

IndusInd Bank

“IndusInd Bank Ltd. Q4 FY23 Earnings Analyst Meet”

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Sumant Kathpalia: Good evening and thank you for coming to IndusInd Bank's Q4FY23 results. I will start with some macro commentary and then go into the bank specific details.

Indian economy remains a bright spot in otherwise weak global economic outlook. The regulatory and fiscal support has been timely and effective, right through Covid, post Covid and rising inflation phases of the economy. Over the full year, credit growth accelerated across the board to 15% from 9.6% in FY22 outpacing deposit growth of 9.6%, with incremental CD ratio rising over 100%. Industry credit growth is expected to slow down due to lagging deposit growth and higher interest rates dampening fresh demand. In recent months, financial stability concerns with sharply higher policy rates in advanced economies have come to the fore, in the backdrop of bank failures in the US and the resultant contagion risks. Financial stability risks in India are contained as the RBI has focused on macro and micro-prudential measures in recent years to prevent build-up of financial vulnerabilities.

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

- Our execution has been in line with our communication during the year.
- Overall deposit growth was at 15% YoY and 3% QoQ. The retail deposit momentum continued with 4% QoQ growth to 43% deposits.
- Loan growth was at 21% YoY and 6% QoQ.
- All our retail businesses had strong QoQ growth with vehicle at 5%, microfinance at 9% and other consumer at 9%. Within corporate, growth was driven by mid and small corporates growing at 7% QoQ while Large corporate grew by 5% QoQ.
- Core fee momentum remains robust with 27% YoY & 8% QoQ growth
- GNPA and NNPA were down QoQ at 1.98% & 0.59% respectively. Asset quality was healthy in vehicle, consumer and corporate book. Microfinance net slippages were higher by Rs.59crore as communicated last call.
- The restructured book has fallen below 1% and was at 0.8%. Credit cost for the quarter was 142bps vs 156bps for previous quarter.
- We continue to scale-up our new initiatives. Affluent segment deposits grew by 23% YoY and NR grew by 28% YoY.
- The profitability metrics maintained uptrend with NIMs at 4.28%, RoA of 1.9% and RoE of 15.26%, Capital Adequacy remains healthy at 17.86% CRAR.

Now coming to financial highlights for the quarter and financial year:

- Our net profit for Q4 was at 2,043cr growing at 46% YoY and 4% QoQ.
- Our quarterly net profit crossed 2,000 cr mark for the first time in our history.
- All key ratios are healthy and stable. We maintained our PPOP margin at 5.6%.
- NIM at 4.28% improved by 1bps QoQ, ROA improved by 3bps to 1.90% and ROE was at 15.26%
- Our GNPA and NNPA were down QoQ.
- Our NII grew by 17% for the quarter with stable margins.
- Core fee income was strong at 27% YoY whereas trading income was muted.
- Our Overall revenue growth was healthy at 16%.
- We continue to invest in physical and digital distribution. The retail growth also comes with higher initial cost. The cost to income thus would be around 45% for a few quarters. As we leverage the retail growth, we should see this down trending towards 41% to 43% levels.
- Credit costs were lower at 142bps vs. 156bps QoQ.
- Full year credit costs were at 155 bps against our expectation of 120 to 150 bps. We had factored in around 1600 crores of utilization from contingent buffer but we utilized only 1300 crores. The year also saw change in RBI regulations for SR provisioning. We made around Rs.500crores of SR book provisions during H2FY23. Net of these, we were within our range for credit cost.
- Profit After Tax grew at 46% to 2,043 cr for the quarter and 55% for the year to 7,443 crores. Annualized EPS for the quarter was at 105 rupees.

I will now cover our progress across key businesses as highlighted in our investor presentation.

Well Diversified Loan Book across Consumer and Corporate Products

- The loan mix has moved in favor of Consumer during the quarter at 54%.

- All our retail businesses had robust QoQ growth with vehicle at 5%, microfinance at 9% and other consumer at 9%.
- Corporate growth was driven by mid and small growing at 7% while large corporate grew at 5%.

Vehicle Finance: Granular Portfolio Across Vehicle Categories

- Vehicle loan book growth accelerated to 22% YoY with growth across all vehicle categories.
- Disbursements for the quarter at Rs.12,500crore were up 25% YoY. The full year disbursements grew by 44% YoY and at Rs 46,000crores this was comfortably the best year for vehicle division.
- The disbursement growth was over 30% in CV, Construction Equipment, Utility Vehicles and over 20% in Cars, Two Wheelers and Three Wheelers.
- Gross slippages reduced by 40% QoQ in vehicle finance. We will share further details in asset quality slide.
- We remain positive on the vehicle growth for the next few quarters looking at the healthy utilization levels and demand for used vehicles.

