IndusInd Bank

Q2 FY24 Earnings Conference Call

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October 18, 2023

Moderator: Ladies and gentlemen, good day and welcome to IndusInd Bank Limited Q2 FY '24 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 star then zero 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.

Indian economy saw strong activity growth during Q2 even as the global economic environment remained challenging with many adverse developments. Domestic drivers of private consumption and investments, both public and private, helped in -driving this momentum. A stable macro-economic environment, relatively strong growth prospects, improving external sector fundamentals along with deepening of market liquidity, are helping to attract more and stable capital flows to India. Going forward, outlook for growth remains reasonably strong during Q3. Festival season demand is already driving a pick-up in consumption as visible in solid sales of cars and two-wheelers in September. Inflation is expected to ease during the quarter helped by proactive supply measures announced by the government. Consumer and businesses remain optimistic, especially on the growth and income prospects. Central government spending on capex and support to states would continue to drive investment activity.

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

- Loan Growth Momentum – Our loan growth continues to be strong at 21% YoY and 5% QoQ. We saw strong momentum in retail segment growing 25% YoY and 6% QoQ. Retail growth was driven by healthy disbursements in our Vehicle and Microfinance businesses and maintaining traction in other Consumer products. Our Corporate book too grew by 18% driven by small corporates.
- Healthy Retail Deposit Accretion – We maintained our growth trajectory on the retail deposit mobilisation in spite of the competitive intensity. Share of retail deposits as per LCR improved to 43.7% driven by 21% YoY and 4% QoQ growth in retail deposits. Overall we achieved total deposit growth of 14% YoY and 4% QoQ driven by granular retail growth.
- Traction on new initiatives – We launched our digital banking offering INDIE during the quarter. The offering was well received by the customers and we already have over 1.8mn downloads and 400,000 customers. We are continuously adding new features and investing in marketing efforts to scale this further. Our earlier initiatives of affluent and NRI also did well growing 8% and 7% QoQ respectively. Loan book under merchant acquiring business via BFIL grew 16% QoQ to Rs.4,904 cr.
- Retail Asset Quality Improvement – Our retail net slippages reduced from Rs.1,059cr to Rs. 865cr QoQ while Corporate slippages increased due to one account slipping into NPA. Restructured book reduced by Rs.274 cr to 0.54% from 0.66% QoQ. Our NNPA is at 0.57% with provision coverage ratio stable at 71%. Our contingent provisions are at Rs.1,520 crores with total loan related provisions at 118% of GNPAs. Our credit cost has reduced to 123bps from 132bps QoQ.
- Steady profitability metrics – Our Net Interest Margin remains steady at 4.29%. Client fee income grew by 13% YoY driven by continued retail momentum. We invested in digital launches, marketing spends as well as physical infrastructure resulting in Opex growth of 6% QoQ. Our PPOP margin to loans thus for the quarter was at 5.2% vs 5.5% QoQ.

  Overall, our Profit After Tax grew by 4% QoQ and 22% YoY to 2,202 crores. Our Return on Assets was at 1.90% and Return on Equity was at 15.33% for Q2. Our Capital Adequacy Ratio remains healthy with CET1 of 16.33% and overall CRAR at 18.21%.

Now coming to individual businesses.

1. **Vehicle Finance:**
   - Our vehicle finance business continues to show healthy growth trajectory with loan book growing by 5% QoQ and 22% YoY. The disbursements also grew by 7% QoQ and 20% YoY.
   - The Commercial Vehicles, Cars, Utility Vehicles, Three Wheelers saw sequential loan growth of 5% or above. The loan growth was slower in tractors, two wheelers and construction equipments.
   - The diversification initiatives have been playing out well in vehicle finance. Our Light Commercial Vehicles, Cars, Utility Vehicles, Construction Equipment portfolios have crossed the 10,000cr loan book mark whereas tractors is almost there. This reflects a well-diversified portfolio reducing cyclicality in this business.
   - Light Commercial Vehicles has been a success story since we carved it out as a dedicated unit. Our LCV market share has now crossed 10% from sub 5% a few years back and we are in fact #1 financier at one of the leading OEMs last month.
   - The gross slippages in vehicle improved from 0.77% to 0.64% QoQ. The restructured book in vehicle finance also reduced to Rs.910 crores from 1,182 crores QoQ. The collection efficiency of these customers remains comfortable with bulk of the reduction happening through upgrades and recoveries.
   - As mentioned in the previous call, first half of the year is seasonally weak in terms of disbursements and asset quality and portfolio improves as we progress in the financial year. This played out in Q2 and we expect to maintain the trends in rest of the year.

2. **Bharat Financial Inclusion Limited**:
   - Loan book originated through BFIL stands at Rs 39,267cr., reflecting a YoY growth of 22% and sequentially growth of 8%.
   - Active loan clients increased to 90 lakhs, reflecting a YoY growth of 15%, up from 78 lakh a year ago. Sequentially loan clients increased by 7% over the previous quarter at 84 Lakh.
   - The share of non-MFI book improved to 13% as against 9% a year ago.

