IndusInd Bank

Q3FY23 Analyst Call Opening Comments

Dear all,

Thanks for joining this call. I will start with some macro commentary and then go into the bank specific details.

Domestic economic activity continued to strengthen over Q3. Improving credit supply with resilient banking system is supporting the economic recovery. Gross NPAs fell to a 7- year low of 5% in September 2022 and net NPAs dropped to 10-year low of 1.3% of total assets. Monetary policy tightening is also likely to take a pause after another possible hike in February. On the fiscal front, the Budget for FY2023-24 is likely to continue to support economic recovery and help buttress overall macro-economic stability through fiscal consolidation. While domestic economic activity remains strong, risks from a challenging global economic environment would remain going forward. Indian economy has shown resilience during 2022 in the face of extraordinary external shocks. India is thus likely to be the only major economy growing in excess of 5.5% per year over next couple of years.

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

- <u>Acceleration in loan growth driven by retail segments</u> – Our retail businesses grew by 5% QoQ and Corporate grew 4% QoQ driving overall loan growth of 5% QoQ and 19% YoY. Within retail, Vehicle finance growth was robust at 7% QoQ with another quarter of record disbursements. BFIL originated MFI and merchant loans grew by 2% QoQ. Non vehicle retail maintained steady growth of 6% QoQ.
- <u>Deposit Mobilisation with Momentum on Retail</u> – We achieved 3% QoQ and 14% YoY growth in deposits during the quarter. We saw healthy momentum in retail deposits with retail as per LCR growth accelerated to 21% YoY vs 16% in previous quarter and was up 6% QoQ. All key segments of branch banking, affluent and NRI contributed towards the retailisation momentum.
- <u>Stable Asset Quality –</u> Our gross slippages during the quarter reduced to 1,467 cr from 1,572 cr QoQ. Our Restructured book too reduced from 1.5% to 1.25% QoQ. Our GNPA is down to 2.06% and PCR remains healthy at 71% with NNPA at 0.62%. Our contingent provisions are at 2,192 crores with total loan related provisions at 130% of GNPAs. Our credit cost has reduced from 44bps to 40bps QoQ.
- <u>Healthy profitability of the franchise –</u> Our Core Operating Profits grew by 20% YoY driven by improved NIMs as well as strong client fees. Net Interest Margin was at 4.27% vs 4.24% QoQ. Client fee income grew by 28% YoY driven by retail fees. Our Cost to Income was steady at 43.9% and our PPOP margin remained healthy at 5.7%. Our Profit After Tax grew by 9% QoQ and 58% YoY to 1,964 crores with annualised EPS at Rs 101 per share. Our Return on Assets improved to 1.87% and Return on Equity crossed 15% mark in Q3 for the first time in 3 years.

Now coming to individual businesses.

1. **Vehicle Finance:**
    - The vehicle business continues to achieve record disbursements every quarter and third quarter has been the best ever by a significant margin. The disbursements have been broadbased across all vehicle categories.
    - Disbursements during the quarter were at Rs 12,713 crores up by 19% QoQ and 44% YoY. The cumulative 9MFY23 disbursements at 33,450 crores are up 52% YoY and already ahead of full year disbursements of the last year with one more quarter to go.
    - The vehicle finance loan growth as a result continues to accelerate with a robust 7% QoQ growth and YoY growth improving from 13% to 18% during the quarter.
    - Within vehicle categories, Commercial Vehicles, Utility Vehicles, Cars and Construction Equipments saw more than 40% YoY growth in disbursements. Two and three-wheeler segments too which were stagnant since Covid, saw demand coming back with healthy QoQ and YoY growth in disbursements.
    - Vehicle asset quality remains steady with gross slippages at 0.9% vs 1.0% QoQ. Standard book slippages were higher QoQ due to impact of mining duty in Orissa on freight availability. The duty has now been rolled back and freight availability has started improving.
    - The restructured book in vehicle finance reduced by 400 crores to 1,868 crores from 2,270 crores QoQ. The reduction in restructured was broadly equally driven by collections and slippages. The collection efficiency of the remaining restructured customers was stable at 84%.
    - Overall, we continue to see healthy operating environment for the freight industry and thus we expect to maintain our disbursement momentum in current quarter as well supported by new year purchases and income tax benefits.

