IndusInd Bank

Q4 FY25 Earnings Conference Call

BOARD AND MANAGEMENT:
MR. SUNIL MEHTA – NON-EXECUTIVE INDEPENDENT, PART-TIME CHAIRMAN
MR. SOUMITRA SEN – HEAD, CONSUMER BANKING & MARKETING
MR. ANIL M. RAO - CHIEF ADMINISTRATIVE OFFICER
MR. INDRAJIT YADAV- HEAD, INVESTOR RELATIONS AND STRATEGY
+
MANAGEMENT TEAM MEMBERS

May 21, 2025

Moderator: Ladies and gentlemen, good day, and welcome to IndusInd Bank Limited Q4 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 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. Sunil Mehta, Chairman, along with the Management of IndusInd Bank. Thank you, and over to you.

Sunil Mehta: Thank you. Dear all, first of all, good evening, and thank you for joining this call. My sincere apologies for the delay and this was on account of an extended Board meeting that has ended just shortly earlier.

I am Sunil Mehta Chairman of the Bank. I am joined by Soumitra Sen and Anil Rao from the Committee of Executives and the rest of the management team. It is unusual for a Part Time Non- Executive Chairman to address the investors and analysts. However, given the recent chain of events, the Board and the management felt it's appropriate to use this opportunity for the Board Chair to also engage directly with you.

As you know, we have seen multiple material developments since March. At the outset we acknowledge that these developments are unfortunate for any organisation and it's painful to see these taking place in your own. However, the Board is determined to address all identified issues, so that they are appropriately resolved.

I want to first spend a few minutes on the approach taken by the board to address the issues at hand.

- The irregularities disclosed indicate an inadequate emphasis on accounting analysis and rigour as well as lapses in and violations of governance norms, internal controls, disclosure and reporting mechanisms to the Board. The Board, was not informed of the discrepancies, including at the time of approval of the financial results for the relevant accounting periods.
- Upon being made aware of the irregularities since March, the Board has swiftly taken active steps in understanding and addressing all areas of concern holistically and disclosing progress transparently at the appropriate stage.
- The Board and the management set forth their desire of maintaining trust in the institution by aspiring for and implementing higher standards of transparency and compliance. The Board is closely working with management and all relevant stakeholders so that the Bank can be forthcoming in highlighting any irregularities which need to be addressed.
- The Board along with the management has spent considerable time and effort in assessing in a timely manner, all the irregularities brought to our attention. Wherever required, we sought assistance of reputed external professional firms in addition to detailed internal reviews.
- The Bank is announcing this year's financial results slightly later than what it has done in the past. Given the events which have transpired, the statutory auditors have done substantive checks with wider sample sizes to analyse any anomalies in financial reporting so that all the identified issues can be adequately and fairly accounted for while finalising Q4 results for FY24-25.
- The Board and its committees are working with the management and external advisors to identify and address the root causes, rectifying any lapses in systems or processes and imbibing learnings to tighten internal

controls. These shall be reviewed and implemented under the Board's oversight. We strongly believe these extra steps should help in avoiding such incidents happening in the future.

- While we address these immediate issues, we are also cognizant of the need to reinforce the governance culture and long-term sustainability of the organisation. We are institutionalising ethical best practices, robust systems and processes while rebuilding the talent desirous of delivery on such framework.
- The Board is also in the process of taking necessary steps to assess roles and responsibilities and fixing staff accountability as per the extant laws and internal code of conduct. We are approaching these aspects with utmost seriousness, without fear or favour to anyone involved in precipitation of these issues.
- The Board is also continuously engaged with the regulators. The Board would like to express its gratitude to the regulators and particularly the RBI for its support and guidance in helping navigating these challenging times.

Whilst we have shared updates through stock exchange intimations and also as part of the financial statements for Q4 which have been disclosed, I will summarise the recent events and financial performance as follows:

1. <u>The derivatives accounting issue:</u>
   - The Bank has received final reports from both external firms and the financial impact is broadly similar to the initial internal assessment.
   - The Bank had already discontinued internal accounting trades since 1st April 2024 and is in the process of taking further measures to improve internal controls and processes to prevent such lapses occurring again.
   - The Board has also taken a very serious view with respect of staff accountability across levels to reinforce the governance and compliance culture and is in the process of taking actions for staff accountability.

2. <u>Additional rigorous review</u>
   In light of the derivative accounting issue, the Board has also worked with the management and the statutory auditors to undertake an enhanced and much more rigorous review as part of finalising the financials (including thorough reviews by the Internal Audit Department ("IAD") of the Bank). As part of this exercise, the Bank has identified the following significant matters, which have been appropriately accounted for in the financials for Q4.

   (A) Microfinance portfolio:
   - The reviews identified that over the first three quarters of FY 2025, there was incorrect recording of interest income and fee income.
   - The review has also identified the misclassification of certain microfinance loans has resulted in under-provisioning and non-recognition of NPAs aggregating to Rs.1885 Crores.
   - The Bank has addressed the underlying cause and is in the process of taking actions for staff accountability.

