IndusInd Bank

IndusInd Bank Q4-FY15 Results

Analysts Meet

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Romesh Sobti: Thank you. Good afternoon and thank you for joining us. We believe that another 150 people who are on a call as well so warm welcome to them as well. We have declared our quarter four results which were approved by the Board this morning, so we are going to talk about quarter four as well the full year FY'15. I am going to give you brief highlights for the quarter but before that I think a little bit on the operating environment. The last four or five months I think the headlines that we have seen are two rate cuts, our rating upgrades from Moody's. We have not seen too much happening on the credit growth side, very lacklustre credit pipelines overall for the system and of course the stress wave across the banking system doesn't seem to abate. And of course, there is a strong linkage as we know between credit growth and the stress wave. So credit growth is a fair indicator that the stress wave is abating. So operating environment I think during the quarter remained the same. Except for the fact that there were two rate cuts and of course there is promise of more to come on rate cuts. We can debate till the cows come home and the timing of the next rate cut but, probably going to happen sooner than later because we see a solid down trending on CPI and we are seeing deflationary trends on wholesale price index but when it is going to happen only the Governor knows.

The highlights for us during the quarter Q4 really are that we probably had the strongest quarter on quarter growth that we had for several-several quarters. A quarter-on-quarter growth of 11% on our bottom line and supported by pretty robust quarter-on-quarter growth on the revenue lines as well, both on Interest Income as well as Fee Income. So Q4 fee growth for instance given at 29%, the Core Fee growth came in at 29% and for the full year it came in at 30%. Net Interest Income, of course, is below our expectations at 18% but that I think is a consequence of the situation in the market.

We continue to show pretty strong up trending on CASA. CASA grew 28% year-on-year and I think for about 8 quarters now, we are showing growths of 30% and above on CASA. I think one of the headlines that we keep talking about or being asked about it what is happening on commercial vehicles. The commercial vehicle uptick has certainly become a trend now. If you look at the numbers they are pretty awesome in terms of numbers manufacturers show but in terms of numbers that financiers show I think the numbers are much slower because lot of the vehicles which have been sold are either for export purposes or to the defense services etc., so you don't see the same sort of attraction in the books of financials, nevertheless we will talk about and Partha who heads vehicle finance is here and I will ask him to give some more data on year-on-year, quarter-on-quarter growth on commercial vehicles specially.

The other headline for us is really on the savings bank rates. Before I go into the numbers, you will recall that about three or four months ago we had started cutting saving bank rates. We increased our saving bank rates about three and a half years ago and we were in a different boat then, since then a lot of water has passed under the bridge. We feel much more confident with our product suite to be able to pull customers in and we are seeing a huge amount of stickiness in our savings bank portfolio. So we had cut the rate for up to Rs. 100,000 by 1% down to 4.5%. From 1st May we are cutting the rate up to Rs. 100,000 to 4% that means another half percent cut. And we have introduced another slab where we will cut our rates. From Rs.100,000 to Rs 10,00,000 that will also be cut from 6% to 5%. So while we may not be down-trending so much on fix deposit rates, certainly we have started the down-trending on the savings bank rates and it's a function more of our confidence that we will be able to sustain the growth on the savings bank rate and I think that is validated by the fact that for almost seven or eight quarter we have shown growth of almost 30-35% on the SA rate.

