IndusInd Bank Limited's Q3, FY 2014 Earnings Conference Call

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Moderator Ladies and gentlemen, good day and welcome to the IndusInd Bank Q3,FY 2014 Earnings Conference Call. As a 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 conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Romesh Sobti – Managing Director & CEO of IndusInd Bank. Thank youand over to you sir.

Romesh Sobti Good afternoon to you all. Thankyou for joining us. I think the 'Q3 Presentation' is already loaded on our website, so I presume that you got hold of it. Let me just begin with recounting of environment update, then we will go into the headline numbers, go into a little bit of details on them as well, and then we can end up with questions from you.

I think on the operating environment, clearly, one thing is for sure on the political side that this whole thing about economic reality becoming political reality has already come to play, and that was displayed in the results of the four states elections that happened. I think the major takeaway is that the remarkable progress made by a particular party in Delhi may have a sort of cascading impact on the rest of the country, and therefore the spectre of a possible hung parliament is sort of seems to be coming back, but that is of course yet to be seen.

On the economic side, I think the highlights of the quarter werethe RBI measures to stem the fall of the rupee, and the measures that they took have anchored the rupee at 62 with about $34 billion coming into the deposit pool of the banks. As a consequence the deposit growth this quarter for the whole industry shown a handsome growth of almost 16% compared to loan growth of 14.8%. I think the system CD ratios have actually come down from about 78% to 76%. There is some additional liquidity that has come into the markets as a consequence of the flow of FCNR money and also the Tier-I bond money that came in. The dreaded Fed taper finally crystallized and fortunately did not have too much of an impact on the rupee, because I think the impact was cushioned by the growth in the reserves. So worrisome feature of course is the fiscal deficit. I think by November end the government has already run up a fiscal deficit of 94% of its target. I think meeting the fiscal redline therefore remains a big challenge.The impact of this is really that over the next few months therefore the government clamps down on payments which are impacting industry in a big way and causing huge stresses in the industry will continue if they have to stick to their promise of not breaching the 4.8% target on the fiscal deficit.And finally I think RBI policy, there was a relief there; December 18 policy did not see further increase because, I think, it is on the back of the conviction that food prices had started coming off, and the index of industrial production was negative. So I think RBI going forward will be dictated by inflation, but we do expect even in the policy that is coming in this month that status quo on rates will probably be sustained.

Apart from that I think on the regulatory update there are two features which really point to the concern that RBI has started expressing on the stressed loan book of the Banking industry. One, they brought out discussion paper on revitalizing stressed assets where RBI is proposingto stipulate early warning systems.Second one of course is the financial stability report whichRBI put out in December last year and this report suggested the NPA stress asset position is really a cause of concern where the stressed asset book now at around 10% compared to about 9% a year ago. And it looks like it is going to be another 3 or 4 quarters before a reversal occurs. That is a little bit of the environment.

If we can go to our quarter results, I think the key messagesfor the quarter are that we have shown good results, 30% growth in our net profit, 37% growth in our operating profit despite the continued MTM losses. So MTM losses this year from the AFS and HFT books were Rs.37 crores and we also of course absorbed another Rs.27 crores on account of the mark-to-market on our OIS book which is our swapbook. So if we add them together we have absorbed Rs.54 crores on the mark-to-market totally. We have not taken into account an appreciation in the AFS book which amounts to Rs.35 crores. So that we have left intact, and we have not chosen to net off the mark-to-market losses against the gains. Therefore in spite of the Rs.64 crores hits that we took in on this account, we have shown 30% growth in our net profit and the growth is also sequential. So if we look at all the headlines, you have both Year-on-Year growth and sequential growth.Net Interest Income has come up at growth of 26% with sequential growth of 4%.But the Fee side I think was the bright spot, as it has been for several quarters now. Other Income grew by 35%, and sequentially it grew by 15% which is probably the highest sequential growth in fee that we have shown in several quarters now. The Core Fee Income also sequentially grew 10%. Therefore, the overall revenue is up by 30% and sequentially 8%; operating profit is up 37% sequentially 10% and net profit we have already talked about.

As far as the top lines go on the balance sheet side, the Loan growth was 24%, and sequentially it was 7%. So our ambitions of keeping the growth in the mid-20s seem to have crystallized. Of course, the mix of the Loan book has changed slightly;the Corporate Loan book grew much faster than the Consumer Loan book, and as a consequence of that the mix between the Corporate and the Consumer book has now moved to 53% and 47%. That is essentially because of the slowdown which we have seen in the Commercial Vehicles sector which accounted for about 20% of our total book. But we expect that and we will talk about it, but we do expect to see some uptick in Q4 and I think in Q1 of next year onwards, we will see a reversal of this balance between the Corporate book and the Consumer book.

Last quarter if you would recall, we had a sequential decline in our deposits because we had chosen to recourse borrowings which were much cheaper.So foreign currency borrowings on the one side, refinance on the second side and some market borrowings. This quarter of course we moved to raise deposits as well, and deposits sequentially grew 6%, but, of course we also grew some borrowings so that is what has helped us to maintain our NIM. So NIM is stable at 3.65% even though cost of deposits was up by about 17 basis points.

Talking of deposits, the CASA growth has also remained robust. We have a sequential growth of CASA of 7% and we have SA growth of 50% Year-on-Year which is really the bright spot on the balance sheet side. Sequentially,SA has grown about 8%. Borrowings, as I mentioned, grew sequentially by about 6%. So that is really the top line momentum.

