IndusInd Bank

Q2 FY25 Earnings Conference Call

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October 24, 2024

Moderator: Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q2 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and 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 and CEO, IndusInd Bank. Thank you and over to you, sir.

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

Economic activity remained stable during Q2FY25, as fundamental domestic growth drivers of private consumption and investment demand remain resilient. The momentum was supported by rebounding of government consumption spending and capex after a contraction in Q1. On the policy front, RBI shifted the stance to Neutral while keeping the Repo rate unchanged, signalling that rates may be reduced going forward as confidence increases on the last mile of disinflation towards the 4% target. Looking ahead, India's growth story remains intact. Prospects of private consumption look bright on the back of improved agricultural outlook and rural demand while sustained buoyancy in services continue to support urban demand. Investment activity would benefit from consumer and business optimism, government's continued thrust on capex and healthy balance sheets of banks and corporates.

Coming to the quarter specific developments, the key highlights for the quarter were:

- Healthy Retail Deposit Accretion – Retail deposit mobilization picked up pace during the quarter with 4% QoQ and 16% YoY growth. We incrementally added ~Rs.7,700crores of retail deposits and consequently the share of retail deposits as per LCR improved to 44.1% vs 43.7% QoQ. Overall we maintained healthy deposit growth momentum with 15% YoY and 3% QoQ growth.
- Cautious Loan Growth Trajectory – Our sequential loan growth picked up from 1% to 3% QoQ, the YoY growth was at 13%. We have been watchful of developments in the unsecured products and had slowed down our growth consistently for the last few quarters. Last quarter too microfinance and credit cards growth has been subdued. We however remain comfortable and continue to grow our secured lending and Corporate franchise. Vehicle business outperformed the industry volumes. Diamond business too has resumed growth in the last two quarters while other retail loans maintained steady growth.
- Progress on new initiatives – Traction on our digital banking offering INDIE remains healthy and we now have more than 1.4mn accounts cumulatively opened on the INDIE app. Existing liabilities initiatives of affluent and NRI banking are scaling up well growing at 19% and 37% YoY respectively. Our home loan book crossed Rs.3,000 crores and grew by 28% QoQ. Loan book under merchant acquiring business grew to Rs.5,790 crores, up 18% YoY.
- Asset Quality –We maintained our focus on collections during the quarter. Our net slippages increased by Rs.222 crores QoQ largely from microfinance business. Our GNPA was at 2.11% and NNPA at 0.64% with PCR of 70%. Our restructured book continues to run down at 0.29% compared to 0.34% QoQ.
- Strengthening the balance sheet – During the quarter, we prioritised long term sustainability over short term earnings. We progressed on deposit

mobilisation despite slower retail asset growth contributing partly to NIM dilution. We also increased our contingent provision buffer from Rs.1,000 crores to Rs.1,525 crores during the quarter, purely as a prudent measure. Our credit costs for the H1 outside the increase in contingent provision was at 131bps, close to our stated expectation for the year at 110 to 130 bps. The RoA thus contracted to 1.00% which we believe is a transitory impact. We should get back to our steady state RoA once we resume growth in microfinance.

Now coming to individual businesses.

1. **Vehicle Finance:**
   - Our Vehicle Finance loans grew by 10% YoY and 1% QoQ.
   - Vehicle Finance disbursements for the quarter were at Rs.10,693 crores. Our diversification strategy is helping us in sustaining steady level of disbursements.
   - We have been able to maintain market share in most of the vehicle categories as is evident in the industry volumes vs our portfolio growth.
   - Disbursements / market shares have been stable in our large portfolios of Commercial Vehicle, Construction Equipment and Passenger Cars. Our market share was lower in 2-wheelers as we consolidated our presence and in tractors as we tightened our underwriting.
   - The gross slippages in Vehicle Finance were marginally higher at 0.77% vs 0.75% QoQ due to lower activity levels during monsoon.
   - The restructured book in Vehicle Finance also reduced to Rs.309 crores from Rs.417 crores QoQ with majority of the reduction due to upgrades and recoveries.
   - Looking ahead, vehicle demand is expected to gain momentum in second half, fuelled by festive season boost, resumption of government capex and improved overall economic activity with relatively better weather conditions.
   - The first half of the year is seasonally weak in terms of disbursements and asset quality for vehicle business. The second half of a year contributes larger share of disbursements as well as recoveries. Overall we expect to see improvement both in terms of disbursement acceleration and asset quality during the remaining part of the year.

