Q3 FY24 Earnings Conference Call

MANAGEMENT:
MR. SUMANT KATHPALIA – MANAGING DIRECTOR AND CEO
MR. ARUN KHURANA – EXECUTIVE DIRECTOR AND DEPUTY CEO
MR. GOBIND JAIN – CHIEF FINANCIAL OFFICER
MR. INDRAJIT YADAV - HEAD, INVESTOR RELATIONS AND STRATEGY
+
MANAGEMENT TEAM MEMBERS

January 18, 2024

Moderator: Ladies and gentlemen, good day, and welcome to Induslnd Bank Limited Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumant Kathpalia, Managing Director and Chief Executive Officer, IndusInd Bank. Thank you, and over to you, sir.

Sumant Kathpalia: Good evening and thank you for joining this call. Let me start with some macro commentary and then go into the bank specific details.

Indian economy delivered robust Q2 real GDP showing 7.6% yoy growth & RBI raising FY24 growth forecast markedly to 7%. Economic activity sustained momentum in Q3 supported by resilient urban demand & gradual turnaround in rural demand. Investment activity continues to be aided by buoyancy in public sector capex. Financial markets and banking system conditions remained largely stable. Bank credit growth remained steady around 16% while growth in deposits picked from around 12% to 14%, reducing the gap between them. Liquidity in the banking system turned into a net deficit shrinking with the withdrawal of pandemic era monetary accommodation by the RBI. Looking ahead, private consumption should gain support from gradual improvement in rural demand, strengthening of manufacturing activity and continued buoyancy in services. Government's thrust on infrastructure spending and expected momentum in private capex should drive investment activity.

Coming to the quarter specific developments. During the quarter we had some excellent achievements as well as some misses. On the positives, the retail deposit mobilisation was one of the best in several quarters with moderate increase in cost of deposits, the loan growth was broadbased across retail segments, the visibility from marketing campaign was as never seen before, key profitability metrics like NIMs, PPOP margin, RoA etc were healthy. On the misses, we saw slippages on the higher side than expected and we are working towards normalisation in this quarter. Overall we did have many positives in Q3 and aim to make it better in Q4.

- Robust Loan Growth Momentum – We witnessed another quarter of strong retail growth of 24% YoY which drove the overall loan growth of 20% for the Bank. Retail saw healthy momentum across vehicle, microfinance & consumer segments. We were selective in Corporate loan growth at 15% focusing on mid and small corporates.
- Retail Deposit Accretion Gaining Pace – We saw one of the sharpest sequential improvement in the share of Retail Deposits as per LCR of around 1% in one quarter. Our retail deposits grew 5% QoQ despite the challenging liquidity environment. We are now touching the PC-6 ambition of 45%-50% retail as per LCR with still couple of years to go. The increase in Cost of Deposits was also moderate at 9bps QoQ.
- Progress on new initiatives – Our digital banking offering INDIE is seeing strong traction aided by increased awareness via our marketing campaigns. INDIE now has 4mn downloads and 800,000 customers executing 4mn transactions per month. We continue to scale our liabilities initiatives of affluent and NRI banking with deposits growing at 20% and 29% YoY respectively. Our home loan book grew by 37% QoQ and now stands at Rs.1,377 crores.
- Asset Quality– Our gross NPA & net NPA remained steady at 1.92% and 0.57% respectively. Gross slippages were at Rs.1,765 crores and net slippages were at Rs.1,236 crores. The slippages in Vehicle book were impacted by adverse weather conditions towards the end of last quarter and since then have already started showing improvement. Our restructured book continues to run down at 0.48% compared to 0.54% QoQ.
- Healthy Earnings Stability – Our Net Interest Margin remained stable at 4.29% sequentially. Other income grew by 15% YoY driven by granular retail businesses. We continue to invest in human capital, physical and digital infrastructure as well as marketing initiatives, resulting in opex growth of 6% QoQ. Our PPOP margin to loans remained steady at 5.2%. Overall, our Profit After Tax grew by 5% QoQ and 17%

YoY to 2,301 crores. Our Capital Adequacy Ratio remains healthy with CET1 of 16.07% and overall CRAR at 17.86%.

Now coming to individual businesses.

1. **Vehicle Finance:**
   - Our vehicle finance business continued robust growth momentum with highest ever disbursements in our history of Rs.13,700 crores growing at 7% QoQ. The cumulative 9MFY24 disbursements at Rs.38,380 crores were up 15% YoY.
   - As a result, vehicle loan growth remained healthy at 20% YoY and 5% QoQ.
   - Within vehicle categories, Cars, Utility Vehicles, Construction Equipment saw more than 15% QoQ growth in disbursements. Two-wheeler segment also saw healthy growth in disbursements with demand picking up on the back on improving rural sentiments & festive season.
   - Commercial Vehicles and Three wheeler disbursements were slower QoQ driven by lower industry volumes. We have however maintained our market share across the segments.
   - We have doubled our auto loan book in last 2 years with market share now close to 4%. This has helped us balancing the vehicle loan book between commercial & passenger segments de-risking cyclicality.
   - The gross slippages in Vehicle Finance were at 0.73% vs 0.93% YoY and 0.64% QoQ. The slippages moved up sequentially due to adverse unseasonal weather in December such as floods in southern side as well as heavy fog in northern side impacting collections to some extent. The situation has since then improved and we have already seen around 10% of the Q3 slippages getting upgraded in couple of weeks of January. We expect to see this momentum continuing in rest of the Q4 resulting in normalisation of this temporary slippages.
   - The restructured book in vehicle finance reduced to Rs.705 crores from Rs.910 crores QoQ with majority of the reduction due to upgrades and recoveries.
   - Overall, our vehicle portfolio is now diversified across product categories and we are well positioned for sustainable growth across different product cycles. This could also be evident in this quarter's numbers where despite the sequential softness in MHCV segment we maintained our robust growth momentum.

