IndusInd Bank

"IndusInd Bank's Q2 Results Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the IndusInd Bank's Q2 results Conference Call. As a reminder for the duration of this conference all participants' line 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. Should you need any assistance during this conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Romesh Sobti – M.D. and CEO at IndusInd Bank. Thank you and over to you Sir.

Romesh Sobti Thank You. Good afternoon to you all. Thank you for joining us on this con-call. We have already posted the results on our website and we have also had our customary press conference so the numbers are already out. Let me just summarize the quarter as it passed and then we can get into the numbers and explain what we saw in the lines. So I think the management's biggest challenge this quarter was to really cope with the sudden and sort of an unanticipated move by the RBI to disrupt the money market consciously as a means of fighting the runaway rupee with a 3% hike in the cost of money which is probably the steepest overnight hike that one has seen for a long time. Together with that, of course, there was a move to squeeze liquidity out of the market and the concept of "Cash Management Bills" was introduced which sucked away a lot of money. So the whole idea was to make suddenly money dearer at the shorter end of the curve and also reduce availability of money.

So I think our challenge this quarter was to keep the growth going especially at the grass root level because you cannot switch off and on depending on what happens in the market unless you are sure that this is a trend that is going to last for a long time. So once you give wrong signals to the grass root forces then it is very difficult to change momentum. So keeping the growth going at the pace that was determined by the credit screens that we have put up; what went through the credit screen was the growth we showed both on the interest side and of course as we did almost 15 or 18-months ago when interest rates moved up sharply over a 12-month period sustained revenue growth through fee income growth. So there was a coping strategy that was put into place to absorb the new impact, we will talk about that in the first place, then of course we will talk about the fee income. In the fee income a big component of course for the banking system this quarter is going to be the mark-to-market losses even after the forbearance which has been shown by RBI. So how did we cope with it and how much have we provided and what is the upside that we have in the quarters to come. So that is on the fee side of the income, we will talk about that, and, of course, we will talk about costs; the costs are stable, so there is very little to really talk about and then of course we will talk about the provisioning and then of course the load of questions that come on the CV side of the business which we have been answering now for close to 10 or 12 quarters.

So just to start with the overall headline performance, we did keep net interest income flowing; interest income was 700 crores which is a growth of 37% year-on-year and also 3% quarter-on-quarter. Other income grew 30% year-on-year but quarter-on-quarter of course it is lower because there was a one-off income that came through sale of a part of trading portfolio last quarter. But more importantly and this is what we have been sort of emphasizing for 22 quarters now is the core fee income growth, that grew year-on-year 32% and quarter-on-quarter as much as 11%. So the highest growth in our lines actually came from there. Net profit, as a consequence of the lower profit that we made on the trading income, was almost flat at about 330 crores. So that is really the headline numbers.

I am going to talk about net interest income because a lot happened there then we will go to the balance sheet growth as well. In net interest income what we really saw was the cost of borrowing shot up. Cost of borrowing was raised first for the banks who borrow from sources available from RBI. So there are many sources like CBLO, there is always the MSF, and there is also the inter-bank sources. So by raising the cost of borrowing there, the signal was clear that cost of deposits will go up and of course cost of deposits went up pretty sharply. CD rates moved up in the range of 10.5 -11% and even 11.25% and of course for fixed deposit. For CDs actually there was hardly any market. So there were two options to the bank at that stage. One was to keep replenishing your deposits as they mature and the other one was to find alternative sources of funding which were at lower cost. And those of you who have followed our profile over the last 5-years know that in these times we do manage to switch our funding sources around and change the funding mix so that the overall cost of funds does not move up so dramatically.

