"IndusInd Bank Q3FY13 Results Conference Call"

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Moderator Ladies and gentlemen, good day, and welcome to the IndusInd Bank's Q3FY13 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Please note the duration of this conference is 60 minutes. Should you need assistance during this call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference to Mr. Puneet Gulati from JM Financial. Thank you. And over to you Mr. Gulati.

Puneet Gulati Thank you, Inba. Good evening, everyone and welcome to IndusInd Bank's earnings call to discuss the third quarter results. To discuss the results we have on the call Mr. Romesh Sobti – Managing Director and CEO along with the top management team of the bank. While welcoming Mr. Sobti, may I request him to take us through the financial highlights and subsequent to which we can open the floor for Q&A session. Thank you. And over to you, sir.

Romesh Sobti Thank you, Puneet. Good afternoon to you all. Thank you for joining us in what we think is the opening of the earning season. Our results are already posted on our web site, I am sure all of you would have accessed that, so I am going to run you through some of the headlines, focus on a few highlights which I think were very important during the quarter and then we will go into the Q&A session.

Just to summarize, the highlights for this quarter I think what comes to our mind first is the smart recovery in our Net Interest Margin. We have been talking individually when we speak to you. We have said that there is a great sensitivity to our NIM as a consequence of drop in cost of funding because of the fixed rate book we have and I think that has caused us to increase our NIM by as much as 21 basis points. Last quarter we started the upwards trend with 3 basis points, we have added another 21 basis points to that, as a consequence of which we are seeing a handsome growth in our net interest income which has now exceeded 30% and stood at around 34%.

The other feature here is that certainly I think the market overall remained stressed. And during this quarter we certainly saw a convergence of some of the slowdown features on certain revenue lines which probably are going to be reflected in banking as a whole, especially on other income lines, so fee lines, but in spite of that I think the team has delivered pretty good and robust performance on non-interest income, other income which has remained at a healthy 38% of our total income and also showed a growth of 34%.

The third element is that the bottom-line growth PAT of 30% is after absorbing the knock that we had planned on the one-off large bad debt we had on our books which is Deccan Chronicle. So we have made provisions for Deccan Chronicle far beyond what is required by IRAC norms, we have actually provided based on the valuation of the security on a very conservative basis we provided 40% of the total exposure, we also suspended 4 crores of interest, so in effect hit to the bottom line was 44 crores and based on the valuation of the security the balance amount is 60 crores was actually sold to a ARC. So technically, the NPAs of our books yet we have been able to maintain the provision coverage ratio above that 70% mark and I think that our parameters on gross and net NPAs still remain healthy, in fact gross NPAs have actually fallen by 2 basis points to 99 basis points but we will talk a little bit more about that and credit costs later.

Third was of course the strengthening of our capital base, the QIP issuance that we did in December has raised our capital adequacy. If you include the profit for the nine-month period to I think a new high for us at least amongst the highest in the industry right now, CRAR now goes to 16.56 and Tier I is now nudging 15% at around 14.85%. So that was the third element.

The fourth one of course was there was a big change on the technology side. We have been working on this project of the new core banking system – Finacle and we chose to do a one shot shift over to the new system which happened on 10th of December. It was a smooth and seamless migration. On a very, very large scale all branches moved simultaneously and that I think is stepping stone for the new volumes that we expect on the business side of our growth. So, non-interest income has grown well. Fee growth has maintained at 34%. Even the core fee growth has kept at 32%, so there was some element of trading that came as a fee growth, but the core fee growth also remained at 32%.

The balance sheet side we have seen a credit growth well above industry. I think people talking of industry showing 14 or 15% but our credit growth still remained at a robust 31% year-on-year and more importantly, even sequentially quarter-on-quarter we have shown a growth of 8%. In fact, I think one of the features if you go down every line would be that there is almost double-digit growth quarter-on-quarter as well. So whether you take interest income which has QoQ 13%or you take fee growth 11%, credit growth QoQ of course is around 8%. So this has been accompanied by the other side of the balance sheet also growing at 26%. So deposits also grew at 26%. Of course, our CD ratio still remains beyond that 80%, but that is more by choice and design on how we manage our book.

There is our exposure to stress and sensitive sectors, has remained well in control. You all know most of it. As I said net NPAs remain at 0.3%, provision coverage slightly over 70%, restructured advances there was a few accounts that were restructured but overall restructured advances remain at 26 basis points and more importantly I think credit costs have in spite of that hit that we took on Deccan credit costs have been contained at 16 basis points. And if you really sum up the credit costs for the nine months period as well, nine months period our credit cost is 37 basis points, last year as has been declared we were 41 basis points but we remain comfortable looking at the quality of our book and what is coming, we remain comfortable that our overall credit cost will be well below 50 basis points and hopefully in the mid-40s. So that is really a quick summary on that.