Apart from this, I have already talked about breakup of the book, but the key financial indicators RoA has been sustained – stays at 1.74%, last year was 1.6%, and last quarter was 1.74%. We have improvement in the cost/income ratio. Cost/income ratio has actually fallen sequentially by about 75-77 basis points. So that is going on target, and our ambition on the cost/income ratio is that over time we will bring it down to 45%. Net Interest Margin as I already mentioned, is stable at 3.65%.

We will talk about the quality of the books in a separate slide.The loan book I have already talked about. In terms of the diversification of the Corporate Loan book, I think there is no dramatic change at all, likewise there is no change in the rating profile of our corporate book, and by and large it follows the sequence.

Going back on the CASA side, the SA accretion is a consequence of the New-To-Bank customer acquisition that has happened, and we continue to bring in 55,000-60,000 new customer accounts every month.

Other income I have already talked about which has grown 35% Year-on-Year and 15% Quarter-on-Quarter. If you look at the elements of the Core Fee Income then I think almost all elements have grown well in large double digit figures except for the Distribution Fees. Distribution Fees has been impacted as it was impacted in the last few quarters by the dramatic slowdown that we see on the life insurance.We have mitigated that by starting a new vertical which is the Health Insurance which was launched about 2 months ago and we can talk about what sort of traction we are seeing there, but Distribution Fee sequentially has grown by 3%.

Investment Banking Fee is also slightly lower than last quarter, but Year-on-Year still shows a pretty handsome growth. So, we are well on our way to achieve our Investment Banking targets.

In terms of yields and costs of deposits, as I said, cost of deposits moved up by about 17 basis points to 8.35%, but there was a very handsome increase in our yield on advances. Yield on advances moved up by 26 basis points. So yield on advances is now 13.76%. Therefore, the repricing initiative that we had taken in Q2 seems to have giving results now.

Coming to loan book quality and the credit costs, the credit costs has actually declined by 1 basis point compared to last quarter. So it is 12 basis points overall.Within that of course we have seen an increase in the credit costs on the Consumer Finance side in line with what we had predicted and sort of projected, but we will talk about that – I am sure there will be questions on that as well. But I think we are within the range that we talked about. The two ranges that we have given to you individually that the best case was always about 45-50 basis points and the worst case was 75 basis points on our Vehicle Finance and we are well within that range. And if you look at the 9-month credit cost, the 9-month credit cost is 36 basis points. So, we are well within our budgeted target of 60 basis points and the way it is going I think we will come up at a total credit cost of below 50 basis points for the full year. The restructured book is static at 31 basis points. Gross NPA is moved up by 7 basis points from 1.11% to 1.18%. But, if you really look at the numbers, net of the deductions then the numbers in absolute figures are still not so much material.

In terms of the Vehicle Finance NPA composition, there was a movement in the Commercial Vehicle side. Commercial Vehicle NPA moved up by about 20 basis points, but in other categories apart from Construction Equipment, in all other categories we saw a reduction in our gross NPAs. In this particular field, Two Wheelers were the sort of bright spot in a pretty gloomy sort of a situation in terms of growth and for two wheelers actually our gross NPA fell by almost 23 basis points. So a mixed bag, but overall I think still within our ranges.

Capital adequacy remains intact; we are at 13.28%, last quarter was 13.45% Tier-I, and therefore we havenot used so much Tier-I and Tier-I usage is well within the range that we said, we use about 90 to 100 basis points annually, but this quarter we seem to have used up only 17 basis points, in spite of showing a growth of almost 24%.

The branch expansion program goes apace. 13 new branches were opened in the quarter, but 40 are works in progress, and that should open in Q4, so I think we are on our way to hit our target of 620 or 625 branches which we had proposed at the beginning of the year. So that is really a summary of all the headline numbers, and we would like to open the house for questions.

Moderator Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal My question actually is on the provision coverage. What are your thoughts on maintaining a particular number or what number you particular want to maintain. I think you were maintaining like around 74-75 earlier then it moved to 80 and it is again down to 74. So is it to manage the profitability or profit growth or there is a number which you have in mind?

Romesh Sobti We have in mind the number of 100% provision coverage. That is our end target and we have always said that when we have the sort of bonanza we had in Q1, we will just put it into provision. So in a way you are right that we do not want to put those bonanzas to show spike in our profits and we will put it into provision coverage. But occasionally, sort of date will come around where we do not necessarily have to provide 100% and you will see slight movements in the provision coverage, but certainly I think our provision coverage will never fall below the originally stipulated 70% by RBI. There is no longer prescription on provision coverage. But certainly high provision coverage remains one of the priority items for the bank, and I think we will inch back to that number sooner than later.

Vishal Goyal The second question actually I have, can you give some color on the FOREX income which is very strong in this quarter?

Romesh Sobti Ya. Sure. We have Head of Global Markets Arun Khurana here. Arun, do you want to take that question?

Arun Khurana I think it has been our endeavor to sort of get deeper into the relationships that the bank has especially with the large clients and also enter into new segments. In the last quarter we saw a lot of dollar borrowings by public sector units and there were a lot of dollar inflows coming in. So we had a traction with these PSUs for the long-term hedging programs and we successfully sort of did manage to participate in those. In addition, we opened a new segment in consistent with our increase in our retail network to offer retail FX services to our clients across all branches in India, and with the help of technology we are able to service that well as well and add on significant amount of FX revenues on account on that. It is all a factor of deeper penetration into existing clients with a diversified client base now including domestic banks as well as public sector units, long-term hedges and the retail segment contributing large revenues in FX.

Vishal Goyal The whole of Rs.130 crores is customer FOREX,or it also has proprietary?

Arun Khurana Proprietary is the other line that you see,this is all client related FX revenue.

