

IndusInd Bank
– Investor Day

22nd November 2022



BHARAT
Financial Inclusion Ltd
Prayaas se pragati

A 100% subsidiary of IndusInd Bank Limited

IndusInd Bank

Presentation-5

Bharat Financial Inclusion Limited



Introducing Bharat Financial Inclusion

- Founded in 1997, over 24 years experience in serving the underserved
- Started as an NGO, we evolved into an NBFC and later became a part of IndusInd Bank in 2019
- We provide micro-loans and banking services to bottom-of-the-pyramid segment to help them improve their income levels

Our Ethos

- Responsible lending –
 - Customers
 - Investors
- Strong risk culture
- High social impact

Our Strengths

- Deep rural reach
- Clearly articulated processes
- Agile technology & digital infra
- Humane employee practices

We manage

Rs. 32,250 Cr
Assets

Rs. 1,662 Cr
Liability balances

• As of September 2022



Microfinance

Joint Liability Group (JLG) based
lending model

IndusInd Bank

BHARAT  **SUPER SHOP**

Digitally powered by IndusInd Bank

Loans to merchants



Liability servicing point

Evolving Operating Environment and Our Response / Performance

Macro Developments

RBI Master Direction on Micro Finance, a unified regulatory framework, introduced on March 14, 2022, effective from April 1, 2022.

- Household income to be assessed; any collateral free loan given to a household with annual income up to INR3 Lakhs is a microfinance loan
- Board approved policy to be in place
- Fixed Obligations to Income Ratio to be computed, and to be under 50% of the annual household income
- Transparency: A standardized simplified factsheet to be provided to the customer
- Fair Practices Code

Inflation and increasing interest rate scenario

Our Performance

Implemented the revised framework in Q1; amongst the early adopters.

All the rules built in the digital customer onboarding and loan journeys.

Household income assessment has been completed for 84% of the active customers; the remaining customers will be assessed as and when they come up for the next loan.

Transmission of the rate increases in a calibrated manner in Q2



We serve customers with high aspiration though low on literacy and moderate on tech quotient

Profile of Our Customers

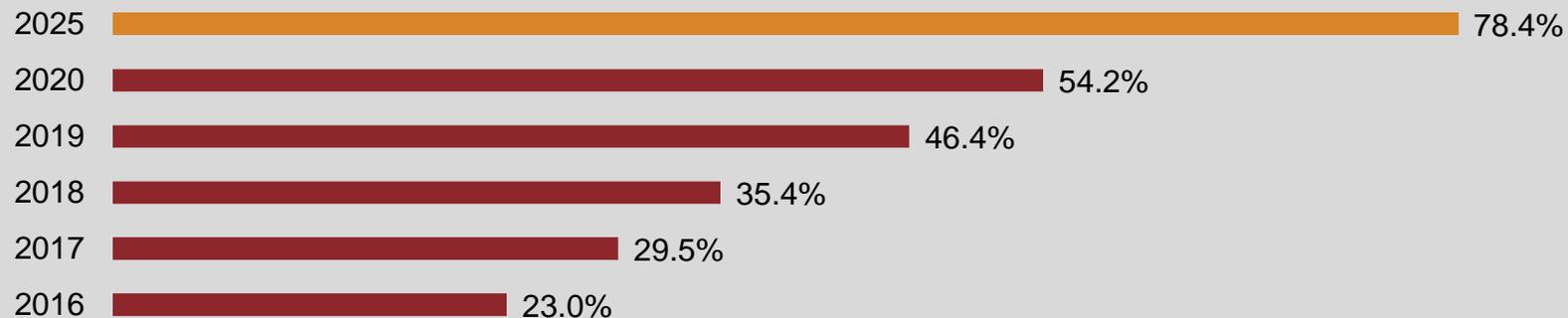
- Rural women entrepreneurs and nano-retailers high on aspiration though low on literacy levels
- Largely bottom-of-the-pyramid segment.
- We are the only financier for 41% of our customers

Where are our customers from?

- Predominantly rural base ~80%
- Spread across 23 states, 517 districts and 1,33,000 villages
- Involved in Agri and allied activities, animal husbandry, handloom & handicrafts, rural trade etc.,

Leveraging the J-A-M Trinity

Smartphone penetration in India* (%)



*Source: Statista



Highly phygital customer journey

Customer base that requires assisted banking services



Physical Sourcing

Physical sourcing of customers given the understanding of banking services is low



Phygital On-Boarding

Assisted on-boarding by feet-on-street given the low levels of literacy and willingness to adapt to technology



Phygital Servicing

Customers are serviced Phygitaly. Approximately 2m transactions are carried out seamlessly each day

BFIL's unique capabilities to serve this customer base

A

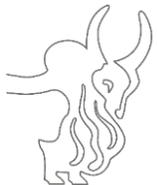
AGILITY - Agile and flexible operations that can serve the last mile customer at their door-step