   (B) Other matters:
   - As part of the review, it was also noted that there were certain unsubstantiated balances in "other assets" and "other liabilities" accounts of the Bank and that an amount of approximately Rs.760 Crores had been incorrectly classified as "interest income" instead of "other income".

   Based on review of all these matters and reports received by the Board, the Board suspects the occurrence of fraud against the Bank and the involvement therein of certain employees having a significant role in the accounting and financial reporting of the Bank.

Accordingly, the Board has directed necessary steps to be taken under applicable law (including reporting to regulatory authorities and investigative agencies) and to also fix the accountability of all persons responsible for these lapses.

3. Financial impact absorbed in Q4:
   - The financial impact of all of the above has been fully taken in the audited financial statement of the Bank for the financial year 2024-25.
   - The Bank's approach towards financials has been to start FY26 on a clean slate without carrying forward any of the past issues.
   - The Bank has thoroughly reviewed all the lines of accounting and has taken a conservative view in some of the accounting treatments.
   - This has been reflected in a few one-offs versus the business as usual run rates which we will delve deeper in the subsequent section.
   - The bank's balance sheet remains healthy after absorbing all these changes with the Capital Adequacy Ratio of 16.24%, Provision Coverage Ratio of 70% and average LCR of 118% with excess liquidity of Rs.39,600crores. The liquidity remains comfortable in current quarter as well with average LCR of 139% in the first half of the quarter.

4. Ensuring steady leadership transition:
   - Following the findings of external review announced on 27th April 2025, the Bank's CEO and Deputy CEO had resigned from their respective roles thereafter.
   - The RBI has advised the Bank to submit proposals for the appointment of the new CEO for RBI's approval by 30th June 2025. The Board is at an advanced stage in the selection process and is confident that recommendations will be submitted to the RBI in advance of the timeline. This will provide strong leadership and management stability at the Bank.
   - The Board is determined to identify and expeditiously induct strong leadership with right competencies, strong ethics and the ability to build & scale a robust franchise.
   - In the interim and as approved by the RBI, the Committee of Executives (CoE) is entrusted to oversee the operations of the Bank. The CoE is guided by an Oversight Committee of the Board comprising of the Chairpersons of the Board, the Risk Management Committee, the Compensation Nomination & Renumeration Committee and the Audit Committee of the Board.
   - The Board of Directors and the Management team is committed to ensure smooth transition.

5. Reinforcing the ethos of governance while executing the growth strategy:
   - The Board is working with the management to bring in a cultural shift towards achieving the highest standards of ethics and governance
   - We want to build an environment of open and honest communication with all the stakeholders prioritising long term sustainability over short term achievements.
   - Compliance with the extant regulations in form as well as spirit is non-negotiable.
   - One Bank Vision – breaking the silos by laying a strong foundation would ensure avoiding repetition of such episodes, providing uninterrupted execution on the bank's strategic growth objectives.

I will now hand over to Soumitra Sen to take you through the highlights on individual businesses. Soumitra, over to you.

Soumitra Sen: Thank you, Chairman. Let me start with the vehicle finance, one of the key pillars of the bank.

1. **Vehicle Finance:**
   - Our vehicle loan book at Rs.95,595crores grew 8% YoY and 2% QoQ.
   - Vehicle disbursements for Q4 at Rs.12,273crores grew 3% YoY. Full year disbursements for FY25 were at Rs.47,600 crores.
   - Industry volumes across categories have grown by single digit during the year. We have maintained stable market share across key categories of Commercial Vehicle, Construction Equipment and Passenger Cars. We however, consolidated our position in tractors as we reinforced our processes and credit underwriting.
   - The asset quality trends have been improving since Q3 after a weak H1 this year. The sequential improvement in gross slippages continued in Q4 as well at 0.70% vs 0.74% QoQ. All the vehicle segments except for Tractors saw sequentially stable or improved gross slippages.
   - We have refrained from selling NPAs to ARC during the quarter focusing on the collections ourselves. This however optically increases the GNPA ratios.
   - The restructured book in Vehicle Finance continues to show reduction. It has come down now just to Rs.119 crores vs Rs.547 crores at the start of the year. Majority of the reduction has come from upgrades & recoveries.
   - Looking ahead, improving fiscal spends, benign oil prices, falling interest rates and above normal monsoon predictions, should support recovery in industry volumes. We are cautiously watchful of impact if any from tariffs, weather adversity and state elections etc.