So what has happened this quarter is that we had recourse to some sources which we had not tapped, for instance, I think there were almost about 3,000 crores of refinance that was available but we had not taken so we drew down on the 3,000 crores of refinance. And refinance gave us an immediate benefit of the fact that it does not invite SLR and the other statutory ratios. In any case I think for the tenor it came, it was cheaper than any CD rate that was available. And of course the other recourse that we have taken in the past and that came to our rescue was the foreign currency borrowings. So there is a rush for foreign currency borrowing now but we had raised close to $700 million just before 15th July and also that was fully hedged and that came at a blended price of almost 7.5%. So as we stand now, we have another $400 million term sheets available with us and we are going to draw down when we think that the hedging rates go down. But that is available to us. So refinance, foreign currency borrowings, some recourse to CBLO and almost no recourse to MSF. Right through I think we have hardly borrowed anything on MSF – close to 200 crores or 250 crores. The cost of deposits also needs explanation. Cost of deposits remained flat at 8.18% and that is shown on Slide number 20. That is for two reasons; one is that the repricing. The tenors of deposits were such that a chunk of deposits really came up for repricing in September only, and there also we did not do full replacement. So we had alternatives that we borrowed from. So we did not do full replacement because at that stage I think rates were at the peak, and if we had locked in those rates then I think for the next two quarters we would have seen NIM compression. Plus the second reason was that our CASA also went up, in the sense that the SA part has really kept the momentum going, we will talk about it later. So overall therefore as a consequence, our cost of funds moved up by about 21 basis points from 6.75% to 6.96%. But we also repriced on the other side of the book - the repricing started but overall repricing of only 11 basis points so far. But I think the impact of the measures that we took in August and September will actually show that there will be further repricing and the total yield on assets will move up. The yield on our loan book has moved up by 11 basis points but the yield on our assets actually has moved up by almost 14 basis points from 10.47% to 10.61%. As a consequence of these measures we were able to sort of contain the NIM which fell from 3.72% to 3.65%. So the NIM contraction was only of 7 basis points. So that is how I think we coped with that. As a consequence of that, the profiling of our deposits going forward also is not sort of locked in at a very high rate that we saw during the period. We went by the guidance that came from the RBI that these are short term measures. So taking that guidance we took this view and therefore relied more on borrowings than on deposits, and now deposit prices have actually come off by almost 150 basis points. Now we will start raising the deposits and restoring the balance. So that's I think is the story on the NIM.

The other aspect is the Fee business. Now if you look at the total Fee Income, that includes the Core Fee Income, Trading Income and the others, that grew by 30% year-on-year, while quarter-on-quarter it actually was lower by 11%. So to explain that if you look at the line which shows Securities, Money Market, FX Trading which is on slide number 18 on our 'Investor Presentation'; if you see there, last quarter we had revenue of 104 crores and this quarter that fell to 24 crores. Now last quarter what we did was our trading book on G-Secs, we do not have a trading book on the corporate bond portfolio. Our total corporate bond portfolio is about 800 crores or so. So we sold half of this trading book in Q1 which you are fully aware of. And so as a consequence of the difference that you see between the trading income is about 80 crores. Out of the 80 crores, 50 crores we provided the one-off floating provision and therefore 30 crores was actually taken to profit. So in that sense if you normalize this, our Quarter-On-Quarter profit is actually also up by almost 7 or 8%, so I think that explains that. Now in this 24 crores trading income that we are showing, if we go back to this whole thing about mark-to-market how much have we actually provided, so the total provisions that we have done are broken up into different categories. The AFS and HFT provision was about 16.37 crores and that goes in the provision line. Then there is of course also a mark-to-market on the other which is the derivative and the overnight swaps. Our swap book also had a mark-to-market loss and that was 27 crores and that has gone into the other income line. So if you actually add up 27 crores here and 16 crores there, that is all 43 crores. So if you look at the note which we have given in the semi results, we have explained that apart from this 43-odd crores mark-to-market loss, the appreciation that we had on the AFS book has been ignored. So we have been conservative in doing that. We have only taken the depreciation and then spread it across the remaining part of the year. We have not taken the appreciation, therefore we have not used the netting process in line with our accounting policy since the day we opened the bank. So actually if you add back 47 crores to another 46 crores, then I think we have something like 93-odd-crores in the form of either appreciation or mark to market losses or one-off losses. So I think that overall we seem to have peaked here, so I think going forward we will be seeing gains coming out of this book - especially the part which is the appreciation that is already there which we have not booked. So that is how the total income plays out.

If you go to the next slide and that gives you the core income; core income has grown 32% year-on-year and 11% quarter-on-quarter as well. In the lines you will see Trade & Remittances which is very, very key part of our business has grown healthily so is foreign exchange. Distribution fee is almost flat which I think is a reflection of the market as Sumant will explain later what has happened in terms of the shrinkage of the Life Insurance business. General Banking fees are down but General Banking is also a consequence of things like deposit charges and all that. So if people meet the minimum balance requirements the charges are not levied on that. Processing Fee is up, Investment Banking Fee is up in line with the forecast that we had given. So Core Fee Income is going apace and it has kept our promise that Core Fee Income will exceed loan growth. So that’s I think on the fee side.

