



Q3 FY26 Earnings Conference Call

MANAGEMENT:

MR. RAJIV ANAND – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

MR. VIRAL DAMANIA – CHIEF FINANCIAL OFFICER

MR. INDRAJIT YADAV- HEAD, INVESTOR RELATIONS AND STRATEGY

and

MANAGEMENT TEAM MEMBERS

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Moderator: Ladies and gentlemen, good day and welcome to IndusInd Bank Limited Q3 FY '26 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 '*', then '0' on your touchtone phone.

I now hand the conference over to Mr. Rajiv Anand - Managing Director and CEO, IndusInd Bank. Thank you and over to you, Mr. Anand.

Rajiv Anand: Good evening and thank you, everyone for joining us today. I am joined here by the senior Management Team of IndusInd Bank.

I will start with a quick view on the macro environment and then go into bank specific developments.

The global environment remains uncertain, with shifting trade policies and a possible tilt towards multi-polar world order. Amidst this backdrop, the Indian economy continues to demonstrate resilience. Demand indicators improved during the quarter, building on the festival season uptick, GST led benefits and better supply conditions. High frequency data indicates that overall activity stayed firm post the festival season, though a few indicators softened on a higher base. Inflation outlook remains benign, and policy support is expected to continue towards growth acceleration. Bank credit growth improved across key sectors during the quarter and the momentum is expected to continue supported by policy measures and constructive macro environment.

We will now move to the key highlights for Q3FY26 and then cover business specific progress and financial performance.

1. Continued Balance Sheet Optimization:

- We continued our approach of right sizing the balance sheet by shedding inefficient assets and liabilities and allocating growth capital towards areas of focus.
- Our average deposits de-grew by 1% driven entirely by reduction in bulk deposits. The average retail deposits were stable QoQ and grew, albeit modestly, on period end basis. As a consequence, share of retail deposits inched up to 47.5% vs 47% QoQ.
- On asset side, the disbursements were robust in vehicle finance, retail and granular corporate book. However, our average loan book de-grew by 2% driven by continued run-down in micro loans and risk-reward driven calibration in corporates.

2. Asset Quality:

- The slippages during Q3 have been rangebound in all businesses except micro loans.
- Slippages in micro loans remained elevated as last quarter. We had implemented stringent underwriting norms earlier this year. These norms have been showing effect as incremental stress formation is reducing consistently.

- We continue to work towards reduction in outstanding stressed book as evident in QoQ reduction in Net NPA, Net Security Receipts and Restructured book.
3. Strengthening Leadership Team:
- We have made considerable progress on streamlining of the organisation structure and identifying right talent to drive the bank's future growth.
 - Since the last analyst call, we have onboarded new Head of Wholesale Banking, Chief Human Resources Officer, Chief Data Officer, CEO for BFIL, Head for SME business, Head, Digital etc. There are few more positions expected to be announced this quarter. With these, the top leadership team would be largely in place.
 - I am confident that this strengthened leadership team with diverse experience is well positioned to deliver on our strategic agenda.
 - We are pleased to welcome Mr. Arijit Basu as our new Chairman, bringing over four decades of leadership experience in the Indian banking industry. I also want to thank Mr. Sunil Mehta upon completion of his tenure as Chairman for his steadfast leadership and unwavering support through challenging times.
4. Financial Outcome for Q3:
- Our pre-provision operating profit at Rs.2,270 crores grew 11% QoQ supported by improved net revenues and disciplined cost management.
 - Provisions remained high given elevated flows in micro loans and write-off of accumulated NPAs.
 - As a result, the profit after tax for the quarter was at Rs.128 crores.
 - The capital adequacy remains healthy with CET 1 ratio at 15.74% and CRAR at 16.94%.

I will now take you through highlights on individual businesses.

1. Vehicle Finance:

- The vehicle industry and consequently our vehicle finance business saw robust momentum during the quarter on the back of the GST changes announced by the government.
- Our vehicle disbursements at Rs.12,900 crores increased by 26% QoQ. As a result, vehicle finance loan book growth inched up to 2% QoQ compared to the muted growth for the last couple of quarters. The loan book now stands at Rs.98,196 crores.
- We saw broad based pick-up in disbursements across vehicle categories led by MHCV, tractors and passenger vehicles.
- The gross and net slippages have shown improvement on YoY basis for all 3 quarters of this year. We expect the trend to continue in Q4 as well resulting in the full year FY26 asset quality outcomes to be better vs. FY25.
- Looking ahead, we remain optimistic about vehicle demand supported by fiscal and monetary measures already announced. Any further consumption supportive or tax relief measures in the upcoming Union Budget could bolster the outlook.

