IndusInd Bank

Q4 FY24 Earnings Analyst Meet

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+
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Sumant Kathpalia Dear all, welcome to the Q4 results analyst meet. At the outset, I want to mention that the bank completed its 30 years of operations a few days back. The journey wouldn't have been possible without your support and confidence in the bank. Thank you and looking forward to continued support over the coming years. Let me start with some macro commentary and then go into the bank specific details.

The Indian economy has been resilient in navigating the global challenges. Real GDP growth is amongst the fastest in the major economies. Improving economic activity helped bank credit growth sustain above 16% during FY24. While Deposit growth at 13.5% YoY picked up compared to 9.6% last year, the liquidity environment remains challenging for the system. FY25 is expected to be a year of balanced growth for Banking sector. We remain confident on our growth journey whilst being watchful about the inflation and rates environment.

Coming to the bank specific developments. Some of the salient highlights for the quarter were:

- The retail deposit momentum continued during the quarter with retail as per LCR deposits growing at 18% YoY.
- Our Loan growth was at 18% YoY driven by 23% growth in retail loans.
- Our vehicle business grew at 17% YoY, microfinance at 22% YoY and other retail at 32% YoY.
- Within corporate, small corporates grew by 33% YoY, mid corporate grew by 8% YoY and Large corporate grew by 13% YoY.
- We continue to scale-up our new initiatives with Affluent grew by 24% YoY, NRI deposits grew by 33% YoY.
- Our merchant loan book originated via BFIL now crossed Rs.5,500 crores mark, while home loan book now stands at Rs.1,792 crores.
- We saw sequential improvement in asset quality with slippages reducing across all the business units. Our Q4FY24 credit cost was at 111bps and we closed full year credit cost of 113bps within our communicated expectations.
- The profitability metrics have remained healthy and stable over the course of last year.

Now coming to financial highlights for the quarter and financial year:

- Our net profit for Q4 was at Rs.2,349crores growing at 15% YoY.
- All key ratios are healthy with NIM at 4.26%, ROA at 1.90% and ROE at 15.23%.
- Our GNPA and NNPA were stable QoQ.
- I am happy to share that our balance sheet has now crossed Rs.5 lac crores mark.
- Our NII grew by 15% for the quarter with stable margins.
- Other income grew by 16% YoY & 5% QoQ. Core fee income at Rs.2,293 crores grew by 6% QoQ. Trading & other income was at Rs.215 crores during the quarter.
- Our Overall revenue growth was healthy at 16%.
- We continue to invest across our distribution, digital, human capital & marketing initiatives. We have added 256 branches during the quarter. We have also added around 2,100 employees during the quarter and more than 11,000 employees in FY24, across our group distribution. As a result our cost to income have been on the higher side for last few quarters.
- Our provisions were down 8% YoY and 2% QoQ.
- Profit After Tax grew at 15% to Rs.2,349crores for the quarter and 21% for the full year to Rs.8,977crores. EPS for the year was at Rs.116 per share.

I will now cover our progress across key businesses as highlighted in our investor presentation.

Well Diversified Loan Book across Consumer and Corporate Products

- The loan mix has moved in favor of retail during the year at 56%.
- Consumer businesses grew at 23% YoY.
- Corporate book grew at 13% YoY.

Vehicle Finance: Granular Portfolio Across Vehicle Categories

- Our vehicle finance loan book grew 17% YoY with full year disbursements crossing Rs.50,000 crores for the first time in our history.
- We had another quarter of healthy disbursements at Rs.11,963 crores. Disbursement growth picked up sequentially in MHCV and Construction Equipments whereas growth was sluggish in LCV, tractors and passenger vehicles.
- During the quarter, we have also completed migration of around 5mn vehicle customers to finacle from the legacy system. This caused couple of weeks of impact on business but it was a critical transition for us.
- Asset quality improved sequentially with gross slippages reducing to 0.57% vs 0.73% QoQ in vehicle finance.
- The restructured book in vehicle finance reduced to Rs.547 crores from Rs.705 crores QoQ with majority of the reduction due to upgrades and recoveries.

Micro Finance/ Inclusive Banking via BFIL:

- We had another strong quarter of business at BFIL with outstanding loan book originated of Rs.44,750crores growing at 10% QoQ and 23% YoY.
- Both the microfinance as well as merchant acquiring segments grew handsomely at 22% and 38% YoY respectively.
- Our microfinance loan disbursements were at Rs.13,800 crores growing 19% YoY.
- Microfinance gross slippages for Q4 reduced to Rs.335crores vs Rs.363crores QoQ.
- The merchant acquiring business resumed its growth journey crossing 5,500 crore mark with 16% QoQ growth. We now have around 700,000 borrowing merchants onboarded. The diversification initiative is playing out well with Merchant business now forming 13% of BFIL originated book.
- Deposits mobilized through BFIL stand at Rs.2,912crores and we have ~18mn SA & RD accounts via BFIL so far.

