IndusInd Bank

# "IndusInd Bank Ltd. Q3 FY23 Earnings Conference Call"

January 18, 2023

**MANAGEMENT:**
**MR. SUMANT KATHPALIA– MANAGING DIRECTOR & CEO**
**MR. ARUN KHURANA – DEPUTY CEO**
**MR. SANJEEV ANAND – HEAD, CORPORATE, COMMERCIAL, RURAL & INCLUSIVE BANKING**
**MR. BIJU PATTNAIK – HEAD, GEMS &JEWELLERY**
**MR. A. G. SRIRAM - HEAD, CONSUMER FINANCE DIVISION**
**MR. SOUMITRA SEN – HEAD - CONSUMER BANKING & MARKETING**
**MR. RAMASWAMY MEYYAPPAN – CHIEF RISK OFFICER**
**MR. RAMESH GANESAN – HEAD, TECHNOLOGY, CORPORATE & GLOBAL MARKET OPERATIONS**
**MR. ZUBIN MODY – CHIEF HUMAN RESOURCES OFFICER**
**MR. GOBIND JAIN - CHIEF FINANCIAL OFFICER**
**MR. INDRAJIT YADAV – HEAD, INVESTOR RELATIONS & STRATEGY**

**Moderator:** Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q3 FY '23 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 star then zero 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. Thank you, and over to you, sir.

**Sumant Kathpalia:** Thanks for joining this call. I will start with some macro commentary and then go into the bank specific details.

Domestic economic activity continued to strengthen over Q3. Improving credit supply with resilient banking system is supporting the economic recovery. Gross NPAs fell to a 7- year low of 5% in September 2022 and net NPAs dropped to 10-year low of 1.3% of total assets. Monetary policy tightening is also likely to take a pause after another possible hike in February. On the fiscal front, the Budget for FY2023-24 is likely to continue to support economic recovery and help buttress overall macro-economic stability through fiscal consolidation. While domestic economic activity remains strong, risks from a challenging global economic environment would remain going forward. Indian economy has shown resilience during 2022 in the face of extraordinary external shocks. India is thus likely to be the only major economy growing in excess of 5.5% per year over next couple of years.

Coming to the quarter specific developments. Some of the salient highlights for the quarter were:

- Acceleration in loan growth driven by retail segments – Our retail businesses grew by 5% QoQ and Corporate grew 4% QoQ driving overall loan growth of 5% QoQ and 19% YoY. Within retail, Vehicle finance growth was robust at 7% QoQ with another quarter of record disbursements. BFIL originated MFI and merchant loans grew by 2% QoQ. Non vehicle retail maintained steady growth of 6% QoQ.
- Deposit Mobilisation with Momentum on Retail – We achieved 3% QoQ and 14% YoY growth in deposits during the quarter. We saw healthy momentum in retail deposits with retail as per LCR growth accelerated to 21% YoY vs 16% in previous quarter and was up 6% QoQ. All key segments of branch banking, affluent and NRI contributed towards the retailisation momentum.
- Stable Asset Quality – Our gross slippages during the quarter reduced to 1,467 cr from 1,572 cr QoQ. Our Restructured book too reduced from 1.5% to 1.25% QoQ. Our GNPA is down to 2.06% and PCR remains healthy at 71% with NNPA at 0.62%. Our contingent provisions are at 2,192 crores with total loan related provisions at 130% of GNPAs. Our credit cost has reduced from 44bps to 40bps QoQ.
- Healthy profitability of the franchise – Our Core Operating Profits grew by 20% YoY driven by improved NIMs as well as strong client fees. Net Interest Margin was at 4.27% vs 4.24% QoQ. Client fee income grew by 28% YoY driven by retail fees. Our Cost to Income was steady at 43.9% and our PPOP margin remained healthy at 5.7%. Our Profit After Tax grew by 9% QoQ and 58% YoY to 1,964 crores with annualised EPS at Rs 101 per share. Our Return on Assets improved to 1.87% and Return on Equity crossed 15% mark in Q3 for the first time in 3 years.

Now coming to individual businesses.

1. **Vehicle Finance:**
   - The vehicle business continues to achieve record disbursements every quarter and third quarter has been the best ever by a significant margin. The disbursements have been broadbased across all vehicle categories.
   - Disbursements during the quarter were at Rs 12,713 crores up by 19% QoQ and 44% YoY. The cumulative 9MFY23 disbursements at 33,450 crores are up 52% YoY and already ahead of full year disbursements of the last year with one more quarter to go.
   - The vehicle finance loan growth as a result continues to accelerate with a robust 7% QoQ growth and YoY growth improving from 13% to 18% during the quarter.

- Within vehicle categories, Commercial Vehicles, Utility Vehicles, Cars and Construction Equipments saw more than 40% YoY growth in disbursements. Two and three-wheeler segments too which were stagnant since Covid, saw demand coming back with healthy QoQ and YoY growth in disbursements.
- Vehicle asset quality remains steady with gross slippages at 0.9% vs 1.0% QoQ. Standard book slippages were higher QoQ due to impact of mining duty in Orissa on freight availability. The duty has now been rolled back and freight availability has started improving.
- The restructured book in vehicle finance reduced by 400 crores to 1,868 crores from 2,270 crores QoQ. The reduction in restructured was broadly equally driven by collections and slippages. The collection efficiency of the remaining restructured customers was stable at 84%.
- Overall, we continue to see healthy operating environment for the freight industry and thus we expect to maintain our disbursement momentum in current quarter as well supported by new year purchases and income tax benefits.