C

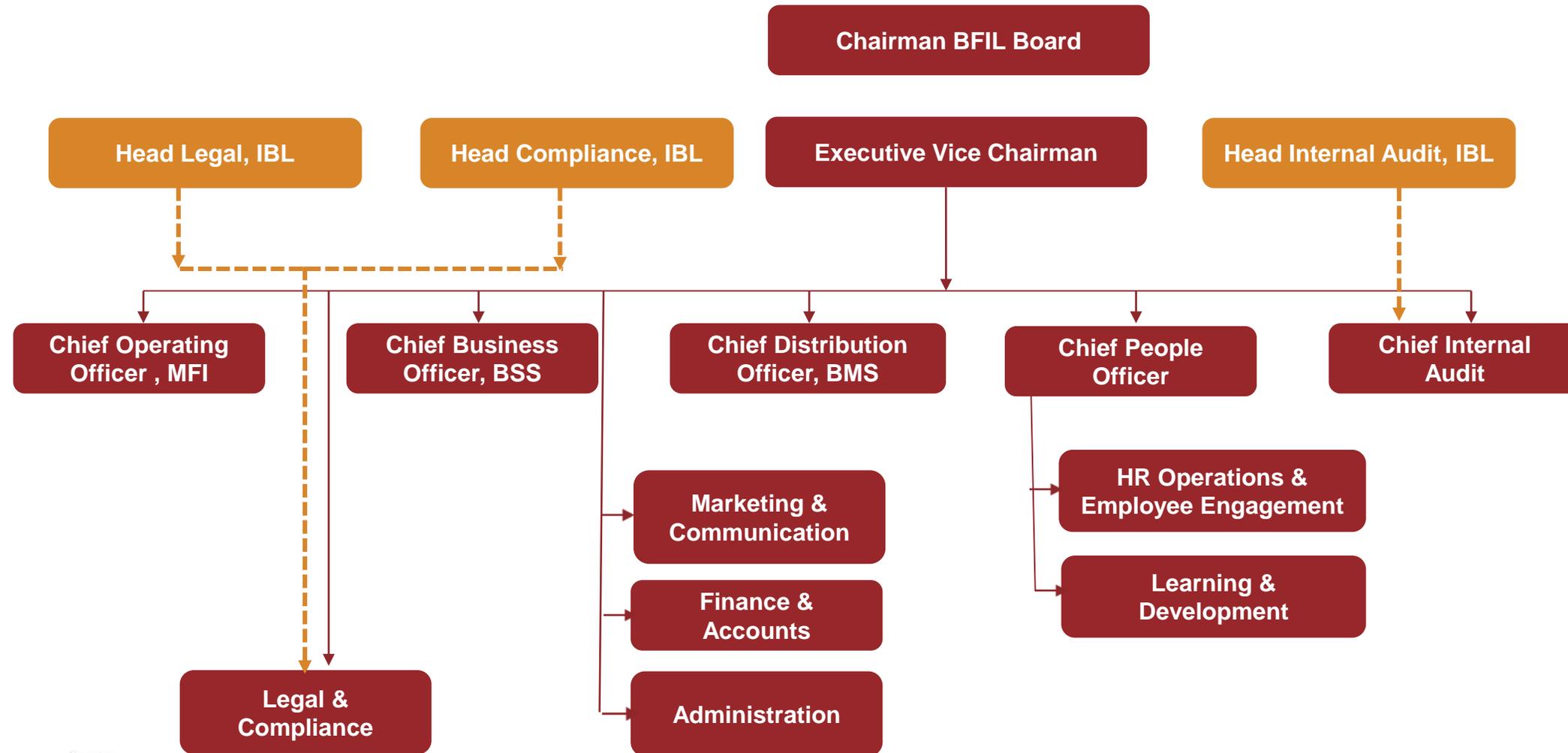
COST EFFICIENT OPERATIONS - One of the most cost-efficient operator in the industry

E

EXECUTION CAPABILITY - Can quickly convert plans into actual business opportunities



Organization chart



IndusInd Bank

- Core Banking Operations (BC)
- Risk Control Unit
- Solutions Delivery Group
- Customer Grievance

