"IndusInd Bank Limited Q3 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Limited Q3 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 and CEO, IndusInd Bank. Thank you and over to you, sir.

Sumant Kathpalia: Good evening, everybody, and thank you for joining the call. I will start with the "Macro Commentary" and then go into "Bank Specific Details."

At the macro level, economic recovery continued to strengthen in Q3-FY21, after a swift rebound in previous quarter. Manufacturing PMI continues to remain strong post reaching to record high in October and services PMI remained in expansion zone for last two months. GST collections have been consistently over 1 lac crore per month. Collectively they show sentiments, activity and profitability improving for the industry. While rural demand continues to show robust growth, urban demand has also picked up recently. Rural economy is expected to continue outperforming urban economy and support the overall economic growth. This augurs well with the bank's overall strategy.

Overall GDP is expected to turn marginally positive after two negative quarters. Retail inflation showed signs of easing in December, led by easing prices of some food items. Liquidity continues to be abundant in the system with stable interest rate outlook. With accommodative monetary policy, tapering COVID-19 curve and ongoing immunisation programme, economic recovery is expected to remain strong in coming months.

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

- <u>Traction on deposit mobilisation:</u> Our deposits grew robustly by 5% QoQ and SA saw strong momentum growing 13% QoQ. This growth was driven by retail segments resulting in our Retail as per LCR growth of 10,000cr during the quarter – highest ever runrate achieved. Our Cost of Deposits fell by 24bps during the quarter and year to date cumulatively by 71bps. We have also reduced our headline fixed deposit rates by 50bps in December and it should start reflecting in CoD from current quarter onwards. We continued to maintain excess liquidity of Rs 35,000 crores with overall LCR above 150%.
- <u>Asset growth:</u> We saw demand coming back from all asset classes especially our areas of domain expertise – vehicles, microfinance and diamonds. We maintained our focus on secured loan growth and overall loan growth was 3% QoQ vs 2% last quarter. Vehicles & microfinance has seen disbursements returning to pre-Covid levels. Diamond industry saw prices firming first time in 18 months. On the corporate book in line with our strategy to granularise our exposures, we reduced exposures of around 4,000 crores. Having said that, we did see fresh disbursements to wide array of segments and we expect growth coming from supply chain and MNC segments besides mid-corporates.
- <u>Strong profitability of the franchise:</u> Our NII grew by 11% YoY and 4% QoQ. This was despite prudent interest reversals of Rs 185 cr on Proforma NPAs through Net Interest Income. Our NIM was down 4bps QoQ to 4.12% due to the interest reversals. We saw our fee income contributors changing steadily from non-core fee to client based core fees. Core fees saw strong traction growing 31% QoQ. Our revenue was up 4% YoY while costs were down 1% YoY driving operating profit growth of 7% YoY. Our revenues at 5,050 crores are infact highest ever we have achieved. This has helped in maintaining our strong operating margin at 5.7% of loans despite the one off interest reversals.
- <u>Scaling up new growth areas:</u> Our investments in affluent, NRI and SME segments have started to pay off. Affluent AUM has grown 20% QoQ to 48,000 crores including 11% QoQ growth in deposits to 29,000 crores and delivered 60 cr fees. NRI liabilities grew by 12% QoQ to 23,500cr. We are leveraging BFIL for merchant acquiring and adding 30,000 merchants per month. We will continue to invest in new as well as existing businesses to funnel our growth.

- Ensuring asset quality: Our vehicle, microfinance and secured retail portfolios have performed better than the industry. Unsecured retail saw slightly higher than expected slippages. However this is a small part of the overall book. Corporate book has not shown any new stress formation. Overall collection efficiency has moved up from 94.7% in September to 97.1% in December. We have followed conservative provisioning approach and added 1,100 crores to Covid provisions taking total Covid provisions to Rs 3,261 crores. We have improved our PCR from 77% to 87% on reported GNPAs and maintained PCR at 77% even after including pro-forma NPAs. We have taken 100% provisions on unsecured assets including microfinance even though we maintain focus on recovery. We have not sold any stressed accounts during the quarter. We have excess Covid provisions of around 1,000 crores or 0.5% of loans outside the Proforma PCR. Overall loan related provisions are 3.3% of the loan book. I will share further details later.
- Capital Adequacy: We continue to have comfortable capital adequacy. Our CRAR including profits was stable QoQ at 16.9% even with the 3% loan growth reflecting efficient capital management. We also have a near term event in the form of warrants issued to the promoters. As disclosed earlier, the SEBI has granted extension till 18th Feb due to logistical issues and the promoters have affirmed their commitment to subscribe to the warrants on or before 18th February. This will add approx. Rs 2,000 crores or 75bps to our CET 1 capital on conversion.

We also discussed the Planning Cycle 5 strategy with the Board. Our key beliefs and themes are included in the investor presentation and I will talk about that towards the end of my remarks.

