IndusInd Bank

"IndusInd Bank Limited Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to IndusInd Bank Limited Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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, let me start with some macro commentary and then go into the Bank specific details.

Over the course of Q4, the economy was hit by a third wave of the pandemic, which ebbed by March, helped by improving pace of vaccinations. Latest official estimates suggest the economy surpassed its pre-pandemic size by end of Q4, with real GDP growth of 8.9% over FY22, as major components of GDP went past its pre-pandemic level. However, the pace of recovery got impacted by Russia-Ukraine conflict which sent commodity prices, including of oil, spiralling upwards.

India, however, is much better positioned to deal with negative external spill-overs. An improved macro-economic stability profile, government's capex push, external sector buffers and a broadly supportive fiscal and monetary policy environment, would help sustain recovery momentum. Much improved health of the banking sector, significant deleveraging by the corporate sector and gradually improving capacity utilization, reinforce the case for an investment cycle over the next 3-5 years.

Coming now to the Bank's performance. We completed 2nd year of Planning Cycle-5 strategy in Q4. I will spend a minute on PC-5 update before going into quarter specific developments. We have also added a few slides in investor presentation providing status update on PC-5.

- The financial year 22 proved to be a challenging year due to internal as well as external factors. While we saw spread of Covid second wave during the first half of the year, we faced whistleblower allegations in second half followed by a Covid third wave.
- The Bank responded with measures to address these concerns comprehensively through 1) slower growth in first half, 2) focus on collections, 3) building conservative contingent provisions ahead of slippages, 4) conducting internal and external review of microfinance operations and 5) maintaining traction on consumer, corporate and digital initiatives.
- With these concerns getting behind us, we steadily pivoted towards growth with loan growth improving every quarter from 3% in Mar-21 to 12% in Mar-22.
- We also progressed on our key initiatives for PC-5:
    - Retail Liabilities Surge: Momentum on retail liabilities was maintained with share of retail as per LCR increasing from 37% to 41%, CASA ratio improved from 41.7% to 42.7%, and top 20 Deposit concentration fallen from 22% to 17%. The CoD at 4.6% is at the lowest level in our journey over several years.
    - Fine-tuning Corporate Bank Approach: Corporate bank saw growth of 20% after last year's sell downs and net slippages of around 60 bps witnessing one of the best years in recent past. We have seen improvement in average rating improving from 2.76 to 2.69, granularity in fees and reduction in long term loans as shown in the investor presentation.
    - Holistic Rural Banking: Rural banking franchise saw scale up Bharat Merchant Stores, agri businesses along with recovery in vehicle and micro finance. These improved share of rural loans from 19% to 20% during the year.
    - Scaling up Domains: Our domains contribute 43% of the loan book and have outperformed the industry during Covid waves. Our disbursements in vehicle finance and microfinance have picked up well after brief slowdown due to Covid 2. Diamond portfolio too participated in strong growth in exports.

  - New Growth Boosters: We progressed well on scaling up our new initiatives such as affluent banking, NRI banking, tractor financing, small corporates with less than 500cr turnover, merchant acquiring, affordable housing and digital 2.0.
- Overall, we navigated an otherwise turbulent year with outcomes broadly in line with our communication throughout the year. We had consistent improvement in return ratios as well as growth metrics every quarter and our balance sheet continues to be at its strongest levels in last several years.

Coming to the quarter specific developments. Our focus areas for the quarter were:

- Acceleration in Loan Growth – We achieved 5% QoQ growth driven by 5% QoQ growth in Consumer and 4% QoQ growth in Corporate segments. The YoY loan book growth improved to 12% from 10% previous quarter. All retail products including vehicle, microfinance and consumer saw one of the healthiest disbursements ever during Q4. The corporate book has maintained steady momentum driven by small corporates. This broad-based disbursement growth was a key outcome for the quarter.
- Retailisation of Liability Franchise – Our deposit mobilisation continues apace driven by granular customers. Our deposits grew 3% QoQ and 15% YoY including CASA growth of 5% QoQ and 17% YoY. The growth in retail deposits as per LCR accelerated to 6% QoQ and 26% YoY. The growth in deposits is achieved along with reduction in cost of deposits by 6bps QoQ and 43bps YoY.
- Progressing on Digital 2.0 – During the year, the bank created digital centre of excellence investing in building new capabilities and talent base. We launched indus easy credit, merchant acquiring and vehicle finance portal and are being scaled up. The other two i.e. individual and SME offerings are planned for launch in current year. The digital transactions continue to grow forming 92% of total with strong growth in mobile transactions – up 33% and whatsapp banking – 2x YOY.
- Improving Asset Quality: We saw reduction in both gross and net slippages during the quarter across consumer, vehicle and micro finance businesses. Our net slippages have come down from 0.9% to 0.6% QoQ. Our restructured book was reduced from 3.3% to 2.6% QoQ and continues to perform well especially in vehicles. While we saw slippage from corporate restructured book, we have not written back any provisions from contingency buffer. Our GNPAs were down from 2.48% to 2.27% and Net NPAs reduced from 0.71% to 0.64% QoQ. Our contingent provisions are at 3,328 crores with total loan related provisions at 152% of GNPAs.
- Ensuring healthy profitability of the franchise: Strong retail disbursements and falling cost of deposits aided in improving our Net Interest Margin to 4.2%. Our client fees continued momentum growing at 8% QoQ. Our costs accelerated due to business revival as well as investments in technology and distribution resulting in Cost to Income increased to 42.6%. Overall, our operating profit margin remains healthy at 5.8% for the quarter.
- Steady Improvement in Return Ratios: Our Profit After Tax grew by 13% QoQ and 51% YoY to 1,401 crores. Our Return on Assets improved to 1.51% and Return on Equity was at 11.9% for Q4. Continued improvement in return ratios and lower risk density has ensured healthy capital adequacy ratio of 18.42% vs. 17.38% YoY.