Vishal Goyal Can we say large part of it is still corporate or retail has become significant in this Rs.130 crores?

Arun Khurana Retail is significant. So we are basically around 50%, so it is half and half contribution.

Vishal Goyal So basically can we believe this stream to be sustainable here or basically will it be volatile, I am just trying to get a sense on that actually?

Arun Khurana This is client's base revenue so I would like it to be sustainable, I think it should be sustainable, but obviously, it has a lot of external factors. So if RBI does come out with some regulations you never know which way we could swing by. So that is the only thing.

Romesh Sobti But I think overall if you see last 4 quarters, there has been a pretty good momentum on FX. So it could partly be attributed to the volatility aspect but we would like to think that it is largely attributed to the fact that we have much wider and deeper coverage of the client base, and we have very sustained revenues now coming out of the Consumer Bank as well.

Arun Khurana So you have to plateau somewhere in terms of how much your balance sheet grows and how much you can service, yet we are in a growth phase. But to say that we are going to grow at the same sort of levels that we have grown in this Fee Income over what we have done in the last couple of years, I do not know, but there is a reason to believe that it is sustainable revenues.

Moderator We have the next question from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal My question is on Net Interest Margin. During this quarter the margin held up very well. In earlier call you had indicated that the volatility in the margin would be restricted to 10 to 15 basis points compared to a higher range in earlier cycle. So in your assessment what are the factors contributing to the reduced volatility in margins, and what is your outlook on margin going ahead?

Romesh Sobti So I think the factors are that how we mix our funding sources. So if you see Q2, we relied heavily on borrowings; we bought in foreign currency borrowings, we bought in refinance, and therefore, we reduced the cost of funds, although the cost of deposits was much higher. This quarter we have seen plateauing of the cost of deposits and cost of deposits also sort of in certain tenors came off. So this quarter therefore we have raised borrowings because we raised $300 million out of that FCNR and the Tier-1 window that was opened by RBI for hedging. But we also raised deposits, so we mixed the things well. That is how I think we are managing with this thing. So cost of deposits is one thing, cost of funds is another thing. So we managed cost of funds and that is how we keep it.Plus I think the margin is also a consequence of the repricing that we have done on the asset side of the business. So the repo hikes that have happened over the past 6 quarters, those have actually now dug in, and if you see we have raised our yield Quarter-on-Quarter.Our gross yield has gone up by 26 basis points, which on the entire book is quite a lot. So I think these two factors have helped us to maintain the margins and avoid volatility which we thought would happen. Going forward I think at least for a quarter or two the yields are going to sustain until and unless the RBI signals a drop in rates, but we are seeing a healthier pricing sort of profile on our deposits. So I would expect that either stable or upward movement in our NIMs going forward.

Manish Ostwal Small clarification, during your initial remarks you said there is no material change in the credit rating profile of the corporate clients. So I just want to know that the 35 basis points increase in the yield in Corporate Loan book, so what attribute because if the pricing are better during this quarter compared to last quarter or what played out here?

Romesh Sobti We increased our pricing for existing customers. So there was repricing of the loan book; large and small customers both were repriced across the board because that was the strong signal that came through. So it is a consequence not of the rating changes, so it is not that we have gone into low-rated customers with higher pricing, but the repricing has happened across the entire rating range.

Manish Ostwal On the branch side, you said the pace of the branch expansion slightly slowed down during this quarter, but you have a branch license in hand, so the target of 625 is intact and…?

Romesh Sobti No, it did not slow down because lot of the branches did not get commissioned, in the sense that they are works in progress. For instance, in the home markets, one of the home markets where we could not find premises and things like that, there was a problem with the state government and things like that. So that was there, so lots of them are works in progress and so we continue to aspire to get to a figure of 620 or 625 branches which is our original target.

Manish Ostwal But the OPEX growth slowed down to 22% from late 30% kind of range last few quarters, so that is why I am asking this question?

Romesh Sobti That is because the new branch opening that we have done, they are now maturing, and they have crossed the break even; break even happens in 12 months. So they are now contributing positively, number one. Number two, Cost-to-income ratio also consequence of revenue.So it is not only just cost management, it is also growth in revenues. So the growth in revenue has been higher than the growth in cost and therefore the cost-to-income ratio has actually fallen.

Moderator Thank you.We have the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah Again, coming on to the yield, even on the Retail side if we are really looking at the profile change, the mix change more in favor of the other segments like LAP and everything away from CV, there also is an increase, so I think overall may be the yields is something which is surprising. So here also maybe we have increased the rate what is actually leading to even on the Retail side there is increase on the yield?

Romesh Sobti LAP rates have moved up only marginally by 15 odd basis points, but essentially the yield on the Consumer side comes from our Vehicle Finance sector where the yield is much higher and, in fact, there is no particular movement.

SV Parthasarathy More on the mix, this quarter the increase has been more on Two Wheeler and other high yielding products.As a resultthere has been a marginal increase in the pricing.

Kunal Shah Overall now the outlook on the Commercial Vehicles side, you definitely mentioned, maybe today also we are comfortably placed within the best and the worst case credit cost, but how are you saying this entire industry evolving, how long would it take maybe to get back to the normal levels growth returning back, so if you can just share your outlook on commercial vehicle segment?

SV Parthasarathy Basically, this particular downturn has been fairly long. We did expect certain amount of corrections which should take place during the last quarter which is quarter ending December, but it did not take place. The excess capacity in the market according to me is more or less absorbed. The first correction we mentioned will be a portfolio correction. Therefore, I would rather believe that the quarter ending 31st of March, we would see that the asset quality will improve, albeit very slightly, and also it will also improve the credit cost. Second phase we do expect the market to improve only after the elections. But, for the quarter ending 31st of March, we could see certain amount of uptick in the Commercial Vehicles sales as well as the market sentiments.