Lastly of course, we made an announcement on the purchase of the diamond and jewellery businesses of RBS which essentially is the diamond and Jewellery businesses of ABN AMRO. I will talk about it in more detail and if you have questions please do address it. But a quick rational of buying that business. We bought that business because we really love that business. It's a business after our hearts, it's a business that IndusInd Bank had run since its inception but the portfolio wasn't of high quality. When management changed in 2008 we reworked the portfolio, we cleaned out the portfolio and we started growing the portfolio. We have not had a single delinquency in the last five years on that portfolio. So it's a very profitable, well priced, well secured short term trade finance portfolio. Most of the financing is 90 day financing and generates good amount of fee businesses. So when the ABN AMRO portfolio which actually resided in the RBS book because ABN AMRO did not have a branch in India came up for sale we were one of the bidders. I believe there were six bidders for that, ultimately there were only two bidders left, so that business is now ours subject to some regulatory approvals. That business will add about Rs 4,500 crores to our existing book. Our existing book is Rs. 1,500 crores so that takes you to a book size of about a billion dollars. That portfolio if anything is even cleaner than our portfolio and has even better margins than our portfolio so we consider this business margin accretive, ROA accretive and ROE accretive. We like that business and we know the customer base, more importantly we know the culture of financing these customers. Together with the purchase agreement we have also signed partnership agreement with ABN AMRO Bank. ABN AMRO by far is the most qualified and skillful financier of diamonds and jewellery financing business around the world and that partnership agreement is to really share risk management practices, share client information and market information. We share information from here and they give us information on what the clients are doing in Antwerp, in New York, in Dubai, in Bangkok, etc. So I think it's a win-win sort of a situation and I am very happy that we could win the bid. This is going to consolidate into our portfolio very shortly subject to the approvals, etc., everything else is through. I can talk more about it in case you want some information.

Let me run through the numbers. So the key performance vectors have remained stable or are showing marginal upward trending so whether it's ROA or ROE or Net Interest Margins, or we talked about the solid profit growth we showed quarter-on-quarter. The year-on-year profit growth came in at 25% only because Q4 last year was a bumper quarter, because in Q4 last year there were some heavy treasury gains that came in. So there is the base effect which is belied by the fact that the quarter-on-quarter growth was 11%. I think one of the features that all of you noticed is the fact that our Non Interest Income is a large part of our total revenue and that still stands at 42% of our Total Revenue. NIM is slightly up, credit growth is above industry, NPAs are stable or down, credit cost were 13 basis points. I think we have talked about why we are so focused on branch expansion and why we are so focused that we will double our network in this three year period which ends in March 2017, because we have seen a very clear linearity between branch expansion, CASA growth and fee growth, very strong linearity. So if you see that when we had 200 branches we had a CASA of 14% or 15% at 800 branches the CASA becomes 34% and headed towards 35%. And I think that linearity is what drives are branch expansion plan. We opened 199 branches during the year and we crossed the target of 800 that we had in our minds.

The plan that we laid out at the beginning of the last fiscal year was the three year plan - we call it Planning Cycle . And these were some of the ambitions of that plan so this is to show you the ambition versus the outcome after the first year. We said the loan growth will be between 25% and 30% and it's come up for the full year at 25%. CASA growth we said CASA should exceed 35% and I think we are nudging 35% already. So internally certainly we have upped our ambition on the CASA target and we hope that in the next two or three years instead of 35% we have an ambition to get closer to 40%. We always said that our fee growth will exceed loan growth, so both in Core Fee and with Total Fee we have exceeded loan growth again and again for 28 quarters. Branch network I have talked about, customer base we have said we will double from 4.5 million to 9 million customers by March 2017. We are well on track and we are tracking as a rate of about 60,000 new customers every month.

There were some new initiatives all of them are firing already. So the only vehicle on wheel that we were not doing was tractors which we started doing about eight months ago, that helps us also meet our agri targets. The 'S' of SME is what we call Business Banking is already up and going. Retail trade and FX now accounts for 50% of our FX income. Retail assets other than vehicles have been built-up over the last two years and we will show you a chart which shows how the non-vehicle Retail businesses are growing. Real estate is an area that for five years, six years we ignored and we felt that we ignored it because we did not think we had the skill to manage the business. But there is good business embedded in the real estate business, not all business is bad. So we have now hired the skills, we have skills in-house to manage this business and we will take our first steps into real estate and financing. Customer offerings you keep seeing us bringing up innovative offers, the last one was a video branch you will see soon a new one in another two, three months.