2. **Bharat Financial Inclusion Limited**:

- Our microfinance and merchant acquiring loans originated through BFIL grew by 16% YoY and 2% QoQ.
- Our microfinance business disbursements were at Rs 8,928 crore growing 27% YoY. The disbursements were lower by possibly a few hundred crores due to bunching of festivals in the first half of the quarter. The member additions nevertheless were strong at 593,000 for Q3 up by 20% QoQ of which December was the best month of the year so far. The disbursements to these members would gather pace from current quarter onwards.
- MFI standard book net collection efficiency for Q3 was strong at 99%. The gross slippages during the quarter were down at ₹409 Crore as compared to ₹435 Crore during the previous quarter.
- Our 30-90 DPD book including restructured customers was at 2.4% on Dec-22 compared to 2.0% at the end of Sep'22. The increase was largely contributed by the eastern states. We have slowed down on disbursements in those geographies with increased focus on collections. Overdue positions for BFIL continue to be better than the industry at all DPD levels.
- We continue to expand our merchant acquiring business under the banner of Bharat Super Shop. Portfolio sourced through BFIL under this business has grown 16% sequentially to ₹3,094 Cr with 4.9 Lakh active borrowers.
- Our liability book sourced from customers serviced through BFIL increased by 65% YoY to reach ₹1,633 Crore through 1.35 Crore accounts (SA, RD, FD, CA) with us.
- Overall, we continue to cautiously pivot towards growth on the microfinance business. The rural economy continues to improve however the pace of improvement seems to be slower than expected. We continue to leverage BFIL franchise to diversify into allied businesses and within microfinance the disbursements are driven by lower ticket sizes and reducing geographical concentrations.

3. **Global Diamond & Jewellery Business**

- The business continued to maintain its global leadership position of being the largest lender to this industry. Our diamond portfolio saw growth of 20% YoY.
- Asset quality remains pristine with no restructuring and SMA1 or SMA2 customers.
- We remain watchful on the implications of the prolonged Russia-Ukraine crisis and remain compliant with all the extant guidelines in facilitating cross border trade. The Covid restrictions relaxation in China is likely to help the overall demand in this year.

4. **Corporate Bank:**

- Our Corporate business delivered another quarter of healthy growth and no asset quality concerns. We achieved a growth of 20% YoY during the quarter with no net slippages.

- The growth was broadbased across segments with Large corporate growing 3% QoQ, mid corporates 4% QoQ and small corporates 11% QoQ resulting in overall growth of 4% QoQ.
- The segments driving loan book growth were steel, services, petroleum. Growth in small corporates was driven by continued scale of up of our SME segment and agri business seasonality resulting in ramp up of our commodity finance book.
- We continue to actively re-price the loan book. Our yield in corporate book improved by 37bps during the quarter.
- The proportion of A and above rated customers is now 74% compared to 72% YoY. The overall weighted average rating too improved to 2.64 from 2.67 on YoY basis.
- The gross slippages from corporate book saw reduction in both standard as well as restructured accounts. Overall slippages were down from 179 crores to 119 crores QoQ.
- Exposure to stressed telco was stable at 17.3bn including fund based exposure of 10bn and balance non fund based exposure. We remain watchful on the developments at this account.
- Overall, we continue on our journey of corporate growth driven by higher rated, granular, shorter duration loan book. The asset quality performance remains comfortable and growth broad-based across client segments.

5. **Other Retail Assets:**
   - Our non-vehicle, non-microfinance retail loan book too saw growth momentum accelerating during the quarter to 23% YoY and 6% QoQ.
   - The growth was driven by credit cards, personal loans as well as steady momentum in business banking.
   - Our Credit Cards spends continued to remain strong with spends of 20,000 crores for the quarter. As a result, our Credit Cards loan book grew by 9% QoQ. Our new acquisitions remain robust with around 88,000 acquisitions in Dec-22. We also recently announced world's first tri-partite cobranded card in partnership with Qatar Airways and British Airways.
   - We had done a pilot launch of our own home loans in September and we progressed on rolling it out across various markets in the country. We did disbursements of over 200 crores in the quarter and aim to scale it up meaningfully in coming quarters.
   - Overall, the share of consumer banking loans has increased to 16% of overall loans now. We expect this to continue to increase as we scale up the home loans, merchant acquisition and maintain traction on credit cards and personal loans.

6. **Now coming to Liabilities:**
   - Our deposits grew by 3% QoQ and 14% YoY. We saw healthy acceleration in the retail deposit mobilisation during the quarter.
   - Our retail deposits as per LCR growth accelerated to 21% YoY from 16% previous quarter. The absolute addition of retail deposits at Rs 7,978 crores was also the highest in the last six quarters. The share of Retail Deposits as a result increased from 41.2% to 42.4% during the quarter.
   - All our business units including branch banking, affluent, NRI contributed towards the growth. The growth momentum comes on the backdrop of the heightened competitive intensity in the industry.
   - Our new initiatives viz. Affluent & NRI banking saw growth accelerating during the quarter. Affluent segment Net Relationship Value grew 5% QoQ to 66,700 crores of which deposits grew by 8% QoQ to 41,950 crores. Our NR segment too maintained the momentum with deposits growing by 16% QoQ to Rs 32,900 crores.
   - We also recently went live on Income Tax Portal (TIN 2.0) and our customers can now pay direct taxes instantly through their IndusInd bank account using our digital channels and branch network.
   - Our CASA ratio was at 41.9% vs 42.1% YoY. The CASA deposits saw growth in current accounts whereas savings accounts contracted sequentially. The savings account contraction was due to customers moving deposits towards fixed deposits and we letting go some of the expensive and bulky accounts. This also

ensured containing the increase in cost of Savings Accounts as we had taken SA rate hikes in October. The share of Top-20 customers in overall deposits has also come down from 17% to 15% QoQ.