Kunal Shah So may be the accretion to the NPL in this segment even in Q4 would be on a relatively lower side?

SV Parthasarathy Fundamentally, okay. We started the year with almost 1% and right now we are about 1.28% in the Commercial Vehicles segment which is fairly...but considering the overall situation in the market, the deterioration could be about 5-10 basis points that is the max we can expect. But I do not expect a very great recovery for the next two quarters. We would possibly stay in the same level of 1.25-1.3%.

Kunal Shah Overall, on this trading profit of Rs.53 crores if you can highlight what are the components of this?

Arun Khurana I think the market has given us an opportunity across all sort of asset classes and we have managed to run some risks which is parameters defined, so nothing really attributable to any particular asset class, it is overall I think across broadly all asset classes.

Kunal Shah This would include like debt, equity, FOREX, everything?

Arun Khurana We do not do equities.

Kunal Shah Here also is there the proprietary component of the FOREX which is actually taking it up may be what we had seen it on the client side. So, is it like majorly as you mentioned the proprietary on the FOREX gets classified over here, so is that bringing about that kind of a swing on a Year-on-Year basis and a Quarter-on-Quarter basis?

Arun Khurana Yes, it is actually across all the asset classes, it is nothing in particular on FX alone. So, FX, yes, is a part of contributing factor to the trading profits that you see, but then there is bond trading, there is OIS trading, interest rate and stuff like that. So I think it is pretty much based across all these.

Kunal Shah This OIS, say the loss which is there, is that the component of a gain also over in this…?

Romesh Sobti No gain. I think the point that I was trying to make is that if you look at the overall MTM impact which has depressed our profit that itself alone is Rs.64 crores, of which Rs.37 crores comes from the money market book and the GSecbook which is AFS and Rs.27 crores is the carry forward that we have on our OIS and the swap book. So what I am saying is that is a possible upside for us as rates downtrend. So our upside is not only on the NIM side, but there is a possible upside here. After absorbing this, and you know that last quarter on the AFS we had taken Rs.16 crores, this quarter we have taken Rs.37 crores. Even after absorbing all these I think the results reflect after this. So the depression that has happened. If you normalize it I think the growth is much better.

Kunal Shah So this would be net of the OIS loss?

Romesh Sobti Absolutely.

Sanjay Mallik Last quarter numbers would have been Rs.54 crores.

Kunal Shah Then that should have been Rs.54 crores and this would have been almost like Rs.80 odd crores?

Sanjay Mallik No, Rs.54crores and Rs.53 crores.

Moderator We have the next question from the line of Adarsh Parasrampuria from Prabhudas Lilladher. Please go ahead.

AdarshParasrampuria Just two questions here; one is firstly again coming back to the Corporate lendingside and just trying to tie that up with the sectoral data that you all provide on the Corporate book. I see large parts have Commercial Real Estate book, the share of those sectors have remained flat, but if you take 4-5 quarter view, you have generally seen lot more build up in 'BBB,''BB' categories vs'A' category. So just wanted some color on which sectors are, where the origination maybe (BBB-) that category the growth or the incremental exposure seems to be higher?

Suhail Chander While the sectors remain completely diverse, if you see that the line right on top in the sector allocation is lease rental discounting. Now that actually is not a sector, it is really a product. But we mention it there because there is a big chunk of our assets sitting there. But the risk on that is dependent on the lessees which come from all kinds of sectors. So that itself is a diversified book, so you will see that is where a lot of the increase comes from, and the rating of that product may not necessarily be 'AAA' or 'AA.'

Adarsh Parasrampuria Obviously, it is a secured product, but again it is…?

Suhail Chander Yes, correct because lessees can be from pharmaceuticals, they can be from IT, they can be from anywhere, or they can be MNCs, there are all kinds of customers there, and our product is predicated on the strength of the lessee. But the rating is not necessarily a function of the rating of the lessee, right.

Adarsh Parasrampuria Obviously, that book seems to have grown closer 2X?

Suhail Chander That is right.

Adarsh Parasrampuria The second thing what I wanted to check is we are seeing Vehicle growth come off and obviously some amount of momentum building from the Corporate side, so just wanted to get some sense on the growth outlook say for the next 12 months, how you all see things on the overall growth and probably some of the larger sub-segments?

Romesh Sobti I think over a 12-month period you would see probably a rebalancing of the book, in the sense that we should get back to closer to being 50:50 give/take 1 or 2% here and there. Because as Partha just mentioned, the outlook on the Commercial Vehicles side should start improving from Q1 onwards, it may take 2 years to build up the momentum. But that would sort of reverse this trend. So I think aspirationally we have always tried to balance this book and keep 50:50 mix and I think over 12 to 15 month period we probably will get back to that mix.

Adarsh Parasrampuria Just the last one from me,OPEX growth has been moderating now, and you had told earlier that a lot of the break evens of the past branches helping that. Just wanted to understand is this number now in terms of OPEX growth more a sustainable number like 20%-odd because these come down closer from about 30-35% to about 20% now. So is this number a little bit more sustainable number or do you think there is some aberration in 3Q and we go up again in OPEX growth?