Before we go down any further, I just want to talk about the balance sheet. We had advances growth which was quarter-on-quarter 3% and year-on-year 24%. Deposits of course have grown 11% year-on-year and actually have shown a shrinkage quarter-on-quarter which is a conscious choice that we took and I have already explained that. We mixed our funding more towards borrowings, so that the hit on the NIM could be reduced. So borrowings show a pretty hefty increase, and these borrowings I have already specified include refinance, include foreign currency and whatever the sources were available which were cheaper than doing CDs; CDs were not available in any case.

The next line is cost. On the cost side last quarter - because of that one-off gain that we got - we had a drop in the cost-to-income ratio to 44%. But we have normalized that back and is now showing 47% which itself is an improvement over what we have shown in the quarters before Q1. So we are actually seeing costs slightly down on a normalized basis. So the cost-income ratio has moved in a trend that we want which is to get to 45%. The breakups of costs are available between staff costs and OPEX and all, those of you want that we can give that to you separately.

Finally, we come down to the quality of the book. The quality of the book has by and large been sustained. If you look at gross NPAs; gross NPAs this quarter were 1.11% and last quarter were 1.06%. So gross NPAs have moved by about 5 basis points and net NPAs are flat; it was 0.21% last quarter and now 0.22%. Restructured Advances were 0.28% last quarter, they are now 0.31% because of one advance came under CDR. It was standard with us, but it was taken to CDR so that is 0.31%. More important is the credit cost. The credit cost is flat on a gross basis at 13 basis points; Net Credit Costs, of course, last time we had recoveries and it was 9 basis points. I think the trending between Corporate Bank and Consumer Finance is not seeing any major fluctuations. We will talk about of course the CV book which is of the greatest interest to the largest population of analysts and investors over the last 12 quarters. The only thing I want to mention here is that - in this credit cost if you look at Consumer Finance credit cost, please also take into account that the Provision Coverage Ratio (PCR) has actually also moved up from 60.99% to 63.77% that is given on Slide #22. So whatever you see in terms of provisions there also include the fact that we weigh the Provision Coverage and overall also Provision Coverage has moved up slightly by 6-7 basis points for the full book. So that's I think is summary of NPA part.

A few other things that we need to talk about, the growth in risk weighted assets was such that our Tier-1 was almost flat quarter-to-quarter. We were last quarter 13.49% and now we are 13.45%. So actually in spite of this growth, we have not used too much of Tier-1 because under BASEL-III we write back the profit. So BASEL-II and BASEL-III run parallel now and under BASEL-III we write back profit so therefore there is not too much of guzzling of capital that we have seen.

Individual business unit heads will talk about their own businesses.

The only other thing that I want to say is that while all this sort of crisis were going on we did not back off from either our business model nor do we feel the desire or necessity of any modifications to the business model. The moderation in credit growth happens automatically. We have always said that you do not become wiser in bad times because bad debts are created in good times. So your credit screens actually need to be sharper in good times and the bad times so whatever comes through the credit screens is our credit growth. We have said we are not dogmatic so what came through was 24% growth. It was not evenly divided this time between Corporate and Consumer so you see a slight shift but its still in that band of 49-51%; so this time around Consumer Finance is 49% and Corporate Banking is 51%. So that's the sort of breakup of the book.

In terms of the network, we continue to open branches. We are committed to getting to the figure of 625 branches at the end of this year, we have already opened 60 in the first half of the year and 625 branches, 1500 ATMs remains our target. And those of you who have interacted with us more closely know that the brick-and-mortar is very critical to our whole business model on fee accretion because of the large crosssell that we have in other businesses. So hiring has remained a pace, branch opening has remained apace but the cost-income ratio has been kept by and large within the band and it has actually reduced.

I see there is a new flavor on the rural verticals that now everybody is talking about. I just want to say that we were in the rural vertical many, many years ago. A lot of our financing especially on our Priority Sector and our Vehicle Financing actually has come from rural. If you take rural and suburban together we have 240 branches, so 42% of our network is actually in the rural and semi-urban areas. We already made a very good headway on the micro-loans. We have close to 200,000 micro-loans already on-boarded, may be we will talk later about how much more we expect to do that over this. So rural CASA for instance is growing, rural CASA is already at 500 crores. So there is a balance sheet in the rural areas already existent and we have seen the benefits of some of the rural branches way back in 2009 when we started opening these rural branches. So I think that is a quick sort of highlight and we will give you more time to ask questions.