2. **Bharat Financial Inclusion Limited (BFIL)**:
   - Outstanding loan book originated via BFIL now stands at Rs. 38,513 crores de-growing 9% QoQ.
   - As mentioned earlier, we remained watchful on microfinance disbursements, prioritizing collection in light of industry-wide challenges. However, our diversification into merchant business via BFIL, saw healthy growth during the quarter.
   - Consequently, the share of non-MFI book improved to 15% vs 13% QoQ.
   - Total liabilities sourced through BFIL now stand at Rs. 2,376 crores with 19mn SA and RD accounts.
   - <u>Microfinance</u>
     - We continue to follow our approach of disbursements led by acquiring new customers while being cautious on customer level exposure.
     - Our customer level indebtedness reduced 6% QoQ with average loan exposure per customer at Rs.39,685, amongst the lowest in the industry.

- We expect disbursements to improve this quarter but it may still be lower than our distribution potential as we remain watchful on the industry development.
- The microfinance 30-90 DPD book increased by 2.1 percentage points during the quarter given the sectoral stress. Gross and net slippages in microfinance business were at Rs 398 crores and Rs 355 crores for the quarter. This implies a net slippage ratio of 0.96% for the quarter.

- Bharat Super Shop i.e. the merchant acquiring business
  - We have now around 700k merchant borrowers under this program.
  - Our merchant loan book stood at Rs.5,790 crores with 18% YoY growth.
- Bharat Money Stores i.e. the kirana shop liabilities model
  - We have around 91,500 Bharat Money Stores providing banking at the doorstep in remote areas growing 22% YoY and 4% QoQ.

Overall, we believe the microfinance business is likely to see support from the rural recovery, industry level cautious stance and external disturbances such as heatwave, floods etc. getting behind. The sector is resilient and has bounced back after disruptions in the past. We do believe in the long term potential and our approach of being a conservative and diversified rural play should deliver recovery ahead of the sector.

3. **Corporate Bank:**
   - The Corporate loan book grew 16% YoY with growth continues to be led by granular mid and small corporates.
   - Within corporate, large corporates grew by 14% YoY, mid and small corporates each grew by 18% YoY.
   - The healthy growth in mid and small corporates continues with increasing coverage focus on this segment and focus on selected industry segments.
   - Sectors which saw growth during the quarter include Petroleum, Power Generation, Steel etc.
   - The diamond business reported another quarter of sequential growth. The asset quality in diamond clients remains pristine with no NPAs or SMA1 / SMA2 customers.
   - The proportion of A and above rated customers has been at 79% vs 77% YoY with weighted average rating improving to 2.47 vs. 2.57 YoY.
   - The slippages in Corporate book remain small with gross slippages of Rs.118 crores and net slippages of Rs.56 crores for the quarter.
   - Overall, we continue to progress on building corporate bank franchise focused on selective areas of competitive advantage with granular risk profile.

4. **Other Retail Assets:**
   - Our other retail assets continue to grow at robust pace with 21% YoY and 6% QoQ growth.
   - Our MSME book under business banking is at Rs.17,499 crores growing 14% YoY and 5% QoQ. New acquisitions momentum saw uptick with 35% QoQ growth driven by maturing of branch operating model & new product adoptions. LAP book maintained steady traction with 12% YoY growth.
   - Our Home loan product continues strong growth momentum with loan book now at Rs.3,009 crores growing at 28% QoQ.
   - We recorded healthy credit card spends at Rs.25,066 crores growing 4% QoQ. Share of unsecured card and PL has been maintained prudently at 5-6% of the loan book.

- Overall, we would continue to scale up our other retail assets at faster pace with focus on improving diversification of overall loan book while increasing the retail secured mix with home loans and MSME.

5. **Now coming to Liabilities:**
   - In spite of cautious stance on loan growth, we maintained our deposit growth momentum during the quarter with overall deposits growing at 15% YoY and 3% QoQ.
   - Retail deposit mobilization, our key focus area also saw growth picking up this quarter with 16% YoY and 4% QoQ growth. We incrementally added around Rs.7,700cr of retail deposits this quarter compared to average of Rs.4,400cr for previous two quarters.
   - Consequently, the share of retail deposits as per LCR improved to 44.1% vs 43.7% QoQ.
   - Cost of deposit increased by modest 2bps QoQ largely due to higher TD contribution.
   - We continued to scale our initiatives of Affluent and NRI during the quarter. Overall affluent segment deposits at Rs.56,900 crores grew by 19% YoY and AUM at Rs.94,000 crores grew by 27% YoY. We had another quarter of robust growth in our NRI segment with NRI deposits growing at 37% YoY and 10% QoQ.
   - During the quarter, we strengthened our Affluent franchise with launch of Pioneer Private, a curated offering for HNIs and UHNIs with over Rs.30mn net relationship value. We also rolled out our Community Banking program 'Indus Care' for Senior Citizens with a few unique propositions. We are seeing healthy early acceptance of these propositions.
   - Our reliance on bulk sources remains low with Certificates of Deposits at 3.4% of overall deposits and borrowings at 8% of total liabilities. Share of Top 20 depositors reduced from 17.4% in Mar-24 to 16.1% in Sep-24.
   - The liquidity position remained healthy during the quarter with average LCR at 118% and average surplus liquidity at Rs.48,500 crores for the quarter.
   - Overall, we are progressing on our journey of strengthening liabilities franchise with strong emphasis on retailization of deposits.