Now coming to individual businesses.

1. **Vehicle Finance:**

- Our vehicle finance disbursements for the quarter were at 9,986 crores reflecting 13% QoQ and 19% YoY growth. Our full year disbursements at 32,000 crores surpassed pre-Covid levels despite weak Q1 due to Covid 2nd wave.
- Within vehicle categories, we saw healthy disbursements across commercial vehicles, Construction Equipments, Utility Vehicles, Tractors and Cars. Disbursements in two and three wheelers remain subdued. We have gained market share in light commercial vehicles, construction equipment, tractors and cars during the year.
- We have seen activity levels across our customer base increasing during the quarter. The vehicle supply constraints have ensured adequate capacity utilisations for existing vehicles. This has also helped customers to pass on increasing fuel price burden without considerable impact on their viability.

- The Small Road Transport Operator segment has seen good freight demand during last couple of quarters. The segment refrained from exuberant vehicle purchases since pandemic resulting in near normal capacity utilisations now. This should pave way for fresh demand once fuel prices ease down.
- Two of our weak product segments i.e. buses and three wheelers have also seen utilisation improving as Covid restrictions are withdrawn to a large extent. Three wheeler segment is quickly getting back to normalcy including demand for fresh vehicles after a long time. Bus segment too is expected to see fresh demand couple of quarters down the road.
- As a result, our vehicle finance restructured book has reduced from 3,769 crores to 3,298 crores QoQ. The collections from the restructured book improved further to 90% during the quarter. Collection efficiency from rest of the book is back to normalcy.
- Overall, we remain optimist about the vehicle finance business outlook for the current year. The segment has withstood increased fuel prices till now. We continue to add to our distribution, invest in our digital ecosystem and maintain rationale pricing to ensure growth with risk adjusted returns across the cycle.

2. **Microfinance**:

- We were cautious on the microfinance disbursements in Q3 due to potential third Covid wave, focus on collections and completion of business reviews. As you know, we shared findings of independent review in March. With these issues getting behind us, our microfinance disbursements bounced back nicely during the quarter. The microfinance book grew to 30,612Cr with 16% YoY growth.
- Our standard book collections excluding restructured loan book improved further to 99.1% in Mar-22 compared to 97.5% in Dec-21 while the collection efficiency of new clients sourced during FY22 was at 99.5%.
- The net slippages during the quarter were Rs 696 crores and cumulatively for FY22 were Rs 2,547 crores. This was broadly in line with our slippage expectations for the year which saw severe impact of Covid second wave especially in the rural India. We are carrying over 90% coverage on the GNPAs.
- Our 30 to 90 DPD book has fallen from 5% to 2.6% during the quarter. With this reduction in overdue book, limited impact of Covid third wave on the portfolio and focus on collections, we believe the credit cost in microfinance business should get back to normalcy soon.
- Our merchant acquiring business managed by BFIL has scaled up impressively during the year despite multiple macro-economic challenges. The loan book outstanding grew to 1,943 Cr from 1,463 crores QoQ. The number of borrowers under this book increased to 324,000 from about 260,000 QoQ.
- The merchant acquiring book has been consistently reporting net collection efficiency more than 98% for the past three quarters and the credit cost has been less than 1.5%.
- IndusInd Bank, through BFIL, has been taking banking to the doorstep of its customers and we feel there is a large untapped potential in terms of liability sourcing in rural India. While still small, we still are happy to share that we were able to mobilize ₹1,400 Cr from clients served by BFIL. We are looking at various means to reach the last mile and efforts are on to make IndusInd the primary banking partner for our valued customers.
- Overall, we believe microfinance business is steadily coming back to normalcy after a severe second wave. The activity levels are consistently improving and with expectation of another year of good monsoon, the business is expected to show steady performance in coming year.

3. **Global Diamond & Jewellery Business**

- The Indian diamond cutting and manufacturing industry had a healthy recovery during FY22 showing 50% growth in exports.
- Our diamond book too grew by 29%YoY on the back of strengthening exports and diamond prices.
- The business so far has not seen any material impact except for reduction in business volumes due to ongoing Russia-Ukraine conflict. As you know, we are working capital provider to the top end of the diamond and diamond studded jewellery manufacturing customers in formal economy. We are engaged with all the stakeholders and monitoring the situation closely.

- Our base case remains that the conflict may result in slower growth in diamonds business which although may not create an asset quality issue but may impact growth in asset and income in short term. The business however is only 4% of the loan book and thus overall impact on the bank should not be material.
- There has been no NPAs or restructuring in this segment.

