



Q3 FY25 Earnings Conference Call

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MANAGEMENT TEAM MEMBERS

January 31, 2025

Moderator: Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q3 FY '25 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 this 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 CEO – 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.

Recent trends in high-frequency indicators suggest stability in economic activity after the slowdown in Q2. A recovery in rural demand and a festive season boost to urban demand is aiding to private consumption. However, a contraction in public capex in H1 and a sluggish recovery thereafter have weighed on investment growth. The Union budget due to be presented tomorrow may address growth slowdown this year by retaining focus on investments on the spending side and continuing tax policy reforms to improve compliance while signalling commitment towards fiscal discipline. Any potential measures supporting rural as well as overall economic activity should aid our microfinance and vehicle finance businesses.

Coming to the quarter specific developments, the key highlights for the quarter were:

- Robust Retail Deposit Growth – We maintained momentum in retail deposit mobilisation during the quarter with 4% QoQ and 14% YoY growth. The share of retail deposits as per LCR improved to 46.1% vs. 44.1% QoQ. We, however, consciously let go some of the non LCR accretive wholesale deposits during the quarter and as a result, overall deposits declining 1% QoQ.
- Calibrated Loan Growth – We continued to grow our loan book in calibrated manner being watchful of the developments across segments. Overall loan growth was at 12% YoY and 3% QoQ. Our vehicle and microfinance businesses saw robust pick up in disbursements sequentially. Momentum continued in other retail loans and corporate book growing 19% and 16% respectively.
- Progress on new initiatives – Our liabilities initiatives of affluent and NRI banking maintained healthy growth rates of 20% and 39% YoY respectively. Loan book under merchant business at Rs.6,319 crores grew 32% YoY while home loan book at Rs.3,144 crores grew 128% YoY. Our digital banking offering INDIE, is now opened up to all customers of the Bank as the upgraded digital application and we are seeing positive trend amongst the early adopters.
- Asset Quality – Our gross NPA & net NPA were at 2.25% and 0.68% respectively. Gross slippages were at Rs.2,200 crores and net slippages were at Rs.1,860 crores. The slippages were higher in microfinance segment given the industry situation. Asset quality trends in rest of the businesses remained broadly stable. The restructured book, SMA 1&2 loans and SR book saw improvement YoY and QoQ.
- Ensured Stability in Financial Metrics – Our RoA was stable at 1.03% vs 1.00% QoQ. The lower NIMs due to rundown in microfinance book was offset by strong other income and cost control. Our capital adequacy ratios remain healthy with CET1 at 15.18% and CRAR at 16.46%.

Now coming to individual businesses.

1. Vehicle Finance:

- Vehicle finance business saw improvement both in terms of disbursements and asset quality during the quarter.
- Vehicle disbursements for Q3 were at Rs.13,388 crores growing 25% QoQ and almost at similar levels YoY. This quarter thus reversed the trend of YoY and QoQ decline in disbursements in the last several quarters.
- We saw YoY growth in disbursements for MHCV, construction equipments and two wheelers. Passenger Vehicles and SCV saw YoY decline in disbursements. Tractors and LCV too saw robust improvement sequentially, albeit it's still lower YoY.
- The sequential vehicle loan growth thus accelerated to 3% from 1% last quarter. The YoY growth was at 9% broadly reflecting the underlying industry performance.
- The gross slippages in Vehicle Finance were stable at 0.74% vs 0.73% YoY and 0.77% QoQ. The Commercial Vehicles, Passenger Vehicles and Construction Equipments saw YoY and QoQ improvement in slippages whereas Tractors and 2-wheelers saw comparatively higher slippages.
- The restructured book in Vehicle Finance continues to reduce at Rs.231 crores vs Rs.309 crores QoQ with majority of the reduction coming from upgrades & recoveries.
- Overall, the vehicle industry should see recovery in volumes aided by government spends and possibly lower interest rate environment. With improved diversification across product categories, we remain well positioned to benefit once the industry sees recovery.

2. Bharat Financial Inclusion Limited (BFIL):

- Outstanding loan book originated via BFIL now stands at Rs.38,883 crores growing by 1% QoQ and down 4% YoY.
- Microfinance
 - Microfinance segment witnessed sequential improvement in disbursements driven by pent-up demand as well as improving eligibility of centres as well as customers.
 - The disbursements of Rs.9,200 crores were largely in line with the repayments and thus arresting sharp drop in the loan book witnessed since March-24.
 - We remain cautious on the growth with disbursements well below our historical runrates as well as customer eligibility. Geographically, amongst the key states, portfolio grew sequentially in Maharashtra and Odisha whereas degrew in Karnataka and Uttar Pradesh.
 - The 30-90 DPD book was stable at 4.0% vs 4.1% QoQ.
 - We have provided a few additional disclosures on microfinance covering disbursement as well as asset quality indicators. The disbursements are concentrated towards vintage customers and centers. The incremental stress in microfinance seems to be peaking out as seen in reducing forward flows from 0-DPD customers. We can discuss these further in Q&A.
- Bharat Super Shop i.e. the merchant acquiring business
 - We have now around 660k merchant borrowers under this program.