- We opened 64 branches during the quarter taking the total branch count to 2,384 and aiming towards closing the year between 2,450 to 2,500 branches.
- Contribution of Certificate of Deposits remains low at 3.6% of deposits.
- We continue to maintain healthy average surplus liquidity of around Rs.44,000 crores during the quarter with Liquidity Coverage Ratio at 117%.
- Overall, we remain focused on the retail deposit mobilisation despite the challenging environment. We continue to invest in the franchise both through distribution capabilities as well as offering competitive rates. The new initiatives, branch delivery, availability of long term stable refinance sources as well as surplus liquidity on the balance sheet should help us comfortably fund our acceleration in loan growth.

7. **Digital Traction:**

Overall the digital strategy at IndusInd is geared at driving 3 major objectives – (A) Build direct to client digital platform, (B) Drive superior customer engagement and (C) Transform existing lines of businesses

**(A) Build direct to client digital platform:**

a. The easycredit direct platform marketing led business in PL and cards has grown ~6X YoY and 75% sequentially QoQ.
b. The partnerships business continued to grow strongly and grew 5X YoY and 17% sequentially QoQ
c. More than 35% of the business in savings accounts and cards by volume is now digital / partnership led

**(B) Drive superior customer experience and engagement through digital platforms**

a. Digital transaction intensity continued to grow with 93% of transactions processed digitally and 74% of service requests processed digitally.
b. The mobile app continued to show a robust user base growth of 26% YoY in terms of monthly active user base. The engagement on the mobile app will further accelerate as the Bank integrate a state of the art event driven real time engagement stack in the app in Q3
c. We further enhanced IndusEasyCredit for Individuals stack with integration of new fintech partners leveraging the open banking capabilities of the stack and increase in STP% to 30% through advanced analytics.

**(C) Transform existing lines of businesses and make them more efficient**

a. We continue to digitize the businesses with nearly all of deposits and wealth business done digitally.
b. With easycredit stack – now we have 95% of cards sourced digitally and nearly 80% of personal loans sourced digitally
c. Nearly 50% of small business banking is digital and on track to grow to 80%+ by end of financial year with addition of full working capital product suite
d. Close to 80,000 clients are onboarded digitally every month across personal loans, credit cards, savings accounts by the Bank

8. **Sustainability:**

- Sustainability is core to our strategy and we continue to progress on our agenda of ‘Sustainable Banking’.
- To promote greater thrust on ESG linked products, we are launching a series of ESG linked products. We have already launched 2 such products including (a) EV finance for passenger cars and (b) Green fixed deposits. We also have couple of more initiatives planned for launch in coming quarter such as (a) Green

personal loans for solar roof-top and (b) New platform for supporting women entrepreneurs

- During the quarter the Bank's Board also approved an upgraded and robust ESG Risk Assessment Policy and Governance Framework for all our Corporate exposures. This will help us to prudently manage Bank's exposure to high ESG Risk Industries as the country transitions to a low carbon economy.
- Bank is also selected for pilot exercise of TNFD (Taskforce on Nature-related Financial Disclosures) - A UN supported initiative for Sustainable Agriculture
- Our efforts well acknowledged and this quarter saw release of our ESG ratings from 2 marquee international rating agencies – Carbon disclosure projects (CDP) and S&P global rankings and I am happy to share that we have once again scored the highest rank amongst the large 5 private sector banks.

**Now coming to the financial performance for the Quarter:**

1. Net Interest Income grew by 18% YoY broadly in line with our loan growth.
2. Net Interest Margin improved sequentially to 4.27% from 4.24% QoQ. Our loan yields improved by 24 bps QoQ and Yield on overall assets improved by 34 bps QoQ. The cost of deposit increased by 37bps and the cost of funds increased by 31bps during the quarter.
3. The core fees maintained strong traction growing 28% YoY and 4% QoQ. The treasury income was positive and stable QoQ. The overall other income grew by 11% YoY and 3% QoQ. Share of Retail fees remained healthy at 71% of total fees.
4. Our total revenue for the quarter was at Rs 6,572 crores with 16% YoY and 4% QoQ growth.
5. Operating expenses grew by 4% QoQ. We continue to invest in talent and we hired 1,800 employees during the quarter and around 8,500 during the current year. Our overall Cost to Income ratio was stable at 43.9% QoQ.
6. The operating profit for the quarter was at 3,686 crores growing 11% YoY and 4% QoQ. The PPOP margin to loans continues to be healthy at 5.7%. Our Core PPOP grew by 20% YoY.
7. On the asset quality and the provisioning front:
    - Our provisions for the quarter have further reduced to 1,065 crores. The provisions to loans are thus down to 39bps now.
    - The gross NPAs are down from 2.11% to 2.06% QoQ and Net NPA was stable at 0.62% with healthy provision coverage ratio of 71%.
    - The slippages during the quarter were down to 1,467 cr from 1,572 cr.
    - We utilised Rs.461 crores from contingent provisions during the quarter with residual contingent provisions of Rs 2,192 cr or 0.8% of loans. Cumulatively for 9MFY23 we had Rs.1,833 crores of slippages from restructured book. We have utilized Rs.1,136 crores of contingent provisions so far. As the incremental slippages from the restructured pool continue to be range bound, we are comfortable with the contingent provisions.
    - The Net Security Receipts have reduced to 56bps from 67bps QoQ and we carry provisions in line with extant regulatory requirements.
    - Total loan related provisions are at 2.7% of loans or 130% of the GNPAs.
    - Our SMA1 and SMA2 book was at 8 bps and 24 bps respectively. Total SMA1 and SMA2 are down to 32bps from 58bps QoQ.
8. Profit after Tax for the quarter was at Rs 1,964 crores growing 9% QoQ and 58% YoY. Our CRAR including profits remains healthy at 18.01%. Return on Assets continued upward trajectory from 1.80% to 1.87% QoQ. Our Return on Equity has improved to 15.2%.