4. **Corporate Bank:**

- Our corporate loan book has maintained steady performance growing around 5% QoQ consistently throughout the year. We had realigned the stock as well as flow of the corporate book towards revised underwriting framework. This has played out well during the course of year.
- The growth was driven by Large & mid corporate growing by 20% YoY. The growth was backed by increased disbursements and working capital drawings specifically in our strategic customer group. This quarter was characterized by high activity levels with good disbursements as well as prepayments due to deleveraging.
- Small corporates grew by 26%, albeit on the small base. These are corporates with turnover less than 500 crs especially in the SME, Supply chain finance program.
- The proportion of A and above rated customers has improved from 68% to 71% YoY with weighted average rating improving from 2.76 to 2.69 YoY.
- During the quarter, our corporate restructured book reduced from 17bn to 9.6bn. We saw restructured exposure in construction segment of 5.8bn being repaid. We also saw restructured exposure in a retail group of 1.4bn slipping into NPA and fully provided for. The restructured book also includes around 4bn from other entities in the same retail group which are performing as of now. The bank is carrying provisions towards these restructured as well as NPA accounts from retail group.
- Our exposure to stressed telco was at Rs 30bn as of Mar-22 which subsequent to the quarter end saw a meaningful reduction of 1,150 crores in April. Our exposure as on date stands at 18.5bn including fund based exposure of 10bn and balance non fund based exposure.
- Overall, we remain confident on the outlook for corporate banking credit growth. Our interactions with corporates do indicate rekindling interest in private capex. Government spending on infrastructure, manufacturing boost through Production Linked Incentives, rising new economy companies, stronger balance sheets etc - all point towards likelihood of fresh capex cycle across the economy. We, having weathered challenging times over last 1- 2 years, are now well positioned to capitalize the market opportunity.

5. **Other Retail Assets:**

- Our other retail loan book growth accelerated to 6% QoQ driven equally by secured as well as unsecured assets.
- The retail asset business saw recovery in disbursements post Covid in Q3 which was further strengthened in Q4.
- Credit Cards continued to deliver strong performance spends of 13,800 crores for March reflecting 42% YoY growth.
- Our business banking segment has shown 5% QoQ growth. We had been cautious on this segment due to Covid as well as loan pricing issues. We are now comfortable on both the fronts resulting in strong disbursements. Our new customer acquisition runrates nearly doubled from FY21 levels as COVID impact receded and distribution led strategy picked pace.
- The loan against property book also grew by 2% QoQ after being stagnant for a year. The growth was achieved both by increasing disbursements and easing competitive pressures on pre-payments.
- We expect growth momentum in retail business to continue in the current financial year. We do however remain watchful of inflationary economic conditions particularly on the unsecured consumption spends.

6. **Now coming to Liabilities:**

- Deposits grew 15% YoY driven by 17% YoY growth in Current and Savings account and Retail Deposits as per LCR grew by 26% YoY.
- The growth is achieved along with reduction in cost of deposits. Our cost of deposits reduced to 4.60% from 4.66% showing a decline of 6bps during the quarter and 145 bps cumulatively in 2 years.

- We reduced concentration of Top 20 depositors from 22% to 17% YoY. The Certificates of Deposits has remained a small component of 3% of overall deposits.
- Affluent segment total AUM stood at 60,000 crores including deposits of 35,000 cr. Affluent business also contributed fees of 350 crores for the year growing 50% YoY.
- Deposits from NR segment have been holding up well at Rs. 26,800 crores despite weak fresh NRI deposit inflows in the country.
- We resumed branch expansion after Covid-2 eased in second half of the year taking branch count to 2,265 from 2,015 from September. We plan to add another 200 to 250 branches during this year.
- Our Savings Account was also recognised as best savings product by Financial Express Best Bank Awards 2022.
- Our seamless client servicing with minimal client disruption throughout the pandemic was recognised by the Digital Banker Award for 'Outstanding Response to Covid-19'.
- Our retail deposit mobilisation has been a cornerstone of our PC-5 strategy. We have seen a sea-change in deposit franchise from deposit attrition in March-2020 to massive surplus in March-2022 coupled with strengthened deposit profile.
- Overall, we remain committed to liabilities led growth strategy with emphasis on retail deposits. The deposit mobilisation is likely to see increasing competition due to tightening liquidity as well as potential pick up in credit growth. Our investments in physical as well as digital distribution should help us maintain deposit momentum. The growth will also be aided by increasing market visibility as well as new segments such as agency business.

7. Digital Traction:

- The Bank has created a Digital Centre of Excellence and is taking a comprehensive view to deploy new age digital platforms and build end to end digital client value propositions.
- We have built new capabilities and infused a lot of specific talent in digital. We have setup a Digital Factory which is now a 100-member team across digital product, advanced analytics, digital marketing, digital partnerships, digital revenue & growth roles driving our digital agenda along with our technology partners.
- As mentioned at the beginning of the year, we are focused on 5 areas namely 1) easy credit for unsecured retail loans, 2) digital ecosystem for vehicles particularly in the used segment, 3) Merchant solutions app, 4) Differentiated payments and finance solution for individuals and 5) SME trade and credit stack.
- During the year we launched 3 of these 5 initiatives as follows:
    - IndusInd Easycredit for Individuals is one of its kind end to end omni channel digital journey. This solution provides instant sanction and disbursal capability enabling superior client, employee and channel partner experience. We already have close to 200 offline partners live on the platform and several online partners in the process of integrating into the stack. Consequently, 84% of the cards origination business is now digital; up from 37% a year ago. The cost of origination too is down by 60% versus traditional model. The stack will be soon extended to personal loans as well.