2. **Bharat Financial Inclusion Limited**:
   - BFIL distribution is now running at its potential capacity with outstanding loan book originated of Rs.40,544crores growing 24% YoY. The growth was robust in both the microfinance as well as merchant acquiring segments at 20% and 55% YoY respectively.
   - We have been cautious of growing the book balanced between new customer acquisition without excessively leveraging customer ticket sizes. Our active loan clients stand at 9.4mn reflecting a growth of 17% YoY and 4% QoQ.

   - <u>Microfinance</u>
     - Our microfinance business continued momentum with YoY growth improving to 20% from 16% over last quarter.
     - Our average loan outstanding per customer reduced by 1% QoQ as we were cautious with elections in a few large states last quarter.
     - Our net slippages improved to 0.55% vs. 1.24% YoY and 0.57% QoQ.
     - MFI standard book net collection efficiency for Q3 was at 98.6% and our early delinquency buckets are better than the industry.

   - <u>Bharat Super Shop i.e. the merchant acquiring business</u>
     - Our merchant loan book stood at Rs. 4,783 crores with 55% YoY growth.
     - The loan book reduced by 2% sequentially with focus on collection and average loan outstanding reducing from 70k to 68k per customer QoQ.
     - The standard book net collection efficiency from this client base stood at 99.1%.

   - <u>Bharat Money Stores i.e. the kirana shop model</u>

  - We have around 61,000 Active Bharat Money Stores providing banking at the doorstep in remote areas. We continuously work towards converting inactive stores into active or close them if not successful over a period.
  - Liability book sourced from customers serviced through BFIL increased by 56% YoY to reach Rs.2,541 crores. The customer base of 16.7mn accounts also registered an increase of 24% YoY and 6% QoQ.

- Overall, BFIL continued the growth momentum during the quarter which augurs well for the overall bank's profitability. We are well placed to participate in the large rural opportunity with our deep distribution network while transitioning from micro finance to micro banking.

3. Global Diamond & Jewellery Business

- The business continued to maintain its global leadership position. The growth however has been an issue for several quarters due to global macro challenges. The portfolio has degrown by 8% QoQ and now contributes 3% of overall loan book.
- The asset quality nevertheless remains healthy with no SMA1, SMA2 or restructured accounts.

4. Corporate Bank:

- We continue to grow our corporate book in calibrated manner with focus on areas of competitive advantage rather than chasing headline growth numbers.
- The overall corporate growth of 15% YoY continues to be led by mid and small corporates growing at 17% YoY and 3% QoQ. Within this small corporate grew by 5% QoQ driven by seasonal uplift in agri portfolio during the quarter. Growth in large corporates was 2% QoQ and 14% YoY in line with our expectations.
- Specialized verticals outside the diamond business constitute 31% of corporate book. This includes Real Estate, Financial Services, Food & Agri, Education, Healthcare. The exposure under specialized verticals is managed well basis sector specific strategy. The segments continue to show healthy risk adjusted returns and growth profile.
- The proportion of A and above rated customers has improved to 77% vs 74% YoY with weighted average rating improving to 2.54 from 2.64 YoY.
- The Net Slippages in corporate book were at Rs.155 crores vs Rs 158cr QoQ. The slippage was mainly due to one stressed account of Rs.140 crores. Overall 9M annualised net slippages have reduced to 25bps vs 48bps last year showing healthy improvement and range bound credit costs in corporate book.
- Overall, we continue to progress on building corporate bank franchise focused on selective areas of competitive advantage with granular risk profile. We remain comfortable with the overall asset quality trends in corporate segment considering the improvement made in risk profile & granularity of portfolio.

5. Other Retail Assets:

- Other retail assets remain the fastest growing segment within the overall portfolio with 30% YoY and 6% QoQ growth.
- Our MSME book under business banking is at 15,800 crores which grew 24% YoY and 3% QoQ and LAP book maintained steady traction with 10% YoY & 3% QoQ growth.
- We have re-defined our MSME branches with enhanced capability & upskilling of the branch staff. With this, we have already started seeing green shoots in the downstream metrics like branch leads, logins etc.
- We will continue to focus on MSME as one of our growth engines with tighter onboarding norms. We have put in place a robust Early Warning Signal framework which is enabling us with timely triggers to ensure healthy asset quality.
- Home loan product continues to scale with loan book now at Rs.1,377crores as of Dec-23 growing 37% QoQ.
- Share of unsecured loans remains around 5%-5.5% and we aim to maintain it range bound around current levels.