   - <u>Microfinance</u>
     - Our microfinance business gathered momentum with an 7% QoQ growth, driven by consistent member addition. YoY loan growth too improved to 16%.
     - We clocked disbursement of Rs 12,022 crore growing 24% YoY and 43% QoQ driven by healthy new member additions of 910k during the quarter.
     - Portfolio quality too improved with net slippage reducing to 182 cr from 311cr QoQ.
     - MFI standard book net collection efficiency for Q2 was at 99.1%. The 30-90 DPD book amounting to 1.94% as against 2.36% last quarter ago.
     - We have changed a chart in investor presentation earlier depicting average ticket size per loan to average loan per customer. We believe customer total indebtness level is a better metric to track and hence the change.
   - <u>Bharat Super Shop i.e. the merchant acquiring business</u>
     - Bharat Super Shop continued its scale up reaching loan book of Rs. 4,904 Cr with 83% YoY and 16% QoQ growth.
     - Disbursements during the quarter amounted to Rs. 2,195 Cr. The number of loan clients stood at 700k as of Sept 23.
     - The standard book net collection efficiency from this client base stood at 99.1%.
   - <u>Bharat Money Stores i.e. the kirana shop model</u>
     - We have around 117,000 Bharat Money Stores providing banking at the doorstep in remote areas.
     - Liability book sourced from customers serviced through BFIL increased by 50% YoY to reach Rs. 2,485 Cr. through 1.58 Crore accounts which also registered an increase of 25% YoY and 9% QoQ, driven by improvement in new account opening.

   - Overall, BFIL has shown a strong growth momentum during the quarter along with improvement in the net slippages. While we are watchful about the rural macro trends, the pent up demand and our investment in the distribution should aid us maintaining the growth momentum.

3. **Global Diamond & Jewellery Business**
    - The global economic challenges continue to impact the diamond demand. This reflects in the reducing working capital requirements for our customers. The portfolio has consequently seen a degrowth of 10% QoQ.
    - The asset quality continues to be pristine with no SMA1, SMA2 or restructured accounts. There have been some media reports of delinquencies in unorganised or lab grown diamond manufacturers. The bank does not have any exposure to these troubled customers.

4. **Corporate Bank:**
    - Our corporate loan book maintained healthy growth trajectory of 18% YoY and 3% QoQ growth.
    - The overall growth continues to be led by small corporates growing 8% q-o-q and 50% y-o-y. Within small corporates, our focused strategy on Corporates with < 500 crs turnover segment has been bearing results – growing 52% y-o-y.
    - Growth across large and mid-corporates was 2% q-o-q and 14% y-o-y in line with our expectations.
    - Specialized verticals outside the diamond business constitute 29 % of corporate book. This includes real estate, financial services, Food & Agri, Education, healthcare. The exposure under specialized verticals is managed well basis sector specific strategy. The segments continue to show healthy risk adjusted returns and growth profile.
    - The proportion of A and above rated customers has improved to 77% vs 72% YoY with weighted average rating improving to 2.57 from 2.65 YoY.
    - As external interest rates have stabilized from last quarter, our yields have been stable at last quarter levels.
    - The Gross Slippages in corporate book were at Rs 214 cr for the quarter. This included one account of Rs 169 cr from last quarter SMA slipping into NPA.
    - Overall, we continue to progress on the granularization of the corporate franchise through small businesses and diversification. The asset quality too given the nature of the business shows some volatility in some quarters. Overall we are comfortable with the asset quality trends in corporate.

5. **Other Retail Assets:**
    - Consumer banking business continues to show robust momentum growing 31% YoY and 8% QoQ.
    - We believe MSME as a sector offers significant opportunity - the sector remains under-penetrated owing to the challenges in this sector in terms of access to credit, structured credit information available pertaining to the MSME enterprises.
    - Our MSME Book under business banking is at 15,364 crs which grew 4% q-o-q and 23% y-o-y. Business momentum was strong as our new acquisitions continues to accelerate which are now almost 50% higher than pre-covid levels.
    - Majority of the MSME new acquisitions are granular from < 2 crs segment i.e. Small Business Banking segment. This segment also predominantly leverages our digital lending platform Indus Easy Credit accounting for around 95% of the new onboarding. Our digital stack is enabled to get sanction within a single day backed by Bureau, Banking and GST backed data for the Small Business Banking segment and sanctions are delivered in less than 24 hours for 90% of the applications.
    - We are scaling up our home loan pilot with book crossing 1,000cr mark during the quarter to 1,005 cr as of Sep-23.
    - On unsecured side, the Credit card growth was driven by new cards acquisitions & highest ever quarterly spends. Credit Card spends were at 22,061 crores growing by 7% growth QoQ. Our spends market share has improved to 4.7% as per latest available RBI data.
    - Overall, Consumer Assets remain the fasted growing segment within the overall portfolio. We are watchful on the unsecured growth given the rapid industry growth and macro trends. We are thus focusing on a balanced growth between secured as well as unsecured growth with constant vigilance on the early delinquency trends.