Romesh Sobti The large CAPEX that we had to incur were incurred for instance on technology. We went live in December 2012 on our new core banking system. So that is now absorbed in the run rate. So we do not see any inflection points in the run rates for instance on technology. As far as OPEX goes, the branch breakevens are now reaching a stage that the ratio of the new branches to total branches is falling. When that happens, certainly OPEX takes a downward trend. So what we would like to monitor more than just the OPEX growth is the cost-to-income ratio. I think that we have demonstrated over almost 3-4 quarters now is in this range of around 47% and we would like downtrend in that range, and over a period of maybe 18-24 months or even earlier, we would like this to go into 45% range or even lower. Aspirationally, we have always said that I think for a balanced universal bank like us, cost-income ratio around 45% would be sort of an ideal ratio. So I think sustainability is around the cost-income ratio. OPEX will not see any large blips now and then. There is some balancing OPEX that happens on the IT side, but most of the OPEX that we will see now will be on growth of staff cost, and therefore the growth of branches.

Adarsh Parasrampuria So it would be safer to assume closer to 20s% than the 25-30% which was in the past because these one-offs have probablygone?

Romesh Sobti I would go back to say that it is safer to assume that our cost-income ratio will trend towards 45%.

Moderator We have the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani On the fee income side, FOREX is now the largest component around 31% of the Fee Income. Is it all flow-based income or is it some profit element involved, and most of it is like higher share of the wallet but including new customers or how is it moving?

Arun Khurana This is all client based income so it does not include the prop income. Prop income is defined in a separate category so that is the first answer. In terms of deeper penetration of wallet I had already mentioned so it includes deeper penetration of wallet, it includes new clients as well as new services or a new vertical in terms of focusing on retails. In terms of flow versus structured products it is constituted mainly of flow.So we have got around in terms of a percentage I would probably presume say safely around 65% to 70% flow and balance 30% as structured.

Amit Premchandani And sir in terms of general banking fees as the liability franchise on retail is kind of panning out well why is it not reflected in the general banking fees which is kind of flattish for the last four-five quarters it is not moving at all and the overall percentage share is also going down? So if this bank has been so successful in saving deposits and adding customers so it should reflect somewhere in the general banking fees, right?

Romesh Sobti One of the largest components of general banking fees is really the deposit fee so minimum deposit charges. So I think it is a reflection of the fact that our minimum balances have now moved up pretty significantly that is the fellow does not pay the minimum deposit charge. So our average ticket size for a savings bank account is now Rs. 42,000 or Rs. 43,000 and since we launched that new campaign on “My Account My Number” the average that we have got for the new customers that we have got under “My Account My Number” is Rs. 100,000. So these guys will not pay the deposit charges which are the minimum balance charges. Sumant, you want to add something?

Sumant Kathpalia Yeah. If you look at it overall, if you look at our fee it will be in the range of about 2% to 2.5% of the savings account fees. So if you look at it we are at the rate of 2% to 2.5% of the savings account fee for the last three quarters. Number two, I think our minimum balance charges has shown a declining trend because our minimum balance charges have disappeared as a consequence of high quality accounts and that is the consequence of your savings account balance sheet going. That is a conscious decision that we source high value accounts and we do not go in to low value accounts.

AmitPremchandani Sir, one question on the CV NPLs is it that you are not selling the repossessed vehicle and still showing it as NPL because the resale price have gone down significantly is it something to do with that the CV portfolio NPLs some moved up and earlier you were able to resale some of the repossessed vehicle and it has become much tougher now?

SV Parthasarathy There is no doubt that the resale prices have come down. Even when we sell it to an agency we will have to mark to the markets and therefore if you are marking to the markets therefore whatever is a cost which is involved we always absorb within the book. If you start looking at the history also we have been doing the same kind of selling it to asset reconstruction company in quarter two and quarter three.We primarily do this to tide overmarket related certain amount of business consideration with the ARCs.

AmitPremchandani So this quarter you have not sold much to ARCs?

SV Parthasarathy Yeah, we had sold close to about Rs. 24 crores exactly.

AmitPremchandani And sir, how big is the drop in the resale price say from Q2 to Q3 for say CV vehicles for the second hand vehicles?

SV Parthasarathy See it is a very complex question to answer primarily because it depends up on the area, it depends up on the model, it depends up on everything but the drop is anywhere between 10% and 20%.

Moderator Thank you. We have the next question from the line of Saikiran Pulavarthi from Espirito Santo. Please go ahead.

SaikiranPulavarthi Just quickly a question on the yields especially on the corporate book. I have seen a very sharp spike up in the last nine months. Can you just explain why it is so?

Romesh Sobti Yeah, that is repricing of the books that we mentioned because if you look at the last six or eight months, Repo rate has gone up by 150 basis points and I think that signal was absorbed by the banks.So on the corporate side therefore there has been a pretty steady repricing both on account of the increase in our base rate and of course the increase in the margin over base rate. So every time a facility comes up for renewal we have repriced and I think there was a strong repricing that happened post the July event when the carpet was pulled from under the seat of banks and a 3% hike of events happened over overnight. So we are seeing today the impact of that increase because we also pressed the pedal in terms of repricing of the asset book. So it is really repricing that has caused this. It is not the sort of loans that we are doing.It is the repricing of the existing book. So it is not that we are now doing more of the lower quality and all that sort of stuff. Repricing is happening across the board.

SaikiranPulavarthi Do you think there is further scope for a repricing in this corporate book or it is all mostly over?

Romesh Sobti No, I do not think there is actually. There is actually already at the upper end you are seeing some pressures on repricing downwards. So I do not think there is room for further repricing. And also I think that the repricing is not warranted because we certainly see that cost of deposit should be down trending now.

