IndusInd Bank Q1-FY17 Results Conference Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the IndusInd Bank's First Quarter Results Conference Call of the Financial Year 2017. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Romesh Sobti – Managing Director &. CEO. Thank you and over to you, sir.

Romesh Sobti: Thank you and good afternoon. Thank you for joining us on the call. We have disclosed a set of numbers which are already uploaded on our site in the investor presentation. I am going through the broad sort of headlines, these numbers, take you through the investor presentation and then we will open up the field for Q&A.

So I think, without going into the operating environment, the quarter highlights are that we had a very strong and broad based loan growth of 30% which has been contributed both by the Corporate and the Consumer and each of the sub-segments within the Corporate and the Consumer side. We have had a sequential accretion of interest margin of 3 basis points and therefore we are now at a new high of 3.97% on the margin and this was aided by the Consumer bank underlying book growth being higher than the Corporate bank. If you see the loan mix, you will probably find it different, but if you take off a one-off Rs. 1,300 crore short-term loan for a large corporate which has subsequently got repaid also. And if you normalize it for that and the Diamond portfolio, the mix has actually changed in favor of retail in the range of 55:45, 45% being retail. So that is I think is one of the drivers. Revenue growth has therefore come in at 34% which is driven by a new high growth of 38% in NII and a fee growth of 28%.

Within the businesses we find there is continued traction in vehicle financing with advances growing in Quarter 1 by 23% year-on-year to about almost Rs.30,000 crores. Growth on the vehicle finance side has now become much more broad based in the segment with two wheelers and three wheelers and now also equipment financing also showing up a pickup. So in the previous quarters we had seen MHCV growing well for three or four quarters now, but now we are finding that the LCV segment is also starting to grow now in double-digits. So in this quarter we have shown the tractor segment separately from this CV segment. Tractor including CV has grown 32% year-on-year, that we report usually, but we have shown separately, CV has grown 26% year-on-year.

The other highlight I think is the robust 36% growth in our Savings bank base and a 30% growth in CASA. So the CASA ratio came in at about 34.4% sequentially only because of the very robust growth we are seeing in total deposits, I mean our Deposits have never grown 31% year-on-year as far as I remember in the last three or four years and that is why our CD ratio is also down from 95% to 92%.

Other highlights, before we go a little bit more into details is the setting up of our offshore banking unit which is IBU. We have already started offerings there, the book is Rs.500 crores and we now expect to do a variety of loan products, trade finance, treasury products, FD, current accounts and transaction handling out of this offshore banking unit which is based in GIFT City.

The other highlight was our continued march on the digitization front. We had taken a lead in many areas of digitization and that lead has now this quarter come to the fore again as we created first ever service of fingerprint banking on mobile banking. This is certainly creating a strong traction and higher downloads on our mobile apps, mobile app downloads are up 50% which is almost 1,500 on a daily basis as a consequence of this launch, and of course it is also creating some good brand awareness.

So that's I think are broad highlights. Within that if you look at the vectors that we measure ourselves in on success, our NIM as I said went up sequentially by 29 basis points year-on-year from 3.68% to 3.97%, that has fueled an increase in ROA from 1.90% last quarter to 1.94% in this quarter. ROE has also improved by about 55 basis points odd from 14.5% to over 15% sequentially. Cost to income ratio is slightly down at just over 47%. And gross and net NPAs are stable, gross NPAs show a small increase of 4 basis points because of two small accounts slipping from restructured into NPA for which provisions have been made, but net-net on the credit quality we are seeing an improvement, we have certainly seen slippages fall. For the banks as a whole, slippages have fallen from 1.33% to 1.14% annualized in Quarter 1 and slippages have fallen both for Consumer as well as the Corporate slippage ratio has gone down. Credit cost has also gone down, credit cost is down to 15 basis points against 17 basis points in the last quarter.