6. **Digital Traction:**
   - INDIE – the digital banking app of the Bank continued to scale during the quarter:
     - We have cumulatively opened 1.4mn accounts and completed 100mn transactions till date.
     - The platform sees almost 10mn transactions per month with active clients doing more than 40 transactions each month.
     - The app is now also open to all IndusInd Bank CASA customers – bringing a better way to Bank to all IndusInd customers.
     - More than 125mn personalised nudges happen through the platform each month leading to 2X YoY increase in Average Ticket Size.
   - IndusMobile monthly active user base increased to 3.2mn with recurring payments increasing 25% YoY.
   - We have launched a revamped investment platform on mobile banking and internet banking platforms, offering best in class personalised investment services, powerful features such as portfolio analytics, fund comparison, risk profiling, etc. These platforms are scalable, resilient and mar-tech stack enabled.
   - We went live with account aggregator model to offer personal loans leveraging banking data.

- We have also launched a new app for GIFT city clients during the quarter – one of the first banks in industry to offer this for GIFT city clients

Now coming to the financial performance for the Quarter:

1. Our Net Interest Income at Rs.5,347 crores grew by 5% YoY. The NII was impacted due to reduction in loan yields as a consequence of slowdown in microfinance as well as continued push on deposit mobilisation resulting into lower loan to deposit ratio.

2. Our cost of deposit increased modestly by 2bps QoQ mainly due to shift towards TD, while overall cost of funds declined by 1bps QoQ with benefits on borrowings.

3. As a result, Net Interest Margin moderated to 4.08% vs 4.25% QoQ.

4. Core client fees excluding trading & other income was at Rs.2,125 crores. We had large Priority Sector Lending certificate fees in base numbers both QoQ and YoY which was absent this quarter.

5. We continue to optimize our operating expenditures. The opex growth further moderated to 14% YoY vs 20% YoY in previous quarter. The sequential growth too was contained at 1% QoQ even after factoring in annual appraisal actions in Q2. The Cost to Income however inched up due to slower revenue growth.

6. The operating profit for the quarter was at Rs.3,600 crores.

7. On the asset quality and the provisioning front:
   - We maintained our steadfast focus on collections during the quarter while being cautious on unsecured loan growth.
   - Our gross slippage ratio was at 0.52% vs 0.49% YoY. The gross slippages by key segments were Vehicle Finance Rs.692 crores, Microfinance Rs.398 crores, Corporate Rs.118 crores and Other Retail Rs.590 crores.
   - The restructured book reduced during the quarter to 0.29% from 0.34% QoQ with bulk of the reduction due to upgrades and recoveries.
   - The Net Security Receipts have reduced to 31bps vs 39bps YoY and 32bps QoQ.
   - Overall, the GNPAs and Net NPAs were at 2.11%and 0.64% respectively. Provision coverage ratio at 70% was stable QoQ.
   - Our SMA1 and SMA2 book collectively was at 33bps.
   - With incremental contingent provisions added this quarter, total loan related provisions are at 2.4% of loans vs 2.2% QoQ or 110% of the GNPAs vs 106% QoQ.
   - Overall credit cost for H1FY25, outside the incremental contingent provisions were at 131bps. We have created incremental contingent provisions of Rs.525 crores during the quarter. This is purely prudent measure taken by us to further strengthen our balance sheet amidst the challenging operating environment.

8. Profit after tax for the quarter was at Rs.1,331crores. RoA at 1.00% declined sequentially as we prioritized long term sustainability over short term profitability. Profit after tax adjusted for incremental contingent provisions was at Rs.1,725 crores and adjusted RoA was at 1.29%. We expect to return to normalized RoA as retail growth accelerate.

