IndusInd Bank

"IndusInd Bank Limited Q1FY23 Earnings Conference Call"

July 20, 2022

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Moderator: Ladies and gentlemen, good day and welcome to IndusInd Bank Limited Q1 FY23 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: Thanks for joining this call. Let me start with some macro commentary and then go into the bank specific details.

During the Q1FY23, we saw economic activity momentum pick up sharply as well as headwinds to growth rising as well. The Services PMI index signalled a very strong improvement in private services activity, while manufacturing sector activity levels were stable. Prospects of the farm sector also look better with the timely onset of the monsoon and output last year touching another record. Bank credit offtake too picked up over the quarter in line with an improvement in the underlying economic activity. However, rising inflation levels led to monetary policy tightening by major global central banks including in India which is likely to continue in the near term.

Relatively strong economic growth prospects, a deleveraged corporate sector, much improved health of the banking sector along with strong external forex reserves buffer and measures taken by the government and the RBI to curb inflation, would help India negotiate these headwinds. Global supply chain pressures have begun to ease and non-energy commodity prices are now easing. While real GDP growth is expected to slow down in FY23, India will still remain among the fastest growing large global economies.

Coming to the quarter specific developments. Our focus areas for the quarter were:

- <u>Continued Loan Growth Acceleration</u> – We maintained healthy loan growth of 4% QoQ driven by strong disbursements in vehicle, corporate and other retail assets. Microfinance disbursements too returned to normalcy after a brief hiatus to adopt to the new regulatory guidelines. We are thus seeing loan growth momentum in all the business units. This also resulted in YoY loan book growth improving to 18% from 12% previous quarter.
- <u>Maintaining Deposit Momentum</u> – We achieved 3% QoQ growth in deposit mobilisation in spite of the liquidity tightening and increased competitive intensity. Our growth was driven by 16% growth in CASA and CASA ratio improved from 42.7% to 43.1%. The retail deposits as per LCR also grew by 17% YoY. We also achieved highest new customer acquisition of 425,000 during the quarter through consumer bank.
- <u>Ensuring Healthy Asset Quality –</u> We have provided gross slippages segregated from standard and restructured book in investor presentation. Our standard book slippages have reduced to 0.57% from 0.75% QoQ. Our Restructured book has reduced by 1,013 crores from 2.6% to 2.1% QoQ. Our NNPA is at 0.67% with provision coverage ratio at 72%. Our contingent provisions are at 3,003 crores with total loan related provisions at 141% of GNPAs. Our credit cost has reduced to 50bps from 61bps QoQ.
- <u>Sustaining profitability of the franchise –</u> We saw healthy Net Interest Margin of 4.21% with both loan and deposits witnessing repricing during the quarter. Client fee income grew by 9% QoQ driven by continued retail momentum. Our trading income too was positive during the quarter. Our PPOP margin to loans for the quarter was at 5.7% vs 5.8% - marginally lower largely due to trading income.
- <u>Steady Improvement in Return Ratios –</u> Our Profit After Tax grew by 16% QoQ and 61% YoY to 1,631 crores. Our Return on Assets improved to 1.73% and Return on Equity was at 13.4% for Q1. With improvement in profitability metrics and lower risk density, our Capital Adequacy Ratio improved during the quarter with CET1 of 15.96% to 16.05% with overall CRAR at 18.14%.

Now coming to individual businesses.

1. **Vehicle Finance:**
   - The vehicle finance loan growth accelerated during the quarter to 4% QoQ. The YoY growth too improved from 1% to 8% over the quarter.
   - Historically, first quarter has been a seasonally weak quarter whereas Q4 has been a strong quarter seasonally. However, we have seen disbursements of Rs 10,078 crores in Q1 which are higher than March quarter. This is first time in last several years we have seen QoQ growth in disbursements in Q1 of financial year. The disbursements are also the highest in a quarter we have ever achieved.
   - The segments showing strong disbursements were Commercial Vehicles, Utility Vehicles, Cars and Tractors. Disbursements were muted in three wheeler and two wheeler segments.
   - The disbursement traction also validates efficient capacity utilisation of existing vehicles. Vehicle customers are so far able to pass on increased cost of fuel to the end user. The recent oil price movement and also the tax rate cuts by various state governments provides further support to the freight economics.
   - The collection efficiency of standard customers remains stable at pre-Covid levels. The slippages from standard book were stable at 4.5bn QoQ.
   - The restructured book in vehicle finance reduced from 3,298 crores to 3,131 crores QoQ. The collection efficiency of these customers remains comfortable in 80s as per our expectations.
   - While the vehicle portfolio pricing is fixed term in nature, the fresh disbursements are at higher rates broadly in line with the benchmark movements. We have thus seen overall yield on the vehicle portfolio improve during the quarter and expect the trend to continue in coming quarters.
   - The vehicle portfolio has now shown strong disbursements for four quarters in a row. The industry volumes however are yet to reach their peak levels. We do thus see further scope of disbursement growth in the year participating in the overall industry growth.