Microfinance: Bridging the Financial Inclusion Gap

- The microfinance businesses rebounded after a few subdued quarters. The disbursements grew by 30% QoQ to 11,600crores. We also saw healthy new customer acquisitions growing by 17% QoQ.
- The merchant acquiring business also crossed 4,000 crore mark growing 30% QoQ. We now have 594,000 borrowing merchants onboarded. Merchant acquiring now forms 11% of BFIL book.
- We had taken a pause on Bharat Money Stores to focus on profitability. Our tweaked model turned profitable in Q4 and we thus added new stores taking count to 110,000.
- Liability mobilized through BFIL stands at 2,340crores.
- Net Slippages increased by 60 cr QoQ. However new stress formation in 30-90 DPD book has come off. We will discuss later in asset quality.

Corporate Portfolio – Focus on Granular, Higher Rated Customers

- Our Corporate delivered another quarter of healthy growth at 6% QoQ
- The growth was broadbased across segments with Large corporates growing at 5% QoQ and Mid & Small Corporates growing 7% QoQ.
- The segments driving loan book growth were gems & jewellery, power, services, petroleum.
- Diamond book is pristine with no asset quality issues.
- The fees continue to remain granular with negligible share of Investment Banking fee.
- The proportion of A and above rated customers is now 73% compared to 71% YoY. The weighted average rating too improved to 2.65 from 2.69 YoY.
- We saw one restructured account of Rs.175crores turning NPA for not meeting required covenants in stipulated time. There is no payment delay. Outside this there was no material slippage in corporate.
- Overall, we continue on our journey of corporate growth driven by higher rated, granular, shorter duration loan book.

Non-Vehicle Retail Loans – Risk Calibrated Growth Strategy

- Consumer Banking business continued robust growth at 7% QoQ and 26% YoY.
- We saw healthy QoQ growth across business banking (up 8%), credit cards (up 10%), personal loans (up 13%) and merchant acquiring (up 30%).
- Our credit card market share by volume was at 2.6% and by value much higher at 5.0% as per latest available data.
- We are also piloting home loan product and we will scale this up during the course of year.

Deposit Growth Driven by Granular Retail Deposits; Building Stable Low-Cost Deposit Book

- Our CASA ratio was at 40%.
- Our retail deposits as per LCR grew by 19% YoY improving the share to 43% of deposits.

- The CDs remain a small component at 3% of deposits.
- We added new branches during the quarter taking total branch count to 2,606.
- We maintain healthy average surplus liquidity of around Rs.42,000 crores during the quarter with Liquidity Coverage Ratio at 123% vs 117% QoQ
- We continue to remain focused on retail deposits and will take you through our initiatives in PC-6 discussion.

Executing Digital 2.0 Strategy

- Overall the digital strategy at IndusInd is geared at driving 3 major objectives –
- Build direct to client digital platform
- Drive superior customer engagement
- Transform existing lines of businesses
- During the year we launched Indus Easy Credit which has double the throughput for credit card and personal loan acquisitions.
- Our digital adoption for merchant acquiring and MSME continues to improve.
- The monthly mobile active customers grew by 30% YoY.
- We are now in final stages of our individual app launch which is under CUG currently. We plan to launch it in current quarter.
- We will talk about our digital initiatives further in PC-6 plans.

Diversified and Granular Fee and Other Income Streams

- Core fee growth remains strong at 27% driven by cards, distribution and loan processing.
- Retail share improved due to healthy fee momentum as well as lower trading income.
- Our fee income is well diversified across retail & corporate segments. Treasury income is expected to come back in next quarters.
- Overall fees remain steady at 1.9% of assets.

Stable Margins with Repricing in both Assets & Liability

- Both asset and liability sides got repriced upwards during the quarter.
- Yield on assets improved by 21bps with corporate book repricing by 32bps as well as retail share improving to 54%.
- Cost of funds increased by 20bps, lower than increase in cost of deposits due to lower repricing on borrowings.
- Overall margins continue to remain stable around our guidance range.