9. Our Capital Adequacy Ratios of CET1 and CRAR were at 15.21% and 16.51% respectively. This includes impact of 78bps on CET1 due to increase in risk weights on microfinance loans from 75% to 125%.

Overall, to summarise the quarterly performance:

1. We maintained our balanced approach of prioritising growth in secured assets whilst being cautious on unsecured microfinance and credit card loans. The secured loans grew by 4% QoQ vs unsecured de-growth of 6% QoQ. We should see retail disbursements picking up in H2 with seasonality support.
2. We maintained traction on deposit growth irrespective of the slower asset growth. The retail deposit mobilisation was highest in the last 3 quarters along with only 2bps QoQ increase in Cost of Deposits.
3. Opex growth was well contained at 1% QoQ and 14% YoY against the mid-20s runrate last year.
4. Our asset quality trends have remained range bound in an otherwise turbulent operating environment. H1 credit costs outside the incremental contingent buffer was at 131 bps, close to our stated aspiration of 110 to 130 bps. The increase in buffers is purely a prudent measure given the operating environment and we don't expect the core credit costs for rest of the year to be materially outside our stated aspiration of 110 to 130bps.
5. Our profitability metrics were thus affected during the quarter as we pushed deposit growth even though higher yielding assets de-grew along with augmenting the buffers. We believe this is a transitory impact and we should head back to our core profitability once we resume growth in microfinance.

With this we can open for questions and answers.

Moderator: Thank you very much. We'll now begin with the question-and-answer session. The first question is from the line of Kunal Shah from Citi. Please go ahead.

Kunal Shah: First, broadly to understand on the MFI part, the rundown seems to be quite stark. If you can highlight in terms of how the disbursement run rate have been in Q1 and Q2, it doesn't seem there is significant write-off out there, but 12% rundown seems quite stark. And if you can even highlight the SMA-0-1-2 pool, particularly for the MFI, otherwise it seems to be controlled with slippages at less than Rs.400 odd crores.

Sumant Kathpalia: Let me first talk about the disbursements. Our disbursements in Q1 were around Rs.8,500 crores and Q2 were at ~Rs.7,050 crores against our average run rate of around Rs.12,000 crores to Rs.13,000 crores. As a consequence, our book ran down because the repayments are coming in higher than disbursements. The 30 to 90 DPD is at 4% in the MFI book.

Kunal Shah: So, on Rs. 37,000 crores in a single quarter, what would have been repayments.

Sumant Kathpalia: We had around Rs.9,600 crores of the repayment this quarter.

Kunal Shah: What would be repayment run rate in general on a quarterly basis. The way you highlighted disbursements used to be like Rs.12,000-13,000 crores.

Sumant Kathpalia: About Rs.9,000-10,000 crores is the general run rate on the repayment.

Kunal Shah: What was the write-off in MFI?

Sumant Kathpalia: We have written off about Rs.73 crores during this quarter. There was no sale to ARC.

Kunal Shah: And this entire contingency buffer, how should we read this is? Is it towards maybe any particular segment? It seems stress in the other retail is relatively on the higher side. Is it towards ECL which we have been highlighting? So, how should we read this buffer because I think maybe earlier you have been highlighting that we may create further buffers when profitability is there.

Sumant Kathpalia: No, we don't want to use the contingent buffer. This is a prudent measure which has been created to take care of any eventuality, whether it's ECL or if we see the credit cost rising at any point of time above our expectations. But today I don't think there is any need to use the contingent buffer. We just created it and set it aside. There is no specific reason for creating in this quarter. Only rationale for creating in this quarter was that we believe that the stress in the operating environment is building up. We saw some increase in the gross flows and we said we might as well increase the contingency buffer. So, it's only fortification of the balance sheet as of now.

Kunal Shah: And just last data point interest reversal number on slippages? Which number largely is impacting the margins or yield?

Indrajit Yadav: Net slippages have gone up only by ~Rs.200 crores QoQ. So, it's not very large number that has changed between the previous quarter and this quarter. Margin is predominantly impacted because of the lower microfinance contribution, almost 1% lower in the balance sheet and it earns around 10%-12% more than the average yield on the total assets. And the LD ratio has come off versus last quarter. So, those are the two primary drivers for margin compression versus the last quarter.

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

Nitin Aggarwal: Couple of questions. One is on the SMA-number that you talked about 30 to 90 DPD of 4% in MFI. So, how has this moved on a monthly basis and any ideas to by when do you expect this forward flow to sort of starting to reverse?