SaikiranPulavarthi And second question. I believe you had in your earlier comments mentioned that there is a significant growth in the two-wheeler loans which is happening. Can you just explain apart from the two-wheelers any other segments also you could see this trend sustaining in the next 12 months considering the other part of the major bouquet of showing some sort of a stress?

SV Parthasarathy Okay, fundamentally what we have been stating is that the commercial vehicle industry by itself also follows almost a regular cyclical pattern. For every four years to five years' time there is always a slowdown. Historically we had a 2008-2009 before that 2005 before that turn of the century and things like that. Whenever there is a slowdown the uptick after the turnaround is much stronger than the slowdown which we have seen in the past cases also. Therefore we have got reasons to believe that the market has been slowing down for quite long for your information close to about 15 months since the commercial vehicle recorded anything which is positive . Therefore there are strong signs that it is sooner than later that the industry should revive but I would personally think that the revival should take place sometime two to three months after the election which is closer to September. From September till March there could be a fair amount of improvement in the CV and the related volumes of commercial vehicles. Till then our base in cars are slightly lower therefore there should be an increase in car volume and the market is more or less consolidating as far as two-wheelers is concerned. Both the larger players are gaining market share. We have been gaining market share systematically every month and the portfolio has also started behaving much better. Therefore we should see that the two-wheeler growth, car growth should sustain for the next two, three quarters and the commercial vehicles will start later.

SaikiranPulavarthi And last question from my side. Can you just explain the thought process behind sale of your assets to ARCs.What is the thought process over there and what is the run rate which could continue some color on that?

Romesh Sobti The sale to ARC is really a function of couple of factors. On the corporate side, first of all, our record on recoveries in terms of what we have sold to ARCs so far is well over 100%. So we have recovered more than what we had sort of given in the security receipts. Apart from that we can give you instance of a particular account on the corporate side which was fully secured by the mortgage of a hotel where we could have possessed it ourselves but there was a huge reputation risk that could have been involved because we would be seen and it was a politically sensitive sort of a project. That is why we give it an ARC and it was recovered within 6 months. It has been fully recovered in fact. So that is the situation where we do not want to be seen as pursuing a sensitive recovery case where there are all sorts of linkages including political linkages. Secondly, I think on the vehicle finance side we have seen them their velocity of recovery is very, very good even in case of these ARCs. So when we are focusing more on the collection side of the business then we may choose to give this on repossessed vehicles to them and they have shown very good recovery. So there is no particular philosophy other than these two factors. It is a convenience in one case and of course in this environment a lot of focus is happening on collections. Collections for accounts which are not NPAs so those which have become NPAs you can pass it on to agency which also does equally a good job. That is the whole philosophy.

Moderator Thank you. We have the next question from the line of Rajatdeep Anand from ICICI Prudential Life. Please go ahead.

Rajatdeep Anand I think it is a good set of result in very challenging times. I think the only element of concern is the increase in NPAs which seems to have come from CVs. So I am just trying to understand if a worst of what we could have seen for CVs or can situation can further worse from here and I think Mr.SV Parthasarathy was saying that 1.3% gross NPA should remain like that. But can credit cost or can gross NPA itself in CVs can it go up?

SV Parthasarathy See fundamentally the credit cost - both the NPAs have deteriorated and the credit cost have also gone up. I mean the NPAs which used to be about 1% had gone to 1.3%. But if we start looking back not long time before we had the NPL in commercial vehicles to the extent of close to about 2% which has been systematically brought down to 1% on a regular basis quarter-after-quarter when the market was fairly good. Therefore even worsened situation it is about 1.3% I think not much of room for it to deteriorate further may be in the worst case scenario it can slip up by another 5 to 10 basis points thus far no further. But I do not see any great increase both in NPA as well as credit costs.

Rajatdeep Anand And just for our understanding I am trying to understand was November worse than October and was December worse than November or how was it like?

SV Parthasarathy On a month-to-month basis it is fairly difficult to say but December has slightly better than November.

Rajatdeep Anand And you think that going forward probably it can get better or is it getting worse like?

SV Parthasarathy Normally, miracles do happen so in a situation where there is a month end.Much greater miracles do happen in a situation of a year end. That has been mean for quite a lot of period of time and I do not think this year end would be something which has totally which could be totally different. The commercial vehicle industry by itself depends up on the performance of the manufacturing sector as well as other sectors which are connected more towards manufacturing and most of the manufacturing sectors will have quite a lot of year-end targets to perform and things like that as a result this has to do much better. I think normally the loads are much better in the period between January and March. The viability improves much better and there was a situation where two-thirds of the business used to happen in one-third of the time that is between January and March two-thirds of the business of commercial vehicle used to happen not long time back and if you start looking at any NBFC or any bank and things like that the most dramatic recovery in terms of the portfolio does happen between January and March. I do not have any reasons to believe that January and March situation could be worse than this. But this time the corrections may not be all that dramatic as it used to happen in the earlier years .

Rajatdeep Anand And sir, how does export growth overall for the county like if it picks up does it help CVs or there is not much linkage?

SV Parthasarathy See you are talking about the export of vehicles or you are talking about export as a country’s export in terms of the commodity and so many other things.

Rajatdeep Anand Overall exports I am trying to understand because currency is depreciated so we have become more competitive.

SV Parthasarathy Fundamentally any port operation improves vehicle viability whether it is in the import side and also on the export side. For the period we see a substantial decrease in import level which even for oil there has been a reduction in import levels.But exports has been taking off much better. Good export is much better environment for the industry.

Moderator Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha Just couple of data points. Just wanted to understand sir, of the CV book what is the proportion of used CV now? And if you can share what is the yield on the new CV as well as on old CV?