2. **Bharat Financial Inclusion Limited (BFIL)**:
   - Outstanding loan book originated via BFIL now stands at Rs.38,169crores, down by 2% QoQ and 15% YoY.
   - <u>Microfinance</u>
     - Microfinance business showed signs of stabilisation in Q4; disbursements were up 1.4% QoQ.
     - We followed a cautious approach for disbursements with 94% of disbursement in Q4 was in branches with low flows from current to arrear and towards customers and centres with high vintage.
     - We have also implemented MFIN guardrails effective from April 1, 2025 restricting disbursements to customers with not more than 3 lenders. With large customer base unique to us and our conservative ceiling on client’s overall exposure, the impact on the business has been limited so far.
     - We have disclosed trends in early delinquency buckets. They show improvement in both stock as well as fresh flow of delinquencies.
     - Karnataka situation is also improving with field level initiatives. Current book net CE in Karnataka has improved from 96.4% in February 2025 to 98.2% in March 2025.
     - As a result, the 31-90 Days Past Due book reduced to 2.3% in March 2025, down from 4.1% in Dec 2024.
     - We have also disclosed trend in all standard overdue customers i.e. 0 DPD to GNPA which is heading back to normalcy.

    - The slippages were elevated during the quarter due to the accumulated stress in the earlier quarters and misclassification of certain loan accounts, which was corrected in Q4.
- Bharat Super Shop i.e. the merchant acquiring business
    - We have now around 664k merchant borrowers under this program.
    - Our merchant loan book at Rs.7,260crores, growing at 30% YoY.
- The share of non-MFI book improved to 19% vs 12% YoY.
- Total liabilities sourced through BFIL now stand at Rs.2,680 crores (up ~3% QoQ), with more than 19mn accounts.

Overall, the portfolio stress witnessed last year is waning, as we see portfolio quality improving in most states. We are cautiously focusing on disbursements in selected geographies amongst customers with higher vintage. With implementation of MFIN guardrails further strengthening controls and Karnataka operations steadily getting back to normalcy, our focus is on ensuring disbursement quality, dedicated efforts on collection and recovery, and continued diversification of the loan book.

3. **Corporate Bank:**
    - During the quarter we let go some of our corporate loans for balance sheet management.
    - Consequently, our corporate loan book has come down by 16% QoQ and 6% YoY
    - This was only a tactical decision keeping in mind the short term objectives of the Bank. The overall strategy of scaling up granular mid and small corporate book with selective exposure to large corporate continues to be implemented.
    - The proportion of A and above rated customers at 77% has been steady YoY, while declining QoQ vs 79%, as we let go some of the higher rated loans. The weighted average rating was at 2.57 vs 2.51 YoY.
    - Our diamond business continues to show healthy asset quality with no SMA1 or 2 customers while growth is subdued due to weak industry demand. Industry is liasioning with stakeholders for suitable terms in bilateral trade discussions. We are closely monitoring the developments and are comfortable with our exposures as of now.
    - Gross slippages in corporate book were at Rs.204crores mainly contributed by one restructured real estate account amounting to Rs.140crores. Full year gross slippages for Corporate Book improved to 0.44% vs 0.54% YoY.
    - Corporate Restructured book also has now reduced to Rs.147crores vs. Rs.583crores at the start of the year.
    - Our SMA1 and SMA2 book collectively stands at 24bps vs. 20bps QoQ.

    Overall, while we have consolidated our corporate book during the quarter, we have resumed our disbursements selectively in focus areas and growth in corporate bank should start reflecting in coming quarters.

4. **Other Retail Assets:**
    - Our other retail assets maintained growth momentum with 17% YoY and 6% QoQ during the quarter.
    - MSME book under business banking is at Rs.18,232 crores grew by 9% YoY and 3% QoQ.
    - LAP book maintained steady traction with 15% YoY and 3% QoQ growth.

- We continue to focus on Home Loan scale up with outstanding now at Rs.4,491crores growing by 151% YoY and 43% QoQ.
- Credit card spends at Rs.27,666 crores were broadly steady. Our market share in credit cards spends was at 5.31% based on latest available data.

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:**
    - Total deposits at Rs.4,10,862crores grew by 7% YoY while remaining steady QoQ.
    - Our deposit franchise has shown resilience during the turbulent last couple of months. We have proactively engaged with our customers rebuilding the trust in the institution. These initiatives helped stabilize our deposit base after a temporary blip post the disclosure on March 10th.
    - Retail deposits as per LCR grew by 9% YoY contributing to 45.1% of overall deposits vs 44.1% YoY.
    - We have carried healthy liquidity during the quarter with average LCR at 118% and average surplus liquidity at Rs.39,600 crores. The period end LCR as of 31 March 2025, was at 136% along with surplus liquidity of Rs.62,000 crores.
    - The liquidity position continues to be healthy during the current quarter as well, with average LCR for the first half of the quarter being at 139%.
    - Apart from the short-term disruptions in March, our new initiatives of affluent and NRI banking continue to scale-up at healthy and sustained pace.
    - Affluent segment deposits at Rs.58,300 crores grew by 9% YoY. Affluent AUM at Rs.1,02,000 crores has now crossed Rs.1lac crores mark growing by 24% YoY.
    - Our NRI segment deposits at Rs.58,300 crores grew by 28% YoY.
    - Share of Top 20 depositors is now reduced to 14.8% in Mar-25 vs 17.4% YoY.
    - Share of Certificates of Deposits at 8.2% of overall deposits and borrowings at 9.7% of total liabilities.

