# Q1 FY25 Earnings Conference Call

**MANAGEMENT:**
**MR. SUMANT KATHPALIA – MANAGING DIRECTOR AND CEO**
**MR. ARUN KHURANA – EXECUTIVE DIRECTOR AND DEPUTY CEO**
**MR. GOBIND JAIN – CHIEF FINANCIAL OFFICER**
**MR. INDRAJIT YADAV - HEAD, INVESTOR RELATIONS AND STRATEGY**
**+**
**MANAGEMENT TEAM MEMBERS**

**July 26, 2024**

**Moderator:** Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q1 FY '25 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 a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumant Kathpalia, MD and CEO, IndusInd Bank Limited. Thank you, and over to you, sir.

**Sumant Kathpalia:** Good evening and thank you for joining this call. Let me start with some macro commentary and then go into the bank specific details.

Domestic economic activity sustained momentum during Q1 after delivering robust GDP growth of 8.2% in FY24. Manufacturing activity continued to gain traction on the back of strengthening domestic demand, while services sector maintained its buoyancy. In banking system, liquidity conditions remained in deficit but improved marginally compared to the last quarter. Looking ahead, recent budget has maintained continuity while laying down the future policy agenda of new government towards the goal of a becoming a developed economy. Adequate budget allocations have been made to support Rural economy including increasing allocation to the flagship MNREGA scheme compared to last year. These along with steps taken pre-budget augur well for a rural recovery and rural spending would be outpacing urban segments.

Coming to the quarter specific developments, the Bank navigated a challenging quarter where a typically seasonal weak first quarter was coupled with issues from heatwaves & election related disruptions. The key highlights for the quarter were:

- Healthy Deposit Growth – Our deposit growth accelerated to 15% YoY and 4% QoQ. We maintained our traction on retail deposit mobilisation with retail as per LCR deposits growing at 16% YoY, ahead of our loan growth. Increase in Cost of Deposits at 5bps QoQ also remained under control despite ongoing liquidity conditions.
- Loan Growth Trajectory – Our loan growth at 15% YoY was driven by 18% YoY growth in retail loans and 13% YoY growth in corporate loans. We were cautious on disbursements in vehicle and microfinance during the election phase and runrates have already picked up this month. Corporate growth continues to be driven by mid and small corporates. Overall, the headline loan growth should see pick-up going forward with seasonality benefits.
- Progress on new initiatives – Our digital banking offering INDIE continue to see strong traction and we now have more than 1.3mn customers on the INDIE app. Our liabilities initiatives of affluent and NRI banking maintained robust traction growing at 23% and 33% YoY respectively. Our home loan book grew by 31% QoQ and now stands at Rs.2,348crores.
- Asset Quality –Focus on collections resulted into gross slippages improving to 0.45% vs 0.47% YoY despite the external challenges this quarter. Our gross NPA & net NPA were at 2.02% and 0.60% respectively with healthy PCR of

71%. Our restructured book continues to run down at 0.34% compared to 0.40% QoQ. We have maintained our contingent provisions at 1,000cr.

- Robust Core Profitability – Our Net Interest Margin remained stable at 4.25%. We have not used any contingent provisions this quarter. Adjusted for this, the core profitability remained resilient for a seasonally weak quarter. Our core PAT adjusted for contingent provision reversal grew by 10% YoY and 2% QoQ. Our Capital Adequacy Ratio remains healthy with CET1 of 16.15% and overall CRAR at 17.55%.

Now coming to individual businesses.

1. **Vehicle Finance:**
    - Our vehicle finance loans grew by 15% YoY and 2% QoQ.
    - Vehicle disbursements for the quarter were Rs.11,260 crores. The quarterly disbursements were lower due to subdued demand during the election phase, extreme heat in most regions and Q1 being a generally weak quarter.
    - Within vehicle categories, we saw sequential growth in Commercial Vehicles, Cars and Construction Equipment. Two-wheeler and Tractors segment were weaker and de-grew during the quarter.
    - The gross slippages in Vehicle Finance improved to 0.75% vs 0.77% YoY showing stable asset quality in spite of external disturbances last quarter.
    - The restructured book in vehicle finance also reduced to Rs. 417 crores from Rs. 547 crores QoQ with majority of the reduction due to upgrades and recoveries.
    - First quarter of the financial year has generally been a seasonally weak quarter and the second half of a year contributes larger share of disbursements as well as recoveries. With election related uncertainties also behind us, we expect the trend to continue in this year too. The timely onset of monsoon and government’s capex push in recent budget also augurs well for the outlook of vehicle business.
    - Overall, we have seen activity levels improving from July. We expect vehicle demand to pick up pace as the government spends resume post the budget and monsoon period gets over. We should thus see acceleration in the vehicle loan growth as the year progresses.

