segment, it is not impacted by the lack of drivers that may impact fleet operators. Current slowdown in the CV sales is also helping the existing capacity with better utilization. We saw strong improvement in collection efficiency from a low of 30%-35% in April to around 75% currently. We have over 30 years of operating history with more than 70% repeat customers. The credit behavior for 3 decades is unlikely to change due to a 3-month payment holiday, in my opinion. Portfolio under moratorium is less than 20% by value and 10% by volume.

Microfinance: We kept constant engagement with our client base and did over 6 crore calls since the lockdown began. That helped us hit the ground running when the rural areas opened up in May. We have seen rapid increase in the collection efficiency every week as can be seen in the disclosure. The trends so far are better than what we had seen post-demonetization. Our collections are tracking well over 80% of the weekly due. Over 82% of our customers have started paying. And if we exclude customers who have access issues, over 92% of our customers have paid some of their installments post relaxation in lockdown. The uniqueness of the portfolio in terms of geographic diversification, rural focus, ticket sizes and exposure much below the industry, weekly collection, professional management with years of experience are key differentiators that we believe will help us outperform in the industry in this crisis as well.

Other retail products: LAP and business banking are well secured portfolios with low LTV and typically provide residential properties as collateral. The churn in these accounts indicate activity level at the customer level is back to 80% to 85%, which means businesses are steadily returning to normalcy. Our credit card book is just 3% of the overall loans. About 15% of our customers have opted for moratorium and repayment. And resolution rate is at 70%. We continue to see recovery in card spent, which are at 82% of the pre-COVID level. Personal loans and other unsecured portfolios are quite small and do not turn the needle for the bank.

Corporate bank: Portfolio under moratorium is 9%. Of this, large corporate segment has lower, while mid and small corporates have a higher proportion under moratorium. We have seen corporates opting for moratorium out of caution and preserving liquidity. Borrowers opting for moratorium are spread across multiple sectors. In terms of sensitive sectors, in real estate, we have 10% of the book in moratorium. 92 out of 98 projects have started construction substantially, while the balance are in resource mobilization mode and expect to resume construction soon. In NBFCs and HFCs, we do not have any clients on moratorium and there are no overdues as of June.

Gems and jewelry: The portfolio continues to remain maintain resilience despite the current turbulence. The customer base is paying their installment except for a small 5cr exposure, which has availed moratorium.

In mid corporate, portfolio churn is at 85% to 90%, of the last quarter as is, indicating that the business operations activity across for the customers. Our exposures to severely affected sectors such as travel, tourism, education, et cetera, are small, but are being monitored continuously.

We refrained from providing relief to visibly weak accounts and have accelerated NPA recognition in such cases, which I will talk about later.

I also want to highlight one additional disclosure on fund and non-funded BBB rated book of the corporate segment of roughly Rs. 46,000 crores. We wanted to show you, (1), the book has portfolios, which inherently get rated at BBB, but their credit behavior is superior, examples gems and jewelry, which has no NPA. (2) Book is granular and well collateralized, example, real estate and lease rental discounting. (3) Across the cycle, slippages has been steady at 0.4%. We do closely monitor credit behavior of this book, and our internal ratings are conservative compared to external rating. Credit outcome so far has been in a narrow range.

We have completed our second stress test sensitivity analysis reassessing our initial assumptions. In stress test 2, we incorporated recent economic trends on recovery as well as borrowers' behavior and feedback to fine-tune our earlier assumption. We continue to believe that rural, MFI and vehicle finance segments will perform much better than the perception that is being made out. However, due to the sharp contraction in demand and based on our actual observation on the ground, we believe net incremental slippages due to COVID will be 92 basis points versus 83 basis points in stress test 1.0. Combined with higher PCR ambition, our incremental provision cost for the year due to COVID is estimated at 65 basis points versus 53 basis points in stress test 1.0. Please note that this is before loss given default, i.e. realisation of security held for the lending. We are seeing minor fluctuations in collections depending on certain areas getting locked down again and that risk of COVID remains.

We have made additional provision of Rs. 920 crores this quarter, taking our total COVID-19 provision to Rs. 1,203 crores, which is broadly in line with the outcomes of our stress test outcome. We remain conservative on our provisioning approach. And if required, we will make further provisions in the coming quarters if recovery remains weaker than expected. At this stage, we hold total COVID provision representing 90% of our provision required estimated in stress test 2.0.

Next, I would like to comment on the financial highlights of the quarter and full year. Quarter 1 witnessed steady operating performance with revenues up by 1% year-on-year and operating profit at Rs. 2,950 crores, which is up by 13% year-on-year. Our PPOP over assets was healthy at 3.95%. Net interest income grew by 16% year-on-year despite loan growth of only 2% year-on-year. NIM improved 3 basis points from 4.25% to 4.28%, driven by a fall in cost of deposits sequentially.

Other income was down by 9% due to lower client fees impacted by the lockdown and lower economic activity. Treasury income was strong due to surplus securities and lower rates. And this income was used to increase our provision cover. We still carry good MTM position and can monetize that at an appropriate time.