Overall, our deposit franchise showed resilience during the turbulent time. Looking ahead, we remain confident on resuming our journey towards building granular retail deposit franchise while keeping our cost of deposits in check. The developments around easing liquidity also augurs well for our deposit franchise.

6. **Digital Traction:**
    - The Direct Digital Business continued to scale with efficiency and overall ~75,000 new clients get acquired digitally directly every month.
    - Our flagship mobile banking app INDIE continued to scale with positive impact on customers adopting the upgraded app.
    - Indie for Business - Our digital app for MSMEs now has over 50,000 registered customers and a monthly transacting user base of 75%.
    - Bank's easycredit platform for all retail and MSME exposures upto Rs.5crores ticket size processed 15mn applications during the year.
        - 100% of bank's personal loans and credit cards are originated digitally.
        - The platform is compliant with digital lending guidelines, offers digital KYC & fraud checks, real time decisioning powered by

- machine learning algorithms and digitised disbursement via e-sign, e-stamp, e-mandate.
- It is also integrated with RBI Innovation Hub's Unified lending interface (ULI) and Account Aggregator (AA).

Now I will request my colleague, Anil, to cover the financials.

Anil Rao: Thank you, Soumitra. This is Anil Rao here.

- As mentioned earlier, we reviewed all our accounts rigorously and have taken a conservative view wherever there were debatable items. We have also provided for all the issues brought to the attention of the Board. We are thus starting the new financial year with a clean slate and robust Networth.

- Some of these changes have one time impact whilst a few change baseline financials as well. Key financial adjustments are listed below:
  - We have reversed Other Income by. Rs.1,960 crores on account of derivative related discrepancies disclosed on March 10th.
  - We have reversed revenue of Rs.423 crores net of interim provisions and accrued interest towards the accounting error identified by the Internal Audit team during the review of microfinance business.
  - The Bank has also set off unsubstantiated increase in other assets and other liabilities amounting to Rs.595crores. This has no impact on the Profit & Loss of the Bank.
  - We recognised materially higher slippages in microfinance businesses of Rs.3,509 crores. This resulted in interest income reversal of Rs.178 crores.
  - We have reviewed groupings and classification of the P&L items resulting into Rs.760crores regrouped from Interest Income to Other Income and Rs 158 crores from the Provisions and Contingencies to the Other Operating Expenses. This has no impact on the Profit & Loss of the Bank.

- Adjusted for the non-recurring one-offs, the Net Interest Margin for Q4 would have been around 3.47% and a pre-provision operating profit of Rs.3,062 crores.

- The adjusted financials were subdued versus business as usual runrate largely impacted by adverse loan mix and conservative liquidity priorities towards the end of the quarter.

- In terms of asset quality:
  - The gross slippages by key segments were Vehicle Finance Rs.657 crores, Corporate Rs.220 crores, Other Retail Rs.628 crores and Microfinance Rs.3,509 crores. This reflects sequential improvement in all segments other than microfinance.
  - We have also seen improvement in Net Security Receipts at 27bps, Restructured book at 12bps and stable SMA1+2 at 24bps.

- Overall, whilst we have reported a loss for the quarter due to the extraordinary events, we have closed full year FY25 with Profit After Tax of Rs.2,575 crores. Our Capital Adequacy Ratios remain healthy after factoring in all the hit on account of one-off measures, with CET1 at 15.10% and overall CRAR at 16.24%.

I will now handover to the Chairman for closing remarks.

Sunil Mehta: Thank you, Anil. Overall, if I may summarise:

1. We acknowledge that the lapses which have happened are not something expected from a bank like us. The Board and management is committed to take all necessary steps to restore the trust and confidence in the institution. The Board and management has done a deep dive on the issues brought to its attention and has taken actions with a view of pursuing higher standards of governance, transparency and accountability. This governance culture will continued to be reinforced as we progress further.
2. The financials now reflect all the items brought to the attention of the Board. We are starting FY26 on a clean and strong footing. The balance sheet continues to be robust with healthy capital adequacy, provision coverage and liquidity levels.
3. The core franchise remains strong and we are focussed on growth opportunities backed by capital strength and conservative liquidity.
    - The Bank will scale secured retail and MSME assets, be selective in corporate space, ramp-up in retail liabilities, and follow One Bank approach.
    - The Bank will continue to pivot our rural distribution towards Bharat Banking albeit being cautious on microfinance.
    - The Bank continue to invest in our new businesses such as home loans, affluent banking, digital 2.0, merchant acquiring, micro market driven distribution etc.
4. As mentioned earlier, the search process for the new CEO is at an advanced stage. The incoming CEO will have advantage to start with a fresh slate. The CEO should have capabilities to scale this differentiated organisation, have a strong ethical foundation with proven track record of execution and leveraging evolving technology and customer preferences. There is immense potential for this franchise to deliver sustainable profitable growth for years.
5. I would like to end my comments by profusely thanking the support and confidence extended by all stakeholders during this difficult period, which include, but not limited to our first, our customers, investors, employees, regulators, media and all other institutions, which I may not have named. The bank will stand by the trust extended by all stakeholders in its action and words.

