“IndusInd Bank Limited Q2 FY-21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Limited Q2 FY21 Earnings Conference call. As reminder, all participants' 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 call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kathpalia - Managing Director & CEO, IndusInd Bank. Thank you and over to you, sir.

Sumant Kathpalia: Good evening. Thank you for joining the call. I will start with some macro commentary and then get into bank specific details.

At the macro level, economic recovery has resumed in September once the lockdown in a few large states were lifted couple with expectations of Covid-19 peaking out. All recent high frequency indicators suggest economic activity close to pre-Covid levels. Car sales, non-fuel exports and power generation also registered positive growth in September, for the first time since the lockdown was imposed. Manufacturing sector is leading this recovery, while services sector activity is still affected by the social distancing norms and cautious opening of consumer services. India has reported 'Above Normal' Monsoon rainfall this year and this augurs well for the rural economy.

Beyond September, along with easing of lockdown, demand should also get a short-term fillip from the measures announced by the Finance Minister. The Private sector has also participated by initiating prospective and retrospective salary actions. The RBI has maintained status quo on rates and has focused more on transmission of earlier rate cuts. With upcoming festive season, a good monsoon season bundled with government stimulus, a revival in consumption demand is expected. Sustainability of such revival will be key for medium term growth. The Government's Credit Guarantee Scheme has provided a great safety net to the SME sector as also indirectly to the financial system.

Before I go into quarter specific commentary, I want to clarify on the recent media speculation on merger with another bank. The bank and promoters have issued categorical denial of such developments. These reports are purely speculative and malicious in nature. The bank is executing on the business philosophy outlined in my first analyst call in Q4 with strong support from the promoters.

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

- Getting the capital in – The capital raise process was completed and entire 3,288 crores came in September. This has improved our CRAR to 16.56% as of Q2. CRAR including H1 profits would be 16.87%.
- Accelerating deposit traction – we saw 8% QoQ growth with retail deposit as per LCR growing by over 8,000cr. This was the highest retail mobilisation we had ever seen in a quarter. Our Cost of Deposits has dropped by 15bps bps in Q2 and 47 bps cumulatively in

H1 this year. Q2 CASA New to Bank acquisition was 2x in value terms as our acquisition runrates improved back to pre-covid levels of 1 lac per month. Over 90% of CASA & FD NTB bookings was done via digital channels. With comfortable acquisition runrates and strong bank liquidity levels with LCR at 140%, we will be initiating deposit rate cuts during quarter 3.

- Maintaining operating profits margin – Our PPOP margin to loans was at 5.7% for the quarter. Our NII grew by 13% which was well ahead of loan growth benefiting from falling deposit costs. Core fees have jumped 56% QoQ with strong pick-up in retail fees QOQ. We have maintained healthy PPOP margin despite lower trading income QoQ. The margins will get further support as the excess liquidity is deployed in growth.
- Conservative provisioning approach – We have increased our PCR to 77% from 67% QoQ. Total provisions as a % of GNPAs have in fact increased even more from 96% to 132% as we created additional 952 crores of standard Covid provisions which are not counted in PCR. Total provisions now stand at 3% of our loans. Our standard and other non NPA provisions are 2.4x of our net NPAs. Bulk of these provisions are on account of conservative stance to lower risk to the balance sheet & earnings for the next financial year.
- Ensuring portfolio quality – This quarter had the lowest slippages in the last several quarters if not years. We had slippages of just 19bps during the quarter. Net slippages were negative for the quarter. Slippages from Corporate book were close to zero even without the Supreme Court standstill. Our September collections were at 94.7%. This is despite higher share of microfinance and segments operating on physical collection model. We expect collections to inch up further by December. I will give segment wise information in the later part of the commentary. We are comfortable on the asset quality with the recovery trends seen across the portfolio as well as the prudent provisions made so far. Our portfolio analysis indicates potential low single digit restructuring and these customers are viable and don't appear to be in any severe stress. Our current restructured book is just 5 basis points and we do believe that, for the banking system, this restructuring cycle will have better outcomes than the last one.
- Exploiting pockets of asset growth – We have seen shades of growth coming back with a loan growth of 2% YoY & QoQ. Segments such as two-wheelers, cars, tractors, construction equipment and secured non-vehicle retail are back to normalcy. MHCV & MFI are anticipated to show cyclical recovery in H2. Overall growth is thus expected to further broad-base and accelerate in the second half of the year. Retail portfolios growing ahead of Corporate is accretive to our profitability.

I would now like to come to the operational performance for key segments of the Bank:

1. Vehicle Finance:

- Our overall collection efficiency was 94.3% for September vs. high 90s normal collection efficiency. Of this, Commercial Vehicles, particularly luxury buses, was slightly lower while other segments are almost back to normal levels.
- Collection efficiency was lower than average in Small Commercial Vehicles and Two Wheelers which are small part of overall book. SCVs are the most of impacted segment

from Covid and slowly getting back on track. In 2-wheelers, we had accessibility and collection force availability issue which are getting sorted from this month.

- Economic activity is improving every month and if things don't deteriorate further then Q3 freight availability should be much better compared to Q2.
- We are seeing this trend already in October. Some narrow segments such as luxury buses will be candidates for restructuring.
- Disbursements have recovered meaningfully in Q2 with September disbursements at 80% of pre-covid levels. We have improved our market share in most of the vehicle segments.
- Overall Vehicle book has grown 5% YoY. Growth was faster in tractors – up 33%, two wheelers – up 20%, utility vehicles – up 13%. Even in Commercial Vehicles, we have seen portfolio growing QoQ after 2-3 quarters of rundown due to weak industry volumes. We expect growth to accelerate in H2 driven by recovery in commercial vehicles segment.