2. **Microfinance**:
   - During the quarter, Microfinance industry adopted RBI master direction on MFI issued on 14th March 2022. Though the time available was short, necessary changes were made and we could commence the disbursement from May.
   - We were able to recoup some of the lost days and achieved disbursements of ₹7,531 crores during Q1. These are the highest Q1 disbursements in BFIL’s history. Our MFI book at the end of Q1 at ₹29,403 Crore was up 11% YoY.
   - Our MFI standard book collection efficiency for Q1 was at 99.1%, same as Q4 FY22. The collection efficiency for new clients sourced post Covid-2 wave also remained healthy at 99.2% which is close to pre-Covid levels.
   - Our 30-90 DPD book including restructured customers was at 2.2% on Jun-22 compared to 2.6% at the end of Mar’22.
   - Higher emphasis was placed on recovery during the quarter as we felt that the economic conditions had sufficiently improved for our customers to start repaying their overdue loans. Through focused efforts we were able to recover ₹57 Crore during Q1 against written-off loans/loans sold to ARC and expect to realize higher recoveries in the following quarters.
   - The gross slippages during the quarter moderated to ₹560 Crore as compared to ₹815 crores during the previous quarter. The slippages from standard customers reduced considerably to 278 crores from Rs 779 crores QoQ. The outstanding restructured book has also reduced to 644 crores from 995 crores QoQ. The restructured book saw slippages of Rs 283 crores and we have utilised the contingent provisions created last year towards these customers.
   - Our merchant acquiring business under the banner of Bharat Super Shop continued the growth momentum. Portfolio sourced through BFIL under this business has grown 15% over Q4 FY22 to ₹2,237 Cr with 3.8L active borrowers. The total disbursement during the quarter was ₹942 Crore with continued demand from the missing middle segment. We see a large opportunity in deepening relationship with these customers. The book has been performing relatively well with standard book collection efficiency of 99.1% for Q1 FY23 and net collection efficiency of 97.8%.

- Our endeavour to take banking to the doorstep of underserved customers in remote locations continued. At the end of Q1 FY23, the total liability book sourced from customers serviced through BFIL increased by 134% YoY to reach ₹1,450 Crore through 1.14 Crore accounts (SA, RD, FD, CA) with us. Our focus remains to be the banker of choice of our customer segment in Bharat.

3. **Global Diamond & Jewellery Business**
   - The global diamond trade slowed down during the quarter due to Russia-Ukraine conflict and lockdowns in China, Hong Kong. Our diamond book grew by 1% QoQ and 28% YoY and forms 4.2% of the overall loan book.
   - The disruption however did not have any impact on asset quality with no clients getting into SMA category.
   - The industry is working closely with the policymakers for normalising the supply chain. The recent steps by the government and the regulators to facilitate trade between India and Russia should improve the flow of rough diamonds.
   - Overall we remain comfortable on the diamond portfolio expect further growth to continue as the supply chains normalise and markets in PRC open up.

4. **Corporate Bank:**
   - Our corporate loan book maintained healthy growth trajectory of 4% QoQ growth. We saw growth across segments with large corporate growing by 3%, mid corporates by 5% and small corporates by 11% QoQ.
   - Loan book growth was broadly driven by Large Corporate segments like strategic clients group & financial services and in Mid and small corporates like SME, Healthcare.
   - Majority of the corporate loan book is floating rate in nature and we were able to pass on increased rates for customers due for reset. Our yield in corporate book thus improved by 7 bps QoQ reversing the past trend of falling yield.
   - The proportion of A and above rated customers has improved from 70.6% to 73.5% YoY with weighted average rating improving from 2.68 to 2.63 YoY.
   - The Net Slippages in corporate book were Rs 4.1bn for the quarter. This includes, as mentioned in the previous call, some group companies of a retail corporate amounting to Rs 2.5bn which turned NPA during the quarter.
   - Our corporate restructured book has now reduced from 9.6bn to 5.6bn QoQ. Exposure to stressed telco was at 18.5bn including fund based exposure of 10bn and balance non fund based exposure.
   - We do see continued interest from corporates towards capex plans. Impact of interest rates hike is not felt strongly as budgeting was done with assumption of interest rate hikes. We see interest in capex plans particularly in segments which have deferred capex due to Covid such as Auto-components, Steel, Renewable etc. Capex is also seen under PLI schemes in Electronics, Mobiles, Distilleries for capacities being put up.
   - Business momentum for us also remains strong in small corporates and SME segment with focus on new acquisitions, supply chain financing etc, albeit on a small base. We are watchful of segments impacted by the higher inflation. There are however segments witnessing tailwinds e.g. export oriented units, infra, textiles etc which provide opportunities for growth.
   - Overall we do see corporate book to maintain steady growth driven by mid and small corporates with active repricing benchmarked to the market rates.

5. **Other Retail Assets:**
   - We saw another quarter of growth momentum in Other Retail Loan book growing by 7% QoQ and 23% YoY.
   - Within secured assets such as Business Banking and Loan Against Property, we had seen intense competition over last few quarters both in terms of pricing and collateral relaxation. With rising rates environment and inflation, we are seeing underwriting approaches improving. Our acquisition runrates thus continue to accelerate.
   - Credit Cards spends have remained strong for us as well as industry with spends of 16,900 crores for June. We also saw highest ever card acquisitions of 75,700 in June with total credit card base crossing 2 million mark.