Other Retail Assets – Growing Sub-Scaled Businesses

- Other retail assets continued robust momentum with 9% QoQ and 32% YoY growth.
- Our MSME book under business banking maintained strong traction with 21% YoY growth. New acquisitions have reached at all time high during FY24 driven by our reinforced focus via MSME 2.0 strategy.
- Majority of the MSME new acquisitions are granular from less than Rs.2crores segment i.e. Small Business Banking segment leveraging our digital lending platform.
- Our home loan book now stands at Rs.1,792 crores growing 30% QoQ.
- We have cautiously moderated sequential growth in unsecured products like credit cards & personal loans at 5% vs. 9% QoQ growth last quarter.
- Our credit card spends market share was at 4.9% as per latest available RBI data.
- Overall, scaling other retail assets is one of the key focus areas for the Bank and we aim to grow our other retail assets at faster pace while improving the balance towards secured mix.

Corporate Portfolio – Focus on Granular, Higher Rated Customers

- Our corporate loan book grew 13% YoY.
- Within corporate, small corporates grew by 33% YoY, mid corporates excluding gems and jewellery grew by 19% and Large Corporates grew 13% YoY.
- Gems and jewellery book continues to see working capital reduction due to weak global demand. The asset quality of gems & jewellery book remains pristine with no NPA, SMA1 & SMA2.
- Corporate fees remain granular & diversified as we removed reliance on chunky sources like Investment Banking/ Structured finance.
- The proportion of A and above rated customers is now 77% compared to 73% YoY. The weighted average rating too improved to 2.51 from 2.65 YoY.
- Overall, we are growing our corporate book in calibrated manner with focus on granularity and areas where we have right to win rather than chasing headline growth numbers.

Now coming to Liabilities:

- The retail deposit momentum continued during the year with retail as per LCR deposits growing at 18% YoY.

- As mentioned in the balance sheet release, adjusted for outflows for deposits originated through a fintech partner, our retail deposits growth was at 20% YoY and 4% QoQ.
- With our constant endeavor to bring forth innovative propositions, we have recently launched contactless payments wearables, 'Indus PayWear' India's first All-in-One tokenizable wearables for both debit and credit cards.
- Cost of deposit increased by modest 4bps QoQ driven by the mix in favour of term deposits and some repricing.
- We have added 256 branches during the quarter and 378 branches in FY24. Our branch count now stands 2,984.
- We maintain healthy average surplus liquidity of around Rs.39,400 crores during the quarter with Liquidity Coverage Ratio at 118% vs 122% QoQ.
- Overall, we are making steady progress towards deposit retailisation journey amidst the challenging liquidity environment and will take you through our initiatives in PC-6 discussion.

Executing Digital 2.0 Strategy

- Our digital platforms continued to show robust growth
- Direct to client platforms are scaling with efficiency creating a new tech led business model.
- Overall, during the year, Bank acquired 2mn clients digitally in DIY mode, disbursed more than Rs.1000crores of personal loans to new to bank clients acquired digitally and acquired 2,50,000 credit cards digitally.
- While the business is growing strongly, the digital business model also drives better business efficiency in the lines in which it operates.
- INDIE – the flagship digital platform for individual segment is off to a strong start and completed 6 months of operations
    - We have ~5mn installed base and 1.2mn clients on INDIE.
    - More than 9mn transactions are processed every month on INDIE platform and transactions are doubling month on month.

Stable Margins

- Overall margins continue to remain stable around our expected range.
- Loan mix moving in favour of retail loans provides the ability to absorb deposit repricing

Diversified and Granular Fee and Other Income Streams

- Core fee remains healthy growing at 6% QoQ.
- Share of retail fee continues to be healthy at 72%
- Overall fees remain steady at 1.9% of assets.

Healthy Assets Quality

- Our GNPA and NNPA were steady QoQ.
- We saw improvement in all the asset quality metrics such as gross and net slippages, restructured book and security receipts during the quarter.
- All the four business segments saw sequential improvement in slippages.
- Gross slippages reduced down to 0.44% vs 0.56% last quarter.
- Our restructured book continues to run down at 0.40% compared to 0.48% QoQ.
- Our Net SR book reduced to 0.34% of loan book vs 0.37% QoQ. We have made ~Rs.91 crores provisions for Security Receipt book this quarter.
- Our SMA1+2 book was at 0.24% of loan book.
- Our Q4FY24 credit cost was at 111bps and we have closed FY24 with full year credit cost of 113bps in line with our communication at the start of financial year.
- We continue to carry strong loan related provisions.
- Our PCR on GNPAs remains healthy at 71%
- During the quarter, we also saw full repayment of the funded exposure towards a stressed telco of Rs.990 crores. The Bank had made a prudential contingent provision towards this account. The bank has retained large part of this provision in the contingent buffers.
- The contingent provisions of Rs1,000 crores provides cushion for any volatility in microfinance and commercial vehicle segments. We aspire to keep 2% extra on microfinance and 0.5% extra on MHCV portfolio as buffer.

Robust Capital Adequacy

- CET 1 was at 15.82% and CRAR was at 17.23%.
- Our credit risk weighted assets grew at 15% YoY vs. loan growth of 18% YoY.
- Sequential growth in RWAs is higher due to operational RWA addition in Q4. Capital utilization remains efficient with improved risk density and strong internal capital generation.