Before I go into portfolio specific commentary, broadly on the Proforma slippages and restructured book:

We had Proforma slippages of Rs 2,508 crores or 1.2% of the loans which benefitted from the Hon'ble Supreme Court order on NPA standstill. Of this 20% came from Vehicles and Microfinance each, Secured retail contributed 15%, Unsecured retail 30% and Corporate balance 15%. As we all know, this is an extraordinary quarter reflecting Covid slippages and won't be appropriate to extrapolate or annualise the slippages. We have made significant provisioning even on pro-forma NPAs with PCR at 77%.

We had mentioned expectation of low single digit restructuring. Overall restructuring requests have been lower than our expectations. Restructuring implemented as of Dec-2020 was 0.6%. If we include restructuring invoked and in the process of implementation then this would be additional 1.2% i.e. total restructuring requests of 1.8%. Segment wise contribution of this 1.8% would be – Vehicles 30%, Non Vehicle Retail 13%, and balance from Corporate Banking. This includes both Covid and MSME restructuring and also cases where restructuring is invoked and yet to be implemented. Quality of restructuring is also comfortable given 1) around 30% is from Vehicles which is well secured and has long credit history and 2) Corporate book has two large resolutions already under works. As mentioned earlier, we are following conservative provisioning approach well in excess of regulatory requirements.

Now coming to individual businesses:

1. Vehicle Finance:

- Disbursements in vehicles are near pre-covid levels in Q3. Overall vehicle loans grew by 3%.
- Noticeable segments were tractors growing by 13% on the back of record agri growth. 2-Wheelers, cars, utility vehicles and construction equipments each grew around 5% QoQ.
- CV disbursements also showed strong recovery growing 73% QoQ. However, as the collections were equivalent, overall loan book was stable QoQ.
- The vehicle portfolio has outperformed the market even in the current tough environment. Collections moved up from 94.3% in September to 96.9% in December. Slippages during the quarter were around 80bps - only marginally higher than typical business as usual slippages of around 50bps in a quarter.
- Restructuring was invoked on 1.7% of the portfolio. Restructuring was predominantly from the luxury buses segments. These customers have historically been of excellent credit quality and will be able to get back on feet as the economy opens up further. As all these loans are backed by strong collateral, losses in case of default will also be rangebound.

- As the economy continues on the recovery path, the freight demand and vehicle utilisation has to go up. The much discussed scrappage policy if implemented will also provide a boost to new vehicle demand. The diesel prices however still are firm and putting pressure on profitability. With bulk of the asset quality issues behind us, we are positioned well to benefit from the recovery in the vehicles industry.

2. Microfinance:

- We had flagged our concerns on eastern states in January last year even before the Covid outbreak. We had already tightened our credit filters and ticket sizes. This has helped us in collections better than industry in troubled states as well.
- Our exposure to Assam is only 45cr. We also reduced exposure to West Bengal from 15% to 13% over the last year i.e. 1.3% of overall bank's loan book. Collection efficiency in WB is progressing well from 70% in Q2 to 90% in Q3 and 93% for Jan till last week. Fresh loan ticket size in West Bengal is at 12,600 which is half of BFIL's country average and 1/3rd of the industry ticket size in West Bengal.
- Overall, our conservative business model has helped us wither current crisis as well. The uniqueness of the portfolio in terms of 1) geographic diversification, 2) rural focus, 3) ticket sizes and exposures much below the industry, 4) weekly collections and 5) professional management with years of experience are key differentiators that we believe will help us outperform the industry going ahead as well.
- Our incremental Proforma NPAs were around 2% of the MFI book which are fully provided for. Our collection efficiency for Jan is at 96% till last week. Collection efficiency continues to improve as the old loans mature and proportion of loans disbursed post lock down increases. Loan book originated post lockdown contributes around 56% of the book already and has collection efficiency of above 99%.
- Overall, we are now cautiously looking at growth again. Growth will be driven more by new customer / geography acquisitions and less by leveraging existing customers. We are seeing traction already on new customer acquisitions growing to 4 lacs last quarter from 50,000 in Q2 vs. pre-Covid runrate of almost 1mn per quarter. January numbers demonstrate improvement in all vectors i.e., new loans, member acquisition and collections.

3. Other Retail Assets:

- Our secured retail assets including Loan Against Property and Business Banking have seen stable performance with 1.7% slippage.
- We expect LAP and Business Banking to now pivot towards growth as the collection stress is largely behind us. Churn in these accounts is higher than pre-covid level indicating activity levels normalising.
- Proforma slippages in our unsecured loans was around 9% vs. business as usual slippages of 5% and slightly higher than our initial estimates of 7%-8% due to Covid. This pool contributes 30% of overall slippages. Collections efficiency on early buckets excluding the impacted portfolio is back to pre-covid levels of around 97% in unsecured loans.
- Unsecured loans however form just 4% of the overall book. We have been cautious on growing unsecured loans for past several years and have kept it under the 5% cap for the bank.
- There is strong demand for stressed retail assets in the market. We have not sold any assets during the quarter.