2. Microfinance:

- September Collections in microfinance are at 91%. Collections recovery in Q2 got interrupted in August due to five key states re-imposing the lockdowns. However, we are now back on track as most of the country is accessible again. Collections in October have improved further to 93% and we expect this to cross 95% soon.
- Customers who have paid no instalments since unlock between May and September is just 0.8%.
- Collection efficiency in fresh disbursements in last couple of quarters is at 99.9% indicating no impact on credit behaviour of this segment.
- We are focused on continuous connect with the clients. We are able to conduct centre meetings in over 97% of locations. In parallel, we are also doing around 800 hours of calls through contact centre every day.
- Overall portfolio saw a decline of 5% QoQ due to lower disbursements vs historical runrates. Disbursements are however picking up and are at ~85% of last September. We are cautious on ticket sizes and geographic concentrations and disbursing only into groups & clients showing strong repayment record.
- We are scaling up Bharat Money stores and now have 21,000 merchants in our network. Our savings and recurring deposit penetration has improved to 36 mn and 19 mn customers respectively.

3. Other Retail Assets which is 17% of the book:

- Overall collection efficiency is close to 90%. Of this, secured assets like business banking and LAP have higher efficiency in mid 90s while unsecured loans are slightly lower.
- SME is a key focus area for the bank and we are seeing growth coming back in secured assets. I think this portfolio originated in current times will have good asset quality going forward and we are ramping up our acquisitions.

- We continue to be cautious on unsecured loans and these will remain <5% in foreseeable future. Collections are yet to get back to pre-covid levels and we would wait for normalcy before we press the pedal again. Unsecured retail however is small part of overall book and doesn't turn the needle materially for the bank.

4. Large Corporates:

- We progressed on fine tuning our large corporate book towards higher rated, granular and working capital exposures.
- Fee income has improved QoQ with bulk of the fees coming from annuity and negligible contribution from structured products.
- We reduced our concentrations through sell down / repayments for 1,900 crores during the quarter beyond scheduled payments resulting in large corporate book declining QoQ.
- Overall collection efficiency was close to 100 for September We are comfortable with exposures to NBFCs & HFCs. We are seeing stress in two real estate projects aggregating 500cr exposure. We may have to restructure or look for alternate resolutions for these projects which are however very well collateralised.

5. Mid & Small Corporates:

- Churn in small and mid corporates was over 95% in September implying business are almost back to normalcy.
- Collection efficiency was 95% for September. Collections were lower in segments such as education, services, food processing etc and are picking up with a lag.
- This segment has also seen liability build up with self-funding ratio improving from 59% to 71% QoQ indicating a healthy self- funding drive within this client segment.

6. Gems & Jewellery:

- This business continues to maintain its pristine asset quality with no delinquencies in the portfolio till date.
- Rough diamond business has picked up and will reflect in loan utilizations in coming quarters.
- Our exposure to domestic jewellery business is small.

On potential restructuring - Enquiries for restructuring so far have been minimal, however, it is too early and trend will be visible in the next 1-2 months. We will use restructuring only for viable customers with low expected delinquency. We will however make upfront provisions well in excess of regulatory norms to cushion for any downside. Our internal portfolio assessment indicates a low single digit restructuring in segments such as luxury buses, hotels, education institutes etc. We will be very selective in using these in unsecured segments. Offtake from ECLGS was just 1,600 crores giving us comfort on borrower liquidity.

Overall on the asset side, we are getting more confident on most of the segments we operate in. Vehicle finance has performed better than expectations. Additions to Corporate watchlist are minimal with some positive developments on a few existing accounts. Secured Retail is quickly getting back to pre-covid levels. While we are cautious on pockets of microfinance and unsecured retail, we have created significant buffers already as a prudent measure. The collection trends along with overall improvement in the economic activity gives us comfort to slowly accelerate our asset growth. We expect Vehicle finance, microfinance, secured retail and mid corporates to drive our growth in the coming quarters.

7. Now coming to Liabilities:

- Momentum in our deposit gathering accelerated during the quarter resulting in 8% QoQ growth with CASA growth of 9% QoQ. Retail deposits as defined by LCR grew by over 8,000 crores.
- Our cost of deposits has reduced by 15bps in Q2 and by 47 bps in H1 this year. This is despite offering higher rates for retail customers.
- Our digital acquisition run-rate is 2x of Feb while physical acquisitions are ~80% of pre-Covid levels. This reflects scope for further improvement as the Covid restrictions play out. 91% of FDs were digitally sourced.
- We were first bank to launch Video KYC across deposits and credit cards. We are also first to get certified as Financial Information Provider on the Account Aggregator framework. We have been ranked 1st on Digital Payments and Capabilities in Q1 and Q2 by MeitY – Government of India.
- We are scaling up our affluent banking segment with the Pioneer offering. The proposition is now well established and received by customers. NRV in this segment through a mix of upgrades from Consumer Bank and thereafter upsell, cross sell and new acquisition has helped the segment cross 40,000 crores of which ~60% is in deposits. NRV growth from fresh acquisition was around 4,000 crores for Q2. This segment has also seen good momentum in fees doubling QoQ and now running at a monthly runrate of 20 crores.
- We saw momentum picking up in our NRI segment in Q2 after a dull Q1. Our liabilities from this segment reached 21,000 crores with around 1,300 crores of new acquisitions in Q2.
- We continued investments in building merchant acquisition segment. We are acquiring ~30,000 merchants every month. Our focus is in the semi-urban and rural segments and we believe our deep geographic presence through BFIL & expertise in business owner segment will be key differentiators vs. the peers.
- We have reduced contribution of Certificates of Deposits to around 5% now vs. 10% in June and 15% in March 2020. Our borrowings are lower QoQ. Our CD ratio is also down to 88% vs. 94% last quarter.
- As a result, we are carrying surplus liquidity of over 40,000 crores deployed in reverse repo and excess SLR.
- While we have seen decent growth in Current Accounts in this quarter, we expect this to moderate a bit due to implementation of the RBI circular.