Healthy Assets Quality

- Our GNPA and NNPA were down QoQ at 1.98% and 0.59% respectively.
- Our Vehicle gross slippages reduced by 40% and net slippages by 76% QoQ to just Rs.99crores for the quarter.
- Microfinance net slippages were up by Rs.60crores as communicated earlier due to delinquency in eastern geographies. The 30-90 DPD book has reduced from 2.1% to 1.1% QoQ implying lower fresh stress formation.
- Corporate saw one restructured account slipping into NPA due to not meeting covenants. There was no meaningful stress outside this.
- Overall, credit costs were at 142bps for the quarter vs 156bps QoQ.
- The restructured book saw healthy reduction and closed at 84bps. Bulk of the restructured is now in vehicle and secured retail assets.
- Our Net SR book reduced to **0.51%** of loan book vs 0.56% QoQ. We have made ~Rs.300cr provisions for Security Receipt book this quarter. (**Correction:** The transcript is revised for the inadvertent incorrect mention of 0.34% as of Q4 during the analyst call.)
- Our SMA1+2 book was steady at 0.32% of loan book.
- We continue to carry strong loan related provisions.
- Our PCR on GNPA's remains healthy at 71%
- We had said that we will use around 1,600 crores of contingent provisions towards restructured slippages. We used only 1,428 crores during the year and carry 1,900 crores excess into the next year.
- We will maintain conservative provisioning approach and build counter cyclical provisions ahead of stress formation.

Robust Capital Adequacy

- CET 1 was at 15.93% and CRAR was at 17.86%.
- Our credit risk weighted assets grew at 16% YoY vs. loan growth of 21% YoY.
- Sequential growth in RWAs is higher due to operational RWA addition in Q4. Capital utilization remains efficient with improved risk density and strong internal capital generation.

Planning Cycle 5 Update & Outcome

We have completed final year of our Planning cycle-5 in Mar-23. We have regularly shared our progress on PC-5 and I believe, final outcomes are no different from our stated objectives with focused execution on our strategy of 'Scale with Sustainability' We also progressed on our strategic objectives of PC-5:

- 1. Retail Liabilities Surge:** Progressed towards Building Robust Retail Deposit Franchise
 - We progressed towards building robust retail deposit franchise and share of retail deposits are now at 43% compared to 31% at the PC-5.
 - We have also lowered our dependency on bulk deposits and reduced the concentration.
 - Certificate of deposits are at 3%
 - Concentration of top-20 depositors reduced to 16%
 - 74% of incremental deposits are from retail and CASA
- 2. Fine-tuning Corporate Banking Approach:** Scaling Granular Franchise with Lower Risk Intensity
 - This was one of the key focus area for us at the start of PC-5 and we have realigned the corporate bank approach and steadily pivoted towards growth.
 - Share of A & above rated portfolio increased to 73% from 63% in Mar-20
 - Corporate slippages are below pre-covid levels
 - Fees are more granular with negligible investment banking fees
- 3. Holistic Rural Banking:** Leveraging Deep Rural Distribution
 - We continued to leverage our deep rural distribution network with holistic offerings via BFIL & Bank.
 - The share of rural loans now stands at 19% of Bank's loan book
 - We were cautious on microfinance during pandemic. We now see growth coming back.
 - We also diversified BFIL into merchant acquiring which now forms 11% of the BFIL loan book.
- 4. Scaling Up Domains:** Recovery in Growth following Asset Quality Outperformance
 - Our domains have delivered strong risk adjusted returns across credit cycles and this period was no different amidst multiple macro challenges.
 - We saw recovery in growth following asset quality outperformance and domains now contribute 42% of our loan book.
 - Growth in vehicle loan book now at 22% YoY
 - MFI growth coming back with recovery in rural economy
 - Continued our domination in Gems & Jewellery continues with market leadership
- 5. New Growth Boosters:** Continued Scaling up PC-4 and PC-5 Initiatives
 - We continued scaling-up our PC-4 & PC-5 initiatives including Affluent Banking, NRI Banking, Tractor Finance, Affordable Housing & Merchant Loans etc.
 - Affluent NRV at Rs.67,000crore & deposits at Rs.42,900crore with fee of Rs.465crore
 - Merchant loans crossed Rs.4,000crores
 - NRI deposits at Rs.34,200crore
 - Tractor loan book saw 2x growth in 3years

We have met all of our targets on loan and revenue growth, CASA, profitability and distribution. Customer growth was slower due to cautious growth in microfinance and somewhat delayed digital launch. We have strengthened our position across sustainability metrics. We closed the

PC-5 a capital adequacy ratio of 17.86%, PCR at 71% with significant buffer provisions outside PCR, Credit Deposit ratio at ~86%, operating pro-fit margin in excess of 5.5% of loans. All these parameters are at their best levels in the last several years.