    - IndusInd Easycredit for Business Owners provides digital journey for MSME clients seeking secured / unsecured loans upto 2 crore. In a completely digital process, we are leveraging advanced analytics to give an in principle sanction to MSME clients within 15 mins for loans upto 2 cr in the form of unsecured term loans or secured overdraft. The stack will be extended to other MSME offerings as well.

    - IndusMerchantSolutions app is all in one stack for retailers bring their payments, lending and banking needs under a single umbrella. We went live in Q3 and are seeing a good traction already with close to 60,000 user base and 75% of users being new to bank and another 20% being existing clients of the bank wanting to avail payment proposition on the back of the digital merchant stack.

  - Vehicle business launched IndusEasyWheels portal which hosts ancillary services like road side assistance, mechanic services, insurance which is first of its kind in market. This portal also hosts the repossessed vehicles of the Bank for auction and provides a smooth user experience for anyone looking for pre-owned vehicles.

  - We are also proud to share that Easycredit was recognized as the "Best New Product Launch of the Year – Loans" by the Digital Banker at the Global Retail Banking Innovation Awards and Indus Merchant Solutions (IMS) was awarded the Outstanding Digital CX - SME Payments in the recently concluded Digital CX Awards 2022 held by Digital Banker.

- The other two initiatives of Digital 2.0 i.e. millennial and SME offerings are planned for launch in current year.

- During the year, we also strengthened our partnerships adding new strategic partners to our platform.

- Our mobile app continues to see strong user penetration growing by 20% YoY and our monthly active users and mobile transactions increased by 33% YoY.

- On whatsapp banking, we continued to see healthy traction with monthly active users and transactions both increasing nearly 2x YoY.

- Overall, 92% of the Bank's transactions are digital and nearly 70% of the service requests are processed digitally.

Now coming to the financial performance for the Quarter:

1. Net Interest Income for Q4 at Rs 3,985 crores grew 13% YoY and 5% QoQ in line with our loan growth.

2. Net Interest Margin improved during the quarter from 4.10% to 4.20%. The improvement was driven by continued reduction in the cost of deposits from 4.66% to 4.60%.

3. Other income grew by 7% YoY and 2% QoQ. Core client fees excluding trading income grew by 8% QoQ and 9% YoY. Share of Retail fees improved from 58% to 64% of total fees.

4. Operating expenses grew by 15% driven by recovery in retail businesses, investment in technology and distribution growth. Our branch network saw addition of 162 branches during the quarter taking branch count to 2,265. Our overall Cost to Income ratio increased to 42.6% vs. 41.6% QoQ.

5. On the asset quality and the provisioning front.
   - Our stressed pool has seen meaningful reduction which includes:
     - Gross and net slippage have come down QoQ driven by reduction in microfinance and vehicle finance. Net slippages for the quarter were at 0.6% of loans vs 0.9% previous quarter.
     - Our restructured book has seen a reduction of 1,359 crores and moved from 3.3% to 2.6%. Around 53% of this book originates from vehicle finance where performance has been as per our expectations with collection efficiency of 90% for March.
     - The Microfinance collection efficiency on standard book excluding restructured has improved to 99.1%. The collection on new loans in FY22 is healthy at 99.5%. The restructured book carries contingent provisions.

- Exposure to stressed telco has now come down from 30 bn to 18.5 bn along with multiple positive developments in telecom industry.

- Overall, the GNPAs for the bank moved down from 2.48% to 2.27% QoQ and Net NPAs were down from 0.71% to 0.64% QoQ with a PCR of 72%.
- While we saw slippages from restructured book during the quarter, we have made fresh provisions through P&L rather than utilising contingent provisions. Overall contingent provisions excluding specific provisions remain constant at 3,328 crores.
- Total loan related provisions are at 3.5% of loans or 152% of the GNPAs.
- Our SMA1 and SMA2 book was at 43 bps and 16 bps respectively. Collectively SMA 1 and SMA 2 have reduced from 84 bps to 59 bps QoQ.
- Net Security Receipts reduced marginally from 85 bps to 83 bps QoQ.

6. Profit after Tax for the quarter was at Rs 1,401 crores growing 13% QoQ and 51% YoY. Our CRAR including profits remains healthy at 18.42%. Return on Assets crossed 1.5% mark during the quarter and Return on Equity improved to 11.9%.