4. Corporates Bank:

- As communicated earlier, we continued our agenda of granularising large exposures and pushing disbursements into working capital loans of high rated customers.
- We reduced exposures of around 4,000 crores during the quarter. We have achieved significant progress on this front. Corporate book outside these repayments saw good growth largely from mid-corporates and specialist segments like supply chain finance and MNCs.
- Corporate fees have become granular during the year. The investment banking fees are down 60% year on year but improved QoQ. We have maintained our top 3 position on Debt Syndication for the calendar year 2020.
- As we had upfronted stress recognition in the early part of the year, we have not seen material addition to stressed names. We saw business as usual slippages of around 380 crores during the quarter from already identified accounts.
- Restructuring invoked in corporate bank is around Rs 2200 crores. As highlighted earlier, borrowers are predominantly from the most affected sectors such as travel, retail, hospitality

etc. It includes couple of largish names – one in construction and one in retail. There is resolution already in the works on these two accounts and restructured book should fall as the resolution is implemented. Exposures outside these are granular.

- Our real estate book has shown good resilience. RE developers have been under stress since the ILFS default and subsequent liquidity crunch. We have come out fairly well due to careful project selection and ring fenced project cashflows. We have not restructured any real estate project. We had highlighted earlier couple of projects under watch as mentioned in Q2 call. One of this was taken over by a stronger developer and is out of stress now. We are exploring multiple resolution approaches on the second project and have over 2x collateral cover. All the other projects are progressing well.

5. Gems & Jewellery:

- The book continues to behave like a gem. We have no restructuring or slippages during the quarter.
- Entire diamond supply chain has behaved rationally both on pricing and inventory management during the crisis.
- Global diamond demand has seen good recovery in Q3 along with decent profit margins. We are seeing supply chain re-building their reserves and this augurs well for the industry.

<u>Overall on the asset side, we have seen broadbasing of growth across multiple segments. The growth is driven by areas of domain expertise & secured assets. Disbursements traction is accelerating every quarter and should pick up as the overall economy continues to bounce back.</u>

6. Now coming to Liabilities:

- We saw robust growth in deposits of 5% growth QoQ driven by 13% QoQ growth in Savings Accounts.
- In line with our approach, growth was largely driven by retail customers with 14% QoQ growth in Retail Deposits as per LCR.
- With strong deposit flows ahead of loan growth, our CD ratio fell further to 87% from 88% QoQ.
- Our cost of deposits reduced further by 24bps during the quarter and 71bps cumulatively during the year. We have lowered our headline fixed deposit rates in December and that should start reflecting from this quarter onwards.
- Deposit mobilisation and retail fees through physical branches have improved during the quarter as the operational constraints are easing every month. We have also resumed branch expansion and aim to open another 500 branches in next 2 years.
- We further scaled up our Affluent Business with deposits growing 11% QoQ to 29,000 crores and AUM growth of 20% QoQ to 48,000 crores. We are investing in creating dedicated channels for premium acquisition, service delivery and virtual engagement to provide one of the best client experiences. We also launched metallic credit card with hosts of benefits for a certain transaction value. We are seeing good interest already from this client base. We are also working on digitized client journeys for an integrated wealth platform to be launched soon.
- Our NRI business grew to 23,500 crores up 12% QoQ. We have launched seamless digital NR account opening and onboarding process. We are leveraging our affluent offering coupled with convenient banking features like VideoBranch to penetrate this market.
- We continue to scale up our merchant acquiring business through BFIL adding 55,000 merchants during the quarter. This is currently offered in 70 locations and will scale up to 100+ in Q4.
- Digital transactions continue to see an uptrend. While channels were already digital with around 90% digital transactions, products are also getting digitised. Digital fulfilment for SA was 95%, FD at 85% and Wealth at 91% for the quarter. Mobile transactions in December was 2x of pre-covid levels and 40% higher than September.
- Borrowings have been selective, keeping in mind, longer tenor and attractive rates.
- We have maintained our overall LCR above 150% and are cautiously running surplus cash balances of over 35,000 crores.

<u>Overall on the deposit side – we are getting stronger every quarter and we have built enough cushions in the CD ratio. We will calibrate our rate cut strategy both for fixed as well as</u>

savings deposit going ahead. Focus will be more on improving the quality by building sticky granular customer base while maintaining the acquisition runrates.

Now coming to the financial performance for the Quarter:

1. Q3 witnessed steady operating performance with NII up by 11% YoY and operating profits at 2,965 cr was up by 7% YoY. We conservatively reversed interest income on Proforma NPAs to the tune of Rs 185 crores. Adjusted for this, NII and PPOP growth would have been 17% and 14% YoY respectively. Our PPOP/Loans was healthy at 5.7% while PPOP margin before treasury income has improved QoQ.

2. Net Interest Margin was down 4bps to 4.12% primarily due to interest reversals. Our cost of deposits and cost of funds fell by 24bps and 20bps respectively QoQ.