We saw good traction on our deposits during the quarter with 5% quarter-on-quarter growth. We ramped up our digital acquisition during the lockdown, followed by resumption in the physical acquisition in June with relaxation in lockdown. Our June customer acquisitions were higher than the pre-COVID level. We improved the deposit mix as well as by reducing contribution of certificate of deposits to below 10% versus around 15% quarter-on-quarter. Our credit to deposit ratio improved to around 94%. Bulk of the value growth happened towards end May and end June once the lockdown was relaxed. While we are paying a tactical premium for our fixed deposit utilization maybe for another 1 or 2 quarters, our overall cost of deposits fell by 32 basis points due to re-pricing of old book and a sharp reduction in the corporate deposit rates. Further, as borrowings are also getting re-priced lower, our cost of funds fell by 42 basis points quarter-on-quarter.

After the events of last quarter, we have taken proactive steps to shore up our liquidity, and our quarter-end LCR was at 139% and an average LCR of 124%. We are carrying excess liquidity of greater than Rs. 30,000 crores currently in the form of government / AAA securities or bank balances. Our borrowing book of Rs. 60,000 crores has only 12% in short-term borrowings other than borrowing against our money market instruments.

We have slowed our disbursement due to COVID-19 during the quarter and also sold down some corporate loans, resulting in a 2% year-on-year loan growth. This resulted in the loan mix improving in favor of retail business at 58% to 42% for the corporate bank. This also has a benefit of slightly reducing the RWA intensity from 84% to 82%.

Operating costs were down by 1% year-on-year, 11% quarter-on-quarter, resulting in the cost-to-income ratio of 39% from 43% quarter-on-quarter. The cost saving accrued on account of lower disbursements and activity reflecting the variability in some business cost structures, and therefore, costs will go up on revenue pickup.

Our total provisions were at Rs. 2,259 crores. During the quarter, we have increased our PCR from 63% to 67%. We have raised COVID-19-related provisions to Rs. 1,203 crores from Rs. 283 crores last quarter. We have also made a further standard provision of Rs. 75 crores for the telecom sector in addition to the existing Rs. 75 crores standard provision.

We have recognized and made provisions this quarter on weak accounts, both in the corporate and consumer side. We have accounted for the provision impact. However 90% of the slippages are due to conservative recognition on standard accounts. With these recognitions, our SMA1 and 2 overdue book of 70bps as of March 2020 gets reduced to 35bps.

While GNPA is flattish at 2.5% despite accelerated slippages and denominator effect, net NPA fell from 0.91% to 0.86% due to higher PCR ratio. We have fully written off our exposure to large infra group at both holdco and SPV level. Our provision coverage ratio, including specific standard and floating provision, stands at 96% of the loan-related provisions and the loan-related provision stands at 2.5% of the loan book.

Our PAT for the quarter was Rs. 510 crores. Our capital adequacy improved to 15.16% due to lower intensity quarter-on-quarter. CRAR, including quarter 1 profit, would be 15.3% versus 15.04% last quarter.

In conclusion, we have progressed on retailization of deposits, liabilities leading the growth and conservative loan recognition and provisioning. I think this balance sheet realignment coming at the right time and comfortable capital adequacy will position us for the growth revival likely in the second half of the year. Our vehicle division is already seeing initial signs of recovery. 2-wheelers, tractors and cars are quickly getting back to pre-COVID levels. Commercial Vehicles should follow post-monsoon. Microfinance disbursements in volume terms are already at 86% of pre-COVID, but we have conservatively dropped the ticket sizes for now. We are fine-tuning our corporate loans towards working capital and granular loans. We aim to grow deposits by around 5% quarter-on-quarter along with the CASA ratio above 40%. So overall, we are executing the business build-out philosophy outlined in the quarter 4 analyst call. That is all for now, and we can open up the call for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Yes. So firstly, in terms of when we look at it, the way the moratorium would have come off, maybe currently, you highlighted, it is around about 14%-odd. So how has it come off from April and May levels? And what would be the over dues, which would be there, which is not a part of the moratorium at this point in time. So maybe we haven't recovered anything out there?

Sumant Kathpalia: First of all, our moratorium with MFI book is 16% and moratorium without the MFI book is 14%. That is on value basis; on volume basis, it is: excluding MFI, 8%; and with MFI, 11%.. We had almost half of the book in moratorium in the first part of our moratorium of which consumer was around 75% and the corporate was at 23%. Customers who availed moratorium 1 have either started paying or have taken morat 2. Most of the customers had already paid their March instalment before moratorium 1 was announced. We also received some collections in April and May as well, so the actual impact of moratorium 1 is only delay in collections for one to 1.5 months instalments. This will get recovered over the tenure of the borrowers. Moratorium 1 as such is now history and what matters is how many opt for Morat 2 and collections post that. If you look at it, in moratorium 2, 16% of the bank book is under moratorium, 19% is consumer, 9% is corporate, of which collections have started.

Sanjay Mallik: Just to clarify. I just want to go through the numbers again, because these things can be a little confusing. So in moratorium 2, 16% of the bank is in moratorium, 19% is from consumer and 9% is from corporate. We are down by 34% for the bank as a whole, of which 14% is corporate and all of them are paying or they remain under moratorium. So today, we are at 9%. Out of the 56% in consumer, 46%, which is almost 2/3 or a little more than 2/3, are actually paying. And only 10% is where collections have not started. So it is just the 10% of consumer now, which is the list of clients who may take moratorium 2, because it is still available till August, or start paying dues or may eventually slip into NPA. So it is a mix of 3 or 4 buckets which is still 10% which is in-determinant. Everything else is absolutely clear.