The other elements of balance sheet growth is the growth in CASA. CASA growth showed a growth of 1300 crores which I think is a new high for any quarter and we showed CASA growth of 36%, CASA went beyond 28.43% mark or something like that. And within that if you see CA grew 25% and SA has grown 55%. So we have always said the focus on SA is getting stronger and stronger as the branch roll out happens, as we deepen relationships with existing branches and increase our coverage through the new branches. So these elements I have already covered. We have also said that fee growth will exceed loan growth and we have stuck to that, with our fee growth, other income growth came at 34%, core fee growth came at 32% and loan growth came at 30 to 31%.

So in terms of initiatives I think we had those nine initiatives which was supposed to carry us through the three-year business plan which ends in March 2014. One was scaling up the investment bank and you see the investment banking income, if you look at the core fee income, investment banking income has grown pretty handsomely. And for the nine months period it is 100 crores. For the full year last year I think it was 60 crores. So I think we are headed towards doubling our investment banking income this year, as we had said that this should be in the range of 120 or 130 crores.

The other was completing our suite of products. We are home there. The only product that is left for us to do especially on consumer side is gold loans. Gold loans we are going through a process of evaluation and I think we will go through an organic growth business plan on the gold loan side.

Other than that CBS was to be rolled out. Core Banking System -- it has been rolled out. We were to get into used commercial vehicles; we are into used commercial vehicles which account for 10% to 12% of our disbursements. So the various pillars of growth that we had laid out for the 3 year plan are on track.

In terms of the key metrics, we have already talked of NIM which has now moved up from 3.22 to 3.25 to 3.46. ROA is now at a new high of 1.6%. ROE because of the QIP dipped, we expect a further dip where the full impact of the QIP raise on averages takes place because the money was available to us only for 20 days and did not have very material impact on profitability but certainly it impacted some of the averages on net worth and therefore ROE is down to 17%, we expect that on a full impact basis that means full average, we take the full averages for the quarter then I think ROE will probably dip to 15% and then we hope will start our journey backwards. We continue to open branches. Another 21 were opened and together with 56 ATMs but we have kept our cost-to-income ratio intact in spite of putting in so much money into the new branches and there is of course some improvement in productivity as the revenue per employee or so went up.

Other than that maybe we do not need to go into individual lines, P&L, etc. but the earnings per share has moved up to 22 and the book value has moved up close to Rs. 140 and last quarter it was Rs. 106. The composition of our loan book is almost the same as last quarter;

last quarter was 52 retail and 48 corporate and this quarter is 51 consumer and 49 corporate. So I think we are in bit of a steady state there but within that you will see some change in the mix because the loan against property has now started moving up.

Other than that if you see CASA split up now CASA is now 28.7% and SA part as we said will start moving up and SA is now 12.1% of the total CASA. So, we are moving towards that scenario where we envisage CA&SA being equal contributors to the CASA pool.

Core fee income are showing a growth of 32% and if you look at individual lines that is given on Slide 21 of our presentation then I think most of the lines are showing the sort of growth we have shown in the past; trade and remittances 31%, foreign exchange 38%, general banking 20%, loan processing 69%, investment banking 67%. The only one which is showing a little blip is distribution fee which is 3% but if you split up the distribution fees into the three components that we have which is insurance, mutual fund and credit card then mutual funds are flat actually and that is not a surprise item at all.

In Insurance, life insurance has actually grown by about 17%. So it is really non-life insurance where we have seen actually a drop as compared to last year, that is why the overall percentage is down and that is really for regulatory reasons, we have not accrued a lot of fee which is due to us because of clarifications from IRDA. So there is a lot of fee which is accrued to us, payable to us by the infrastructure related fee which is payable to us but it has not been taken into our books pending regulatory clarifications. So the growth momentum continues on the fee side.

Yields and cost movement are also pretty clear. The yield on assets fell by 5 basis points but the cost of funds fell by 26 basis points. As a consequence of which you see net interest margin has actually improved by 21 basis points. I have already talked about credit costs. Credit costs are 16 basis points and for the three quarters 37 basis points.

If you look at the NPA composition the product wise that we give we see small movements but overall you see that nothing in terms of gross NPA still exceeds 1%. No product category actually goes to the gross NPA this thing. Two-Wheelers are always higher but two-wheelers are also very minor small movement and very immaterial in terms of the numbers involved; 4 or 5 crores.

CRAR we have talked about. Capital adequacy is 16.56 with profit and Tier I is 14.85%.

I think the last item which is always a question is the shareholding pattern. As you all know that the roadmap which RBI has prescribed for the bank warranted that the promoter shareholding come down to 10% at 31st December. As a consequence of the QIP and also subsequent sales by the promoters during the month of December this percentage if you include the stock options vested, this percentage is now slightly below 15%. It is our understanding and belief that with the new guidelines on bank licenses coming through, they are expected any day now which actually allow for promoter holding to go up to 15%, I think the promoters will be in compliance next quarter on the basis of 15% and hence the percentage holding was brought down to 15%.