6. **Now coming to Liabilities:**
    - Our deposits grew 14% YoY and 4% QoQ.
    - The growth was driven by granular acquisition with retail deposit as per LCR growing by 21% YoY and 4% QoQ. The share of retail deposits improved to 43.7% vs. 41.2% YoY.
    - Our Savings Account deposits showed growth of 3% QoQ whereas Current Accounts grew 1% QoQ resulting in a CASA ratio at 39.3%. We launched Grande – a new variant of the savings account – which carries a strong customer proposition contributing meaningfully to the SA growth over the last couple of quarters.
    - Our both the new initiatives of Affluent and NRI showed robust growth during the quarter. Affluent segment deposits grew 24% YoY to 47,900 crores during the quarter. Affluent AUM was also up to 73,900 crores showing a growth of 17% YoY.
    - Our NR deposits grew 41% YoY and 7% QoQ at 40,000 crores. Our market share in Non Resident segment has further improved to 3.3% as of last available data.
    - The contribution of Certificate of Deposits remains low at 3% of deposits.
    - Our borrowings were down 11% QoQ. The borrowings continue to be oriented towards long term sources of funds.
    - We had healthy liquidity position during the quarter with average LCR at 117% and average surplus liquidity at Rs.37,000crores for the quarter.
    - The bank has taken a significant step towards improving the overall brand as well as deposit products awareness through comprehensive media presence. The bank has partnered with International Cricket Council for a series of marquee tournaments over the next couple of years. We believe these investments should improve our brand awareness and customer acquisition momentum going forward.
    - Overall, we have maintained healthy growth momentum in the retail deposit mobilisation notwithstanding the competitive as well as liquidity conditions in the industry. Our three-pronged approach of investing in traditional, digital and new initiatives has played out well and we aim to maintain this momentum going forward as well.

7. **Digital Traction:**
    - Bank launched INDIE – an innovative personalised digital banking app with several industry firsts. INDIE aims to bring best of both worlds together – trust of a Bank and experience of a new age fintech. It reflects a shift from product centric to customer centric way of thinking. The app was digitally launched a couple of months ago and we already have ~1.8mn installed base and approx. 4 lac customers and the TV campaigns have just started with ICC World Cup. It is an earn model and not a burn model and we are targeting a break even period of less than 18 months per client.
    - During the quarter bank saw robust growth across its digital platforms and applications. The engagement vectors are looking up on the back of data and analytics driven engagement powered by MarTech capabilities that the bank invested in over last couple of years
        - IndusMobile registered monthly active user base growth of 30% YoY
        - 74% of service requests are processed digitally compared to 69% last year
        - UPI transactions from indusmobile are up 71% YoY
        - Transactions per active client are up 20% YoY
        - Merchant app – Indus merchant solutions – more than doubled the monthly active user base YoY
    - We continue to transform existing lines of business leveraging digital capabilities and digital unassisted model continued to show robust growth. More than 95% of business in deposits and retail loans is digital and digital unassisted model is growing rapidly

Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 18% YoY and 4% QoQ with Net Interest Margin at 4.29% remains steady QoQ while improving YoY vs 4.24%.

2. The Net Interest Margin has been a keenly discussed topic over the last few quarters. We have consistently communicated that our balance sheet construct and the growth dynamics are able to withstand the NIM volatility. While the interest rate cycle seems to have elongated, we continue to believe the bank has enough levers to absorb any increase in cost of deposits within our ambition of 4.2% to 4.3% net interest margins.

3. These dynamics played out during last quarter as well. While our Cost of Deposit increased by 23 bps, the lower borrowing costs and effective asset side management resulted into steady Net Interest Margins during the quarter.

4. Our Other income grew by 13% YoY and 3% QoQ. Core client fees excluding trading income too grew by 13% YoY. Our non-core fee income was Rs.162crores during the quarter. Share of Retail fees remains healthy at 74%.

5. Our total revenue for the quarter was at Rs 7,359 crores with 17% YoY growth.

6. The opex growth of 6% QoQ was driven by continued investment in human capital, digital launches & marketing initiatives. We have added ~3,500 employees during the quarter and ~7,600 employees in last 6 months.

7. The operating profit for the quarter was at 3,909 crores growing 10% YoY.

8. On the asset quality and the provisioning front:
    - Our provisions for the quarter continued the downward trend at Rs.973cr. The annualised provisions to loans is now at 123bps vs 175bps YoY and 132bps QoQ. The credit cost has now come down to our PC-6 expected range.
    - Our retail net slippages reduced to Rs 865 cr vs Rs.1,059 cr in previous quarter whereas Corporate slippages increased due to one new NPA as mentioned earlier.
    - The restructured book has reduced by 274cr during the quarter from 0.66% to 0.54% QoQ with bulk of the reduction due to upgrades and recoveries.
    - The Net Security Receipts have further reduced to 39bps from 44bps in previous quarter. The bank made additional provisions of Rs 146crores towards the SR book during the quarter.
    - Overall, the GNPAs for the bank were at 1.93% and Net NPAs stable at 0.57%. We have maintained provision coverage ratio of 71%.
    - Our contingent provisions excluding specific provisions are at Rs.1,520 crores. Total slippages from the restructured book in the last 6 quarters were at Rs.2,407crores. We have utilised contingent provisions of Rs.1,808crores during the same period.
    - Total loan related provisions are at 2.3% of loans or 118% of the GNPAs.
    - Our SMA1 and SMA2 book was at 6bps and 20bps respectively.