2. **Bharat Financial Inclusion Limited (BFIL)**:
    - Outstanding loan book originated via BFIL now stands at Rs.42,350 crores growing 17% YoY with microfinance & merchant loan book growing at 16% and 25% YoY respectively.
    - Growth was driven by client acquisition and active loan clients increased by 11% YoY. Share of non-MFI book stands at 13%.
    - The collection efficiency was impacted during the quarter as mentioned earlier. The organization, however, prioritized collections over growth and was able to contain forward flows. The gross slippages from BFIL were at Rs.338 crores for the quarter.
    - Total liabilities franchise sourced through BFIL now stand at 2,346 crores driven by new customer acquisition, cross sell of liabilities products and now ~93% of loan disbursements are done in IndusInd account.
    - Microfinance

    - While Q1 disbursements are typically lower, we were also watchful for any untoward developments due to election activity.
    - Our average loan outstanding per customer at Rs.42,031 was reduced by 4% QoQ.
    - The collection intensity continues this quarter and we aim to restore normalcy in the overdue book in a few months. We remain comfortable with our full year microfinance credit costs to be broadly stable YoY.
- Bharat Super Shop i.e. the merchant acquiring business
    - We have now around 700,000 merchant borrowers under this program.
    - Our merchant loan book stood at Rs.5,304 crores with 25% YoY growth.
- Bharat Money Stores i.e. the kirana shop model
    - We have around 88,000 Bharat Money Stores (up 27% YoY) providing banking at the doorstep in remote areas.
    - These merchants have sourced around 2.6mn savings accounts registering growth of 68% YoY.

Overall, we focused on asset quality during the quarter to mitigate impact of several external challenges. We are already witnessing centre meetings discipline restoring. With good monsoon predictions and external disturbances getting behind the industry, we are well placed to participate in the large rural opportunity with our deep distribution network while transitioning from micro finance to micro banking.

3. **Corporate Bank:**
    - The corporate loan book grew 13% YoY with growth continues to be led by granular mid and small corporates.
    - Within corporate, large corporates grew by 10% YoY, mid corporates by 14% YoY and small corporates by 22% YoY.
    - The healthy growth in mid and small corporates continues with increasing coverage focus on this segment and focus on selected industry segments.
    - The diamond business too showed sequential growth after a few quarters of contraction due to weak global demand. The asset quality in diamond clients remains pristine with no NPAs or SMA1 / SMA2 customers.
    - The proportion of A and above rated customers has been at 79% vs 76% YoY with weighted average rating improving to 2.48 from 2.61 YoY.
    - The Gross Slippages in corporate book were Rs 48 crores for the quarter and net slippages of Rs 4 crores only.
    - Overall, we continue to progress on building corporate bank franchise focused on selective areas of competitive advantage with granular risk profile.

4. **Other Retail Assets:**
    - During the quarter, our other retail assets grew by 23% YoY.
    - Our MSME book under business banking is at 16,683 crores which grew 13% YoY and LAP book maintained steady traction with 12% YoY growth.
    - We tweaked our branch operating model last year to facilitate sourcing MSME asset customers. We have also re-defined our SME branches with

enhanced capability & upskilling of the branch staff. This is showing results in terms of increased contribution by branch led origination.

- We are also revamping our onboarding journeys and credit assessment engines by bringing in the desired digitization and data-backed analytics, in credit assessment and onboarding of the customer. With a focus on branch sourcing & digitization in process & client capability, we expect MSMEs to become a meaningful growth driver for the Bank.
- Our Home loan product continues to scale with loan book now at Rs.2,348crores as of Jun-24 growing 31% QoQ.
- We recorded healthy credit card spends at Rs.24,019 crores growing by 19% YoY. Our spends market share has further improved to 5% as per latest available RBI data. We have been cautious in maintaining share of unsecured card and PL at 5-6% of the loan book.
- Overall, we continue to focus on growing our consumer assets while improving the balance towards secured mix with scale-up of home loans and MSME.