Planning Cycle 6 Progress

We completed first year of Planning Cycle – 6 in Mar-24 and outcomes have been largely in line with our ambitions. We made steady progress across key themes of PC-6:

1. **Continuing Retailisation Journey:** Increasing Share of Retail Deposits

- We progressed towards our retailisation journey with ~73% incremental deposits in last 4 years coming from retail as per LCR deposits & CASA.
- Share of retail deposits is now at 44% compared to 31% in Mar-20.
- We continued to invest in our distribution network and opened 378 branches during FY24 and 1,073 branches in last 4 years. We believe our investment in the distribution should aid us maintaining the growth momentum in retail deposits.
- We have lowered our dependency on bulk deposits and borrowings.
- Certificate of deposits remain low at 3% of deposits, while borrowings contribute 9% of total liabilities.

2. **Diversifying Domains**

2a) Vehicle Finance: Sustainable Growth Across Product Cycles

- Over the period, the Bank has diversified its vehicle finance book with addition & scale-up of new vehicle categories like Light Commercial Vehicles, Cars, Utility Vehicles, Construction Equipment & Tractors etc.
- We have gradually reduced dependency on MHCV segment which now contribute 6% of overall loan book compared 11% in Mar-18.
- We have ramped up LCV business by carving out dedicated business unit. Bank's LCV market share has now crossed 10% from sub 5% a few years' back
- We have also scaled up passenger vehicle book improving balance between passenger and commercial vehicles.
- Overall, vehicle portfolio is now diversified across product categories and the Bank is well positioned for sustainable growth across different product cycles.

2b) Bharat Financial Inclusion Ltd (BFIL): Evolving from Microfinance to Micro Banking

- We continue to progress on the journey of transitioning BFIL's rural business from microfinance to micro banking.
- We have scaled-up our merchant business via our Bharat Super Shop offering. The loan book has now crossed Rs.5,500crores spread across 7lacs nano retailers in tier II & tier III cities.
- The share of non-microfinance loans is now close to 13% of overall loan sourced via BFIL and we aspire to take it to 30%-35% in next 2-3 years.
- Our initiatives on the liabilities side are also moving steadily and we now have close to 18mn SA & RD account opened via BFIL with deposits of more than Rs.2,900crores.

2c) Gems & Jewellery: An Approach to Community Banking

- The Bank is adopting 'One Bank' approach to capture entire echo-system via community banking.
- We have launched 'Indus Solitaire' a community focused relationship programme offering a gamut of tailored banking services for the Diamond Industry.
- While in the interim we have cautiously slowed down on the growth amidst global demand challenges, the asset quality of the book continue to remain pristine with zero NPA and zero SMA1 & SMA2.

3. **Scaling Sub-scale Businesses:** Growing Existing and New Initiatives

- We are scaling our new and existing initiatives across assets and liabilities. This is one of the key focus area for PC-6
- On the asset side, our home loan book is now at Rs.1,792 crores while merchant advances via BFIL are at Rs.5,565crores growing at 38% YoY.
- Our MSME initiatives have shown strong traction driven by sharp focus via dedicated business units & best in class digital offerings. Overall, loan book via our MSME focused business units grew at 26% YoY in FY24.
- We continue to scale our existing liabilities initiatives of Affluent and NRI Banking. We will further expand our affluent and NRI offering with launch of Private Banking focused on HNI/ UHNI customers.

4. **Accelerating Digital 2.0:** Innovative Digital Platforms

- We have laid a strong digital foundation with progress on our 'Digital 2.0' strategy and created a strong stack of digital products & capabilities.
- Our recent launch 'INDIE' is seeing healthy early trends & user adoption with 5mn+ downloads, 1.2mn accounts opened and around 10mn transactions per month.
- We will continue to Integrate digital across our businesses with scale up of existing initiatives and plan launches.

5. **Imbibing ESG into with Business:** Multiple Initiatives at Place

- The Bank has deepened its impact on the society through responsible lending, mitigating climate change, and promoting social behavioural changes.
- We have launched multiple initiatives including:
    - ESG linked products such as green deposits, sustainability linked bonds etc.
    - Indus WE, a platform for women entrepreneurs offering holistic banking and non-banking services
    - Indus Solar, offering Rooftop Solar Loans to MSE clients, fostering innovation in solar energy utilization
    - ESG oriented debt solutions for corporate solutions for corporates.

Our FY24 progress has largely been on track with our PC-6 ambitions across parameters. We remain committed to achieving our Planning Cycle 6 goals. The key focus areas for FY25 are:

- Steadfast focus on retailisation of deposits navigating challenging environment.
- Calibrating loan growth in sync with deposit growth, prioritizing diversification and granularity.
- Integrating 'One-Bank' distribution structure to fully leverage its strong distribution network across key segments
- Scaling new initiatives like Home Loans, MSME, Affluent Banking, NRI Banking etc
- Leapfrogging Digital 2.0 with planned launches & scale-up
- Relentless focus on compliance & governance
- Maintaining healthy profitability in top quartile of industry.

We have shown healthy traction on all the key metrics and expect to show similar trends going into FY25 as well.