Risk Management - BFIL

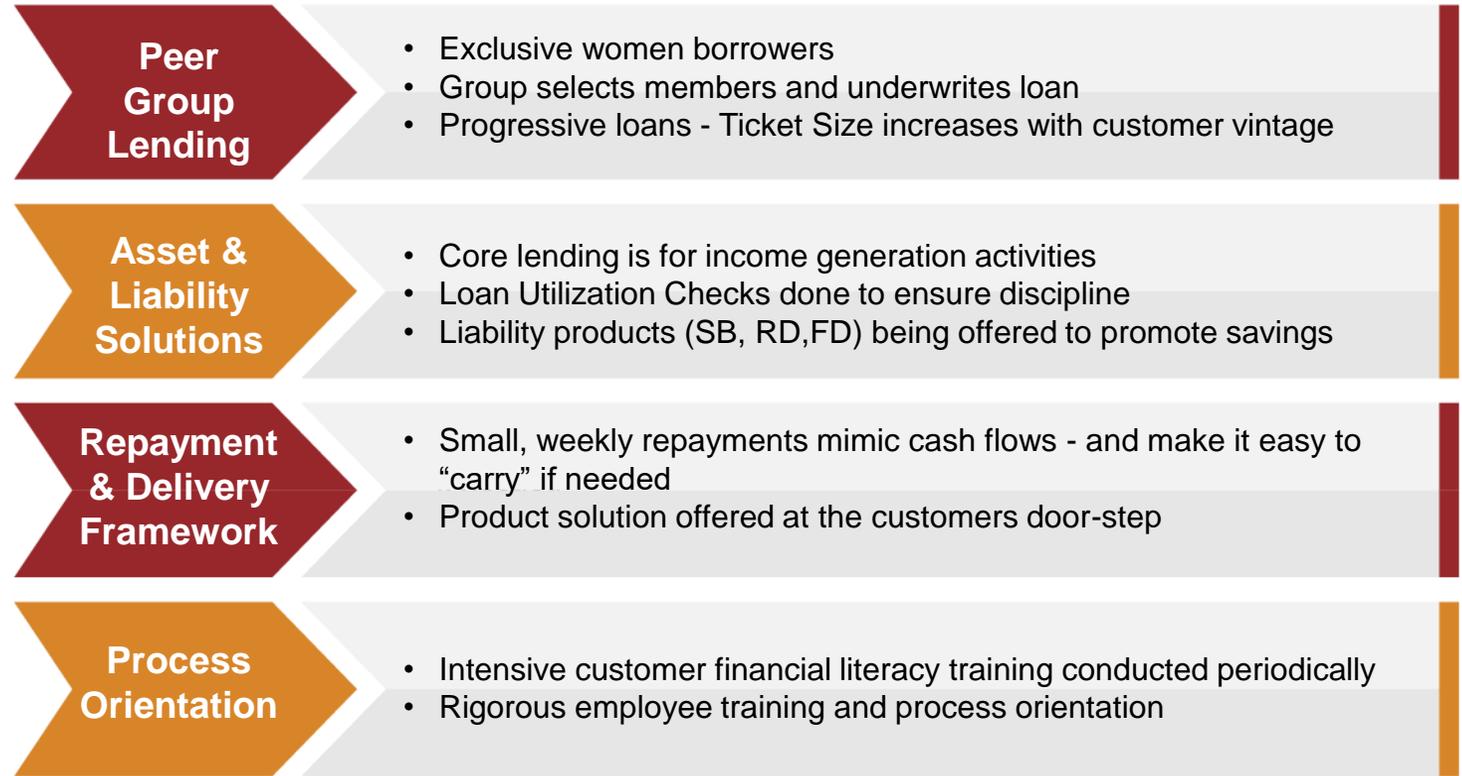
IT Applications (Core) & Technology



Microfinance



High customer connect



Center Meeting (Distribution Channel)

High Engagement
40 mins Avg. Center meeting; Attendance compulsory



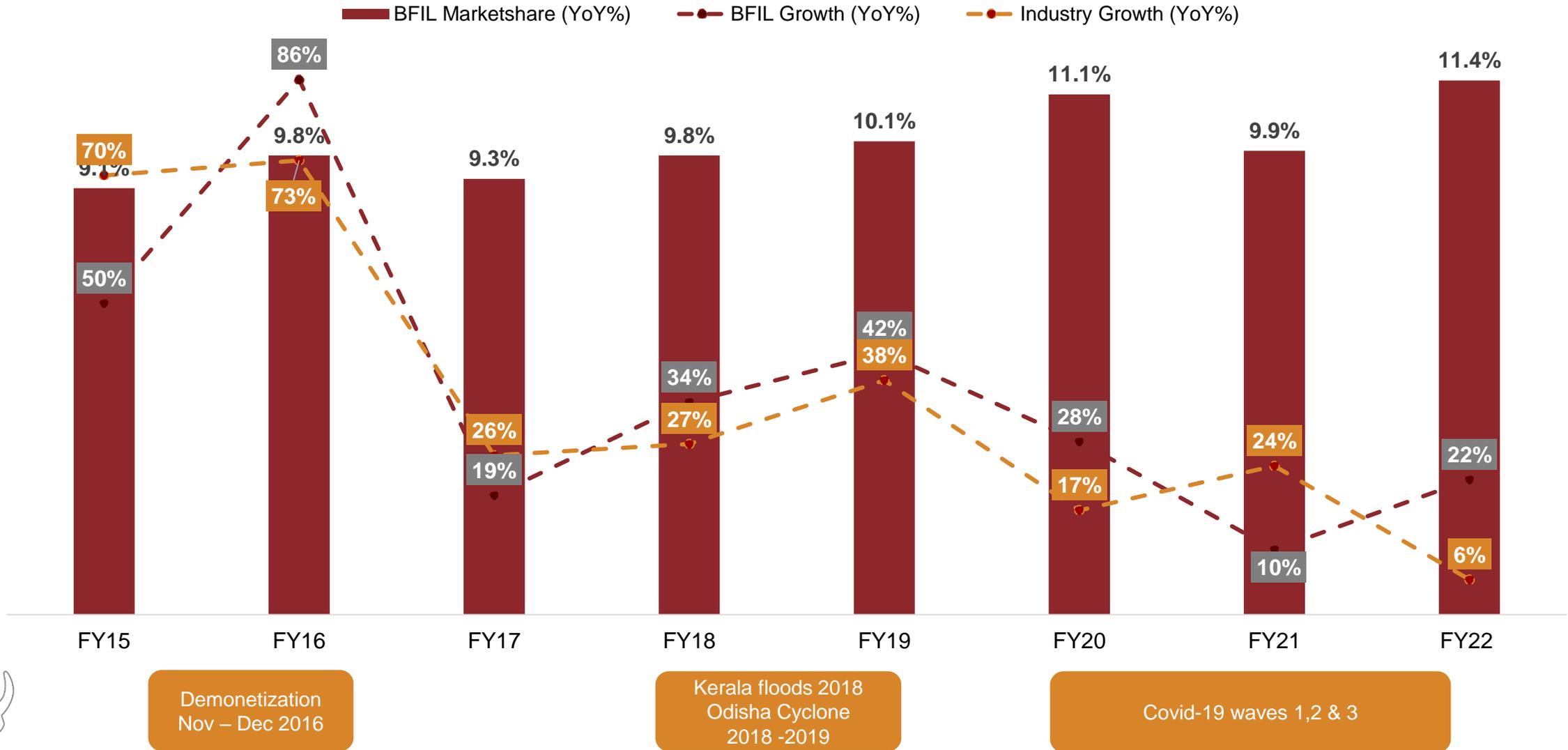
Center meeting days
Monday to Friday

Doorstep Delivery

Financial services -
Microloans, Consumer Durable loans & deposits



Sustained growth amidst macro shocks



Bharat Super Shop



Giving wings to nano retailers – 7.3 Lakh retailers spread across ~400 Cities

We lend to 52 identified trades

Opportunity Nano retailers who have no access to institutional credit

Identified trades 52 trades where risk is low; in Tier II & III cities

Growth Loan book: Mar'21 - ₹376 Cr; Mar'22 - ₹1,943 Cr; Sep'22 - ₹2,675 Cr.