Overall, we are coming towards end of our planning cycle 5 strategy and outcomes so far have been consistent with our objectives outlined in our earlier communications. We will be formulating our Planning Cycle 6 strategy in the current quarter and will present to you the contours in the next analyst call.

The key themes that guide our strategy would be:

- Deposit Retailisation will continue to be cornerstone of PC-6 too. We will add new growth boosters for increasing customer acquisitions including Digital 2.0 offerings.
- Loan momentum should accelerate in PC-6 with stable macro environment. The acceleration would be driven by retail segments.
- We will continue to invest in franchise through distribution, technology, employees, adding and scaling new initiatives to diversify our revenue pools.
- We have maintained our PPOP margins in most turbulent times and aim is to achieve that in PC-6 too. The overall return ratios have improved over the last couple of years and should continue to improve with normalisation of provisions in PC-6.

While we focus on scaling up businesses further, the growth will be achieved with constant focus on governance and sustainability of the franchise.

With this, we can open the floor for question and answers.

**Moderator:** The first question is from the line of Mahrukh Adajania from Nuvama Wealth Management.

**Mahrukh Adajania:** First of all, what are your views on the new ECL circular because you already have a good stock of contingent provisions, and provisions to loans are running at 2.7% Plus, all banks have been doing mock runs with RBI on IFRS is what we are told. So how does that affect? how does the ECL circular affect you even some rough estimate would be good enough, either positively or negatively?

**Sumant Kathpalia:** It's too early to comment on it. the circular has just come out. But what need to be understood is that there are certain parameters, which RBI will define, which each bank will have to follow. So, each one bank has been following their own process so far. There will be some standardization, which will happen as a consequence of this new note.
We have to give our feedback by the month of February. And as a consequence, a new model will evolve, which RBI and the banks will back test. I agree with you that the Bank carries comfortable contingent provisions as well as good capital ratio. So I think we should be able to manage this over a period of time. But it's too early to comment on how it will happen, but I'll ask Ramu to also give his views. Ramu runs the risk management.

**Ramaswamy Meyyappan:** So basically, the discussion paper that's come from RBI has several questions that they have raised with the participants and banks to address or come back to them on. And then we would get the guidelines as to what the minimum levels required would be and then you can develop a model. As you mentioned, we have been running these models. We will have to look at the probability of defaults and what else will happen. Coming out of COVID, the probability of defaults may look higher, but it will get normalized over the next one or two years as the asset quality has improved across the banking system.
Where we are at our different portfolios and when we look at it over the years of work, we should be comfortably placed but it depends on how RBI gives the basic benchmark. And once we have that, then we'll able to work out our models and have those validated as expected by RBI and then we'll have to take decisions on what comes. At this point we don't expect a material impact as we have looked at our numbers, but we have to wait for the final guidelines from RBI.

**Mahrukh Adajania:** And my next question is generally on sector outlook and then how that comes down to IndusInd Bank. So obviously, loan growth has been very strong for the sector and given that fourth quarter is busy season, it may continue to be strong. But do you see any deceleration or any big time of falloff in loan growth in the first or second or third quarter because it remained strong for a very long period of time? And that in that context, what would be the guidance for your own loan and deposit growths be?

**Sumant Kathpalia:** If you look at the businesses which we are in, our vehicle finance business is coming from cyclical low. So, you are seeing a fantastic vehicle finance growth across the vehicle categories. Quarter 1 had relatively slower growth for them but otherwise, they have done relatively well.

And I think that growth should continue in the next year also. So, that's something which we are hopeful of and we have diversified that book to a certain extent that we are not dependent on one single product for growth.
Micro finance is an industry, which should see growth and we are diversifying that portfolio with merchant advances. Diamond finance growth depends on the global environment, and we have to see how that growth comes in.
Going back to the corporate, our focus is on the MSME and the SME segment, where we are seeing growth coming in. And on the retail loans side, consumption story continues in India, and we are seeing a huge growth on that part.
So on the overall loan growth, where we are and what we are doing, we are expecting a loan growth of about 20% to 25%. We are going to present our PC-6 strategy very shortly in the next quarter. So, you would see those growth numbers and our CD ratio should be anywhere between 85% to 93%.

**Mahrukh Adajania:** And would that require a lot of hikes in deposit rates from here on? Or are you seeing it cools down now for the sector and then for you?

**Sumant Kathpalia:** We've always said and our in- house view, has been that there will be one more hike, which will come in the month of February of around 25 to 35 basis points. And then we have to see how the global environment plays out and how the Indian inflation plays out. And we are hopeful that the stance should trend to neutral and we should see the scaling down of the deposit rates maybe by the third quarter of the next financial year, not earlier than that.

**Moderator:** Next question is from the line of Kunal Shah from ICICI Securities.

**Kunal Shah:** So firstly, with respect to the asset quality on the consumer finance side, so there has been some deterioration on a quarter-on-quarter basis and particularly most of the product segments in vehicle have seen the increase in the GNPA. So, is it more a function of lower write-offs? Or any higher slippages out there in the vehicle finance portfolio?