- We aim to grow ahead of industry. We are committed to PC-6 growth rates whilst being watchful of operating environment quarter on quarter.
- We remain comfortable with our margins with some potential upside when interest rate cycle turns.
- We continue to invest in digital and other liability initiatives. The cost to income thus should be range bound in near term and improve as the operating leverage plays out in a few quarters.
- The asset quality is now in steady state and any improvement would be used to build contingent buffers.
- Overall profitability of the franchise would thus be stable in the near term and improve as some of the benefits from margin and operating leverage plays out over the course of next few quarters.

Thank you. And let me open the floor for question and answers now.

Rohit Shinde: Myself Rohit from Market Memories. I have just two, three quick points and questions. First of all, sir, you mentioned your new to credit, you have approximately lent around INR1,000 crores

Sumant Kathpalia: The digital platform on personal loans, we've lent INR1,000 crores, new to bank, not new to credit.

Rohit Shinde: And microfinance also, you have lent. So basically, I want to know how do you take the credit score for people who are the borrowers, how do you judge the credit score of the borrowers who are availing these loans in micro finance?

Sumant Kathpalia: So there is a process which we use for the microfinance loans, which covers the household income, debt servicing ratio and his performance in the credit bureau. We determine the household income, debt servicing ratio and his track record and compute a score, basis which we give the customer loan. The average loan in cycle 1, which is given to a new client is absolutely low amount and then we take him up the value chain as we go.

Rohit Shinde: And suppose if he is unbanked, he doesn't have any banking. If he's unbanked, he doesn't have any banking facilities

Sumant Kathpalia: We only disburse through the bank account. We don't disburse anything to non-bank customers. We don't do any cash disbursals.

Rohit Shinde: And you said you have about 2,984 branches pan-India. So how many are in the rural areas

Sumant Kathpalia: Around 25% of 2,984 Banking Branches/ Outlets are in the rural areas. But we have a different distribution outreach in the rural because of the Bharat Financial branches/ BC outlets. Overall, we have 6,971 group distribution points across pan India, including IMFS as well as Bharat Financial outlets. So inordinate large distribution.

Ramesh Bhojwani: Sir, Ramesh Bhojwani from Mehta & Vakil. First and foremost, many congratulations on excellent set of numbers and a beautiful presentation, you have given an all-encompassing account of all your four verticals. And it's so heartening to see the asset quality not only is under control, but it has improved. And going forward, it will still improve is what you indicated in your, not only verbal, but even the body language.

Sir, only thing which comes to my mind is, I think the best in the banking industry cycle is it likely to continue for a year more? Or are we now going to see somewhere some weakening or some sectors or some segments of the economy or industry showing symptoms or signs of weakness?

Sumant Kathpalia: So I think you can look at a glass half empty or half full. If the economy has to grow at 7% to 8%, the credit quality should continue to do well. And I continue to believe that these are the golden times for the Indian economy, and we will continue to do well. And I think if the economy has to do well and has to become a $5 trillion economy, banking sector has to do well. And for the banking sector to do well, the credit quality has to remain good.

Ramesh Bhojwani: Absolutely. But sir, looking at the macro picture on the geopolitical front, today globally, there are 3 wars which are being fought. And if these don't get contained or cease fired, they may catapult into a World War 3 kind of a situation.

Sumant Kathpalia: I can't comment on the geopolitical developments. I can only say that we have to be watchful of the inflation because we get impacted on inflation, if the oil prices go up, and we have to be watchful on the rates as a consequence. While we maintain a growth rate of 18% to 22%, but we are very watchful of the external environment, and we'll continue to evaluate quarter-on-quarter what the external environment is. And that is where we are convinced that we should be able to maintain the portfolio quality.

Ramesh Bhojwani: And last thing is I personally believe that the microfinance industry in India is of a size of at least INR3 lakh crores

Sumant Kathpalia: Close to INR390,000 crores.

Ramesh Bhojwani: Yes. And you are moving microfinance to micro banking. You also extended that statement even to my colleague here. But any specific strategy or focus or a concentrated move to double this micro finance book in the coming year?

Sumant Kathpalia: I think you have to do a balanced growth at any point of time. You have to understand what should be the contribution of each portfolio and each segment in your overall book. We believe microfinance book should be not more than 11% to 12% of your book, and that's what our strategy is. It doesn't mean that rural book should be 12%, you diversify into other products, which are secured in nature and have cash flows which are of a very different nature. So it doesn't stop the overall growth, but what you do is diversification of your portfolio, and a cohesive strategy is very important to grow in that segment.

Jai Mundhra: Jai Mundhra from ICICI Securities. A few questions. First, on loan growth, so in our PC cycle, we have been saying 18% to 23% loan growth, and we have delivered that in a bit of a challenging environment. But going ahead, I mean the constraint on funding still seems to be there. So this 18% loan growth guidance, I mean, is still relevant even in the period where deposit mobilization may be under a bit of a constraint.

Sumant Kathpalia: So like I said, there is no reason for us to change our guidance right now. We continue to believe that the bank should grow at 18% to 22%, as we operate in those segments. Otherwise, we lose market share and we play in businesses where we have a right to win. That's number one. Number two, in my opinion, it is about cost of deposits now and it is not a liquidity issue.