That is a summary of what we have to say unless one of you guys want to say, add anything more to this thing. Anybody? Right. We also have on the call, Parthasarathy who is the Head of our Consumer Finance division - Vehicle Finance, I am sure you will have questions on that, we will get into some more details in the Q&A on that. So thank you for listening in. We are open to questions.

Moderator Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Anand Vasudevan of Franklin Templeton. Please go ahead.

Anand Vasudevan Just a question on the promoter holding. You said that you are expecting the new guidelines to allow up to 15%. So is that then understood that the requirement for the bank promoters also will be in line with the new guidelines?

Romesh Sobti Yes, that is the understanding and that actually has been articulated in a newspaper interview which one of the deputy governors had about three months ago when a specific question was asked that these guidelines for the new private sector banks will also apply and I think the answer was in the affirmative.

Anand Vasudevan Second question is on the strong performance of savings account balances this quarter. You have added more than Rs. 8 billion this quarter while the previous quarter the accretion was much lower order. So I would like to understand why this sort of fluctuation and also some numbers on the customer acquisition rates please?

Sumant Kathpalia Last quarter if you look at our numbers we grew by 300 crores, actually our acquisition last quarter was also 600 crores but we lost I told you we lost a very big deposit of the government business. That is where the balance sheet got normalized. This quarter our acquisition has been 700 crores of value and 140,000 accounts of savings accounts which we have done. That is the value which we have got on the acquisition side plus we also been able to get about 250 crores in a government money account which is at a normal rate and which we got through the municipal corporation accounts and through other deals which has come in. And that help fuel the growth on the savings account.

Romesh Sobti 140,000 accounts is the acquisition ….

Sumant Kathpalia Due to bank client acquisition only on savings accounts.

Anand Vasudevan And how much was this in the previous quarter versus the 140,000?

Sumant Kathpalia That was also 126,000 and we did about 600 crores, this time we have done about 780 crores to be precise.

Anand Vasudevan The government balance that you said 2.5 billion that you got this quarter, is that sort of a short-term balance or is that sustainable?

Sumant Kathpalia Government balance sheet is made up of very different types of accounts. What we are getting is the retail type of account which is the municipal corporation account. We do not have any large money which is one contract account. These are municipal corporation account which have balances of 5 or 6 crores and we get these accounts and we have got about 25 to 30 accounts which actually the balance keeps on in and out on these accounts. They are not hot money but on average they remain at 5 to 6 crores per account. To your answer, it is not made up of one big account.

Anand Vasudevan Just on the customer acquisition rates, you have added 140,000 this quarter. I think last year at some point you were saying that you are adding 50,000 per month. So, the customer accretion seems to have slowed down despite the larger network and better rates.

Sumant Kathpalia I will tell you what really happened is we have upgraded the quality of accounts. If you look at the acquisition value, we have upgraded the quality of accounts which we are sourcing. So when we said that we will do 50,000 to 55,000 accounts we were going ahead and doing what we call "Classic Accounts". The only account which we do is about for the "Privilege Account" which is about 25,000 ADB. Second, I think we were finding some account closures on those accounts and we were finding inactivity rates on those accounts. So we changed the product mix and that is how we got the.. though we have remained where we were on the acquisition, the value of acquisition and the activation rates have started going up.

Moderator Thank you. The next question is from Nilesh Parikh of Edelweiss. Please go ahead.

Nilesh Parikh Just wanted to get a sense on the margins performance. When you look at the yield on advances, they have dropped about 22 bps and similar has been the performance on the cost of deposit. Now, obviously the yield on assets have been contained, the drop has been contained but when we look at the drop in the advances, actually the point that we have been making that more of a fixed rate book kind of negating, probably help us in the margin improvement, probably that is not played out on the advance side this quarter, just wanted to get a sense how do we see that shaping up over the next couple of quarters.

Romesh Sobti I think partly if you look at the corporate side when you see that yield drop of 22 basis points that also has a reversal of Deccan Chronicle built into it. So that also has an impact there…

Nilesh Parikh That is roughly about 4 crores, right?

Romesh Sobti 4.5 crores. So that also makes a few bps on that. Apart from that on the retail book also you are seeing a slight drop that has happened. So corporate side you are certainly seeing corporate side now beginning to move downwards. So even without base rate cuts the margins over base rates at the top end of the corporate side is already happening and I think as far as the retail book is concerned, Partha is also on the call, but I will just summarize it on the retail side as well, one, there is a slight change in the mix there, secondly, of course, during Diwali, all these dealers and all gave some solid Diwali discounts and therefore I think we also sort of supported some of those discounts of 25 bps to 50 bps in select cases. That is why you are seeing that. So the expansion if you see the overall yield on assets, that has dropped only 5 basis points. But the cost of funds have dropped by 26 basis points and therefore the margin expansion. Now, going forward we do expect that and we are seeing the maturity profile of our own deposits, so there is a degree of confidence that cost of funds will continue to drop faster than the 50% of the corporate side and the other side will hold up. So our expectation is that this journey of recovery of NIM that we have seen in this quarter should continue and become healthier in the next quarters to come.