Kunal Shah: Yes. So on retail, sorry, again to touch upon. So corporate was down from 23% to 9%, correct? And retail was down from more than 70% to 19% odd in value terms.

Sumant Kathpalia: 75% down to 19%, right. That means 56%.

Kunal Shah: Yes. So that is almost, say, 75% to 19%, so that is almost 56% odd. Out of this, you are saying 46% are actually paying and 10% are where collections have not yet started, the breakup of this 56%, proper? Yes. And so on corporate, again, from 23% to 9%, so there, in terms of the similar kind of a breakup, what you have highlighted out of this 14%, how much are paying and how much where collections are not there?

Sanjay Mallik: Corporate is 100%, Kunal. So it is really down from 23% minus 9% is 14%. And it stays at 9%.

Kunal Shah: Okay, cool.

Kunal Shah: And all 14% are paying?

Sanjay Mallik: Yes. And as far as consumer is concerned, 75% minus 19% is 56%. And about 65%=70% of them are paying and about 10% odd are not paying or not determinate yet as of right now. So this 10% of the portfolio is where customers will engage in August to determine whether they should move to moratorium or whether they will start paying, because the collection efficiency is going up. And a small percentage of that would also flow into NPA. So that part is the only part that is a little bit indeterminate right now.

Kunal Shah: And this would be which segment, in retail?

Sanjay Mallik: Yes, that is 10% of consumer.

Kunal Shah: No. So within consumer, maybe 10%, which product segment would it be concentrated or is it across?

Sanjay Mallik: Across the segment, and it is not really different across the segment.

Kunal Shah: Okay. Sure. And the second question is on the corporate book. So in fact, when we look at it, largely, the rundown, which is there on the loan book, that is primarily on the corporate side. So what would be the reason for that? Is it like there are maybe the transfers, which are happening because our MCLR is much higher, maybe almost like 150, 160 bps higher compared to most of the other players?

So are we seeing some kind of a business transitioning away from IndusInd to some other banks? And if that is the case, how should we look at this entire portfolio? And given this kind of MCLR, what would be our stance in terms of the overall corporate growth? And given that on the deposits now, it is overall, we are seeing accretion, so any plan to further reduce the deposit rates as well as MCLR, which we have not touched much over last 2-odd quarters?

Sumant Kathpalia: So let me answer this question. I think on the corporate book side, we had sold down our Rs. 3,600 crores of corporate exposure to bring our CD ratio down to less than 100%, and that is at 94% as of now. And we want to bring it between 90% to 95%, and that is our benchmark, which we want to maintain. On the corporate side of the book, I think we also saw some repayments coming in, in the NBFC as well as gems and jewelry book. And I think these payments are important to be tracked, and I think we saw some repayment. Our disbursement has been slow right now. We were very cautious at this point of time in taking fresh disbursement or fresh approvals as of now. So there is nothing to say that we are not competitive in the corporate market. We know the segment which we want to operate in. And I think we are very good in those segments. And we will become more granular, it will become more retail. But I think corporate book will come back. It is only a matter of time. We are just being cautious as of now in growing our book. On the corporate side, we just want to see how the COVID completely plays out. And if we grow, we are looking at AA and AAA rated breakup for the time being. What was the second question?

Kunal Shah: So in terms of the strategy on the deposits, the rates as well as MCLR if anything because we have been the lowest amongst all the private banks?

Sumant Kathpalia: Let me tell you, Kunal, and I think you have a valid question, and we have been asked this question. I think we have kept our term deposit rate on the retail side elevated, not on the wholesale side of the book, which is the bulk deposits. We are as competitive as anybody on the bulk deposit side of the business, which is the wholesale side of the deposit. I think one of the reasons why we have to do it was if you look at the Basel-III disclosure in the LCR, these are low and a lot of people penalize us for being low on the LCR side, which was at 35%. If I go back to the history of the bank, you know that the bank was set up as a business owner segment bank and our focus was to get to the business owner segment and we never focused on the individual segment in a big way. Over a period of time now, we feel that we have now got relevant size, we must grow our retail side at this points of time. I think the best way to grow is the term deposit route and where we kept it elevated. Our target is to mobilize Rs. 30,000 crores of term deposits at a ticket size of less than Rs. 2 crores so that we actually mobilize a large number of clients and then start cross-selling them savings accounts. During lockdown period, we had no options other than to do that. Will we change our rate? I think I told you the hurdle rate is Rs. 30,000 crores. As and when we reach that number, I think we will see where we are. And at that point of time, the retail LCR for us would be around 54 to 55, which is the best-in-class in the industry under the Basel-III disclosure. We want to get to be in the top 3 or the top 2 players on the Basel-III disclosure. We want to get there. And I think we have chosen this way to do it. And I think over a period of time, yes, by 3 quarters away, you will see the interest rate of deposits coming down.