As long as you continue to create the right mix of assets, liquidity is not an issue, and you can manage your book. Don't worry about CASA ratios and liquidity, in the interim. As long as your liquidity is matching your asset growth, and if you are able to do 16% to 18% deposit growth, you will be able to grow loan book at 18% to 22% given that our portfolio lead themselves to refinance and a lot of funding can also come from refinance as a consequence of a growth.

So we don't see an issue in loan our growth because we have refinance as an option in the borrowing where we have a tap out there, and we also believe that our liability growth will touch 16% to 18% this year, and we should be able to match that growth.

Jai Mundhra: And sir, within this growth question, we have given additional detail on vehicle portfolio that the way that we are diversifying, right? What is your sense of the vehicle book growth in FY'25? Because at system level, the overall industry, CV, etcetera, seems to be you know?

Sumant Kathpalia: One of the reasons why we diversified. If you look at it, the MHCV book has not grown and has slowed down, but our vehicle book growth has been 17% in a very tough environment also. We continue to believe that our vehicle finance book will grow at 15% to 20% next year because of the diversification, which we've done in our book.

Our vehicle portfolio is not dependent on a singular product like MHCV. It's a full diversification. Passenger vehicles are doing well. Tractors will come back. It's not done well last year. It's going to come back this year. We expect a good monsoon. Overall, I think we have enough levers in our vehicle finance unit to make sure that we deliver an 15% to 20% growth.

Jai Mundhra: Right. And lastly, I mean, last two questions. One is, it looks like the cost of deposit has only grown by 4 basis points, but the cost of funds has increased by double digit.

Sumant Kathpalia: I'll tell you why. We had a scenario where one fintech partner, which we had around INR2,800 crores of liabilities in individual fixed deposits, went off at a certain point. We have a strong view that we should not reduce our LCR below 115% at any point of time. We at that point, did external borrowings. Foreign currency long-term borrowings, and we had a cost which was associated with it. It's a matter of prudence that we did it, and it was very important to manage it at that point. We are still able to maintain our net interest margins, and this is the ability of this bank to manage its NIMs where people thought our NIMs will be 4.15% or 4.2%, we still came at 4.26% NIM because our ability and our portfolio's capability to diversify so fast.

Arun Khurana: Basically, you see the borrowings number. The borrowings number has gone up by INR7,000 crores, maths will add up.

Jai Mundhra: And if you can suggest that these other loans, right, this has become like INR25,000 crores

Sumant Kathpalia: INR5,500 crores in that is coming out of BFIL- merchant acquiring loans. So affordable housing is about INR1,988 crores. KCC is INR2,966 crores. Home loans is INR1,792 crores and others, which include BL, LAS, gold loans is about INR5,123 crores.

Jai Mundhra: I thought the number was INR25,000 crores in total.

Indrajit Yadav: The break-up of other retail loans is given in the investor presentation. This is breakdown of 'BL, AHL & others' head in other retails loans.

Jai Mundhra: Okay. And sir, if I may ask from a 2-year perspective, do you think you have upward cushion on margins, opex, credit cost in all these 3-line items?

Sumant Kathpalia: So very difficult to comment as of now. We've set and given our expectations on the ROA. See what you should look is the ROA, we've given 1.8% to 2.2%. That's the end of whatever we do. We are right on there in year 1, we're at 1.9%. I think you should only see positive movements. Positive movement happens if there is a margin improvement. So our cost to income is highly inflated as of now because we've invested in new businesses, but we've still been able to maintain our profitability.

Pratik Chheda: This is Pratik Chheda from Guardian Capital. Just taking forward on the point on the deposits. I mean this quarter across the industry, deposit growth has been strong on a Q-o-Q basis, which was a slight positive surprise. So just wanted to understand whether this is more a temporary thing? Or do you see the deposit mobilization now sort of picking up? And how have been the early indicators, we are almost a month into the new quarter.

Sumant Kathpalia: Deposits is not the issue. Please understand that liquidity is not the issue anymore. It is about the cost of deposits. And that is what the issue is. And as long as you know how to manage the cost of deposits and how you manage borrowing cost and cost of funds, you will get your numbers.

I think as long as you do granular growth on deposits, you have a healthy mix of borrowings, I think we should be achieving that growth. And we are a small bank, so we're not such a bank that we have INR10 lakh crores of deposits, for us to do 18% to 22%, it means INR15,000 crores to INR18,000 crores a quarter. So there is nothing much to it.

Pratik Chheda: And incrementally, the borrowings have gone up by around 18%. Can you just share what is the cost of borrowing for these additional borrowings that have come in the fourth quarter?

Arun Khurana: They have been less than the cost of deposit. But yes, overall, the cost of funds will go up because they are over the cost of funds, which was 5.46% earlier, obviously, it will go up.

Darpin Shah: So you had mentioned earlier also that you won't use additional provisions. So have you utilized anything this quarter?

Sumant Kathpalia: Yes, we have utilised INR300 crores.

Darpin Shah: Okay. And what's the plan for the remaining Vodafone provisions?