Nilesh Parikh Part of that would be with the float from QIP because we have just seen about 20, 25 days that balance played through, but I just wanted some clarity on the retail with the mix being, when you are talking about LAP also kind of slightly increasing, that would be slightly at a lower yield, right, than the 16% that you come out

Romesh Sobti Yes. It will be added because that is at a yield of around 13.1% and the overall yield we have been seeing around 16%. Your point about the QIP money. QIP money is certainly going to add to interest income. That is for sure but we have to look beyond that and we are certainly looking beyond that because our BAU has to yield better margins as well. We do expect that the margin expansion that we will see will be the sum of these two.

Sanjay Mallik Just to add on the initial comments you made on the fixed rate book. The fixed rate book does not mean the rates will remain or the yields will remain where they are. As rates go down the new business that you put on will have a gradual decay on the overall yield, it is not going to remain where it is but it will fall much slower than the cost of deposits.

Romesh Sobti Yes, that will have a long tail to it. So as rates went up we also saw that fixed book rate also went up because you are booking new loans at higher rate. Reverse happens to that but not to the same extent. So net-net we certainly feel much more confident on our NIM expansion now.

Nilesh Parikh Just one question on the other OPEX. That we were averaging about 250-odd crores a quarter. There has been a spike to 293. Any one-off there which would probably normalize in the fourth quarter, any in fund raising expenses that we probably would be .. other opex.

Romesh Sobti I do not think there is one-off that is going to reverse the thing. This is all BAU business, branches get capitalized, and I think going forward this capitalization of our core banking system that will also happen. So there is no one-off there.

Moderator Thank you. The next question is from Vijay Sarathi of Nomura. Please go ahead.

Vijay Sarathi Just a quick question firstly on the sector level away from not specific to IndusInd where do you see deposit growth pick up into FY14, because currently it is lagging the credit growth and LDRs at sector level at 77%. So do you see that improving into the next year? And secondly, specific to IndusInd how much further on the net interest margin expansion because at least in the second quarter call the NIM expansion was supposed to be more gradual than we have seen right now. So, what would be the trajectory on that into FY14?

Romesh Sobti I think that the first question is around credit growth rate versus deposit growth rate and I think that reflects in the CD ratios of bank and you will notice that CD ratio of the entire industry has got elevated from the erstwhile comfort level of the 60s and the 65s to beyond the 70% as a whole. So, the issue is people are managing their books. Individual banks are managing the books, the industry as a whole. So there is a cost of deposits and there is a cost of funds. So there is also the element of say foreign currency borrowings which then get swapped into liability. So when you see just deposit growth I think that is not really indicative of how corporate or banks are funding their books. But to answer your question I do see elevated CD ratios remaining in the industry because if FX forward premiums fall I think the incentive to borrow more on foreign currencies will actually increase. So I think those CD ratios of 60% are history and we think that industry average is around 75% is likely to happen. So that was the first question. The second was…?

Vijay Sarathi On NIM expansion. I know you did talk about it to the earlier questions but how much further can we look at?

Romesh Sobti When we started coming off the NIM we had touched the peak of 3.6. I think that was March ’11 and I think we are going to go back to that in a hurry. Believe that we have to get back to that because that is pure, pure arithmetic. The yield and cost play is certainly going to play to our advantage. The question is when do we get beyond 3.6 and where do you go beyond that. That we have laid out an ambition and that ambition was to say the least very ambitious. If you have a steady state the cost of deposits keeps falling and if inflation does raise its head again and creates a change in the regulatory stance then the cost of deposits every 100 basis points cost of deposits fall should have 30 basis points increase. So on that basis if you take 12, 15, 18 months of say 200 basis points then this thing should go up by at least 50, 55 basis points but that is an ambition. So we want to get to 3.6 first and then I think we will start talking with confidence about where do we go next?

Moderator Thank you. The next question is from Anish Tawakley of Barclays. Please go ahead.

Anish Tawakley I too wanted to just understand this NIM dynamics a little bit and it is related to the question that was asked earlier. I guess my question is that if the yield on advances dropped by 22 basis points and yet yield on assets dropped by only 5 basis points was there an increase in the yield on investments? And if so, what drove that, why did the yield on investments increase?

Because otherwise given that advances are almost 65% of the assets and also that advances have grown faster than investments I am struggling to reconcile the numbers.

Sanjay Mallik NIM is a function of also averages during the quarter. So essentially what has happened is that the average loan book as a percentage of the average total balance sheet was much higher during the quarter. So even though advances fell yield fell by 17 to 20 basis points the proportion of advances were higher and therefore the impact on the overall yield on assets was not felt. That is why…

Anish Tawakley Was there a lot of sell down towards the end of the quarter?

Sanjay Mallik No, we do have some sell downs but the sell downs are in the nature of what we do every quarter. So, we have been selling close to about 3,000 crores per quarter but that is not the answer, the answer is that the average loan book proportion to the total balance sheet was higher during the quarter.