- Our merchant loan book at Rs.6,319 crores grew by 32% YoY & 9% QoQ.
- The share of non-MFI book improved to 16% vs 12% YoY.
- Total liabilities sourced through BFIL now stand at Rs.2,610 crores with 19mn SA and RD accounts.
- Gross slippages from BFIL increased to Rs.695 crores during the quarter.
- We remain committed to the business with investment on technology and analytics as well as human resources adding around 10,000 more employees during last one year in BFIL.

Overall, while incremental stress formation is showing early signs of stability, we continue to be cautious on the microfinance segment. We are also watchful of implications from the new MFIN guidelines once they get implemented. Nevertheless, we continue to believe in our approach of addressing focusing on 1) funding requirements of vintage customers and centres, 2) being conservative on overall customer industry indebtedness, 3) investing in collection infrastructure and 4) continued diversification of the loan book.

3. Corporate Bank:

- The Corporate loan book growth was healthy at 16% YoY and 2% QoQ.
- Within corporate, large corporates grew by 14% YoY, mid and small corporate grew by 18% YoY each.
- Sectors which saw growth during the quarter include Petrochemical, Food Processing & NBFC etc.
- Our diamond business continues to be robust on asset quality while growth is subdued due to weak industry demand.
- The proportion of A and above rated customers has been at 79% vs 77% YoY with weighted average rating improving to 2.47 vs. 2.54 YoY.
- Gross slippages in corporate book were at Rs.281crores, mainly contributed by one restructured real estate account, which passed the DCCO deadline. The 9MFY25 annualized slippages remain low and stable at 0.39% vs 0.57% YoY.
- Our SMA1 and SMA2 book collectively stands at 20bps.
- Looking ahead, we continue to focus on building granular and diversified corporate bank franchise leveraging on selective areas of competitive advantage.

4. Other Retail Assets:

- Our other retail assets maintained robust growth momentum with 19% YoY and 4% QoQ growth.
- MSME book under business banking is at Rs.17,769 crores grew by 12% YoY. New acquisitions momentum saw uptick with 10% QoQ growth driven by maturing of branch operating model & new product adoptions. ~80% of New to Bank customers are from granular less than Rs.2crore segment catered via our fully enabled digital lending platform specifically designed for MSME customers.
- LAP book maintained steady traction with 14% YoY and 5% QoQ growth.
- We continue to scale our home loan book at healthy pace with outstanding now at Rs.3,144crores growing by 128% YoY.
- Credit card spends at Rs.28,135 crores growing 12% QoQ. Share of unsecured credit cards and PL has been maintained prudently at 5-6% of the loan book.

- Overall, we would continue to scale up our other retail assets at faster pace with focus on improving diversification of overall loan book while increasing the retail secured mix with home loans and MSME.

5. Now coming to Liabilities:

- The deposit growth for the Bank was at 11% YoY. Sequentially, however, deposits de-grew by 1% as we let go around 3% of deposits from financials and other non- LCR beneficial sources.
- We maintained healthy growth momentum in retail deposits as per LCR of 4% QoQ and 14% YoY. As a result, the share of retail deposits as per LCR reached 46.1% vs. 44.1% QoQ.
- Our CASA ratio was lower QoQ due to outflow of some short term flows such as dividend mandates. Savings Account deposits grew 2% QoQ.
- The increase in cost of deposit remain contained at 3bps increase QoQ, mainly driven by change in mix.
- Our initiatives of Affluent and NRI banking are showing robust traction amidst the challenging deposit environment. Affluent segment deposits at Rs.60,300 crores grew by 20% YoY and 6% QoQ and AUM at Rs.99,000 crores grew by 28% YoY.
- Our NRI segment deposits at Rs.58,600 crores grew by 39% YoY and 7% QoQ. Our market share in Non Resident segment stands at 3.9% as per last available data vs 3.3% YoY.
- Our reliance on bulk sources remains low with Certificates of Deposits at 4.2% of overall deposits and borrowings at 9% of total liabilities. Share of Top 20 depositors further reduced to 15.4% in Dec-24 vs 16.1% in Sep-24 and 17.4% in Mar-24.
- The liquidity position remained healthy during the quarter with average LCR at 118% and average surplus liquidity at Rs.40,800 crores for the quarter.
- Overall, we have worked on optimizing the deposit mix while continue to progress on our journey of strengthening liabilities franchise with retailization of deposits.