Sanjay Mallik: Yes. Kunal, I just want to come back to the first question that was laid because there was a small error in my table. So I just want to reconcile the number. Okay. So corporate was 23% moratorium 1, down to 9% moratorium 2, which leaves 14%, all of whom are paid, okay? So that is corporate. As far as retail is concerned, 75% moratorium 1, down to 19% moratorium 2 which means 56% is the change. 46% are paying and the 10% can go in 3 different directions. So just to reiterate those numbers.

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

Adarsh Parasrampuria: Thanks for the disclosure on BBB book on the corporate side. So can you just clarify now, of the corporate moratorium, how much of that is from the BBB book, if you can just indicate that?

Sumant Kathpalia: It may be slightly higher than 9%. I do not think we disclose that, but I think it is slightly higher than 9%. We have also disclosed that over the cycle, our credit cost on that book or the total provision is not more than 40 basis points on that book. And I think we are not seeing anything different on that book as of now. So if you are saying that that is why we gave the disclosure, it was because I thought there was a little bit of speculation, which was being done on that book. We wanted to give comfort to the communities that our credit cost in that book has been over cycle 40 basis points, and we are not seeing any disturbing trends on the BBB-rated book as of now.

Adarsh Parasrampuria: Got it. And this is useful in terms of what you have disclosed on retail gems and jewelry in LRD. Can you speak about the other 2 parts, which is the small corporate and the other exposure? And that forms like hardly 50% of this book, right? And it is a fairly large book again. So to start off, this is extremely granular disclosure. But any sense on the other 2 parts, either in terms of sectors or?

Sanjay Mallik: Yes. So I think, look, it is impossible to give a complete breakup, so we try to break it up as much as possible. Just to recap, in gems and jewelry, we have not had an NPA for years together. Lease rental discounting same answer. Real estate, no NPAs. Non-funded exposure very short term. Then you have the other 2 segments that you talked about. The small corporates, which has less than Rs. 100 crores ticket size, are pretty small. There were very, very small sub-segments over there of maybe about Rs. 1,000 crores to Rs. 1,500 crores, which is sort of in that, a little more stressed segment of education, travel and tourism and things like that. It is a very small exposure in the other 2 segments.

But having said that, even in the other exposures, which are slightly bigger, where 24% of the BBB book is in about 50 to 60 clients. We have the entire exposure, almost 100%, 97% is collateralized. There is hardly any SMA1 or 2. And it has behaved well. I do not know what more breakup we can give you, but I think what we are trying to explain is that it is slightly granular. The 5-year slippage rate is only 40 basis points. Excluding that ILFS issue, the 5-year average is only 40 basis points.

And let me also highlight it is extremely important to understand that we have seen in our credit committees the way that these portfolios are being rated, because this is the internal rating that we provide you. We have seen over a period of 12 to 18 months, the external rating of these borrowers, including in the 2 segments that we talked about, falling down to our internal rating. So what I am trying to say is that the external rating of this BBB book will be between a notch to 2 notches higher in the external world. So we will probably be in that A minus to BBB plus, on an average, if you were to do an external rating on this BBB book.

Adarsh Parasrampuria: The second question is on the fee side, right? So obviously, there was less activity. And so we saw loan processing and investment banking come down. I just wanted to understand from the corporate-fee angle, which would be investment banking and loan processing, is it that this is just like a 2, 3 quarter disruption? Or given that there is a change in stance of what we are trying to do on the corporate side, structurally, one should not factor in like pre-COVID kind of fee momentum in some of these lines, right? So specifically, investment banking and s of loan processing, which was coming on the corporate side?

Sumant Kathpalia: Like I told you, I think if you look at our fees, I think we were very balanced, as you see, where 50% to 55% of our fee should be consumer; 28% to 30% of our fees should be the global markets or the non client fee, which we call it; and 20% to 25% of our fee would be corporate bank. And I think we like that model. If you are talking that the corporate fee was made out of structured finance, we have done that disclosure enough earlier also in our presentations, it is only 2% to 3% of our fee. So it is not going to move the needle either way.

I think what we will see is corporate bank will come back. And I think it will come back more and we will also do some investment banking like debt syndication, we will continue to come in that league table. But yes, our corporate exposure will be more granular, will be more transaction-oriented rather than term loan oriented. That is the only difference, which we are trying to say.

But yes, the fee, yes, may soften for 2, 3 quarters before it settles down, but it will start coming back. And I think the retail fee, I think, will go down, because you know why the retail fee went down due to Covid. It was because there was no business activity which was happening. You will see a good momentum in the retail fee in the second quarter. And from third and fourth quarter, you will see it pick up growth, which is coming. Of course, COVID is the unknown factor, and we have to also see how the country opens up. There are certain states which are closed again. And I think in my opinion, I think our fee may not grow. It may be constant year on year, but I think we will reach the levels of last year as far as the fees is concerned, and the mix will change.

I think the mix is moving towards consumer a bit more. 55% of our fee will be consumer. 25% to 30% will be from the global market and 15% to 20% from the corporate bank. And that is how we see our fees coming. And over a period of time, I think it will then move again back to corporate being 25% of our fees; 20%, 25% coming from global markets; and 50% coming from consumer. But it is just a matter of time, because as I said, there is a change in stance on the corporate, and it is just churning right now.

Moderator: Thank you. The next question is from the line of Akshay Jain from JM Financial. Please go ahead.