Thank you so much for your patience. We will now open for question and answers.

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

Chintan Joshi: Can I start with just understanding the adjusted numbers. You highlighted that your NIM is 3.47%, which kind of gives us a INR4,700 crores NII. Is that what you see? And could you talk us through the reported NII versus the adjusted NII number? If you can just give us all the moving parts, that would be helpful, to get us some sort of a baseline of what you can take as a business-as-usual run rate number. And if you could do the same for the fee income line, that would also be helpful just so that we know we have got the right numbers?

And then the second question is more around closure. If I think about the matters that we've seen, what are you doing about taking up legal actions against the various issues that have come up in terms of claw backs, in terms of other legal proceedings?

And also on that same topic of closure, when do you think you can draw line? And when can you get the confidence that there are no new frauds to be discovered? Or is the review still ongoing and we would need to wait for the new CEO to come in and give it thumbs up before we can be sure about that.

Sunil Mehta: This is Sunil Mehta, and I will answer the second question first. I just want to sort of let you know that as far as the entire process of accountability is concerned, we will follow without fear and favor the due process of law. And whatever action that needs to be taken, will be undertaken based on whatever is required to be done as per law, by ensuring that we do it expeditiously. The process will continue. The Bank is progressing as normal today. And we don't have to wait for the next CEO to come in, as far as this process of accountability is concerned and whatever needs to be done from whoever was accountable for the issues that we have just stated in our communication to you.

Chintan Joshi: Sorry, the second question also was about the future, right? When can we get the closure? Do we need to wait for the new CEO to draw a line? Or do you think the Board can draw the line on the various issues? And have you finished identifying all the various issues?

Sunil Mehta: What we have done is that based on whatever reviews that have been done, all issues have been duly identified and duly addressed and declared and shared with all stakeholders, including what we have done with you. We will follow as per law, whatever needs to be taken. We do not have to wait for the new CEO, because the process will sort of continue. And all these issues have been duly reported to the regulatory authorities. The financial impact of all the issues that we have declared, has already been undertaken in Financial Year 24-25. So those financial adjustments have been done. So, from a financial perspective and coming back to business as usual, that is being continuing, and people will start focusing on that. And as far as the other stuff is concerned in terms of, on accountability, that will continue to follow as per due process of law.

Indrajit Yadav: Coming back now to the first question. So Chintan, as we mentioned in the opening comments, on a going concern basis, for quarter 4, if we take out all the inter-head adjustments and one-offs etcetera, the net interest income would come to around Rs.4,700 crores. The non-interest income would come to around Rs.2,500 crores. The operating expenses would be around Rs.4,200-odd crores. So the operating profit would be around Rs.3,060 crores, is what we disclosed in the opening remarks.

Chintan Joshi: Thank you. I'll run with you off-line for all the various adjustments.

Moderator: Next question is from the line of Harsh Wardhan Modi from JPMorgan.

Harsh Wardhan Modi: A couple of questions. One, how do we get comfort around whether these one-offs are more? is this the last kind of set of one-offs in terms of clean-up or there are going to be more? And my second question would be regarding the liabilities. In last couple of months since closing the year, how much of deposits has the bank lost? And how do we think about the liability strategy of the bank over the next, let's say, 6 months?

Indrajit Yadav: If I can comment on the first part that you have asked about. So as the Chairman mentioned earlier, the financial impact of all the irregularities brought to the Board and the Bank's attention has been taken into the account, while we have prepared and disclosed these Q4 results. There is nothing that is outstanding today to our understanding. So one-off as such we have already taken for. Whatever is the Business As Usual (BAU) impact, as we progress will come, such as the near-term impact because of whatever extra liquidity we are carrying. There could be some industry or business-related issues that will happen, which is part and parcel of being in this business. But from the financials perspective, there is nothing that has not been accounted for in the numbers that we have. And as we mentioned in the opening remarks, we have done a thorough check of all the accounts that we have. We have spent extra time. You have seen that we are almost late by a month to announce the results. So a lot of efforts by all the stakeholders involved has gone into ensuring that the financials reflect the fair and transparent position the bank has.

Coming to the deposit side, as you know, we don't disclose within the quarter, deposit numbers. We have given you how our liquidity position has been. In the first half of the quarter, the average LCR is 139%, which is well above the regulatory threshold as well as the higher than what we had carried last quarter.

In terms of strategy, I will hand over to Soumitra to give his comments.

Soumitra Sen: See, on the liability strategy, retailization of deposits, has always been a core thing, which we have been talking about. Apart from the home markets, developed markets strategy, which we do, the new ones, which we are now talking about, is that One Bank approach, where all the BUs are now getting into the liability sourcing, and we have different contests and incentives to run for that.