Planning Cycle 6 Strategy

We have finalised our Planning cycle -6 strategy for the next 3 years' period till FY26. Our focus is clear towards getting Growth, building Granularity with relentless focus on Governance i.e. 3G in short. The strategy for PC-6 is 'Market Share with Diversification' where we will maintain or gain market share in key businesses while building in diversification in certain areas to improve risk adjusted return profile of the Bank. We have outlined themes driving our strategy, most of which reflect our earlier communications on our business philosophy:

1. Continuing Retailisation Journey:

- We believe this as a work in progress agenda while we have come a long way in the last 2-3 years.
- The Bank will continue its sharp focus on retailisation of deposits and aim to increase share of retail deposits to 48%-50% by end of PC-6.
- The retailisation journey will be led by leveraging branch network, new initiatives such as community banking, scaling up affluent, NRI segments and launch of millennial digital offering – INDIE.

2. Diversifying Domains:

Domains have delivered strong risk adjusted return for the Bank across cycles and we will continue to grow these domains while diversifying via launch/ scale-up of new initiatives:

- **Vehicle Finance:** We will continue to build on our leadership position across vehicle categories while diversifying the portfolio with scale-up of used vehicle & affordable housing portfolio.
- **Inclusive Banking – BFIL:** We aim to transition BFIL from microfinance to microbanking with aim to become banker of choice for rural India.
- **Gems & Jewellery:** We are going with community banking approach with focus on capturing entire echo-system.

3. Scaling Sub-Scale Businesses:

Building scale in current sub-scale businesses is one of the key focus area for PC-6. The Bank has multiple initiatives in place to capture the large opportunity in these segments:

- **Comprehensive Mortgage Backed Loans:** With launch of Home Loan product we aim to double the share of mortgage backed loans.
- **Driving MSME Penetration with Broad-based Offering:** We have deployed multichannel & multiproduct strategy to address the unique needs of MSMEs with aim to increase the market share in this segment.
- **Scaling-up PC-5 Initiatives with Market Share Gain:** The bank will continue scaling its existing initiatives like Affluent Banking, NRI banking, Merchant offering.

4. Accelerating Digital 2.0:

Digital bank has been carved out as distinct business unit focused on delivering innovative customer centric solutions across Individual & MSMSE segments with a goal to build a profitable digital bank.

5. Imbibing ESG into Business:

Sustainability continues to be core to the Bank's philosophy and the continues to take various initiatives with focus on incorporating ESG into overall business.

Overall, our PC-6 ambitions are:

- Loan Growth: 18% -23%
- Retail Loan mix: 55%-60%
- Retail Deposits as per LCR: 45%-50%
- PPOP/ Loans: 5.25% - 5.75%
- Branch Network: 3,250 – 3,750
- Customer Base: >50mn

So, that's our Planning Cycle 6 strategy in nutshell, 3G-Growth, Granularity and Governance with focus on delivering market share with diversification, to double the profits and give an ROA of 1.9% to 2.2%.

Thank you so much. Let's open the floor for questions.

Suresh Ganapathy: So, first to begin with, if you look at some of your peers, their credit cost has already gone down to double digit basis points. In fact, some of them are having negligible credit costs. Now you're telling your ROA for Planning Cycle 6 would be 1.9% to 2%. You're already at 1.9% with a 1.5% credit cost. So what do you think is going to be your credit cost for the next Planning Cycle 6? And then if that indeed is going to be much lower than 1.5, then somewhere else it is going to offset because you're already at 1.9% ROA. So that's my first question.

Sumant Kathpalia: We will be at 110 to 130 basis points credit cost. Our expectation is that. And we believe with the businesses which we have, we should be in that range.

Suresh Ganapathy: So you'll also see a reduction in slippages going forward because that's something still being high. I mean, we have not seen a sustainable reduction in slippages quarter-after-quarter.

Sumant Kathpalia: Suresh, you're absolutely right. I think we've seen the worst of the restructured book and we've seen the worst of the MFI flows. So, what you will see now is a gross slippage anywhere between Rs.900cores to Rs.1,200cores. And these are our expected & sustainable level of NPA flows and which will be around 1.2% to 1.7% of our loan book. And as a result, the credit cost should come down to about 110 to 130 basis points.