We have seen strong momentum in our deposits in the last couple of quarters despite the operational constraints due to Covid. We are resuming our branch expansion and also increasing market visibility through media campaigns. We had tactically raised our retail deposit rates in April. The inflow runrates and overall liquidity position gives us comfort to consider cutting deposit rates steadily from Q3.

Now coming to the financial performance for the Quarter:

1. Q2 witnessed steady operating performance with revenues up by 4% YoY and operating profits at 2,850 cr was up by 9% YoY. Our PPOP/Loans was healthy at 5.7% while PPOP margin before treasury income has improved QoQ.

2. Net interest income grew 13% YoY despite loan growth of only 2% YoY driven by falling deposit rates. While both cost of funds and yield on loans have moved favourably QoQ, our NIM fell by 12 bps QoQ due to surplus liquidity providing sub-optimal returns. We expect this to normalise as asset growth picks up.

3. Other income grew by 2% QoQ driven by strong recovery in core fees of 56% QoQ indicating activity levels are improving continuously. Non capital consuming fees such as distribution, foreign exchange and trade / remittances are close to pre-covid levels already. Investment banking fees remain subdued due to conservative stance and lower deal activity. We booked lower treasury income this quarter which was down 41% vs. Q1.

4. Operating costs were down by 2% YoY but inched up by 4% QoQ on a low base and variability linked to business recovery. Initiatives on fixed cost reductions in terms of premise rental renegotiation, I.T. initiatives on digital processes in our hubs, reallocation of some staff responsibilities are well underway. Our core Cost to Income before trading gains has improved 200 bps QoQ. We are rolling out annual performance appraisal actions for all employees shortly. Our employees have shown strong commitment to the bank in a tough external environment and this has been the most positive takeaway for me after taking over as the CEO.

5. Now coming to provisions.

    - Our provisions for the quarter were Rs. 1,972 crores.
    - Slippages during the quarter were just 399 crores. Even if we remove the impact of NPA standstill of 219 crores, slippages would have been 618 crores or 30 bps of loans – significantly lower than runrate in last few quarters. Our SMA2 book as of September 2020 was 10 bps. We had almost zero slippages from the corporate book in this quarter.
    - Furthermore we had negative net slippages of 567 crores (348 crores net of standstill). This was mainly due to 1) NPA recovery in a few corporate accounts , 2) Write off on a fraud account and 3) Some upgrades in Vehicle finance due to past due collections.
    - We have created additional Covid-19 related provisions of 952 crores during the quarter taking total Covid related provisions to Rs 2,155 crores or 1.1% of loans.

- We have increased our PCR outside of these provisions from 67% to 77% and this was prominent contributor to the credit costs for the quarter.
- Our provision coverage ratio including specific, standard and floating provisions improved significantly to 132% from 96% QoQ due to built-up in standard Covid provisions not counted in PCR.
- Our GNPA have reduced to 2.21% or excluding standstill benefit at 2.32% vs. 2.53% last quarter and Net NPA fell to 0.52% from 0.86% due to higher PCR Ratio.
- Our approach is to create significant buffers through PCR & standard contingent provisions. We will follow similar approach for a quarter or two depending on how Covid plays out and quantum of restructuring. A large part of this increase is to conservatively position ourselves and reduce risk to the earnings flow from next financial year.
- Our healthy operating profit margin can comfortably absorb these provisions.

6. Our PAT for the quarter was at Rs 663 crores. Our capital adequacy improved to 16.56% due to fresh capital raised and lower risk intensity QoQ. Our capital adequacy was higher by 15bps QoQ even without the fresh capital. CRAR including H1 profits would be 16.87% vs. 15.35% last quarter.

In conclusion, I think in H1 our focus was on balance sheet re-alignment. Having achieved this to a large extent, now focus in H2 will be on scaling up the businesses.

- We will continue strong traction on retail deposits with focus on client acquisition. Our Affluent, NRI, Merchant Acquisition business roll out is on track to meet the business plan targets.
- We are scaling up our digital distribution with over 90% acquisitions happening digitally. We are also shortly launching SME and used vehicle finance portals.
- Focus on collections will continue and nevertheless we will make another round of provisions to augment existing buffers.
- We are now ready for asset growth which will be driven by recovery in vehicles, microfinance and scale up of our secured retail and mid corporate book.
- Momentum on fees especially distribution and foreign exchange should see further traction in H2. We also have decent mark-to-market gains on our investment book.

With this, we can now start the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Two questions. One on NIM and one on the liquidity that you are carrying of roughly Rs. 48,000 crores. In what time is it going to be sort of running it down? Also, on your term deposit rates relative to let us say SBI for instance you were in January or December you would have been at 100 basis points spread. Today you are at around 140, 150 basis points.

So, in what timeframes would you look to sort of reduce that spread and to let us see what extent? So that was the first question on NIM. Second would be on ECLGS. If I got the amount correctly it was Rs. 1,600 crores, is it?

Sumant Kathpalia: Yes.

Abhishek Murarka: So that was the second one. First one if you could?

Sumant Kathpalia: Let me answer the NIM question, Abhishek. You are absolutely right. Excess carrying of cash is affecting our NIM and it has a 10 basis point impact on our NIMs because if you look at on an average increase of Rs. 20,000 crores on the Rs. 340,000 crores book you will have that impact on the books. I think the issue which you have to see is two pointed. One is, we will continue to source retail liabilities and we will continue to expand our retail liabilities and we will not stop the liability growth. So this is something which will focus on and we are going to continue to do that.