2. Rural and Priority Sector Banking:

I believe Rural banking present a large, underserved opportunity, and expanding our presence here remains a key strategic priority. Scaling products beyond

microfinance allows us to address this opportunity in a more diversified and granular manner, while also supporting our PSL requirements.

- The Bharat Financial Inclusion Limited (BFIL) is now led by Tapobrat Chaudhuri as MD & CEO. Tapobrat is a seasoned leader with over 26 years of professional experience in Microfinance, Retail and Rural lending businesses.
- As mentioned earlier, the Bank had tightened the asset quality norms for micro loans earlier this year. We have seen improvement in early stress indicators. We continue to monitor the collection efficiency and aim to move towards normalization in the coming months.
- The 31-90 Days Past Due book was at 2.4% in Dec-25 vs 3.2% in Sep-25.
- We have also gradually started increasing our micro loan disbursements within our revised underwriting framework.
- Our micro loan disbursements were at Rs.3,598 crores. However, given the contractual rundowns of around Rs.6,300 crores during the quarter, our micro loan book de-grew 17% QoQ to Rs.17,669 crores.
- Disbursements during the quarter were directed toward high vintage, well performing customers and centres, and is currently under process of being covered under the CGFMU credit guarantee, which will take CGMFU cover to around 38% of the standard book as of Dec-25.
- While early-bucket stress indicators have shown improvement, our focus continues to be on sustainable normalization rather than near term book growth. With reinforced underwriting, tighter controls, and new leadership at BFIL, we are committed to growing this portfolio in a calibrated and risk aware manner.
- In terms of other rural products, we have shown a few of our rural focused product portfolios which have reached certain scale in our investor presentation. Our aim is to build a comprehensive suite of products tailored to rural customer needs.
- Within this, we continue to scale our merchant loan book which now stand at Rs.7,338crores growing 16% YoY spread across 579K merchant borrowers.
- Our affordable housing loan book at Rs.2,692crores grew by 25% YoY while Kisan credit and other rural loans at Rs.4,267crores remained steady QoQ.

3. Consumer Banking Assets:

- These are the traditional retail assets, which will be a key growth driver as we build universal banking franchise.
- Our home loan book continued strong momentum with outstanding at Rs.6,114 crores growing 94% YoY and 10% QoQ.
- Personal loans at Rs.10,598 crores grew 12% YoY and credit cards loan book at Rs.10,264 de-grew 6% YoY as we remain watchful of asset quality trends.
- Credit card spends for the quarter were at Rs16,318 crores. We rationalised some of the spends which were not efficient for the bank on overall profitability. The retail spends remained robust growing 5% QoQ.
- Overall consumer banking assets at Rs.31,057 crores grew 18% YoY.

4. SME Banking:

- As you all know, India has a large and vibrant SME segment base. The bank has a relatively small presence in this space. I believe this provides us large opportunity to diversify our loan book and provide the next growth booster.

- We have also strengthened our team with Ramaswamy Gopalkrishnan joining as Head - Commercial Banking & Middle Markets at IndusInd Bank. Ramaswamy is a veteran in this segment with over two decades of experience across leading foreign and private sector banks.
- In this role, Ramaswamy will spearhead the Bank's strategy and business in the SME and Mid-Markets segment, with a strong focus on driving growth, deepening client relationships, and delivering innovative solutions to these critical sectors.
- We are re-organising our structure to serve this segment with appropriate distribution.
- The portfolio currently stands at Rs.43,957 crores and there is robust scope for growth in years to come.

5. Wholesale Banking:

- As we disclosed earlier, Ganesh Sankaran has joined us as Head – Wholesale Banking Group at IndusInd Bank. Ganesh brings in over three decades of experience across Wholesale, Retail Credit and SME, playing a pivotal role in building businesses, driving large-scale business transformations, and delivering consistent performance.
- We have revised our coverage model to ensure optimal engagement & customer responsiveness across client segments, strengthen our position as a universal franchise and stay aligned with our strategic business objectives.
- Our strategy for the Wholesale Banking Group specifically anchors around continued granularization of the franchise, expanding growth frontiers, building sustainable & cost-effective liability franchise and future ready organization for superior Client Experience.
- We have started with rationalising exposures where we don't see meaningful risk adjusted returns even a few quarters down the road. As a consequence, our wholesale banking loans de-grew by 5% QoQ.
- The proportion of A and above rated customers and the weighted average rating of wholesale banking portfolio were at 82% and 2.54 respectively.
- The asset quality remains healthy with gross & net slippages remaining within our expected range. The Gems & Jewellery business too maintained robust collections with no SMA1 or SMA2 customers.