Sameer Bhise: This is Sameer here. Firstly, just wanted to ask, I cannot see the weighted average risk score slide this time around. I am sure these are uncertain times, but some commentary on that side would be appreciated.

Sanjay Mallik: The weighted average risk score, you are talking about the?

Sameer Bhise: Yes, the vehicle finance book.

Sanjay Mallik: Yes. So there is DPD, I mean, I can tell you that I was not sure whether we should put it into the investor disclosure, because there is a DPD freeze. But I can share with you that internally, I think it was 1.88 in the last quarter. And this quarter, it is down to 1.87. What we did was we ignored the moratorium period and re-winded back by 6 months to arrive at that figure. But putting that figure in the public domain would have just confused people, because of the DPD count. And that is why you do not see the slide, Sameer. But if I were to rewind six month and look at the behavior of the customer, it is actually fallen by 1 basis points. It has improved. If you normalize to the previous conditions, there is an improvement in the behavior of the score.

Sumant Kathpalia: Does that answer your question?

Sameer Bhise: Yes, that's helpful. And just, I mean, minor dip, but there is a QoQ kind of tapering off on the CASA balances. What would explain that, given that we have kept our rates steady, whereas the market table has been coming off?

Sumant Kathpalia: Two things, Sameer. One is there was cannibalization of about Rs. 1,500 crores to Rs. 2,000 crores, which happened on the term deposits. And I think that is continuously happening, because we are giving a good rate to the clients. And I think it creates stickiness. We have seen if a customer has a term deposit, the stickiness of the client increases.

So I think there was a little bit of cannibalization which was happening. And then there were about 2 accounts, which were large value accounts, which had a little bit of a higher rate and we let them go. So that is all what is there. And I think we will continue to see that happening. I think it will come back in my opinion.

Sameer Bhise: Sure. And just wanted to ask on the customer base.

Sumant Kathpalia: What you should be seeing, Sameer, is the acquisition run rate. And I think the acquisition run rates are back to pre-COVID levels. And I think the savings account balance sheet will start seeing the growth now.

Sameer Bhise: And finally, on the customer base, 26 million, how is that split between the micro and non-micro customer?

Indrajit Yadav: Yes. So micro financings were roughly around 9 million. Vehicle finance is 3 million. Liability, the star customer base is 12 million. The balance there are around which are stand-alone credit card, LAP, business banking customers.

Moderator: Thank you. The next question is from the line of Sagar Shah from SK Analytics. Please go ahead.

Sagar Shah: My first question was, as of June '20, what is the loan amount actually in which the asset classification customers are concerned in the percentage of loan book?

Sumant Kathpalia: I did not understand the question. Can you repeat the question?

Sagar Shah: Okay. What is the amount actually of amount of the loan book to the customers to which, as on June '20, we had given the asset classification benefit as per RBI guideline?

Sanjay Mallik: Yes, that is 10%.

Sagar Shah: What is the amount of loan book, I am saying?

Sumant Kathpalia: That is Rs. 3,350 crores.

Sameer Bhise: As on June '20, correct?

Ramaswamy Meyyappan: Yes. So about 1.6% of the bank's loan book.

Sagar Shah: Okay. So of that 1.6%, what percentage is the corporate loan book?

Sumant Kathpalia: Very, very small. Very miniscule. I think it is made up of commercial vehicles, which is about 1,800, a little bit of a microfinance book and a little bit of LAP and small credit cards and personal loans. We have a very small portfolio. The corporate book is incidental.

Sanjay Mallik: And please understand, this does not mean that these are NPL, because collection rates are increasing. So this is just an overdue book at this point of time. And over the period of August and September, I think a significant collection will come back. It is possible that some of them may also take a moratorium.

Sagar Shah: Okay. My second question, sir, as you said previously, about 9% of our corporate loan book is under moratorium as per the amount wise, correct? So of that, which are the top 5 corporate sectors, can you name, please?

Sanjay Mallik: No, there is no particular sector, which is heavy. It is all pretty spread out.

Sagar Shah: Yes. So can you name at least the top 5 sectors even if they are spread out?

Ramaswamy Meyyappan I think there are a couple of hotel projects, which are there, because the hotel industry has been, at this point of time, disrupted. So we have a couple of hotels. We have 1 or 2 steel companies, which had disrupted production starting back. So those are the kind of really if I look at the really large ones. Otherwise, rest of the market is spread across smaller.

Sagar Shah: Okay. And just one suggestion, sir. If you see in our investor presentation, you have given an exposure of our gross NPAs on the consumer finance side on the Slide #25. I would suggest if you can give the GNPA numbers for our corporate side too on the sector-wise.

Sanjay Mallik: Your suggestion is noted.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: Sir, in your presentation, there is one slide in which you have given the breakup of other income, where the core fee income has declined by 52% year-on-year and 51% quarter-on-quarter. And mainly, the 9% decline is led by the securities only, where we saw 248% year-on-year and 119% Q-on-Q upside. So how this sustainable securities and other income going ahead as well?

Sumant Kathpalia: See, let me answer this. First of all, you will see client income coming back. There was a moratorium and there was a lockdown. So business has actually got affected, and you cannot do third-party products or some of the product businesses without meeting clients. And I think that is where the business got affected.