On the other side I have made a statement that our asset growth is coming back and in this quarter you will see a larger asset growth than what we have seen until now. And I think specifically in the retail segment in our vehicle finance, in our microfinance and in our secured retail segments you will see that growth coming back. And as a consequence I think some part of this liquidity will get utilized.

Having said that we are cautious about our term deposit rates and I have just made a commentary that in quarter 3 you will see us reducing the rates and we should get back in the gaps which we were talking about and in quarter 3 you will see the reduction in the rates and we are very cautious about and we are going to do that in quarter 3.

Abhishek Murarka: So at least the drag due to liquidity and higher TD rates, both of those should reduce let us say Quarter-on-Quarter from now on?

Sumant Kathpalia: Yes, it will take two quarters for the full effects to come in. You must understand this. It does not happen that even if I do it, the rollovers to the new rates will come over time. So it takes about one or two quarters for the full effect to come in and the asset growth even if it happens in quarter 3 the ANR effect will come in the quarter 4, not in the quarter 3 so much.

So I think the NIMs while we have always said it will be between the range will be range bound. I think the real effect of the NIM will start coming in the quarter 4 and beyond and I think we continue to maintain that our NIMs will be range bound and likely to be the number between 4.15% to 4.25%.

Abhishek Murarka: Sure and just squeezing in one more question here on provision outlook. I could not catch the last part that you said but broadly now that your expectation of restructuring is also relatively low and you are comfortable with asset quality both are coming back. So incrementally how much do you think what kind of run rate of the provisions or additional provisions do you expect to make let us say in the next six months?

Sumant Kathpalia: The reason why I said what I said is for two reasons. One is we want to be very conservative as we get into the next year because we are going to see asset growth and I do not know how the COVID will play out. And I think we want to be conservative. Second, I am doing a loan probability default type of a provisioning now and increase provision holding on unsecured, on microfinance and certain other products because I think what it does is it flattens your curve over a periods of time.

And I want to flatten the curve over a period of time rather than having one offs. So for example a microfinance business is affected by flood, natural disasters for example is affected by political situation. I rather keep a buffer in my book and provide for it and the cost may not come but I will keep it to take care of any significant events

I think anybody who say that he finalized his restructured assets already, I think he is incorrect. The ICA has to come into play in the restructured assets.

While I may know what I want to restructure, I do not know what the other party needs to restructure, and the ICA will have a place. While the enquiries are very, very low right now but I think that is why I said it is low single digit. I can provide 10% but I do not want to provide 10%. I want to be adequately provided in this restructure book and that whatever has to come through the COVID I would have already provided. Whatever I want to provide through the restructured I just want to keep a big buffer and get on with life. That is it.

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

Kunal Shah: So firstly, in terms of what you have highlighted the contingency buffer that we are creating. So last time the plans was may be against this we were expecting round about Rs. 1,300 crores odd and we created Rs. 1,200 crores. So what is leading to this increase to almost Rs. 2,100 crores incremental buffer which are there. So as you have highlighted would it be more towards the MFI unsecured that is what we have created is entirely towards compared to the last quarter?

Sumant Kathpalia: So you are absolutely right. I think we had provided when we talked about it, we had provided 3% for the microfinance business. I think in the microfinance business, I am not sure whether it will come, but I have provided a little because the collection efficiency was 91% and as of today also it is 93%. I have just been conservative in providing. Second, like I said to you before, I want to keep a loan probability default as an ongoing provision in the book and that is how prudent consumer portfolios work. And I am just keeping a provision.

Third, I want to operate with the higher PCR level going forward. And I think you have seen the impact of keeping a 43% PCR and I think we want to be benchmarked to the market and I think the market will continue to be above 70% for the next 12 months to 18 months also. And I do not think anybody will drop the PCR below 70%. And I want to maintain a higher PCR and I am creating the provision, rather than continuously impacting my profit going forward.

Kunal Shah: So if I heard you correctly whether 8% customers who have not paid even a single EMI in the MFI?

Sumant Kathpalia: Not as such, 80 basis points in microfinance.

Kunal Shah: So that is 99.2 which is there in your presentation?

Sumant Kathpalia: Yes, 0.8%.

Kunal Shah: But still we would have created a buffer out there may be even though we are receiving so that is how we need to read it?

Sumant Kathpalia: Yes, I have created a buffer. My collection cost on microfinance may not be more than 3% to 4%. But I have created that provision already. I wanted to create that provision. I do not know, it may not come at that number. But I have created that provision.

Kunal Shah: Okay and this would be through write offs or how would that be? So in deductions what we are seeing what is leading to this deduction out there? May be particularly on the corporates as well and our retail tax on corporates is it recovery and on retail would it be more of our write offs?

Sanjay Mallik: So Kunal, it is just provision. It is not write off in terms of what Sumant had mentioned. But in terms of the current quarter, we had high deduction because we had net negative slippages this quarter. So we had upgrades in our vehicle finance business because past due of customers were collected and on the corporate side, we had some recovery notably these are the accounts which we have discussed may be a year ago where we had some shares sales and we had some recoveries as a consequence of that.

And then there is a third component and I think all of you would be aware. There was this fraud which happened last year and we had provided for it over a four quarter period as per the RBI circular. And now we have written off Rs. 281 crores that constituted that fraud. That is like 100% provided now it is 100% written off. So these are the three key components of the deductions which has resulted in negative net slippages this quarter.

Kunal Shah: And if you can share the number in terms of our SMA1 and SMA2?

Sumant Kathpalia: SMA2 is 10 basis points and overall SMA1 and SMA2 is 33 basis points.