2. **Bharat Financial Inclusion Limited**:
    - Our microfinance and merchant acquiring loans originated through BFIL grew by 16% YoY and 2% QoQ.
    - Our microfinance business disbursements were at Rs 8,928 crore growing 27% YoY. The disbursements were lower by possibly a few hundred crores due to bunching of festivals in the first half of the quarter. The member additions nevertheless were strong at 593,000 for Q3 up by 20% QoQ of which December was the best month of the year so far. The disbursements to these members would gather pace from current quarter onwards.
    - MFI standard book net collection efficiency for Q3 was strong at 99%. The gross slippages during the quarter were down at ₹409 Crore as compared to ₹435 Crore during the previous quarter.
    - Our 30-90 DPD book including restructured customers was at 2.4% on Dec-22 compared to 2.0% at the end of Sep’22. The increase was largely contributed by the eastern states. We have slowed down on disbursements in those geographies with increased focus on collections. Overdue positions for BFIL continue to be better than the industry at all DPD levels.

- We continue to expand our merchant acquiring business under the banner of Bharat Super Shop. Portfolio sourced through BFIL under this business has grown 16% sequentially to ₹3,094 Cr with 4.9 Lakh active borrowers.
- Our liability book sourced from customers serviced through BFIL increased by 65% YoY to reach ₹1,633 Crore through 1.35 Crore accounts (SA, RD, FD, CA) with us.
- Overall, we continue to cautiously pivot towards growth on the microfinance business. The rural economy continues to improve however the pace of improvement seems to be slower than expected. We continue to leverage BFIL franchise to diversify into allied businesses and within microfinance the disbursements are driven by lower ticket sizes and reducing geographical concentrations.

3. Global Diamond & Jewellery Business

- The business continued to maintain its global leadership position of being the largest lender to this industry. Our diamond portfolio saw growth of 20% YoY.
- Asset quality remains pristine with no restructuring and SMA1 or SMA2 customers.
- We remain watchful on the implications of the prolonged Russia-Ukraine crisis and remain compliant with all the extant guidelines in facilitating cross border trade. The Covid restrictions relaxation in China is likely to help the overall demand in this year.

4. Corporate Bank:

- Our Corporate business delivered another quarter of healthy growth and no asset quality concerns. We achieved a growth of 20% YoY during the quarter with no net slippages.
- The growth was broadbased across segments with Large corporate growing 3% QoQ, mid corporates 4% QoQ and small corporates 11% QoQ resulting in overall growth of 4% QoQ.
- The segments driving loan book growth were steel, services, petroleum. Growth in small corporates was driven by continued scale of up of our SME segment and agri business seasonality resulting in ramp up of our commodity finance book.
- We continue to actively re-price the loan book. Our yield in corporate book improved by 37bps during the quarter.
- The proportion of A and above rated customers is now 74% compared to 72% YoY. The overall weighted average rating too improved to 2.64 from 2.67 on YoY basis.
- The gross slippages from corporate book saw reduction in both standard as well as restructured accounts. Overall slippages were down from 179 crores to 119 crores QoQ.
- Exposure to stressed telco was stable at 17.3bn including fund based exposure of 10bn and balance non fund based exposure. We remain watchful on the developments at this account.
- Overall, we continue on our journey of corporate growth driven by higher rated, granular, shorter duration loan book. The asset quality performance remains comfortable and growth broad-based across client segments.

5. **Other Retail Assets:**
   - Our non-vehicle, non-microfinance retail loan book too saw growth momentum accelerating during the quarter to 23% YoY and 6% QoQ.
   - The growth was driven by credit cards, personal loans as well as steady momentum in business banking.
   - Our Credit Cards spends continued to remain strong with spends of 20,000 crores for the quarter. As a result, our Credit Cards loan book grew by 9% QoQ. Our new acquisitions remain robust with around 88,000 acquisitions in Dec-22. We also recently announced world's first tri-partite cobranded card in partnership with Qatar Airways and British Airways.
   - We had done a pilot launch of our own home loans in September and we progressed on rolling it out across various markets in the country. We did disbursements of over 200 crores in the quarter and aim to scale it up meaningfully in coming quarters.
   - Overall, the share of consumer banking loans has increased to 16% of overall loans now. We expect this to continue to increase as we scale up the home loans, merchant acquisition and maintain traction on credit cards and personal loans.