Asset reconstruction is a business which is in-house in the sense that we are not going to set up an ARC or anything of the sort. In-house business team is in place and I think the first buys are now in the pipeline. Front and back office optimization very-very critical as you grow your network and as volumes grow do you lose sight of productivity? So there is a huge initiative going on now on rewriting processes and introducing productivity. And of course the full suite of rural products has been introduced. I don't know whether you can see that, but more important is the quarter-on-quarter so whatever has to trend upwards is slightly starting to trend upwards and whatever has to trend downwards is starting to trend downwards. There has been a rating upgrade by Fitch so that is India A1- AA+ rating for a low Tier-II bonds that came up in this quarter. Quickly financial performance; I think all this has already been uploaded on the website, but strong quarter-on-quarter growth on every vector, so whether it's interest income or other income or core fee or revenue or net profit, strong year-on-year growth as well as quarter-on-quarter growth. FY'15 the full year almost replicates what we saw in Q4.

Top line on the balance sheet, loan growth 25% exceeded deposit growth which came at 23% which means we also funded our book through borrowings which grew about 40%. SA remains the sweet spot in our balance sheet grew 31% year-on-year and 6% quarter-on-quarter so that momentum continues. I don't think there are any takeaways in this slide you can skip this, likewise this side. Something on returns, Return on Assets 1.91%, Return on Equity has gone up this quarter by almost 125 basis points, cost to income ratio has come down, NIM is stable and net NPAs have also remained stable. That is the breakup of the book when I talked about growing the non-vehicle retail book and maybe we can have Mr. Kathpalia to say a few words on the non-vehicle Retail book and how it's growing and what it constitutes of.

Sumant Kathpalia: I think over the last two years we have grown this book . Our focus has been on three or four key businesses and now we have added a little bit more. There are eight diversified portfolios which we are working on - one is the 'S' of the SME, which is the BBG and reflected in the Corporate Banking book which is about Rs 4,500 crores of portfolio today. There is a LAP portfolio of Rs 3,700 crores which is there we continue to grow this portfolio at 35% to 40% CAGR. There is credit card - credit cards will never be a very big portfolio but a very profitable portfolio. You will see a 30-35% CAGR growth on the credit card portfolio, but will never be a very large portfolio because we only cater to high net worth segments in that portfolio. We have also now recently launched four new products - Agri loans which is the Kisan Credit Card which is specified in 12 districts which we have launched it in, it focuses on farmers which have land over 5 acre and we go and do a loan against the land and if the loan is above a certain amount then we take a property in the metro location and that business is now scaling up. It comes at a yield of about 12.26%. Our personal loans to our internal customer base, our focus is to grow our internal customer base. We already have Rs 250 crores portfolio on that, it comes at a yield of about 14.7% doing very-very well. There is no delinquency we didn't scale this business up because we wanted to see our performance. The delinquencies are in the range of 0.2% and the business loans portfolio which we started last year again is about Rs. 330 crores at a yield of 17.8% doing well. We have just launched LAS (loans against share), commercial cards and loan against credit card receivables. So all these portfolios are now shaping up and we have eight diversified portfolio which will make up, no one portfolio of course BBG and LAP are already there so these small portfolios will come and scale it up to a certain level.

Romesh Sobti: Okay, others I think feature of this slide is the loan mix between Retail and Corporate which has every quarter sort of slipped in favor of Corporate and that is a trend that we intend reversing and that is why we need to build a non-vehicle Retail book as well. But if you add the Business Banking part which is actually part of the Corporate Bank then this is not 41% it will be close to 45%. May be from next quarter they should start showing it separately as part of the Consumer Bank. This hasn't changed this is a sectorial representation of our book as a Corporate Book. I think the largest component here is Lease Rental at 3.92% but that is not an exposure to a particular industry; its exposure to particular tenants which could be across the whole range of industries. This is a sort of a graphical representation of the quality of the Corporate Book in terms of this rating profile. So if you see the vertical line, everything left of the vertical line is investment grade so you see most of our portfolio is investment grade and the sub investment grade portfolio is completely secured. We show this every quarter to give you a trending of the movement in our grading profile. I talked about the CASA traction and more importantly the SA traction. SA traction is above 30% for several quarters and so it was during quarter four as well. It's linked to the expanding branch network, of course there is also some flows on the government businesses who are allowed to keep saving bank, we are exploiting key non-resident markets and of course the focus on CASA remains on self-employed and Emerging Corporate business.