5. **Now coming to Liabilities:**
   - We accelerated our deposit mobilisation to 15% YoY narrowing the gap with the loan growth.
   - We also maintained traction on retail deposit mobilisation with retail as per LCR deposits growing at 16% YoY. Share of retail deposits now stands at 43.7% vs 43.4% YoY.
   - Cost of deposit increased by modest 5bps QoQ driven by the mix in favour of term deposits and some repricing.
   - The Bank opened its milestone 3,000$^{th}$ branch last quarter and with total branch count of 3,013 as of June-24.
   - We continued to scale our initiatives of Affluent and NRI during the quarter. Affluent segment deposits grew 23% YoY to Rs.54,679 crores during the quarter. Affluent AUM was also up 25% YoY to Rs.86,000 crores. The Bank is slated to take the affluent banking to next level with the launch of Pioneer Private banking next month. This will be a curated offering for customers with over Rs 30mn net relationship value. We are confident that this addition will provide another growth leg-up for our already sizable affluent franchise.
   - Our Non Resident Indian i.e. NRI segment continues to see robust growth momentum on the back of strong NRI deposit flows. NRI deposits grew 33% YoY and 9% QoQ and further achieved milestone of crossing Rs 50,000 crores deposit base in July. Our market share in Non-Resident segment stands at 3.7% as per last available data vs 3.3% YoY.
   - We continue to invest in our brand. We saw strong lift in our brand awareness during the quarter driven by our marketing campaign during the ICC T20 Cricket World Cup, where India was crowned as champion.
   - Our reliance on bulk sources remains low with Certificates of Deposits at 2.5% of overall deposits and borrowings at 8% of total liabilities.
   - The liquidity position remained healthy during the quarter with average LCR improving to 122% vs. 118% QoQ and average surplus liquidity at Rs.43,000crores for the quarter.

- Overall, Retailisation of liabilities continues to be cornerstone of our strategy and our balanced approach towards traditional as well as investments in new initiatives should support our growth ambitions.

6. **Digital Traction:**
   - During the quarter, INDIE – the digital banking app of the Bank completed first full year of operational launch.
     - We now have more than 1.3mn clients on the INDIE app including 1.1mn New to Bank and 200k existing clients migrated to INDIE
     - The migrated clients have shown an increase in 35% in terms of liabilities per client and 20% in transactions per client.
     - We are in process to soon open this app as a platform to all clients of the Bank to manage their existing relationships; while new products and services continue to get launched on the app and continuous innovation happens in parallel.
     - We are also going to launch a revamped wealth management offering, INDIE for Business & revamped experience for NRI clients on INDIE app within coming weeks.
   - While we are building the new, the existing platforms continue to scale as well.
     - IndusMobile has a monthly active user base of 3mn+ and registered a growth of 30% YoY in recurring bill payments. The rating of the app improved to 4.5 on App Store and 4.3 on PlayStore.
     - On Indus Merchant Solutions, we launched a new feature for merchants whereby they can add or manage "sub users" & delegate store operations such as collections.
     - On WhatsApp Banking, we have a registered base of 9.2mn and conversations and active users grew strongly at 200% and 30% YoY.
     - Indus Easy Credit – the flagship digital retail lending platform of Bank continued to see scale and now 100% of personal loans, credit cards, small ticket business loans and working capital loans happen digitally via the platform. The platform is now also integrated with Account Aggregator and for MSME clients enabled with CGTMSE.

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

1. Net Interest Income grew by 11% YoY and 1% QoQ with Net Interest Margin remaining steady at 4.25% vs 4.26% QoQ and within our expected range of 4.2% to 4.3%.
2. Our Cost of Deposit increased by 5bps QoQ while cost of funds increased by 3bps QoQ. The Increase was offset by 2bps increase in yield on assets maintaining margins steady.
3. Our Other Income grew by 10% YoY. Core client fees excluding trading income too grew by 11% YoY. Share of retail fee remains healthy at 78%.
4. Our total revenue for the quarter was at Rs 7,849crores with 11% YoY growth.
5. We continue to see sequential moderation in opex growth. The opex growth reduced to 20% YoY vs 24% YoY in previous quarter. The sequential growth was curtailed further to 2% QoQ. The cost-to-income however increased largely due to slower revenues due to seasonally weak disbursements in vehicle and microfinance. We should see cost-to-income to improve as revenues pick-up during the course of the year.