- We expect growth momentum in retail business to continue in the current financial year. We do however remain watchful of inflationary economic conditions particularly on the unsecured consumption spends.

6. **Now coming to Liabilities:**
   - Our deposits grew 13% YoY driven by 16% YoY growth in Current and Savings account and Retail Deposits as per LCR also grew by 17% YoY.
   - The quarter was marked by interest rate hikes and heightened competition for deposits. We also saw larger peer banks raising their term deposit rates and in some cases savings deposit rates too. We have been selective in our rate actions and seen the rate gap with larger peers narrowing during the quarter.
   - We have ramped up our new deposit acquisitions with new client acquisition from consumer bank touching new high of 4.25 lacs for the quarter. Our term deposit monthly runrates have moved from 78,000 to 1,15,000 QoQ. Our CASA ratio has improved 43.1% QoQ driven by 19% growth in savings accounts.
   - Contribution of Certificate of Deposits remains low at 3% of deposits.
   - Our Affluent segment deposits grew from 35,300 to 36,300 crores during the quarter. Affluent AUM was stable at 59,000 crores despite the market correction.
   - Deposits from NR segment have remained stable at Rs. 26,800 crores. The NRI momentum is expected to pick up with the recent regulatory guidelines.
   - We let go borrowings during the quarter reducing by 12% QoQ and 15% YoY. The borrowings now form only 10% of the liabilities and almost all are long term in nature. We also repaid our Euro-MTN program in April and with that we don't have any foreign currency bonds outstanding. We also exercised our call option on Additional Tier 1 bonds at the earliest permitted anniversary of 5 years.
   - Overall, we continue to remain focused on retail liabilities mobilisation. Our physical and digital distribution priorities have been aligned towards retail deposit. We are aiming to take the branch distribution to 2,500 by Mar-23. We continue to scale up new initiatives like affluent and NRI. We are confident of maintaining our deposit and cost of deposit profile to fund our loan growth aspirations.

7. **Digital Traction:**
   - Digital Sourcing % across products continued to increase and what is interesting now is that we have started building and scaling up digital unassisted models with focus on scale with profitability
     - During the quarter, more than 200,000 clients were onboarded using Video KYC
     - 96% of the Bank's savings accounts and fixed deposits are originated digitally. Of this, 30% of savings accounts are opened in a digitally unassisted manner through marketing of direct to client platform and 40% of fixed deposits originate in a digitally unassisted manner.
     - Easycredit Stack continues to scale bringing in fresh volumes as well as reduce cost of acquisition. 90% of cards are originated digitally now on the back of easycredit at a cost of processing which is 60-70% lower per unit. We recently went live with easycredit for personal loans as well and 54% of personal loans are originated digitally which will be scaled up to 90%+ within next few months.
   - We continue to focus on increasing digital transaction intensity and engaging with the clients digitally.
     - 92% of Bank's transactions are digital.
     - Mobile transactions increased more than 2X YoY and mobile active base increased 21% YoY.
     - On whatsapp banking we scaled up our user base to more than 5mn. We offer more than 50 services on whatsapp and our whatapp transactions increased 45% YoY
   - In terms of the new launches:
     - IndusMerchantSolutions app has scaled up to user base of 80,000+ retailers and every second user on the app is New To Bank suggesting strong pull of the product in the market.

  - IndusEasycredit for Business stack is also scaling up steadily wherein we offer small ticket business loans and secured overdraft to clients. As a result, nearly 40% of MSME lending in less than 2 Cr exposure bucket is now digital and we plan to make it 100% digital with the expansion of working capital product suite on the stack over next couple of quarters.
  - We are progressing on the remaining two launches of Digital 2.0 i.e. for individuals and for SME. These are expected to be launched in second of the year.
- As we build capabilities in digital platforms and applications, we also leverage the underlying APIs to integrate with partners and ecosystem to boost our Banking As a Service model.

Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 16% YoY and 4% QoQ in line with our loan growth. Net Interest Margin improved sequentially from 4.20% to 4.21% QoQ.

2. The Net Interest Margin was supported by repricing on the asset side as well as active management of the liabilities. Our Consumer as well as Corporate loan book saw yield improving during the quarter with overall yield on loans improving by 10bps. While the cost of deposit increased by 19bps, the cost of funds increased by only 6bps due to reduction in borrowing expenses.

3. Other income grew by 12% YoY and 1% QoQ. Core client fees excluding trading income grew by 9% QoQ and 47% YoY. Our trading income was down QoQ and YoY due to rise in the interest rates. We have nevertheless saw positive non core income of 146 crores during the quarter. Share of Retail fees improved to 70% from 64% of total fees.

4. Our total revenue for the quarter was at Rs 6,057 crores with 15% YoY growth.

5. Operating expenses grew by 5% QoQ with continued recovery in the business momentum. Our overall Cost to Income ratio increased from 42.6% to 43.4% QoQ due to lower trading income. Our Core Cost to Income before trading income improved from 45.4% to 44% QoQ.

6. The operating profit for the quarter was at 3,432 crores growing 10% YoY and 2% QoQ. The PPOP margin to loans continues to be healthy at 5.7%.