Second, what we are doing is that the premiumization of the accounts, the branch distribution is now looking at opening the high-value accounts. And that's actually scaling up quite well. So you will see that growth happening in the affluent side of the business.

And the cross-sell, and especially the NOS, which we look at the Number of Sales per person, with the One Bank approach, that's actually climbing up quite well. On the granular deposits, as you have seen our retail deposits share going up, the percentage from 44.1% to 45.1%. And even during this particular quarter, we are seeing the retail growth is absolutely right on top. So I don't see that to slow down.

Sunil Mehta: So, before we move to next question, let me just also reinforce the point that was made by Indrajit earlier, about whatever we have done to bring things to closure. So, after these issues were raised or identified, the Bank has done an extensive review by both external agencies and internal teams for identification of all issues or any other issues that could be sort of identified.

As you can imagine, the statutory auditors have also done an extensive stress test. And obviously, they have fully put in financials and their report whatever has been identified. And of course, the financial impact has now been taken, as I already mentioned.

The important aspect that I have to share with you is that during this process, wherever we recognize or figured or identified control weaknesses or any risk areas, those are absolutely being addressed.

So, I think we are using opportunity from this crisis to do a deep review of all aspects of systems, controls, procedures and people, to strengthen all, to make sure that we have a robust systems and processes in place, with a high level of transparency as we move ahead. So that if there is any issue, they must be surfaced expeditiously so that the same can be addressed.

Moderator: Next question is from the line of Adarsh from Enam Asset Management.

Adarsh Parasrampuria: So, I had a question on the clean operating profit you mentioned. Obviously, the cleaner margins have taken a dip, but the fee incomes are where we were earlier, right? So, and historically, the bank had high fee income. So just wanted to understand how sustainable you think is the fee income streams or as we derisk the book, does this fee income kind of take a knock?

Indrajit Yadav: So, Adarsh, you would see some part of the net interest income has got reclassified into the fee income. We have given that information in disclosures as well. So, because of that, the fee income is where it is. Going forward, as you know, the strategy, which the Chairman and Soumitra has covered, it's part and parcel of our business.

Some of the areas that we are into, are higher fee generating businesses. So, it would depend on what kind of loan mix that we aspire for and what kind of the segment mix we want to have. I'm sure the Board and the management as well as the incoming CEO will have a say into how we want to progress. I think it will be a little premature to comment on what should be our fee income or the fee to asset ratio, et cetera, going forward. Let's see how every quarter goes.

Adarsh Parasrampuria: Okay. And the second question is, since you've taken a full stock of the MFI NPAs, you've kind of provided a lot as well. Does this mean now that when you say we start on a clean state, our credit costs go back to what the normalized credit costs were? Or it's kind of still uncertain. We've taken a large part of it, but we are not sure of how credit costs would behave incrementally.

Indrajit Yadav: So overall, Adarsh, you would have seen even in this quarter, excluding microfinance, our slippages, credit costs, et cetera, in other segments have been better or stable. So, excluding microfinance, we have not seen any issues as such. And those businesses continue to be in the steady state.

The microfinance side, we have taken additional slippages this quarter. We have also given one additional disclosure in our investor presentation, if you would have seen in microfinance segment. We have given a trend in 0-day plus DPD book and that you would see that the 0-day plus book is almost coming back to normalcy where it was in the last year's March. So that gives us confidence that the incipient stress is coming back to normalcy.

But having said that, as you know, the situation in some of the states is still evolving. There are a few elections in the next 12 months. So, we don't think the next year in microfinance will be back to normalcy. I think there should be a step down, obviously, given the higher number that we have reported for this year. There should be step down from the current quarter slippages, but it will still be elevated versus the business as usual. And then maybe in the second half of the year, you will see the things progressing back to normalcy. That's our base case today. But let's see how the MFIN guardrails, the state elections, some of the monsoon-related implications happen. So that's where we are. We are cautiously looking at this business, but normalcy maybe 6 months away.

Moderator: Next question is from Ankit from Nomura.

Ankit Bihani: Sir, I have 1 question. So we had roundabout Rs.1,325 crores of contingent provision as of last quarter. Have we utilized those in this quarter?

Indrajit Yadav: Yes. That has been utilized.

Moderator: Next question is from Piran Engineer from CLSA.

Piran Engineer: So the Rs.3,500 crores of microfinance slippages, just wanted to understand, did that slip in the quarter? Or had it slipped earlier, but you've recorded it now because of some recording lapse earlier or internal control lapse?

Indrajit Yadav: So, in the notes to the accounts we have given this background. There is around Rs.1,800 crores of loans, which were incorrectly classified into certain other categories, and that resulted into them being recognized as standard in more than 90 DPD days bucket. Those classifications have been rectified in this quarter. There was a review going on, which we also disclosed. So, the Rs.1,800 crore is where the correct classification of the underlying customer base has resulted them turning into NPA this quarter. And that correct classification, as you would know, happens from the initial day and those original DPD, properly accounted for. Just that the classification back, resulted into additional slippage of INR1,800 crores. And the balance is Business as Usual slippages. It is also higher and that's what we have been discussing throughout the year. The slippages accumulated or the overdue book accumulated over the 9 months has turned into NPA in this quarter. So those 2 things are driving the microfinance slippages this quarter.