Just one point on the provisioning, you will see that provision number looks inflated, but that is because of standard asset provisioning. Normally our standard provisioning is about between Rs.30 crores and Rs.35 crores, this quarter an additional Rs.35 crores of standard asset provisioning has been made on account of the exposure to Food Corporation of India on the lines of regulatory requirement, although the assets remain standard as for Food Corporation of India we have made a provision of Rs.35 crores. But for this provision, the net profit growth for the year was closer to 30%. That is included in standard provision.

That is this thing, earnings per share, etc., are fine. CRAR fell by only 8 basis points this quarter, so I think this quarter the quality of lending and the collateralization that we had on our lending from cash back transactions, both funded and non-funded, combined with a marginal improvement in the rating profile. So we disclose our rating profile every quarter, if you will see the abstract chart we show and you see that this time around that chart has moved slightly to the left, left being a better quality in the rating profile. So there have been some upgrades in the portfolio, upgrades by external agencies which are causing slight improvement.

Other than that, on the ARC sale and our security receipt books, the SR book, we sold Rs.17 crores to ARCs and we recovered Rs.23 crores during this quarter. So the SR book has fallen from Rs.235 crores to Rs.221 crores net of the provisions. Rating distributions I have already talked about, standard assets I have also mentioned. Loan book mix, what you see on the chart there is a 57:43 mix, but please normalize that for A) the Diamond portfolio, and B) that one-off Rs. 1,300 crores large corporate, short-term loan which has already gone. So on an average you would see that this mix is actually now 55:45 which is an improvement for what we had over the last two quarters. So we are moving ahead on our stated aim of balancing the loan book to get to a 50:50 on an average basis by the end of this year or in the next 12 months.

Other than that, I think the fee income, I have already talked about CASA, SA has shown a growth of 36%, we now have a run rate of Rs. 75,000 new to bank customers on savings bank which is a new high that we saw in this quarter. Then I think the restructured book actually has fallen from 53 basis points to 49 basis points.

So overall I think we are beginning to see the benefits arising out of the interest engine now beginning to pump nicely which is reflected in the large 38% growth in our NII. And that is a consequence of the three vectors that we always explained. One is that we have a fixed rate book which does not fall immediately in a falling interest regime. Two, I think the small and certain changes in our loan mix which is happening and of course cost of deposits have also fallen, CD rates are down pretty dramatically, the market is flushed with liquidity and we expect that cost of deposit will fall even further going forward which should have a beneficial impact on our NIM which is now as I said high of 3.97%.

So that is I think a quick sort of headline growth of what happened during the quarter.

As far as the macros go, I think system credit growth has remained pretty low, still at 8% to 9% range. And if you are showing GDP at 7.9%, the numbers don't gel. It is said that maybe lower commodity pricing is weighing on the credit growth despite the higher GDP and maybe bonds and debt issuances like the UDAY Bond is partly also responsible. But retail loan growth remains pretty strong and this will probably be further supported by the 7th Pay Commission outcomes that we have seen recently. The monsoon seems to be behaving nicely after initial shortfalls, the shortfalls have almost been covered. We are seeing some Capex signals, the public sector spends in defense, roads, railways are moving up, FDI and foreign CAPEX is also steady, but private CAPEX is still pretty weak. I talked about rates and liquidity, rates were kept unchanged, Repo moved to 6.5% in April, but RBI's change in stance from negative to neutral liquidity is certainly being witnessed in the market with market being flushed right now on the liquidity side. Then the last point of course is Asset Quality Review. I think the balance sheet impact is playing out now. The P&L credit cost impact from sort of provision coverage ratio normalization, structuring provisioning, MTM of unsustainable debt, the SR security mark downs, etc., all remain. And there is attendant capital impact on that as well. There is a new S4A framework launched by RBI as a new initiative that should sort of encourage banks to enter into one time settlements, but that is yet to play out and we have to see how that works.

So I think I would stop here and invite questions which we can answer. The whole team is here, so you can direct your question to anybody and in any part of the banks activities.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: Sir, on this provision which you have made is actually on Food Corporation, this is not the Punjab, this is like the national one, FCI?