7. On the asset quality and the provisioning front:
   - Our provisions for the quarter have further reduced to 12.5bn. The provisions to loans are thus down to 50bps now.
   - We saw reduction in slippages from standard book from 17bn to 13bn. The reduction was driven by lower slippages from microfinance and corporate customers whereas vehicle and other retail were stable QoQ.
   - The restructured book slippages were driven by microfinance customers coming out of eligible moratorium and also a retail group in corporate banking. We had made contingent provisions against these in last year and have utilised to the extent of slippages. The restructured book has reduced by 10bn during the quarter from 2.6% to 2.1%.
   - We didn't have any sale to ARC during the quarter. The Net Security Receipts have reduced from 83bps to 72bps.
   - Overall, the GNPAs for the bank were at 2.35% and Net NPAs at 0.67%. We have maintained provision coverage ratio of 72%.
   - Our contingent provisions excluding specific provisions are at 3,003 crores. We have utilised 325 crores towards the slippages during the quarter from the restructured loans as explained earlier.
   - Total loan related provisions are at 3.4% of loans or 141% of the GNPAs.
   - Our SMA1 and SMA2 book was at 10 bps and 39 bps respectively.

8. Profit after Tax for the quarter was at Rs 1,631 crores growing 16% QoQ and 61% YoY. Our CRAR including profits remains healthy at 18.14%. Return on Assets continued upward trajectory from 1.51% to 1.73% QoQ and Return on Equity improved to 13.4%.

I also want to spend a minute on the stock exchange intimation done earlier this month on media speculation. As disclosed, this pertains to an old investigation. The Bank is providing the necessary support to investigating agencies. The matter was also scrutinised by the regulator in the past and the outcome of the same was intimated to stock exchanges in 2016. The Bank is not named as a party in the first information report. Given the investigation is in progress, there will be limited scope for further information beyond what we have already disclosed.

Overall, the quarter saw turbulent operating environment with interlinkages of inflation, reversal of accommodative monetary policy and Russia-Ukraine conflict playing out. The first quarter is also a seasonally weak quarter for some of our businesses. The Bank has nevertheless focussed on delivering on our PC-5 ambitions.

- Loan growth has accelerated to 18% from 12% last quarter. Our vehicle and microfinance had best Q1 disbursements in their history. Consumer and Corporate books have been delivering steady growth.
- Retailisation of liabilities continues with 16% growth in CASA, 17% growth in Retail deposits as per LCR and letting go of borrowings.
- Asset quality trends from standard book continue to improve. Restructured book carries comfortable contingent provisions.
- All key profitability metrics across NIMs, core PPOP margin, RoA and RoE have maintained positive trajectory.
- We continue to invest in new initiatives like affluent, NRI, tractors, merchant acquiring and plan to launch home loan this quarter. We will also launch remaining two of the planned digital initiatives during the year.

We are thus committed to deliver our PC-5 ambitions of achieving 15%-18% loan growth CAGR, maintaining healthy PPOP margin upwards of 5% and reducing credit costs towards 120-150 bps.

With this we can open for Q&A.

Moderator: We will now begin the question & answer session. The first question is from the line of Mahrukh Adajania from Edelweiss Broking Limited. Please go ahead.

Mahrukh Adajania: Sir, my first question is, if you could explain fees. There has been strong growth in general banking and third-party distribution fees. If you could give some color on that. That's my first question, sir.

Sumant Kathpalia: General banking fee has multiple components. One is the regular deposit processing fees, the second is the payments, and the third component is the PSL certificates. It's a combination of all the three which has increased. The PSLC fee increased by about 50 to 60 crores in the quarter and that is what has added to the QoQ growth.

On the distribution fee side, the growth is normal and it is actually the core businesses which are growing, vis the insurance distribution, the card distribution etc.

Mahrukh Adajania: That looks sustainable at least for a few quarters, right?

Sumant Kathpalia: Yes. It's about 8% quarter-on-quarter growth.

Mahrukh Adajania: My next question is, in general, on outlook on growth. If you see the banking sector growth or if you listen to the commentary of banks, they remain quite optimistic on growth whereas investors generally remain concerned on a slowdown. How do we tie-in the two?

Sumant Kathpalia: In my opinion, you have to see that growth is coming from which segments. That's how you should link it. If you look at our vehicle finance business and if you talk to the OEMs, all of them are projecting a high growth, because they are coming from a cyclical downturn. For 2 to 3 years, they have seen a downturn. So, I think you will see growth coming back in this segment and growth will also be fueled by our entry into the used car markets. Our tractor business is seeing the scale up and the light commercial vehicle, which we have entered and now have ~8% market share is also seeing a scale-up. So, I think you will continue to see 16% to 18% growth in this segment for us.

In microfinance, I think there is enough demand. I think the demand was affected in the last quarter because of the RBI regulations and there was a system modification which has happened. The first 45 days were lost and in the last 45 days we did the disbursements and I think you should see a 25% to 30% growth happening in this segment and growth will also be fueled by our entry into the merchant-acquiring business where we are seeing a rampant growth which is ~2,300 crores and we expect to close the year at ~4,000 crores. So, that segment is also growing very fine for us.