6. The operating profit for the quarter was at 3,952 crores growing 3% YoY.
7. On the asset quality and the provisioning front:
   - Collections and cautious disbursements were key focus areas during the quarter given the external disturbances. As a result, we were able to improve gross slippage ratio at 0.45% vs 0.47% YoY in an otherwise challenging quarter.
   - The gross slippages by key segments were vehicle finance Rs.660crores, BFIL Rs.338crores, corporate Rs.48crores and other retail Rs.490crores.
   - The restructured book reduced during the quarter to 0.34% from 0.40% QoQ with bulk of the reduction due to upgrades and recoveries.
   - The Net Security Receipts have reduced to 32bps from 34bps in previous quarter.
   - Overall, the GNPAs and Net NPAs were at 2.02% and 0.60% respectively. We have maintained provision coverage ratio of 71%.
   - Our SMA1 and SMA2 book collectively is at 25bps.
   - Total loan related provisions are at 2.2% of loans or 106% of the GNPAs.
   - The Bank has not utilised any amount from the contingent buffers during the quarter. The annualised credit costs were at 121 bps for the quarter without using contingent provisions.
   - We thus remain confident of achieving full year credit cost of 110-130bps given that a turbulent and seasonally weak quarter is behind us with credit costs outcomes within our expected range.
8. Our core profitability adjusted for contingent provision reversal remained robust during the quarter. Our core PAT adjusted for contingent reversal grew by 10% YoY and 2% QoQ. Our Capital Adequacy Ratio remains healthy with CET1 of 16.15% and overall CRAR at 17.55%.

Overall, to summarise the quarterly performance:

- Q1 was a subdued quarter wherein a seasonally weak quarter got added disturbances from external factors. The disbursements are already picking up and we remain committed to the PC-6 growth guidance of 18%-23% growth.
- Our deposit growth is accelerating along with narrowing spread on deposit rates with larger banks. Our balanced approach on traditional and new initiatives would drive achieving our loan growth aspiration.
- The opex growth has started normalising and we should see revenue growth exceeding opex growth in a few quarters as the operating leverage and seasonality in key businesses play out.
- Our asset quality trends remain healthy especially seen the context of turbulent last quarter. Our Q1 credit costs were in our expected range of 110-130bps without using any contingent provisions.

We are thus confident of delivering higher growth with improving profitability in rest of the year.

With this we can open for Q&A.

**Moderator:** The first question is from the line of Kunal Shah from Citi Group

**Kunal Shah:** In terms of the growth in advances, because of the seasonality and the disruption you had cautiously slowed the disbursement, but getting back towards 18% to 23% growth, how much time would it take. Maybe if growth remains at this level, we saw the resolution to raise the equity as well. You mentioned you have healthy capital adequacy, then what was the need for that resolution?

**Sumant Kathpalia:** Let me take second question first, it's only an enabling clause. You're right that we're well capitalized as of now. Like we said, every six months, we assess our capital needs. I really don't feel we have a need to raise capital as of now.

Coming to your first question, which is on our growth. Our growth ambition remains at 18% to 23% growth. If you look at where we lost out this quarter was the microfinance. And I think there is enough growth headroom available there. We were cautious because we wanted to make sure that our portfolio remains pristine and we do not have large NPA flows, and we wanted our flows to remain range bound.

And, on the vehicle finance business growth slowed down because of the challenges in rural side of economy. Our disbursements were down to INR11,000 crores compared to run rate of INR13,000 to INR14,000 crores. And I think we should see growth picking up from next quarter. Another area where we slowed down was the unsecured businesses of personal loans and credit cards.

Overall, it was an intentional decision to slow down a bit and see what is happening in the market before we resume growth. We wanted to wait and watch on how the election results play out. So, we should see growth coming back. And we should be in the range of 18% to 23% for the full year. I cannot say next quarter or anything. I can't give exact timeline. But I can say for the full year, we will deliver 18% to 23% growth.

**Kunal Shah:** Okay. And secondly, if you can just share the colour with respect to MFI any particular states, any particular districts, there has been disruption. And how the collection efficiency and the behavior of the pool has been given maybe obviously, there have been a lot of concerns out there?

**Sumant Kathpalia:** Kunal, first of all, let me tell you, where we have slowed down. So Orissa is one such state where we slowed down. There were a lot of overleveraging happening. And we slowed down our business in Orissa two quarters ago. That's one. In UP, too, we slowed down our business in Eastern UP and we saw that there are stress and there was a growth in borrowing levels, which was coming from other microfinance lenders. We slowed down in Punjab too. You would have realized that 'Karza Maaf Andolan' which has started, we actually started slowing down the business about three quarters ago. Our business has now become small in that area. Jharkhand is another state where we've a little bit slowed down the business. We think that there are some issues which are developing there and we started pulling out on that stage.