6. Now coming to Liabilities:

- The quantity and quality of deposits is my foremost priority and bulk of my attention and resources are allocated towards this.
- We have already made considerable progress in terms of streamlining the organisational structures, strengthening the branch as a focal point, prioritising digital delivery and enabling the front-line Relationship Managers.
- We integrated Affluent Pioneer, Branch Operations, and the entire NR segment into Branch Banking, creating a unified Retail Banking model across our deposit branches that enhances scale, unlocks synergies, and shifts us toward a more customer centric, branch led engagement framework for high quality & consistent service delivery.
- We have multiple variants of branches through vehicle, microfinance and mainstream branches with restricted bouquet of offerings available in these branches. We are now consolidating multiple formats and making universal

branches in suitable locations. This should drive synergy for both assets and liabilities in leveraging our existing distribution.

- We have also created a new senior leadership position as Chief Data Officer to effectively data analytics in all the decisions we make. Balaji Narayanamurthy, in this role, will be responsible to drive the Bank's Data strategy, Business intelligence, Advanced analytics, AI initiatives and Data engineering capabilities.
- Our digital banking app 'INDIE' now has monthly active user base of 2.7mn clients conducting 4.3mn app led transactions in Q3FY26.
- Our recently launched 'INDIE for business' has seen monthly active user base increased to 220K MSME customers.
- Our focused efforts on enhancing efficiency in customer acquisition has started showing early results in terms of improving New To Bank growth as well as productivity across channels. We should see this translating into revival in retail deposit growth over coming quarters.
- Cost of deposit for the quarter at 6.09% improved by 14bps QoQ largely driven by term deposit re-pricing.
- We reduced dependence on bulk sources, with Certificate of Deposits down 3% QoQ and borrowings at Rs.39,242crores, down 13% QoQ.
- We maintained healthy liquidity position during the quarter with an average LCR of 122% and average surplus liquidity of Rs.43,000 crores.

I will now hand over to Viral to take you through the financial performance.

Viral Damania:

Thanks, Rajiv and good evening, everyone.

Similar to last quarter, will focus on sequential trends during my commentary.

Let me now go through some of the details starting with the balance sheet.

- Average Advances dropped 2% sequentially from Q2 driven by decline in wholesale banking advances and micro loan book.
- Average Deposits dropped 1% driven by reduction in wholesale deposits. Our retail deposits as per LCR perspective remained steady.
- Average CD ratio improved to 83.7% vs 84.3% QoQ.
- Borrowings have been brought down by 13% QoQ.

Moving on to the P&L

- Net Interest Income for Q3 stood at Rs.4,562 crores.
- Reported NIM was 3.52%, which included a 17bps benefit from interest on income tax refunds, and one-off interest recovery.
- Normalized NIM, adjusting for these items, was 3.35% versus 3.32% QoQ, reflecting improvement in cost of funds from TD repricing and liquidity optimisation partially offset by adverse loan mix with further degrowth in the micro loans.
- Core fee income came in at Rs.1,575 crores, growing 2% QoQ. While overall non-interest income at Rs.1,707 crores grew 3% QoQ.
- Our operating expense of Rs.3,999 crores include Rs.230 crores of one-off impact owing to provisions related to change in labour code.
- The operating profit for the quarter at Rs.2,270 crores grew 11% QoQ.

- The provisions and contingencies for the quarter stood at Rs.2,096 crores. We have written-off loans amounting to Rs.2,612 crores during the quarter.
- In terms of asset quality:
 - GNPA and NNPA were at 3.56% and 1.04% and overall PCR maintained at 72%.
 - Slippages, excluding micro loans, continues to remain range bound. We have added segment wise slippages and NPA details in our investor presentation.
 - Our SMA 1 and SMA2 book was at 17bps vs 26bps QoQ.
 - Net Security Receipts declined to 9bps vs. 17bps QoQ.
 - Restructured advances declined to 7bps vs. 8bps QoQ.
- Overall, we returned to quarterly profitability with profit after tax of Rs.128 crores.
- The Bank continues to have healthy capital adequacy and liquidity position with CET1 of 15.74% and CRAR of 16.94% and LCR at 122%.

I will now hand over to Rajiv for his closing comments.

Rajiv Anand:

Thank you, Viral.

To summarize, this quarter reflects progress on balance sheet strengthening, gradual pick-up in core retail businesses, disciplined liability optimization, and progress on robust leadership and organisational structure.