6. Digital Traction:

- During the quarter, direct digital model continued to scale with:
 - Over 70,000+ clients are originated digitally through do-it-yourself model every month across savings, cards, personal loans.
 - Over 80,000 fixed deposits by volume and more than Rs.2000crores by value are originated digitally via platforms each month
- At the same time, we are imbibing digital across customer points and nearly all of retail business across products such as cards, personal loans, savings, term deposits, investments are digital now.
- INDIE continued to scale as the app was opened up to all customers of the Bank. As the upgraded digital application for all, we have seen extremely positive trend on early adopters. The first set of 1.5 lac clients who have migrated have shown 20% deepening within a month of adoption.
- The Bank has also launched INDIE for Business – a one of its kind industry first solution to bring “better business banking” to all MSME clients in the country. We have seen 10,000+ users register to the app within a month of launch.

Now coming to the financial performance for the Quarter:

1. Our Net Interest Income was at Rs.5,228 crores.
2. The yield on advances was impacted due to lower QoQ average balances for microfinance and EBLR repricing. The cost of funds was sequentially higher due to increase in cost of deposits and higher borrowings QoQ.
3. As a result, Net Interest Margin was at 3.93% vs 4.08% QoQ.
4. Non-Interest Income at Rs.2,355 crores grew by 8% QoQ. The core fee income was at Rs.2,123 crores. The fee income was driven by healthy sequential pick up in vehicle as well as microfinance disbursements.
5. We continue to optimize our operating expenditures. The YoY growth in opex is now moderated to single digit at 9% vs 14% in previous quarter. The sequential growth too remains contained at 1% QoQ.
6. The operating profit for the quarter was at Rs.3,601 crores stable QoQ.
7. On the asset quality and the provisioning front:
 - Our gross slippage ratio was at 0.62% vs 0.56% YoY. The gross slippages by key segments were Vehicle Finance Rs.671 crores, BFIL Rs.695 crores, Corporate Rs.281 crores and Other Retail Rs.553 crores.
 - The restructured book reduced during the quarter to 0.18% from 0.29% QoQ.
 - The Net Security Receipts have reduced to 29bps vs 37bps YoY and 31bps QoQ.
 - Overall, the GNPA's and Net NPA's were at 2.25% and 0.68% respectively. Provision coverage ratio at 70% was stable QoQ.
 - Our SMA1 and SMA2 book collectively was at 20bps vs 33bps QoQ.
 - Our contingent provisions stand at Rs.1,325 crores vs. 1525 crores QoQ. We wrote off Rs 344 crores of microfinance vs. Rs 73 crores QoQ. We also had a Corporate account slippage from restructured book. The contingent provisions were utilised largely towards them.
 - Total loan related provisions are at 2.4% of loans or 105% of the GNPA's.
8. Profit after tax for the quarter was at Rs.1,402 crores grew by 5% QoQ. Return ratios saw marginal improvement sequentially with RoA and RoE at 1.03% and 8.45% respectively
9. We continue to utilise our capital efficiently. Our Capital Adequacy Ratios remain healthy with CET1 at 15.18% and overall CRAR at 16.46%.

Overall, if I may summarise:

1. We remain cautious on the microfinance segment. While the slippages may get elevated for another quarter, our customer base is showing early signs of stability which should start reflecting from Q1 onwards.
2. Growth has resumed in our core domains and retail loan share should start inching up again. The retail deposit momentum remains apace to fund the loan growth.
3. Operating expenses are now well contained and retail loan growth should start reflecting in operating leverage playing out.

4. The pre provision operating profit margins remains healthy to absorb incremental stress in microfinance. Asset quality outside microfinance has been robust including in vehicle finance segment.
5. The capital adequacy levels are healthy even after considering current microfinance stress, evolving regulatory requirements and the Bank's growth ambitions.

With this we can open for Q&A.