Moderator Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania I just have two questions; one is that we had a bit of discussion on cost of fund and yields. So could we expect margins to stabilize or move up in the next quarter?

Romesh Sobti Because of the fact that we did not pick up a large amount of deposits during this high spike that we saw, there will be some sort of a normalization there. But certainly the cost of borrowings are higher than what we had originally anticipated. So on a blended basis I think certainly we would be stressed to maintain margins but we do not expect margins to move in violent bands. They will move in the same sort of band that we have seen - upwards or downwards.

Mahrukh Adajania What would be the size of your Corporate Bond book?

Romesh Sobti: Corporate Bond book is 800 crores.

Mahrukh Adajania That is the full book?

Romesh Sobti That is right.

Moderator Thank you. We have the next question from the line of Parag Jariwala from Macquarie Securities. Please go ahead.

Parag Jariwala I have a question on your investment book. You said that total loss is around 1.2 billion, so we have provided around 16.4 crores. What I understand is that you have to divide over a period of 3 quarters so that way the number should be slightly higher and then what could be the run rate going forward for next two quarters?

Romesh Sobti RBI's guidelines is they have to be divided equally. They do not say 3 quarters or 7-months or 14 fortnights or a number of days. We have done it on the basis of the balance 7-months, so it is $1/7^{th}$.

Suresh Just one clarity, Suresh here, the difference between BASEL-II and BASEL-III capital is just the writeback of profits, right?

Sanjay Mallick Yes.

Suresh Just one more thing on the size of Corporate Bond book 800 crores by RBI classification these entire 800 crores should be in AFS, right?

Romesh Sobti Yes.

Suresh: So this 114 crore of course also includes this 800 crores which would have been mark-to-market?

Romesh Sobti That is right. Within that there are also some bonds which have appreciated but we have not taken the appreciation.

Moderator Thank you. We have the next question from the line of Adarsh P from Prabhudas Lilladher. Please go ahead.

Adarsh P: Just a couple of questions on the corporate book, when I see the slide that you have shown the sectoral breakup, there seems to be some quarterly material inch-up in real estate developer, rental book and scale which relatively is a little more risky, so if you can just throw a little bit of more light on that. And the second question was again on the rating scale seems to be showing some deterioration. So if you can just combine the two upon the risk profile side of the Corporate Book?

Suhail Chander First of all on the Industry segment, yes, there is an increase in the lease rental discounting. But contrary to what you said, I think lease rental discounting - because it is cash flow based and it has got a mortgage- is probably amongst the safest loans today. Yes, it has increased. On the rating profile, I think the change is very marginal. It is 1 or 2% change, but it is not a very significant move from one size to the other.

Romesh Sobti The changes can happen because on the rating you find there is a large skew that is on the AAA side which comes out of the PSUs. You know the repayment of a large PSU LC or a guarantee creates that little movement, but there is no material movement.

Adarsh P: When I was asking about the segmental classification, I was more referring to real estate developers and scale. I think the real estate developer book seems to have doubled, so one percent has now become 2%?

Suhail Chander But the starting point of the book is so small that even if it has gone up a little bit, the exposure is still only about 2% of our total book.

Romesh Sobti: That is why it came upof a small base. So let us understand, the real estate developers we had completely sort of washed our hands off over the last 5 yearsnow as we moved to lease rental discounting. In the process we have found that there were some really good developers that who we could have done business with if you have the expertise. We have certainly now created a vertical, we have brought in specialist on the real estate business and we are just picking on the top. We are not going into anybody and everybody who gives me a 14% loan and a 3% upfront fee. We are not into that business at all. So these are top end developers and where we are willing to take a view and they have passed the risk criteria. Maybe Sridhar can give a perspective also.

Kalpathi Sridhar These are not balance sheet lending to the real estate developers. We actually finance specific projects and we have control over two things; we take an exclusive security - regular mortgage of the property that is being financed and we have 100% charge on the receivable. So every part of the cash flows is routed through us. So these are typically very short term in the sense that the project has already taken off, 30%, 40%, 50% of sales have happened and then the remaining completion only requires a small percentage of the overall project cost and that's what we finance. We do not give him money which can be used in other projects. So it is a really fairly safe, secure kind of lending and we only do the top end real estate developers.

Adarsh P Added to just build up this book do you think there is significantly more scope for this book to go up as a percentage of your loan book?

Sridhar Kalpathi We will be careful so it's not that we are going to increase concentration on it We want to test the waters and we see how things will develop.