And on the diamond financing side, once the rupee trade and the regulatory changes happen, you should see the growth coming back and I think that is what affected the growth this quarter.

Corporate side, the SME and the MSME segments, we have seen good growth, and on the large corporate side, while there is growth, I think the pricing is still very fine and we continue to be very careful in what we are doing. We are growing at 3% to 4% and we will grow in line with the market or maybe a percentage point higher, because we come from a very small base.

Mahrukh Adajania: Sir, my last question is on corporate slippage. Where would you see it normalize per quarter – like a broad run rate? Of course, there was slippage from restructured of 250 crores which was pertaining to the group which you had mentioned last quarter only, but now most of the restructured corporate loans also would have slipped, right?

Sumant Kathpalia: Correct. The corporate slippages for this quarter include one-off specific case which has flowed in and which is affecting the overall corporate slippages and you know which group I am talking about. There was also one more corporate account which slipped in this quarter and got upgraded during the same quarter itself. Otherwise, you should see corporate slippages normalizing. We are not seeing any of high risk indicator highlighting for high fresh flows, which should come in. I think going forward, it would be BAU flows, and the BAU flows for corporate book, we have always said would fluctuate between 30 and 50 basis points.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Firstly, currently now how much are we carrying in terms of the provisions on the restructured pool?

Sumant Kathpalia: We are carrying 3,003 crores as contingent provisions.

Kunal Shah: We can assume that maybe a larger part of it is towards the restructured. So, as, and when there is a flow-through from the restructured, contingency will keep on getting utilized the way it has happened in this quarter?

Sumant Kathpalia: We won't utilize full. Our expected credit cost for FY23 is 120 to 150 basis points. For example, in microfinance, for most of the restructured pool, the moratorium is over, they are paying. Whatever has to flow in has flown in. What we may get another Rs.100-200 crores, which may flow in. In the CFD book, the vehicle finance, we have always said 20% will flow in and that is what is flowing in. It's not that we are seeing anything else which is flowing in. I think except for the one corporate group which actually flew in, there has been no surprises for us in the restructured book.

Kunal Shah: In terms of the BL, PL, and HL, now that component is also quite huge and there has been a good pickup in this segment, you can highlight maybe amongst these three, which is growing and given that now that scale is also quite high, Rs. 11,000 odd crores, would we tend to break it down further?

Sumant Kathpalia: Yes, I think PL is growing. We have seen a ~300 crore quarter-on-quarter growth on the PL side of the book. We are seeing merchant loans from Bharat Financial growing and we have seen a 15% QoQ growth. Smaller businesses like BL, LAS & GL etc, they have also grown QoQ by ~32%. Kisan Credit Card grew by ~2.2% on QoQ basis. I think all these businesses have started growing well and we will see more growth as we go forward. We are diversifying our book between secured and unsecured. This is why these businesses have been put and they are growing very fine now.

If you want the split, we can send you the split over the mail also.

Kunal Shah: Yes, because now that's becoming quite substantial. So, that would be great if that can be shared going forward. And lastly, in terms of the branch expansions, again maybe almost we are looking to add more branches. Maybe it was not a substantial one in Q1, but you highlighted 2,500 by the end of this fiscal and we have seen OPEX also growing sequentially now 5% and catching up the pace with peers. So, how should we look at cost to income? Would we see that going up with these investments getting into the branches and the employees?

Sumant Kathpalia: I have always said that our income growth will also match our expense growth at some point. I think that's what you will see. Our microfinance unfortunately did not grow this quarter, but you will start seeing the growth. I think our cost to income will be range bound between 41% and 43%. Of course, in some quarters, you may see 30-40 basis points here and there, but our objective is to come down. Our branches' infrastructure cost came in. I think our resources if you look at, we added ~3,900 resources last year and we have already added ~927 resources this year. Our cost on technology specifically is going up and that's about 6% to 7% of our overall cost now. Once our operating leverage of vehicle and MFI starts coming in, I think we should come back to 41% to 43% range, which is where we are headed for.

Moderator: The next question is from the line of Adarsh Parasrampuria from CLSA India Private Limited. Please go ahead.

Adarsh Parasrampuria: Sumant, a couple of questions; one on liabilities. This is a kind of tough period in the sense that a lot of wholesale deposit costs would have moved up sharply. So, just wanted to understand, is a lot of that already there or we will see some of that impact come through in the next few quarters?

Sumant Kathpalia: A lot of bulk deposits are of smaller duration – 90 days to 180 days. So, you will see some part of it also coming in the next quarter. If the RBI increases the rates by about 30 to 50 basis points, you will see that impact on the book coming in. We have taken that into account while we were preparing our budgets for quarter 2 and quarter 3. We still believe that even with that cost of deposits, we have enough levers on assets side and strategy in place to make sure that our NIMs are range bound between 4.15 to 4.25.

Adarsh Parasrampuria: My second question is related to the restructured book. A lot of the reduction was due to slippages in this quarter. As you said, a lot of what had to slip, has slipped. How does this 2% of restructured book wind down? They performed for a year, they wind down or when do we know that what was the outcome from the full book?