- Credit card growth was driven by new cards acquisitions & strong spends. We recorded healthy spends at 25,444 crores growing by 15% QoQ. Our spends market share has further improved to 5% as per latest available RBI data.
- Overall, We are focused on growing our consumer assets while improving the balance towards secured mix with scale-up of home loans.

6. Now coming to Liabilities:

- We mobilised Retail deposits as per LCR of Rs.8,200 crores in Q3 making it the best quarterly accretion since the begining of upward interest rate cycle.
- This translated into Retail as per LCR growth of 20% YoY and 5% QoQ. The share of retail deposits improved from 43.7% to 44.8% during the quarter – again one of the best improvements in the last several quarters. Retail deposits contributed over 75% of the incremental deposit growth during the quarter.
- We continue to let go non retail deposits e.g. share of Certificates of Deposits reduced from 3% to 2.5% QoQ. As a result, our overall deposit growth was at 13% YoY and 3% QoQ.
- The deposit growth also came along with moderate increase in cost of deposits of 9bps in line with our communication earlier.
- CASA ratio remains stable at 38.5% QoQ. We would be one of the few banks seeing accretion in absolute savings account book. The accretion is mainly driven by continued focus on customer acquisitions as well as new launches such as Indus Grande in Q2 and Indus Solitaire in Q3. Indus Solitaire is first of our community focused relationship products aimed to leverage our strong position in gems and jewellery segment.
- During the quarter, as many of you would have seen, we did a massive marketing campaign associating with the ICC Cricket World Cup held in India. We reached over 1.25 million fans in the stadiums and over 520 million viewers via television coverage through the tournament. The initiative was instrumental in improving our visibility as per independent survey by 1.5 times and we should see the benefits continuing in the upcoming couple of Cricketing events scheduled later this year.
- We also added 97 branches during the quarter taking our branch count to 2,728. We remain on track and committed to add around 1,000 branches during this 3 year period.
- We continued to scale our initiatives of Affluent and NRI during the quarter. Affluent segment deposits grew 20% YoY to Rs.50,200 crores during the quarter. Affluent AUM was also up 16% YoY to Rs.77,100 crores.
- NR deposits grew 29% YoY and 6% QoQ at Rs.42,300 crores. Our market share in Non Resident segment stands at 3.3% as per last available data vs 2.9% YoY.
- Share of borrowings in total liabilities was at 8%. The borrowings continue to be oriented towards long term sources of funds.
- Our liquidity position remained healthy during the quarter with average LCR improving to 122% vs. 117% QoQ and average surplus liquidity at Rs.39,500crores for the quarter.
- Overall, we are making steady progress towards deposit retailisation journey amidst the challenging liquidity environment. We continue to believe in our phygital & segmental strategy and with constant investment in traditional, digital and new initiatives we remain comfortable of achieving our deposit growth ambitions.

7. Digital Traction:

- During the quarter – the bank officially launched INDIE coinciding with a campaign that ran throughout the cricket world cup. INDIE brings a revolutionary way to Bank with many industry firsts.
- Within a short span of launch, Bank has acquired more than 0.8 mn customers on the platform and close to 4 million installed base.
- We continue to see momentum on INDIE with 5 accounts being opened every minute, more than 1 transaction every second. Engagement is increasingly steadily with users and we are seeing near doubling of transactions month on month and active clients do as much as 35-40 transactions per month.
- Further, it is a “earn” model as is the philosophy that underpins the digital business and not a “burn” model and with asset products already integrated in the platform such as line of credit.

- We plan to keep expanding the product suite on INDIE and migration of existing clients desirous of moving to INDIE as a platform will also start soon. We will soon have credit cards, wealth management, NRI and MSME proposition unfold on INDIE – each with many industry firsts
- On the existing platforms, Bank continued to see scale up of user engagement. On Indusmobile, user base increased by 23% YoY. What is more interesting is that there was an increase of 15% in percentage of users who are monthly active on the app. So, greater proportion of our users are now active every month on the platform
- Merchant app saw the user base nearly double YOY and during the quarter we enabled Video KYC led self / remote onboarding journey on the app for MSME clients
- The Digital Business model continued to scale and remote / do it yourself led business now contributes significantly to our retail and MSME business –
    - 56% of savings accounts in the Bank are now acquired in remote / do it yourself digital manner by customers
    - 40% of term deposits are acquired the same way
    - 45% of personal loans and of that 33% is pre-approved while another 12% is real time decisioning enabled
    - 22% of credit cards are acquired in same manner or via partnerships through open API stack integrations
    - In MSME business, 7% of current accounts are now remote / Do It Yourself and digital and more than 20% of unsecured business loans acquired the same way.

Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 18% YoY and 4% QoQ with Net Interest Margin remaining stable at 4.29% sequentially while improving by 2bps vs 4.27% YoY.