In conclusion, we completed second year of this 3-year strategy cycle. We have closed the year putting behind most of the internal and external concerns and steadily pivoting towards growth. While the operating environment remains volatile due to Russia – Ukraine conflict, we are committed to achieving our Planning Cycle 5 ambitions. Our priorities for the coming year would be on:

1. <u>Maintaining disbursement momentum</u>: Our areas of domain expertise i.e. vehicle, microfinance and diamond has seen good recovery in disbursements. The impact of increased fuel prices has not been evident yet including this month so far. Our corporate and consumer business too are contributing towards growth. Overall, we would aim towards achieving our PC-5 growth ambition of 15% to 18% compounded growth for FY21-23 period.
2. <u>Retail liabilities traction</u>: We continue to believe and execute on liabilities driven growth strategy particularly through retail deposits. We are investing in our physical as well as digital distribution to maintain our liabilities momentum.
3. <u>Execution on Digital 2.0 strategy:</u> We launched 3 out of planned 5 initiatives i.e. indus easy credit, merchant acquiring and vehicle finance portal. These will be scaled up during the year. The other two i.e. millennial and SME offerings are planned for launch in current year.
4. <u>Launch and scaling up of new initiatives:</u> We are adding new growth boosters across assets and liabilities businesses. Assets side should see launch of home loans, scale up of tractor, affordable housing, merchant acquiring and small corporates. Liabilities side will see scale up affluent, NRI, agency business, wealth management.
5. <u>Improving financial metrics:</u> We have aligned our balance sheet towards rising interest rate scenario. We will thrive towards maintaining our healthy NIMs and operating profit margins. The provisions should come down with Covid impact getting behind us. We believe the coming year should see underlying profitability of the franchise with improved growth.

We can open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Edelweiss Financial Service. Please go ahead.

Mahrukh Adajania: Sir, I just wanted to check on your outlook on margin?

Sumant Kathpalia: Mahrukh, we have always shared our expectations on two margin numbers, one is on net interest margins, we have given 4.10 to 4.25 and that is where we are overall for the year and we have given a PPOP/loans margin expectation of greater than 5%, we ended the year at 5.8%.

Mahrukh Adajania: And irrespective of the rate cycle that should be the margin guidance, correct?

Sumant Kathpalia: Yes. We believe that we would be range bound in these two margins irrespective of the rate cycle as of now because we have the ability to change the product or the portfolio mix.

Mahrukh Adajania: Just in terms of credit cost, obviously you are strengthening the balance sheet by providing more and not drawing up, but at what point in time when you start drawing down?

Sumant Kathpalia: We have to wait for the right time, we have not done it this quarter. Once we see that the flows are normalizing from the restructured book, at that appropriate time, we will take a call. It is also not necessary that provisions will be dropped, we may just keep the contingent provisions holding on. It depends on how we see the flows and we have also shared our expectations on the credit cost of 120 to 150 basis points and I think we will start seeing that range bound cost going forward.

Mahrukh Adajania: Sir, just a last question, you are sounding constructive on private CAPEX, which is not the case with other banks, so I mean when do you see that gain?

Sumant Kathpalia: We said that it will happen over a period of time. We have not said it will happen immediately. So while we see some green shoots coming up here or there, but I think the public CAPEX will come up before than private CAPEX, but we do see in private sector also one or two proposals keep on coming to us. We have Sanjeev Anand here, he can answer that question.

Sanjeev Anand: Yes, actually we have been speaking to lot of our clients and everyone over the last 4-5 months, I would say at least 60%-70% of the large strategic clients we spoke to have talked about CAPEX now because they are pretty much reaching their capacity utilization, so definitely in the coming 5-6 months, we will see big boost out there.

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

Kunal Shah: Firstly, in terms of for the entire deposit the way the environment is shaping up, liquidity is going to be tight and in fact many of them are raising rates as well, so how should we look at our retail plus CASA, no doubt you have alluded in terms of affluent NRI to be the focused segment, but how should we look at the overall retail and should we see like, there will be reliance on the bulk deposits, in case we get towards our growth guidance of 18%?

Sumant Kathpalia: We are very clear Kunal, we want to get our retail franchise correct and we have shared our expectations on PC-5 to be between 45% and 48% on retail LCR deposit ratio. I believe that we are on our way. If you look at our cost of deposit rates, we are still higher than the four private sector banks and I think we will continue to be in that range and I think while people may catch up, we have also positioned ourselves correctly. We are mobilizing deposits in the two year plus deposit bucket, and we have got some initiatives behind it to make sure that our retail growth in liabilities is enough to catch up. Our bulk deposits are today at 21% of our overall portfolio and we don't want to raise that. In fact, it may go down and we believe that we can maintain the margin and the NIM in the range which we have set.

Kunal Shah: So overall, even in raising interest rate environment the way our book is more skewed towards say the fixed rate given the vehicle plus may be on the MFI, still we would be confident in terms of no impact in terms of the late repricing being there?

Sumant Kathpalia: See, what happens is, if the interest rates are rising, the MCLR or the external benchmark rates also rise. So there may be 30 to 60 day gap, but we may catch up with that over a period of 2 months or 3 months. That is number one. Number two, the new fixed rate book, we are seeing a cautious rate increase happening in the vehicle finance segment, what has gone down to 7-7.5% is now at 8-8.5% and this is happening already on the commercial vehicle side. Number three, the mix of the fixed rate book is also changing. So on the vehicle side, for example, used vehicles and used cars are coming up to make up the mix change. In microfinance, we are diversifying the microfinance into merchant acquiring business with ~2000 crores of portfolio. So you continuously change the mix to make sure that your margins are taken care of.