Looking ahead, we are working on a 3-year strategy anchored around P.A.C.E. i.e. Protect the endowments, Accelerate on key priorities, Customer centricity and Execution excellence.

- **Protect the endowments:** I believe the bank has unique strengths in terms of vehicle finance, deep rural presence, complimented with robust corporate franchise. We aim to preserve these and not make changes just for the sake of changes. We will bolster these and evolve as per the operating environment and they will remain core to the future of the Bank.
- **Accelerate key priorities:** These are areas where we need to improve either of scale, efficiency or quality of the business we do. These inter alia include building a more granular, lower-cost deposit base, scaling our SME and mid-market businesses, improving stakeholder perceptions etc.
- **Customer Centricity:** We are keeping the customer at the centre of our actions by unifying engagement across 'One IndusInd', driving digital adoption and elevating service quality. The ever-evolving technology will play a big role in bridging, if not surpassing, the gap with peers.
- **Execution Excellence:** I believe execution rigour should differentiate the outcomes in an industry which is regulated and largely commoditised. We are working towards building a strong execution oriented culture, sharper performance accountability, tighter cost management, and efficient product delivery.

With this, we can now open for Q&A. We have revamped our investor presentation providing more disclosures. We will continue to refine these as we progress, and any feedback is welcome.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from line of Kunal Shah from Citigroup. Please go ahead. Kunal Shah, can I request to unmute your line and proceed with your question?

Kunal Shah: Yes. So the first question was on net NPA. It is still at 1.04% and slippages also appear to be sticky across the segments. So when we look at it like say MFI, yes, it has been at still more than Rs. 1,000 odd crores, but vehicles still continuing at 690. When we look at the consumer banking still closer to like Rs. 470 odd crores. So there, there is not much of an improvement on this slippage. And eventually when we look at it on the net NPA side, we indicated that we would endeavor to bring it down to 0.4%-0.5% odd. But it doesn't seem like there has been the increase in the provisioning coverage. So if you can share in terms of what would be the plans with respect to net NPA?

Viral Damania: Let me just share some perspective on what is really happening here. So, what we have shared in the previous quarter is that we want to make sure that we are consistent in our provisioning and write-off policies across our business segments. What you saw in the last quarter was the appropriate provisioning and write-off on the microfinance business. But as you rightly pointed out, gross slippages have been pretty much sustained even in this quarter as well. It is pretty much same elevated levels as the previous quarter. And as we keep writing-off, what happens is the portion we are writing-off is largely 100% provided. So that kind of brings down the provisioning because you write off that portion and then you are providing on the incremental slippages at the appropriate level of provisioning. So, what you will see is the PCR being stable and as slippages start dropping in subsequent quarters, you will see that improve. But PCR is an outcome. It is not like we are maintaining provisions to be at a number, but it is simply the impact of large write-offs that we are doing in a more prudent manner, which really brings down the PCR and then you build it back up with normal provisioning. So that is kind of what is really happening there.

Kunal Shah: Sir, any target for net NPA?

Rajiv Anand: See, Kunal, what the aim is to bring down the stress book through write-offs, etc., but I think we need to keep the interest of all our stakeholders in mind. Our intent is to bring down Net NPA well below 1%, in the 60-70 basis points vicinity over a period of time.

Kunal Shah: Got it. And in terms of this entire right-sizing of the balance sheet, both on assets as well as the liability side, where are we in that journey? How much time would it actually take in terms of maybe running down the bulk and maybe the low-yielding corporate book as well? And when should we start seeing the acceleration in the overall loan growth? No doubt on the retail side and some of the focus segments, the growth has still been there. But when do we start seeing the overall growth picking up?

Rajiv Anand: Like I mentioned in the last quarter as well, Kunal, our intent is to grow in line with market in the financial year 2026-2027 and be in the vicinity of 1% ROA as we get to the back end of that year.

Kunal Shah: Got it. So industry average growth by end of FY '27?