Sumant Kathpalia: I have said in my presentation that we will keep 1.5% to 2% of micro finance book, which is the JLG book and 0.5% on the MHCV book, as contingency buffer. So we are within that, and we will continue to keep that buffer as we go. So we will continue to add or delete basis our need. So it's not that we are going slow or high.

We will continue to create a contingent buffer to take care of any volatility in our earnings. I've always said our earnings profile will be very stable, very annuity driven, and that is what you will see of our earnings profile.

Darpin Shah: Sir, in terms of your cost of deposits or cost of funds, how much more increase you expect for next couple of quarters or the most of the repricing is done?

Sumant Kathpalia: Very difficult to project right now. I think we look at it over a period of time. It's also not good to have very long-term deposits right now. So we are seeing when the rate change happens. So we are managing our book right now. So as long as we maintain our NIMs between 4.2% to 4.3% and maintain our ROAs between 1.8% to 2.2%. That is the number we share our expectations on.

We don't give a guidance on every parameter because that is for us to manage our businesses. But we want to give returns, which are consistent.

Mahrukh Adajania: Thank you, sir. I have two questions. My first question was on the Reliance Capital and mutual fund business by the holdco right? So it's part of the holdco. But do you foresee any pressure going ahead from RBI to just have one bank, one company?

Sumant Kathpalia: We've not got para banking licenses. So we don't have one bank, one company approach. Holdco can have multiple companies. But Bank is an independent entity governed by the Banking Regulation Act, so we don't have any pressure as such that we've got to take a stake or not take a stake. We've not invested anything in that company. So we can't even comment on it.

Mahrukh Adajania: And sir, any clarity on promoter stake, means promoter increasing stake?

Sumant Kathpalia: See, it's between the promoter and the regulator. Whatever information we are being asked by the regulator, we have responded to that. And I don't think there's been any such information, which we've been asked in the recent times. So it's between the promoter & regulator and it would be very difficult for us to make any statements around that.

Mahrukh Adajania: Got it, sir. Sir, and my last question is on the MFI business. So it's doing well. You said that it will move up to the high teens. It's moved up to 20% year-on-year from a low-ish growth earlier. So where do you see the growth settling for the next 1 to 2 years? And just in terms of asset quality, of course, your exposure in Punjab, Haryana is small. So it's good, but any such asset quality stresses you foresee in the future?

Sumant Kathpalia: First of all, I want to give you the comfort that MFI book, which is in the JLG, while the MFI book may grow at 20%-25%. It's not that we will only grow in JLG book. Diversification is very important in our portfolio, and that's what we've done. We continue to maintain 9.5% and 10% market share in the JLG business. And that is where our market share will be. JLG portfolio will also not be more than 11% to 13% of our overall loan portfolio. That's the number 2 statement I want to make.

Number 3 statement I want to make is, yes, we saw Punjab coming 11 months ago. We saw the waves of Punjab coming and even some parts of Odisha and Bihar also coming and some parts of UP also. We started exiting those portfolios at that point. That's why our exposures are very, very low. And we did not restructure any of these assets, and we wanted to take them as losses if there are any. So we continuously believe these small ticket loans should never be restructured. We should rather take them as losses and move forward.

Nitin Aggarwal: So a couple of questions. Firstly, is on the slippages, while there has been an improvement in slippage rate this quarter versus the last quarter, but how do you really see this? Because

consumer slippages still look a bit higher. So where would you see them in FY'25? Any colour on that?

Sumant Kathpalia: Our slippages on the consumer side are absolutely under control. It's only in credit cards where we are seeing a little bit of elevated slippages. And we write-off the credit card portfolio very early also. The slippages are coming in the credit card side, which we now think has stabilized. So it will now see a stable flow and then it should see a decline. So we are not seeing fresh inflows into the 30-plus bucket. But I think the flow rates have to come down because the resolution rates in the 30-plus buckets are a little bit low. So I think you should start seeing in two quarters' time credit card flows coming down. And as a consequence, you will start seeing the slippages going down in the retail side of the portfolio also.

Nitin Aggarwal: Okay. And secondly, on the additional provisions that you plan to make in MFI and MHCV. So see, last 2 quarters, we have been only consuming provisions from contingent and by when do you see that bank will be in a position to start making those provisions?

Sumant Kathpalia: See, you can't give a guidance on this. It depends on the opportunity and the stability of the flows which I want to see. And our books are stable right now. I think we carry enough contingent provision to manage any market volatility.

If I feel that market volatility is a little higher, I will start making contingent provision, or micro finance books touches a certain level. If I feel the INR1,000 crores provision is not enough to take care of that, I will make the provision immediately.

I've made a commitment and I'll make 1.5% - 2% of MFI portfolio and 0.5% of the MHCV portfolio. I will add to that, and maybe I'll start demonstrating to you that what I carry as the contingent provisions from next quarter onwards. So that you're comfortable that the bank carries enough provision to take care of any volatility in these 2 books.

Nitin Aggarwal: Right. And my last question is on the corporate banking yield. Now this quarter, there was a slight drop there. And our focus all through has been more on the mid-corporate and small corporate in terms of growing that book. And so how do you really see that and what explains this drop this quarter?