Kunal Shah: And one last question. In terms of this three-year planning cycle which used to be there now may be when do we actually see coming out with this three year strategy and what would be the key focus areas? Definitely COVID would have delayed a bit and may be under your leadership as to what are the key areas which we would look at and when we are expected to be unveiled here?

Sumant Kathpalia: So if the economy opens up and we see good economic indicators I think quarter 3 results you will see the specified strategy in real and if we can invite the investor community we will invite the investor community. Otherwise you will see it in quarter 4 depending on how the COVID plays out. That is the only thing which I am leaving behind. I think we are seeing the COVID playing out and we are waiting for that to happen to articulate a strategy.

For example, branch expansions. We had delayed on branch expansion already and because of the work force was not allowed to work in certain areas and it is becoming very difficult. We have 58 branches under construction, and we were not able to complete it for the last six months. So I think we are just waiting for some things to open up and I think now the things have started opening up. So quarter 3 results you will see the PC 5 strategy.

Moderator: Thank you. The next question is from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy: Sumant, I just wanted to know how do you define collection efficiency? So this is by value and not by volumes, right?

Sumant Kathpalia: Yes, by value. Total collections received over the total bill's due amount or the total dues. Total collected over total due is the collection efficiency. Very simple formula.

Suresh Ganpathy: Okay so you have not included any arrears from the previous month into the September number, right? So there can be a guy who would have taken moratorium in July-August?

Sumant Kathpalia: Please understand those arrears will not be outstanding. Please understand because we would have got capitalized and the tenures would have got extended. It will not be outstanding. So the only thing which matters and the 90 DPD will get classified only a guy who moves into X buckets and I have just explained earlier also. I think do not confuse on this, moratorium and all have no meaning now. What matters is what is your portfolio performance going forward and quarter 3 is when everything will get classified as NPA or not NPA.

Suresh Ganpathy: Yes, correct. So clear so this collection efficiency on the overall book I am not talking about only retail; retail, corporate, SME everything put together is 94.7% for the month of September?

Sumant Kathpalia: Yes, and we have uploaded to you data on our two big indicators which are livelihood financing. The way we presented last quarter data on microfinance we have also presented for vehicle finance. So these were portfolios, which was under doubt and we are giving you exactly by product what the collection efficiency is.

Suresh Ganpathy: So the overall book is 94.7%. Okay, so that is clear.

Sumant Kathpalia: There is only one thing which I will allude to, this is as of September 30th. As we talk this is increasing and as we talk we are already 95%-96%. So it continues. For example in credit cards you will continuously see an increase because it is cycle-to-cycle. So when you would have reported a September 30th data, it would have been 5 days of a cycle whereas the days in cycle-to-cycle and 30 days would have not passed for the cycle. So please understand when I say that.

Suresh Ganpathy: No, but for credit cards Sumant, you can just include the minimum due amount of Rs. 6,000 and then say I have collected the money whereas the total outstanding could be Rs. 50,000, right while reporting the collection?

Sumant Kathpalia: In fact it is nothing of that sort. Has the revolve rate for you changed in September is the question which will answer your question. So if you are changing the revolve rate, my yield would have been higher on the credit card business to 34%, 35%. I am down, I am exactly the same what it was in January, February.

Suresh Ganpathy: Sumant, one last question is of course you have done a very good job about granularizing the liability base focusing more on retail deposits. Is it possible to share the share of top 20 depositor concentration by the end of September compared to what it was as of March 31st, 2020?

Sumant Kathpalia: I do not think we share it on a quarterly basis, but it is going down. I can commit it to you that it is down from March 31st and like I said we see ourselves in the range of 16% to 18% which is what we should be.

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

Nitin Aggarwal: Two questions. One is like on the tie-up in Life Insurance space that we have done so what will be our distribution strategy now and now tie up large life insurer in insurance space. how do you see your bancassurance income panning out over the coming years?

Sumant Kathpalia: So bancassurance is a very critical component of our pie. And we believe it also adds stickiness to our client portfolio. We are seeing the insurance business coming back to pre-COVID levels and I think this is a business where we see scale up happening and I think with two prominent partners now in the fray like ICICI Prudential as well as Tata AIA both have very, very differentiated products. One is very good on a term product and the other is very good on ULIP. You will see excellent scale up of this business and we want to continue to grow.

I cannot give you percentages but what I had said is distribution fee it will continue to rise and consumer contribution to the overall pie in the near future should be around 55% of our Fee. So today it is 48%. This will get to 55%. Most of this fee will come from distribution products as well as from trade and FX in the consumer banks. So I think Consumer bank does not have so much of loan origination. Its focus is more on distribution and the trade and FX as of the component.

Nitin Aggarwal: I was asking on the current accounts. You mentioned that there could be some decline in current account because of the revised guidelines. Any color as to what can be the impact of this, and can we see some decline in the corporate loan book also?

Sumant Kathpalia: There will be pluses and minuses. I think to give an assessment right now may be difficult because it is under discussion with IBA. And all the current account regulations are being discussed. There is no clarity on how a dividend should be treated, how an ESCROW account should be treated. So these are not clear out of, these are special purpose accounts. So I think let the clarity come in. Yes, if the circular comes in to play, you know that the balance can only come to the CCOD account and it has to credit to the CCOD account.

So there can be an impact. As a consequence of that we have to just wait for the clarification to come in and I think there are some pluses, there are some minuses. We have to see. One of the reasons why we believe merchant acquiring business is so critical for us is and when you are capturing a very virgin territory is because we believe that the growth in the current account business from these types of businesses will be very, very high. And I think in a year or two times we will be talking a very different current account book which will be more granular and much more retail oriented as a consequence of these initiatives.

Nitin Aggarwal: So I was asking like recently RBI levied a penalty on the business supervision that is before FY19. So if you can share some color and what shall we picking to avoid such situations?