Suresh Ganapathy: The other two questions are, have you applied to the Reserve Bank of India for the promoter stake increase?

Sumant Kathpalia: The promoters have applied for Form A. We don't have to apply.

Suresh Ganapathy: Okay, fine. So the clarity is still awaited. I mean, is it a fresh application that they have done or this is the two year, three year before?

Sumant Kathpalia: No, it's the same application. The directors' due diligence is being done. The Board of Directors, their due diligence is being done by the RBI. That's Form A.

Suresh Ganapathy: Okay, and finally, I know this is a tricky question, but some of your peers, of course, have landed up getting full three-year approval. Is there, I mean, we can never second judge what RBI thinks, but is there anything, any scope for improvement, what you think in your organization, in terms of compliance, processes, anything that you guys have looked at where there is a significant scope for improvement so that obviously you give a greater confidence?

Sumant Kathpalia: First of all, Suresh, let me give you this comfort that the extension of three years versus two years, you have to look at a glass half empty or half full. If there was a governance issue or an integrity issue, they would have not given me an extension at all or a six-month extension, so please look at it. Yes, there are always some work in progress agendas, the liability franchise is still work in progress. Like you rightly said, our gross flows are higher in the microfinance side.

These are all work in progress agendas we have and from quarter one, all these concerns are expected go away.

Suresh Ganapathy: Okay, that's clear, thank you so much.

Rajeev Pathak: Hi. A good job done by the bank on improving the retail deposit share to 43%, and also improving your LCR to 123%. But if you look at the overall deposit traction, it still lags your loan growth. While your loan growth is at a 5% quarterly run rate basis, you are tracking a 3% on the deposit. Where do you see your deposit traction improving, on a quarterly run rate basis to grow closer to the loan growth?

And the second question is on your branches, on your next planning cycle, you alluded to some 3,750 branch target. You opened some 222 branches this quarter. So do we see a front loading of the branch openings this year happening? And the last question is on, particularly on the SA deposits. We have seen a reduction in SA deposits this quarter, both quarter-on-quarter and year-on-year.

I think you touched upon a point that there was a bulky SA deposit which you allowed to go off. If you can just quantify and give us a like-to-like comparison of how it would have looked like on a quarterly basis.

Sumant Kathpalia: First of all, the system growth on deposits has slowed down to 9.5%-10%, while the credit growth has been higher. I think in a matter of time, by quarter three or quarter four, the system deposit growth will catch up with the credit growth and credit growth will reduce to some extent in my opinion. So that's number one.

Number two, IndusInd has always said that our retail deposit growth will be higher than the overall asset growth and we will try and accomplish that. And what you will see, maybe by the end of this year, our retail growth will be higher than the overall asset growth. And that is what you should track us for, because that's our progress on granularisation journey and you should track us on the granularisation journey.

Our branch expansion is key part of our strategy. And not only because branch expansion for us means, more clients walking. but it also gives a comfort level to the customers. Wherever we've created density of branches, like in home markets, 16 home markets, we see there is a walk in traffic and there is a very good brand recall. We want to expand that to 25 cities. And we believe that home market strategy will play out for us in a long way.

The next question, will we front load our branches? Well, we will not front load our branches. We have to manage the cost to income levels. We will front load our branches only if we see digital strategy not playing out the way it is expected to play out. Because a lot of our client acquisition and quality client acquisition with the type of preposition which we have, should start coming out from the digital side and we are focused on very differentiated offering in the branches as well as in the digital side.

Rajeev Pathak: The last one was on the SA, the reduction in the savings deposit this quarter.

Sumant Kathpalia: So reduction in SA happened because of two reasons. One is migration of client balances into term deposits. And it is not a phenomenon only for IndusInd Bank. It's a phenomenon across the board and you will see that happening as long as the fixed deposit rates are very high and it went to 7.5% to 7.75% in the market. People did move money from savings account deposits to fixed deposits. I think it will start moderating after some time and you will start seeing the SA growth coming back. So it does not worry me that much.

On the second part, which is a large government association account, which we had bulk of our flows for the last five years. We started reducing our concentration on that account and of course the agency banking guidelines came and a lot of these guys who get budget release from the government, they are directly going from the central treasury. As a consequence, the main account, which was there, now does not have significant money. Which was around INR7,000 crores to INR8,000 crores with us in the savings account, but the other project related account continue to be with us. And that will continue because they are more granular and we manage the granularity of those accounts very well. So that's what we did and that was the outflow which happened on that account.