SV Parthasarathy See second is a reasonably market sensitive information which we do not share but nevertheless the used commercial vehicle is higher in terms of yield by about 200 to 400 basis points over the new commercial vehicles. That is the kind of a broad range which I can state . The disbursement of used commercial vehicles vis-à-vis the new commercial vehicles is anywhere between 18% to 20% for the current year on and on an asset level the used commercial vehicle is closer to 15%.

Anand Laddha And sir, if you can just on the ARC sale if you can just say how much of an asset sale could have been done in the first 9 months to ARC and what is the outstanding book currently?

Sanjay Mallik Yeah so we did Rs. 24 crores this quarter and Rs. 25 crores the quarter before and in the first quarter we had no sale. The total book is about Rs. 120 crores and this current book will actually come down by at least half in the next 6 to 9 months.

Anand Laddha And sir, last question. Sir, just if you can again share the breakup of the borrowing if I see a borrowing of almost like Rs. 14,000 crores in the balance sheet and breakup in terms of how much is the refinanced portion and how much is the FCNR-B, how much is the other Tier-1 borrowing?

Romesh Sobti Yeah, so roughly Rs. 6,000 crores is in the refinance side. Rs. 5,800 crores is refinance side. Then there is a foreign currency borrowing which is about $1 billion almost. So that is another Rs. 4,500 crores and then they have call market borrowings and the other borrowings. CBLO and little bit on call.

Anand Laddha And sir, what could be the average cost of these borrowings overall?

Romesh Sobti You ask for a lot of detail this thing but I think we had shared earlier that on an average the refinance is costing us around 8% to 8.2% level. Foreign currency borrowings are also in that same range 8.5% odd and CBLO is already known CBLO is at 8.2% or 8.3% and call of course we have a very small component which is around 8%.

Anand Laddha Sir, whenever in a quarterly we disclosed cost of total borrowing cost of funds this is that includes even the capital also that is why the cost of fund is lower than the cost of deposits?

Romesh Sobti Cost of funds includes everything.

SV Zaregaonkar All retained earnings are considered there.

Anand Laddha And sir, when you said FX borrowing as I understand we do not have an FX loan on the size so this is what FX borrowing?

Arun Khurana We do have foreign currency loans. These are foreign currency loans.

Moderator Thank you. We have the next question from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani Just one question on the mid corporate in the smaller businesses growth how do you see this going forward in the line of the overall economic environment and also the fact that I mean these are one of the major growth drivers today in the overall loan book of the bank. So are you willing to sacrifice the growth if you think that we are happy to grow at somewhat lower pace and not too much of whether to 24% to 25% number?

Romesh Sobti Yeah, I think we have always held that we are not dogmatic about the growth. I mean we have put up credit screens and whatever passes through the credit screens is our credit growth. We are not dogmatic. If it is 24% it is 24%, if it is 20%, 22% it is 22%. Now as far as the segmental growth is concerned whether the mid-market or a smaller borrower; the smaller borrowers are our business banking borrowers. I think only one thing you have to keep in mind that the quality of loan bookings is at lower underwritings that have been done today is actually much better than the quality that was done say 3 to 3.5 years ago. So whatever credit cost that you see on the corporate side in the mid-market is actually coming for those which are happened 3 to 3.5 years ago and not which were recently on boarded. So current onboarding actually is of much better quality and that holds true even forvehicle financing because today Partha would like to have 100% market share on vehicle financing especially on commercial vehicles because the quality of loans that are being done today probably will end up being the best in the portfolio. But other than that Suhail, you want to say?

Suhail Chander Yeah, the mid-market we have also said also is our sweet spot that is where we have a maximum cross-sell ability. As long as you are underwriting process and procedures remain robust and you pick up good quality credit we certainly want to continue to grow in that area and like Romesh said in the last whatever we have on-boarded in the last three years is not what showing stressed today and this is the most stressful time for the industry. So I think we have validated our on-boarding processes; we have validated our underwriting processes and of course we keep looking at them constantly to improve them further but actually it remains our sweet spot and this is an area we will continue grow in.

Hiren Dasani And on the corporate side I mean do we have any chunky NPAs during this quarter or it was more spread out Rs. 55 crores slippage?

Romesh Sobti It was spread out.

Hiren Dasani Do we have a kind of a pipeline number where we should be watchful?

Romesh Sobti We want to extinguish that pipeline. No, I think fortunately we are not seeing any large chunky this thing that we cannot digest. Of course there will be one or two accounts that keep popping up but fortunately they have in a sort of a range that we can digest. We can take them in our stride so even after providing or making an additions of Rs. 55 crores on to a this thing we still have I think enough left over to show in a net profit growth of 30%.

Suhail Chander We are in the lending business and we will constantly see some account or the other under stress. It is utopic to think that there will never be stress in the portfolio or there will be no stress. There will always be some stress in the portfolio it has to be looked at in correlation to the size of your portfolio as long as it is not abnormally large or it is not impacting you to an extraordinary event then it is fine. We have to live with it and manage it.

Hiren Dasani And any comments from the pipeline on the restructuring side?

Romesh Sobti No, restructuring we have had stability now for two, three quarters where we have not been involved in the large restructurings that have happened but smaller accounts if somebody, the lead bank refers it to CDR even if it is not an NPA with us we could have one or two accounts but I think in terms of basis points there is a movement of a few basis points 5 - 6 basis points. We do not see anything immediately on the horizon but something may popup so but we will still remain I think well within a range movement of whatever 5 - 6 basis points.