Sumant Kathpalia: So I have already issued a clarification. I think this relates to a financial year 19 inspection for a few procedural and interpretational issues. We have already corrected the processes and in fact we had confirmed that to RBI. This does not relate to asset quality related and no divergence. So this related to interpretational issue and we have corrected and gone with the RBI's view on that interpretational view.

That is what it is and I can give you an assurance bank is fully complied. I think governance and compliance is the most stringent and it is top on my mind and we do not want to compromise on any governance and compliance related issue.

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

Adarsh Parasrampuria: Question on the corporate banking Fee. Just wanted to understand how do you see it because when you look in the investment banking and the processing fee the intensity or the revenues have not picked up in the second quarter as well. First quarter is completely understandable. And from a cost of fund perspective how do you now position yourself on the balance sheet side of business as well in terms of loan growth do you see like a couple of years of consolidation or do you want to do BBB and may be cost of funds is not good enough to the AA and AAA assets? So if you can just give your outlook there.

Sumant Kathpalia: First of all I think that perception is incorrect that we do not have an AA and a AAA book. I think I do not want to give you any number but if you see most of my disbursements which has happened in the corporate bank this quarter has happened on A rated book and above and we are competitive on the interest rates. You cannot but not be competitive on the interest rates in the corporate banks.

Why we have not grown the corporate book is because we are rebalancing the book. And I have said that before in my calls and I am saying that again that we will continue to re-calibrate the book and that is what really balance your existing book and that is what has happened on the corporate side. Having said that I think there are few things which are different about us which I think the market knows about it but must repeat it again and again. One is our livelihood financing book is a very healthy book which is 48% to 49% of my book now.

And 42% of my book and it comes at a yield of about 15.5% and this book is very, very accretive to the bank. It gives me the liberty to continue to re-price and give pricing to my corporate side because I continuously feel that your book should be balanced towards corporate and retail, 40% corporate and 60% retail. And I continuously believe that may be 62:38 or 40:60 is the ideal mix which we continue to believe in.

Number two, if you look at our liability franchise, while our cost of deposit may be higher, I think, our cost of fund is attractive because livelihood financing creates refinance for me at a very attractive rate and I get refinancing from SIDBI, NABARD or international developmental associations and bodies at very attractive rates which is anywhere money between one year to seven years at 20% of my borrowing which is about 10% of my liability book or my overall liability.

This comes from this type of a scenario. And I think please understand I will continuously get that benefit. So I think we have a very, very healthy liabilities. Yes, we will have some spreads on the NIM as a consequence of growing the A rated and above books but I think that is the cost and I think that is why I said our NIMs will be range bound and we have done all our stimulations that our NIMs are range bound which can accommodate those type of scenarios.

Please understand going forward if we do what we are doing our provisions will also get normalized over a period of time and your ROAs and ROEs will be at a different level as a consequence. And I think our ability to absorb NIMs as well as absorb any lesser pricing will be very different in my opinion. And of course the cost of deposits will go down. We are dropping our rates. So we must tell you this that we are dropping our rates and we will get back to the levels which we were.

Adarsh Parasrampuria: I just had one follow up on fee part of corporate book because corporate book, corporate loan processing and more importantly investment banking fee which is completely dried in second quarter. So what is the outlook on that part of the revenue that we had say pre-COVID? It was like a good Rs. 300 crores, Rs. 400 crores run rate number that is like dried up. So I just wanted to understand where should this go?

Sumant Kathpalia: There are two reasons. One is lower deal activity in H1, and I think we were very cautious about the deal activity and also have been very selective in segments we operate in. I think the fee may increase but to come back to the normal level of what it was towards this I think will be difficult and that is why we said that our core fee in corporate bank will only be 22% of our fees.

We have always said that 20% to 22%. I do not think the fee of corporate bank should be around 2.6% of the asset book of the corporate. We do not believe in that. We believe the consumer banking and the global markets as well as the corporate bank should be a right mix of things and we are moving in that direction.

Moderator: Thank you. The next question is from the line of Ankit Ladhani from UBS Securities. Please go ahead.

Vishal Goyal: Sumant, this is Vishal here. So first question is on the overdue book. I think there were some discussion on SMA1. So SMA1 I am not sure that include retail etcetera. So if you were to see at the bank level what would be the 30 day overdue including retail etcetera? As of September and as of October, since October has also ended. Any sense on that?

Sumant Kathpalia: I have given you a number and I have said my collection efficiency is 94.7%. So that means 5.3% have moved into the next bucket. So please understand, there is nothing else which I can tell you. That is the book which is there, and I have given you my SMA1 and SMA2 which is of the corporate side.

In consumer side of the book there cannot be a 60 or a 90 DPD right now because all of that would have thrown in because you could know whatever was 60 or 30 would have flown in the moratorium time also because we did not stop the DPD for accounts which were already delinquent. And I would have taken that write off for them.

Vishal Goyal: So in October also the number would be same, or it would be improving or deteriorating?

Sumant Kathpalia: October the collections have started and we will get to know the number. I think the number would almost be the same. I think there has been an improvement and we believe that we are already at 95.5% to 96% already in collection. That is all I am trying to say that there is only an improvement in that number.

Vishal Goyal: And another question actually on the changes since you have actually taken over. So what are the changes you would have made? I am sure this question have been asked on multiple times but just to know what actually is happening on the corporate and risk side?

Sumant Kathpalia: First of all I think we have very focused on the rating of the books and that is why we are churning the exposures number now. Number two, we have created a portfolio management team under Sanjay Mallik which actually sits between risk and business and evaluate any proposal which goes to the risk and make sure that it is within the framework and orchestrate the strategy of the corporate basis how the business is being orchestrated.