9. Profit after Tax for the quarter was at Rs 2,202 crores growing 4% QoQ and 22% YoY. Our CRAR including profits remains healthy at 18.21%. Return on Assets is at 1.90% and Return on Equity at 15.33% for Q2.

Overall, we continue to progress on our Planning Cycle 6 strategy with outcomes largely in line with our ambitions:

- The liability granularization continues apace. The initiative should see further support from the launch of digital offering as well as marketing campaigns. Improving share of Retail Deposits as per LCR remains cornerstone of our strategy as we move towards 45% to 50% in PC-6.
- Q2 Loan growth of 21% was driven by retail segments which grew at robust 25% YoY. The second half of the year is seasonally better for vehicle and microfinance businesses. This should help sustain the growth momentum in coming quarters as well.

- Retail asset quality continues to improve while Corporate remains rangebound over the course of year. The annualised credit costs are down to 123bps and we aim to close the year between 110bps to 130bps.
- Retail loan growth and balance sheet optimisation provides comfort on the Net Interest Margin trajectory. The retail growth also augurs well from the Cost-to-Income perspectives which should trend downwards with retail revenues kicking-in. Overall we remain comfortable on all the profitability metrics.
- Our new initiatives are tracking well on their business plans and should see support from the investment in digital, distribution and marketing over the coming quarters.

With this, we can open the floor for Q&A.

Moderator: The first question is from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: Congrats on a good quarter. Few questions, first is on the CD ratio. We have seen like a good increase in CD ratio in past 1 year and LCR also we have deployed a fair bit of liquidity this quarter. So how much excess liquidity do we now have on the balance sheet? And do you think that going forward liability accretion will limit the loan growth as we continue to guide for over 20% loan growth?

Sumant Kathpalia: We have carried average Rs.37,000crores of excess liquidity in our balance sheet in Q2, and that's reflected in our balance sheet. Having said that, I don't think our loan growth ambitions will go down. What is more important is, we have to get our liability growth faster and we are working on all the dimensions to make sure that to happen.

What we've said of our loan growth ambitions of 18% to 23%, and we are on the right-hand side of the growth, we will continue to maintain that growth, and we believe that the second half of the year is better than the first half of the year.

Nitin Aggarwal: Right. Sure and the other question is on the yields, like this quarter, the corporate banking yield has come off a bit and the retail book is also, the rise in yield is well controlled, while considering the stable pricing and no repo action in the recent period. But what proportion of the corporate loan book is linked to MCLR? and should we not expect any further uptick in the corporate yields going forward?

Indrajit Yadav: As you know, our corporate book is almost entirely floating rate. One third of the book is MCLR-linked, balance two third is linked to external benchmarks. These external benchmarks are dependent on the market rates, those benchmarks will change in line with market rates, and that goes into our loan book. So, it all depends on how the market benchmarks are and basis that you will see corporate yields changing.

Sumant Kathpalia: The other thing which you have to consider on corporate side, as we grow our small businesses, and as the mix of the business changes over a period of time, you will see that the yields will start getting up because the smaller corporates do come at a little bit higher yield than the large corporates.

Nitin Aggarwal: Right but given that how the deposit cost is inching up like this quarter, there is a 23-basis-point rise in the cost of deposits and if I were to adjust for current accounts, this implies that our cost of deposits is almost close to 7.4% so how much more like uptick are we looking at in terms of deposit repricing? and what is the incremental cost of deposit?

Sumant Kathpalia: The maximum differential which will happen is 10 to 20 basis points in the cost of deposits over the next two quarters, but I don't see more than that as an uptick on the cost of deposits as we go.

Nitin Aggarwal: And lastly, just one observation, Sumant we have started disclosing the average loan outstanding in MFI. Why is this number higher than the average ticket size, like which we used to disclose until now?

Indrajit Yadav: So, what happens is, we work on a sanctioned limit basis. So, there could be a customer where you sanction INR40,000 loan. Now the customer has an option to either withdraw entire INR40,000 or take INR30,000 now and INR10,000 later. But what was happening, operationally working on those lower ticket size loans was becoming operationally cumbersome. So, we have reduced people opting for less than INR15,000 of loans.

So, more and more people will move towards now whatever is the sanction limit. And that's where we attract the customer. So, whatever is the customer's total loan outstanding, that's what matters, whether you have taken in one tranche or two tranches that doesn't matter and that may not be the right way to look at also. So, thinking of that, we have changed the disclosure to show, at a customer level, what is the total indebtedness for that customer.

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

Abhishek Murarka: So, one question on slippages. Now retail slippages are down to Rs.1,250cr and approximately somewhere close to 3.5% of opening loans. Do you think there's still scope to improve? Or are we at the bottom here?

Sumant Kathpalia: I think, you will see more improvement on the retail slippages on the CFD/ vehicle book. That’s because the second half of the year has always been better for the vehicle finance book. So, you can see hope for some improvement there, on the micro finance book, there is still a scope of improvement. So, we will see slippages coming down as we move forward on the retail side of the book.