Sumant Kathpalia: So we continue to believe large corporates is a very important part of our business. Niraj Shah runs this business for us. We do very specific segments, and we focus on very specific deals in that. We also focus on large corporate segment because we get our risk-weighted assets balanced as a consequence of that. So we do it at a time when we need to balance the risk weight assets. If you see our CRAR ratio and you see the decline, we've matured AT1 bonds and a 40-basis point impact. Our CET1 was lower by 25 basis points despite making provisions for operational risk & dividend, because our A-rated paper and above went up, and that is what large corporates does. So we balance our books very well, and that is what it is. We will grow large corporates in line with the system growth, not higher than the system growth. But I think it's part of our strategy. It's a very important piece of our business. And we believe, though we may not make that much of money, it helps in our capital allocation, and that preservation of capital is very important. And that's why we've not gone to the market for the last 4 years to raise capital.

Gayathri Shivaram: Just wanted to understand from you on the status about the Vodafone recovery account?

Sumant Kathpalia: So we got a recovery on February 8. The full loan was repaid. We told you last quarter that we will get this recovery. We got the recovery on February 8.

Anand Dama: This is Anand from Emkay. Can you just talk about how the funding cost curve is moving? Do you think that basically it has largely peaked or possibly it's going to peak in 1 or 2 quarters number one.

Number two is that, particularly in terms of lending rate, basically, you run a lot of fixed rate book as such. Do you see any scope of increasing lending rate, particularly into any products in case of microfinance lot of the NBFC microfinance are actually asked to reduce the rates as such? Any such case for us, number one. Number two, in case of MHCV and other vehicle loan products or the affordable housing loan products as such, have you increased the lending rates in the recent past?

Sumant Kathpalia: Not at all. I don't believe that you can, at the bottom of the pyramid, start increasing rates because the opportunity represents to do that, right. You have to look at this business in totality rather than individual vectors. And I think if you increase the rates, while the intent will be there but the ability to pay reduces, and that's not fair. While you may say it's INR10, INR20 per month, in my opinion, it's not the right way to do microfinance business. Our rates remain at around 21%-22% and we don't want to do anything, which is contrary to that. We don't want to offer rates at 26%-28%. That's not right on the microfinance side.

If you ask me on the funding side, I think, as long as there is a gap between the savings account rate and the fixed deposit rates, there will be a COD shift, which will happen. It may be 3 to 4 basis points, but it will happen because you can't tell a client to keep money in savings account and not keep it in the term deposits. And that's happening in the industry. Second, midsized banks like us and even the large private sector, the current account growth will get subdued because with the 10% regulation, which has come in. A lot of private sector banks will not have 10% exposure to large corporates. And whatever money you may get, you can only keep for 2 days or 3 days, which is the cash management business and the special purpose accounts are far and few. So I think there is a lot of money which banks used to get as transaction banking floats, which have disappeared. So that's where the cost of deposits has gone up in the banking industry. And I think you should not worry about that as long as margins are maintained between 4.2% to 4.3% and banks manage the risk in a diversified manner. I think that's the new mantra. And that's the way we are managing. While CASA ratio is important, our CASA ratio has reduced from 43% to 38% in 6 quarters. But again, our NIMs have remained very stable.

Anand Dama: So basically, what could be the levers to maintain the led in NIMs basically where we are at this point of time, if we don't increase the lending rates, our cost of fund tends to go up, so how do you manage that?

Sumant Kathpalia: You must look at cost of funds. The difference between cost of deposits & cost of funds. Understand why that cost of difference comes in. That's number one. Number two, our ability to change the mix and every change of mix between corporate and retail gives us about 550-600bps

incremental yield. That is very important for us as we manage our business going forward. And those are the important parameters for us to manage our business.

Anand Dama: Sure. Secondly, on your opex basically from the industry perspective as well as IndusInd Bank perspective, we believe that, the branch expansion is bound to happen across banks. And I think you are also focusing on that front because you want to mobilize the retail deposit. So how do you see your and the industry cost structure moving up from here, be it investment into the branches, be it investment into people, technology, all these platforms.

Sumant Kathpalia: So I'll tell you, you have to understand where the costs are coming from. That's very important. One is people cost, and retention of people has become important. And I think with all banks expanding the way they are expanding, people cost have risen. And we must accept that. No more can you say that I will give a 5% increment and try to retain people. I think the cost of people have risen and it's an acknowledged fact which has happened in the industry. And of course, 30%-35% of attrition also raises another cost issue, which comes in as a consequence of that. That's one.

Number two, the cost of technology has risen. If you want to be ahead of the curve, you've got to invest in technology and at a very fast pace. And the technology costs have started showing an increasing trend. And it's showing for the last 2 years, and continuously showing an increasing trend.

Number three, payments business cost has gone up to a large extent, specifically on the UPI side and those costs are increasing. Even if your account is debited and you're paying through the wallets. At the end, people don't use you as a wallet and they move the funds from bank account to through the aggregator/ payment service provider, we are actually paying the aggregator. That cost is increasing at a very fast pace for the banks. That's number three.

Number four is the branch expansion.