Romesh Sobti: Yes, FCI, but Punjab is the cause of the provision.

Vishal Goyal: Yes, I know. But your exposure was never on the Punjab, because that already happened last quarter for some of the banks.

Romesh Sobti: Yes, correct. See, it is like this, the exposure is to FCI and within FCI there are sub-exposures to the states, that is how it sort of flows through. So I think some banks were asked in Q4 to make the provisions, and as far as smaller banks like us are concerned, smaller in terms of the fact that we have only 0.8% of the total food credit, that we got intimation from SBI to make a provision this quarter. So we made the entire 15% this quarter.

Vishal Goyal: So it’s basically 15%?

Romesh Sobti: Yes, we made the whole provision now.

Vishal Goyal: And also sir, on the Consumer loan yield, so if I see the mix of loans, obviously we are growing credit cards at a faster rate than maybe the utility vehicle or even the cars. So why the yields are still falling, it’s only because of interest rates or some other mix changing within retail?

Romesh Sobti: Yes, I think the mix change is there because see in the vehicle finance part, the fastest growing part is commercial vehicles and cars , so both of them are at the lowest end of this thing. Plus, in the non-vehicle retail, overall pricing is lower than the pricing on the vehicle finance side. So these two are really combining to drop their overall gross yield on retail. So it’s the combination of the loan mix which is causing that.

Moderator: Thank you. Our next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Were there any loans sold down during the quarter?

Sanjay Mallik: Yes, Mahrukh. So we sold Rs.1,600 crores this quarter, so in addition to the 30% loan growth, the underlying growth was higher and we sold down Rs.1,600 crores.

Mahrukh Adajania: Of corporate loans?

Sanjay Mallik: Yes, corporate.

Mahrukh Adajania: And what would be the growth in microfinance?

Sanjeev Anand: 8% quarter-on-quarter.

Mahrukh Adajania: And if you just see the auto data on CV sales, there seems to be some slowdown in CVs in the June quarter, any thoughts on that and how it would pan out going ahead?

S V Parthasarathy: Mahrukh, slowdown was only in June, it was not in the June quarter. Automobile industry grew for the quarter.

Mahrukh Adajania: Right, in June, that's right.

S V Parthasarathy:: It is only a seasonal kind of operation which was expected and July-August is also likely to have the same kind of trend because of monsoon. We do expect the projections or whatever has been given by the manufacturers and the general thoughts we have. We believe that the industry will be grow about 20% and we should also be growing at the same rate.

Mahrukh Adajania: But what did cause the slowdown in June, any specific reason or just the seasonality?

S V Parthasarathy:: Normally it is a seasonal factor.

Moderator: Thank you. Our next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Couple of questions. First, wanted to check on the term deposit side, what proportion of it is now retail and bulk, the way you would define it?

Sanjay Mallik: So CASA is about 35%, wholesale is about just over 40% and the rest is retail.

Adarsh P: And coming to the question of liquidity impacting cost of funds, has this 40% of bulk moved down faster because of the flush liquidity versus some of the retail term deposits or what has been the quantum change in cost of funds for the bulk side?

Arun Khurana: It has moved down and I think it will continue to do so depending on the liquidity in the market, so the market is liquidity neutral. In case, I mean if you see there are no government balances now with RBI which used to run around Rs.80,000 crores. So I think overall there seems to be more liquidity in the market and I would expect that this would fall down.

Adarsh P: Anything, like say six, nine months back at what rates on an average bulk being raised every quarter and where are we today?

Arun Khurana: So if you see the CD rates around nine months ago or basically one-year comparison, were about 75 to 80 basis points higher than where they are right now.

Adarsh P: And the second question was on the core fee growth, just wanted to check, there has been some bit of slowdown on the core fee growth of few areas, obviously we have been growing at a fairly high pace, so a normalization was expected. But I just want to check anything peculiar in a few categories say in terms of FX fees or maybe IB, IB I know can be a lot volatile but on the FX side and maybe even on the general banking fees.