Sumant Kathpalia: Quarter on quarter, you will start seeing the wind down and by March of next year which is the financial year 2022-23, you will see ~70% of the book winding down to a large extent because the payments have started and whatever has to go down will go down. We have always said that we provided extra and I don't see our restructured book credit cost actually crossing more than 1,100 to 1,300 crores. We have only utilized 325 crores till now. We have always said that we will keep extra buffer and keep ~2,000 crores in safe and I don't think we need to utilize anything more than that on our restructured book. Overall, it is 15% to 20% of the original restructured book and that is what the cost would be.

Adarsh Parasrampuria: Just a follow-up on margins, Sumant. We have seen unsecured mix pick up for us; CVs is doing well; MFI will likely come back. So, from a loan mix perspective, the levers are there for margins to do well, right?

Sumant Kathpalia: We have always balanced our book. Share of unsecured loan book to the overall loan book has always been less than 20%. We have always maintained that ratio. The unsecured book relating to credit cards and PL in the consumer bank has been less than 5%. We have not let that bust because we have a microfinance book, which we have always said that can go up to 15%. Those are the levers which we have used. And I think we have some headroom there but I don't think you will see us busting those defined levels.

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

Nitin Aggarwal: Sumant, first question is around the treasury performance over the quarter that looks quite strong in such a challenging time. Anymore color as to what has really driven this quarter on the treasury lines.

Sumant Kathpalia: I think first of all, we must admit that we have done well on treasury and we run a very good treasury book and I think we managed our book well. Arun, who is our deputy CEO and runs this business can give more color on this.

Arun Khurana: Way back in January onwards, we started unwinding all duration portfolios. As a conscious decision, we did very insignificant non-SLR bonds. By March/April, we had already unwound everything. So, by April actually, all our positions were unwound and we had switched them into mostly treasury bills and that's why we did not really take a hit on any of these positions but yet tried to get some revenues with the positions that we carried and we switched them off in the first week April to second week April.

Nitin Aggarwal: Sumant, IndusInd Bank has been putting up very resilient performance for the last several quarters though every time there will be one or the other concerns popping out, natural pull has not been great as well. So, going into FY23, as we look to do better on earnings and growth, what are the top 2 or 3 things that will be most watchful?

Sumant Kathpalia: Three things, which I think we have to be watchful are, #1) we have shared our expectations on credit cost. We want to remain within the range of 120 to 150 basis points. And that's the one thing we are focused on. You also check out the flows and the standard book flows have normalized, while overall flows have increased because of the restructured book. The message is our standard book has normalized and is improving quarter on quarter. #2) second thing which we are very watchful of is that we manage our mix in such a way that we are able to maintain the expected NIM range. Our cost of deposits this quarter has seen an increase, we however, managed the cost of funds very well, and I think we have to continue to manage the balance between cost of deposits and cost of funds to make sure that we are within the range and manage the mix of the portfolio. #3) The third thing which I think is important is that we have to be watchful of our costs. We continue to invest for growth and we have never stopped our investments. With the launch of the new initiative on the individual side coming up in the 3rd quarter of this financial year, you will also see some expenses on the marketing side which will build up. Our data center migration is also in line. So, we have to see how we are going to manage these costs as we move forward. These are some areas which we are looking forward to. I may necessarily not say the costs have to manage. The growth in the income has to be much better than the cost rather than trying and managing the investment cost. I always look at it that way and we are too small right now to start managing costs in these areas. For us, the growth in income is more important than managing the cost as of now.

Moderator: The next question is from the line of Mr. Manish Shukla. Please go ahead.

Manish Shukla: Sumant, if you could please break down the slippages and restructured book by segment again for the current quarter as well as the previous quarter?

Indrajit Yadav: I think it will be easier if we just upload that table along with the commentary.

Manish Shukla: Yes, that will be perfect, thank you. Second question, Sumant, is that on the granulization of the liabilities. The share of retail inputted as per LCR has been hovering around 40% to 41%. Now that we are in a rising rate environment and every bank is going to chase deposits, what are your thoughts on increasing the share of retail in overall deposits as reported under LCR?

Sumant Kathpalia: We have said we want to achieve 45% retail deposit share as defined by LCR and we are committed to achieve 45%. There are 4-5 initiatives which are backing this up. 1) NRI Banking, the NRI flows unfortunately have been stable over the last year. I think you will start seeing the NRI flows coming in with the regulations changing and RBI giving the dispensation on the CRR and SLR. I think, some more dispensations are also expected to come in the forwards or swap rates side. You should see the growth coming back in that business. We are targeting a good growth out there. That's number one. 2) The second one is Affluent banking. While the growth in liabilities has been strong, I think we can do better and we are committed to achieving our numbers on that. 3)Third, our BAU acquisition run rates have increased in the branch banking side and we are seeing about 125,000 to 150,000 monthly savings account acquisition, which should move to about 200,000. And I think the increased acquisition run rate will itself increase the balance sheet along with the new branches. 4) The fourth is, The Bharat Financial book, which has started increasing and the accounts are getting opened. I think we are already seeing Rs. 200 crores to Rs. 250 crores and once the disbursement starts picking up, I think you should start seeing a Rs. 350 crores to Rs. 400 crore quarter-on-quarter growth in this business along with the merchant acquiring business. 5) last is the new digital initiative, which will get launched by November/December where we will start talking about our scale in a different way. What we are doing with the branch banking today, I think we will do double of that. We will start doing 200,000 to 250,000 accounts a month to up to 3 million and set a new benchmark. Overall, we are well prepared to take care of our growth as well as the retailization piece.