2. The Net Interest Margin was supported by moderate increase in Cost of Deposits of 9bps which was offset by increase in yield on advances by 15bps. The repricing on the loans as well as mix change in favour of retail helped improve yield on advances.

3. Our Cost of Deposit at 6.44% increased by 9bps QoQ in line with our expectations. We have been in an elevated rate environment for 18-20 months now and we are now in the last phase of deposit repricing assuming stable rate environment.

4. Our Other Income grew by 15% YoY and 5% QoQ. Core client fees excluding trading income too grew by 12% YoY. Our non-core fee income was Rs.231crores during the quarter.

5. Our total revenue for the quarter was at Rs 7,692crores with 17% YoY growth.

6. The opex growth of 6% QoQ was driven by continued investment in human capital, distribution network & marketing initiatives. The bank employee base grew by 5% QoQ. We have also opened 97 branches in Q3 vs 25 branches in H1FY24.

7. The operating profit for the quarter was at 4,042 crores growing 10% YoY.

8. On the asset quality and the provisioning front:
    - The annualised provisions to loans for Q3 has come down to 119bps vs 156bps YoY. Annualised 9MFY24 provisions to loan ratio was at 120bps vs 169bps YoY.
    - As explained earlier, net slippages were sequentially impacted by vehicle finance which is since then normalising.
    - The restructured book reduced during the quarter from 0.54% to 0.48% QoQ with bulk of the reduction due to upgrades and recoveries.
    - The Net Security Receipts have further reduced to 37bps from 39bps in previous quarter. The bank made additional provisions of Rs 165crores towards the SR book during the quarter.

- Overall, the GNPAs at 1.92% and Net NPAs at 0.57% were steady for the quarter. We have maintained provision coverage ratio of 71%.
- We used contingent provisions during the quarter as we expect reduction in stressed book including that of a telco exposure. Our SMA1 and SMA2 book collectively is now only 19bps. We have nevertheless not changed our view of continuously adding into the buffers ahead of cyclical impacts if any.
- Total loan related provisions are at 2.2% of loans or 114% of the GNPAs.

9. Profit after Tax for the quarter was at Rs 2,301 crores growing 5% QoQ and 17% YoY. Our return ratios saw sequential improvement with Return on Assets at 1.93% and Return on Equity at 15.45% for Q3. Our CRAR including profits remains healthy at 17.86%. This reflects impact of recent RBI circular on risk weights and adjusted for that CRAR improved QoQ.

Overall, as mentioned at the beginning of the call, we had quite a few positives during the quarter and some areas of improvement which we are focusing on priority for this and next few quarters.

- The retail deposit growth has been a bright spot with a CAGR of 20% since the interest rate cycle changed. We are in sight of our PC6 target of retailisation and will aim towards achieving upper end of the 45-50% ambition over next couple of years.
- The retail loan growth too now is quite diversified with all key business of vehicle, microfinance and consumer growing upwards of 20% with further boosters from new initiatives.
- The asset quality, while better than the last year, has potential for further improvement. We are already seeing improvement this quarter so far and will aim to deliver a better Q4.
- The investment in new initiatives, branding, physical and digital businesses continues and we have preferred investing for future over near term earnings.
- The Net Interest Margins have been stable throughout the challenging times and we expect support once the interest rate cycle turns. The RoA and RoE profile thus has potential for improvement as we see benefit from NIMs, Cost to Income as well as Credit Costs coming through over the next few quarters.

With this, we can open the floor for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Yes, thank you. So, could you help us think about the asset quality risks around the upcoming election? If you could elaborate on the experience around the recent state elections or past elections and how we should think about any risks that might come forth in the coming months?

Sumant Kathpalia: So, I think this is a much-debated topic that election creates delinquency. We've seen in our retail finance as well as in microfinance, that until and unless there is political activism, it does not create delinquencies to a large extent.

And I think the state governments also don't promote to a large extent, any act resulting in increase of delinquencies. Having said that, we have diversified portfolio across geographies in these areas, and we have no concentration risk to be bothered about as we go along.

Chintan Joshi: Okay. Fine. And then the second question is, could you help us think about the evolution of lending margins. So, if I compare lending yields to repo rate development, how have they developed in the different products and given the deposit competition, the funding pressures, do you think lending margins can increase over the coming months or quarters?

Sumant Kathpalia: We've always said that our margins would be between 4.2% to 4.3%. And it's the mix of balance sheet, which makes our margins more stable. You should look at how we managed our margins. We've heard that our margins would go down. If you look at the last 4 to 6 quarters, we've been very steady between 4.2% and 4.3%. And we continue to believe that we'll remain steady.

Chintan Joshi: That's the overall margin. I just wanted to get some colour on kind of the headline rates that you offer on different products. Do they have room to increase given the deposit competition?

Sumant Kathpalia: I don't think so. The rates are market driven. I don't think you can define or increase the rates. Corporate rates are all EBLR linked and the margins are already fixed until & unless you see a deterioration in the risk profile of the client. On the fixed rate book, it's more competition driven. And we don't want to increase rates in microfinance unnecessarily just to increase the yield.