Kunal Shah: And in case the environment gets tight in terms of deposits and mobilization of the deposits, what would be our priority, would it be in terms of sacrificing some growth retained in the margin or may be investing more in terms of the scaling of the franchise and still try to get towards the growth guidance which is there?

Sumant Kathpalia: I think we are looking at long term and we will continue to scale up our franchise. We will continue to invest in our franchise. We are going to launch our new initiatives on the liability front which is on the digital capability completely and hopefully we should be able to launch in the next 7 months, which should give another input to our growth in the liability business. So we are cautiously doing a lot of things to make sure that we are ahead of the curve in liabilities and we move ahead because we have been a little bit behind.

Kunal Shah: And one last one in terms of MFI, how is the leadership of that now post may be we saw the change which has been there and how should the entire business be now driven going forward?

Sumant Kathpalia: I have answered this question before also and I have said that we have a very strong succession planning in place to take care of any leadership issues which may have come in the microfinance segment. So like I said, we have put an executive vice-chairman, J. Sridharan who has managed the business well. We have not hired a CEO till now for BFIL, but each business segment there has a distinct CEO and has been able to manage things. We are still contemplating whether we need a CEO on top of the three CEOs and executive vice-chairman. So I think the way the business has stabilized, we did not feel the need for it right now, though we have two external candidates. Secondly, I think on the processes on the governance side, we had our internal member, Srinivas Bonam who is actually from the microfinance industry who brought stability into the operations and the whole financial accounting and the operations bit of it. The first thing which we did was, we in-housed the senior management team into the Bank and I think that has created a lot of stability in the workforce and there is an opportunity for others also to move inside the Bank without taking away the agility of the microfinance industry. Having said that, if anything to go by then this quarter has been a representation of how microfinance will look, there has been very good growth quarter-on-quarter and year-on-year on this business. We believe that this business will continue to grow at about 27% to 28% year-on-year and we believe that the issues of quality of the portfolio are behind us and we should come back to 2.5% +- on the credit cost. Having said that, I also must compliment and confirm that MR Rao played a very constructive role with us. As a consultant, he guided us during this time and his term ended with us on March 31st. He continues to be available if we require him, but with the mutual consent we ended the term as of now since the work is done and we can continue to focus on building the organization. So that is where we are and I think the organization is now pivoting towards what it was supposed to be, Process Driven Technology Led Group as we go forward.

Moderator: Thank you. The next question is from the line of Manish Shukla from Axis Capital Limited. Please go ahead.

Manish Shukla: Firstly, on credit deposit ratio, you are significantly below where you were earlier and much below PC-5 target also, so how do you see credit deposit ratio moving for you?

Sumant Kathpalia: This is a cautious call, I think at one point, we were 116% to 118% and we were beaten down. We have always said that our target is to be between 88% to 92% and we will get there as the credit growth comes back. As we are pivoting towards growth, you would see up moving to 88% to 92%.

Manish Shukla: And what part of the asset book would be floating in nature for you today?

Indrajit Yadav: Around 50% is fixed rate as you know, the vehicle finance, microfinance and credit cards. Balance 50% is predominantly corporate which largely is a variable rate book. Within that also, there is a short-term book which by nature is a floating rate, so broadly 50% of the book is fixed rate, balance is variable.

Manish Shukla: And the fixed rate book, what will be the average tenure?

Indrajit Yadav: In the fixed rate, vehicle finance business, average tenure would be around 24 to 26 months, microfinance is typically our year book.

Manish Shukla: Last question is the fresh additions of NPA of 1742 crores in consumer can you let it across segments?

Sumant Kathpalia: The slippages on consumer are 553 crores which happened from CFD business, secured retail was about 212 crores, unsecured was 162 crores and MFI was 815 crores and the net numbers were 239 crores in CMD, 148 crores in secured, 116 crores is unsecured and 696 crores in MFI.

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

Nitin Agarwal: Coming on the slippage numbers, in the MFI, we still had a pretty elevated slippages, so just wanted to understand the slippage is done and are we going to see a normalized slippages from FY23 beginning or is it streaming to decline?

Sumant Kathpalia: We have said that we should be in the range of 2.5%+- on the credit cost for MFI as we move along. That is what our expectations are.

Nitin Agarwal: But just wanted to understand if it is going to be back ended improvement or?

Sumant Kathpalia: No, what you saw in quarter 3 was the maximum. In quarter 4, you saw half of it. In quarter 1, you will see another half of it, so You will just see it going down because the 30 plus bucket is ~800 crores only. So it is just going to go down as we move forward.

Nitin Agarwal: And secondly, on the vehicle business, how do you see the growth trends over FY23, we have been running flat in terms of growth, how is this positive when go forward?

Sumant Kathpalia: I will tell you, what has happened on the vehicle side, if you go back 4 quarters or maybe 2 quarters, we were not growing at all in this business and we were actually having an issue of excess run down off the book. What we are seeing now the disbursements catching up from quarter 3 and quarter 4 and of course the quarter 4 was the 2% loan growth. I have Sriram here who heads our Vehicle Finance Unit. He has taken over from Partha, so let him just answer this question for you.