Manish Shukla: My last question is on the entire MFI whistleblower episode. Whatever actions had to be taken from your end, those are largely done in terms of either making procedural changes or making provisions or is there anything which is still remaining?

Sumant Kathpalia: Nothing is remaining. In my opinion, the only thing which is remaining is that we are going for a system upgrade. I think by March 2023, we would be done with the system upgrade also. That's the only thing which is pending. We are making it much more robust and we are adding more control features into that. That would happen by March 2023. Otherwise, all changes in the organization structure, processes, as well as what needed to be done have already been done.

Manish Shukla: One last question is, in the MFI book, there is a quarter-on-quarter uptick in ticket size from about 27,800 to 29,700. Is this because of the new RBI norms and should this be the new normal?

Sumant Kathpalia: No, what has happened is the acquisition of new-to-bank client actually which was 800,000 to 900,000 a month went down this quarter to 500,000. The Cycle-1 ticket size is actually ~Rs.18,000 to ~Rs.20,000 whereas in Cycle-2, it is ~Rs.30,000, and in Cycle-3, it is ~Rs.35,000. What has happened this quarter is that the Cycle-2 and Cycle-3 have been successful and new-to-bank customers have been lower than what they are normally, and as a consequence, the ticket size has moved up.

Moderator: The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Most of the questions have been answered; just one observation. If I see your slide #25, the write-off in the corporate book appears to be on the higher side. Pardon me if I am repeating this question, but can you explain what triggered such a large write-off number? I am sure this is an aberration or one-off.

Sumant Kathpalia: You are absolutely right. There are 2 accounts which have gone into the write-off. One is the media account which was there which we had taken a provision long time back and we had to write off because of the IRAC norms. And the second one was a real estate account. Both of them have been written-off as a consequence.

Rahul Jain: Just that I have the floor, maybe 1 or 2 more questions. On the deposit side again coming back, you have got the levers on the yield side across portfolios with pickup in high-yielding portfolio, etc., I hear you on the NRI deposits, etc., but anything that goes beyond building the customer base which is far more sticky and allows you to diversify your retail asset mix at a future point of time? Any strategy or anything that you are sort of doing out there to improve that part of the segment so that the business becomes less cyclical?

Sumant Kathpalia: While the branch banking is doing well with all the levers like mobile, payments etc. I think the digital piece will create a super engagement strategy and we are coming with a completely different UI/UX on our payments stack which will redefine the client experience, product as well as the business strategy on the liability side. The client journey may not start directly from liability, it would start from a very different payments journey and end up to liabilities, because of the transactions going through our bank. And as a consequence, while the ticket size may not be equivalent to what a branch gets of ~60k. We have considered ~30k for digital, which is almost 50% lower. It's the volume which we are planning to do and we will acquire about 2.5 to 3 million customers per year through this strategy. And as we go forward, you will see a very differentiated CASA mix as well as the liability strategy. We believe that's going to be the change agent for the bank going forward. Having said that, in no way I am saying we will stop expansion of branches; no way am I saying that branch distribution is not important; I am saying it's a mix of both the strategies which will work together and create a very differentiated offering.

And of course, on the current account side, you would have seen the merchant acquiring business. As we scale up this business, which is currently ~2,300 crores, ~30% of that book lies with us in the current accounts. We want to scale this business up to ~Rs.15,000 crores in 3 years' time and you will also see the flows in the current account as a consequence. As we grow deeper into our MFI penetration, while the liability book may not large in size, the cost of that book will be a accretive as we go forward, and I believe that we should be able to create a Rs.5,000 to Rs.6,000 crore liability book in the next 2 years. We are already at ~Rs.1,500 crores. So, I am seeing a good potential which is coming in as a consequence of these efforts which we are doing.

Rahul Jain: On the deposit bit again or the deposit pricing rather, over the next few quarters – of course, given that everybody is fighting for deposits, how do you see yourself playing in that market? Would you need to offer substantially higher rates or you are comfortable with whatever rate differential you are running with versus larger banks and that should be enough to generate enough volumes to support your loan growth?

Sumant Kathpalia: If you look at our loan growth, even if we do 20% growth, we are talking about ~Rs.50,000cr loan growth which means that we have to add ~Rs.60,000cr of liabilities. That's what we need to convert it into. If you look at our growth, we are today at ~Rs.10,000 crores of growth per quarter and we need another 5,000 crores. You may see us solving that situation in the next 2 quarters itself. I don't see that as a risk, if all our strategies play out. I have always said that on rates initially we were 200 basis points ahead of the market during 2020-21; we reduced it to 150 basis points, and now we would be around 50 to 75 basis points ahead of the market and that's where we want to be. We have been able to attract deposits at these rates and we should maintain that. If the situation gets worsen, we will come and inform, but we will also change the mix of the business in such a way that we are able to take care of the deposit price.