**Sumant Kathpalia:** So, on the vehicle finance, if you look at, the slippages have happened on the commercial vehicle side or MHCV side, the rest all are small numbers. It was because of the Odisha issue on the extra duty, which has now been rolled back by the government. And you should see that portfolio coming back to normalcy during this quarter itself.
The two wheeler loan portfolio continues to suffer as the rural economy is still in the process of recovery, and we have ~8% delinquency there. We've not done any sale to ARC also. That's something, which you would have noticed on the consumer side.

**Kunal Shah:** Yes, Okay. So particularly, CV, CE, and tractor are also seeing some kind of a deterioration?

**Sumant Kathpalia:** These are expected to come back this quarter itself.

**Kunal Shah:** And secondly, in terms of the deposit rate. So in fact, almost 8 quarters back, there was a good gap, which was there with the other private banks. Commendably, now we look at it, we are almost catching up with them and it's very near to where some of the leading private banks are. So, what would be the stance out there? Maybe do we see that as okay, to accelerate further deposits or we will need to have a more gap with the private banks? Or this looks to be good enough for the overall growth, which is required on the lending side?

**Sumant Kathpalia:** Our stated intent was that we will have a 50 to 75 basis points gap. So, what we have observed is that our people have fought and we were able to mobilize the deposits along with retailization via our branch expansion. Our branches were able to retailize deposits. So that's why we did not feel the need of increasing our deposit rates on the retail side. We continue to watch that every month. And if we feel that our retailization is going down, we will increase the rates.
So, we feel right now, there is a big opportunity in the senior citizen segment. And we find that if you get senior citizen account, you also get the savings accounts with the large balance. So there are opportunities and there are cluster of opportunities which we go after. In the NRI, we

saw the opportunities where we were able to garner that opportunity, and you have seen our NRI book grow to about INR 33,000 crores from INR 28,000 crores.

So we see opportunities and strike the opportunity. And as of now, we will do some changes but those changes will not be at a broad scale level, but at a specific tenure or a specific segment level.

**Kunal Shah:** So currently, there is no need and we will just evaluate it if there is need.

**Sumant Kathpalia:** No, I did not say that. I said that we always evaluate the opportunity, and if we find that there are certain segments where we feel there are opportunities, we will increase the rate in a short while from now in those segments, where we feel we can get good growth and good money.

**Kunal Shah:** Yes. So also to do with the outlook on NIM. So if we may go ahead and do the deposit hikes and given fixed rate nature on the lending side, should we see the margin should be more or less over the here close to the current levels?

**Sumant Kathpalia:** We have always said that our margins should be between 4.15% to 4.25%. We've always maintained that. Our PPOP margins should be greater than 5% and We've been above 5.5%. I've always said that in PC-5 and we will continue to maintain these levels, and that's the stability and predictability we want to bring to our business.

**Kunal Shah:** And one last question on restructured, so in fact of the improvement of 24 basis points, it seems 12 bps is kind of slippage from the restructured. So on the balance pool, you said that collection efficiency is better on the restructured side. But how should we look at it? Do we see the trend continuing in terms of slippage from the restructured pool?

**Sumant Kathpalia:** So if you look at it, it's only going down and it will continue to slip further. So by the end of the quarter 4 or quarter 1, you'll see the end of the restructured book slippages for us. And we should come back to normal credit cost as the consequence of that.

**Moderator:** Next question is from the line of Rahul Jain from Goldman Sachs.

**Rahul Jain:** Just a couple of questions. The first one is I may have missed your comments, but when I look at the sequential NPLs in CV construction equipment's and MFI, those have gone up sequentially, even though I think initially, your outlook that you talked about was sounding quite optimistic. So wanted to understand was there any technicality or the write-offs have been lower in this quarter? So was that reason why GNPA moved up?

**Sumant Kathpalia:** Yes, one is there is no ARC sale which we've done on the vehicle finance business. Number two, there was a specific Odisha issue, which came up and that impacted the business and which have got resolved now, and you'll see the roll back happening on this part.

**Rahul Jain:** This was which portfolio in the Odisha issue?

**Sumant Kathpalia:** CV one, the commercial vehicle portfolio.

**Rahul Jain:** And why would the MFI NPLs go up?

**Sumant Kathpalia:** Yes. It was in the Eastern region where we had the collection issues. Because of the holidays and the grouping of the holidays the NPA slippages happened, and it's very difficult to roll them back with three months' installments at a time. And that's why those slippages happened at that point. I think another quarter of pain, and MFI should be back.

**Rahul Jain:** Maybe just one more point on this, just a follow-on. Is it possible to know the 30 DPD, 60 DPD in MFI?

**Indrajit Yadav:** 30 to 90 DPD is 2.4% of the total book.

**Rahul Jain:** The other question is on the current account deposits, which saw the second consecutive quarter of strong growth. So can you just throw some color as to what's driving this?

**Sumant Kathpalia:** Please note that current account is a volatile business. We specialize in three distinct areas in the current account business. One is we are escrow business leader specifically in the real estate and RERA part of it. Second, we are strong in NBFC's cash management business. And third, on the Trade aspect of the Current Account, we are strong. So you will see some flows which come up as a consequence, and on the last part, we do also get a lot of dividend mandate from the government business, which we do very well in the public sector undertakings. So you will see some of these flows coming in. Normally, you have seen CA balance which were around Rs.38K crores to Rs.40K crores now moving up to 43K crores to 45K crores. And you will see some flows, which come in and they help us in managing our cost of deposits. But these are not stable to the same extent, the way other stable deposits are. So you will continue to see some volatility, but they are part of our core business as we do these businesses of cash management. But you know that cash management money cannot last for long for more than three days or four days because of the new current account guidelines. Real Estate business is part of our DNA and we get the RERA businesses as a consequence of that. And of course, the trade & Foreign Exchange offerings are part of our core businesses. So we follow this as a process. And I think that's where the current account business is growing for us, and we focus on these areas to get the business.