Piran Engineer: Got it. Okay. This is clear, Indrajit. And just secondly, what is the strategy now in this business? Like given what all has happened, one is the environment and second is internal controls, accounting, et cetera. Is it fair to say that we continue to degrow this book?

Indrajit Yadav: As Chairman sir, had mentioned earlier that we will be cautious on microfinance segment. The approach of disbursements is towards the customers with long vintage, with better past payment record. These approaches will continue. The diversification into merchant advances continues.

However, if you are expecting us to push pedal or change the disbursement approach towards reducing than what it is supposed to be, I don't think so. Business as usual disbursements will continue, but we'll not be either overly cautious or aggressive in this segment. Whatever is flowing through our credit filters, we will be willing to take it. But we are waiting and watching on how the underlying industry is evolving. As you know, the MFIN guardrails, the monsoon etc., I don't want to repeat it again, we are watching all those events.

Once the leadership is established, then the Board and the management will take a relook at the Bank's strategy, which segments we want to push, which we want to stay a little bit cautious. You would have noticed our capital adequacy is still above 15%. So there is growth capital available to the Bank. The management and the Board will decide at appropriate time, what should be our medium-term, long-term loan mix that we should aspire for.

Moderator: Next question is from Subhradeep Mitra from Nippon India.

Subhradeep Mitra: Sir, I have 2 questions. The first one is that what led to the reduction of the corporate book from INR170,000 to INR140,000 during the quarter? And my second question is, if I look at your net interest income, even if I adjust for the one-offs, it comes to around INR4,700 crores for the quarter against a normal run rate of approximately INR5,300 crores. So what explains that difference?

Indrajit Yadav: The business as usual interest income is also being impacted because of the interest reversal which have happened on account of the elevated microfinance slippages apart from one-offs, during the quarter. So that has an impact. There is additional impact because of the events in March, we had to carry excess liquidity. That liquidity comes at a cost because you are deploying it in a lower-yielding assets. Thirdly, the loan mix change, because of the MFI being written off, the yield on the book have been depressed.

So there are other business as usual impacts on the net interest income, which are relevant to the events that happened in the quarter, which we cannot say those are one-offs or whatever. We have just given you one-offs, which we need to act upon because of some inaccuracies of prior period items, reclassifications etc. Those have been accounted for.

The Rs.4,700 crores, which we say as business as usual, that will change depending on how the current quarter is going, how the next quarter is. So that number is something like baseline, which is from where we are starting. But I appreciate your point, that itself is lower because of some of the impacts, which happened during the last quarter on our business.

Soumitra Sen: Just to add on the corporate book, it was just a tactical move to build liquidity. So, the focus remains on corporate book, and it should keep on climbing up. There's no go slow on that.

Moderator: Next question is from the line of Rikin Shah from IIFL Securities.

Rikin Shah: A few questions. So, the first one was in the notes to account #15, there have been some reclassifications from different P&L line items. Does that impact the P&L? Or it's just mere reclassification, and there is no P&L impact of that? That's number one.

The second question is, if you could just quantify the total amount of fraud, which has impacted P&L in the quarter because some of them have been adjusted against each other, the rest are just reclassifications. That's the second one.

The third question is, while there was a comment that the corporate loans were strategically just runoff to build up the liquidity. But was there any interest income reversal even in the corporate loans? Because the corporate loan yield has also dipped from 8.8% to 8.07% in the quarter. So those are my main questions. I have a few data keeping questions, which I'll take probably offline.

Indrajit Yadav: Yes. So, some of those one-offs in terms of interest reversals, et cetera, have been allocated to the underlying businesses as we can't just leave it hanging, so wherever there have been impact. So segment-wise yield, I don't think you will have a comparable to last quarter.

So I think this quarter, I'm afraid you can't compare yields in the underlying segment because all these one-offs have been reallocated back to the underlying segment. So you would have seen yield in both consumer and corporate is lower this quarter, significantly lower this quarter versus the previous quarter. That's one.

Rikin Shah: The reclassification to corporate would have happened only if there was irregularity in some recognition on interest income there, right? Or is there some ad hoc reclassification done towards corporate?

Santosh Kumar: So there's no reclassification in the corporate book. So, it was mainly in the fee and interest income for the retail portfolio. Corporate was intact as it is. The reduction is mainly on account of repo rates, which has impacted the margin and the liquidity that we have maintained.

Rikin Shah: Yes, fair enough. And on the other 2 questions, the notes to account 15, is that just mere reclassification? Or there is a P&L impact of the forward items, which are mentioned in notes?