Moderator The next question is from the line of JigarWalia fromOHM Group. Please go ahead.

JigarWalia First question is on ourused CV book. How much could that be as a share right now and related is do we really see an increase in the supply from the large fleet owners in terms of supply of used CVs?

SV Parthasarathy Contrary to quite a lot of persons belief, whenever there is shrink in new CV volume,used CV availability also shrinks primarily because people do not get the expected price for the used CV as a result they have quite a lot of vehicles which are to be sold remains unsold. There is a deferment in terms of taking finance and also selling the vehicles. The market is also shrunk but in terms of used CV volume and used CV percentage we had already addressed it earlier. Our disbursement is close to about 20% of our total disbursement and our advance level is close to 15%.

JigarWalia And sir, are we seeing an increase in duration for particularly CV or construction equipment portfolios?

SV Parthasarathy Meaning?

JigarWalia On the new launch typically if you are lending for 3 years the incrementally because of asset prices going up without corresponding increase in freight probably security?

SV Parthasarathy See fundamentally what was three years in terms of commercial vehicle lending about 4 to 5 years before had corrected itself to close to about 4 years about 2 to 2.5 years before and that remains as 4 years. There I have not seen a market shift or a requirement for increasing the tenure for sometime.

JigarWalia My next question is related to our growth in advances which is come in to the large corporate and mid-corporate around. Just wanted to understand in the growth in the large corporate is it more like normal business growth or has it been there of some short term opportunities also?

Suhail Chander I mean short term and long term are both part of our normal business so I have to say that it is part of our normal business growth.

JigarWalia And sir, as far as a Rs. 55 crores corporate NPAs are concerned approximate in terms of how many number of account should be is it more chunky to what few accounts or will it be more spread out?

Romesh Sobti I think as we mentioned earlier it is spread out. It is spread out over a few accounts. Let us put it this way.

Moderator Thank you. We will take the last question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh First question is on the cost of funds. Given the way where we are currently do you see over the next quarter or so a decline in what has been reported in your balance sheet so far from a cost perspective?

Romesh Sobti Well, that is the way we manage our balance sheet and I think in terms of cost of funds we have seen the peak. Now we have to see the pace at which it will reduce and that is a consequence of how quickly the deposit rates will fall. For instance I would expect that if there is no change in the repo rate in the credit policy that is coming this month I would actually expect that cost of deposits will actually fall. Cost of deposits since flattened out in tenors from almost 30 days to 365 days. We have seen definitely interest rates come off from the peaks that we saw in July and August certainly; and therefore aspirationally we would want our cost of funds to actually trend downwards.

M B Mahesh The reason why I am asking this question is that you have seen a mix moving more towards the corporate side on the balance from a loan perspective and you have also indicated that you could keep margins at closer to current levels. Now if the mix is turning a little bit adverse on that side and cost of funds does not decline just trying to see where the scope is coming for a flat margins for the next couple of quarters or at least for the next quarter or so?

Romesh Sobti Soit is not going to come out of yields I think that we made clear in an earlier question. But of course yield will increased when the mix changesback from 47% to 50%, right? So the mix of corporate and consumer which means that disbursements on the vehicle finance side will start inching back to the peak that we used to have of Rs. 1,400 crores and once that happens the pricing mix will certainly change and therefore overall yield will hold up because yield will go in favor of the commercial vehicle side. But on the other hand we are hoping that see so far we have opportunistically used other sources of funding to reduce our cost of funds. Now we will use cost of deposits to reduce our cost of funds because we see a down trending in deposit costs. So I think margin improvements is a consequence one of the fact that yields will remain at this high level for a while. The yields will improve marginally as the mix between corporate and consumer goes back to 50:50 and also margins will improve hopefully as a consequence of drop in the overall cost of funding.

M B Mahesh A supplementary question on the margins again. The yield of the investment seems to have declined on a QoQ basis because there was nothing on from an interest rate market which kind of gives such kind of indication?

Sanjay Mallik No that is just a quarter end phenomena. That is not based on averages.

M B Mahesh Second question is what is the nature of this swap income that you have reported this quarter the provision what is the nature of this loss which has been reported? For what was it been taken in the first place?

Romesh Sobti That is OISswap.

M B Mahesh It was taken for?

Romesh Sobti OIS swaps.

Sanjay Mallik You are referring to the trading line Mahesh?

M B Mahesh No, this is the provisioning line of Rs. 27 crores the OIS was it taken on the investment portfolio or was it taken for the funding side?

Arun Khurana No, it just taken actually as the OIS by trading losses that we talk. But that is not the provision.

Romesh Sobti No, he is saying whether you used it for trading or for funding?

Arun Khurana No, so we have taken it as a trading thing.

Romesh Sobti That was the trading.

Arun Khurana Other Banks may have taken as funding and not provided for but we took it as trading and we are fully accounted for in our treasury income.

M B Mahesh One last question you have seen a good jump in the three-wheeler portfolio from a loan perspective. Is it that we have now increased our market share quite significantly over the last two quarters given the fact that the volume growth has not been too strong there?

SV Parthasarathy The market shares have increased significantly but the volumes are so low that the top players have all increase their market share. But market share has been increased significantly meaning it has been increased by about 2% - 3% or 3% -4% totally. We used to be close to about 8% to 9% on commercial vehicle we are about 12% now.

M B Mahesh In the two-wheelers is it more than about?

SV Parthasarathy In two-wheelers the market share has also increased substantially.We are slightly below HDFC in terms of volume but we are slowly catching up them. In a situation where we used to do close to about 50,000 vehicles average we are doing closed to about 65,000 vehicles average now per month.

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