But I think I told you that as the lockdown opened up, you would have seen that the business is coming back. So April was a complete washout as far as fee was concerned. May, we saw some activity. June, we saw further pick up. From July, we are seeing very good activity on the fee side. Again, there are intermittent lockdown which happened.

Securities is a business where you cannot predict. And we have said that before that there are mark-to-market gains and it depends at what interest rate and what duration of securities you hold at what point of time. And you have to transfer this into AFS and that is the time when you start realizing the gain. Arun Khurana who is the Deputy CEO and heads the Global Markets, can also now give you a better idea on how we see the going-forward scenario on the securities and whether it is sustainable. Arun?

Arun Khurana: I think Mr. Kathpalia already answered that question, but I will just supplement that. So I think going forward, we expect the yields to be soft. We have enough cushion as what he alluded to earlier Rs. 30,000 crores cash pile in there, which consists mainly of parts of cash and parts of excess securities. And I think to manage duration, we will be seeing how the yields move. And if they are going to be soft, I think we have got enough ammunition to sort of capture that move going forward.

Having said that, rightly so, it is not something that will move in one direction or uni-directionally. So this is a mark to market portfolio, we take only in our P&L gains which are realized. We do not take unrealized profits till the time they are realized. So this will continue until we think that it is appropriate to take on some profit. So I think that the trend will continue. I do not see that there is going to be too much of a problem. But yes, I mean, these gains may not be as extraordinary as what they have been before.

Sumant Kathpalia: So we are continuing to keep track of MTM yields with us. We are not in a hurry to recognize the income. We will see how the COVID plays out and we will see when we have to recognize our gains.

Moderator: Thank you. The next question is from the line of Jaiprakash B from HSBC. Please go ahead.

Jaiprakash B: I just want to know the date on these percentages that were talked about for the moratorium. Like is that June end or as of today?

Sumant Kathpalia: June end. These numbers are as of June end.

Jaiprakash B: So after June, what is the traction of people opting for moratorium that we have seen till date? Like is there any rough percentage?

Sumant Kathpalia: I do not think I have a data point right now, but I can assure you that the collections are only improving. And if you look at our commercial vehicles or you look at our credit cards, PL as well as our microfinance, we are seeing collections improving. So we are not seeing any deterioration in our collections. So if that is what and there is no new demand for a moratorium, which is coming in the corporate segment.

Jaiprakash B: Okay. And have you given the option to all your customers? Or is there any selection that you have made for extending the moratorium 2.0?

Sumant Kathpalia: So I have told you, moratorium 1.0 was an opt-out for all retail and an opt-in for corporate. In moratorium 2.0, we gave an opt-in to all except microfinance.

Jaiprakash B: Okay. And one more thing, why has the GNPA increased by 0.05%, sir, like any clarity on that?

Sumant Kathpalia: That is the base effect of the loan book going down. That is all the difference is.

Jaiprakash B: Okay, right. And last question. Any guidance for loan growth for this particular year? Like is there any target or budget that you have in mind for the year 2021?

Sumant Kathpalia: I just want to tell you that we love growth. And as I said before in my earlier commentary, we are seeing green shoots which are coming back in the retail part of our business, specifically in scooter loans, tractors as well as motor vehicles. I think we will continue to grow that business. We are also seeing green shoots in the rural part of our economy. And we believe that the microfinance business will come back. And I think in August and September, we will see new disbursements. And I think you will start seeing that. We are already seeing 86% in terms of numbers, so we have reduced the ticket size. We will see how many districts come to the collection level, which you want to see, at an efficiency level and we start increasing the ticket sizes there.

On the commercial vehicle side, I think, will come back only by quarter 3. And we believe that there is a pent-up demand there, and it will start coming back. On the unsecured side, we are cautious. And on the MSME side, I think with the credit guarantee scheme, if it comes in and some capitalization of interest, I think you will see some growth, which will happen.

But I think overall for the year, we expect that the consumer will grow at 8% to 10% and the corporate will grow at 4% to 6%. Overall, our growth could be anywhere between 6% to 8% for the year. We are not giving any guidance right now, but we will continue to want to stay on track and our guidance will come only after the quarter 2 when we see the moratorium playing out and activity stabilizing at the ground level.

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

Jai Mundhra: A couple of questions, sir. Sir, in your opening remarks, you mentioned the credit cost at around 65 basis points. Sir, I just wanted to understand, are you including I mean this is the headline provisions number that you are expecting? Or this is the only loan loss provision that you are seeing, and this is excluding any contingency that you see? Or this is the only incremental from now onwards?

Sumant Kathpalia: I think 65 basis points which I mentioned is COVID incremental provisions, which we will be doing and which we have already done for our business as of now. We are seeing a flow of 92 basis points which will happen because of COVID-related issues over all our portfolio. At the rate of 70% PCR, we are saying that it will be 65 basis points. 90% of our portfolio is secured. We have not said we have not taken the loan probability default of any securities getting encashed. But we said, let us be conservative and take that amount as of now. So that is what it is.

Jai Mundhra: So sir, this is over and above your business-as-usual credit cost, is that the understanding, sir? Sorry for?