Sumant Kathpalia: We continue to watch the X plus flows and we have seen that it's improving. And as a consequence, we should see the forward flows also improving. Already in the month of October we are seeing some resolution happening in the X plus bucket. So, we should start seeing over a period of time a reduction in the 30 to 90 DPD. We believe that it should be less than 1% and it will come back to that number maybe in Q3 or Q4.

Nitin Aggarwal: And the other question is on the loan growth. Now, if I look at the first half, we have grown around 4%. So, how should we look at this growth because of the cautious stance that we have taken in certain segments? So, for the full year, how should we model loan growth?

Sumant Kathpalia: We continue to be cautiously optimistic about asset growth. We will continue to evaluate situation as we go forward. If we see that the market is improving in the microfinance and we also see trend in our own portfolio, looking at the center meetings and the quality of the book improving, we'll start disbursing at a faster pace. We'll continue to watch that space & decide. In vehicle finance, we have been ahead of the industry volumes, specifically in the commercial vehicles, construction equipment and car segments, not in the tractors and the two-wheelers. We have been a little conservative on these two segments. But as we have cleaned up our book on the tractors as well as the two wheelers, we should start seeing growth resuming. Second half of the year is much better in the vehicle finance. We also have to see how the vehicle market is. The market has been slow on the new vehicle segment. And we don't want to increase the share of used vehicles at this point of time, specifically in the commercial vehicle side. So, I believe that we should start seeing disbursements, which are higher. The normalized disbursement for our vehicle finance business is around Rs.12,000 crores. I think we are already there at Rs. 10,600 crores last quarter. We should move to Rs.12,000 crores this quarter because of the festive season, we expect a 10%-11% jump this quarter. And we should see the book growing as a consequence of that. On the unsecured side, we are comfortable with the PL side of the book. On credit cards, we will cautiously start increasing our volumes and remain watchful. On the corporate side, we are comfortable with the 16% to 18% growth and we should continue to get that growth. So, I believe the biggest part is microfinance, if it comes back to what it is, I think we should be able to get back to our retail growth. This year, obviously, I don't think we should be able to do 18% to 22%. Given what has happened in H1. We have to watch quarter to quarter and how the growth is moving. I can assure you that asset growth is a priority for us, and growth will improve because our LDR at 86% is not helping our NIMs as well. We need to move to 89% to 90% with asset growth improving across businesses.

Nitin Aggarwal: And lastly, on the contingent provisioning that we have made this quarter, so how do we plan to move like going further? Will we continue with this potential provisioning or is it a one-off that you have taken in this quarter?

Sumant Kathpalia: You should take this as a one-off.

Moderator: Thank you. Next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Sir, on your contingent provisions of Rs.525 crores, if I look at the SMA-30 DPD of MFI at 4%, it is roughly around Rs. 1,300 crores. While the slippages in MFI have been more or less, less than Rs. 400 crores, but the rise in SMA-is very prominent in this quarter. I wanted to check, is there any other segments where you have seen significant rise in the SMA?

Sumant Kathpalia: Only other segment which is a little bit worrisome is credit cards. While the delinquencies are showing a higher percentage, the flows have been stabilized. So, we are seeing a stable flow which is a little elevated than normalized levels and as a result higher delinquencies percentage. We are waiting for the delinquencies to start declining in cards. Otherwise on the MFI also, we have given you that our gross flows are around 3.5% to 4% but the credit cost has been contained as 3% to 3.5% and that's where we continue to believe that the credit cost should be maintained. So, while the flows are elevated in microfinance, we are also collecting money from these customers. We have put a lot of resources on the field and our cost has increased on the microfinance, but we are focused on the collection and all our energy & resources are put on the center meetings and making sure that the collection improves and the flow is reduced.

Jai Mundhra: What I was trying to understand is this, is there any proportion that this contingent provisions of Rs.525 crores is certain percentage of some segment or let us say, increased value in the SMA-book, in the sense that this is your assessment that and looking at the forward flow rate, how much of the 4% 30 DPD could likely slip and hence you would have provided against that?

Sumant Kathpalia: The contingent provision is a prudent measure. We don't intend to use it unless and until it's very necessary. We have always said that we have kept the contingent provision as the fortification of the balance sheet. Of course, if you ask me a question, most out of the Rs.525crores or at least Rs.250crores is kept for the microfinance business. So if there is any eventuality we may use it. But as of today, I don't see that we will have such flows that we may have to use that.