Suhail Chander We do not let any industry segment become too concentrated in our books So we will follow the same principle when we look at this segment.

Moderator We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha If you can just explain on the cost of deposits like you said you had some refinance available this time, so these are typically for what duration and at what cost it comes? What part of the loan book is eligible for getting refinance and typically which are the organizations which use your refinance?

Romesh Sobti Refinance eligibility comes from your priority sector book. We are one of the few banks which met the priority sector target for the last fiscal year, I think the industry as a whole was short. So the priority sector book generates refinance capability. Normally the givers are NABARD and SIDBI. We have tenures ranging from 1 year to 7 years. We have raised in the past 7-year money at 7% and this money as I explained earlier does not attract the normal statutory ratios which increase the cost by almost 70 to 80 basis points, so they are cheaper. Even if you were to take a fixed deposit of the same tenure, the same rate, this works out cheaper. So eligibility from priority sector book, tenures ranging from 1 to 7 years and certainly cheaper than what you want. I think we take this also from the perspective of balancing out our book so that we do not have those large ALM mismatches and we do not beat the structural liquidity norms of RBI.

Anand Laddha You also raised some dollar deposit of $700 million at 7.5%. So just wanted to understand if I have to look as one year forward swap, it is available at 6 to 7%, just wanted to understand how the cost comes to 7.5%?

Arun Khurana The foreign currency deposits that we are talking about that is our total book size in foreign currency and not necessarily taken at this point in time. So the blended cost of that book when converting into INR at various points in time works to around 7.7%. It is not that we have done the swap as of this point in time,. We have done the swaps earlier. We have a foreign currency borrowing program with some of our lenders from overseas where we keep on borrowing both long term as well as short term.

Anand Laddha Of the total absolute borrowing increase, 3,000 crores comes from the refinance window, balance was from the LAF and all that or is it from the dollar raising foreign currency?

Romesh Sobti It is also dollars and it is also from the CBLO book and there is a small element of interbank, but we do not rely too much on interbank.

Moderator We have the next question from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani There is one accounting clarification, on the AFS side you are saying that Rs. 116 crores per month kind of a break up is what you provided for a month, right?

Romesh Sobti That is the total amount.

Hiren Dasani Rs. 114 crore divided 7 is Rs. 16.4 crore that is what is being provided in the P&L?

Romesh Sobti That is right.

Hiren Dasani Assuming that the marks do not move up or down for the next quarter, it should be 16.3 into 3?

Romesh Sobti That is right.

Hiren Dasani But marks will move down because the rates have come down?

Romesh Sobti Correct, that is the view taken, because we could have moved more into HTM, and therefore saved this, but we are saying let us wait a little because market is moving down so ultimately we should get gains out of it.

Hiren Dasani Just to understand this 114 crores, if it moves down to hypothetically let us say 75 crore by the end of December, than that 75 is to be into 2 quarters, is that what it would be?

Mr. Zaregaonkar There can be various ways of interpreting that. Suppose if it becomes 75 in the month of October, I have already provided 16, so I may deduct 16 first and remaining I can absorb in the remaining 6 months.

Hiren Dasani But as of now there is no clarity on that interpretation?

Romesh Sobti That is dynamic. You cannot provide at the same rate if the yields fall. So mark-to-market loss comes down from 114 to 70, you can't keep on providing, because there you have a choice. You may provide more. That nobody prevents you

Sanjay Mallik: And the claw back from the existing amount that we have provided.

Romesh Sobti: Net-net there should be beneficial impact of this.

Hiren Dasani You said that there is additional Rs. 27 crores loss in swaps that went into the other income line?

Romesh Sobti Yes, that has gone into other income line that will also come back, overnight swaps are actually already down.

Hiren Dasani So you are effectively trading profit was about 27+24 in the quarter, is it correct to interpret?

Sanjay Mallik Yes, correct, it is 52 crores.

Hiren Dasani On the credit cost side, how confident we are to maintain in this band of about 55 to 60 basis points annualized credit cost?

Romesh Sobti I think we have said repeatedly that this year we have budgeted for 60 basis points and we are coming out steadily at around 12 - 13 basis points. If you take net of recoveries, then our credit cost for the first half is only 22 basis points. But I think our aim and ambition is and looking at what we have in the book is that there is one budget that we do not want to achieve; budget of 60 basis points.