Suhail Chander There is a replacement of non-earning assets with earning assets. So if you got a balance sheet of 100 and you have 80 earning assets and 20 non-earning assets you will get a certain yield, and in the next quarter if I have 85 of earning assets and 15 of non-earning assets as a proportion of the same 100 the yield on the total balance sheet will be higher.

Anish Tawakley That had accounted for because what I am looking at…

Suhail Chander There is three kinds of assets. Let us say there are advances, there are investments and there are non-earning assets. The ratio of these three within the balance sheet has changed.

Anish Tawakley Other assets have declined …

S. V Zaregaonkar I would like to supplement this, the yield on investments and the yield on advances is the difference. And if yield on advances is at elevated level and the yield on investment remains let us say 7.40 level so that incremental addition to NII on account of expanded advances book will certainly lead to lower drop in the yield on total assets.

Anish Tawakley That is there , but that part we have captured because actually the investments have grown faster than advances.

S. V Zaregaonkar No, in this case the investments remain more or less same, we do not have any non-SLR component, and it was to the extent of only SLR requirements. So average holding of investment more or less remain constant, yield also remained around in the level of 7.40, 7.42 while the yield on advances being higher at 13.74, 13.92, naturally the NII impact was better there and the fall on total asset was hardly 5 basis points.

Anish Tawakley Can I just ask about the CV cycle and how we see that evolving, are we at the peak, should things start improving from here? I am talking not just from your but also the industry perspective a little bit in terms of what one sees in credit quality on that side.

SV Parthasarathy When you mean the peak, do you mean to say that in terms of CV cycle we are at the lowest. I would rather say that in M&HCV the cycle is about 16% lower than the previous year. I think more or less the CV would have touched the bottom. From the last quarter which is Jan to March quarter we should see certain improvements in the CV picking up and also the quality of book should also become slightly better than whatever it is now.

Anish Tawakley So credit cost in the CV book would start coming down …?

SV Parthasarathy I would not say so, primarily because our credit cost is not all that very greatly… I mean our credit cost is anywhere between 0.5 to 0.7% and I do not think anybody can manage it beyond that. When you are in an extremely good cycle you can be at 0.5 and extremely bad cycle it gives you about 0.7. Therefore I would not say that there would be very great improvement in credit cost but the chances of deterioration is slim.

Moderator Thank you. The next question is from Manish Karva of Deutsche Bank. Please go ahead.

Manish Karva My question is on fees. If you look at the component of fees the loan processing fees in this quarter has gone up very sharply and your investment banking fees have also gone up. What explain such a sharp increase in loan processing fees? Is it coming out of retail or my sense is should be coming out of corporates and…?

Romesh Sobti Both parts generate loan processing fee. So there is loan processing fee generated on the retail side as well. Actually loan processing fee if you look at it year-on-year has always been healthy because we are into the new acquisition mode and that is why it is continuing. Last quarter we had seen I think on the corporate side slightly lower and therefore you see a sharper jump quarter-on-quarter but loan processing fee is very much an integral part of our fee lines and it is linked to acquisitions, not only new acquisitions, also renewals. On the corporate side for instance it is a sort of annuity income. Every time you renew a facility especially in the SME side you charge a processing fee. So both parts actually generate the fee.

Manish Karva No, what I mean is that your loan book is up 30%, sequentially your loan book is up 8%, but sequentially your processing fees are up 17%. Does it mean that you are earning more as processing fee as compared to what you are earning earlier on a similar kind of loan?

Romesh Sobti No, that may not be the right…

Suhail Chander You are not taking renewal into account. So if there are more renewals in a particular quarter your processing fees will be higher.

Romesh Sobti Do you understand renewals, every facility on the corporate side is given for 12 months at a time and annually you do a renewal. This is a mandatory RBI requirement that used to do a 12-month renewal. So if there is a bunching of renewals in a particular quarter you see a jump in the processing fee. It is not only linked with new marketing.

Manish Karva And on your investment banking fees, what is the rough breakup? Is it largely debt related investment banking fee?

Suhail Chander Only debt related, it is basically structured finance and syndication. And if you look at it on a quarter-on-quarter basis not much difference, last quarter was about 32 crores, now it is 35 crores. This is steady state kind of number.

Manish Karva And on distribution fees you mentioned that the fees from the insurance companies have not been booked fully. Is there a certain number on that which probably can come in later quarters?

Romesh Sobti There is a number but I do not think we are disclosing that

Manish Karva Is it a big number or? That can change composition of fees at some point of time?

Romesh Sobti Let us put it this way, it is not a small number.

Manish Karva And second thing on provisions, despite whatever you have been highlighting or guiding on provisions actually your credit costs are much lower than the general guidances and given the fact that retail has held up fairly well and whatever Deccan already has an NPL you have accounted for. Incrementally, there is more comfort on asset quality and there is more comfort on the likely provision charges.