3. Other income grew by 6% QoQ due to momentum in core fees of 31% QoQ driven largely by retail fees. Non core fees are getting replaced by client fees every quarter. Non capital consuming fees such as distribution, foreign exchange and trade / remittances are close to pre-covid levels already.

4. Operating costs were down by 1% YoY but inched up by 5% QoQ as the business normalises. Our core Cost to Income before trading gains has improved 300 bps QoQ. We announced bank-wide appraisal actions during the quarter including annual increments and performance bonuses for all eligible employees.

5. Now coming to provisions.
   - Our provisions for the quarter were Rs. 1,854 crores.
   - We had negligible slippages this quarter. Exposures which received Supreme Court standstill order was Rs 2,508 crores. Our SMA2 book as of December 2020 was 39 bps.
   - We have created additional Covid-19 related provisions of 1,100 crores during the quarter taking total Covid related provisions to Rs 3,261 crores or 1.6% of loans.
   - We have fully provided for unsecured retail and microfinance loans conservatively while the recovery focus will be paramount.
   - We have increased our PCR from 77% to 87% on reported NPAs and maintained at 77% even on the Proforma NPAs. We have around 1000 crores or 0.5% of loans as surplus Covid provisions not counted in the PCR.
   - Our GNPA have reduced to 1.74% from 2.21% or excluding standstill benefit are at 2.93% vs. 2.32% last quarter and Proforma Net NPA of 0.70% from 0.52%.
   - Overall loan related provisions are at 3.3% of loans or 111% of the Proforma GNPAs.
   - I think we are comfortable in provisions looking at the stressed book and the cushion we carry outside Proforma PCR. However, our approach will be to remain conservative and build provisions ahead of curve based on the loan defaults probability. Our healthy operating profit margin can comfortably absorb these provisions.

6. Our PAT continues to show a strong upward momentum growing 25% QoQ despite we being cautious on provisions in these uncertain times. Profits for the quarter was at Rs 830 crores. We have maintained healthy CRAR of 16.9% including profits for the 9 months.

I will now spend a few minutes on our PC-5 strategy. We had postponed presenting the PC-5 strategy for couple of quarters given the uncertain macro environment. With economic revival evident all round, we believe it to be an appropriate time to present our strategy for the next two years till March-23. The strategy for PC-5 is ''Scale with Sustainability". While we have outlined growth areas for the bank, we have also identified constraints within which we want to operate to grow sustainably. Most of the themes reflect my earlier communications on our business build out philosophy.

Key priorities for the PC-5 are :

1) Surge in retail deposits:

- We will continue investment in distribution & leverage maturity of existing network
- New businesses such as Affluent, NRI, Gift City will be scaled up
- We are investing in digital sourcing through partnerships and building a new sub-brands for specific segments.
- Rural deposits will be driven by BFIL integration and doorstep banking approach

2) **Sharpening Corporate Bank:**

- Focus will be on building more granular, short duration and annuity driven portfolio
- Growth will be through building specialisation in segment such as supply chain finance , MNCs etc
- Portfolio Monitoring Unit mandated for improving RoRWA of the business

3) **Holistic Rural Banking Approach:**

- We have one of the largest distribution in rural India and are scaling up unique Bharat Money Store model for providing doorstep banking.
- Microfinance will continue to be mainstay of our rural strategy and initiatives into SMEs & Government mandates will leverage this franchise
- Universal banking model will provided efficiencies of scale & synergy along with improved underwriting quality of this segment.

4) **Scaling up Areas of Domain Expertise:**

- We have domain expertise in vehicle finance, microfinance and Gems & Jewellery.
- These segments have shown strong risk adjusted returns across the cycles.
- All these businesses are coming off a downcyle and we will maintain or improve our market shares as the segments pick up.

5) **Adding Growth Boosters:**

- We are investing in Affluent Banking, NRI banking, SME and Digital Initiatives.
- They are already on track on their scale-up milestones.
- We will also scale up PC-4 new initiatives like tractor finance and affordable housing.

While we implement these initiatives and business as usual scale up, growth will be underpinned by digitisation and sustainability.

- With focus on customer centricity and human centred design, bank is set to launch number of digital initiatives across lifecycle for Individual and SME segment.
- We are creating ecosystems & marketplaces relevant for the bank's strengths such as vehicle finance and business owner segment.
- Digital will also be leveraged for better risk & portfolio management through early warning signals & automation of processes.
- Sustainability is embedded into our business models and we had already disclosed our ESG targets. We will further this agenda in PC-5 as well.

We have also laid out constraints within which we want to conservatively operate into.

- We have laid out boundaries in terms of CD ratio, Provision Coverage, Capital Adequacy, Liquidity profile etc. These will be paramount and won't be sacrificed for growth.
- While we have lost one year of this planning cycle due to Covid, we have nevertheless spent this time building foundation for the growth to follow.

We have added a few slides in our Q3 presentation outlining broad themes and we can dig deeper in any of these during Q&A if you have any questions.