Romesh Sobti: So FX if you see, that is a base effect that you are seeing as 5% reduction, but quarter-on-quarter it has grown 8%. So I think FX if you were to see is this way. Some unusual income would have come Quarter 1 of last year, that is why you are seeing a year-on-year negative growth of 5%. But quarter-on-quarter growth is 8%. Investment banking, see investment banking is a lumpy business, I mean you could move in a band of Rs.15 crores - Rs.20 crores easily between quarter and quarter. So there is no trending link to this, I think these are all one-off and the fact that there is bulkiness around investment banking piece. Otherwise if you see other elements quarter-on-quarter have grown pretty handsomely. And if you see loan processing fee has grown year-on-year massively but quarter-on-quarter negatively.

Adarsh P: No, I just wanted to understand that it has been quite a long time since our fee growth has been outstripping the balance sheet growth and the loan growth, so given that we will be meaningful now in each of these fee buckets, have we come to a point where it is more closer to balance sheet or probably even lower or your guidance would not be that?

Sanjay Mallik: I think if you normalize the loan growth, I think it was mentioned earlier that we had a very short-term asset of Rs.1,300 crores. So if you adjust the loan growth for that about a couple of percent, loan growth and overall fee growth is pretty much on par. I think the only somewhat of a big move which typically happens in the first quarter is on the treasury side, the banks have an ability to transfer some HTM into AFS and sell some bonds. I think you will see some of that this quarter from a variety of banks. So other than that, I think overall traction continues. You had a question on the general banking charges, general banking deposit fees and interchange fees are up quite nicely and that was the main driver for general banking fees going up. But overall, traction of loan growth and fee growth continues.

Moderator: Thank you. Our next question is from the line of Sri Shankar from Prabhudas Lilladher. Please go ahead.

Sri Shankar: Can we get some idea of the SMA1 and 2 outstanding for the quarter?

Sanjay Mallik: So we don’t disclose those numbers, maybe I can hazard to say that we do know the numbers of all the banks because we are privy to that database and I can tell you that we are certainly in the bottom three, which means the better bottom three.

Sri Shankar: Have we seen any increase from Q4?

Sanjay Mallik: No, it has actually come down.

Moderator: Thank you. Our next question is from the line of Hansini Amrita from Smart Investor. Please go ahead.

Hansini Amrita: I have two questions. One on your retail front, this particular quarter we have seen higher NPAs coming in from your two wheeler and your Cars segment, any particular reasons why these two pockets are under stress and do you expect this trend to continue going forward?

S V Parthasarathy: No, first the movement is in the single-digit, it is very-very small. And two is, there are couple of reasons, one is, the March quarter is always much more efficient than any other quarter therefore March NPAs are about the best. And June first quarter, there is certain amount of seasonal affect as far as the commercial vehicles industry is concerned. Two wheelers, there is no specific reasons.

Hansini Amrita: And if you could give me your split of NPA composition between retail and wholesale, sir.

Sanjay Mallik: That is provided, that is on page 21 of our investor presentation. So we have given you a full breakup in that page.

Hansini Amrita: And one last question, I remember last quarter Mr. Sobti had said something to the effect of retail growth, while it would be very healthy it could be a little challenging because of higher competition than what used to be earlier. Your outlook largely on retail front?

Romesh Sobti: I don't recall having said that, but we probably have to look at the transcription. But we have always held that, one, the vehicle finance part is bubbling again, so there the outlook is much better. And two, that we launched seven, eight new products on the non-vehicle retail side where we were not present and therefore we saw better opportunity of this growth continuing in the 40s. So we have shown growth even higher and even this quarter we have shown our non-vehicle retail growth at 44%. So I think that the pie is expanding, it is not that suddenly a few new players have come into the field and whole market is shrinking. Retail business has entry barriers, people don't realize it but they realize it after six months when the credit cost hits them. But even if there are few new players in the market, the market itself is expanding and growing at a pretty healthy pace. So I think there is plenty of room for retail growth to be sustained at a level that we have grown in the last few quarters.