Services Offered

Doorstep Banking Zero Bal. Current Account | Recurring Deposit

Product Features Unsecured Business Loans | Tenure up to 104 Wks.

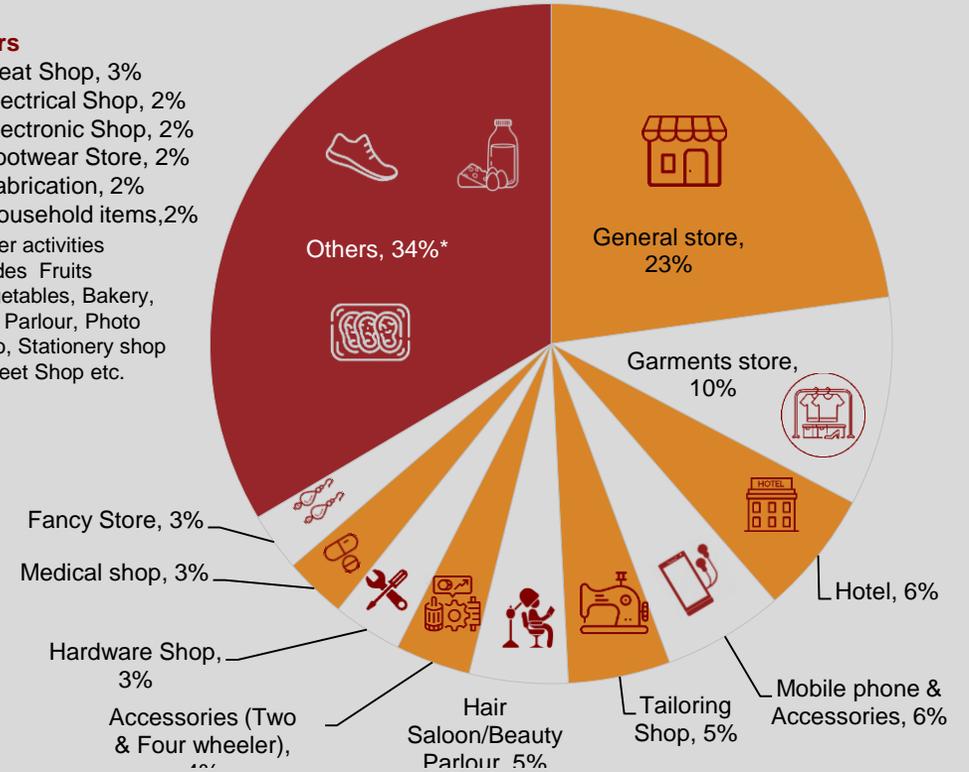
Payment solutions QR / UPI Handle

Retailers mix

Others

- Meat Shop, 3%
- Electrical Shop, 2%
- Electronic Shop, 2%
- Footwear Store, 2%
- Fabrication, 2%
- Household items, 2%

* Other activities includes Fruits & Vegetables, Bakery, Dairy Parlour, Photo studio, Stationery shop & Sweet Shop etc.



We lend to micro-retailers in Tier II & Tier III cities (~400)



Medical Store



Tailoring Shop



Kirana Store



Fancy Store



Garment Retailer



Footwear Retailer

Scaling up since FY2020

Scale H1 2023

- Locations ~400 | Branches 471
- Retailers ~7.3 lakh | Active Borrowers 4.2 lakh
- Cumulative loans disbursed ~ 10 lakh | Amount disbursed Rs.5,445 Cr.
- Advances Rs. 2,675 Cr. | Liability Bal. Rs. 638 Cr.

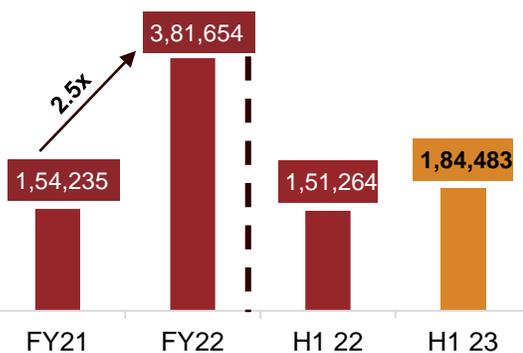
Stable Credit costs

- 98.5% On-time Collection efficiency ^
- 1.2% GNPA
- Managed Covid events with <1.5% credit cost