A G Sriram: Commercial vehicle, we had COVID-2 which was very fatal and people had very difficult time running the vehicles. Post that people are running the vehicle quite well, despite the diesel price increase people are able to run the vehicle and people are able to pay more than one month installment, though they are not able to come back from the entire 3 months deficit which has happened during the COVID-2 scenario, but they have been paying more than one installment and the portfolio is looking good and month on month like the overdues are coming down. But for medium and heavy commercial vehicles, the rest of the field like LCV, construction equipment, they are doing very well. Even the recovery is good and also the people are looking at new purchases and we are also looking at improving our market share. Presently, we are also looking at affordable housing as good unit and we are trying to invest like more money in that segment.

Nitin Agarwal: On the liquidity coverage ratio that has declined almost 20% of the past two quarters, so how do you see this and can this limit the overall balance sheet growth in FY23?

Sumant Kathpalia: We are at 127% average on the LCR right now and I think it is a question of how much of retail liabilities are we able to mobilize and we have said that we have got initiatives for that. In fact, in a bad year, when the NR flows were down, we are able to maintain our LCR. Second thing is, please understand if you look at our balance sheet, we have excess cash sitting there at Rs.50,000 crores. I think we are able to manage our business well and we should be able to manage the LCR as we move forward.

Arun Khurana: Regulatory requirement is 100%, so if you see all peer banks also they have come off and this is an average, so it may not translate to the 50,000 that we say as excess cash because this is done on an average basis. So if you see the ENR LCR it will be like 137%. So that is where we are. But like to like yes, we are around 15 to 20% down as what you rightly said as per disclosures and I think that is the level where consciously, we are seeing how to utilize our excess cash.

Moderator: Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jai Mundra: I have couple of questions, first on liability, I think we had earlier stance that loan growth will be preceded by deposit growth, if you can just refresh the guidance on both loan growth and deposits and do you see a case for higher competition in deposit given the largest private banks even going to get more aggressive in deposit mobilization?

Sumant Kathpalia: I think there will always be competition. This is a big market, right. Don't assume that there will not be enough pie for everyone. We are doing enough initiative to back the retail deposit growth. So in my opinion, if we are looking at 15 to 18% CAGR growth on the loan, retail liabilities will be greater than 15 to 18% CAGR year-on-year. So we will continue to grow at that level.

Jai Mundra: And sir, on asset quality, especially on real estate, would you say that real estate is also bit of a domain of the Bank because in terms of size, may be on relative basis that is also as big as Gems and Jewellery because you have not put out that as a domain from the Bank, but I just wanted to check your view, are you comfortable growing in that segment and how would you assess the riskiness of that book at present?

Sumant Kathpalia: It depends on what you call as real estate, so different people define real estate differently. We don't have mortgage portfolio today. So lot of banks are much bigger than us on the real estate business, so if you ask defining real estate at commercial real estate, we are very selective on the real estate book and it has done very well for us. It has stood the test of time and given us very profitable growth. We continue to believe in that segment, but we have internal yardstick and parameters on what our portfolio would be and that is defined in our board policy as well as our internal guidelines.

Jai Mundra: So sir, on slide 11, you have put real estate, commercial plus residential which is 4.05%, I believe is your real estate developer because LRD is clearly the second line item of 2% there, so I wanted to check, a, out of this real estate book which as per last basal was around 8000 crores, how much is restructured at present, how much is NPA and is there any other portfolio which is under some sort of dispensation?

.**Ramaswamy Meyyappan:** On restructured there is none, there was only one account which has become NPA which we have recognized in the past. Actually, during last 1 or 2 quarters, it has been robust. We have been able to reduce exposure, get prepaid in some accounts and able to book better new accounts because there is enough positive activity. We closely monitor overall concentration across the different parts, but we have not seen any signs of stress. It has actually been a bit of a robust period and you would have also seen rating upgrades in some of the larger real estate companies itself, some of the accounts in A category and better because of the large collections they've achieved.

Sanjeev Anand: Just to add, whatever book was on April 20 when COVID hit us, today as we talk 75% of the book has been churned, repaid or sold down, so it just showed the quality of the book. So we have a very good mix, we have some 110 odd projects across the residential and commercial and they are all doing pretty well. There is no real concern out there and no concentrations.

Ramaswamy Meyyappan: They are in different regions and good builders.

Jai Mundra: Sorry, I missed the bit on churn, so what did you say, from April 20 to March?

Sanjeev Anand: Our book, when COVID came in April 2020, when there was this whole concern on that, so since then till now, in the last 2 years, around 75% of our real estate book, both on the commercial and the residential side has been churned. Churned means either repaid, prepaid, or we have sold it down, added some new things, because we have an active sell-down strategy in our real estate portfolio. So basically, it is a very good quality book which we had onboarded at that time also and it stood the test of time and today also it is pretty well diversified, good quality book.

Jai Mundra: And sir, on LRD exposure, would it be fair to assume that all of the projects, exposure here would be operational and none of them would be under any disconcertion sort of the thing, so?