Abhishek Murarka: And Sumant, on the overall slippages, I believe the guidance was around INR1,200-1,250crores or so. Whereas we are hitting INR1,450-odd crores this quarter, maybe one account here and there, but we have to account for those one-offs as well. So again, do we stick to INR1,250 crores going forward? Or do you think now we are at a more representative run rate?

Sumant Kathpalia: We should see slippages around INR1,200 crores to INR1,300 crores. That is our base case and this quarter we had an unfortunate corporate account slippage, which happened, we just took the slippage because it was in the SMA for past two to three quarters, so it was better to take that and I don't think there are any such more things which can come in, and we will see retail flows improving, we can stick to INR1,200 to INR1,300 crores, accounting for any corporate slippages of INR50 crores to INR100 crores, if it happens.

Abhishek Murarka: Got it and just one question on deposit growth again. So, if we just look at the last five, six quarters, on a Q-o-Q basis, the deposit growth has lagged credit growth and fine, we had some extra liquidity, which we were deploying in that period, now with this excess liquidity also normalizing, we will need to accelerate deposit growth, right? So will pricing have to be one important strategy because we've had our deposit rates, I mean, lower than or rather are spread over other banks is historically very low now. Do you think you need to increase that spread and incentivize more flows?

Sumant Kathpalia: No, I don't think so. We are able to attract deposits. We are doing multiple things. With the digital capability, expansion of branch distribution and the product launches, which we are doing in the branches, plus the marketing efforts which we are doing. We should be able to pull up the liabilities. I cannot say that everything will come in CASA, if we want to open the tap in term deposits, we're able to get the term deposits immediately.

So, I can tell you, we will start seeing the deposit growth coming back and we are working towards getting the deposit growth back. Yes, you're absolutely right that this quarter, we used the excess liquidity gap to maintain the margins, and you will see the deposit growth coming back in the next two quarters.

Abhishek Murarka: Got it. Just one quick question. The entire corporate slippage was owing to that 1 account?

Sumant Kathpalia: No, INR169 crores was owing to one, then there were small amounts spread across multiple accounts.

Moderator: Next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So firstly, in terms of the cost of funds, the increase has hardly been like 9-odd basis points compared to 23 bps rise in cost of deposits. So maybe in terms of this repricing and repayment of the borrowing, high-cost borrowing, is it largely done? Or should we see the benefit in the coming quarters as well?

Arun Khurana: Yes. So, a couple of things here, the borrowing is always an option available to the bank, and we've seen how it plays out in terms of longer-term financing with cheaper rates as well. That's a thing that we continue to assess and keep on doing in terms of the cost of borrowing. So the idea is that if my borrowing numbers are going to be lower and my deposits are going to increase and the cost of deposit is going to be higher, you'll have a higher cost of funds that's as simple as that. So as a result, you will see a small rise in cost of funds because we've decided that our basic aim is to focus on more on deposits, to maintain that.

Some other colleagues get asked about the CD ratio as well earlier. Yes. So, I think CD ratio being one of the measures that we take in terms of our advances to deposit book, that needs to be maintained at a particular level and in order to do that, yes, our deposit growth will be higher than the borrowing growth and as a result, it will impact our cost of funds.

Obviously, as I said, borrowing cost is lower than the cost of deposits and as a result, there was another question that had come earlier that without current account my deposit cost is at 7.3% or whatever it is, will I reprice my asset book. The way to look at it is you've got to look at the cost of funds because that is the sort of funds available to the organization rather than just the deposit base. So that would be my take on this.

Kunal Shah: Sure and secondly, in terms of the credit cost and utilization of the buffer, so maybe we were highlighting that we would be building up the buffer also towards maybe the transitioning to Ind-AS. But again, we saw almost like Rs.180crores kind of utilization this quarter. So, would that start to happen from Q3 onwards in terms of the further build-up on contingent provisions and still comfortable with 1.1% to 1.3% credit cost?

Sumant Kathpalia: Yes. So, you will see that we will start building up the buffers. So, you will see it in the second half of the year. I cannot commit quarter three or quarter four, but in the second half of the year, you will see the buffer. Like what we've committed, we remain committed to building up the buffers and you will not see us utilizing any more of the contingent provisions as we go forward.

Kunal Shah: Okay. So, utilization is largely done now?

Sumant Kathpalia: We will not utilize anything. We said that last time also. So, I must be open to it, but we had to because of the restructured book, but we've now seen our restructured book, and we are very comfortable with that.

Kunal Shah: So, this utilization was from restructured, what you were highlighting INR1,800-odd crores?

Sumant Kathpalia: Yes. So, we told that the total restructure flows over the last six quarters was about INR2,434 crores, and we utilized about INR1,800-odd crores of that book.

Kunal Shah: Yes. So INR180 crores was for restructured provisions?

Sumant Kathpalia: Yes.

Kunal Shah: Okay and secondly, in terms of the employee cost. So last time also we highlighted that there would be employee incentives, additions and annual incentives were there, which led to a higher opex, but we are seeing the trend continuing almost like further 11% increase on a quarter-on-quarter basis. So, any one-off out there in the employee side?