With this, we can now start the Q&A Session. Thank you.

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 Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: On Planning Cycle-5, earlier we used to have para banking as well as one of the strategies. I think there is nothing highlighted about it. So what would be the roadmap in terms of the para banking businesses if you can say over the medium term?

Sumant Kathpalia: Kunal, we remain committed to Para Banking. The issue is the guidelines are unclear and there is a paper which is being discussed and responses being discussed by the RBI right now. And in my view, putting it into the PC5 will not be an appropriate part right now because clarity has to emerge and we've been talking for it for the last three years. If we get an opportunity, we may not shy away from buying the stake and see how it progresses. We will continue to remain interested in non-life, AMC, brokerages. So these are three areas which continue to excite us.

Kunal Shah: And secondly, in terms of this entire current account discipline, is it having any kind of an impact, and is there anything to read through in terms of some sequential decline in the CA deposit proportion?

Sumant Kathpalia: Yes, so our CA deposits did go down by 2000-odd crores during the quarter. One is ~55% was lost due to dividend mandate, and the dividend mandate money just goes out. So I think that was September-end phenomena where the mandate came in, and it disappeared. Having said that, I think the balance amount, I think is part of the CA rationalization process and I think it's a type of a loss which we've seen and we always said that we will be 600 crores to 800 crores of loss which will happen, and that's because of the accounts moving into the CCOD limit.

Kunal Shah: But besides that any other impact in terms of CA discipline are we seeing, is it beneficial, have we gauged in terms of the overall impact for our bank?

Sumant Kathpalia: Right now, we don't see any other impact. In fact, when we do our acquisitions, we have to check for CRILC database for every account opening and the process for new account boarding has now been changed, because they want us to check for the CRILC database before we open any current account.

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

Nilanjan Karfa: In Q2, we basically said our total SMA-1 plus SMA-2 was about 33 basis points, right. So post these kinds of slippages that we have witnessed, how do you look at the overall book, are we done or there is still a balance amount, which can come next quarter, and maybe the following two quarters?

Sumant Kathpalia: On the corporate side, whatever had to be invoked for restructuring has been invoked, you cannot invoke any further. The approvals are pending. And that’s where, I said that we have 60 basis points of restructuring and 120 basis points which is pending approval. So, please understand on the corporate side that has happened. I've also told you that whatever accounts, which were showing stress, we have already taken the provision earlier on in Q4 of last year and Q1 of this year. That's why we had an elevated corporate provisioning at that point. If you see last two quarters, the flows have been moderated a lot in the corporate. Actually they are negligible and I think you should continue to see such type of low flows going forward. In the proforma also, there is nothing on the corporate side. I am getting more and more confident about our corporate book. And I think it's something which we are very proud of, and I think we had some problems, and I think we've come back strongly, and today we are moving and we are getting more granular, I think we should see a very good corporate cycle.

Nilanjan Karfa: That's probably reflecting in the kind of sequential growth we have seen in the mid and small corporate. But would you have color where we are growing, I mean, which segments are we growing in?

Sumant Kathpalia: I think in the corporate, we are going in the supply chain finance vertical. We are growing in the in the logistics area of the unit and we are growing in the working capital specifically in the MNC side, because of the supply chain which we are funding. And if you see our gems and jewellery, I think that has shown a fantastic growth, and it continues to be the most pristine portfolio which we have in the bank.

Nilanjan Karfa: The slide 27 where we have put the NPAs for consumer finance, are those proforma numbers or pre-SC, I mean, could we have the proforma numbers?

Indrajit Yadav: The numbers reported in IR presentation are 'as reported GNPA', they don't include proforma. The split of proforma slippage, Sumant spoke about in his opening remarks between retail, vehicle and other portfolios.

Sanjay Mallik: Proforma numbers are given on slide #2 and again referred to in slide #26.

Moderator: Thank you. The next question is from the line of (Aakriti Kakkad) from Goldman Sachs. Please go ahead. Yeah.

Rahul: This is Rahul here. I have two or three questions. Number one, in terms of recoveries in your corporate portfolio, while you've recognized a lot of stress. Do you recur any lumpy recoveries that might come through over the next couple of quarters?

Sumant Kathpalia: We already got Rs.210 crores of recovery last quarter. And that is reflected in our books of accounts. I think the IL&FS recovery is something which we continue to wait for. So there are recoveries which are pending, there are three or four recoveries which we are working on. And I think these are all lumpy accounts where we had a problem and I see these recovery happening between Q4 and Q1. I cannot comment on IL&FS. I've always said that it will come in Q4 but it continues to get delayed, while the order has been passed, but it continues to get delayed.

Rahul: So this Q4 and Q1 is ex of IL&FS you're expecting some recoveries to flow through?

Sumant Kathpalia: Absolutely.

Rahul: And then this would also I guess include one housing finance account which is almost resolved, would that be a fair understanding?

Sumant Kathpalia: We have no position on the said housing finance company. We've already sold it.