Sanjay Mallik: Yes. This is over and above. So if you look at last year, we were at about 225, but that included a large component of ILFS, which is now 100% provided and written off. So our starting point for this year is around 135-140 basis points. And we already added close to 90% of our COVID costs that Sumant talked about, because it is going to be at 65 basis points for incremental delta for COVID, on the book of 2,00,000cr, whatever that number will be at the end of the year 2,20,000cr you are talking about Rs. 1,350 crores of incremental credit cost. And we have already taken Rs. 1,200-plus crores on that cost already. So we have invested most of it already.

Jai Mundhra: Yes. Okay. And sir, secondly, you used to give SMA1, SMA2 numbers. Now I think in your earlier question, you have mentioned Rs. 3,350 crores. Is that all overdue as of, let us say, June end? Or these are the outstanding balance of overdue and end of moratorium?

Ramaswamy Meyyappan: So I think if you look at the SMA1 & 2, the DPDs have been frozen. So if you look at it after February 29, there is not much relevance to that, because DPD counters are not moving. So it is not a really comparable data. We have also, for example, during the previous comments, our MD has commented about having taken some of those accounts proactively not giving DPD freeze benefit.

So that number will be much lower. But the real numbers will come in quarter 3 once the counters are back from September 1. Because there is some asset classification benefits, there are some payments. So at this time, that data would not be relevant. So we should see the data in September 30th will be better because the DPD counters will be back after the moratorium.

Jai Mundhra: Sure. So this Rs. 3,350 crores is what is that number and current balance?

Sumant Kathpalia: These are outstanding as of February 29th.

Ramaswamy Meyyappan: This Rs. 3,350 crores, yes, they had.

Sumant Kathpalia: This is one DPD on February 29 and above.

Ramaswamy Meyyappan: And they have taken moratorium. So if they are just continuing the DPD counter, what RBI, Reserve Bank of India says that they would have become non-performing. But such asset classification benefit, we provide 10% as a standard exposure. So these are not nonperforming assets. These are clients-oriented benefits, and that is the reason we are providing it.

Sumant Kathpalia: It is just a conservative provisioning that the RBI wanted us to do, and we have done that. And it can be released by March 31 as per the RBI guidelines, if we want to release them.

Jai Mundhra: So and sir, secondly, so some of the portions, 10% you said of the retail loans, which are out of moratorium, but probably we do not know as to as of now, they are not paying. Sir, technically, can you I mean, what percentage of this book could be technically come under, let us say, MSME restructuring scheme, if you were to sort of implement that? Or have you thought of doing that MSME restructuring scheme if that is?

Ramaswamy Meyyappan: Yes. We have given there is very clear guidelines on that, which is a Guaranteed Emergency Credit Loan, GECL, GCTC has given. So our eligibility as per that criteria of loans that we can exchange is about Rs. 3,200 crores to Rs. 3,300 crores across multiple borrowers. These are non-individual entities as per their definition. We have approved already more than 50% to 60% of these loans. The drawdown has been lesser for the clients that have not yet drawn down as may be they did not have the demand. But we have given the letter and it is building up. So we have already offered that. But if there is any change in definition, that book may go up, but we do not know about that yet. So whatever is eligible we have already approached our borrowers and given them.

Jai Mundhra: Sorry, sir. Actually I was asking on MSME restructuring scheme, which the window is still available. So if technically, some of these consumers, let us say?

Ramaswamy Meyyappan: Yes. For the MSME scheme that RBI announced in January or February, it has to be GST registered, Rs. 25 crores borrower capacity across the system. Whatever could have been done, we have done in the previous quarter. There is none really now that is eligible under that scheme, because GST registration, not everybody will be eligible. Only a few so the GECL is the other option now. That scheme, we are really not seeing, but has a lot of restrictions.

Jai Mundhra: Correct. And wherein you have disbursed around Rs. 170 crores. That is the only amount that you have disbursed so far, right?

Ramaswamy Meyyappan: Yes, it may have picked up in the last few days, but really was Rs. 117 crores.

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

M.B. Mahesh: So you have made roughly about Rs. 2,258 crores of provisions. I am just kind of looking at the provisioning out there when I do for retail, corporate, the COVID related provisions and for the account, which was declared as fraud, that comes to about Rs. 1,900 crores. There is still another Rs. 350 crores of provisions, which was done. If you could just kind of give some clarifications on what that pertains to?

Sumant Kathpalia: That is the standard provision which you had to do for the 10% provision of a loan account, which was 1 DPD and above, which had to be done by as per the RBI regulation. Asset classification, Rs. 335 crores. That is the provision which is there, Mahesh.

M.B. Mahesh: Yes. Sir, my second question is the slippages that you are doing on the corporate side. Could you just kind of give us some color as to do they mostly go out of the BB and below portfolio? Or have you seen tendencies that it moves outside the BB as well? Just trying to see whether the grading kind of moves internally across the segments and then goes into NPAs?

Sanjay Mallik: You are talking about the slippages, Mahesh?

M.B. Mahesh: Yes. So for example, you have done Rs. 1,225 crores of slippages this quarter in the corporate side and about Rs. 1,250 crores in the quarter before and Rs. 1,237 crores the quarter before that. How does it move internally on the ratings?

Sanjay Mallik: So it goes down the chart, it goes down the chart. For example, in the current quarter, more than 90% of the slippage is on standard accounts, which we have conservatively recognized. These accounts did not start as BBB. They started I mean; you are quite well aware that we have been trying to extricate ourselves from some of these accounts whether it is the diversified group or the media group or some other groups.