Sumant Kathpalia: So, there were incentive payouts, which were done in Q2. Some of these were related to the sales performance so that was one cost which came in. 3,500 employees got added in Q2. We have added about 7,500 employees over the last six months and that base effect had also come in the cost. Now what you will see is stabilization of the employee cost as we move forward.

Moderator: Next question is from the line of Suresh Ganapathy from Macquarie Group.

Suresh Ganapathy: Sumant, I have a question on contingent provisions because if you are saying you want to make INR300 crores contingent provisions this year and make 1.3% credit cost, including that, then why did you dip into INR500 crores of contingent provision in first half, you did INR500 crores and then you make INR300 in second half. So, this not a coherent strategy I feel. So just wanted to get a clarity on this. How are you looking at it are we still maintaining that you will be between 1.1% to 1.3%, inclusive of the INR300 crores contingent provisions that you want to make this year?

Sumant Kathpalia: Yes, I will be comfortable between 1.1% to 1.3% and you see what happened, the first half of the year is a relatively troubled year for the vehicle finance and the micro finance unit. That's where the flows happened and I've made a statement that the gross flows should see a reducing trend in the quarter three and quarter four and as a consequence, I'll get the capability to provide the cost or the buffer provisions, and we would be able to get the credit cost between 110bps to 130bps.

Suresh Ganapathy: Okay. Now the thing is about slippages, right? So, see your slippage is up this quarter, you had some corporate numbers, so you had INR1,400 crores of slippages and last quarter was a somewhat similar number. So, you see this number trending down, you're saying in the second half, right?

Sumant Kathpalia: I see slippages coming down, and I still continue to maintain that we would be between INR4,800 crores to INR5,200 crores. That's what the numbers we've been giving to the market and we continue to believe that we will be within that range and you will see the retail slippages coming off very strongly.

Suresh Ganapathy: That means your second half numbers only INR2,200 crores because you are guiding for INR5,000 crores, right? And you've already done INR2,800 crores for the first half.

Sumant Kathpalia: Correct.

Suresh Ganapathy: Yes. Okay. Now just one last question, again on slippages. See, I mean, the economy has been fantastic, and you are seeing such great outcomes even in public sector banks, what explains the 3.5% annualized run rate on your retail book? This looks too high. If I look at the individual segment this quarter, and the reported NPL numbers, all the unsecured loans have created a problem in retail. I've seen personal loans going up, MFI loans going up and card NPLs going up. Can you give some clarity what's happening on the unsecured loan NPLs?

Sumant Kathpalia: So, you're absolutely right, if you look at the merchant acquiring business, which we have created in Bharat Financial, does have a 2.5% to 3% credit cost and the annualized flow is around 4%. That's one of the businesses which we are growing, but the gross yield is also at ~28%. It's unsecured business to a large extent although eligible for guarantee by the government.

The second is the card business, where we've seen a little bit of slippage in this quarter, which is a little higher than what it was projected to be. So that's another business where our credit cost is touching about 3% to 3.5% against what we had thought it will be at 2.8% to 2.9%. So that's something which has come up 60 basis points and our gross flows in the PL business has moved up by about five basis points this quarter.

Indrajit Yadav: Suresh, also just to clarify, like you know that, GNPA also is a function of write-offs, et cetera. If you see the gross slippage, every segment has seen a QoQ improvement be it vehicle, MFI, or other retail also. So, the GNPA depends on how much you write-off in which quarters. Slippage wise, we have seen the improvement on gross as well as net slippages across both secured and unsecured book.

Moderator: Next question is from the line of Saurabh Kumar from JPMorgan.

Saurabh S. Kumar: Just two questions. One is on your NRI deposits. I mean is there an impact from higher rates globally? and the second is what's the outstanding amount of your security receipt book and the provision against that?

Indrajit Yadav: Yes. So NRI, of course, it gets benefited or impacted depending on how the currency rates are between INR and respective currency, and also the interest rates that are there. But that all you'd have to take it, and currency-wise we are fully hedged. We don't carry any risk at all in the book. In terms of the security receipts, we had reduced security receipts from 0.44% to 0.39%

Saurabh S. Kumar: Okay, and what's your outstanding amount of NRI deposits right now?

Sumant Kathpalia: INR40,000 crores.

Indrajit Yadav: 0.39% is the net security receipts outstanding.

Moderator: Next question is from the line of Rahul Jain from Goldman Sachs.

Rahul Jain: I had three questions. Number one, to start with, how much excess liquidity we would be carrying on the balance sheet now?

Sumant Kathpalia: INR37,000 crores.

Rahul Jain: Okay, and that you think can be deployed all of it in lending or you'll keep some part of it on the books as liquidity?

Sumant Kathpalia: We are comfortable with keeping some excess liquidity around INR20,000 crores. We've always said that. So, we would keep that at our minimum threshold of INR20,000 crores in our books.

Rahul Jain: Okay, and in terms of LCR, what would that imply?

Sumant Kathpalia: So, we are at currently 117% LCR as what we've disclosed. 115% to 125% is what we want to be on LCR.