That is a breakup of our fee – Core and Non-Core. Non-core is really trading portfolio. The Total Fee was Rs 658 crores. More importantly this is a breakup of our fee profile so you see in terms of takeaways, two takeaways one that Foreign Exchange income was almost flat, that was the consequence of the previous period where there was a drop in the swap rates and there was a huge trading activity that we have seen in the previous period and that is why otherwise this business remains on a stable footing and the other takeaway is that the distribution fees has moved up pretty nicely, especially during this quarter and that has been fueled a lot by what is happening on the mutual fund side. The mutual funds are certainly giving us much more distribution fee. General banking, loan processing, investment banking remains steady. So pretty diversified as usual, that is the yield profile. So you see that our Cost of Funds went down by 18 basis point and Yield on Assets went down by 17 basis point therefore the NIM went up by a basis point. Just want to highlight one thing which is your Corporate Banking yield. Corporate Bank yield seems to be showing steeper sort of a fall but that is more a function of the fact that the mix is changing there, with lot of foreign currency lending which has also come into the book. Almost 20% of the Corporate Book is now foreign currency which has lower yield not necessary lower margins so that sort of depressing the yield but that is not really a worrisome trend.

On credit cost, I think we need to spend a little bit time here to explain what happened during the quarter. During the quarter we had one non-performing asset. That asset has been declared as a potential fraud by RBI so the whole industry had to make a provision for it. We also classified this as an NPA. Apart from that there were three accounts which were not NPA in our books and would not have been NPAs may be they were to be in NPAs in the next one, two or three quarters but we felt that they were stressed based on their track record and repayment history and the impairment of the security. Therefore we classified those assets which were not NPAs as NPAs during the quarter. We took them as NPAs, wrote down the value of those to the security value and sold the net amount to the ARC. So in that respect the Security Receipts that we got from the ARC was about Rs 60 crores, Rs 40 crores was the Corporate side and Rs 20 crores was Consumer. And the consequent loss is allowed to be distributed so it was a proactive move to move some accounts into NPA, take the loss and then you can actually amortize the loss over two years and we took a hit of Rs 32 crores as a consequence of that during this quarter. So that was the proactive sort of move to clean out that portfolio which would have probably given us trouble one or two or three quarters ahead so we took it upfront and that is why you are seeing that overall because of sales to ARC and some recoveries, we have actually, our additions are lower than our deductions as far as gross NPAs are concerned because of sale to ARC as well as from recoveries. So the credit cost that has come out is 13 basis points. As a consequence of; RBI allows the loss that you bare as a consequence of that sale to be deferred over two years, so you can do it quarterly as well. Annual impact of that is about 10-12 basis points which is well within our means. So I think overall we remain confident as we go into the new fiscal year as well that credit cost overall, we every year budget for a credit cost of 60 basis points and we have never touched 50 basis points. So even this year as well I think we are coming at with last quarter at 13bps we are coming at 48 basis points and last year it was 41 basis points but we budget and we are reasonably confident that the book is healthier than it used to be and this move probably makes it even more healthier.

Some of you may be interested in what is happening on the commercial vehicle. Overall Vehicle Financing, we are seeing slippages now reducing and that downtrend I hope will continue for the rest of this year, may be you want to talk about that Partha – may be talk about CV as the whole and the delinquency profile of the portfolio.

SV Parthasarathy: CV industry as a whole after a period of stagnation of close to about eight quarters has started showing improvement in the last two quarters and in the manufacturers' end it is fairly significant. When I say about commercial vehicle I am speaking only about Medium and Heavy duty Commercial Vehicles (M&HCV) considered to be the parameter of economy. It has moved to 230,000 vehicles as against 200,000 vehicles last year. Still short of about 100,000 vehicles, in the peak it was about 330,000 vehicles in 2011 with 2,30,000 vehicles sales during the current year, the industry has moved or crawled back to 2008-2009 period. Therefore there is significant headroom for it to grow. The commercial vehicles typically follow four to five years cycle. The last cycle which took place was in 2008 after that it was in 2012 to 2014. It is longer cycle for the current year. The trend always says that whenever the cycle ends and the peak starts, the revised peak is always greater than the previous peak. We should, there are reasons you expect that 3,30,000 which has been reached in 2011 will be breached, it's only a matter of time. For the current year of course our quarter-on-quarter performance looks fairly impressive when compared to the previous year last quarter. In comparison to last year commercial vehicle we had done, close to about 64% increase which is fairly significant but reasons for it is last year was very low. This year has been fairly good for the last quarter.