Moderator: The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just one clarification on the vehicle finance book. The sequential accretion in the loan book appears a bit more pronounced versus the fact that disbursements were flat QoQ.

Indrajit Yadav: This is what we have been explaining for the last 3-4 quarters. It is because of the way EMI construct works here. If the previous year disbursements are low, the runoffs are so high that even the higher disbursements can't catch up. And once you have delivered 3-4 quarters of consistent disbursements, then the loan book keeps building up. It's purely because of that construct, you are seeing the disbursements versus loan book movement over the last 3-4 quarters.

Sameer Bhise: Secondly, on the Corporate side, what sectors are you seeing the incremental opportunity?

Sanjeev Anand: Basically, on the large and mid-size corporates, it's across the auto sector, the renewable space, the government push on infra, the PLI scheme. So, pretty much, it's across everything and there are big Capex plans lined up.

Sameer Bhise: About the slippages on the microfinance side, could you split it between from the restructured book and even from the standard book?

Sumant Kathpalia: We are uploading the information, but I can tell you that the quarter 1 slippages; 278 came from the standard book and 283 came from the restructured book out of the 560 crores of slippages.

Moderator: The next question is from the line of Rakesh Kumar from Systematix. Please go ahead.

Rakesh Kumar: Just an extension to the previous question in relation to the regulatory disclosures that we make on NSFR and LCR. If I see in the NSFR, the stable deposit composition is relatively on the lower side and looking like an outlier as compared to the bank of a similar size. So, how we are going to change this deposit composition profile maybe in the times to come? Second thing is that what we have seen in the last 10 years or 12 years' performance that after a rate rise, in the subsequent years, there is a margin pressure because your deposits have been priced at a higher rate. Then we see margin pressure in the next year, not in the same year when the rates are rising. These 2 things if you can elaborate on, it would be quite useful.

Sumant Kathpalia: You have to look at it in 2 ways. You are absolutely right on retail deposits. If you look at our retail LCR deposits, it is on the lower side and we are now increasing it and we have made it as a part of our PC-5 ambition as well as strategy going forward. Our retail deposit as per LCR Basel-III disclosures, is at ~41% and we want to go to ~45% and eventually settle at ~50% at some point of time. That's where we are headed. The other thing which you will see is, if you look at our CASA ratio, one of the things which you will observe is that our current accounts' percentage is lower to a large extent whereas for large peers would be around 30% to 35% of its CASA book would be coming out of CA. That's where you will start seeing our focus on the current account business and that itself will start driving the margin going forward.

Three or four things to conclude with. First you will continue seeing us focusing on retailization of liabilities. The second is the current account book which has almost been stable for the last 4-5 quarters or declining. You will start seeing a growth in that book as we go forward. The third thing is, you will start seeing that as your CASA percentages move up, your cost of deposits will start going down and your margins will come up. Fourth, we have the capability of creating a distribution mix through our domain specialization, where we can change the mix very fast to manage our NIMs and margins as we move forward.

Rakesh Kumar: Just one more question if I could ask. This is with relation to the risk weight of the credit and proportion of the loans which are on the risk rate of 35% or lower. A proportion of that kind of loans has been coming down. Compared to Q3, in Q4, we have seen a lot of drop in that kind of a loan. Q1 NSFR is not yet out. But looking at these 2 numbers, it is looking that we are trying to get into the credit which is higher risk weight – at least from the 2 quarters' numbers that we have.

Sumant Kathpalia: If you look at our loan book and it's a part of the commentary, our A rated and above book has actually increased by 300 basis points from 70% to 73%. Overall, our RWA/loans on year on year basis has gone down. I am no sure as to where you are coming from. Of course, we have increased our SME and the MSME book also, but as a percentage within our loan book this has is not increased much. Maybe you can send us your question and we can investigate and get back to you on this.

Indrajit Yadav: For example, RWA growth is 11% whereas the loan growth is 18% year on year, the credit RWA growth is 12%. So, the risk density has actually come off over the last 12 months. But we can engage with you separately offline and discuss this.

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

Sumant Kathpalia: Thank you for participating in the call. As usual, Indrajit and me are available for any further clarifications which you may require. We will upload the one statement which we have to upload by the end of day or tomorrow morning earliest. Thanks a lot for participation. Thank you.

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

Additional Information Discussed During the Analyst Call:

1) Gross Slippages Details:

BU	Gross Slippages (Standard Book)		Gross Slippages (Restructured Book)		Gross Slippages (Total)	
	Q1FY23	Q4FY22	Q1FY23	Q4FY22	Q1FY23	Q4FY22
CFD	450	453	235	100	686	553
Secured Retail	214	159	39	53	253	212
Unsecured Retail	122	120	27	42	149	162
MFI	278	779	283	36	560	815
Corporate	265	187	337	159	603	346
Total	**1,329**	**1,697**	**921**	**390**	**2,250**	**2,088**

2) Segment Wise Restructured Loans:

BU	Jun-22 (Rs.cr)	Mar-22 (Rs.cr)
CFD	3,131	3,298
Secured Retail	627	686
Unsecured Retail	194	233
MFI	644	995
Corporate	563	961
Total	**5,159**	**6,172**

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