Rajeev Pathak: Thank you very much and wish you all the best.

Anand Dama: Sumant, so you gave the credit growth guidance somewhere about 18% to 23%. This year we clocked almost about 21%. So why do you think that, if you look at our base also is relatively smaller, the other banks have actually grown at a faster pace, like for example, Kotak has grown at a faster pace than us this year itself. So do you think that the guidance that we have given is to some extent undershooting ourselves or like you see a risk to that growth coming next year?

Sumant Kathpalia: So our guidance of 18% to 23% doesn't mean that we'll be at the lower end of the spectrum, number one. It's a range. We have to see how the industry evolves and the economy evolves over a period of time. I don't want to press the accelerator just because I want to press the accelerator. I've always said, and I've mentioned in my brief also that the bank is a growth bank and the bank is focused on growth, but it will do a calibrated growth. And we are cautiously optimistic on the growth cycle.

Anand Dama: Okay. Secondly, we have exposure to the telecom account, which is Vodafone. The fund-based exposure I believe is well provided for. What is the outstanding non-fund-based exposure that we carry?

Sumant Kathpalia: Rs.730crores is the non-fun outstanding. We've disclosed it all the time.

Anand Dama: So any plans that we have to make any provisions on that?

Sumant Kathpalia: It is not expected to move into NPA and I don't think the guarantees may be called in my opinion.

Anand Dama: Okay. And similarly, we also have disclosed our exposure to the Adani Group. And recently, RBI had said that banks need to make some specific provisions on the large corporates at the country level. So does Adani will also get classified into that and if so, with the case, any plans

to make provisions on that account?

Sumant Kathpalia: See, it's not about Adani or any specific account. We will make conservative provisions ahead of cycle. We evaluate all our group exposures on a regular basis. If we feel that there is a stress which may come into that segment, we will provide for it and at that point, we don't wait that it's for 30% or 40%. We provide for it. Coming to the specific group you have mentioned and as we've disclosed in the exchange fillings, we've always said that most of our exposure is to operating companies, and we don't see a risk on operating companies. We have sufficient cash flows to track as to what is happening in those operating companies.

Anand Dama: But I think the RBI requirement is in respect to making provisions?

Sumant Kathpalia: There is no such guidance from RBI to make a specific provision as of now. It came as an article that you review the exposure.

Anand Dama: Yeah, that's very helpful, thanks. Thanks a lot.

Nitin Agarwal: Hi, Sumant. Thanks for the presentation and sharing the outline for the next planning cycle. So two questions. If you can first comment on how the pricing environment is in the vehicle business. We are seeing a very steady growth for the bank, but at the same time, despite rising funding costs, some of the NBFCs are also reporting very strong disbursement growth. So are banks, and in particular, IndusInd, gaining market share or the fight is higher on the interest rate part?

Sumant Kathpalia: So our market share on the disbursements has remained range bound. We lost the market share in Q3 to ~9.8%, and I think in quarter four, we should be back to 11.5% to 12%. So our market share of disbursements is 11.5% to 12%, and our market share of outstanding is 10%-11%.

Nitin Agarwal: And how are we tackling it from the pricing angle? Are we like, competing aggressively?

Sumant Kathpalia: Yes, so we have increased the pricing in the microfinance segment in the month of February by 150 basis points.

Nitin Agarwal: And secondly, in respect to the ARC sale, we have done a small sale this quarter, and the consumer assets we have sold. So how has been our experience in respect to those, like recovery from the MFI pool, whatever we have sold? Because over the last few quarters, we have seen bigger ARC sales happening in the MFI space.

Sumant Kathpalia: Our MFI recovery from the ARC side was about 8%. Let me be candid, and I think our effort was not that much. Our effort is now going up. On the CFD side, our recovery is as high as 50% to 70%.

Nitin Agarwal: Thanks Sumant.

Analyst: Any update on the mutual fund business?

Sumant Kathpalia: We want to enter, but we don't have the para-banking license as of now. So we need the licenses for us to enter. We are very keen to enter, but I think we have to wait for the RBI approval.