- Rajiv Anand:** That is correct.
- Kunal Shah:** Thanks. That is helpful. Thanks and all the best.
- Moderator:** Thank you. Next question is from the line of Jay Mundhra from ICICI Securities. Please go ahead.
- Jai Mundhra:** Yes. Hi. Good evening, Rajiv. Thanks for the improved disclosure, sir. Sir, on presentation and in your opening remarks, you also mentioned that there is some improving trends on MFI in terms of new delinquency or new stress formation. If you can provide SMA-1, 2 number for MFI that will ideally give more picture. You have given some certain disclosures, but somehow the absolute number of SMA-1, 2 would be really helpful?
- Indrajit Yadav:** We have mentioned in the opening remark, the SMA-1 and 2 or 30 to 90 DPD is 2.4% against 3.2% last quarter.
- Jai Mundhra:** Sure. Thanks, Indrajit. And on the PACE strategy, right? So you mentioned that PACE would mean, the protection as well as the acceleration of some businesses, where would MFI fall into this framework? Would it be like acceleration or would it be like protection?
- Rajiv Anand:** I believe, and I mentioned this in the last quarter as well that the microfinance business is a very critical business for this Bank and for multiple reasons. It is a business that if run well is a very profitable one. Two and more as important perhaps is as the industry continues to grow, I do believe that meeting PSL and particularly Agri and within that the small and marginal farmer is going to become increasingly difficult. And here is an engine that meets that requirement for us. And so therefore, both from a profitability perspective, the fact that we are able to now start to grow other products within this space, which is our Bharat Superstore business, which I spoke about as well and the fact that this is going to meet our critical PSL requirements makes this a very important business for us. We also recognize the fact that it is cyclical in nature. And therefore, as I said in my opening remarks as well, we are using the credit guarantee schemes and based on 31st December disbursements, we will have coverage of approximately about 38% of standard loan book. The intent is to take that to 100% and thereby eliminating the tail risk on the microfinance business. So, if you are able to do that and manage the proportionality of the business somewhere between 7%-8% of the asset side, I do believe that we can build a more predictable and profitable microfinance business going forward.
- Jai Mundhra:** Sure, that helps, Rajiv. And last question, sir, you mentioned that you have intention to grow in line with the system by FY '27. But would it be fair to say that on a Q-o-Q basis, the Bank should now be on a growth track or it could be by maybe beginning from FY '27, how would you put in the overall loan growth?
- Rajiv Anand:** I do not want to guide Q-on-Q. But I think, I stand by what I said last quarter, that our intent is to grow in line with the industry in FY 26-27.
- Moderator:** Thank you. Next question is from the line of Rikin Shah from IIFL Capital. Please go ahead.
- Rikin Shah:** Hi, good evening, everyone. I had three questions. So the first one is going back to the net NPA point. So just some back of the envelope calculations suggest that if we

have to bring down our net NPA to 0.5%-0.6%, and given the net slippages that we have, it looks like for next 3 quarters, whatever PPOP we make will largely be used to just provide and bring down that net NPA. So is it a fair assessment to say that for next few more quarters, the operating profitability will just be used to kind of bring down the net NPA? Or how would you think about it? Otherwise, it looks tough to achieve 0.5%-0.6% net NPA. So that is number one. Second, Rajiv, it is on your earlier point on the PACE strategy, while you briefly alluded to what are the segments that you want to focus on, etc., but any broad level detailed strategy or the financial targets you would want to put it down as yet, or maybe that will happen at some point later. So that is the second one. And the third one is on the capital, right? So I know that you mentioned in the past the capital levels are sufficient. But first, if you could quantify what is the potential impact from the ECL whenever the transition happens from 1st April on the net worth, on pro forma basis, and the fact that while the ROEs are depressed, and once you start growing again, you will be capital. So what looks like as sufficient, I am not pretty sure whether we have enough growth capital? So what would be your thoughts on capital raise? And if and when that happens? So those are my three questions. Thanks.

Rajiv Anand:

So let me take question 2 and question 3 first. So on the PACE strategy, we have done some work. And the intent this time is to seek the idea that there is a long-term strategy that is being built out. We will obviously share more details with you in the months to come, that I assure you. I think as far as capital is concerned, the issue there is, that why do I need capital at this stage? And I would first stay focused on getting growth impulses back particularly on the liability side, because I think we have enough engines of growth on the asset side, including some of the new engines that I spoke about, like SME, for example. And that, like I said, will take us deep into FY26-27. And so therefore, to that extent, growth capital is not something that we require. And even if we do consume at a relatively lower ROA, I think we have more than sufficient, at least for the next 12-18 months. I will let Viral answer the net NPA question.

Viral Damania:

So let me answer the first question and break it into two parts. The first is your point about saying our entire or large chunk of PPOP go towards servicing credit provisioning. Now, that is an outcome of the level of slippages that come out, right. Now, it is true that for past 2 quarters, they have been elevated. But we are seeing clear signs of that coming down in the next quarter. So as that starts dropping, you will obviously see a much lower level of credit provisioning. So that kind of answers your first question about are we going to continue eating up all our PPOP. Now, your second question about net NPA, right, again, we are going to be following very consistent provisioning policies. And that is something we have done from the last quarter itself. And we will continue to do that. So as the NPA start dropping, the absolutes also start dropping, right. So that is really how that net NPA number starts coming down. So that kind of answers the first question. On ECL impact, we need to wait for the final guidelines on ECL. But our initial assessment suggests a pre-tax impact between 1.5%-1.7% of the loan book.