Otherwise, if you look at the business, there are good places like Karnataka. We are seeing good business in parts of West Bengal, Jharkhand, Rajasthan, and Maharashtra. So, we are seeing good quality business coming out of these areas. And we feel confident about growth in these areas and our NPA flows remain range bound. We expect MFI gross flows to be around 3.5% and credit cost around 2.5%. That is the reason this is a big & important business, which delivers a decent ROA for us. The success of this business is in taking early calls and seeing the trends. And the processes of Bharat Financial are strong and they are able to see early trends and exit those regions.

**Kunal Shah:** And one data point just in terms of general banking fee, why is it up to such a large extent?

**Sumant Kathpalia:** This has PSLC fees, which comes in the quarter one of INR282 crores included into it.

**Moderator:** Next question is from the line of Nitin Aggarwal from Motilal Oswal.

**Nitin Aggarwal:** So Sumant, first question on like did I hear you right about saying 18% to 22% growth for full year?

**Sumant Kathpalia:** Yes.

**Nitin Aggarwal:** Okay. So like how should we look at the CD ratio then like any compulsions arising from that because 18% to 22% will imply like 6%, 7% growth every quarter in respect to loan growth. So how should we look at that equation?

**Sumant Kathpalia:** So if you look at the credit deposit ratio, we are at 87.3% right now. And we have always said that we will be between 88% to 90%. So we are well within that range. Also, please understand that stable funding is also important. And our NSFR as well as LCR is well within the range. I also feel that we have enough initiatives and enough capability of raising deposits. We've now reached 15% YoY growth and we should see 17% to 18% growth this quarter. I remain confident of doing that growth, which we have said in our call today.

**Nitin Aggarwal:** Okay, sure. And secondly, on the LCR draft guideline that RBI came up with yesterday. Any early thoughts as to what can be the impact, any broad range? Would it be possible to give any colour on that?

**Sumant Kathpalia:** We can't give any colour right now, but we are assessing. And I think looking at the preliminary data, the impact should be in the range of 4% to 6% for us.

**Nitin Aggarwal:** Okay. Sure. And lastly, like I'm just taking cue from another bank results call wherein they increase the risk weight on the MFI loans after the RBI increased the risk weight in November '23. So have we also done any change on the risk weight in respect to MFI?

**Sumant Kathpalia:** There's no such guidance or any circular from the regulator to us to increase the risk weight on microfinance loans from 75%.

**Moderator:** Next question is from the line of Piran Engineer from CLSA.

**Piran Engineer:** I just wanted to understand on microfinance. So, I appreciate you are taking steps to curtail risk, but our NPLs keep rising, and are significantly above some other players. So really, what's going on here? Are we not writing off loans? Is that the thing is our write-off policy very different from the others?

**Sumant Kathpalia:** No. I think we write-off the loans as per the approved policy of the bank. We don't keep retail loans more than 180 days to 365 days. So, we never keep microfinance loans beyond these days past NPA. There are two things which have happened this quarter. One is that the base effect has come in. If you look at the disbursements have been lower and as a consequence, the microfinance book has fallen down by ~INR2,000 crores. And as a consequence, you're seeing a larger percentage out there.

The second way to look at it is the gross flow. The gross flows in Bharat Financial has been INR338 crores. And I think that's well within our expectations of 3.5%, and we are very comfortable with that business.

**Piran Engineer:** And what was the same number last quarter? could share the corresponding number.

**Sumant Kathpalia:** MFI was INR335 crores.

**Piran Engineer:** Okay. That is useful. And just secondly, from Mr. Sriram, I just wanted to get your thoughts on where we are in the auto cycle and not refer to the next two, three quarters, but just in general, are we still in the middle of the cycle? Do we see that we are closer to the top of the cycle, I would appreciate your comments on that.

**A. G. Sriram:** For the heavy commercial vehicle, as we said, we are likely at the peak. There is no further growth movement we are expecting and it's more or less at the peak. But the rest of the segments, we expect at least high single-digit growth. And tractors, we are expecting a double-digit growth.