Jai Mundhra: And secondly, sir, on your fee income. So, over the last few quarters, while you mentioned in your opening remarks that to the extent slow growth was because of PSLC, but even otherwise, the fee growth has weakened quite a bit. So, how should one look at the fee income, which has been much lower than the loan growth? How should one look at this?

Sumant Kanthpalia: 2-3 things happened there. Like you rightly pointed out, in quarter one, there was PSLC fee of around Rs.282crores, which is part of the general banking fees. So, that's not there. Our treasury fee is a bit lower right now. Our treasury fees used to be a good component of our fees, which has gone down. The third fee which has gone down is the loan processing fee because of low disbursements. You should start seeing processing fees coming up as the disbursements improve. And the fourth fee which has actually gone down is the distribution fee including credit cards. Credit card as a business has suffered on fees because of some regulatory changes which have come in, including over limit charges or late fee or penal charges. I think all of that has impacted the fee to about Rs.100-150 crores a year.

Jai Mundhra: Lastly, if you can help with the 30-90 DPD number as of June quarter and if I am right, we have almost zero net NPA in MFI, that is the provisioning policy or if you can help us know the net NPA or the provisioning policy in the MFI book.

Indrajit Yadav: There is no zero net NPA policy as such. As you know, there are RBI guidelines basis the ageing of the portfolio and over a period of time, we provide it fully and write it off. We don't disclose segment wise net NPAs. We have given you the segment wise GNPA in the disclosure.

Jai Mundhra: And what was the 30-90 DPD as of last quarter in MFI?

Indrajit Yadav: It was around 2% last quarter.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from HSBC. Please, go ahead.

Abhishek Murarka: Just discussing MFI a little further. One is, what is your provisioning and write-off policy? Is it 180 days, or 240 days? When do you write it off and how do you provision?

Sumant Kathpalia: If you look at our PCR, it's at 70%. We provide 70% at the time of flow to GNPA and our write-off policy is 180 -210 days basis on the product which we do.

Abhishek Murarka: The other thing is what is the recovery that you see in MFI?

Sumant Kathpalia: Most MFI businesses have a recovery of around 7% to 15% depending on the DPD stage. So, early stages will have about 15% to 20% One-year older cases will have about 5% to 7%.

Abhishek Murarka: No, I meant, what is the recovery path. Not the number but from here how do you see let's say collection efficiency improving. Do you think it will happen by December? Do you think it will be February, March before disbursements pick up? So, what is the path of recovery from here let's say for the next two quarters?

Sumant Kathpalia: In my opinion, this quarter is very critical. We have to wait and watch and see how the disbursements pick-up this quarter. This is a festival season and these two quarters have always been very good quarters for MFI historically. Now given the stress which has appeared in this segment, we have to wait and watch and see how the MFI segment plays out. Also given the fact that few NBFCs have been restricted from doing new business or are not adding new customers. So, we have to wait and watch. There is stress which are emerging in some parts of the country, specifically Bihar, Maharashtra, Odisha, parts of North. So, you have to continuously wait and watch on this. Like I said earlier, we are cautiously optimistic on the microfinance. We like this business. We believe that this business will turn around once the disbursements growth resumes. And because we don't give disbursements to clients who are delinquent. In my opinion, if everything goes well, within two months we should start seeing the flow rates coming down in this business.

Abhishek Murarka: Just from a credit cost perspective, you said it is around 3%-3.5% in MFI right now. But if you see your 30 to 90 that has gone up by 2% and a lot of that is likely to probably flow forward into 90 plus next quarter as well. So, let's say 3Q and even part of 4Q, do you think credit cost in MFI would be higher? The rest of the sector is actually seeing much more increase in credit cost. So, just wanted to get a sense.

Sumant Kathpalia: We have put in our resources in the 30 to 90 bucket and trying to stabilize the flows right now. And 30 to 60 and 60 to 90 is a major focus area for us, where we are highly engaging with customers and getting the flow moved back. In my opinion, yes, historically we have seen 60% to 70% flows out of this into the NPAs. We think that it should reduce to about 40% to 50% and if we can roll back 10% to 30% of the customers, then we would have done a better job of this. So, we are optimistic that we should be able to manage the way we have been able to do it up till now, but I think we have to see how it plays out in the market right now.

Abhishek Murarka: Sumant, just if you look at the way credit cost may trend for MFI, and it's very highly likely that it would be higher than the 3% you were factoring in earlier, then for your overall 1.1% to 1.3% guidance, maybe for the next couple of quarters, do you see us breaching that because it will only come back within the guidance once this MFI thing normalizes?

Sumant Kathpalia: But we also believe that the credit cost in the vehicle business and in the consumer businesses could give me a relief for the MFI cost to be absorbed.