Rahul: The other question is, have you bought any portfolios particularly in the retail unsecured in the third quarter or it's all organic growth?

Sumant Kathpalia: Neither have we sold, neither have we bought.

Rahul: The final question is, is it possible to get the retail overdue buckets, let's say 30 to 60, 60 to 90, what would the status be as of December?

Sumant Kathpalia: We try to give as much disclosure and if you see one of the slides, we have given collection efficiency on our domain specialization and also for each product. We wanted to bring transparency also on the restructuring on every point. So, we will see whatever we can do.

Rahul: Appreciate that, I think, great sort of disclosures there, but just in terms of qualitative sense, if you can just help us understand, how the overdue book would be looking like as of December versus let's say March of last year?

Sumant Kathpalia: Overdue book has come down dramatically. And I think these questions are raised because, if you go to the CIBIL or the credit bureaus database, you will see all the delinquencies are at 15% or 20%. Let me tell you, I think those collections are overdue and does not mean that they will continue to be delinquent. Clients may have one installment or two installments delinquent. They keep on paying one installment and continue to be in that one installment bucket or an X-bucket over a period of time. So, my response to all of you is while you look at data, please do not look at data that way. We are disclosing the data and as it is by law, we have to do a daily recognition of NPAs and it's all an automated process without a touch of hand. So for example, if you go to the commercial vehicle portfolio, you will see 10% delinquents. Actually that delinquency, because the client continues to pay one installment and remains in the 30-day buckets or an X bucket, you will say overdue is like that, but really that overdue is advantageous to the bank because he continues to pay late fee and he continues to maintain his portfolio in X bucket or 30-day bucket.

Rahul: On the corporate side, you've stuck on to your initial commentary about shedding off some book, but are we done with that exercise or maybe do you plan to start growing that portfolio at some stage because you said, it's in a very good shape, so, should we assume that kind of bottomed out in terms of rationalizing that portfolio?

Sumant Kathpalia: Give us another quarter or so. I think we are bottoming out, and then you will start seeing the growth. And I think from next year onwards, you are going to see growth in the corporate bank, and I think you will start seeing that growth. I think it's very important that some large exposures are shed and we are doing that.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: The question would be on net interest margin outlook. So you've already mentioned that we will be cutting down our deposit rate. So the outlook would be for FY'22? Where do we see the net interest margin range? And second subset question would be on the yield part for both corporate book and consumer finance book, we've already seen the reset in yields, and from here on, we don't expect much of sort of a decline in yields both in corporate book and consumer finance?

Sumant Kathpalia: I think you have to look at it in a different way. I think we've always said is irrespective of whether we get an advantage or not, we will remain range bound between 4.15% to 4.25%. That has been our commentary throughout, number one. Number two, the reason for that commentary is that we continue to invest in our corporate franchise and we want to do working capital loans, and they come at very fine rates, we believe that's an entry into the clients' wallet for deeper fee revenue wallet of transaction banking product, as well as FX products. So, I think we can increase our NIM, but I think it is very important to continue to maintain it range bound and continue to create a balanced portfolio in our bank. Our premise is that a balanced portfolio is the best way to create the business and I think we will continue to be range bound in a way. On yield, like I said, if you look at our domain specialization businesses, I think our yields are now range bound and continue to be range bound. The yields were affected in the consumer bank, not because of this, I think, yes, there was a slide in the commercial vehicles, but it was affected because of the interest reversal, which we had to do on the book because of the NPA recognition. And that is almost 20 basis points which got affected.

Ashish Sharma: The reason I was asking that the cost of deposits for IndusInd Bank is quite high vis-à-vis the other large private sector bank. So, this doesn't sort of impact your ability to lend profitably to the corporates and be relevant in terms of pricing.

Sumant Kathpalia: Let me tell you, whether our costs are high or low, corporate won't take money from me, if we are not competitive, and we have an independent risk unit to assess the risk and the risk assessment is out of question, there is no interference. And we know corporate would not take money from me because I'm offering a better rate, they will take because I'm competitive in the market. And please understand that, I may sacrifice margin to get corporate bank because it gives me an entry into better corporate and a better wallet. Having said that, the mix change which is happening, so if you look at now we are at 58:42, if you look at the start of the year or last year, corporates 52 and consumers 48. So I think that mix change is also affecting the business. And as we do the mix change and remain between 55% to 60% retail, I think we are well on our way to maintain the margin of 4.15 to 4.25.

Ashish Sharma: Just lastly on credit cost for FY'22, now, we've already provided quite a high amount of provisioning. Any outlook you can give on credit cost for FY'22, what's the normalized number we should look at?

Sumant Kathpalia: I want to just lay down that we will continue to be conservative as a bank, we will continue to provide ahead of the curve. You will see us providing some more in Q4 and making sure that we fortify our balance sheet as we move forward. And if we do that, I think it's anybody's guess how next year will work. If the COVID plays out. I think we should see normalization happening in the bank.