6. **Now coming to Liabilities:**
   - Our deposits grew by 3% QoQ and 14% YoY. We saw healthy acceleration in the retail deposit mobilisation during the quarter.
   - Our retail deposits as per LCR growth accelerated to 21% YoY from 16% previous quarter. The absolute addition of retail deposits at Rs 7,978 crores was also the highest in the last six quarters. The share of Retail Deposits as a result increased from 41.2% to 42.4% during the quarter.
   - All our business units including branch banking, affluent, NRI contributed towards the growth. The growth momentum comes on the backdrop of the heightened competitive intensity in the industry.
   - Our new initiatives viz. Affluent & NRI banking saw growth accelerating during the quarter. Affluent segment Net Relationship Value grew 5% QoQ to 66,700 crores of which deposits grew by 8% QoQ to 41,950 crores. Our NR segment too maintained the momentum with deposits growing by 16% QoQ to Rs 32,900 crores.
   - We also recently went live on Income Tax Portal (TIN 2.0) and our customers can now pay direct taxes instantly through their IndusInd bank account using our digital channels and branch network.
   - Our CASA ratio was at 41.9% vs 42.1% YoY. The CASA deposits saw growth in current accounts whereas savings accounts contracted sequentially. The savings account contraction was due to customers moving deposits towards fixed deposits and we letting go some of the expensive and bulky accounts. This also ensured containing the increase in cost of Savings Accounts as we had taken SA rate hikes in October. The share of Top-20 customers in overall deposits has also come down from 17% to 15% QoQ.
   - We opened 64 branches during the quarter taking the total branch count to 2,384 and aiming towards closing the year between 2,450 to 2,500 branches.

- Contribution of Certificate of Deposits remains low at 3.6% of deposits.
- We continue to maintain healthy average surplus liquidity of around Rs.44,000 crores during the quarter with Liquidity Coverage Ratio at 117%.
- Overall, we remain focused on the retail deposit mobilisation despite the challenging environment. We continue to invest in the franchise both through distribution capabilities as well as offering competitive rates. The new initiatives, branch delivery, availability of long term stable refinance sources as well as surplus liquidity on the balance sheet should help us comfortably fund our acceleration in loan growth.

7. Digital Traction:

Overall the digital strategy at IndusInd is geared at driving 3 major objectives – (A) Build direct to client digital platform, (B) Drive superior customer engagement and (C) Transform existing lines of businesses

(A) Build direct to client digital platform:

a. The easycredit direct platform marketing led business in PL and cards has grown ~6X YoY and 75% sequentially QoQ.
b. The partnerships business continued to grow strongly and grew 5X YoY and 17% sequentially QoQ
c. More than 35% of the business in savings accounts and cards by volume is now digital / partnership led

(B) Drive superior customer experience and engagement through digital platforms

a. Digital transaction intensity continued to grow with 93% of transactions processed digitally and 74% of service requests processed digitally.
b. The mobile app continued to show a robust user base growth of 26% YoY in terms of monthly active user base. The engagement on the mobile app will further accelerate as the Bank integrate a state of the art event driven real time engagement stack in the app in Q3
c. We further enhanced IndusEasyCredit for Individuals stack with integration of new fintech partners leveraging the open banking capabilities of the stack and increase in STP% to 30% through advanced analytics.

(C) Transform existing lines of businesses and make them more efficient

a. We continue to digitize the businesses with nearly all of deposits and wealth business done digitally.
b. With easycredit stack – now we have 95% of cards sourced digitally and nearly 80% of personal loans sourced digitally
c. Nearly 50% of small business banking is digital and on track to grow to 80%+ by end of financial year with addition of full working capital product suite
d. Close to 80,000 clients are onboarded digitally every month across personal loans, credit cards, savings accounts by the Bank

8. Sustainability:

- Sustainability is core to our strategy and we continue to progress on our agenda of 'Sustainable Banking'.
- To promote greater thrust on ESG linked products, we are launching a series of ESG linked products. We have already launched 2 such products including (a) EV finance for passenger cars and (b) Green fixed deposits. We also have couple of more initiatives planned for launch in coming quarter such as (a) Green personal loans for solar roof-top and (b) New platform for supporting women entrepreneurs
- During the quarter the Bank's Board also approved an upgraded and robust ESG Risk Assessment Policy and Governance Framework for all our Corporate exposures. This will help us to prudently manage Bank's exposure to high ESG Risk Industries as the country transitions to a low carbon economy.
- Bank is also selected for pilot exercise of TNFD (Taskforce on Nature-related Financial Disclosures) - A UN supported initiative for Sustainable Agriculture
- Our efforts well acknowledged and this quarter saw release of our ESG ratings from 2 marquee international rating agencies – Carbon disclosure projects (CDP) and S&P global rankings and I am happy to share that we have once again scored the highest rank amongst the large 5 private sector banks.

Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 18% YoY broadly in line with our loan growth.

2. Net Interest Margin improved sequentially to 4.27% from 4.24% QoQ. Our loan yields improved by 24 bps QoQ and Yield on overall assets improved by 34 bps QoQ. The cost of deposit increased by 37bps and the cost of funds increased by 31bps during the quarter.

3. The core fees maintained strong traction growing 28% YoY and 4% QoQ. The treasury income was positive and stable QoQ. The overall other income grew by 11% YoY and 3% QoQ. Share of Retail fees remained healthy at 71% of total fees.

4. Our total revenue for the quarter was at Rs 6,572 crores with 16% YoY and 4% QoQ growth.

5. Operating expenses grew by 4% QoQ. We continue to invest in talent and we hired 1,800 employees during the quarter and around 8,500 during the current year. Our overall Cost to Income ratio was stable at 43.9% QoQ.

6. The operating profit for the quarter was at 3,686 crores growing 11% YoY and 4% QoQ. The PPOP margin to loans continues to be healthy at 5.7%. Our Core PPOP grew by 20% YoY.

7. On the asset quality and the provisioning front:
    - Our provisions for the quarter have further reduced to 1,065 crores. The provisions to loans are thus down to 39bps now.
    - The gross NPAs are down from 2.11% to 2.06% QoQ and Net NPA was stable at 0.62% with healthy provision coverage ratio of 71%.
    - The slippages during the quarter were down to 1,467 cr from 1,572 cr.
    - We utilised Rs.461 crores from contingent provisions during the quarter with residual contingent provisions of Rs 2,192 cr or 0.8% of loans. Cumulatively for 9MFY23 we had Rs.1,833 crores of slippages from restructured book. We have utilized Rs.1,136 crores of contingent provisions so far. As the incremental slippages from the restructured pool continue to be range bound, we are comfortable with the contingent provisions.
    - The Net Security Receipts have reduced to 56bps from 67bps QoQ and we carry provisions in line with extant regulatory requirements.
    - Total loan related provisions are at 2.7% of loans or 130% of the GNPAs.
    - Our SMA1 and SMA2 book was at 8 bps and 24 bps respectively. Total SMA1 and SMA2 are down to 32bps from 58bps QoQ.

8. Profit after Tax for the quarter was at Rs 1,964 crores growing 9% QoQ and 58% YoY. Our CRAR including profits remains healthy at 18.01%. Return on Assets continued upward trajectory from 1.80% to 1.87% QoQ. Our Return on Equity has improved to 15.2%.

Overall, we are coming towards end of our planning cycle 5 strategy and outcomes so far have been consistent with our objectives outlined in our earlier communications. We will be formulating our Planning Cycle 6 strategy in the current quarter and will present to you the contours in the next analyst call. The key themes that guide our strategy would be:

- Deposit Retailisation will continue to be cornerstone of PC-6 too. We will add new growth boosters for increasing customer acquisitions including Digital 2.0 offerings.
- Loan momentum should accelerate in PC-6 with stable macro environment. The acceleration would be driven by retail segments.
- We will continue to invest in franchise through distribution, technology, employees, adding and scaling new initiatives to diversify our revenue pools.
- We have maintained our PPOP margins in most turbulent times and aim is to achieve that in PC-6 too. The overall return ratios have improved over the last couple of years and should continue to improve with normalisation of provisions in PC-6.
- While we focus on scaling up businesses further, the growth will be achieved with constant focus on governance and sustainability of the franchise.

With this we can open for Q&A.

Additional Information Discussed During the Analyst Call:

1. Gross Slippages Details:

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q3FY23	**Q2FY23**	**Q3FY23**	**Q2FY23**	**Q3FY23**	**Q2FY23**
CFD	433	374	191	273	624	647
MFI	347	313	61	122	409	435
Other Retail	274	240	42	72	315	311
Corporate	80	66	39	113	119	179
Total	**1,135**	**992**	**332**	**580**	**1,467**	**1,572**

2. Segment Wise Restructured Loans:

BU	Dec-22 (Rs.cr)	Sep-22 (Rs.cr)
CFD	1,868	2,270
MFI	288	430
Other Retail	618	709
Corporate	633	472
Total	**3,408**	**3,882**

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