So, I think as the interest rates are stabilizing on the deposit side as we are seeing in the last few quarters. Maybe one more quarter of increasing cost of deposit, I think you should not see increase in the lending rates in the markets right now.

Moderator: Thank you. The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: Hi Sumant. Getting on to slippages, so quite a high run rate of 2.2 odd percent. You indicated vehicle finance. But again, that seems to be somewhere around INR 600-odd crores. So, what are the other segments? Maybe we were always targeting INR1,000 crores to INR1,200 crores of slippages, and this time, it's even more than INR1,700-odd crores. So, it seems there is further stress besides vehicle as well as corporate. And how should we look at it, yes?

Sumant Kathpalia: So, in the corporate, the slippages of last quarter were INR 214 crores, they were INR 312 crores this quarter, INR 67 crores got upgraded within the quarter itself. It was a miss and it got upgraded, and we had to show it as slippage and then it got upgraded. INR140 crores came in from a stressed account, which we had said earlier that there were two accounts, one of them got into NPA last quarter, and this quarter, we took another INR 140 crores. So, I think that's largely the end of the corporate slippages. And INR 75 crores to INR 80 crores were the normal business as usual slippages in the business banking or in the SME business.

On the other retail, we saw two slippages coming in. Agri business had an INR 25 crores of extra slippages. We saw a slippage in the LAP, where three accounts, which were seemingly large accounts, about INR 40 crores slipped into that. And the merchant acquiring business had an INR 30 crores extra slippages. So that was the reason for the other retail to go up. MFI remains steady. And CFD, of course, I told you the reasons. So, if you look at our businesses, I am very confident that we should come back to INR1,200 crores levels. I think CFD was a bit of a shocker. We were aware of the corporate. You should see corporate bank going back to about INR 50 crores to INR 75 crores is what we feel.

I think other retail will remain steady at about INR300 crores to INR350 crores. And I think MFI should go down by another INR75 crores reaching to INR275 crores to INR300 crores. and CFD should be steady going forward adjusting for one-off for this quarter. So, what we gave as a commitment of INR1,100 crores to INR1,200 crores should come in the next few quarters.

Kunal Shah: Okay. But this LAP and agri, that doesn't seem to be more seasonal. So even in other retail assets, you are saying that run rate will continue?

Sumant Kathpalia: No.

Kunal Shah: Besides the vehicle finance, there doesn't seem to be any one-offs because LAP, I don't know, maybe in terms of the quality of the portfolio, this might continue. This is just one-off.

Sumant Kathpalia: On LAP, this is a one-off. We didn't want to negotiate with the customer. The customer was asking for a settlement. We have the properties. We didn't want to do a settlement at that point of time. We could have avoided the flow, but we did not want to do that. And so, I don't think this will come. Even the corporate is a one-off, which we knew that it will come and you'll see the corporate slippages going down.

Kunal Shah: Okay. And lastly, in terms of contingency. So again, last quarter, we clearly said that we will not utilize contingency and in fact, start creating contingency from 4Q. That still doesn't seem to be happening. We have further utilized INR220-odd crores. So, if we start creating contingency, how confident we are in terms of the guidance of 1.1% to 1.3% credit cost, given it's still running quite high?

Sumant Kathpalia: No, you're right Kunal. This is one of the misses which we've had this quarter. We wanted to build the contingency, but there is some positive news also. The positive news is that we had created contingent provisions for one big account. And we believe that we are going to get paid, hopefully, by February. So that provision may get released as a consequence and we will not use it and will keep it aside.

And we will add to the contingency more as and when we think that it is required. We will not dither away from adding to contingency, and we continue to believe that even if we add INR 200 crores to INR 300 crores to contingency, we will still come between 110 to 130 basis points in our credit cost for the year.

Kunal Shah: Okay. So, any particular period when you would start creating, so it's in, like you said, as and when required.

Sumant Kathpalia: I don't want to give any guidance. Because I tell you, I missed my guidance this quarter on this. So, I'm just waiting for the gross flows to go down. And gross flows is a big indicator that I want to see around INR1,100 crores to INR1,200 crores. Having said that, It’s a miss on our side this quarter. And I acknowledge it. But I also believe that this is temporary, and it will get back next quarter. You should see the improvement next quarter.

Kunal Shah: Okay. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Thanks for taking my question and congrats on the quarter. Just going beyond asset quality, can you talk a bit about vehicle finance demand? I believe it was a bit weak during the festival season, but what are the trends looking like post the festive season?

Sumant Kathpalia: So, while I'll answer the question, I'll have Sriram to address the question on industry. But let me first address. If you look at our book, we de-risked ourselves by going in for diversification as a strategy. So, we are not dependent on the MHCV or any one category of vehicles to grow our book now. And if you look at the book split, you will see a very diversified book. In fact, we have almost doubled our auto loan book or car loan book over a period of last two years. So, a well-diversified book, not dependent on one single category of vehicle will help us achieve a 20% year-on-year growth. However, on the vehicle side, on how the market is behaving, I'll have Sriram to address this question.