Number five is when you get into digital, initial phases of 12 to 18 months, you will have upfront costs which come in. Now you can stop that initiative, but I think you are contradicting yourself and spoiling the growth of the future of the organization, because I think branches are required because relationships belong to branches. But digital is required because transactions are enabled through digital. And you need both complementing each other. And that's where the costs are happening.

Anand Dama: So recently, basically, RBI has been very active and putting a lot of punitive action taking, particularly in terms of IT systems as such. So what's your broad view? I mean, not talking about any particular player, but broadly in terms of industry and how basically IndusInd Bank stacks in that, do you see any kind of that risk coming in for IndusInd Bank ever from the regulator?

Sumant Kathpalia: I cannot comment on the regulator’s behalf. I'm lucky that I've not got the punitive action. But my CSITE audit, if that's the indication, does not reflect that I have any such issues. So that's because we invest in technology before we scale our business. So even digital. We've not scaled up to a large extent because we want to keep on testing our technology and the infrastructure before we scale up anything and we are being cautious about that. As we grow this business and

scaling up of volumes and payments is happening, how do you define infrastructure and your architecture of the technology is very important.

The traditional models are not going to work in this infrastructure. We need to have Real-time DR, multiple switches, how do we create that capability in the systems and efficient UI/UX, how do we have online real-time systems to trace when there is a constraint or a stoppage in the system or something is happening etc. So we need to have efficient tools, efficient monitoring capability, efficient change management system, effective architecture etc. It's a very different tech-related stuff, which has to happen, and we've invested in that. So that's why our technology costs have gone up the way they have and our efficiency is what it is because we invested and I know that it will pay back to us in a long-term basis. But I think that's investments which you have to do if you have to survive. Now can I say that we'll get a penalty? I don't know. Whether we'll get a punitive action, I can't judge for the regulator.

Anand Dama: Sure. Lastly, if you can just talk about your tech expenses as a percentage of overall opex and as well as the branch cost broadly? So the branch cost as well as the tech cost as a percentage of your opex, if you can talk about that?

Sumant Kathpalia: So it's about 9.5% of tech cost, and branch expenses, I can talk to you about consumer bank as a whole, so about 22% of my expense would be the branch expense.

Anand Dama: So basically, Phygital takes away somewhere about 30-odd percent of the overall opex, and that has gone up in the recent years, or like?

Sumant Kathpalia: It does go up because the people's cost is going up. Sunk cost has come in. The branch set-up cost is sunk cost now. So the variable cost is mostly the people cost.

Anand Dama: And the attrition rate this year has come down versus the last year in broader terms?

Sumant Kathpalia: Zubin is here, he can talk about it. But to give you a comfort, yes, we are down from 51% to mid-30s, but Zubin can talk more about it.

Zubin Mody: So I think Sumant has already shared the numbers. A year before last year, was a tough year for the entire industry, and you all read reports of our attrition crossing the 50% mark. But a lot of initiatives and activities were implemented last year in terms of understanding why people are leaving.

There was a huge boom where people wanted to leave for fintech, just like the dotcom in 2000. And I think it was at that point in time, we said that we can't stop these people from going. Holding back people at 40%-45% hikes was not making sense. The payroll costs would have catapulted geometrically.

But the last year has been good not only for us. We've, come right down to the bottom of the list of attrition now, fortunately, it's just upwards of 35% and below 36%. And it helps us to bring the cost down. So the cost of manpower that you're seeing, which you see is slightly elevated in the FY24 also includes the replacement cost for the 51% attrition for the previous year. So there's a lead lag effect that needs to play out when you're hiring.

I used to give my team targets that you're not going to hire anybody above an average of 7.5% to 8%. Those days are gone. The kids and others who come over here now expect 30% to 40%, we start with 15% come down lower. So I think the market is finding its levels. And we should see standard stabilized attrition between 28%-32% for the industry, as a result.

Anand Dama: Congrats and really good to hear. I'm sure you're going to take special bonus this year. Sumant, just last thing basically, you ticked almost all the boxes that one would expect it to be. The only slight disappointment or basically the ask that we have for next year is that, if you can shore up your contingent buffer, I don't know where from you find profits, maybe from treasury gains or something like that. But certainly, I think we would want you to build up that contingent buffer.

Sumant Kathpalia: I have always told, if we need one we will definitely shore it up. As long as the contingent buffers takes 1.5%-2% of the microfinance-JLG book and 0.5% of MHCV book. And if there is a shortfall, we'll demonstrate it clearly on the next quarter onward, what is the shortage, we will definitely add that to the contingent. If there is a release to be done, we will release it. But I'm assuring you we will never be short of this number.

We can cut for tea and I'm there; you can ask any questions if you want. The management team is also here. Thank you so much.

Additional Information Discussed During the Analyst Call:

1. Gross Slippages Details:

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q4FY24	Q3FY24	Q4FY24	Q3FY24	Q4FY24	Q3FY24
CFD	460	554	28	44	488	598
MFI	333	355	2	8	335	363
Other Retail	442	483	1	8	444	492
Corporate	162	304	0	8	162	312
Total	**1,397**	**1,696**	**31**	**68**	**1,428**	**1,765**

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