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

A Parasrampuria: Question is on the microfinance business. You did touch upon collections and you did give up details regarding the slippages like 2% which is pretty low vis-à-vis the trends that we're seeing for some of the peers, expected stress, and you do have exposures, while its low in Assam, but still meaningful in Bengal. If you can talk about what is helping us that will be great? 2% stress in MFI in this environment is very good.

Sumant Kathpalia: Two things, Adarsh. Let me repeat what I said. I think we had seen ahead of the curve. And that is due to the bharat financial management team, let me be candid. Ahead of the curve that there is problem which are brewing in the eastern part of India. And we have never shied away from a commentary, in every meeting we have said eastern part of India has a problem in the microfinance space. We started reducing our exposure. So Assam, we have 45 crores only. And I think we had already provided for that long time back. In the West Bengal we have 13% of our book and ticket size was reduced to ~Rs.12,600. And it's an affordability issue which comes in as a consequence of that. Please understand our ticket sizes are not 60,000 or 50,000. We reduced the ticket sizes well in advance to make sure that our book has the ability to pay. And I think that is the reason why we are seeing, what we are seeing. And third I think you have to understand problems in West Bengal are not in full West Bengal, there are districts in West Bengal which has a problem. You have to understand where to play and where to exit. And we exited those districts very early in the game. So please understand you can't look at one state as full one state. You have to go to the district level and see where the business, and we have branches. Having said that, I think we have taken Rs.471 crores of proforma NPAs in this quarter. I expect another Rs.100- 120 crores of NPA in the next quarter. That's the number which we get. It will not exceed 3% in our estimate right now.

A Parasrampuria: Second question is on ECLGS. If you can talk about what you have given in terms of sanction and disbursement? And how much of use of the ECLGS, this is a question not just to you, but across the system helps you in reducing stress, and that will actually get stress tested maybe only next year, right?

Sumant Kathpalia: You are absolutely right. We were very cautious. We had sanctioned only Rs.4,400 crores and disbursed Rs.2,900 crores. We only wanted to give this to viable businesses and we were very-very cautious about whom to give and who not to give. Having said that, if we create a provision coverage well, and we have enough buffer, I do not see a risk of these businesses coming back. And the way credit assessment and the check was done for the viability of the business, I think is an important determinant as to how the ECLGS will work out and I think we are very, very comfortable, and I think we have to wait and watch. It's easier said than done. That means if you take this 20%, we have a 10,000 crores portfolio, which is ECLGS and we have to continue to watch that portfolio, and we are watching that portfolio and we have not seen any adverse reactions right now, which is outside our business as usual.

A Parasrampuria: Sumant, would it be possible for you to share broadly where this ECLGS would be sitting, which portfolios? I understand it will be business banking but is there in CVs and other portfolios.

Ramaswamy Meyyappan: On the retail side, first is about Rs.2700 crores. Around 300 crores in the CV portfolio and other vehicle customers as part of this. Balance retail will be in business banking and some of the small and medium enterprises. On corporate side we had around 600 crores of which large corporates almost none requested there and mostly in mid corporates. Our ECLGS-2 also the pickup has been very slow though it was recommended and we haven't seen much offtake. We have sanctioned few, but there was no disbursements under ECLGS-2.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citi Group. Please go ahead.

Manish Shukla: For PC5 is it fair to assume that retail growth will continue to outstate potential growth?

Sumant Kathpalia: Yes, you can assume it, and I've also said that we will continue to maintain a mix of between retail and wholesale, so retail being 55% to 62% and wholesale being 38% to 45%. So I can't give specific, I'm giving range bound because it'll continue to change quarter-on-quarter.

Manish Shukla: So what implications if any does it have for your cost to income or cost to assets trajectory going forward?

Sumant Kathpalia: We continue to believe that our PPOP margins will continue to be maintained greater than 5% of average loans. And I've said that before. We continue to believe that our ROA will be a range bound between 1.4% to 1.7%.

Manish Shukla: So pre-IL&FS, we used to be about 1.8% kind of a ballpark ROA. Do you see getting that by the end of PC5?

Sumant Kathpalia: I don't want to comment on it. I think I've given you the range bound and I think you can compute it basis mix which we are chasing and the types of portfolios which we have. And if we are conservative on our provisioning, and we have enough buffers, it's a different business altogether,

Manish Shukla: And in your opening comments, you had given segment wise breakup for pro forma slippages and restructuring. If you don't mind, can you please repeat it?

Sumant Kathpalia: We had a proforma slippage of Rs.2,508 crores or 1.2% of the loan because of the NPA standstill. Of this 20% came from vehicle and micro finance each. Secured retail contributed 15%, unsecured retail contributed 30% and corporate is balance 15%.

Manish Shukla: Restructuring please?

Sumant Kathpalia: On the restructuring, including approved and invoked, I will give both the numbers, it's not about giving one; vehicle is 30%, non-vehicle retail is 13% and balance from corporate banking, there is no restructuring on the microfinance segment.