Overall we have been outperforming the market in all segments - commercial vehicles, two wheelers, three wheelers everything. In every segment we have outperformed the market fairly significantly and in a situation like what we have witnessed for the current year, the number of active players in a downward trend always shrinks and most of the active players have increased the market share. We have also increased our market share and we expect it to remain at this level and also consolidate as we progress when we take up the industry. On the delinquency front - we always noticed that whenever the industry goes in for uptick the performance of the portfolio always improves. It is not only shown in the NPA but also in the first bucket, second bucket, every bucket improves and we have seen that happening for the last two quarters. Of course there has been fair amount of, now our NPA numbers remains more or less the same vis-à-vis last year which is about Rs 330 crores on a total portfolio of Rs 23,500 crores. Therefore this itself is about less than 1.2% which I would recon should be one of the better thing, one of the better performance in the industry. I don't think we will improve it fairly significantly but there would be improvement which has shown I don't think we will able to breach and come less than 1% and things like that, less than 1% may or may not be possible. But will be hovering around these particular figures which is significantly better than most persons in the industry.

Romesh Sobti: Thank you, Partha. Capital Adequacy we are still above to 12% on CRAR. Tier-I is now 11.22%, Tier-I would have been higher if we had not been hit by a regulatory change that in first quarter almost 45 basis points were taken away because provisioning on unhedged exposures as well as the CVA on derivative portfolio. So apart from that I think Tier-I is still intact, we have fuel in the tank, it's a question of when we want to refuel that is a separate discussion. We have already talked about the branch network and of course the share holding pattern there is no change in the shareholding patterns all this is the thing. Right, thank you I have finished my part and I am very happy to take questions on that.

Participant: Sir in a very challenging environment sincerely wonderful set of numbers. Many congrats for the same. One observation was the Provisional Coverage Ratio has come down to 63%, going forward do we see the same climbing back to 73% in the coming year?

Romesh Sobti: This whole question is about keeping floating provisions. That is what really takes it up or making more provision than necessary. As I have always said that if you get bonanza gains we are going to not put it into profits. And therefore we will create floating provisions whenever the opportunity comes to doing that. Having said that provision coverage there is no sacrosanct levels that you want the provision coverage at, ideally you want 100%. So we are very conscious that you must have cushions available to be able to weather any particular this thing. Fortunately in our book we don't have elephant deals so even when we do get one or two or three accounts there is something that we can digest and that is why we have kept. our portfolio so big tickets, huge big tickets are not there, is more diversified and that is reflected in the way our industry and sectorial diversifications happens. So, you need cushions and certainly it's one of our terms to keep building cushions whenever we have bonanza profits.

Participant: Wonderful and sir one more question. You have announced with effect from May 1st you will be cutting your rates.

Romesh Sobti: Savings bank.

Participant: Yes. Going forward how do you see this rate cut cycle panning out and how will it give a kick start to the economy and industry and inadvertently our bank.

Romesh Sobti: Supposing Repo rate is cute by another 50 basis points, will you see a spurt and credit growth? my sensing is no. There are so many other moving parts on credit growth so it's not just the ability to borrow or willingness to lend, its willingness to borrow as well. So that has to come back. So I don't think the rate sensitivity that we sort of talk about is more in personal products so you see surge in the home loan or the LAP portfolio more on the Retail side. Corporates, well, financial costs are of significant portion of even Corporates expense account but for another 50 basis points he is not going to be willing to take more risks. So I think it is willingness to borrow it's not willingness to lend. So it's not just rates, there are so many other moving parts.