**Piran Engineer:** Including cars?

**A. G. Sriram:** Yes, including cars.

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

**Abhishek Murarka:** So my question is again on this deposit growth actually. So if you see the proportion of retail deposits, the growth there has been tapering off in the last 3-4 quarters. Now if you have to accelerate to 17%-18% overall deposit growth, incrementally, where does this come from? And do you have to take any kind of rate increases? And then what is the impact on NIM of that. So just trying to figure out that relationship.

**Sumant Kathpalia:** If you look at our NIM, they are range bound, as we've been able to manage our NIM between 4.2% to 4.3%. And that's the range which we want to be in. I can't say specific numbers, but NIM has been range bound for us. And we've always been able to manage our NIMs between that range.

Coming to the retail deposits, we've always said our stated intent is to be between 48% and 50% retail as per LCR by the end of planning cycle – 6 next year, and we are focusing on that. There will be some quarters where the growth is slow and intentionally so because we expected an interest rate reduction to happen. And we said that we had different views at that point. And we see our processes very closely. We also don't want to be stuck with large retail deposits at a very high rate at some point. So we do manage our book in a different manner because we have stable funding from developmental financial institutes which come in and our stable funding remains intact. Having said that, we do not see a risk to our growth ambitions of 18%

to 22%. And we should be able to manage our LDR between the range of 88% to 90% going forward. And that's been our aim and we are very comfortable with that.

**Abhishek Murarka:** The second question is on card fees. I think there was a fair bit of drop this quarter. Just can you share what's the way forward? And what led to the drop this quarter?

**Sumant Kathpalia:** So there are three things that led to the drop this quarter. One, I think the regulator came with a directive that overlimit fees cannot be charged and there was around INR24 crores drop in the card fee as a consequence of that, in a quarter. So that's on ongoing basis, which you will see happening in the card fee. Second, our acquisitions were lower. And as a consequence, our card fees were lower for higher-end accounts. And the third was the interchange on rentals was eliminated, and we stopped doing the rental from the card as that was leading to delinquency, and that was also a INR10 crores income for us in the quarter and that dropped.

**Abhishek Murarka:** Okay. So this is all actually structured. So this is not going to revert?

**Sumant Kathpalia:** I don't think all of it will reverse because rental yields have gone down, and rental interchange has disappeared. Overlimit charges have disappeared. But the third thing on acquisitions, we will build up the card business again. So, it's not that we will stop the acquisition and high-end cards are a priority for us.

**Abhishek Murarka:** Right. And can you just talk about the asset quality in cards. You've seen a bit of inch-up in NPAs you've said previously. I think on the previous call that you are seeing some stress there.

**Sumant Kathpalia:** I think you will see some stress in the card business for next two quarters. Let me be candid. There is some stress building up. If you look at the 60-plus and 30-plus DPDs, the 30-plus looks 7% right now. So, it's not looking completely good. You will see some flows which will happen on the card business. But it's well under control and the ROAs are under control. So, we have to manage it. We are putting all our efforts, but there is some stress on the card business right now.

**Moderator:** Next question is from the line of Sameer Bhise from JM Financial.

**Sameer Bhise:** Just wanted your thoughts on the draft guidelines on liquidity, which came off yesterday. Any initial comments there if they were to come in the current form?

**Sumant Kathpalia:** See, it's very difficult to comment at this moment. I think whenever the regulator comes with new draft guideline, there is a lot of thinking which goes behind it. They want to make sure that the banks are liquid and there is no run on the bank. And that's why they are increasing the LCR outflow percentages from 5% to 10% on stable retail deposits and 10% to 15% on other retail deposits. And they believe that through mobile or through internet banking, deposits can be immediately moved. And the stability of the system and the liquidity is more important. I think these are directed in the right manner. And it will only make the system much sounder. And it's for the fortification of the balance sheet and the liquidity in the system. There may be some impact, but I think 4% to 6% for us. But it's important to make sure that we should not get bogged on and we should see how to manage this, and it becomes a part of the Business As Usual (BAU), as we go forward.

**Sameer Bhise:** Okay. And when we look at the credit cost guidance of 110 to 130 basis points, includes our prior comment on having excess provisions on microfinance and vehicle.

**Sumant Kathpalia:** Absolutely right.

**Moderator:** Next question is from the line of Anand Dama from Emkay Global.

**Anand Dama:** So sir, one, basically there was a special deposit scheme which we had launched during the first quarter any impact of that is yet to come in the cost of fund and because of which should we see some margin pressure going ahead?