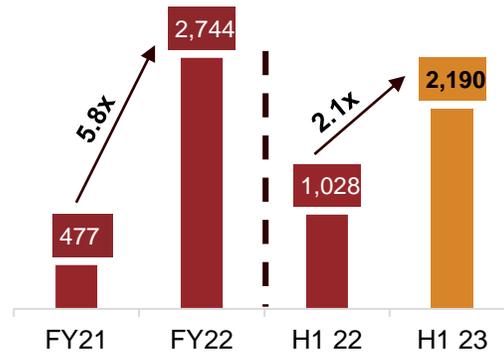
The book is maturing

- Completed 4 loan cycles

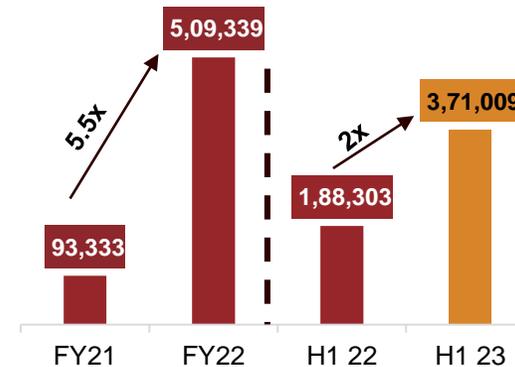
Customer Acquisition (A/Cs opened)



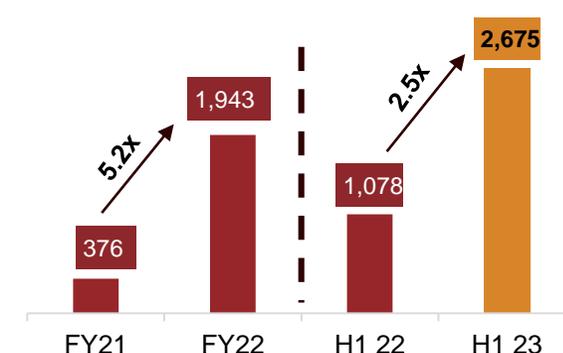
Amount Disbursed (Rs. Cr)



No. of loans disbursed



Advances ENR (Rs. Cr.)



^On-time CE% for Sep'22 Standard book

Bharat Money Store



Solving the last mile question



(Rural IndusInd Customers & walk-in clients)

Travels



5 - 8 Kms & invests upto 2 hours for cash deposit and withdrawal at Bank / ATM



2 - 5 kms, spending upto 1 hour for electricity bill payment



1 - 5 kms to Municipality office for water bill payment spending up to 30 minutes



1 - 5 km and spending up to 30 minutes to visit electronics store for DTH / mobile recharge



<0.5 km, investing up to 15 minutes to visit Kirana store for ration items



Online shopping, only 5% customer reported access to this



BHARAT MONEY STORE



BMS since 2018

FY19

Enrolled BMS Merchants: 1,376

Transaction value
(₹ Cr): 56.8

Services offered

- AEPS
- Utility Bill payments

FY20

Enrolled BMS Merchants: 23,286

Transaction value
(₹ Cr): 1,531

Services offered

- AEPS
- Utilities BBPS
- mPoS

FY21

Enrolled BMS Merchants: 51,379

Transaction value
(₹ Cr): 2,245

Services offered

- AEPS
- Utilities BBPS
- mPoS

FY22

Enrolled BMS Merchants: 86,027

Transaction value
(₹ Cr): 4,088

POS (₹ Cr): 32.35

Liability Portfolio
(₹ Cr): 100

Services offered

- AEPS
- Utilities BBPS
- mPoS
- Tata Power
- Open market Savings, FD/RD A/c

FY23-H1

Enrolled BMS Merchants: 86,653

Transaction value
(₹ Cr): 2,541

POS (₹ Cr): 70.15

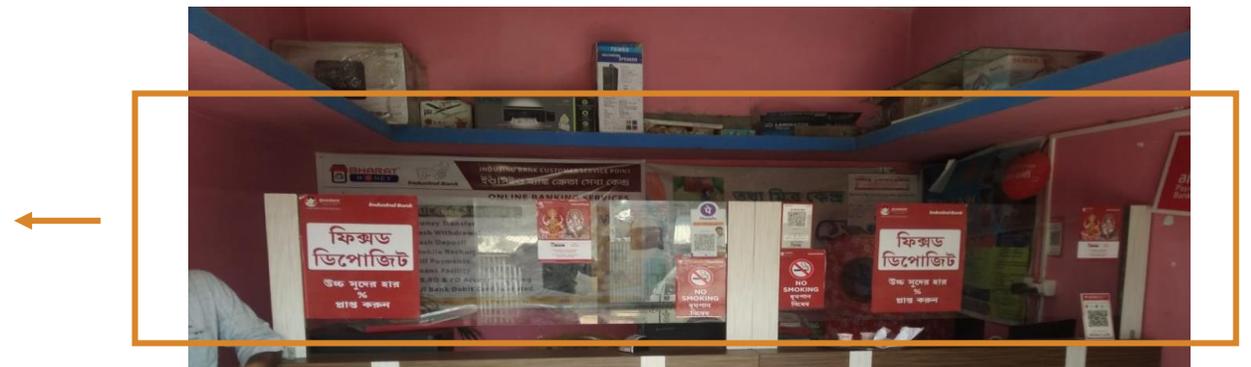
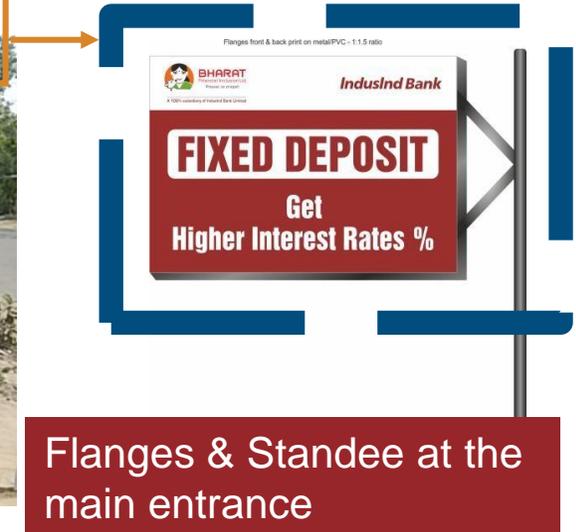
Liability Portfolio
(₹ Cr): 130.64