Nilanjan: Sir, over here Nilanjan from Jefferies. The question is on essentially you talked about the refueling part on capital. The capital Tier-I ratio is about 11.2% today right.

Romesh Sobti: Yes.

Nilanjan: We exited the year at what little higher than 19% ROE, we are at 11.2% Tier-I capital. I think there is a sufficient amount of head room in Tier-II as well and we have just got our rating improvement. At what point would you want to raise equity capital, how do you see obviously it’s the function of your sense of environment and the loan prospect you can just throw some light on that.

Romesh Sobti: So there are several drivers to the desire to recapitalize. I think one is that what is your tolerance threshold and we have found that our Board has always held that when it’s a question of sort of toss-up between capital adequacy and ROE then you better focus on capital adequacy. So I think the Board certainly will become jittery if Tier-I goes below 10.5%. So that should ideally give you enough capital for another couple of quarters. The second moving part is that when do you take money, when it’s available or when you need it. And experience shows that when you need it you don’t get it. So, I think you should take money when it’s available that is the thing. Third is what is your growth ambition, and if we are going to take our growth back to that 25% or above range then I think you better have fuel in the tank. And so given all that I think the capital raise should happen sooner than later but that’s a prerogative of the Board, it has to be discussed with the Board and then the timing, amounts and all the sort of things will become clear.

Anish Tawakley: Anish Tawakley from Barclays. Two questions on the book, the exposures and one on savings bank account if that is okay. You mentioned that the book is better than it was in the past, is it possible to quantify that because if I just eye ball the rating chart it does look like it shifted to the right, towards the lower rated portfolio, so I am looking at it and I don’t have the hard copy but it does look like over the year it shifted to the right and certainly over two years it shifted to the right quite substantially. So if you could quantify that, that would be helpful and on in terms of the exposures do you distinguish in terms of fee income between fee that is arising from risk weighted asset exposures, the non-funded exposures which has grown quite fast versus fee that’s non-capital consumptive and doesn’t take exposures. And if so how would that cut look.

Romesh Sobti: Okay, so one is that abstract chart that we refer to, but if you look at it for the full year last year the median rating was coming to A, which is IB3 in our rating profile. We monitor this every month and exactly present it to the Board every month and the

Board monitors ratings versus the yield. So are you taking higher risk with higher reward or lower risk with lower reward so the mean rating has not changed, the shift that you see is really a consequence of the left most part of it. Left most part is what we call IBL1 that is a AAA, mostly it's public sector so if you issue a Letter of Credit or a guarantee or a thing like that for public sector that chart, that point will move up that peak will move up and when that guarantee goes out that goes down that is really on the AAA side of this thing. So that is the transitory sort of business that flows through but we are very conscious that the mean rating of the whole portfolio has not moved over a quarter. In fact this was discussed in the Board today when the portfolio analysis was presented to the Board.

Secondly, the secured versus unsecured that has not moved. Thirdly the non-investment grade is now 100% secured. It used to have some element of unsecured that is now almost 100% secured. So that is one out of two questions, second question was?

Anish Tawakley: Second question was that the fee income distinguishes between the stuff that comes with capital.

Romesh Sobti: Certainly we all love to raise fee without using any capital. There is little bit of misnomer around this non-fund exposure and there is this belief that higher non-fund exposure, off balance sheet exposure means higher risk. I would like to draw your attention to the balance sheets of foreign banks. Foreign banks are the most conscious as far as capital usage is concerned, it's very-very conscious in a capital usage. If you see their non-funds to fund-based exposure it goes up to 15 times. Here in the domestic market if it goes to 2, we raise eyebrows. That is where the fee is coming from. A lot of the fee really comes from it with lower risk weightage it's not capital fee it is lower risk weightages. So in order of priority you would say no capital fee generation where is it coming from consumer bank. All the branch fee is without any capital at all, so consumer banks fee actually is mostly without capital.

Anish Tawakley: So in your chart the trade and remittances would be capital consumptive right I could be.