- Moderator:** The first question is from the line of Kunal Shah from Citigroup.
- Kunal Shah:** I just missed out in terms of the utilization of the contingency buffer was that towards the corporate account or it was towards the MFI?
- Sumant Kathpalia:** So Rs.160 crores was towards the MFI and Rs.40 crores was towards the corporate account.
- Kunal Shah:** Going forward, as you mentioned, slippages might remain elevated in 4Q as well. There are various cuts which have been given, there are additional disclosures on the MFI front. But looking at it in terms of what could be the overall stress, which we are seeing because on the x bucket, we have already seen 99.5% collection efficiency now. So we would be having the good handle in terms of what is the level of stress. So how much could be the slippage? What could be the provisioning against it? And would there be further utilization of contingency buffer in 4Q?
- Sumant Kathpalia:** So we can't guide you on the contingency buffer utilization, but the 30 to 90 DPD, which is a good indicator of the stress and slippages, is still elevated at 4% because October and November were challenging months for micro finance.
- Kunal Shah:** And that provisioning will still continue?
- Sumant Kathpalia:** If you look at the resolution rates, which happen in the 30+ buckets, it's a bit low in the micro finance segment.
- Kunal Shah:** Okay. Got it. And secondly, when we look at it in terms of the overall margin front, so given that there would have been interest reversals on higher level of slippages. But otherwise, given the initiatives which we have taken, and given in the rate cut environment, we should be more beneficial given the profile of our portfolio? Where do we see margins eventually settling now given that interest reversals would be more or less behind us?
- Sumant Kathpalia:** It is difficult to give a guidance on the margins as of now. I would like to see quarter 4 playing out and micro finance segment stabilizing. And then we have to see what the policy rate announcements are from the RBI or the rate cuts which come in. And then we can share our expectations on the margin. I'd like to wait for the next quarter before we give any guidance on this as of now.
- Kunal Shah:** Okay. And just lastly, you mentioned you will be watchful of the MFIN 2.0 guardrails. When we look at our portfolio, almost like 16-odd percent is something wherein it's BFIL plus 2. So how do we see maybe are the collection efficiencies in this pool relatively worse off? And if it doesn't get refinanced, do we see the pain continuing even in 1Q of next year? You have clearly guided for 4Q, but is that the risk of spillover in 1Q as well?
- Sumant Kathpalia:** So we've also given a graph, if you go to the second page of additional micro loan disclosures. Collection efficiency on 0 DPD bucket are now at higher percentage.

Flows were coming when it was close to 98.3% or 98.4% and the flow rates were about 1.6% to 1.7%.

These rates have now improved with collection efficiency at 99.5% in the 0 DPD bucket. So the forward flows have reduced, which is what we were observing, and it has happened in December and so is the case in January.

We continue to watch this space. That's why I said that we are cautious about the micro finance segment. And I think we will continue to wait and watch before we press the accelerator. You know that we used to do disbursements of Rs.14,000 - 15,000 crores a quarter, but now down to INR9,000 crores. And I think just pressing the accelerator on disbursement may not be the right approach. We want to wait and watch and see how this plays out, see the balancing of our book.

We want to press the accelerator when 30 to 90 becomes within a range amount of 1% to 1.2%. That's our objective. And we are putting all our processes, collection efficiencies in place to make sure that, that happens first.

Moderator:

Next question is from the line of Rikin Shah from IIFL.

Rikin Shah:

Just a couple of questions. The first one is on yields. So while the interest reversals due to elevated slippages are understandable. But if you look at the corporate loan yields, they have been declining in the last 4 quarters sequentially. So what is the reason there? Because we have been growing the small business loans faster than the large corporate.

So that's question number one. And second question is on the asset quality. So even barring MFI, the NPAs in all other segments have inched up sequentially. And even the slippages in CFD is relatively elevated. So what's the outlook on the slippages in the coming quarters? Those are my two questions.

Sumant Kathpalia:

So let me answer the first question on the corporate yields. If you look at the corporate yield, there are two reasons for it. One is, we manage our risk weights well. And that is important to us and also to make sure that the excess liquidity rather than going into the reverse repo, managed to move towards the good quality accounts with AA and AAA-rating. And that is where we are willing to give away yield. The weighted average risk weights have come down to 2.47 as explained earlier in the corporate book from 2.54 YoY. So we've actually managed our risk weights well. The second reason for that is the EBLR repricing has happened on the loan book. So a lot of these corporate bank loans are floating rate loans. They're not fixed rate loans. And I think the EBLR repricing where it's linked to external benchmark rates have got repriced.

The second question was on how do you see the flows and I think it's too early to comment. Like I told that our vehicle finance has gone through a turbulent period. And in good times, it gives you 110 to 120 basis points of credit cost and in bad time, gives you 130 to 140 basis points of credit costs. So, while the gross NPA flows may look elevated, but the recovery in the vehicle finance book is relatively higher. And that is where I believe that the vehicle finance is a good book, which is managed in range bound credit cost.

On the other retail loans, which has seen the flows is mainly because of the credit card business. and the credit card flows are at a higher level right now. You know the industry is going through a stress in the unsecured business. The good part is, they are now moderating. We've seen stability of forward flows now. And I think in the next 2 quarters, you should start seeing a reduction in the flows from the other retail book also.