I think that is number two. And I think number three, our exposures on high risk segments like real estate and other are being reduced and we are not doing any further increase of our exposures. We may be churning the exposure but not increasing our exposure. And they will only come down because there is no new risk as the portfolio increases on our book.

Fourth, I think our working capital component in our term loan book has become a very, very critical portion of our book. So I think in nutshell more granular, more secured and shorter duration are the three changes which are happening in the corporate bank of the book.

I do not think we had an issue on the risk side of the book. In fact to say that there were any changes I think the filters are the same. I think these directions from the bank was to do term loans and they did term loans. Now they are focusing on the working capital side and Ram would you want to add anything on this?

Ramaswamy Meyyappan: Yes, so basically we relooked at the way the environment basically, we relooked at concentration with the size of exposure. They are actually some lessons learned from the book that we have originated or where they come. Some of that related to some promoters having issues or share back pledges which we de-risked basically. We really do not have much in loan against share as a product.

Our capital market had exposures against our original limit is not only 40% utilized against mainly for brokers or routine investments that are there in our books. Not for any loan against shares. So there are clearly changes that we have made to the credit on the underwriting strategy as well as on the kind of books will originate.

We have a briefing that we put in place so that we have a clear understanding of what kind of exposure we take. We are looking at the rating profile, internal ratings. Internal as well as external ratings that we map to it. So there were changes, certain fine tunings which has been done but clearly both reduced the concentration of exposures.

Both at group levels as well as at individual levels and more clients and more granular thing and more working capital and now anyway the current account and other. It is better to be in the working capital cycles we have to have flow through the accounts and that is what we are focusing on. So clearly we are putting a lot of efforts and we have digitized the early warning system now we are using a very good technology there.

We are using more like the Malegam Committee recommendations on identifying frauds and others through same kind of technologies that are available. So lot of investment going to the system to also keep up with what is happening. There is lot of information we are just trying to make sure that we get enough red flags well ahead of time and be able to react to that.

Moderator: Thank you. The next question is from the line of Jayant Kharote from Credit Suisse. Please go ahead. We move to the next question. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Sir, one is that you in the statement said that we would be looking net growth in the second half coming in from the CV segment. So what is the reason basically if you look at your CV it remains subdued? So how are we expecting a growth from that segment and apart from that what are the other segments where we will be looking at growth in this kind of scenario?

Sumant Kathpalia: When I talked about the segment, I talked about the vehicle finance segment. And I have said two things. One is if you look at the non-CV segment which is made up of 5 products. The 5 products are scooter loans, car loans, tractor, construction equipment and affordable housing. I think the growth is coming back and we are seeing growth back on all those 5 segments and we are back to pre-COVID levels. Number one. Number two, CV cannot be seen as CV at one go.

I think CV has two to three segments. I think small commercial vehicle segment has been affected. The LCV segment is growing and it is back to pre-COVID levels and I think we are gaining market shares and we want to continue to gain market share in that business and we also believe that the MHCV in September has shown recovery and I think in the third and the fourth quarter there will be some recovery which will happen and I think if the COVID plays out and there is no second wave, we believe that that recovery will happen on the MHCV side also.

So that is where we are very confident on the vehicle segment and I think we have a market share in that. Having said that I think also the quality of the portfolio gives us that confidence that we should go ahead and do the business and expand the business.

Anand Dama: The CV segment is still seeing fresh utilization level is pretty slow even now. And given that how do we expect this segment will get revived? Are we really looking at the new CV segment or used CV segment?

Sumant Kathpalia: We have a balance book. We do near new, we do not do the 8 year old. WE are not capable of doing that business. It is a separate niche in itself and we do not have that capability to do. I think about 18% to 20% of the book is on used vehicle and we continue to believe that that should be the mix offer between the new and the used vehicle.

I think like I said to you before LCV is shaping up and I think the LCV growth is happening at a faster pace and we are gaining market share. That is number one. I think on the MHCV side I think while I agree with you that it is still at a lower levels but I think it will pick up and quarter 3 and in quarter 4 you will see a major growth in that segment and that is our view on that segment right now after having talked to the manufacturers.

Anand Dama: Sir, secondly on the restructuring pool. You said that the restructuring pool will be in the single digit. Can you expect that to be somewhere about 3% to 4% because that is the kind of guidance which we are picking up from lot of NBFCs and some banks as well. And the credit cost guidance that we had revised upwards recently about 350 to 400 basis points. What is your view on that now? Of course what we have seen in this quarter actually have improved.

Sumant Kathpalia: What I have told you Anand is very clear. It will be low single digit number. If I give you a guidance and that changes by 10 basis points, I will be held accountable.

I think right now why I am not giving you a guidance right now we have to see how the ICA plays out and I am not sure how the ICA plays out and because all corporates have to go through their ICA agreement and we have to see how it plays up. We have not seen so many enquires right now. But I think we have to keep an open stand to it. But I do not see that crossing a low single digit number.

Anand Dama: And third thing was about your collection efficiency which you said around 94.5% or so. So when you say collection efficiency it is only for the month of October, right. But whatever is you have not collected in the month of September?

Sumant Kathpalia: I have just told you of the month of September, 94.7%. The collection efficiency in the month of October while the October month is still not closed and month ends are very critical in collections. It is between 95.5% to 96%.

Anand Dama: So whenever collection efficiency, you will talk about in the month of October also. So whatever was not collected in the month of September that get billed in the month of October or that just goes out to raise a demand against that?

Sumant Kathpalia: No, what we will be able to tell you see what you are asking is a very different way of what. Please understand what I am saying. The demand is generated for both. When the collections guy goes He goes and collect both installments. What flows into 30 or 60 basis your roll rate basis on the portfolio.