Abhishek Murarka: And second thing, Sumant is on margins. Now this quarter of course 4.08 and maybe one more quarter or two more quarters of stress in MFI plus the LDR staying low. So, do you think now at least for the next again six months, we are likely to see a lower range of margins, maybe 4 to 4.1 and then maybe go back to 4.2, 4.3 like we had earlier guided next year. So, is that how to think about the trajectory in margin?

Sumant Kathpalia: See, you're asking a very specific question. It all depends on whether the high yielding book of the bank takes off. If the high yielding book of the bank takes off, the margins will come. If you are dependent on a corporate book or a mortgage book to grow your assets, the margins will not come. So, in my opinion, our high yielding books which could have performed better is MFI book and the unsecured part of the book which is also not grown. Like I said in my commentary, we had a negative 6% growth in the unsecured part of the book. If we can moderate that to even 1 or 2%, I think the margin should stabilize at what we wanted to stabilize. If it does not grow, then the margin will be where it is. In that case we can also do another thing that we continuously grew our deposits to make our LDR lower and we may inch that up a bit. If we feel that our asset growth is not coming at the pace, we may even slow down our deposit. While we may grow retail, but we may slow down the non-retail deposit growth and get the LDR up to 87% to 88% to manage the NIMs at this point. This quarter, on one side the high yielding asset book went down, on the other side we continuously grew our liabilities, and that growth actually had the LDR impacted in a big time for us.

Moderator: Thank you. Next question is from the line of Suresh Ganapathy from Macquarie Group. Please go ahead.

Suresh Ganapathy: Just qualitative assessment because a lot has gone wrong the last couple of quarters. I mean, you always argue that you have lower exposure to Bihar, related to everybody else and some of the problematic states. And rightly, you always had a much lower ticket size in the MFI segment. Personal loans also not much exposure, but still 4% slippage ratio in the overall retail segment. Wouldn't you have anticipated this or what is the behavior of the customers? Why have banks got it wrong? I mean, this industry has got it wrong. But even you have had a problem, right? Could you have not got this a little bit better?

Sumant Kathpalia: There are two specific questions, and let me answer the microfinance segment separately and the personal loans or the credit card question separately. On the microfinance segment, if you look at us, we have been able to exit. We did not have a West Bengal blowout the way other players had. We did not have an Assam blowout. Currently in the Bihar stress also, we're not so much there. We have actually reduced our exposure in Bihar. So, we have always said that in microfinance segment, 3.5% to 4% of gross flows is given and you'll have a 2.5% to 3.25% of credit cost. It cannot run below that, and I continue to maintain it. There may be some quarters where you may have to take higher provisions but in some quarters you'll be able to manage that. I continuously believe that our microfinance book remains strong. Yes, the whole industry is going through a troubled phase because the funding cycle has stopped right now. And I think once the funding cycle comes in, you will see that the quality of the book will come back. Also, please understand, when you look at microfinance, look at the number of clients who are exclusive to you and which are not having more than one lender. Clients who are exclusive to BFIL are 44% of the book. Clients who have only one other lender than BFIL is 27% of book and clients who have 2 or 3 other lenders are another 21% of book. Only 7% of my book is where 4 other lenders or more are there.

Suresh Ganapathy: The slippage is 5%. You have had Rs.400 crores gross and on an annualized basis, that's around 5% number.

Sumant Kathpalia: I am just telling you, that is the market right now. You look at other microfinance institutions the slippages are higher right now. The market is like that because the funding has slowed down, there are no benefits which have been given to these guys. There has been stress in the rural economy which has come in. I think it will stabilize and in my opinion, you will see stability much faster than what we are anticipating. I am very bullish on the microfinance segment, and I think you will see the stability coming in very soon. Maybe Q3 or Q4, you will see a different microfinance segment and we will be talking a different story on microfinance.

Suresh Ganapathy: What about other segments? Because if I closely observe your construction equipment NPAs have gone up, card NPAs have gone up, three-wheeler NPAs have gone up. Even all other segments are contributing to stress, right?

Sumant Kathpalia: So, let's go step by step. If you look at the vehicle finance book, on the vehicle finance book, there are two areas. The construction equipment NPA is made up of two customers. Those two customers are expected to get reverse this quarter. That is the reason GNPAs inched up this quarter. We continue to believe we have a pristine book in construction equipment, and we should be able to manage that, and we should see the recovery this quarter on those accounts. We are seeing stress on the tractors and the two-wheeler side. Where we slowed down our business and we saw the stress much earlier, and our book has been running down on those segments. On the credit card side, I have always said that the gross NPAs flows are around 7% to 8% with the credit cost of 2.8% to 3%. It has remained at that level on the business, and I think the stress has not increasing but there is also not an improvement in the flow rate on the credit card side. There is no increase in flows, flow rates continue to remain elevated and has stabilized at an elevated level right now.