Moderator: Thank you. Our next question is from the line of Ashish Sharma from Enam Asset Management Co. Please go ahead.

Ashish Sharma: Sir, just on the yield part, the yield on advances for the corporate book, this is the second quarter where it has seen an incremental uptake. I mean in Q3 we were at 9.98%, now we are 10.18%. So anything to read about, because I think we are growing in the corporate book more on the mid-size corporate, so is the mix change anything to read about?

Sanjay Mallik: Yes, so I think the first point is that the foreign currency component has slightly fallen, it does not have an impact on the portfolio return but foreign currency yields are lower. So when that proportion falls, there has been a 2% shift and that 2% shift is in itself about 8 - 9 basis points. And apart from that, of course the microfinance business has grown quite robustly QoQ.

Ashish Sharma: So that will get captured in the yield on the corporate book?

Sanjay Mallik: Yes, that portfolio resides on the corporate book because we run it through business correspondent.

Ashish Sharma: What will be the outstanding MFI book, sir?

Sanjay Mallik: It is about a little over Rs.3,000 crores.

Sanjeev Anand: Rs.3,100 crores.

Ashish Sharma: And then what will be the foreign currency book? You have mentioned that it has come down by 2%, so what will be the number as on Q1?

Sanjay Mallik: We don't give those numbers, I think we have mentioned in the past, it is about close to 20% of the corporate book, not the entire book and that has come down by about 2%.

Ashish Sharma: So in that case you are seeing some sort of positive uptick in terms of yield because of the MFI book, what will be our intermediate sort of net interest margin outlook, whether this year we can sort of reach to that 4% sort of number, is this something which we are looking at?

Romesh Sobti: So there is only 3 basis points separating us from the 4% threshold which we have always aspired for. And we are certainly hopeful that the traction that we have seen in our interest income will continue, because cost of deposits, etc., and the mix and all beneficial impact is happening. So it remains an aspiration, an ambition but we have never been as close to achieving it as we are now.

Moderator: Thank you. Our next question is from the line of Kaitav Shah from SBICAP Securities. Please go ahead.

Kaitav Shah: The first question is on the small corporate lending, how is the environment there now, because that has been sort of consolidating for the last few quarters?

Suhail Chander: So small corporates for us covers various different kinds of activities, they include business banking unit, it includes part of the microfinance business there, part of the channel finance businesses there. So our businesses generally have performed very well, in fact we don't see in some of them for example in microfinance and channel finance we have zero stress. So as far as that portfolio is concerned, for us I think if you look at the total absolute quantum of stress, the least we see is in that part of the business.

Kaitav Shah: And do we expect it to pick up, the loan growth there?

Suhail Chander: It has been growing, the trend has been positive, we don't expect the trend to change in any way.

Kaitav Shah: Sir the second question was on cost, where do we expect it to trend, maybe I am sure you all don't give a guidance, but in terms of trend where is it that we expect cost assets or cost income to probably stabilize?

Romesh Sobti: Yes, so cost is driven by two big headlines, one is what we spend on the branch network and the other big one is on technology spend, and of course the third is on manpower and human resources. So I think that by end of this year we would have finished the large technology refreshes, the large core banking technology refreshes and therefore that will get established in the run rate. And then you should see productivity gains as a consequence of the investment in technology, that is one element. The other element is the branch network, that takes a lot of our Capex and we are moving to a stage maybe in the next whatever 12 months or so where our matured branches which have maturity over three years are sort of increasing as a percentage of total branch network. So when the ratio of new branches to total branches falls I think there is a beneficial impact on your cost to income ratio. Therefore, we are hopeful that this ratio will steadily slide downwards and I think aspirationally if you can get to a range of 43% - 44% which is early 40s, for a a hybrid bank like us in terms of universal bank which is corporate and retail, I think the mid-40s is really a good number but we aspire to go below the mid-40s.

Moderator: Thank you. Our next question is from the line of Anurag Mantri from Jefferies. Please go ahead.