A. G. Sriram: Good evening. MHCV is not looking very strong. MHCV business is looking dull this quarter. But we are looking at the used commercial vehicle segment to balance it out. We are increasing our market share in auto/ passenger vehicle loans. And used cars is another area, we are focusing on. These are the three areas where we think we should be able to make up for the same overall numbers as the last quarter. Nearly INR14,000 crores is what we are expecting as disbursements. Our main growth will come from auto/ passenger vehicle loans and used commercial vehicle. For industry, as the election is coming, there would be a bit of a dullness in both MHCV, LCV and tractor has been growing slow for the last two or three quarters. So, these segments are looking dull, but we should be able to make up with the auto/ passenger vehicle loans and used commercial vehicle.

Piran Engineer: Okay. Thanks for that. Secondly, just on microfinance NPL. And I know this quarter, we had the floods in Tamil Nadu. But in general, our NPLs have been quite stubbornly high at 4%, 4.5%. So really, what are the remedial actions you are taking there to getting back to earlier levels of 2%?

Sumant Kathpalia: It's related to the gross flows. But if you look at the net flows on the MFI business, you will see that the net flows of the MFI business are at INR189 crores versus INR182 crores last quarter. So, there is an upgrade process, which happens in the MFI business. I think the gross flows are a bit higher, and we don't give top-up loans to stop the gross flow from coming in. We don't believe in giving top-up or any extra loans. And that is one of the reasons why I've said that our gross flows will be higher, but our credit cost will be between 2.5% to 3% in the microfinance business. I don't think a microfinance business can run at 100-120 basis points credit cost.

Piran Engineer: Okay. Thank you. Just the last question on World Cup spend, can you just quantify it? And you also mentioned you will be continuing cricket sponsorship this year?

Sumant Kathpalia: As part of the deal we got, we've got the T20 World Cup as well as the Under-19 World Cup. I can't talk about the cost because it's a confidential matter. The agreement is confidential. But I can assure you that the benefit the bank is deriving out of this project and sponsorship is much higher than the cost which we are incurring.

Piran Engineer: Okay. Because we are now last couple of quarters running at 47%, 48% cost to income. So, is that a fair number to continue with over the next two, three quarters till at least these World Cups are done?

Sumant Kathpalia: I think the good way to look at it is to see cost to income at 45% to 46% in quarter one going down to 45% in quarter three or four, and then we should stabilize. The bank should stabilize in year three at 41% to 43%.

Piran Engineer: Got it. Okay. Thanks for this and wish you all the best.

Moderator: Thank you. Next question is from the line of Param from Nomura. Please go ahead.

Param Subramanian: Yes, hi. Thanks for taking my question. So, my first question is - Sumant, we've seen an improvement in LCR for the bank in this quarter. Obviously, we've been doing well on retail deposits. But on this between LCR and LDR, we are at about an 89% LDR. Is there any thought process on bringing that down or anything from the regulator in that aspect?

Sumant Kathpalia: No. If you look at our LDR or CD ratio, we are in line with the banking industry. In fact, some people are at 95%-96%. We've always said that we will be between 86% to 90%. And we've maintained our stance at that level. So, we've not got any nudge from the regulator on this. The bank is highly liquid and we've been able to manage its CD ratio between 86% to 90%, and we do not aim to burst the 90%.

Param Subramanian: Perfect. That's very clear. My second question is on the credit card portfolio. So, if I look at the data, so it's almost doubled over the last two years. So, what are we seeing in terms of trends in write-offs here? Are we seeing any increase or anything to be worried about?

Sumant Kathpalia: Not really. The credit card business should run at 250 to 300 basis points of credit cost. Because we have an overall earnings of about 28% to 30% in credit cards, including the fees, we are comfortable with the way we run and manage our business. Of course, there is a little bit of elevation in the flows, which is happening, but it does get moderated at 90 DPD to some extent. And if you see our data and compare it with the TransUnion bureau data, I think we are in line with the competition. And I think we are plus/minus 10% at all points of time in the credit cost as far as the industry is concerned.

Param Subramanian: Okay. One more question, if I can squeeze in. You mentioned the net slippages in microfinance and vehicle finance about 0.5% and 0.7%. So, these are not annualized numbers, right?

Sumant Kathpalia: No, these are quarterly numbers.

Param Subramanian: Okay, got it. So, these are the bulk of the net slippages in the consumer finance business. Excluding this, it's marginal?

Sumant Kathpalia: I think the consumer finance business saw slippages in the microfinance side and in the vehicle side and some in the other retail side, specifically in the merchant acquiring business, we saw some slippages.

Param Subramanian: Okay, perfect. Thanks, Sumant, and all the best. Thank you.

Moderator: Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Hi, everyone. Good evening. Thanks for the opportunity. One question on the liability franchise. Just wanted your thoughts as to how do you really see the sensitivity of deposit inflow to the premium deposit rates that the bank offer? Like how much of correlation is there? And hypothetically so to increase the premium of it, do you expect the inflows to improve significantly?

Sumant Kathpalia: See, it's very difficult to say. So, there are some mid-sized banks or smaller banks, which have given a higher deposit rate and have increased their deposit base. So, I think there is some sensitivity which clients put to higher deposit rates. But it happens in the very high end of the business, which is about INR10 crores and above.