Suresh Ganapathy: This contingent provision has nothing got to do with an unfunded exposure to a telecom asset right? I mean or do you think it could also be earmarked to that?

Sumant Kathpalia: No, not specific to any account. We have created the contingent provision so that we can take care of any unforeseen probability which may come in our book or take care of the ECL as and when it comes.

Suresh Ganapathy: The issue is you could have done that previous quarter or quarter earlier because typically, contingent provisions are made in a quarter where you believe you have some excess profitability to provide for. Would it make sense to crash the financials and make a contingent provision because that's what has happened in a very tough quarter already you have gone ahead and made contingent provisions? So, maybe the timing is something which is curious to all of us. That's the only thing.

Sumant Kathpalia: That's anybody's guess. We would like to deliver a better Quarter 3 and a quarter 4. I know this quarter was bad and we may get beaten down but at least we have fortified the balance sheet, and we can move ahead. I think the Bank should be looked at from a long-term perspective. Yes, this year has been tough year on the loan growth side, but we will get back and in my opinion soon we will be talking a very different language. Yes, I admit that I made a contingent provision in a tough time, but I thought I would like to not delay the fortification of balance sheet.

Moderator: Thank you. Next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: The first question is with respect to the MFI loan book itself. So, what we see is that whenever the book is getting run down, the average loan per borrower, that number is coming. So, what kind of borrower that we are running down? So, also looking at the active Bharat number and the merchant loan client number, so quarter-on-quarter that number also has changed. So, if you could just know that you know what kind of customer we are not referring at this point in time in MFI technology?

Sumant Kathpalia: So, we look at multiple areas. One is certain districts in certain states which we are not preferring because of delinquency and leverage levels. Number two, if a center has a delinquency beyond a certain threshold level, we don't consider the center at all. And that is why the disbursements are lower. Third, if we feel that there is an over leveraging on the household income and the household income has changed very frequently by the customer, we don't go ahead. Fourth, if we think that the borrower has more than three lenders, we don't do the business. And fifth, if a customer has been more than 60 DPD with any one of the lenders we don't do the business.

Rakesh Kumar: And secondly sir when we are running down you know kind of a higher yielding book then what is the reason that there is a rise in the credit risk weight.

Sumant Kathpalia: The regulator has increased the risk weight on the full book of microfinance from 75% to 125%. So, the risk weights on the microfinance business has increased. That's an impact of 78 basis points on CET1 or CRAR.

Rakesh Kumar: And lastly, sir, just on this vehicle loan book, where the disbursements have been coming down for the last three quarters. And like around 70% of book CV plus PV, is kind of for the system also, if you look at the data, it's not good and there is a very low growth. I understand vehicle book is around 24% of book for us. So, how do we foresee the growth coming from this, one-fourth of the book?

Sumant Kathpalia: Please understand, the industry growth has slowed down. We believe that the growth should be coming back on this book. So, if you look at OEMs, some of the OEMs are showing a 2% to 3% growth. The growth in the industry sales has gone down where the data shows that too. In my opinion, for us there are two or three parts to it. One, the areas where we operate in tier 2, tier 3 or tier 4 markets, there is a demand which is coming back. We should see good numbers, specifically, in the second half, where demand is seasonally higher. Number two, the used vehicle, which is less than two years old for us, we are focusing on that. Third, a diversification which we have built in our vehicle book including the cars and the used car loan side. Also now we are growing the tractors and the two wheelers side after we have corrected our underwriting and credit standards on these categories. So, this quarter itself we should see the growth coming back in this businesses.

Rakesh Kumar: 10% is the growth that we have done YoY in this segment and how can we build it?

Sumant Kathpalia: Let us see the Quarter 3, and I will be able to comment post the Quarter 3, because festival season is an important season in this segment.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. Over to Sumant Kathpalia for closing comments.

Sumant Kathpalia: Thank you for participating in the call. I know this has been a tough quarter and some of you not may be very happy with the results. I can assure you that the Bank is well on track and whatever we have done is in the best interest of the long term for the organization. We should be back soon and where we belong and any questions which you have me, and Indrajit will be able to answer you at your convenience. Thank you so much.

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

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