On micro finance, I will say that we have to continue to watch this space. The explanation which we gave to Kunal stands here also, I continue to believe that the forward flows are now looking better. But I think we still have to be conservative and cautious about this space.

Rikin Shah: Got it, sir. And I have 1 more question, if I may squeeze in. It's on deposits. So is there any further debulking of deposits likely in the coming quarters? Or now the overall deposit growth should kind of move in line with the retail deposit growth?

Sumant Kathpalia: So I believe that we will continue to reduce our bulk deposits. I've said that before. And we have shared our expectations to the market of having 48% to 50% share of retail LCR deposits and Loan Deposit Ratio of around 88% to 90%. So that's the only guidance we can give you and we will continue to do what is necessary to granularize the liability.

Moderator: Next question is from the line of Chintan Joshi from Autonomous.

Chintan Joshi: Just follow up on that NIM point from earlier. I appreciate you don't want to guide us on what might happen in the near term. But how should I think about kind of NIM evolution, say, 12, 18 months down the line once we are past this MFI stress period. How big is MFI now going to be part of the loan book?

And also what kind of margin should we expect once that kind of stabilizes at the level that you want now that we kind of appreciate more that MFI will remain cyclical. I wonder if you're thinking it may go back to 12% of the loan book down the line or not. And related to that, I would like to understand through the cycle, how do you see the ROA on the MFI business? We go through external shocks in this book every few years. So just trying to understand how you think about through-the-cycle ROAs in this business?

Sumant Kathpalia: So there are multiple questions which you've asked. So let me try to address all your questions. The number one question is on what would be the share of MFI in your loan book. You've seen that over the past 3 years, we've been continuously reducing the share of the MFI. It was close to 13-14%, which is now gradually reduced to 9%. We want to keep it around to 8% to 10%. I think that is the optimal size of the MFI book. That's our first step. We are also diversifying our overall rural business. We continue to believe that rural is a great opportunity in the country, and we continue to diversify this book. We are also launching a segment called Bharat Vikas Banking, which will house our rural focused businesses including merchant acquiring business, other Bharat Financial businesses and some other rural products such as small SME loans will also start getting launched in this vertical. We are diversifying this business from micro finance into Bharat Vikas Banking so that we don't compromise on the growth of this segment.

While it's given that the MFI business is cyclical in nature, we continue to believe that across cycles, MFI business should give you 2.5% to 3% RoA. In some years, it can give you 4%, in some years it can give you 1.5% also. So I'm saying 2.5% to 3% RoA across the cycle in this business. And if you look at this business on a holistic basis, I think it's an efficient business if done well. You need to keep buffer provisions in this business. I believe if you continue to keep 2% of the book as buffer provisions, you should be able to manage the stress. I've always said this book will run at a credit cost of towards 2.5% to 3.5%. You keep a 2% buffer provisions and in a cyclical trend, it should be able to take care by plus/minus 1%. That's how you should manage this business. I hope I have been able to answer your questions.

Chintan Joshi: Yes. And then I have one on deposits. When I think about kind of your stable deposits within your retail deposits, it's about 5% of the total LCR retail deposits. Why is that

number that low? If I think about your branch franchise in number of Tier 2, Tier 3 cities, Tier 4 cities, that granularity should be higher, but how that stable deposit number is a little low. I'm just wondering how that can be improved.

Indrajit Yadav: Chintan, there are different ways in which some of these guidelines are interpreted. You would notice that some banks have very low number, some banks have slightly higher numbers. I'll take you through granularity offline through a separate discussion.

Moderator: Next question is from Piran Engineer from CLSA India.

Piran Engineer: Congrats on the quarter in this challenging environment. Just circling back to micro finance. Firstly, is January better than December, if you can comment obviously, on collections, not growth?

Sumant Kathpalia: If you look at the forward flows, it looks better in the 0-DPD bucket. But if you look at what has flown into the 30-plus bucket, what had accrued in October and November, we are seeing that some NPA flows are happening from that bucket as of now.

Piran Engineer: Okay. Understood. So Stage 2 flowing into Stage 3.

Sumant Kathpalia: Yes. So what is encouraging is the forward flows in 0-DPD bucket have stabilized, and it has improved.

Piran Engineer: Fair enough. And given that the new guidelines in MFI will be out in April, have we proactively stopped this 2 plus 1, I mean, have you moved to 2 plus 1? Or are we still okay being the fourth lender if a proposal comes right now?

Sumant Kathpalia: So if you look at the data which we have given in presentation, 86% of our business is BFIL plus 2. And we want to get that to 95% to 98%.