Anurag Mantri: Firstly regarding the microfinance book, there were some media articles saying that you were looking to buy I think around Rs.1,000 crores or so of the Spandana book and probably the NPAs of the book. So any clarity that you can give regarding that?

Romesh Sobti: Well, see that is media speculation. When we say we are buying it then only you should believe it.

Anurag Mantri: Sure. But if you can just elaborate the strategy regarding the microfinance book, as in if it's more of…

Romesh Sobti: Yes, strategy is very clear, microfinance is close to our minds, we believe that microfinance can move the needle for us. We have worked out this business model over the last four years, we believe it is a superior model of coverage and risk management and we believe that it is possible to take this book up to say about Rs.10,000 crores over a three year period. And a Rs.10,000 crores book, this micro financing we take on directly on our books if not lending to MFIs, this is taking it on our own books and therefore all the benefits and risk comes on to our books. The benefit is a high yield, net of all the pay outs, etc., that we do to our partners, we still have our ROA which is two times ROA of the bank. And delinquencies in the last four years and five years that we have done the business have been almost negligible. Credit cost is negligible, delinquencies may be 10 basis points but credit costs are negligible because we have a first loss guarantee from the MFI. So credit cost is actually zero there. So this business is close to us, we will build this business, we have built a superior coverage model and we hope that we can move towards that target of Rs.10,000 crores in three years' time.

Anurag Mantri: What would be the indicative yields on this book?

Sanjay Mallik: We have given you the ROAs I think it is almost double that of the bank.

Anurag Mantri: Sir a question regarding the home loan sourcing, so do you basically source only from HDFC or there are other sources as well? And what is the monthly sourcing of home loans, if you can get a run rate?

Sumant Kathpalia: So we only do it for HDFC and we do about Rs.200 crores to Rs.250 crores a month.

Anurag Mantri: And sir, any color regarding the distribution chains, if you can highlight basically the components and how the way we are doing in terms of insurance, mutual funds, credit cards?

Sumant Kathpalia: So if you look at our distribution fee it is made up of five or six components, there is insurance fees, there is non-life insurance fees, there is health in it, there is mutual fund distribution in it, there is home loan fees which we have distributed, there is brokerage in it, there is credit cards in it and there is commercial cards in it. Total fee is about, the mix about it is around 40% comes from distribution of products which is a third party product and 20% comes from brokerage and home loan and another 25% to 30% comes from the credit card and commercial cards.

Anurag Mantri: And any trends regarding which segment is performing, is any segment where you are getting worried?

Sumant Kathpalia: In the?

Anurag Mantri: Within these three, four segments that you highlighted.

Sumant Kathpalia: I think there were regulatory pressures on the piece which we all know on the insurance side as well as on the mutual fund side. But we counter it and as we go along there always will be regulatory pressures on those piece and we continue to counter it, that is why we have such a vast distribution of products which we do as a consequence of that.

Moderator: Thank you. Our next question is from the line of Subhransu Mishra from Anand Rathi. Please go ahead.

Subhransu Mishra: Sir, I just have two questions for you. One is on the CASA, now you are trending close to 35%, what do you think would be your guidance or what do you think would be aspiration of IndusInd Bank as such to get up to what kind of a level in CASA?

Romesh Sobti: See, 35% was the target for this three-year plan, which means the year that is ending, this is the third year of the three-year plan. And internally we certainly feel that in the next three years we have to up this target, aspirationally we should also be getting to the 40%. We know it is a tough journey but we know that there is a strong linearity between branch network and the CASA, that linearity has played out as we have grown from 180 branches to 1,000 branches and now 1,200. I think that play will continue, number one. Number two, the product propositions that we bringing in our saving bank accounts, the latest one you have seen is the biometric, the fingerprint mobile banking which is certainly causing a deepening of our existing relationships and also bringing in 1,500 sort of downloads of mobile banking every day now. So all these things, so product quality, product proposition and distribution of this thing and the quality of your sales force, these are the vectors that should drive us over these three-year period to 40% CASA ratio.