Services offered

- AEPS
- Utilities BBPS
- mPoS
- Tata Power
- Open market Savings, FD/RD A/c



BMS 2.0 – Strong rural branding focus



Posters on the glass



IndusInd Bank's rural touch points, highly visible

BHARAT MONEY STORE

BMS 1.0



Current Account
Welcome Kit with Debit card



Store Display
• BC Certificate
• Display Boards



Transactions
Deposit, Withdrawal, IMPS, Bill Payment



BMS 2.0



Current Account
Balances enhanced with QR code



IndusInd Bank
Branding sharper focus



Liability Services
SA, RD & FD Account opening



Transactions
Deposit, Withdrawal, IMPS, Bill Payment



Merchant Loan
RD based 1st Cycle Loan, Non-RD Based Loan



BHARAT
MONEY

Institutional Tie-Ups



Access to 20L Tata Power Odisha Clients for electricity bill payments



पंचायती राज

- MoU with Dept. of Panchayati Raj, Govt. of Uttarakhand to offer banking services in more than 600 Nyaya Panchayats – Pilot launched
- Provide truly digital & paperless banking services to rural customers



A Strong Risk Culture



A strong risk culture

Credit Risk

Robust Credit norms to mitigate credit risk

- **Product programme detailing credit norms, concentration risk, monitoring, corrective action etc**
- **Geographical Concentration Norms –**
 - 5 categories of states with differential norms based on Asset Quality, Market Size, Growth Potential & Competition Parameters
 - Exposure cap on geographies/ states
 - District level cap
- **Borrower Level norms**
 - Cap on overall loan amount based on credit profile, vintage, repayment behavior, centre profile, FOIR, leverage etc
- **Risk based Segmentation/Risk Triggers/ Ongoing monitoring**
 - Proactive monitoring of Portfolio based on threshold triggers for controlling Credit Risk
 - Customer/ village level segmentation based on repayment behaviour to mitigate risk of defaults
 - Disbursement Restriction in branches with performance below set threshold levels

Operational Risk

- JLG continues to mitigate risk for micro-credit portfolio.
- Robust Consumer Grievance redressal mechanism
- Fraud & Transaction Monitoring
- Branch risk assessment to identify specific branch-level parameters
- New Products & Services –
 - Scale subject to satisfactory performance of controlled pilots
 - Customized process controls
- Incident Reporting
- Alert system for Key exceptions

Data led insights

- **Customer Risk Profiling**
- **Market intelligence** by identifying specific industry trends
 - Macro – sectoral trends
 - Micro – at pin code level
- Effective Risk Monitoring through **customized & versatile BI**
 - Daily performance tracking of KPIs
 - Aggregate & granular analysis capabilities
 - Automated Alerts to key stakeholders

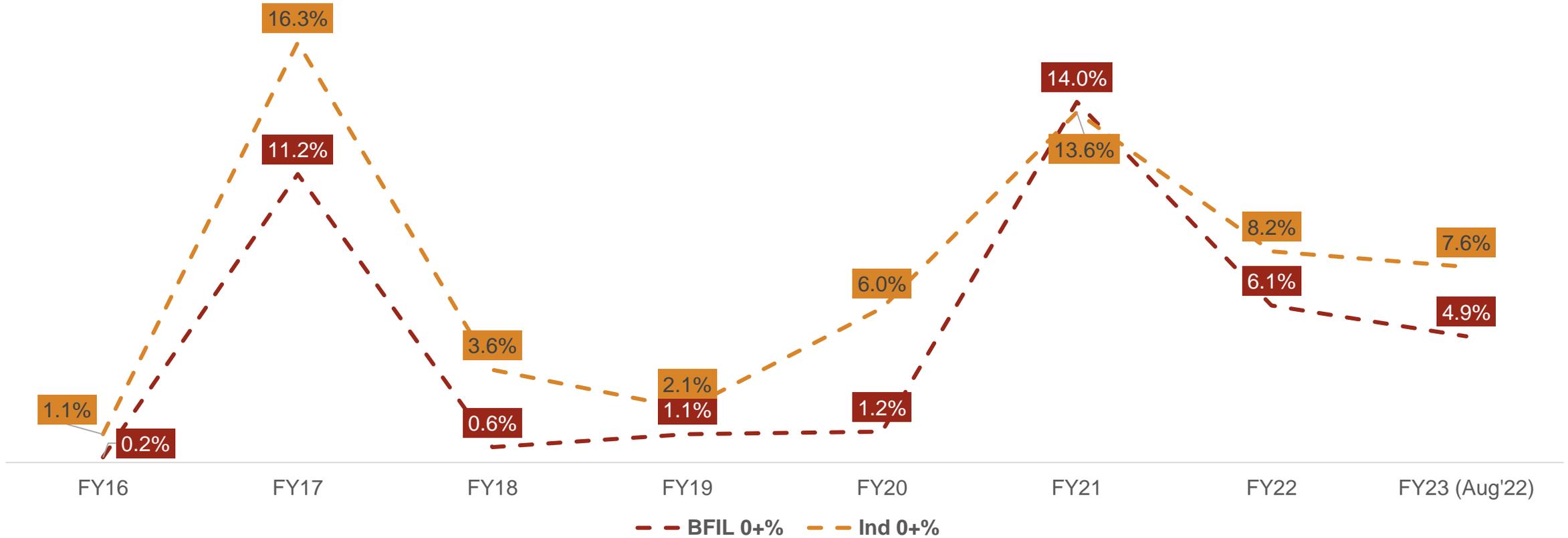
Outcome



- Continuous enhancement in Credit criteria
- Growth Market identification
- Early warning signals
- Comparison with industry on KPIs
- New Product development