**Rahul Jain:** The other question is on the yields on the corporate portfolio, which moved up quarter-on-quarter nicely. I just wanted to understand what will be the rating profile of these corporates where you're able to pass on the cost and can it sustain over the next few quarters?

**Indrajit Yadav:** So Rahul, as we have said earlier, bulk of the corporate book is floating rate book. So it's not about the rating profile as such. And every quarter, you have to reprice the book and that continuous repricing is happening. So entire book, you will see the repricing happening as every quarter, the book comes up for renewal and at every renewal, the repricing comes into play.

**Rahul Jain:** And the benchmark is a short-end benchmark or a year plus?

**Indrajit Yadav:** So it varies depending on the corporate’s demand. If you see overall corporate book, almost 40% of the book is linked towards MCLR and within MCLR it varies from three months to one year. And every corporate loan has to be repriced within a year and reevaluated within a year. So you can't take it beyond one year. Another 40% is external benchmark linked. In our book, the external benchmark typically are the G-Secs and MIBOR, etcetera. So that book gets immediately repriced. And balance 20% is short term in nature. So while it is a fixed rate book, but it gets repriced within a short period of two months to six months. So there also, you see repricing happening in a short period of time.

**Rahul Jain:** Just a last question on the ECL. So we were under the impression that the parallel run was happening for the last few years, particularly for the private banks. So what really has changed in the discussion before that RBI put out, which may or may not have impact on the numbers? You said it may not have any impact on numbers, but any particular observation that you want to point out to us?

**Sumant Kathpalia:** I think every bank was doing something on their own. Now the parameters are going to be governed by the RBI, some of the parameters. And I think we will have to back test these models basis certain parameters, which the RBI will standardize across the industry. So that's one. Number two, I think they will take into account what has happened during the COVID period and if the probability of default gets affected as a consequence of the COVID period.

**Ramaswamy Meyyappan:** Just to add comment to what Sumant has mentioned. So banks depending on the data they have, they could use behavioral models or they could use standard SMA approaches. During the period that we dealt with, we have followed our own approach based on the data quality, richness of data and length of the data that we had. We have to wait and see how RBI determines that. For example, we have four decades of data for our vehicle finance portfolio as an input. So that's what we need to wait for because in the discussion paper they have indicated, there'll be certain levels that they want to have on the provision requirements. It may not be at the same level of asset quality where the IRAC norms are. So those are the things we have to fine tune, but we have all the data. We have worked on it. So once we get clarity on that from RBI, we will be able to put it together and based on the early estimates, it looks under control.

**Rahul Jain:** Just to extend this point. So let's say, the probability of default indeed come on the higher side because we still have some on the portfolios which are maybe above the historical trend in the delinquencies and credit cost. Would it impact the pricing of the loans as well? Because this would also be a number that are already going into the pricing of loans? And would it put you at any disadvantage versus the market?

**Sumant Kathpalia:** Not at all. I don't think so. Microfinance, we are already the lowest. Vehicle Finance, we are benchmarked as the best-in-class in the market.

**Rahul Jain:** How about corporate loans?

**Sumant Kathpalia:** In corporate loans, we've not seen the flows at all. You see our corporate book and see the flows this time also. There is nothing. Diamonds finance book, we've no SMAs.

**Ramaswamy Meyyappan:** NPAs have reduced.

**Moderator:** Next question is from the line of Abhishek Murarka from HSBC.

**Abhishek Murarka:** So my first question is on the MFI book. Can you quantify the disbursement? I think I missed it from your opening remarks.

**Sumant Kathpalia:** It's about INR 8,928 crores.

**Abhishek Murarka:** And this is only for the MFI, right, not merchant advances included

**Sumant Kathpalia:** No, Merchant Advance disbursements are not included.

**Indrajit Yadav:** In investor presentation, we give a slide on MFI.

**Abhishek Murarka:** So then sequentially, one would have expected the book to go up. So have you seen like accelerated repayments or something?

**Sumant Kathpalia:** Runoff is about INR 3,000 crores a month. We have a shorter duration book and the runoff happens.

**Abhishek Murarka:** And what is the outlook on the disbursement, you see it going up?

**Sumant Kathpalia:** I think this will go to about INR 10,000-11,000 crores. So that's the maximum that will go to. It'll never be an INR 15,000 crores disbursement. The growth would be limited to about INR 1,500 crores to INR 2,000 crores a quarter.

**Abhishek Murarka:** The expectation was that in this quarter it said we'd see that kind of accretion. So I was just trying to get a sense of the growth going forward.

**Sumant Kathpalia:** Because of the holidays in the month of October and the bunching up of the holiday. So October was a complete write-off with 16 days working days. November, it came back a little bit and December is where we saw the INR 3,200 crores of disbursements coming back.

**Abhishek Murarka:** In terms of slippage, how much of it was from MFI this quarter?

**Indrajit Yadav:** We'll upload a table Abhishek with the segment-wise slippages.

**Abhishek Murarka:** Just one more thing on this telecom exposure to this particular company where you have, I think, INR 20 billion outstanding.

**Sumant Kathpalia:** ~INR 1,700 crores.

**Abhishek Murarka:** INR 1,700 crores. So it is entirely provided for, right?

**Sumant Kathpalia:** No, we have provided ~INR 990 crores. Funded exposure is fully provided.

**Abhishek Murarka:** One more question, just quickly squeezing it in. Contingent provisions. I think two or three quarters back, you had called out that you would probably use around INR 1,100 crores to INR 1,300 crores or something of that order. You've almost used, I think, around INR 900 crores?