Rahul Jain: So INR20,000 crores excess liquidity, you will be in that range of 115% to 120%?

Arun Khurana: Again, INR20,000 crores is just a number that we are just talking. At the end of the day, LCR has other components to it in terms of what constitutes your LCR, right? I mean HQLA and then outflows or the type of deposits that you have with the financial institution, nonfinancial institutions, corporate, non-corporate, TASC etc.

So, that may not be the right measure to take, but yes, it gives you an indication of LCR. I think another good measure to reflect on stable funding book is NSFR which is an important measure to know how stable is your funding are over a period of time for your asset book. That is a big measure.

In terms of excess liquidity, while the threshold is INR20,000 crores, that we are going to keep, but I really believe that we are not going to go down to that level. I mean because at the end of the day, it's about utilizing that liquidity in a manner, which is most conducive. So, if you think that my liquidity is laying in cash only, it is not. It's in treasury bills or very short-dated government securities where I don't have risk, and I can get it back whenever I want to raise that temporary liquidity should the need arise.

Rahul Jain: Thanks for the elaborative answer. Actually, the reason I was asking is because the competition on deposit is, of course, heating up for us, the LDR has gone up, the deposit growth therefore, will start becoming critical at some stage and I was just trying to see how much buffer we've got on that side that we can deploy and maintain our growth rates. So that was the reason I was asking that. All right. Second question is on retail slippages. Well, of course, it has come down, 3.5%, odd, it still appears to be on the higher side, no? What should be the right run rate in the cycle on the retail side, Sumant?

Sumant Kathpalia: So, you have to go by segments. So, MFI slippages should be around 350 basis points. The MFI credit cost would be around 250 to 300 basis points. That's where these would stabilize at. On the vehicle side, 2% of gross slippages and 100 basis points of credit cost will be what we would stabilize at. On the other retail side, it will be 300 basis points of gross slippages and 200 basis points of credit cost.

So, if you look at it, you have to look at it in totality that we have recoveries & upgrades also. Overall, the gross slippages should stabilize between 2.75% to 3% in the retail book, and that's where our overall credit cost will be around 110 to 130 basis points.

Rahul Jain: And when do we see that number, Sumant, this year or by end of this year or next year?

Sumant Kathpalia: You will see it in the second half.

Rahul Jain: Okay. The third question is, again, coming back to the corporate slippages, right? So, it's a standard book and then you've got restructured, which is a very small amount. You said SMA, so what SMA and what is the nature of this slippage, INR169 crores that one account that you called out? Can you give some more colour on SMA1 and SMA2 towards the pool of that book in corporate?

Sumant Kathpalia: So, the SMA1 and SMA2 is 0.26% of our overall book. SMA1 is 0.06%, and SMA2 is 0.2%. This was one account of INR169 crores, which was booked in somewhere in 2017-18, which slipped, we have adequate collateral against that account, and we should see the recovery sooner than later on this account.

Rahul Jain: Okay, and any particular sector or this is an idiosyncratic case and you don't expect this to be repeated?

Sumant Kathpalia: I can't predict whether corporate slippages will come or not. At this point, we don't see anything, which is a burning issue on corporate side on which I can comment on.

Rahul Jain: Because the economic environment seems to be pretty robust. So, I was really surprised to see this number. That's why I'm asking you this question.

Sumant Kathpalia: This is one account which was always in SMA2 for the last three quarters and it was not coming out of SMA2.

Rahul Jain: Fair enough. The last bit is, somebody else has asked this question earlier about the unsecured bit. You talked about the merchant financing portfolio, but what about the consumer loans like credit cards and personal loans. How comfortable are you in this environment given that clearly, the cycle seems to be peaking?

Sumant Kathpalia: Rahul, I fully agree with you and it will be around 5% of our loan book. This is what we have said, and we will continue to believe in that. We are not growing the unsecured asset book or the credit card & PL business as a strategy. We have market share of ~2.7% in number of credit cards and we are about 1%-1.5% on the PL.

And overall, this is 5% of our loan book. We are not growing that fast. So please understand while the businesses have grown, look at what is the share in our overall outstanding book. We have around INR16,000 crores in the overall loan book, so we have not grown these businesses at that fast level and considering our Bharat Financials portfolio, our overall unsecured exposures will go for a toss if we do that. So, we are not growing share of these businesses.

Rahul Jain: Understood and then since we are on that and maybe the last question, the RBI also sounded quite cautious. So, are you seeing anything, which is we should be aware of as a fraternity on the unsecured side?

Sumant Kathpalia: If you look at Transunion data or any other bureau data, the PL flows have not increased. So, there is no such thing on the PL. In the small ticket PL cases, where the ticket sizes are less than INR50,000 or INR70,000 we are seeing some stress, but not in the other tickets. On the credit card also, there is a 30-plus flow of about 25 basis points, but nothing to be perturbed as of now.

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

Piran Engineer: Firstly, I just wanted to reconfirm two third of the corporate book is MCLR linked or EBLR linked.

Indrajit Yadav: Sorry, two third is the EBLR, one third is MCLR.

Piran Engineer: Got it. Secondly, if you can just talk about your credit card partnership with Poonawalla, what's really in it for you?