Delinquency trend (0+DPD) – BFIL vs. Industry



Demonetization
Nov – Dec 2016

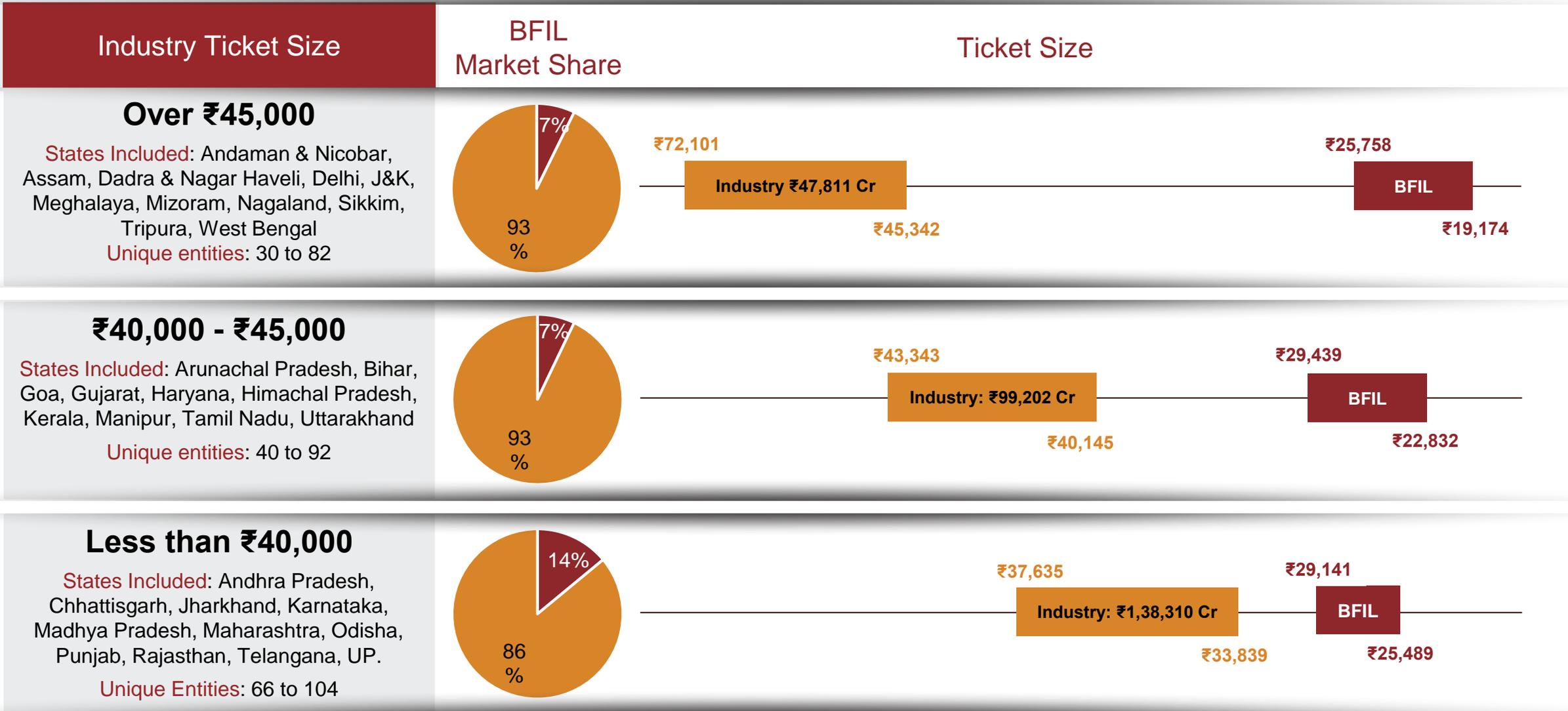
Kerala floods 2018
Odisha Cyclone
2018 -2019