In my opinion, I think it is better to continue to push client acquisitions and do it. Of course, we play it in certain specific segments to offer the higher deposit rates. NRI segment, for example, you offer a little bit more in the U.S. dollar deposit but you get the savings account at a very attractive rate and then you hedge the whole thing, the cost of deposit is exactly the same.

So, there is some sensitivity to rates at the higher end or in the top end. But I don't think that's the only way to run the deposit franchise, because these are the type of guys unless you lock them in, they will also take the money out at any point of time.

Nitin Aggarwal: Okay. So, the bank has been benefiting like every quarter from the improvement in lending yields and asset mix is getting better with rising mix of retail. So, do you plan to like flow back these gains into the building of the deposit franchise? Or will you let it pass on to the margins in the coming years?

Sumant Kathpalia: I'm not able to understand the question.

Nitin Aggarwal: The question is like the benefit from the lending yield improvement, which has been continuously happening at the bank and the asset mix is getting better with the rising mix of retail. Will you let that pass down the benefit be pass on to the deposit premium and increase that or compete there? Or will you let the benefits flow down to the margins?

Sumant Kathpalia: So, the way to look at it is, are we enough competitive in the liability market? And are we compromising on the granularization journey?

We will not compromise on the granularization journey irrespective of the margins. So let me be very candid about it. And we want to continue progress on our granularization journey, and we want to be competitive, which mean that we will always have deposit rates 45bps to 75bps higher than the large players in industry.

And that's what we've been doing. Will you see a margin uptick from here? I said that we are at 4.2% to 4.3%, and we will continue to remain at that level for some time till the time we achieve a certain level of granularization. We can then say that we can increase our margins. And I think that should happen when the interest rate down cycle starts and that should be from the second half of next year, not before that.

Nitin Aggarwal: Next fiscal year you mean right?

Sumant Kathpalia: Yes.

Nitin Aggarwal: Yes, right. Thanks Sumant those are really helpful. Thank you so much. And wish you all the best.

Moderator: Thank you. Next question is from the line of Jai from ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi Sumant. Thank for the opportunity. Two data keeping question, and then one question is, if you can tell the net security receipts for the bank or the gross in the provisions thereof?

Indrajit Yadav: Net security receipt is 37bps. The gross number is INR 2,378 crores, and net is INR1,211 crores.

Jai Mundhra: Second question, sir, on cost to income, right? So earlier, you were operating in a very tight range. And in the last two quarters, I think it has increased a little bit. So, assuming the margins remain flat or flattish and the growth remains more or less here, how should one look at cost-to-income from a near-term perspective? Thank you.

Sumant Kathpalia: So, in the long-term perspective, we said that next year, we should be between 45% and 46% run rate and going down to 41% to 43% in the following two years. Because we believe that the operating leverage of all our investments will come through at that point of time.

Jai Mundhra: And this is, even you would keep moving towards retail, right?

Sumant Kathpalia: Yes. But we will not have loan book of more than 55% to 57% retail at any point of time.

Jai: Understood. Thank you, sir.

Moderator: Thank you. Next question is from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Good evening and thank you for the opportunity. NBFC is one of our large segments. Any change in strategy thereafter the risk-weight assets changes done by RBI guidelines in this space?

Sumant Kathpalia: So, we've always said that our unsecured business, specifically on credit card and personal loans will not be more than 5% to 5.5%, it's an internal guideline. And in NBFC, we've always been lower than the industry at 5%-5.5% of loan book when the industry is at ~8%. So, we've always been very cautious about our lending to NBFCs, and we've never had an issue. Within NBFC portfolio, 95% of them are A rated papers and above.

Manish Shukla: Essentially, what I was trying to understand is compared to how you were doing the business till end of October and how you do it today.

Sumant Kathpalia: So, we are cautious about the risk weights. And I think the pricing has increased a little bit. But it doesn't mean that we'll stop our business. So why would you not lend to a Sundaram or will you not lend to an XYZ company, which is creditworthy. You will lend to the right candidate.

Manish Shukla: And there has been some impact on capital at 16% CET1 is still comfortable. But just wanted to get your thoughts around how you're thinking about capital and where you would like the minimum thresholds to be?

Sumant Kathpalia: So, we said that we will raise capital before we touch 14% CET1. And I think we said that three quarters ago that we are comfortable for six to eight quarters. So, I think in the mid of next financial year we will assess whether we need it. We are not in a hurry. Our risk-weight assets are falling. Our internal accruals are enough to manage our growth right now.

Manish Shukla: Yes. Thank you, those are my questions.

Moderator: Thank you. Next question is from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: Yes. Just two questions. One is, what will be the 30-plus overdue book in the microfinance business? That's first. And second, on your balance sheet, we have this trend that your loans are growing 20%, assets are only growing 10%, how long do you think this trend sustains. Do you think that's normalized when your asset growth starts mirroring loan growth or the other way?

Indrajit Yadav: MFI 30 to 90 DPD is 1.7%.

Sumant Kathpalia: And Gobind, do you want to answer? Asset growth and loan growth, when does it normalize? Gobind is our CFO. He'll answer that question.