Rikin Shah:

Sir, on the Net NPA point, in your own assessment, when do you really think that we should be able to reach our target range? Is it like FY '27? Or you would want to do it a lot more gradually or maybe over until even FY '28 as well?

Indrajit Yadav:

We will evaluate every quarter, depending on how the revenues are pacing out, how the asset quality pans out in some of the large businesses. So, we don't want to guide a specific target or anything. Let us see how each quarter goes and then we will update you.

- Rikin Shah:** Got it. Thanks, Indrajit. Thank you, everyone.
- Moderator:** Thank you. Next question is from the line of Abhishek Murarka from HSBC. Please go ahead.
- Abhishek Murarka:** Yes, hi. So, Rajiv, one question on growth. Now, I know you have guided for FY27. But if we look at 2-3 years, on a more steady state basis, what kind of growth are you aspiring to?
- Rajiv Anand:** The way I am thinking about this is basically year one, which is FY26-27, grow in line with market; FY27-28, start to gain market share and FY28-29, start to dominate in some of the focus areas that we have built out.
- Abhishek Murarka:** But when you say gain market share, would you have a certain, let us say, spread to industry or something in mind? Or a number, maybe given the size and the re-acceleration in growth?
- Rajiv Anand:** See, I don't have a number offhand. So, for some of our large businesses, for example, our vehicle finance business we have about 7.5% market share. Our intent is to take that back to 9% as we go forward. Similarly, we will continue to gain market share on our microfinance business. As we accelerate our SME businesses in the short to medium term, I am fairly certain that we will be able to gain market share. But I think the key to all this is to be able to improve both the quality and quantity on the liability side. And as we all know, there is a mad scramble for deposits in the banking system. And so, therefore, I am actually not very concerned about being able to gain market share on the asset side. I think the challenge for us will certainly be to be able to improve the quality and quantity of liabilities as we go forward.
- Abhishek Murarka:** Right. And just in terms of the microfinance slippage, I know the SMA 1 and 2 number looks actually quite good. But does it indicate that from 4Q onwards, the slippage should come down materially? Because if you look at the rest of the industry, they are already in that phase. And I guess for you, you may be like one quarter off, but shouldn't be more than that. Is that a fair assumption?
- Rajiv Anand:** It is.
- Abhishek Murarka:** Perfect. Yes. And finally it will help just to get some sense on a medium-term ROA aspiration. It may be 3 years, 4 years down the line, but just from a steady state perspective, where do you think you can get to and some sort of bridge to it or what will be the key levers at least going forward, something like that would be really useful so that you can get a sort of view beyond 27?
- Rajiv Anand:** I think it is a fair ask which is why we decided to seed the idea of PACE with all of you. And we will share more details, which will give you color, the possibility of execution, the execution rigor that is going into all of that in due course.
- Abhishek Murarka:** Got it. Thank you and all the best.
- Moderator:** Thank you. Next question is from the line of Chintan from Autonomous. Please go ahead.
- Chintan:** Hi, thank you for taking my question. I also have three questions. Can I follow up on your last answer regarding the ROA bridge? Over the next 2-3 months you are bound

to talk to investors, they are bound to ask you this question, you will give some color, we will hear that feedback. It would be helpful if you will give us some idea about what that bridge looks like? What are the kind of main levers that you have on cost of risk, we can obviously assume some amount of normalization, but where are your cost of funds going? What is your asset mix kind of going to add to that ROA bridge? Some color there, if you could see that now as well, that would be helpful. My second question is on your slippages. You hinted to a policy change on slippages. Could you help us quantify that if you were on your old policy, what would that slippage number be so we can understand the policy change, how much of that slippage is driven by that? And then my final question is, why are vehicle finance slippages running at a higher pace or it has been high for a while, what is driving that and what is the road to improvement?