Moderator: Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Just had two questions. One is on your slide #24. Standard assets plus the provisions not taken for proforma NPA, so that number will be 108 basis points, standard plus all the floating except for NPL's proforma?

Sanjay Mallik: It's about Rs.2,200 crores. So what is outside PCR, there is a standard provision of Rs.1,015 crores and there are other provisions of Rs.150 crores and there's about Rs.1,000 crores on the excess COVID provisions which are not sitting in the PCR.

Saurabh: Sir, do you have a target of where you want to take it?

Sumant Kathpalia: I think wait for the Q4. I told you that we will be conservative and that's the point which I want to give you. You will not see us rushing into profitability. I think we like profitability, but I think we like to create a balanced and secured balance sheet.

Saurabh: Just one question on restructuring. So on the real estate part, were any DCCO extensions given or no?

Ramaswamy Meyyappan: There was no restructuring. Extension Yes, extension in real estate in a few projects because of the COVID part, there was an extension. So under RERA, they have allowed extension and we have also matched the extension, but projects are all up and running. It's in single digits the extension, not material in the overall portfolio. But this has been carefully assessed, it has not been given blanket, based on the RERA and the collection part.

Saurabh: Okay, single digit of the residential portfolio.

Ramaswamy Meyyappan: Yes.

Sanjay Mallik: We are talking about 4-5 projects here and all are doing fine.

Moderator: Ladies and gentlemen, we take the last question from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: There was this social security code which had come somewhere in October and there was some provisioning that they had done in the staff expenses in the quarter. Have we also done something similar in this quarter or no?

Sumant Kathpalia: So we are assessing it and by Q4 we will take a provision, we have not taken any provision on that count right now, but the number will be very small for us, but we are assessing it, it may be incorrect for me to comment on it right now. Because I think we are going through assessment process also, our auditor is verifying our numbers before we make the number public.

Anand Dama: You can't put a figure to that?

Sumant Kathpalia: Not very significant, but please wait for us, we're closer on this.

Anand Dama: Secondly, can you also provide the details of restructuring under the DCCO or the MSME restructuring scheme, which is the old scheme?

Ramaswamy Meyyappan: The MSME part is only in the number that Sumant has already spoken about. That includes both the COVID and MSME part. On the DCCO extension, we just hand it in earlier response, it will be single digits for a few projects.

Anand Dama: What will be the amount for under DCCO extension?

Ramaswamy Meyyappan: I don't have off-hand. I will pass it on to you offline.

Anand Dama: Can you provide an outlook on the vehicle financing segment altogether in terms of growth and how the asset quality will shape up going forward and more so in the CV space?

Sumant Kathpalia: So we have a Partha with us. I just want to give you a broad overview. I think this is one of our dominances and we believe very strongly in this business. I think it has been 30 years of business with ups and downs. The way the growth has come back in the last quarter and this quarter, I think is something which we are very proud of except for certain segments and sub-segments in the medium and heavy commercial vehicles where I think the bus segment has been affected, I think the growth is coming back in all our vehicle finance, sub-segments and portfolios. The collection efficiency of this portfolio has been at around 96.9% and we continue to believe that we will continue to improve as we go further into this portfolio. I will ask Partha talk about it, because he runs the business for a long time.

S V. Parthasarathy: All vehicle segments have been improving quarter-to-quarter. This quarter we had more or less in disbursement terms, we caught up with the last year, I will say that last year, this was during Q3 was close to about 9,000 crores, now, it is about close to about Rs.8,000 crores. And barring commercial vehicle most of the other vehicle categories, we have matched the disbursement figures for the last year. As regards the portfolio as far as the portfolio status is concerned, vehicle utilization has been improving month-after-month. There has been some sort of issue in terms of viability primarily because of increased diesel price. Should that also get corrected on the viability as well as the freight rate, we should see no issues in terms of the portfolio health going forward. That is the only caveat which we have. Otherwise, we believe that the portfolio should behave more or less same way as it has been behaving for quite long, this is as far as portfolio is concerned. And I think with the demand going forward, there's still a certain amount of overcapacity in the market, demand I think will get corrected in a couple of quarters, I would say that next year commercial vehicle would see a significant growth because of low base for the current year as well as correction which is expected to take less than a year.

Anand Dhama: Sir, is it possible for you to give the proforma NPA and restructuring for three portfolios specifically?

Sumant Kathpalia: The CFD portfolio, the proforma slippage is 502 crores out of the 2508 crores and the restructuring is 1023 crores on the restructuring the total restructuring base, which is 1.8%.

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

Sumant Kathpalia: Thank you for your participation. I just want to tell you that the bank has become much more stable, much more resilient to any shock as we have over the last three to four quarters. We continue to remain conservative and we will continue to be transparent and provide any information which is required to gain the confidence of the market. Indrajit and Sanjay are available for any further clarification which you may require. We strive to give all the clarifications in this document in my speech. But if there are any further clarifications, we are willing to provide any time. Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IndusInd Bank, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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