Piran Engineer: No, no. I get that. Eventually, it has to be 100%. My question is, right now, if you're getting a proposal where you're the fourth lender, okay, let's say, today on 31st Jan, will you take it up? Or will you say no anyway in 2 months, you can't do it. So why do it now? That's my question.

J Sridharan: Yes. We already have got put in our system that any new customers, we will not have BFIL plus 2. And for an existing customer, maximum, we'll allow 1 more lender. And when the MFIL guidelines come, the latest rule we need to change that for a new or existing relationship, it will be BFIL plus 2. In terms of business impact, I think it will not be significant. We will manage, but for quite some time, we have been having the higher number of lenders who were built into the system.

Piran Engineer: Got it. And sir, since you're on the call, how should we think about MFI industry growth once all this is settled, say, 2 quarters later? Because clearly, I think the industry is maxed out on the number of the TAM in terms of number of borrowers and then should we just think of it as a ticket size, which is similar to inflation. So the MFI industry grows at 6%, 7%? Or how do we think about industry growth here?

J Sridharan: I believe the industry is likely to grow 15%-16% with new geographies getting added. Still there are pockets in the country where lending is not taking place, whether we will participate in that and how the industry will move there is what we need to see. If you see the growth post the RBI unification of the guideline that growth has been quite significant, and there is also only a 10% degrowth from the highs. So the overall picture, whether MFI industry will continue to grow at 25%, I don't believe so. 10% to 15% growth in the JLG model is likely to be there, but that also will come more from newer geographies and less from new customers in the existing geographies.

- Moderator:** Next question is from the line of Anand Dama from Emkay Global.
- Anand Dama:** Sir, what explains the higher slippages in the tractor, small CV segment? And also, if you can provide the MFI exposure in the state of Karnataka, where there are basically new rules coming up? And do you see any impact of that on your portfolio?
- Sumant Kathpalia:** Okay. So let Sriram answer the tractor as well as the SCV.
- A. G. Sriram:** In tractors the 60 to 360 bucket has inched up. So a year back itself, we have made our underwriting norms stricter. But whatever flowed into 60 to 360 slowly has been flowing into NPA. So that is what we are seeing. With the tighter underwriting norms, after 3-4 months, the slippages should slow down. The next 3-4 months, there will be increased slippage in tractors from existing DPD buckets. Having said that, the higher yield in this segment should help in compensating the increase in credit cost. This segment also help us in achieving the priority sector targets.
- And on small commercial vehicle, yes, again, high yield makes the risk adjusted return favourable. Slippages generally come down in Q4. So we are expecting slippages to be arrested in this Q4 itself.
- Sumant Kathpalia:** On the Karnataka, we have 13% of our micro finance book in Karnataka and 1% of total book is in impacted districts. We have degrown this book in Karnataka by about 4% QoQ.
- Anand Dama:** But do you see any early signs of stress building over there because of this new laws coming in?
- Sumant Kathpalia:** I think the collection efficiency in the Karnataka is down by 1%. That's the early stress.
- Anand Dama:** Okay. Do you see that coming down further with the law coming up and collections been restricted?
- J Sridharan:** The law we are talking about, we are not very sure we don't have fair visibility. As far as the latest discussion with the government is concerned, the government says that wherever there are regulated entities, the regulations will take care, they will not have any law impacting them. They will come very heavily on the unregulated entities. The proposed law may impose certain conditions on outsourcing collection activity or in ensuring that the customer protection standards are fully met, which are already part of the regulations. So we are still not sure what are the new regulation ordinance law that is being talked about.
- We are watching the space. Initially, there is some amount of discomfort. Now I think things are slightly settling down in terms of the legislation or the ordinance front, but the space is to be watched. As far as the stress is concerned, I think it's in a manageable space, maybe a 100 basis point reduction in the collection efficiency in a few pockets. I think it's manageable.
- Anand Dama:** Sure. And lastly, any outlook on the gems and jewelry portfolio? Are you seeing any early signs of stress over there?
- Sumant Kathpalia:** So we don't have any SMA 1, 2 or restructured account on the gems and jewelry portfolio. Our book has not grown. You are aware of it. We do working capital finance and we've not seen any stress building up in this book.
- Moderator:** Next question is from the line of Abhishek Murarka from HSBC.