- Analyst:** Have you applied for the license?
- Sumant Kathpalia:** No, we have to apply again.
- Jai Mundhra:** Hi, sir. On your PC6 strategy, you had said PPOP of 5.25% to 5.75%. Right now we are at 5.6%. So is it like a pressure on your opex, or as usual, the industry margin should be peaking? So what is going into that estimate for PPOP?
- Sumant Kathpalia:** It's a range bound number. Suppose the operating leverage does not play out, and that is why we've mentioned a range, because the cost will come in as we are investing into new initiatives. So we have just given you a range bound thing, don't assume that we will be at the bottom end of the range. We are already at 5.6%, there are no reasons for us to go down. But I think we've just given you a range, if the operating leverage does not play out, because we are putting investment in a lot of new initiatives. I hope that the operating leverage plays out the way we are expecting it plays out.
- Jai Mundhra:** And on your retail slippages, right, so I think you had mentioned that this quarter there was an MFI bump up. But I hope this was from restructured book in MFI, right?
- Sumant Kathpalia:** It was from the standard book in the eastern side, which we've cleaned up. And the MFI restructured book is about Rs.174crores now, in credit cards restructured book of ~Rs.7crores is left. The whole unsecured exposure is completely out of the restructured book now.
- Jai Mundhra:** And lastly, on your margins, right? The banks which had a very high proportion of floating rate or EBLR rate book, they had seen a huge rise in the margins or yields. Now we have a 50%, as you said, fixed rate book. What would be the median difference in the yield on stock of that fixed rate book and maybe the incremental book that you are creating there? And when do we see that, the blended yield moving up at a slightly better pace?
- Indrajit Yadav:** See, there are multiple things at play. It's very difficult to pinpoint everything. Like if you just take the vehicle finance example. In vehicle finance, MHCV, is at a lower end of yield. And in the last four quarters, you would have seen MHCV has done much better than what it had done in the past. So while you see a disbursement incrementally are up by 100-150 basis points, but the growth has come from the lower yielding segment. But on the other side, if you see, even if I'm able to maintain the 13% blended yield in vehicle, but because the longer-term book is, being built, because MHCV is a five years' duration book. So the runway to maintain that 13% yield for next two-three years on the book is much more positive than, the short-term increase in the yields. So it is very difficult to say that, whether yield will increase or at what time, as there are multiple dynamics at play. The two wheeler book was running down, Rs.6,000 crores book became Rs.4,000 crores book, which is at the top end of the yield in vehicle portfolio. So incrementally, yes, the disbursements are happening at 100-150 basis points more. But there are other dynamics at the play because of the mix change. The micro finance, was shrinking for the first three quarters. This quarter it has grown. So if MFI keeps on doing well and now we have taken a price hike also in the micro finance.
- Sumant Kathpalia:** What do you think will be our net interest margin range? We've not discussed it, but I can tell you our net interest margin will be in the range of 4.25% to 4.35% in the next Planning Cycle

6. That's the range we will keep.

Jai Mundhra: So you're stepping it up, right, from 4.15%?

Sumant Kathpalia: 4.15% to 4.25%, That will come because of three reasons. The mix change towards consumer. If it changes by seven percentage and consumer yield is about 600 basis points higher, there's a 42 basis point increase. Second, our cost of deposits is elevated at this point. It should start getting normalized at certain point because we are offering high rates. If we come even at 50 basis points gap with the large peers in our overall cost of deposits, I think you should see a 10 to 15 basis point jump as a consequence. Third, I think, the credit cost going down because we've taken a lot of hit over the last two to three years. And you will see that playing out over a period of time.

Jai Mundhra: Sure, thank you.

Sumant Kathpalia: Okay, so what we can do is we can cut for tea and I'm available if there are any more questions, we can do one to one sessions. Thank you so much. And thank you for joining and sorry for delaying the meeting by 10 minutes because of the traffic in Mumbai city. Thank you so much.

Additional Information Discussed During the Analyst Call:**1. Gross Slippages Details:**

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q4FY23	Q3FY23	Q4FY23	Q3FY23	Q4FY23	Q3FY23
CFD	310	433	73	191	383	624
MFI	549	347	49	61	599	409
Other Retail	303	274	55	42	358	315
Corporate	82	80	182	39	264	119
Total	1,244	1,135	359	332	1,603	1,467

2. Segment Wise Restructured Loans:

BU	Mar-23 (Rs.cr)	Dec-22 (Rs.cr)
CFD	1,475	1,868
MFI	174	288
Other Retail	462	618
Corporate	338	633
Total	2,449	3,408

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