Rajiv Anand:

So, on the ROA question, what I have been saying is that this is a 3-year journey, year 1 is really to start to grow in line with market with 1% quarterly ROA. And I think you can do some numbers on your own, given some of the commentary that you have heard from us. The vehicle finance and microfinance business will continue to be a critical component for us, i.e., higher yielding assets. We will add the SME business and to some degree, defocus on the very large corporate business that we have. There is space for us to be able to grow our entire Agri franchise, including gold loans, which will help us meet some of our PSL requirements as well. Given where we are on cost of funds and retailization, including a renewed focus on current accounts should benefit us from improved cost of funds in the medium term. We are already working on a fairly elaborate cost takeout. If you look at cost to assets currently, there is a bit of a denominator effect because of the fact that assets are not growing, but there is the cost to assets continue to be elevated as well. So as I look across the ROA tree, I think there is opportunities for us to improve pretty much on each of these lines. On the NIMs through some benefits on cost of funds, fee incomes both on retail and corporate, some cost takeouts and be able to reduce credit costs as we go forward. So, in that sense, you can clearly see that there are opportunities. I think the question really is how long will it take for us to execute all this. To my mind, it is a 3-year journey at least.

Chintan:

That was very helpful. The other two questions?

Rajiv Anand:

Sorry. Your other two questions were, why is vehicle finance slippage is high? Let me just ask Sriram who heads that business to take this, please.

AG Sriram:

Yes, good evening. Slippage will be better than the last year. The slippage will be like both on absolute terms and on percentage terms lower than last year. We are expecting 20 basis point lowering of slippage during this current year. Having said that, like the vehicle and the entire industry, like particularly MHCV has been going through bit of a strain because of the GST norm changes. People have been taking 28% and discounting the rates to customer, which has caught them out a bit. But having said that, it is a good thing for the industry on the long run. The entire industry will be benefited by such move. And the rest of the products like we are doing better than the last year.

Chintan:

Thank you. And then finally, on that slippage question, the policy changes impact on the slippages?

Viral Damania:

Yes, let me answer that. So, slippages are not policy-driven, right? That basically IRAC norms and normal identification of NPA. So that is not policy-driven. What is driven by policy is at what point do you write off and what is the quantum of provisioning

that you need to do? Now, that change again, that is not something we have done this quarter. You saw that last quarter where we changed or upped our provisioning maintenance on the microfinance business and also at what point do we write off. So both those changes were made in the last quarter itself, and it is not this quarter event. But nothing to do with slippages, that is more on write-off and provisioning.

Chintan: Thank you.

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

Piran Engineer: Yes, hi. Thanks for the enhanced disclosures. Just firstly, quick data or quarterly questions. Other OPEX has declined quite meaningfully quarter-on-quarter from about Rs. 2,700 crores to Rs. 2,400. Anything to add to this?

Viral Damania: If you look at quarter-on-quarter comparison, first point to make is we have already absorbed Rs. 228 crores impact simply from the labor law change where the gratuity provisioning need to be upped. So that is already built into Quarter 3 expenses. And you are right that if you adjust for that, expenses have actually come down roughly to Rs. 240 crores for the quarter-on-quarter. Now, there is some amount of impact from higher expenses that we booked in Quarter 2, like one-off GST provisioning. And also, we changed some of the expenses related to business activity. So sum of that, Rs. 150 crores odd from there and remaining Rs. 90 crores is a real save that we have achieved through operational excellence and all the initiatives that we are trying to do. So yes, we are calibrating expenses tightly and tracking that to bring in the OPEX efficiency. So as Rajiv said, we are going to be focusing on bringing down the OPEX percentage because we believe there is opportunity there.

Piran Engineer: Got it. Thanks for that. Secondly, moving on to more mid-term questions. With the MFI share shrinking, I know you touched upon how it is important from a PSL perspective, but it is already down from like 9% to 6% of book in the last 2 quarters. And probably a year later, it might be even lower. So how are you thinking about bridging the gap? And you also mentioned your Bharat Super Shop, which is the merchant loan business. Does that also qualify for PSL?

Rajiv Anand: MSME, not Agri.

Piran Engineer: So it won't be SMF, but it will still be general category?

Rajiv Anand: Under MSME category.

Piran Engineer: Whereas the MFI business was under MSME or under SMF or Agri?

Rajiv Anand: Largely SMF under Agri.

Piran Engineer: So we are losing the SMF contribution from the MFI business, but we are gaining it in the MSME, but net-net, I think, SMF?

Rajiv Anand: It is not an either or.

Piran Engineer: Yes. So let us talk about just SMF category then. How do we intend to bridge the gap with our share of MFI going down?