So the roll rate on x bucket on 30, on 60 are different resolution rates and that is for roll rates basis. And those are roll rates into different buckets and we track those buckets very carefully. As a consequence, we provide provision and we have created our plan as to how we see our credit cost going forward and that is where we have kept the credit cost.

Anand Dama: So yours is basically you bill it for October month as well and that is how you are reporting the arithmetic in the month of October?

Sumant Kathpalia: Yes, of course. And you do not confuse DPD and collections are two different things. On DPD once it crosses 90 you have a provision and collection can happen after 90 DPD also. But please understand the provisions have to happen on 90 DPD.

Anand Dama: So our confusion was basically because there were some management who are talking about collection efficiency reaching 97%, 98%. But we were not sure whether they are including the collections it will not collected in the month of September and be included in the month of October or not? So there were different views which are coming out so that is the reason I was asking?

Sumant Kathpalia: We are talking net number.

Sanjay Mallik: We are talking net numbers that what Sumant mentioned about 95.5% to 96% which we will establish at the end of this month is the net number. So there is that 5% or 5.3% of September which was yet to be collected. The gross number will be higher. I hope that is clear?

Anand Dama: Yes, sure.

Sanjay Mallik: Vehicle financing incidentally on a gross basis is over 100%.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of MB Mahesh from Kotak. Please go ahead.

MB Mahesh: The provisions that you have reported in the presentation all of this provisions is outside of your calculation, right during the internal process as I guess?

Sanjay Mallik: Mahesh, I could not hear you but Rs. 952 crores is outside PCR. So we are sitting on in this quarter we provided Rs. 952 crores which is not part and parcel of our PCR.

MB Mahesh: And this specific provisions of Rs. 2,646 crores related to non-performing loans?

Sanjay Mallik: Those are NPA provisions.

Sumant Kathpalia: Those are specific provisions.

MB Mahesh: But if I look at the last quarter this number was Rs. 2,566 crores so this quarter it is Rs. 2,646 crores but the overall provision I think that the quarter is a lot higher?

Indrajit Yadav: Mahesh, we are not able to hear you but if I can infer from your questions that while we have made higher provisions there are also write-offs which reduce the provision. So the net addition that you have seen in specific provision is after the write off you have taken in the quarter.

Sanjay Mallik: I had referred to one write off also.

MB Mahesh: And the second question pertains to your telecom exposure. We have seen the reduction in this quarter so could you just give some color on it?

Ramaswamy Meyyappan: So on the telecom exposure we have earlier disclosed the part. We have Vodafone which is our largest exposure where we have about a little less than Rs. 1,000 crores funded exposure. There is no moratorium or anything that means everything reduced. Other is performance and bank guarantee which is about Rs. 2,400 crores. So just it is stable.

Our focus on Supreme Court order we believe that things are more stable at Vodafone than what was anticipated prior the Supreme Court decision. Yes, there is pending clarity required. They have already placed as per their own calculations more than what is due as of March. Anyway we have to wait for the DoT clarification on that. That is what Bharati Airtel is also indicated. They did show yesterday that the result which came out showed that they are getting a bit more subscriber base additions in the 4G bid. They are getting additions on CAPEX that they are growing.

So I believe that there is a fundraise also that they are attempting. So things are okay for now. We closely monitor the account and we will see how things pan out then. Other than that, we have exposure to the other two players Bharati Airtel we have some exposure to Jio and Tata which are all reasonably good companies in the sense we are in the deep pockets and no concerns there. We will continuously look to reduce our exposures etcetera as and when the opportunity arises but not really expanding any further.

MB Mahesh: My last question. If I look at the points in your note to account whether the Rs. 17, 600 crores of published number and the Rs. 4,419 crores at the asset classification benefit to exchanges. Can you just explain how do you define these two numbers?

Sumant Kathpalia: Mahesh, it is the book on which moratorium was granted and as of 30th September if it has account any overdue on SMA bucket even one day DPD we have declared that book.

Sanjay Mallik: Yes, for example, the interest due at the end of 30th September also to be counted. It is not a test of flow but that is the way it has been to be reported.

MB Mahesh: But this number pertains to March 31st or does it pertain to September 30th?

J. Sridharan: Basically, this disclosure is on February 29 what was the book that you had on which you have filled the moratorium. And what is the outstanding as on date today. So even after capitalization for example minimum due of portfolios we take as on 30th September. It would have been not serviced. They have got serviced in October. But on that particular day we have to take it to the account.

Sumant Kathpalia: No, I think bulk of this number comes from vehicle finance which is less than 15 days and gets collected in 15 days and that is the way we operate. And that the number which comes into the thing and just collected but do I have to report it as even if it is but the collections happens on that. So there is a difference between a DPD and a collection. And that is how it happens. So this is the way you report it. This is the RBI definition.

MB Mahesh: But when I look at your annual report it is around Rs. 25,700 crores but when I look at this disclosure it is different?

Sumant Kathpalia: It came down.

Ramaswamy Meyyappan: Some clients availed moratorium at the time now they have serviced on time after I think so. We will say bank's disclosure is quite different. Sometimes it has gone up because depending on which time the results were published and where we have recognized. Many different things you will see.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

Sumant Kathpalia: Thank you for participating in the call. I just wanted to apologize for the delayed start of the call. We were having a press conference and earlier to that the board meeting and that was extended by 30 minutes, so my apologies. I want to also wish you a Happy Dussehra and the festival season ahead. I think the festival season is starting and let us hope at the New Year dawn I think the COVID and the pandemic is behind us and we can look forward to a better next year and all of us are back in business and doing what we are supposed to do.

So thank you and any queries we are always available. Each one of you has access to us and we will contact you also and have these calls done for any individual explanation. Thank you.

Moderator: Thank you very much. On behalf of IndusInd Bank Limited, we hereby conclude this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.