Hiren Dasani Lastly, when you said the margins cannot move in the violent manner, does that mean that it should be expected in the range of 10 to 15 basis points from where we are today?

Romesh Sobti That is right.

Moderator We have the next question from the line of Manish Ostwal from KR Choksey Shares & Securities. Please go ahead.

Manish Ostwal On Page 23, there is a breakup of various product segment net NPA numbers. So the LAP, HL PL breakup, which product line is contributing highest in that breakup?

Romesh Sobti Actually HL is an old book.

Kalpathi Sridhar: HL is a legacy book. We stopped doing HL quite some years back and LAP we just have one small marginal case. PL we do not have, we have just started this business just now.

Manish Ostwal: So basically LAP and PL

Sumant Kathpalia: LAP one case

Kalpathi Sridhar: HL is because it is an old legacy book, so there are some NPAs which are there.

Manish Ostwal: Secondly, what budgeted credit losses we are pricing in LAP product?

Sumant Kathpalia: We have planned for about 0.3%.

Manish Ostwal During this quarter apart from the refinance window borrowing, the nonrefinance borrowing what is the marginal rupee landed cost?

Romesh Sobti Foreign currency of course we have already told you the pricing. If you look at the blended book, even if we have to borrow for instance, we now have term sheets for another $ 200- $400 million. Even if you were to borrow this fully, I doubt we will, but another $200 million also, we will still keep our overall blended cost below 8%.

Manish Ostwal Lastly, two small data points, one is what is the outstanding countercyclical provision as of date? And secondly Wholesale Deposit outstanding number?

Romesh Sobti Countercyclical is 27 crores. If you take the wholesale deposit as a percentage of our total funding, we should be in that 35% or 36% range.

Manish Ostwal That is your total deposit is 35%

Romesh Sobti No total funding

Manish Ostwal And what will be your percentage of your Wholesale Deposit mix?

Romesh Sobti It is about 45%.

Moderator We will take the next question from the line of Nilesh Parikh from Edelweiss. Please go ahead.

Nilesh Parikh Just wanted to get a sense on the amount of loans that we would have sold down during the quarter and compared that to the previous quarter?

Sanjay Mallik We sold down Rs. 1600 crores this quarter, previous quarter was Rs. 2000 crores.

Nilesh Parikh The other question is on the Investment Banking revenues. So I just wanted to get some sense is it largely on DCM or loan syndication?

Suhail Chander Our Investment Banking business is purely all on the debt side. So there are essentially two components to it; one is DCM and the other is structured debt and this is a mixture of both.

Nilesh Parikh I am just trying to connect that this quarter actually when you look at the general markets on the debt side, we saw limited activity and we have seen an healthy stream of revenue for indusind.

Suhail Chander We are only on the loan side; we are not dealing so much in bonds. This number that you are looking at is loan. And on the DCM side we had some good mandates which have actually been with us for sometime which were closed this quarter, so the pace have been good.

Nilesh Parikh How are you seeing the pipeline on this?

Suhail Chander It is a very fluid pipeline, but I do not think that our trend will change very much.

Moderator We have the next question from the line of Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley I had two questions; one is on the sale of assets to asset reconstruction companies, I think you have sold 25 crores of assets, how much of this is again security receipts and how much of this is against cash?

Romesh Sobti This is all security receipts, this is how we work. On the ARC piece, I think we had given out statistics earlier as well that we have 106% recovery in the case of assets that we have sold to ARC in the last 12 months. This ARC sale, for instance, in the Vehicle Finance side, whatever we have sold in the last 4 quarters that we fully recovered, and it is a 100% recovery there.

Anish Tawakley How much security receipts are you holding now currently?

Romesh Sobti About 85 crores.

Anish Tawakley Last year you had sold about 130 crores and this quarter you have sold about 25?

Romesh Sobti Total, our ARC has actually come down pretty significantly from what it used to be.

Sanjay Mallik Last quarter we talked about recovery of 45 crores, so that was all security receipts, 100% recovery.

Anish Tawakley How long would you hold security receipts of a consumer nature before you would write them off?

Kalpathi Sridhar We typically never had to write off and we had full recoveries in 6 months time. There haven’t been any occasions to write off anything.

Anish Tawakley On the OIS side, these are basically overnight interest rate swap, the mark-to-market?

Romesh Sobti Yes.

Anish Tawakley Could you talk a little bit about what is the sort of driver of holding these derivative positions and would it be unfair to treat these as sort of adjustments from net interest income?