Gobind Jain: Yes. So, it's like we have a mix of investments, loans and other assets. So, it's kind of a mix which we have to maintain, depending on the liquidity we have to maintain and the investment book, the SLR requirement and the loan growth opportunities.

Arun Khurana: Yes. So, to answer your question, loan growth will be higher than our investments growth. If that's what your question is because those are the two major contributors of your asset side of the balance sheet.

Saurabh Kumar: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: So, sir, my first question is around the vehicle finance book. I just wanted to understand how many people we deploy here in terms of sales, credit and collections, specifically for vehicle finance? And what would be a ballpark ROA for booked on a steady-state basis? The second question is on Slide 37, we give out the sourcing of credit cards and other products. Specifically, about the credit cards, so just wanted to understand what is the actual cost of acquisition when we do a remote digital versus an assisted digital, the actual cost of acquisition per cards?

Sumant Kathpalia: So, if you look at the remote digital, where a customer does it directly, there is no cost associated with the cost of acquisition. It's about INR150 to 200, whatever we spend on the advertising, and that's what it is. However, if you do a partnership-based model, on the card, which is also directly remote digital, you have a cost of ~INR 2,500 for the card. And if you look at a DSA or a DSA-based physical model, you will have a cost of ~INR3,000 for the card.

Shubhranshu Mishra: Understood. Thanks that was helpful. And on the vehicle finance part?

Sumant Kathpalia: So, on the vehicle finance, we don't give ROAs by segment. Headcount of ~11,000 is deployed in the bank to do the business.

Shubhranshu Mishra: Understood. Sir, and we expect to maintain the same level of disbursements going forward in FY 25 as well, at the same run rate?

Sumant Kathpalia: So, what we said is for the next quarter, we should do INR 14,000 crores of disbursements. And let's see how the next year goes. We said that we want to grow the vehicle book by ~20% YoY and to maintain it, the disbursements may have to increase by 5% to 10%.

Shubhranshu Mishra: Understood sir, that was very helpful. Thank you, so much.

Moderator: Ladies and gentlemen, we'll take that as our last question. I will now hand the conference over to Mr. Sumant Kathpalia for closing comments.

Sumant Kathpalia: Thank you for attending the call. If there are any questions which are unanswered, or you have specific queries, you can contact Indrajit and me at any point of time, and we will be able to assist or guide you towards any clarification which you may require. Thank you once again.

Moderator: Thank you very much. On behalf of IndusInd Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Additional Information Discussed During the Analyst Call:

- **Gross Slippages Details:**

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q3FY24	Q2FY24	Q3FY24	Q2FY24	Q3FY24	Q2FY24
CFD	554	443	44	56	598	500
MFI	355	335	8	9	363	345
Other Retail	483	397	8	10	492	406
Corporate	304	206	8	8	312	214
Total	**1,696**	**1,382**	**68**	**83**	**1,765**	**1,465**

Disclaimer:

This document has been prepared by IndusInd Bank Limited (the "Bank") solely for information purposes, without regard to any specific objectives, financial situations or informational needs of any particular person. All information contained has been prepared solely by the Bank. No information contained herein has been independently verified by anyone else. This document may not be copied, distributed, redistributed or disseminated, directly or indirectly, in any manner.

This document does not constitute an offer or invitation, directly or indirectly, to purchase or subscribe for any securities of the Bank by any person in any jurisdiction, including India and the United States. No part of it should form the basis of or be relied upon in connection with any investment decision or any contract or commitment to purchase or subscribe for any securities. Any person placing reliance on the information contained in this document or any other communication by the Bank does so at his or her own risk and the Bank shall not be liable for any loss or damage caused pursuant to any act or omission based on or in reliance upon the information contained herein.

No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained in this document. Such information and opinions are in all events not current after the date of this document. Further, past performance is not necessarily indicative of future results.

This document is not a complete description of the Bank. This document may contain statements that constitute forward looking statements. All forward looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially include, among others, future changes or developments in the Bank's business, its competitive environment and political, economic, legal and social conditions. Given these risks, uncertainties and other factors, viewers of this document are cautioned not to place undue reliance on these forward-looking statements. The Bank disclaims any obligation to update these forward-looking statements to reflect future events or developments.

Except as otherwise noted, all of the information contained herein is indicative and is based on management information, current plans and estimates in the form as it has been disclosed in this document. Any opinion, estimate or projection herein constitutes a judgment as of the date of this document and there can be no assurance that future results or events will be consistent with any such opinion, estimate or projection. The Bank may alter, modify or otherwise change in any manner the content of this document, without obligation to notify any person of such change or changes. The accuracy of this document is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the Bank. Minor inaccuracies during the analyst call discussion may be corrected by the Bank at the time of uploading this document. This document is not intended to be an offer document or a prospectus under the Companies Act, 2013 and Rules made thereafter , as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended or any other applicable law.

Figures for the previous period / year have been regrouped wherever necessary to conform to the current period's / year's document. Note: All financial numbers in the document are from Audited Financials or Limited Reviewed financials or based on Management estimates