Romesh Sobti When we project, we always project conservatively but we had budgeted for the credit cost of 60 basis points. Last year also we had budgeted for a credit cost of 60 basis points. We came up at 41 basis points. And if you look at review of our, what we call, 'Watch List Portfolio' from there we sort of draw the comfort that this time around we should be able to keep it below the 50 basis points. Actually if you normalize for Deccan, Deccan alone would have accounted for around 8 or 9 basis points for the whole portfolio. So if you net it off I think we were maybe 6 or 7 basis points. And you normalize that then I think we were well in line with what we showed last year. So, as I said there is a degree of comfort here that we should be able to contain overall credit cost well below the 50 basis points number for the full year. Nine months is 37.

Manish Karva For fiscal '14 as well, is that relatively more comfort now?

Romesh Sobti This fiscal probably was one of the most stressed, but the stress wave has not passed through the banking system as a whole. It is not a question of having rogues on your book, it is also a question of people who are suffering consequences of the slowdown. There is one particular relationship, excellent account, excellent facilities, very well managed businesses, stuck with some payment from a power plant although he has completed his conveyor belt . So those are sort of issues but in our portfolio I would imagine that next year hopefully should be less stress than this year, but Sridhar can comment more on that.

Kalpathi Sridhar Normally, we expect gross slippages would be about a per cent or so and assuming that we have recoveries to the tune of 20%, we are talking at a net slippage in the region of 0.8% and if we have to maintain 70% provision coverage you are talking credit cost in the region of 55 to 60 basis points which is what we projected and barring unforeseen events I think this is the kind of credit cost we intent to maintain.

Moderator Thank you. The next question is from Hiren Dasani of Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani Just very quickly, three questions. On the promoter shareholding you did allude to some RBI statement but does that mean that we have absolute clarity now and the promoters will not have to do anything or we have the timeline from RBI till let us say the guidelines are out? The second question is that we were expecting some windfall gains earlier from some of the historical legacy reasons. Has that materialized? And if not when it is likely to be? And third question is on the restructuring. We have a small increase in the restructuring. So if there is any more pipelines out there if you can clarify on this?

Romesh Sobti As far as the promoter holding is concerned absolute clarity will never come from the RBI. I have worked in banking for 39 years. I never had a situation where we have said we have absolute clarity but there is definite comfort and that is why you saw the actions that happened in December; the actions were aimed at bringing down the shareholding to 15% or slightly below 15%. I think absolute clarity will come in this quarter. So technically, you can still say that they are not at the prescribed 10% but I think the promoters have that comfort, we also support that comfort that what will apply to the new banks will also apply to old banks and we will not be in non-compliance; that is one. The windfall gains, the two or three that we have and there are large values attached to them. They are at the last sort of legal stages and in India the legal stage can always be prolonged, you can jump from supreme court to high court, from high court to DRAT, from DRAT to high court to supreme court, so that sort of merry-go-round still stays around, but I think those couple of cases that we have are in the throws of the last round. So it is a question of when. So they have not yet happened to answer your question. When can they happen? They can happen this quarter or next quarter depending on how benevolent the final judge in the court is and how quickly he disposes off the final desperate, what you call it 'appeals' that are happening. But, at every stage we have won those cases. It is just a question of waiting. Now, the windfall gains if they happen just to clarify, those windfall gains will probably not reflect in the profit after tax because we are very clear that these windfall gains must go towards creating a provision buffer. So we would want to use almost the entire windfall gain in creating provision buffer, countercyclical or whatever and take up our provision coverage ratio to at least 80%. Third item was restructuring. Sridhar, do you want to take it?

Kalpathi Sridhar During this current quarter we had two accounts which contributed to the slight increase in restructuring. Both these accounts are not bilateral restructuring at all. In fact we had a very small share in the consortium. But both of these promoters decided to refer themselves to CDR. And once the CDR decided on restructuring we had no option but to follow through. So this kind of restructuring could happen in next quarter as well because there are certain sectors which are under pressure, we do not see a tendency for corporates to refer themselves to CDR, you can see in terms of published figure the CDR numbers have really gone up, people find it convenient to refer to CDR because every lender then forced to follow suit. We do not have one or two lenders trying to take quick immediate legal action. So it could happen, but overall it will still be within manageable figures. Our restructured portfolio continues to be amongst the lowest for any bank.

Hiren Dasani Do you have like based on all corporate which I have referred to the CDR do you have some sense of what would be your aggregate exposure to that?

Kalpathi Sridhar We do not have. At this point of time any corporate which has already referred itself to CDR and all, but we do not know what will happen during the next quarter. That could be additions, yes.

Moderator Thank you. The next question is from Anand Laddha of HDFC Mutual Fund. Please go ahead.

Anand Laddha Just wanted to understand you mentioned that in this quarter also you sold off 3000 crores of loan. Just wanted to understand how the accounting of the same is done in terms of where the gain or loss is booked in the P&L if there be any?

Sanjay Mallik There is no mark-to-market gain or loss, it is on a daily accrual basis. So if you sell down loans for example, for a 60-day period, the interest continues to be accrued on the sell down and the interest continues to be accrued on the funding on a daily basis. All that really happens is that the underlying asset is not there. So, as a consequence your yield on assets or cost of deposits look a little higher, it is purely on a daily accrual basis.