Sumant Kathpalia: It's just a partnership where we have a good relationship with Poonawalla and we are doing a co-brand to get some clients, and hopefully, those clients will convert into liability customers for us. The risk on the balance sheet is low. I can tell you this much.

Piran Engineer: So, it's their customers and you are going to provide credit cards to them?

Sumant Kathpalia: Yes.

Piran Engineer: And so, can you give us some colour on the cohort? What exactly are you looking for out there? Because I would have expected you all to have a better customer set than them?

Sumant Kathpalia: I agree with you. But please understand the portfolio will not be more than INR200 crores or INR250 crores over a period of three years. That's what we are looking at. We will follow our own credit underwriting criteria. So, a lot of these clients will get rejected as a consequence. But sometimes you have to do these businesses.

Piran Engineer: Okay. Fair enough and just lastly, I'm curious to know, you mentioned about your LCV market share improvement over the last few years. Just wanted to get a sense of what you all did to drive that improvement? and at the same time, who lost market share, really? Was it the captive financials or others?

Sumant Kathpalia: So, before the different segments, which we created, we were very focused that we wanted to diversify from the MHCV exposure and diversify the overall book in the vehicle finance segment. That's number one. We also saw that this segment was occupied by NBFCs in a large way and the leading NBFC had a very large market share of 11% to 12% at that point of time. We thought it was an opportunity because we had the distribution and the capability and the dealer network to get into this market. I have Sriram who runs our vehicle finance.

A. G. Sriram: The main NBFC, which has lost the market share is one of the captive NBFCs which has lost market share in OEM of that captive NBFC and then we have also cornered some market share from leading NBFC in other OEMs.

Moderator: Next question is from the line of Rikin Shah from India Infoline.

Rikin Shah: Just have one question now on the OpEx, particularly. So, with the investments on the human capital side, branch additions, digital capability buildup as well as marketing, how do you envisage the cost-to-income ratio to improve by 3%, 4% points in the next couple of years?

Sumant Kathpalia: So first of all, if you have to invest in a retail business, the costs are upfront while the operating leverage comes over a period of time. We are investing in new lines of businesses like merchant acquiring, NRI, affluent, mortgage business, affordable housing etc. So, we've invested in these businesses and digital. I think, all these are still subscale businesses. These businesses will start playing out in the next two to three quarters, you should start seeing some improvement in our cost-to-income ratio. Our cost-to-income ratio will go to 45% to 46% before it comes to 41% to 43%. That is where, by year 3, we believe our right cost-to-income ratio will be between 41% to 43% for a bank of our size.

Rikin Shah: So, the OpEx will continue to be elevated, but the income will kind of kick in and which will drive the moderation. Is that the correct understanding?

Sumant Kathpalia: So, let me put it in another way. I think if the digital businesses play out, the Opex will moderate. In the initial stages of build-up of the digital businesses, the Opex is elevated. But over a period of time, as you fine-tune your digital businesses and your capabilities, the cost of acquisition of an account goes down dramatically.

For example, in a credit cards, when we started the digital business, we were about INR6,000 per card acquisition. Now we are at INR1,800, and we should get down to about INR1,000. That's where the real advantage of a digital business comes into play. We are doing a lot of campaigns and understanding what quality of client is coming in, what is not coming in. So, you will have some cost, it builds up over six to nine months, you will see the fine-tuning of that portfolio happening.

Now let's go to other lines of businesses. In the initial phases, mortgage business doesn't create any result, they are 100% efficiency business in the initial phase. As you grow and get your book above INR5,000 crores to INR7,000 crores, the operating leverage comes into play in a mortgage business. Today, the operating leverage in the mortgage business is negative. It's a negative carry. So, I'm fine with it as long as it supports my liabilities and it grows, because it's an annuity-based business.

So, we have invested in new initiatives, new branches and as long as those play out over a period of time, you will start seeing the revenue growth happening. Of course, the increase in cost will not be to the extent what you are seeing right now. So, increase in cost will be moderated, to be less than the revenues. So, the negative carry which we were seeing at this point in the revenue growth at 17% to 18% and cost growth at ~25%. Going forward, you would see revenue growth at ~20% and cost growth at 10% to 11%. That's how it will happen. The negative carry will go away.

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

Sumant Kathpalia: So, thank you for participating in the investor call. As usual, Indrajit and me are available for any clarifications or further discussion, which we want to have. Thank you, and God bless.

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

Additional Information Discussed During the Analyst Call:

1. Gross Slippages Details:

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q2FY24	Q1FY24	Q2FY24	Q1FY24	Q2FY24	Q1FY24
CFD	443	502	56	80	500	581
MFI	335	336	9	33	345	369
Other Retail	397	363	10	19	406	382
Corporate	206	43	8	-	214	43
Total	**1,382**	**1,244**	**83**	**132**	**1,465**	**1,376**

2. Segment Wise Restructured Loans:

BU	Sep-23 (Rs.cr)	Jun-23 (Rs.cr)
CFD	910	1,182
MFI	29	85
Other Retail	311	380
Corporate	449	327
Total	**1,700**	**1,974**

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