**Sumant Kathpalia:** INR 1,136 crores we have used.

**Abhishek Murarka:** Yes, INR 1,100 crores. So incremental uses?

**Sumant Kathpalia:** We will remain within that number. INR 1,300 crores or something. We'll not cross that number.

**Moderator:** Next question is from the line of Saurabh Kumar from JPMorgan.

**Saurabh Kumar:** One question on the Slide 18, which you've given. So, one is what is the overall fees you'll be earning on this entire LCBG book? And there is below investment grade 4%. Could you quantify what that is?

**Arun Khurana:** So it's all client-related businesses on the LCBG as well as mostly on the Derivatives side. So on the fees slide if you see, Trade and Foreign Exchange fees is there. So Trade & Remittances Fee was something like INR 201-odd crores and then Foreign Exchange Fee on account of client income was INR 250-odd crores. So that's what we get, which is around 23% of the total core fee pool of INR 1,940 crores. So this is around INR 450-odd crores out of that.

**Saurabh Kumar:** And most of these exposures you have written public sector and all, but what would be the sectorial exposure, sir?

**Arun Khurana:** Yes, it's a mix of both. So Trade is primarily corporate accounts. So because it's typical LCs. Bank guarantees are typically for the PSUs.

**Saurabh Kumar:** And sir, just last question, what this below investment grade, which is 4%?

**Arun Khurana:** That's to the telecom one that we just referred, non-fund-based facility to the telecom company that we have.

**Saurabh Kumar:** So of the four, one is telecom. What is the other three?

**Indrajit Yadav:** Those are of smaller accounts. There is no one particular large chunky account there, won't be able to disclose the names as such.

**Moderator:** Next question is from the line of M.B. Mahesh from Kotak Securities.

**M.B. Mahesh:** Just a couple of questions. One, if you look at the direction of these cost of deposits, which has kind of increased by about 37 basis points this quarter. Could you just kind of give us a rough indication as to how does this change over the next few quarters based on the current deposit rate and the maturity that you have in your books?

**Sumant Kathpalia:** So I think we will see another repo rate hike in February and you should expect a 15 to 25 basis points hike in cost of deposits on the overall book as a consequence of that.

**M.B. Mahesh:** Sumant, just the question is the other way around, assuming that there is no change in repo rates. This quarter, if you assume that it's about, let's say, about 35 basis points, would you say that the number increases to 50 basis points next quarter? Or do you sense that the number kind of remains where it is at 35 each quarter?

**Arun Khurana:** Yes. I think it's more of the latter. I think we will have around 30-odd basis points increase somewhere maybe 5 basis points here or there on the number that we had as an increment in the last quarter.

**Indrajit Yadav:** And Mahesh, you would also have to note that last quarter, we have taken a savings rate hike, which reprices the whole base immediately. So that is not going to happen every quarter unless we raise the savings rates again.

**M.B. Mahesh:** Second question, sir, in the past, you've mentioned that you will be reducing these balances that you have on the balance sheet on the cash side. This again, it remains reasonably at a high number at about INR 54,000 crores?

**Indrajit Yadav:** So daily average was around INR 44,000 crores. So we carry excess liquidity and we have been saying that as the loan growth accelerates, the excess SLR will keep coming down. But at the same time, we will continue to carry INR 25,000 crores to INR 30,000 crores of surplus liquidity at all points in time as a manner of prudence and conservatively building buffers on the balance sheet.

**M.B. Mahesh:** Indrajit, does this book earn any interest or it doesn't?

**Indrajit Yadav:** So if you see the split of the INR 44,000 crores, so roughly around INR 25,000 crores to INR 30,000 crores is in the form of excess SLR. So these are the Govt-securities, which we carry beyond what is required from the regulatory requirements. So they give us returns in terms of whatever the G-sec yields that are there in the market. And the balance INR 10,000 crores to INR 15,000 crores is pure cash that is kept beyond the CRR requirements.

**M.B. Mahesh:** And Sumant, just last question to you. Any conversations with the RBI on the extension of tenure?

**Sumant Kathpalia:** No, Mahesh. There's been no communication from RBI yet on this.

**Moderator:** Next question is from the line of Manish Shukla from Axis Capital.

**Manish Shukla:** Contingency provision of INR 2,192 crores, how much is restructured asset provisions?

**Indrajit Yadav:** Manish, if you remember the RBI circular, we have to carry 5% to 10% of the restructured book. depending on the security and all. So that is only what is required to carry by the regulations.

**Sumant Kathpalia:** That's around INR 500 crores.

**Indrajit Yadav:** Beyond that then there is ~INR 1,000 crores for telecom asset and balance is pure contingent of surplus.

**Manish Shukla:** So both that telecom as well as INR 500 crores is part of the INR 2,192 crores.

**Indrajit Yadav:** That is correct.

**Manish Shukla:** Secondly, on the yield on your consumer loans. If I look at first nine months, December over March, that has moved up by only about 32 basis points. While I do appreciate that it's a fixed rate book. The book itself has grown 17% in the last nine months, but the yields have not moved. I mean, could you just explain what's happening there?