Moses Harding Purpose is to manage CD and liquidity.

Anand Laddha But just to understand does it give some extra blip or extra addition to the margins or…?

Kalpathi Sridhar I think it adds to the capital really because if you do it in terms of interbank participation then there is a risk sharing by the bank which is buying this. If there is a default during this 90 days period then that bank is stuck with that asset, but otherwise it comes back to us.

Romesh Sobti Plus there is a scheme also for us. So there is a gain for us.

Anand Laddha But if you can quantify the gain because you have been doing it regularly quarter-after-quarter, just in terms of margin how much this could be contributing?

Suhail Chander You have to look at it in two ways. It is also a funding strategy, in the sense that if I am able to sell an asset at a price which is cheaper than the price at which I can raise the deposit then I will use that source. There are various sources of liquidity available to the bank. You use the source which is the cheapest to you. Sometimes an asset sale is cheaper than raising a deposit because there is no stat involved. So, it is a function of the market and what prices given for what kind of asset. Today, if you were to sell a priority sector asset you probably get it at 5.5%. So it depends on the time and what is the price of a particular asset. So it is a portfolio management tool depends on what is the best way to manage your portfolio. You use various different tools.

Romesh Sobti But experience, last four -five quarters show that the skim could be 75 to 100 basis points. If it is a priority sector loan today and we have seen some ridiculous number, the skim could be 6 to 7% because you are going at 5.5% this quarter, last quarter the skims go up, but ours has been in that 75 to 100 basis points.

Moderator Thank you. The next question is from Venkatesh Sanjeevi of ICICI Prudential. Please go ahead.

Venkatesh Sanjeevi Just a data point, could you share the disbursement number in your Consumer Finance division, the split between CV and UV business?

Sanjay Mallik We do not really give disbursement numbers by product, but I can tell you that for the quarter the total disbursements were about 3700 crores.

SV Parthasarathy You want it by way of product, is it?

Venkatesh Sanjeevi Yes, if you can split…

SV Parthasarathy 1429 crores in commercial vehicles, cars and utility put together is about 800 crores, three wheelers is about 350 crores, two-wheelers is 603 crores, construction is 536 crores and LAP disbursement is about 300 crores.

Venkatesh Sanjeevi The CV includes both old and new, is it?

SV Parthasarathy Yes.

Venkatesh Sanjeevi How much is the old?

SV Parthasarathy Old is about 15% of the total book. Old for the current quarter is about 600 crores.

Venkatesh Sanjeevi So the growth in the old CV would be the highest among? The disbursement growth….

SV Parthasarathy In terms of percentage growth it will be the highest but in terms of absolute numbers it is not all that very significant. 600 crores out of a number of 4,000 crores is not even what we planned. What is planned is much higher than in terms of old CV and you might be aware that old CV, most of our old commercial vehicles come out from our existing book only.

Venkatesh Sanjeevi And within this Used CV broadly how much would be HCV and LCV?

SV Parthasarathy HCV and LCV will constitute close to about 80% of the total CV book.

Venkatesh Sanjeevi Sorry, HCV 80%, is it?

SV Parthasarathy HCV and LCV, the markets on numbers LCV is much higher in our portfolio in terms of disbursements HCV should be close to about 70% of the total disbursement.

Moderator Thank you. The next question is Manish Oswal of KR Choksey. Please go ahead.

Manish Oswal My question on your exposure towards gems and jewellery sector which has increased from 1.55% in September to 1.8%. So this sector seems to be a risky sector in a sense, so what kind of exposure we have, term loan exposure, working capital exposure and what is your outlook on that sector?

Romesh Sobti The outlook on this gems and jewellery sector which is really the diamantaires is that the team that we have here, any members of the team including the head of risk, the head of transaction banking who actually manages this business came from ABN AMRO where ABN AMRO was the largest financier of diamonds in the world. So we have very, very deep experience of the sector. So, when we came in we looked at the portfolio that was there and we certainly had a number of accounts that needed out to be cleaned out. Those have been cleaned out. Some had to be written off and some were recovered. For instance, we have Classic and JB Diamonds, Sri Mahindra, all that is out. We are now growing the book on the basis of our experience and knowledge of who is good in this industry, whose business we understand well. Most of the exposure is short-term in nature, it will be always working capital and it also has a lot of fee-based linkages to it, there is a foreign exchange income to it, a lot of bills go on collection, etc., so you make money on the collections. The outstanding on this portfolio is now 600 crores. So it is not such a large part of a portfolio but it is a much higher quality portfolio than the one we inherited.

Manish Oswal Secondly, during the quarter have we sold any loan in Retail Loan segment?

Romesh Sobti No sell down in the Retail sector.

Moderator Thank you. Due to time constraints we will take our last two questions from Mr. Dhawal Gala of Birla Sun Life Mutual Fund. Please go ahead.