**Sumant Kathpalia:** We had launched campaign with 7.99% TD rate. And we saw enough traction, we mobilized around INR7,000 crores of term deposits on that campaign during the T20 World Cup. It was during the T20 World Cup and for a specific duration. And we've stopped that campaign now and gone back to 7.75% top TD rate. So, we mobilized around INR7,000 crores of term deposits at that point of time within that 15-day period.

**Anand Dama:** The interest of that is largely being baked in into first quarter itself.

**Sumant Kathpalia:** Yes. It's already baked in.

**Anand Dama:** Okay. And when you look at our growth vectors, so basically, you said that you're still looking at about 18% to 22% kind of a growth. So, microfinance, not doing well, cards you are not very keen. So, which are the segments which are going to deliver this point of a high growth. Is it going to be a corporate book or the non-unsecured loan.

**Sumant Kathpalia:** Our balance of loan book should remain tilted towards retail with 55%-56% retail share and 44%-45% corporate share. We also continue to believe that our book on vehicle finance as well as microfinance, including merchant acquiring, will continue to grow. We believe that merchant acquiring and MFI business will continue to grow at 20%-24% for us during this year. Our vehicle finance business will grow around 18% for the year. Our other retail business will continue to grow at 25%-30% for the year. I think we've just seen a slowdown, and we will come back into that growth mode. On the corporate side of the book, we've always said that our small-corporate growth to be at about 18%-20% and our mid corporate growth to be at 14%-16%, while our large corporate is at 10%-12%.

**Moderator:** Next question is from the line of Chintan Joshi from Autonomous.

**Chintan Joshi:** Can I ask a question on NII. If I look at the quarter-on-quarter growth, it is 0.6%. And when I look at the end of period average earning assets, that's grown 4.4%, and yet your NIMs are stable. Does this mean that a lot of the kind of growth is back ended in the quarter? And is there any other reason for weakness in NII? Any kind of one-offs or anything that of explains the NII weakness.

**Sumant Kathpalia:** No, There's no one-off in the NII.

**Indrajit Yadav:** It's just the averages, which are playing out. I think you will see this normalize over the period. Some quarters, it happens. But overall, over the three or four quarter period, it normalizes.

**Chintan Joshi:** So can I take this that the weakness is purely management action to be cautious in a quarter where there is seasonality in elections? Is that the main message?

**Sumant Kathpalia:** April and May were weak months and June is when we started picking up the disbursements on retails side, even whatever disbursements we did in the MFI or in the vehicle finance business.

**Indrajit Yadav:** The high-yielding businesses like microfinance, cards, they have not grown this quarter. So that's why there is an added impact on the NII versus the loan growth.

**Chintan Joshi:** Understood. And my second question is on the GNPA on Slide 26. You've given a lot of colour, but there's a general statement in consumer banking, practically every segment is seeing increase. Is there something kind of worsening across the industry? Or is this a seasonal effect?

**Sumant Kathpalia:** It's just a seasonal effect. The only thing that we should worry about is the credit card business. I don't think there is anything else, which I'm worried about right now. The 30 plus on the MFI is also little bit elevated right now, but we still believe overall gross flows should be around 3.5% with credit cost around 2.5%.

**Chintan Joshi:** And within personal loans, are you seeing any kind of deterioration?

**Sumant Kathpalia:** Not in personal loans, but I said credit cards.

**Moderator:** Next question is from the line of Rakesh Kumar from B&K Securities.

**Rakesh Kumar:** So sir, just firstly, 1 question on LCR front. So we have improved on retail deposit composition over a period of time of, say, last two, three years. But if you look at the outflow rate, there has been like no improvement as such in the outflow rate as per the LCR number. So what is the reason behind that?

**Sumant Kathpalia:** We will get back to you on this question.

**Rakesh Kumar:** Secondly, sir, on the general banking fee. I don't know if you had responded to this question, sir. So there is a quite a lot of growth that you are witnessing here on Y-o-Y or Q-on-Q basis?

**Sumant Kathpalia:** There is PSLC fees, which is included in this, and which generally comes once or twice a year.

**Rakesh Kumar:** How much that number.

**Sumant Kathpalia:** INR 282crores.

**Rakesh Kumar:** This quarter, okay. So is that a reason sort like some of the PSL qualifying loan book, we are reluctant to write-off?

**Sumant Kathpalia:** No, it's not that. We write-off as per the policy, which is there. We don't tinker with the policy. If the policy state that you have to write off in 180 days, we write-off. If it's 240 days, we write-off in 240 days. So we don't tinker with that. The rules are set by the bank approved policy, and we go with that policy.