- Rajiv Anand:** We have seen degrowth on the MFI book over the last 2 quarters, including this quarter. Having said that, there has been a significant increase in disbursements in this quarter, really from the middle of October. And so, therefore, to that extent, the full benefit of disbursements will come through in Quarter 4, when monthly disbursements will be higher than the repayments that we receive and the book will start to grow after Q4 onwards. So the degrowth that you have seen, we should be able to recoup as we get into 26-27, helping us in fixing one, the proportionality that you spoke about, and two is meeting a significant component of our PSL requirements for Agri and SMF.
- Piran Engineer:** Fair enough. Secondly, I think, while I understand you don't want to give the drivers of the improvement in ROA, but even if I assume that slippages in MFI half from where they are, the credit cost might improve 50 bps or so, it is still quite a hard task to get to 1% ROA within the next 5 quarters. And on top of that, we want to grow at 12%-13% next year. So just trying to think about what are the risks here really. One thing you have already identified is that ability to raise deposits at scale and at a lower cost. But I don't know, I think it seems like a stretch, or am I reading it wrong?
- Indrajit Yadav:** No, Piran, let us see how each quarter goes. As we have been saying, it is not going to be a given thing that ROA improvement will happen every quarter without doing anything. Bulk of the improvement will come from credit costs. Quarter 3, credit cost is 2.6% of average loans. Bank, as you know, has operated at 130-140 basis points when microfinance was at around 10%-11%. So with the microfinance at a lower share, obviously, the bank has potentially to operate at a lower credit cost. So there is a significant scope for improvement plus, the margin that we are delivering today, the fees that we are delivering today, they are lower than what their potential is. So there is scope across the board. But giving exact bridge right now is too early. As you can see, every week things are changing, every quarter things are changing. So let us take one quarter at a time. And that is why we are not giving you quarter specific guidance. Let us reach 1% first. Some of you have actually asked us the other way around, is saying that 1% is too low for a Bank of your loan mix. So let us take one step at a time and then revisit.
- Piran Engineer:** But if you had to sacrifice one of the two, what would it be?
- Indrajit Yadav:** What one of the two?
- Piran Engineer:** The growth target, which is maintaining market share, which effectively means 12%-13% growth, or the 1% ROA?
- Rajiv Anand:** I think, for a banking business, writing growth, particularly on the corporate side, which is not profitable is very easy to do. And so, therefore, the composition of the growth is as important and what part of that growth we are sacrificing is as important as well. Because remember that we are a relatively small player in the banking industry. And so, therefore, I don't think it is an either-or in a very simplistic sense, if push comes to shove, yes, there are opportunities for us to be able to shed growth without impacting PPOP. So stuff like that we will certainly do, if required, if push comes to shove.
- Piran Engineer:** That is it from my end. Thanks and wish you all the best.
- Moderator:** Thank you. Next question is from Parth Gutka from 360 one Capital. Please go ahead.
- Parth Gutka:** Yes, hi. Thanks a lot for the opportunity. What would be the drag on new LCR norms?

- Indrajit Yadav:** There is a small impact. It is not going to be a big impact because of that.
- Moderator:** Thank you. Next question is from the line of Rikin Shah from IIFL Capital. Please go ahead.
- Rikin Shah:** Hi, Viral, this is a question for you. You earlier mentioned that the write-off and provisioning policy were changed last quarter. Would you be able to just remind us what those changes are and what is the current write-off provisioning policy? Thanks.
- Viral Damania:** That is different across various segments of the business such as vehicle finance, consumer, secured & microfinance. The change for us was clearly in the microfinance business. So the change we made last quarter is the point at which we write-off. We are now writing off at 365 days post NPA. That is one change that we have made. And on provisioning, it staggered depending on the number of months outstanding post-NPA. But broadly, somewhere between 78%-80% kind of PCR on that book. So that is really the key change. On the rest, we have basically just aligned it to where our LGD kind of number where we need to be on provisioning level.
- Rikin Shah:** Thank you.
- Moderator:** Thank you. Next question is from the line of Ankit Bihani from Nomura. Please go ahead.
- Ankit Bihani:** Yes, hi. Thank you for the opportunity. I just wanted to ask if the RBI annual supervisory outcome has been done like it has been done for other large banks with respect to Agri PSL. Has there been any impact of that?
- Indrajit Yadav:** The RBI discussions with the Bank are confidential in nature. We won't be in a position to comment on it till the discussions are conclusive. As and when required, we will make the required announcements or disclosures. So difficult to comment on it. We will give any information as and when it is appropriate.
- Ankit Bihani:** And the second question is, what would be our exposure to Adani Group?
- Indrajit Yadav:** We don't disclose the company level exposure. We had disclosed this specifically in stock exchange 2 years back when there was some market news. Since then, the exposure has come down a little bit.
- Ankit Bihani:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Rajiv Anand for closing comments.
- Rajiv Anand:** I thank each one of you for your interest in IndusInd Bank and for being on this call. I take this opportunity to wish each one of you a very happy New Year as well. Thank you once again.
- Moderator:** Thank you very much. On behalf of IndusInd Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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