Subhransu Mishra: My second question is on your credit card, it is an acquired loan book and where do you see it going? Right now it is at Rs.1,200 crores, where do you see it growing to?

Sumant Kathpalia: It will grow at a rate of 35% CAGR, so it is growing at that sweet pace and we are happy with that growth.

Subhransu Mishra: And the benefits are the same that were before you acquired for the end user?

Sumant Kathpalia: We have launched seven more products post acquisition, acquisition happened four years back, since that acquisition we acquired a Rs.200 crores book which is now a Rs.1,200 crores book. And in addition to that, we have launched a commercial card as a product to support the credit card business.

Romesh Sobti: So you see, this card is not a lending card, it is a spending card, our money is made when we make our card holder spend, our product proposition is different. The book has grown from Rs.200 crores to Rs.1,200 crores and probably we will grow at 30% - 35% CAGR. But our product propositions are around making you spend the money, and we have a whole range now, what we got from them I think was one card and now we have launched six or seven card categories. So that has grown well, it is in PBT terms that is probably a highest ROAs in the business in the consumer bank.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I have got two questions, the first one is really regarding the competitive landscape in the commercial vehicles financing, especially given that Hinduja Leyland Finance is also now looking to raise money and they have already built about Rs.8,500 crores of AUM. So just wanted to understand will it kind of increase the competition in the landscape that we operate? And if so, then how are we trying to ensure that our book growth is not really affected by that?

S V Parthasarathy: See, we are arguably the number one in commercial vehicles lending, even before Hinduja Leyland came into picture and after Hinduja Leyland came into picture. There is a space for Hinduja Leyland Finance, if it is not taken by them it would have been taken by some other NBFC, therefore I would not really say that it is totally mutually exclusive market but the points where the customers meet on both sides is very-very small. On the other competitive space, this particular avenue we are in always there are competition, there are new players who enter this market every three, four years and there are few of them who exit. There are very-very few who have continued for a long time, and we being one.

Rahul Jain: What would be our OEM mix, if we can share that number?

S V Parthasarathy: OEM means?

Rahul Jain: Manufacturer mix between Leyland versus…

S V Parthasarathy: See, we have close to about 16% market share in Leyland and we have close to about 11% to 12% market share in Tata Motors.

Rahul Jain: My another question was our medium term ROA trajectory, so we are already close to the 2% mark and perhaps one of the best in the industry and it seems like they are still some more levers left, for example Mr. Sobti you talked about operating efficiency gains that can be further realized for digitalization and product mix now shifting more towards retail. So what is that medium term ROA trajectory do you have in your mind, would you be comfortable going above 2% and remain there or you would look to pass it on to your customers in form of say rate cuts or in any other form?

Romesh Sobti: See, the transmission to customers is a given, if you want to remain in the market and you want to sustain the shares that you have, it is not that you can continue accruing your ROA and NIM internally and keep on growing. Aspirationally, we have always aimed at a NIM of 4% and ROA of about 2%. I think we are in that sort of range now. We have to remain competitive, number one. Number two, we must go for fresh quality credits in the market, so that means that there has to be rate transmission. We are, again, moving towards a shorter tenure to our corporate book, which means we are in low yielding business as well, but certainly less riskier business. So I think there is a tradeoff that is going to happen, we are not going to say that we will have a NIM of 4.5%. So there is a tradeoff that will happen and somewhere they will stabilize, but let's first cross 4% and 2% and then I think we will play out the rest. But aspirationally we want to go past the 2% and arithmetically we should be past the 2%. And interest margin also, I think the question here is this, a NIM of 4.5% is not tough for us, I can tell you how, through our unsecured book. On the retail side if we grow our unsecured book, I mean our unsecured book is 1.5% or 2% of our total book, if we grow this to even 10% then our NIM will probably go up by 30 basis points or 40 basis points, simple arithmetic. Because if we do credit cards and personal loans at 18% yield, we know a large bank which is performing very well, in fact they are managing the business very well. We know a large bank whose 15% of the book is unsecured and see the impact on NIM. So there is a straight linkage, so do we want to do the business or don't want to do the business, that is the call we have to take. So far we have taken the call that our unsecured business should not exceed 5% of our book. But as our customer profile matures, as we see the savings bank behavior of our customer profile, as we do a cross sell into our vehicle finance, risk validated vehicle finance book, probably the personal loan portfolio can be built up. But how much? That is a call that management will take. So to cut a long answer short, we want to cross 4% and 2% in stage one then we will see the tradeoff between quality of book, quality of earnings and returns.