Covid-19 waves 1,2 & 3

Note: Above data excludes 180+ DPD and Write-Offs



BFIL has conservative ticket sizes

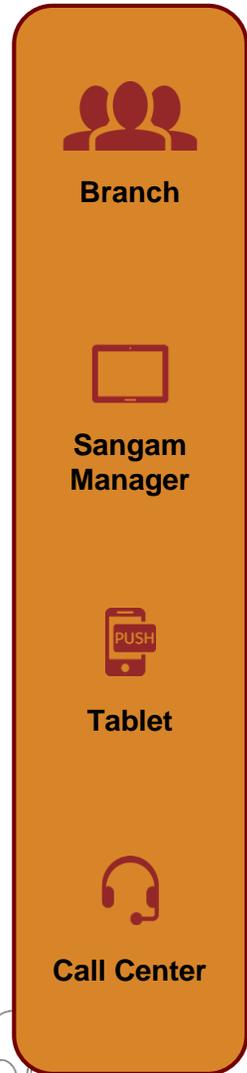


Note: Industry Data is as of Mar'22 from Equifax

Agile Technology



Agile technology, capability to handle large volumes



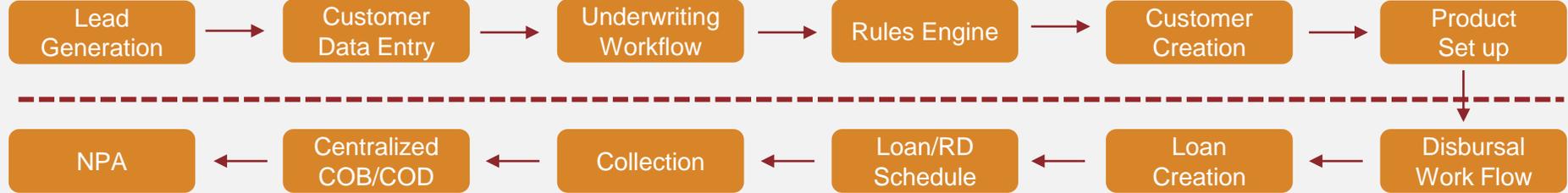
Branch

Sangam Manager

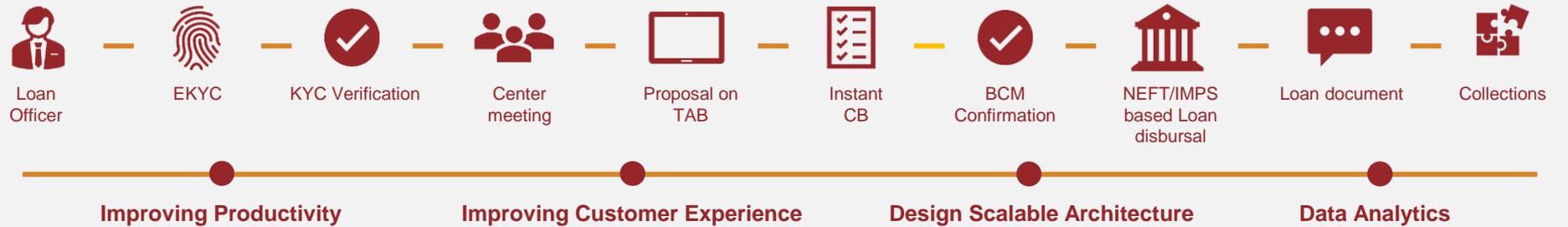
Tablet

Call Center

Core Levers



Operating Model



Digital Capability



Employer of Choice



Strong foundation of People – Culture – Performance

Very high degree of internal talent sourcing

- For the field staff, talent is hired ONLY at the Sangam Manager (entry) Level. Internal talent development process ensures growth for the next 5 levels till GM.
- This has proved to be a high success factor in building the organizational culture and ethos.

Employer of choice

- Consistently ranked in Top 100 Great Places to work in India for last eight years.
- 91% of our employees said – “I would strongly endorse my company to friends & family as a great place to work”.

Training & Capability Building

- Role Based Training & Certification for all Frontline & Supervisory Roles
- Strong mix of class-room and On-The-Job training with well defined certification process.
- In FY21-22, 2.75-million-man hours of training was provided.



Internal Audit – Ensuring Process Controls



Internal Audit – Critical role in ensuring process control

Strength

- ISO 9001:2015 certified process
- All branches are inspected once in a Quarter on a 4-tier grading system
- Communication of Audit Findings at all levels – Branch, Region and Senior Management
- Branch Grading linked to incentives/appraisals of field staff
- Internal Audit of branches – highly automated

Coverage

- Total Branches – 2,520 (MFI), 471 (BSS), 20% of 41,094 (BMS) , 76 (Regional Offices) & Head office
- Risk Based Audit Methodology - Onsite and Offsite monitoring mechanism
- Branches per Internal Audit staff - 13

Scope of Audit

Audit area	Frequency	Client Acquisition	Center Meeting Process	Document verification	Monitoring process by supervisors	Adherence to Process / Policies	Regulatory Requirements	Customer Visits	Fraud Investigation
MFI Branches	Quarterly	√	√	√	√	√	√	√	√
BSS Branches	Monthly	√	-	√	√	√	√	√	√
Regional Offices	Half yearly	-	-	-	-	√	√	-	√
Head office	Annually	-	-	-	-	√	√	-	-

Contact Center – Voice of Customer



Effective Customer Contact Center in Place



INITIATIVES TAKEN

Voice blast to customers on various Financial Literacy points

Jingle through Voice Blast/IVR

Welcome Call through IVR for BSS Customer as part of Onboarding

INITIATIVES IN PROGRESS

IVR in 8 vernacular languages

Animation Videos on Financial Literacy

Loyalty Programs



Towards becoming a Micro-banker



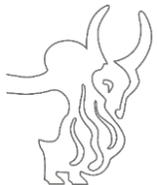
Towards becoming a Micro-banker from a Micro-lender

RBI framework Wind under the wing

- Comprehensive Principle-based RBI regulations announced in March 2022
- Microfinance loan is defined as a collateral free loan given to a household with an annual income less than ₹300,000
- Cash flow-based lending envisaged – assessment of household income, household expenditure and cap on loan repayment obligations put in
- Industry will move towards cash flow assessment-based lending as against exposure size
- JLG lending may get saturated but there is a large scope for lending to individual borrowers graduating from JLG model

Near term growth strategy Playing to strengths

- Evolving from a micro-lender to a micro-banker offering a wider suite of products to meet evolving customer needs –
 - Individual loans to graduating JLG customers
 - Scaling up of Consumer durable loans, cattle loans & two-wheeler loans
 - Launch of Rural affordable housing, rural LAP
 - Liability & Insurance products
- Building on loyal and sustainable customer relationships



Sambhav Hai!

It's possible!



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IndusInd Bank

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