- Abhishek Murarka:** I have two questions, one for Mr. J Sridharan to clarify and one to Mr. Sriram. On MFI, for the BFIL plus 3 customers, existing customers, are you giving repeat loans for the moment? Or are they also not getting repeat loans? And in the quarter, out of the INR1,700-odd crores provisions, how much provision have you made for MFI? Is it around INR550 crores, give or take? Back to the question on vehicles.
- J Sridharan:** As far as the number of lenders are concerned, as of now, we give loans only on a very selective customers. So an existing customer having three other lenders, if there is an ability, because if you know our overall limit is the lowest in the industry. We still do not lend more than 1.25 lakh net industry exposure. So we are very selective in lending and the proportion of loans going to good customers in that segment also is low. Once the MFI regulations come, obviously, we will not be lending to that customer. The entire industry will move to lender plus 2 norm.
- Abhishek Murarka:** Okay. But as of now, they are getting, if they're a good customer, they are getting a repeat loan.
- J Sridharan:** They are because that is part of the program. We have not stopped, but that's a very small number, not a substantial or significant number.
- Indrajit Yadav:** In terms of provisioning, we don't share business-wise provisions. So we have given you slippages. Different businesses have their own provision coverage ratios, which we try to maintain. Bank as a whole, you would have seen, we have maintained 70% PCR. Business unit level net NPA as well as provisions we don't share.
- Abhishek Murarka:** Okay. No worries. And on vehicles, 4Q is generally quite strong for disbursement as well as for recovery, etcetera. So asset quality. Do you see that kind of trend or this INR13,000-odd crores of disbursement in the quarter, that was just a bit of an aberration? And the segment is still going through a bit of consolidation. So it will come down. So just some commentary on growth and asset quality in the next maybe 3 to 6 months there would help.
- A. G. Sriram:** Q3 was good. The growth rate of vehicles, if you see the retail growth rate has been in single digits, except for 2-wheelers. So not much is expected to change in the Q4 also, it should be in the similar lines. And commercial vehicle is expected to grow in sync with the GDP. Unless GDP grows over 6%, there may not be much of growth in commercial vehicle segment. Gone are those days when sales in commercial vehicle was the trendsetter. Now more or less people like to buy with the work order only. So as and when GDP increases, there will be growth in commercial vehicle sector. So more or less, we are expecting for a similar disbursements numbers in Q3 around Rs.13,500 crores.
- Abhishek Murarka:** And asset quality there?
- A. G. Sriram:** Again, Q4 is one of the best quarters. So we are keeping our fingers crossed.
- Abhishek Murarka:** Done. A very quick question on MFI how is the disbursement trending? Like given that forward flows have improved the data that you shared, is disbursement going to pick up? And versus Q3, is it going to be higher? Or maybe Jan, what's the run rate, some indication there would help.
- Sumant Kathpalia:** We want to be cautious about the disbursements. We continue to remain a watchful of the trends. I think what is more important is to focus on your good customers and good centers and that is where 85% to 88% of our disbursement should be targeted. That's our philosophy. We are not looking at any disbursement number. What is important is to make sure that we service our customers well. And we are in the in centers which are performing well and do the disbursements there.

- Abhishek Murarka:** Right. But Sumant, just QoQ, it should improve, right, given that there is an improvement in the 0 DPD bucket, etcetera?
- Sumant Kathpalia:** Yes, it should, but I don't want to give any number as of now. Because I want to continue to watch this space, how the Karnataka develops, how does it pass on to another state, how does UP behave? So I don't want to give any numbers or projection of the MFI business as of now.
- Moderator:** Next question is from the line of Jai Mundhra from ICICI Securities.
- Jai Mundhra:** Sir, just a few questions. First, on MFI or BFIL, do we also cross-sell any 2-wheeler or personal loan or a small CV to these customers? And if yes, what would be the exposure?
- Sumant Kathpalia:** We don't do any personal loans on this segment. It's already an unsecured segment. So we don't want to increase unsecured exposure in this segment any further. We did try scooter loans. We did about 2,000 scooter loans. We did it as a pilot and stopped it as the delinquencies were high.
- Jai Mundhra:** Right. So there is no other exposure, right? I mean there is no other retail products or any other?
- Sumant Kathpalia:** We don't believe that we can do any other cross-sell into the except liabilities, which we talked about Rs.2,600 crores of deposits.
- Jai Mundhra:** Right. Sure. Secondly, sir, if you can also highlight the net NPA in MFI, right, that will help give us some direction in terms of the additional provisioning needed. You have a gross NPA of INR2,400 crores. And if you can sort of quantify what is the PCR here? Or what is the net NPA here?
- Sumant Kathpalia:** Our PCR overall is 70%, like Indrajit said, we don't give product specific net NPA or provisions. So I think that is not something we give it in public domain, but I can tell you that we are well provided and well covered.
- Jai Mundhra:** Sure. And lastly, Sumant, if I look at the contingent provisions that we have right now, that is roughly around 4% of the MFI loans. And you have said that SMA 1 plus 2 is around 4%. So are we sort of done in terms of whatever additional slippages that come through in fourth quarter, you will be providing those, or we may continue to carry this contingent provisions going ahead in FY '26. Is that the way to think about this? Or there would be some change in this contingent stock?
- Sumant Kathpalia:** It's too early to comment on whether we will use contingent provisions or not. I've always said the bank should be adequately covered and we will always be conservative on provisions and to make sure that we have enough coverage to take care of any eventuality especially in the highly volatile businesses, like micro finance. We also want to be prepared for the ECL when it comes in.
- So, given these 2 scenarios, we continue to believe that the bank should carry enough contingent provisions as we move forward. Whether we will use anything, it's way too early. We will see how the flows happen in the MFI, how the business goes and then we will take a call.
- Jai Mundhra:** Sure, sir. And lastly, sir, I think there was an exit of CFO. And of course, we have already disclosed that. If you can comment on any other attrition that you are seeing at the senior level? Or if you want to sort of comment on that thing?