Dhawal Gala A couple of questions. First one, on your CASA strategy our broad aim is to fund our consumer book which should reach 25,000 crores by end March '14 to fund it by CASA. Would you look to revise that target or ambition? And what type of strategy would you then if at all you want to achieve that numbers will be able to see next year? The way I look at is 14,651 crores outstanding going to 25,000 crores looks a bit tidy task.

Romesh Sobti Certainly, it does look that, but you see the vectors behind that, we are not revising this ambition. We continue to hold that this is the critical part of the success platform. The drivers behind this are as you know we have always said is the wider distribution, a much more deepened client relationship which really comes from variety of products and the cross sell that we do and of course the quality of people that sell these products. All three now- I think the branch network has now expanded, which is now getting into a critical mass, critical mass is for us I think at least 600 branches. We are rolling out a slew of innovative products. Next month you will see some new and revolutionary products being launched and the way we package the sales of these products, we are expanding on the work force, feet on street, so we remain very, very focused on the CASA strategy, we are not getting away from the fact that we need to get to that 34% or 35% CASA. There are new segments that are being explored now. For instance, the government segment is something that we have not envisaged earlier but there are very solid breakthroughs and we are getting municipal corporations, etc.

Sumant Kathpalia I have always said that our CASA, what will grow faster is the savings account book. You currently seen that our savings account book is growing at a rate of about 700 to 800 crores a month if you taken on a quarter-to-quarter basis. This will pump into about 800 to 1000 crores by next quarter and this is because our acquisition is growing. We will increase the scale on the acquisition numbers now while we change the product mix and we have lost some numbers, you will see now the numbers coming back and you will see the acquisition value there is a consequence will start growing. So we will start touching about 1000 crores of acquisition by next quarter. In addition to that we will start ramping up the government business. And the government business to us represents a very different opportunity. So if you look at next year we will end at about 7000, next quarter about 1000, 1200 crores growth. On top of that if we grow by about 1300 to 1400 crores it will take us to about 12,000 crores of SA which is about 50% SA which was our guidance on the overall 50 to 55% SA of the CASA book. We already had about 8000-9000 crores on the current account and we see that 2000 to 3000 crores coming in by focusing and we have got a new current account team in retail which is actually focusing now on mass acquisition of retail account where we think the branch network we will be able to mobilize about 1500 to 2000 crores extra and by some other deals which we are planning to do in the big deal segment we will be able to mobilize that 1000 crores extra. So we do not have a problem because our strategy is well tuned, we were not going after mass CA now, we will go after mass CA, we will be able to acquire about 1500 to 2000 crores there, so our CA balance sheet will touch 12,000 crores, our SA balance sheet will be between 11,500 to 12,200 crores. So we do not see an issue on not touching that balance sheet number because we have demonstrated at 800 crores to 900 crores growth in SA on a quarter-to-quarter basis. Except for one quarter where we had a….. but we have rectified that situation.

Dhawal Gala Other thing was on your retail asset book. Would you be just telling us other than CVs where you are more doing on Tata and Ashok Leyland, on Two-Wheelers, Three-Wheelers and UVs who would be the key players or key auto manufacturers?

SV Parthasarathy On two-wheeler right now Hero Honda has highest market share and we stand No. 2 in Hero Honda counter . On Three-Wheeler we stand No. 1 in all the major Three-Wheeler manufacturers. And on Cars, we are essentially a niche player. And Utility Vehicles Mahindra is the key player. Next to Mahindra Finance we have the largest market share.

Dhawal Gala Would you be No. 2 there also?

SV Parthasarathy: Yes, I suppose so, Mahindra, we are not able to get the figures from them directly but I would reckon so, next to Mahindra Finance we should be the largest player.

Dhawal Gala And on Equipment Financing how has been the space considering the challenges what EPC players have seen and how has been the overall? Do we do any restructuring in any of the Equipment Financing business?

SV Parthasarathy For the current year in Retail Loans we have not done any restructuring, one. And on Equipment Financing whatever we have stated in the portfolio it represents the category of vehicle which is more or less similar to that of commercial vehicles. For example, most of them have road registration numbers. You might have seen JCB, Backhoe Loaders and Porcelain and things like that, these are the equipments which we do. Most of them are used in higher applications. And most of them are being used for small road projects and small infra projects. This line has not been affected by the slowdown in the economy. In fact, the line has been holding on fairly well. In this particular segment we have created a niche and we have got a significant presence in this segment and this segment is growing and the portfolio is also behaving well.

Dhawal Gala Last data question, what would be the Used CV outstanding currently in the….?

SV Parthasarathy 2700 crores.

Moderator Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to Mr. Puneet Gulati for closing comments.

Puneet Gulati Thank you, Inba. On behalf of JM Financial, I would like to thank Mr. Sobti and the management team of IndusInd Bank and all the participants for joining us on the call today. Thank you and have a great day.

Moderator Thank you very much sir. Ladies and gentlemen,, on behalf of JM Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.