Indrajit Yadav: No, the first part of the notes to account has P&L impact. These have been accounted in the current quarter's numbers. Those are the respective lines we have mentioned it clearly. The second part is where we have also mentioned, these are just reclassification. Those 2 line items of INR761 crores and INR158 crores, they don't have a P&L impact. And we have given you like earlier mentioned, the steady-state business as usual numbers, which takes into account all these changes that have happened during the quarter.

Rikin Shah: Got it. So just fair to say that around INR4,900 crores of frauds had a P&L impact in the quarter. I'm just summing up all the numbers, which are there. But does that broadly tell INR4,900 crores P&L impact?

Indrajit Yadav: I wouldn't be able to comment on it, whether it's fraud or not. It's still not yet conclusive. We don't want to get into that. Let's wait and watch. The process is still ongoing. But you can compare the BAU versus the reported numbers and that's the difference between the underlying versus the reported number.

Rikin Shah: Got it. And just one last question, Indrajit. Did I understand clearly that the fee income of around INR2,100 crores in the quarter was also because of certain reclassification from interest income to fee income. So, the steady-state fee income could be lower than what we saw in this quarter?

Indrajit Yadav: What I mentioned earlier that around Rs.2,500 crores of normalized fee income is there in this quarter. If we keep aside the derivative-related adjustment that we have done. That number is stable versus the quarter 3 because some of the interest income has got reclassified into the fee income. So, this Rs.2,500 crores is the BAU. Now it can go up, down, wherever depending on how the underlying businesses go, and that we will have to see every quarter.

Rikin Shah: Yes, fair enough. And I'll connect subsequently on some data keeping questions.

Moderator: Next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Sorry, my question again also is the same as the previous one. This Rs.761 crores of interest income, which got reclassified, is it possible for you to give us a bit more clarity as to what has caused this?

Santosh Kumar: So there were certain items, which were from the beginning have been part of fee income, but wrongly classified under interest income. We have just reviewed the overall grouping and classification. And based on that, we have regrouped in the correct head. So as such, no impact on the P&L. But yes, the classification inside the P&L would change, and that's what we have done in Q4.

M.B. Mahesh: No, we get the fact that it was incorrect. I'm just trying to understand what are the examples of it that we've got reclassified? Just trying to understand the nature of it.

Indrajit Yadav: So, Mahesh, I'll take you through offline. I'll give you some examples. I think it will take some time. In the interest of time, we can discuss it later.

M.B. Mahesh: Okay, sure. There is also an additional income in the credit card line item or card fee income. Can you just clarify that as well?

Indrajit Yadav: Some of this relates to that. Again, the fee line items that we have shown, you would see that they also reflect the underlying numbers. So the fee line items of this quarter are not comparable to the previous quarter. So all the reclassification, et cetera, has also been reflected into the corresponding fee line item in that slide. So part of the interest income got reallocated in some of those line items, appropriately reflecting the underlying.

M.B. Mahesh: Okay. And the second question is that the higher slippages that you have shown on the MFI side, in the normal course of event, which is about INR1,800 crores, how would you explain that for the quarter?

Indrajit Yadav: So as I was saying earlier, Mahesh, there have been overdue books, which has been in the last 3 quarters. And part of this is also because of the Karnataka state, some of the events which happened. Those slippages are higher because of those earlier 9 months stress. We have been continuously saying the slippages in quarter 4 will be higher in 4 digits, and that's what has happened in this quarter.

M.B. Mahesh: Perfect. Sorry, you had indicated this answer in the first part saying that you will not want to comment on within quarter performance of the balance sheet. Is it at least possible for you to give a qualitative answer as to how is the position on the liability side?

Indrajit Yadav: We have given in the press release also, the first half of this quarter till 15th of May, the average liquidity coverage ratio is 139%. So, we had given you the period-end number of March, and we have almost maintained stable liquidity in the first half. If I'm not wrong, we continue to carry the same as of yesterday also.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as a last question. I'll now hand the conference over to Mr. Sunil Mehta, and the management team for closing comments.

Sunil Mehta: Well, I just want to say thank you to all the analysts who have joined this call. I have already stated what I wanted to state in my closing comments, that we are looking forward to rebuilding the Bank and our fundamentals are strong. Our Capital adequacy is solid. All the financial impact from the various negative items have been addressed. A clean and a healthy balance sheet that we are building from financial year '25, '26. Any risk or control weaknesses that have been identified during these extensive reviews that have been done by internal and external agencies on the bank across all segments of the Bank. They will be all put into action in terms of rectification, correction, strengthening of our own technology and systems, processes, looking at any breaks that were there in the processes. Paying a lot more attention on people, because the Bank is built on people and sort of making sure that we have the right roles and responsibilities and the right ethical standards for the people to sort of take the bank forward from here.

From a Board's point, I can assure you that we are looking at this bank as a bank that will be reinvigorated from here, as we sort of hand over the baton to the new leader who takes responsibility and moves forward from here.

And the entire management is working relentlessly to ensure to build a strong and a highly respected bank, which will have a bright future from here. I just want to thank all of you for joining and greatly appreciate the patience and apologies for the delay that happened in starting this call. So thank you so much.

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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