- Sumant Kathpalia:** So we have a very stable management team. If you look at it, over the period, a lot of earlier people have gone and new people have come in, whether it's the CTO, CRO, CCO or internal audit head. We've got a lot of new people. So we've always said that a good mix of management will always have a good understanding of the business, and we get a new perspective on the business from lateral hires. Having said that, the HR Head is here, and maybe he can comment on it.
- Zubin Mody:** Thanks, Sumant. We had a very stable leadership right from 2008 to 2020. Simply because of the age of the people at a particular point of time, people retired at the same time, and we added a lot of new people. So there is a good blend of old and the new, with more new now.
- And again, this year, I guess, we'll have a couple of people retiring together. So we are already in the process of identifying people. We will not be having any position unfilled for any length of time. And so our backfill hiring for these positions continue and we will be sorted on our top management talent at all times.
- Moderator:** Your next question is from the line of Shubhranshu Mishra from PhillipCapital.
- Shubhranshu Mishra:** The first one is on credit cards, the gross NPA has inched up on a sequential basis. And just wanted to understand the architecture of our ENR share, what percentage is transactors, how much is revolvers and how much are the EMI proportion? If you can speak about the number of credit card customers who have 2 or more credit cards? 3 plus credit cards and 4 plus credit cards. That's on the credit card. The second one is on vehicle financing, especially the SCV, LCV, HCV, there's been commentary around asset quality rip off and slowdown here. So how do we see this market and what has been our experience? And what do we think of the growth levels in these 3 specific segments going forward in the next year including small commercial vehicle, light commercial vehicle and medium and heavy commercial vehicle?
- A. G. Sriram:** Commercial vehicle is behaving well, the portfolio has been improving, and I believe it will continue to improve. Light commercial vehicle, as people have given more loans towards the new to credit, there will be some increased slippages, but it will be compensated by the higher rate of interest. Small commercial vehicle, again, the same way like nearly 50%-60% are new to credit wherein quite a bit of default occurs. But Loss Given Default (LGD) is somewhere around 45%. The yields in small commercial vehicle is higher than light commercial vehicle and heavy commercial vehicle. So overall, ROA of the product is good and it gives you a good customer base.
- Shubhranshu Mishra:** And the credit card question.
- Sumant Kathpalia:** Yes. So you know that our unsecured business, including personal loan is a very small portion. It's only 6% of our book. We've always said that because we have micro finance, we will keep it around 6%. Of this, 3% is credit card and 2.5% is personal loans on that segment. Our credit card GNPA are elevated because you know the industry issues which are coming in. And the gross flows are elevated as of now. And if you look at the other retail flows, most of it is coming from the credit card businesses, the slippages. Having said that, we have 24% of our base has revolvers and 16% ALOP or EMI based customers. So 40% of the base either is revolving or ALOP-related EMI customers. On the second question part of your question, well, how many customers are with 3 to 4 credit cards, I don't have the ready-made answer. It may be in the data pack, but I don't recall that answer. So we will come back to you later on this answer.
- Shubhranshu Mishra:** Just one question, if I can squeeze in. What is the percentage of open market sourcing in credit cards?
- Sumant Kathpalia:** What do you mean by open market sourcing, if you can?

Shubhranshu Mishra: Not from our own liability or asset customers?

Sumant Kathpalia: It is difficult to give an answer on this. Our focus is on our liability base. But we are also very stringent on our parameters on our internal customers also as to what we want to source. What we source in the open market are more salaried customers because we want to get the salary relationships out there. And what we get on our customer base are salaried and self-employed. The mix, we cannot share right now.

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

Sumant Kathpalia: So thank you for joining the call. Me and Indrajit are available for any questions and any dialogues, which you may want to have with us. Thank you so much for your time.

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

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