Moderator: Thank you. Our next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a few questions, one is for Mr. Parthasarathy, if you could give us the mix between used vehicle and new vehicles as we stand today and what is growing between the two? The second question is on the cost of deposits, again, I know this was asked earlier as well, but just trying to understand at 6.9% cost of deposits that has been reported out there, what further headroom do we have on the downside, given the fact that this is below the one-year deposit rate that you have in your own books? And third one is on the credit card business, how much of the portfolio actually interest yielding assets as of date?

S. V. Parthasarathy: So first we look at the mix between used and new vehicle. Mahesh, the mix between the used and the new remains the same, our regular disbursement is close to about 20% disbursement is used and on portfolio 15% of the portfolio is used, that continues plus or minus 1%.

MB Mahesh: But this has not changed, given the fact that used has been growing at a much faster pace?

S. V. Parthasarathy: Yes, used has been growing at a much faster pace but what really happens is door to door is also lower by about 1.5 years and average loan holding period is lower by about six months and ticket size is also smaller.

Romesh Sobti: So that is one. The second was I think the room for drop in cost of deposits, see there is still re-pricing happening on the bulk deposits and there is also I think beneficial borrowing rates that we are now getting on our foreign currency borrowings. As we speak we have two large multi-lateral agencies negotiating with us for a loan book of almost $0.5billion at rates which are very-very fine, better than what the market has raised in the past, we will dip into that part also to see how our blended cost of deposit goes down. Secondly, the bulk deposits re-pricing is still to happen, there are CDs which have got re-priced over the last whatever six months or so CD prices have fallen by 70 - 75 basis points, recently raised CDs are at 6.9% or so. And given the liquidity in the market we expect that to fall even further. The third element is our savings bank rate, on the savings bank rate also you will find if your fixed deposit rates are lower than your savings bank rate why is the savings bank rate of 6% even viable, between the savings bank rate of 6% adds 1.5% of transaction cost at 7.5%. So we are also continuously reviewing our savings bank rate and we took the lead amongst the three or four banks that had raised savings bank interest rate earlier, we took the lead in dropping our rates. We expect that we will look more into it and we expect that there will be a higher beneficial impact of blended cost of our savings bank, in spite of the fact that savings bank is growing by 36%.

MB Mahesh: Just one clarification, if system is flushed with liquidity on the whole sale side or on the retail side, whichever way you look at it, why is the deposit rate not being cut down at the retail level a little bit more aggressively?

Romesh Sobti: In retail always there is a little lag, bulk deposit gets re-priced much faster but I think retail rates have also fallen. But retail rates have fallen but term deposit rates have not fallen.

MB Mahesh: I was just looking, I don’t think you have changed since April, so I was just trying to understand what is driving that slowdown.

Sumant Kathpalia: As we talk we have change the rate.

MB Mahesh: And my last question on the credit card book, how much of the portfolio would actually be just receivables and not interest earning?

Sumant Kathpalia: So it is determined by the revolving rate in the credit business, our revolving rate is about 48.2%.

MB Mahesh: That is broadly unchanged in recent quarters?

Sumant Kathpalia: Yes, it fluctuates anywhere between 46% to 50% at any point of time.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Romesh Sobti for closing comments.

Romesh Sobti: I think we have covered everything. Thank you once again for joining us. I am sure many of you will interact with Sanjay for more detailing and we are more than happy to answer any further questions you have. Thank you very much for joining.

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