Arun Khurana These are all prop trading positions, so they are dependent on market behaviors as well as market movement. So that is what really drives the nature of these positions that we take.

Anish Tawakley These are presumably held for balance sheet management position. You could raise long term funds or you could raise variable rate funds and swap them?

Arun Khurana No, these are purely for trading purposes and booked under prop trading. So they are pretty much volatile in nature in turn that we will be booking and cancelling all the time. We do not have an underlying asset to hedge any balance sheet exposure of any sort.

Anish Tawakley If I may ask one final question, what would be in Investment Banking your fee-to-transaction size ratio?

Suhail Chander It depends on the nature of the transactions that you are doing, but it could be anywhere between 1 and 3%.

Anish Tawakley So 65 divided by 0.02 whatever I got with the maths, that many transactions?

Suhail Chander Yes, some number on that basis.

Moderator We have the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh A couple of questions; one is on the assets quality front, if we look at the total additions, we had about Rs. 140 crores in the current quarter and if I look at the deductions about Rs. 100 odd crores and out of which Rs. 25 crores has gone through the ARC route. Just trying to understand if I work through the provisioning number again, these numbers kind of suggest that at least in the Consumer side there seems to be a bit of recovery otherwise the provisions could have been much higher than what have been reported here, am I looking at it correctly or is there a different interpretation to it?

Romesh Sobti I think this is not just because of sales, it is also because of our normal collections.

SV Parthasarathy It is also because of upgradation as well as normal collections within the NPA category.

Kalpathi Sridhar So in the Consumer Finance, nearly 50% of whatever we added as NPA have been either recovered or upgraded.

MB Mahesh Is the trend changed in the current quarter, have you seen further improvement in the book in terms of recoveries and upgradations?

SV Parthasarathy No, it is more or less the kind of trend whatever you have been following for a quite long. But there are specific cases where it just got upgraded, but the ratio remains more or less the same where close to about 50% of additions always gets recovered.

MB Mahesh The next question is on the book which is kind of changing within the Retail side where you have seen lot more of Home Loans and Loans against Property, is this shift in the Home Loan book leading to some level of compression in your Retail advances pricing?

Romesh Sobti Home loan is nil, we do not accrue a single home loan. So the Home Loan portfolio is an old portfolio which was inherited by new management and the focus is to now recover it.

MB Mahesh I am sorry if I include Loans against Property.

Romesh Sobti Loans against Property, actually in that line, we have 1,860 crores, Home Loans is next at 82 crores. But LAP is coming at a rate which is slightly higher than the rate of new Vehicle Financing.

MB Mahesh We have seen some level of compression in the Consumer Finance division at least the pricing part, so just trying to reconcile some of these?

Romesh Sobti You are right, because if you have blended yield on Vehicle Finance book is in the range of 15.7% or so then anything that you lend on Consumer below that should reduce your yield because this is at 13.25%.

MB Mahesh Just one last data point question, can we have the outstanding loan book in used and new Vehicle Financing book?

SV Parthasarathy Used is close to about 3200 crores.

MB Mahesh In the Commercial Vehicles portfolio?

SV Parthasarathy No, in the total.

Moderator We have the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma Most of the questions have been answered, just wanted your sense in terms of growth guidance, do we sort of look at the current number of 20 to 24% for the full year, just some color on that?

Romesh Sobti We had 21 quarters of 29, 30% growth, last quarter was 27% and this quarter is 24%. Now, what we are saying is that we have a uniform set of credit screens that we set up 5 years ago. Whatever comes through the credit screens is our growth. We are not dogmatic, we do not say we will get 30, we will get 25. But the way we are going even now, we sold down 1,500 crores this quarter, I think the growth in the mid-20s. Especially if the market is up at 16 or 17 or 18%, we are ahead of the market. So I think the growth in the mid-20s does not look unrealistic to us.

Ashish Sharma So we are not sort of tightening our credit standards to let bit of growth, considering the macro environment is shaping up?

Romesh Sobti We have tightened it in good times because that's when the bad debts are created.

Ashish Sharma Just one clarification on the countercyclical provision, 50 crores we have provided this quarter, I think which we have said that it is not a specific provisioning, so that is not part of the countercyclical?

Romesh Sobti 50 crores is the floating provision plus Rs. 27 crores is the countercyclical provision, so 77 crores.

Moderator We will take the next question from the line of Amit Ganatra from Religare Invesco Asset Management. Please go ahead.