**Moderator:** Next question is from the line of Jai Mundhra from ICICI Securities.

**Jai Mundhra:** Most of the questions have been answered. Just two questions. One is -- if I look at the cash and bank balance as a percentage of assets, since COVID, we have been utilizing that and the proportion was coming down as a percentage of assets. But this quarter, that number has gone up. Is it like more opportunistic, as you said that you were cautious in disbursement and hence the buildup?

**Sumant Kathpalia:** It's just that the loan growth is down. And once the loan growth comes back, it will move accordingly.

**Jai Mundhra:** Right. And secondly, sir, on the wholesale side, we have been following the strategy of large corporate growth being slightly lower and growth being more driven by mid and small corporate. But if I look at the yield on the wholesale side, I would have expected them to be stable, if not rising. But this quarter, they have actually declined. So is there any clarification on this.

**Sumant Kathpalia:** It's a 4bps decline. It's just as a normal part of the business.

**Moderator:** Next question is from the line of Rohan Mandora from Equirus Securities.

**Rohan Mandora:** I wanted to understand what is the impact of the penal interest circular on NIM this quarter?

**Sumant Kathpalia:** There was an impact of around INR30 crores for the quarter. But we should be able to increase the yield to manage that.

**Rohan Mandora:** Okay. Sure. And sir, on the incremental disbursal yield because I just want to get a sense on that. So product-wise, is it flattish Q-on-Q? Is there an increase? Or has there been a decline on incremental disbursement deals?

**Sumant Kathpalia:** It depends on which product, I think for the vehicle finance, we have an overall disbursement yield of 12.9% to 13%. And we've been consistent in that yield over a period of time. On microfinance, we have been range bound between 20% to 23%. On consumer bank, our yield depends on the secured and the unsecured mix. This quarter, we saw a dip on the disbursement yield because it was more tilted towards secure than unsecured. Otherwise, if you look at the yield, we disburse at 13.4% to 13.5%. On corporate bank, it depends on the mix of large, mid and small corporates where we are pretty stable on our yields.

**Rohan Mandora:** Sure. And sir, lastly, what will be 30-plus book in the vehicle finance?

**Sumant Kathpalia:** Vehicle finance, we don't give that number. We disclosed our SMA1 and SMA2 for the bank, which is 25 basis points.

**Moderator:** Next question is from the line of Manish Agarwalla from Phillip Capital.

**Manish Agarwalla:** Sir, I had a question on yield on investment. The yield has been increased on a sequential basis. Anything to read there?

**Arun Khurana:** Yes. So, some of our surplus cash we have invested in CDs of various public sector AAA-rated banks, which led to a slight increase in this quarter.

**Manish Agarwalla:** And in terms of going back to penal interest question, is that income now as a part of fee income or commission exchange brokerage income?

**Sumant Kathpalia:** Part of this is part of the fee income, which is already there, but part of it still has to start coming in.

**Manish Agarwalla:** Okay. And finally, if you can give some colour about which are the geographies that you are witnessing stress in the MFI any specific cases if you want to highlight?

**Sumant Kathpalia:** If you look at our MFI flows and the Bharat Financial flows is INR338 crores for the quarter. So it's not that it's deteriorated. We told you that Punjab was an area where we were seeing stress. I think that's already done and dusted. And in my opinion, I think we reduced our book in Orissa, we slowed down our growth in Orissa.

**Moderator:** Next question is from the line of from Gao from Schonfeld Strategic Advisors.

**Zhixuan Gao:** Just one question on your tenure. Are we definitely applying to RBI on extension or given that we are only in the first quarter it's too early?

**Sumant Kathpalia:** So, in my view, the Board may have to send recommendation by September. That's the last date that they have to send their recommendation. And I think they should recommend by August end or early September. So that's where we stand. And we have to just wait for that announcement to happen as and when they do that.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Sumant Kathpalia for closing comments.

**Sumant Kathpalia:** Thank you for participating in the Q1 earnings call. If there are any questions or any further clarifications which are required me, and Indrajit are available. We can take your call and questions. We have to get back to you on one question, which is on the outflow on the LCR, we will get back.

**Arun Khurana:** I don't have a comparative number right now. So that's why I can't answer, but I know the outflow is what they are.

**Sumant Kathpalia:** So we will get back. And thank you so much.

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

***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*