**Sumant Kathpalia:** So the Credit Cards yield has shown a decline over the last four quarters, where the revolving rates have come down on the credit card book. So that affects the yield of the book in a big way. Second, in the Vehicle Finance business, the scooter loan businesses or the other high-yielding business like three-wheelers have come down and the overall yield has remained almost static. While the disbursements in the other products have increased, but the high yielding businesses like scooter loans and three-wheeler loans have come down. The disbursements have come down in these businesses because they are still coming out of the COVID. So that's number two.
Number three, on the microfinance side, the disbursements have not been very high. And during this phase, the runoff of the book has happened. The growth has been tepid at this point of time. So I think you will see that growth coming back. And that's why we are so comfortable when we give a range of 4.15% to 4.25% for NIM. So we'll see the growth coming back in these sectors and they will fuel the growth and the interest margins of the business.

**Manish Shukla:** Last question on housing loans that you're doing, what is the yield broadly that you are getting?

**Sumant Kathpalia:** We are getting about 8.5% - 9.0% right now. That's the yield which we are getting on these loans.

**Moderator:** Next question is from the line of Shubhranshu Mishra from Phillip Capital.

**Shubhranshu Mishra:** Just on the vehicle finance part, sir, what proportion of our vehicle finance is book is to SRTOs and what proportion is to the fleet operators? And what is the credit risk management that we do? What kind of collection architecture we have? And what is that one plus DPD we have?

**Sumant Kathpalia:** I have got Sriram who runs this business. Let him answer this.

**A.G. Sriram:** ~65% of the book is for SRTOs.

**Shubhranshu Mishra** And what is the one plus and the collection architecture in this business, sir?

**Indrajit Yadav:** So we don't share the one plus DPDs because there are always operational delays that happen, as people travel around the country. So there will be quite a bit of people between 1 DPD to 30 DPD. But over a period of time, you get back the collections. So the slippages, which are between 30 DPD to 90 DPD, only those cases come in, but I'll let Sriram articulate about the collection architecture.

**A.G. Sriram:** On the collection piece, we have branches. Below branches, we have separate collection executives who handle not only overdue contracts, but also other contracts which are not overdue. So nearly 250 customers get allotted to each collection executive. And above branches, we do track business and collections together. Unlike other entities, we do not have a separate vertical for collections and business. Above the branches all the hierarchy for both business and collections are together. And yes all our collection executives are DRA trained and have certifications. And even on re-possession nearly 50% to 60% are handled in-house by our collection executives.

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

**Sumant Kathpalia:** So thank you for joining the call. If there are any further questions, then you can definitely call up me or Indrajit then we'll, of course, have one-on-one calls starting tomorrow onwards, and we can discuss. Thank you so much.

**Moderator:** Thank you very much. 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 (Rs.cr) | Gross Slippages (Standard Book) | | Gross Slippages (Restructured) | | Gross Slippages (Total) | |
|---|---|---|---|---|---|---|
| | Q3FY23 | Q2FY23 | Q3FY23 | Q2FY23 | Q3FY23 | Q2FY23 |
| CFD | 433 | 374 | 191 | 273 | 624 | 647 |
| MFI | 347 | 313 | 61 | 122 | 409 | 435 |
| Other Retail | 274 | 240 | 42 | 72 | 315 | 311 |
| Corporate | 80 | 66 | 39 | 113 | 119 | 179 |
| **Total** | **1,135** | **992** | **332** | **580** | **1,467** | **1,572** |

**2. Segment Wise Restructured Loans:**

| BU | Dec-22 (Rs.cr) | Sep-22 (Rs.cr) |
|---|---|---|
| CFD | 1,868 | 2,270 |
| MFI | 288 | 430 |
| Other Retail | 618 | 709 |
| Corporate | 633 | 472 |
| **Total** | **3,408** | **3,882** |

***Disclaimer:***

*This document has been prepared by IndusInd Bank Limited (the "Bank") solely for information purposes, without regard to any specific objectives, financial situations or informational needs of any particular person. All information contained has been prepared solely by the Bank. No information contained herein has been independently verified by anyone else. This document may not be copied, distributed, redistributed or disseminated, directly or indirectly, in any manner.*

*This document does not constitute an offer or invitation, directly or indirectly, to purchase or subscribe for any securities of the Bank by any person in any jurisdiction, including India and the United States. No part of it should form the basis of or be relied upon in connection with any investment decision or any contract or commitment to purchase or subscribe for any securities. Any person placing reliance on the information contained in this document or any other communication by the Bank does so at his or her own risk and the Bank shall not be liable for any loss or damage caused pursuant to any act or omission based on or in reliance upon the information contained herein.*

*No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained in this document. Such information and opinions are in all events not current after the date of this document. Further, past performance is not necessarily indicative of future results.*

*This document is not a complete description of the Bank. This document may contain statements that constitute forward looking statements. All forward looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially include, among others, future changes or developments in the Bank's business, its competitive environment and political, economic, legal and social conditions. Given these risks, uncertainties and other factors, viewers of this document are cautioned not to place undue reliance on these forward-looking statements. The Bank disclaims any obligation to update these forward-looking statements to reflect future events or developments.*

*Except as otherwise noted, all of the information contained herein is indicative and is based on management information, current plans and estimates in the form as it has been disclosed in this document. Any opinion, estimate or projection herein constitutes a judgment as of the date of this document and there can be no assurance that future results or events will be consistent with any such opinion, estimate or projection. The Bank may alter, modify or otherwise change in any manner the content of this document, without obligation to notify any person of such change or changes. The accuracy of this document is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the Bank. Minor inaccuracies during the analyst call discussion may be corrected by the Bank at the time of uploading this document. This document is not intended to be an offer document or a prospectus under the Companies Act, 2013 and Rules made thereafter , as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended or any other applicable law.*

*Figures for the previous period / year have been regrouped wherever necessary to conform to the current period's / year's document. Note: All financial numbers in the document are from Audited Financials or Limited Reviewed financials or based on Management estimates*