Amit Ganatra Two questions; one is on the movement of NPAs, so deductions do not have any write-offs, is it correct?

Kalpathi Sridhar There is an element of write off. So as I said whatever we added in the Consumer Bank in terms of NPA, 50% of that has been recovered or upgraded, the balance 50% there is an element of write-off and there is an element of sales to ARC.

Amit Ganatra Just for purpose of clarity, can you provide the breakup of your deductions?

Kalpathi Sridhar About Rs. 30 odd crores would be the write off and around Rs. 25 crores would be sales to ARC, and Rs. 42 crores would be upgrades and recoveries.

Amit Ganatra This refinance window, when you said that we sold Rs. 1500 crores this was basically to refinance route this quarter or?

Romesh Sobti No, that refinance is separate, that is refinance against our priority sector book. What we sold is what we have been selling for about 6 to 8 quarters. We sell excess loans as part of balance sheet management where there were a time we used to sell Rs. 3000 to Rs. 4000 crores and these are basically interbank participations, all the bill rediscounting scheme, etc., where we get a skim, so we could make 50 basis points or 100 basis points so that's a separate one.

Amit Ganatra This refinance was done this quarter also at 7%?

Romesh Sobti No, if it was 7% you would see our NIM at 4%.

Amit Ganatra So what was the rate for this quarter for refinance?

Romesh Sobti They were of different rates, there was 8.5%, and there was 9%, 9.25%.

Amit Ganatra So that explains why this was not used in the past?

Suhail Chander It is the function of the refinancing agency and the tenor of the refinance.

Amit Ganatra Exactly, so that explains why this was not used as an opportunity in the past?

Suhail Chander You have various ways to finance your assets, you can use deposits you can use refinance, you can use borrowings, you use whatever is the cheapest combination.

Amit Ganatra Exactly, this became competitive basically this quarter in this environment that is the reason you basically…

Suhail Chander Deposits became expensive.

Romesh Sobti: It was competitive earlier also.

Paul Abraham In a different environment 7 was competitive, current environment 8.5 is competitive.

Amit Ganatra I was just trying to understand why was it not used in the previous quarter?

Romesh Sobti Because deposits were cheaper.

Suhail Chander The thing is we have been using this on various quarters, it is a function of the pricing or refinance versus pricing your deposit. So wherever you have an advantage, you use that product.

Paul Abraham: We have done it in the past as well.

Moderator We will take the next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri Just wanted to check we raised our base rate sometime in the middle of August?

Romesh Sobti That is right.

Kashyap Jhaveri How much was the increase then?

Romesh Sobti 25 basis points.

Kashyap Jhaveri In terms of our base rate linked loans, how much would be those as a percentage of total and how much would have been repriced by the end of this quarter?

Suhail Chander: That base rate link would have been repriced on the date of the base rate increase.

Kashyap Jhaveri And what would that be as a percentage of total portfolio?

Romesh Sobti: We did two things; one was to increase base rate and the other is margin over base rate. What we did was that we first raised the margins, then we changed the base rate. What got repriced in terms of base rate is also what has come over for roll over, so that was about 6,000 crores.

Kashyap Jhaveri And apart from that the normal sort of term loans or anything which would have got automatically repriced because the base rate would have gone up, would still be about 50, 60% of the total corporate book?

Romesh Sobti: Corporate book you see, the rest it is short term which gets rolled over every 90 days or 120 days. Those rollovers we reprice.

Suhail Chander Just to clarify, the majority of the book is floating rate, part of the book is base rate-linked and part of it is short-term loans that are ahead of the base rate and that gets repriced at every roll over either upwards or downwards.

Kashyap Jhaveri So that spread over base rate would have also come into picture?

Suhail Chander: That is right.

Kashyap Jhaveri: And just one more question, you mentioned about this refinance. I understand your priority sector loans are total about 14,000 odd crores. So on let us say 14,000 odd crores we had a refinance facility available of 2,000 odd crores or 3,000 odd crores if I understand this correctly.

Romesh Sobti: Total outstanding refinance is 5,900 crores.

Moderator: Thank you. Participants that was the last question. I would now like to hand the floor back to Mr. Romesh Sobti for closing comments. Thank you and over to you Sir.

Romesh Sobti: Thank you very much for joining us. I think now we are going to interact on a one-on-one basis and we would be happy to do that over the coming days and weeks.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of IndusInd Bank that concludes this conference call. Thank you for joining us. You may now disconnect your lines.