We have talked about this in the past. There is also a coffee group, as you must be aware. These guys for example, the coffee group was not a BBB, but I think at a point of time, there were some very unfortunate sort of circumstances. There is also a health care group that shifted very quickly.

So I think all of these have actually emerged from outside the BBB. But as a consequence of the stress, we have sort of taken almost the entire Rs. 1,200 crores were sort of taken into NPA, even though they were standard. But if you are talking about how did they move and if you are not seeing a movement in the ratings profile, that is because we had already moved below investment grade in our rating profile in the last quarter.

M.B. Mahesh: Okay. Perfect. And my final question, in this balance sheet, there has been about a very sharp jump in the balances roughly about Rs. 28,000 crores. If you could just kind of give some color on that?

Sumant Kathpalia: Yes. I just told you that we have excess cash with us. And when you do a reverse repo transaction, you actually move that in balances with the other banks. It is not for the balance of the RBI, but as per accounting standards, shows in balance of bank. In the reverse repo of Rs. 22,000 crores, which we get, because we had excess liquidity, we are sitting on excess liquidity.

Ramaswamy Meyyappan: Actually almost Rs. 24,000 crores.

Sanjay Mallik: Rs. 23,800 crores reverse repo and another Rs. 13,000 crores of excess.

Sumant Kathpalia: And this is as per the accounting policy, Mahesh, and we followed the accounting policies. This is how it had to be shown in the balance sheet.

M.B. Mahesh: Okay. Just confirming, because it does not come as investment. It just goes straight away to the balance of the bank?

Sumant Kathpalia: It does not go in the investment at all. Reverse repo does not come in the investment.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: So a couple of questions. Like, firstly, what would be the promoter holding after this equity issuance and outstanding warrants?

Sumant Kathpalia: Cannot cross 15%, diluted cannot cross 15%, including warrants.

Nitin Aggarwal: Including warrants. Okay. So the warrants that we have issued, is it kind of bottomed that stays?

Sanjay Mallik: Yes. That stays, Nitin. It is not due until early next year.

Nitin Aggarwal: Okay. And secondly, there is a little projection of credit cost in respect to COVID. Is it possible for you to share some color on what assumptions are we working with across business segments? Because 65 basis point is quite a manageable number, given the profitability that we have. So what are the assumptions that we have used to arrive at this number?

Ramaswamy Meyyappan: Sure. This is Ramu here. So what we did, we had far more data when we did our second revision which we did in the month of June. We had more data on collections across the retail portfolio, across where the economy has opened up data. So for the retail portfolio, we use this data along with all the other economic data and the feedback from the ground and how we contacted the customers in their estimation.

And yes, for our corporate portfolio, the relationship managers had reached out to most borrowers. We had reviewed all the names. We classified these names based on whether they are COVID impacted or they are weak because of COVID. All such names have been taken into account by sector. For example, if there was a sector in hotel, we have an exposure to hotel LRD, we have looked at them closely.

And accordingly, wherever the stress was emerging or likely emerged, this has impacted in to our stress testing. We also took into account what likely downgrades of the rating profile of many of the borrowers due to COVID, because of which RWA will go up and capital requirement will increase. That was also factored in. All these together is how we arrived at this number.

We will continue to revise this data based on there have been the activity was very good up to June. There is some more lockdown that happened during the course of July. We will continue to evaluate this data. We will also come to know, by the end of August, what the Reserve Bank of India's plans are on moratorium as well as restructuring, having been talked about. And we will reassess and rework our stress test based on all the data we have internally as well as external environment and the Reserve Bank and prepare the revised data and then make if required more provisions.

Nitin Aggarwal: Okay. Sure. And lastly, what is the outstanding BB and below book, if you can quantify that? And now as we consolidate our wholesale advances, where would we like this to settle?

Indrajit Yadav: The investment-grade book has fallen quarter-on-quarter. Right now, it is around 5.5%. It also includes one large telecom account. Excluding telecom account, our sub-investment grade is actually at 5, 6 years low. And that kind of BB and below book is pretty consistent with the credit cost that we have delivered. So I think that is the level where we will be across the cycle. And we have been the kind of the new originations that we are doing, I think there, these are towards the higher rated granular portfolio. So I think we are bottoming out in terms of the sub-investment-grade book.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kathpalia for closing comments.

Sumant Kathpalia: Thank you. Thank you for participating in this call. I know that this was a hectic day. We are open to questions and meetings if you feel that you need further clarifications on our business. But I just want to tell you that the business is back as the liability side of the balance sheet is fixed. In our opinion, we will continue to see us being very comfortable on the liability side of the balance sheet. I think the capital raising, which we wanted to do a preference share issue, it has been done. And you will see the capital coming back. The EGM is on August 25, and you will see the capital coming up in the first or the second week of September. I think growth, we are cautious, but we also want to grow, and we will evaluate growth basis what is happening in the economy. And I think you will see us getting back on to our growth phase cautiously, but surely. Thank you for your time and stay safe.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IndusInd Bank Limited, we hereby conclude this conference. Thank you for joining us, and you may now disconnect your lines.