Ramaswamy Meyyappan: Yes, we have two types, we have construction period loan with the right to take up the LRD, but LRD being a highly competitive market depending on the lessee, the rates sometime don't work out and somebody takes it over from us and our construction loan gets repaid. On our LRD book which we closely monitor, we did see initially some delays and vacancies, but the latest the portfolio is performing very well, tenants are back, rentals are back and there is no account which is in any stress. The promoters have also supported during this period when rentals were lower, but now the rentals are back in full swing and there is a demand. Actually we are seeing fresh leasing at better rates, you would have read about that in the REIT guidances. There is good demand again. So the concerns that it may all move towards work from home and there won't be demand for commercial assets doesn't seem to have played out as much from what we have seen so far, but it is highly competitive on rate side, so we will be selective on the kind of transaction we have done.

Jai Mundra: And last thing, sir from my side, if I see a large corporate book, clearly in absolute rupees, crores, it has moved from, let us say 44,000 crores to roughly 60,000 crores over the last 4 quarters, but if I look at credit rating, the risk profile rating mix that you give, there is not too much of a change on slide 11, so from Y-o-Y 26% of BB & Below is only led by 200 basis point, so what does it tell you that on incremental basis, is the same has the outstanding basis or there is something else which I might not know?

Indrajit Yadav: No, first of all, we have mentioned on the slide that there is a little bit of reclassification on the corporate side. As we have reorganized the business, the slide depicting large, mid, small is also reorganized and the growth rate which Sumant mentioned in the opening remarks are adjusted for that reclassification. So the large has grown 20% year-on-year. That is one. Secondly, the rating profile that we showed on the slide 11 includes both fund and non-fund based exposure and during the year, we saw some cash backed guarantees getting repaid plus combined to that there is a growth in Small Corporate, Gems & Jewelry and real estate which typically come in the BBB side while the inherent risk is lower. So those two have contributed into the rating mix has been what it has been shown in the slide 11.

Jai Mundra: And sir and just last data keeping question, we had shown this security receipt portfolio which is given in the BSE, what is the provisions that we are carrying against that?

Indrajit Yadav: The net security receipt is 83 basis points against last quarter 85 basis points.

Jai Mundra: 83 is the net number, right, is that correct?

Indrajit Yadav: Yes.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: Two questions, one is on data keeping, if you can also give the restructured loan breakup, whatever is outstanding across those 5 buckets that we historically mentioned?

Sumant Kathpalia: Our restructured book is about 6,172 crores as of now, CFD is 3,298 crores, secured retail is 686 crores, unsecured is 233, MFI is 995 and corporate is 961.

Nilanjan Karfa: When I look at increment of cost of deposits and cost of fund at least for this specific quarter. Cost of fund was declined quite sharply by about 18 basis points. could you highlight what exactly happened when we compare to cost of deposit which was down only 6 basis points?

Arun Khurana: Yes, we had some borrowings that were maturing and the new borrowing that came in were contracted at abysmally low rates, so just to give example, we got rates of SOFR plus 100 basis points for 5 years tenure, so we had around 3,000 crores of maturities on borrowing which got re-financed at very low rates. The spread would have been at least 2% lower than the existing ones.

Nilanjan Karfa: And on the asset side now, the yield on retail which is basically flattened about 14.18, if you look at the loan book, there is quite a sharp growth in microfinance about 11.5% sequentially, the business banking piece has also grown and other parts which also I guess is a little higher yielding book has also grown, so across other segments are you seeing a higher pricing pressure?

Sumant Kathpalia: So there is a pressure on loans against property segment and I think that is also getting normalized because people are now getting back to normalcy at 8.5% which was going at 7-7.5% and we did not participate so much in this, that is number one. Number two, in the commercial vehicles, MHCV side, there were some competitors who were buying market share at certain price which we were not willing to do because the risk adjusted return did not make sense for us, but I think that all is coming back to normal and we are seeing normalcy returning back and the people getting more aware of the rising interest rates. Micro finance business as you know, we do at 19.6% and there is no problem in that rate at all in the microfinance book.

Nilanjan Karfa: And a final question, are there any resignations from top management team, but that is yet to be disclosed or something like that?

Sumant Kathpalia: No, nothing of that sort, I just told you that one person which is our advisor, M. R. Rao did opt for mutual separation because the work on the microfinance was done and otherwise we have not seen anything. Sanjay Mallik, who was on sabbatical for the last one year did decide not to join back and he has moved on, so that is what it is. Sanjay Mallik was our Investor Relations Head.

Moderator: Thank you very much. I now hand the conference over to Mr. Sumant Kathpalia for closing comments.

Sumant Kathpalia: Thank you for joining the call., I just want to leave some messages. The Bank is progressing well on all performance metrics including getting future ready with investments in digital and distribution. Secondly, I believe the Bank is well provided towards asset quality and domains provide us a competitive edge**,** we have said that we will be in the range of 120 to 150 basis points credit cost. We will be in that range. Our competitive edge is the three domains where we will be the big player in these three domains. The true earning power of the franchise will start reflecting from the current year. So we have 2 years where we continued to do provisions and we have not shown our return of asset or return on equity. I think the true earning power of the franchise will start coming back. You are seeing quarter 4, we delivered 1.51% ROE from 1.35%, I think we are all set to do what we are supposed to do and the next year should see a lot of what we had committed to the market being delivered. Thank you so much for your time and me & Indrajit are available if you need any clarification at any point of time. Thank you.

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

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