Romesh Sobti: Remittances don't use capital, trade does. So in fact we can take you through the chart and I will tell you what uses capital and what doesn't use capital. So let's look at trade and remittances, remittances no capital, trade definite use of capital but capital also if it is sight letter of credit 20% weightage, if it is usance letter of credit 100% weightage. Foreign Exchange income, the entire Retail Foreign Exchange income which is close to 45% of our total exchange income is without use of capital because we do not lend there. On the Corporate side there is use of capital because you are taking risk. Distribution income fee - zero capital. Distribution fee has got almost zero capital, general banking fee zero capital, loan processing fee well you give loans so you are using capital and that is why you are generating the fees, and investment banking fee is very low usage of capital but there is usage of capital, some usage of capital so there is a balance sheet of about Rs 2,500 crores that we use when we hold syndications on our book till we offload this syndication and things like that. So that is the thing in order of priority no capital fee, low capital fee, and then full capital fee. That is the order of priority but, don't through a fit when you see a bank with an off-balance sheet to on-balance sheet exposure ratio more than 2.

Anish Tawakley: I just wanted to understand what is driving the fee so that is helpful and in terms of the mean rating versus is it the tail risk that is the bigger concern than the mean. In terms of the rating profile.

Romesh Sobti: No, every bucket is seen, so you can achieve mean by doing a solid big AAA and then have a lot B's and B-'s etc., still get a mean of B that is not the thing. So when we present to our Board we look at each bucket and each rating & the movement that are happened and that is done monthly.

Anish Tawakley: The savings deposit cost now?

Romesh Sobti: Just nudged below 6%. And given what we are doing we expect that to fall even more.

Participant: Sir a couple of questions, firstly on your sale of assets to ARCs. Did you sell around Rs 315 crores to the ARCs and you would book Rs 32 X 8 that is the loss right?

Romesh Sobti: No, loss is not that because there were already provisions in the book, so the loss is 32x8 that is Rs 256 crores. That is the loss and if you analyze the loss that will come to about 12 basis points.

Participant: Got it. And the gross value is around Rs 320 crores.

Romesh Sobti: Rs 315 cr.

Participant: And sir why was there a sudden jump in borrowing again in the fourth quarter?

Romesh Sobti: We toggle between funding sources. If you see a low cost foreign currency borrowing and we did get a lot of low cost stuff then we will reduce our deposit gathering and go for foreign currency borrowings. So we keep toggling between various funding sources for instance refinance, so suddenly a refinance capability or eligibility comes up, we took refinance that is why borrowings go up.

Participant: Okay sir and just one last question on the Diamond Financing business. I know that you mentioned that what you acquired is a good quality book and its ROA accretive as well but usually the experience of the Indian banking sector with this segment has not been too good in terms of asset quality. So this portfolio how does one manage risk on this portfolio? Would you be also doing some global financing or it's just the domestic guys?

Romesh Sobti: So you know, I give you the same analogy of Vehicle Financing. In the wrong hands Vehicle Financing is a business that can wreck your P&L. So you are right today people are withdrawing from the diamond and jewellery financing industry. Standard Chartered Bank had a huge exposure globally and is withdrawing because they have burnt their hands. Antwerp Diamond Bank shut down their portfolio right, and lot of public sector banks have also withdrawing from this portfolio. That does not mean that inherently the business is bad. What you were doing was bad. Business in the right hand, so right business in the right hands always makes for profitable business. So look at ABN AMRO portfolio, zero delinquency. In the last seven years their portfolio of Rs 4,500-Rs 5,000 crores their NPA is Rs 17 crores. So, they have always had a very-very clean book. Our own portfolio also because it is run by the same people who built the ABN AMRO portfolio they are people who have built the IndusInd portfolio as well. So the fact that others are withdrawing doesn't mean that you will run away from the business. I think the businesses have to be understood and is not about knowing clients, its knowing the culture of the clients. It's a huge culture business. This business is not run in one location. This business has legs in India which is Mumbai, Surat, Antwerp, New York, Dubai, Bangkok, Hong Kong, and the differentiating feature here is that you know the flows between various parts and various geographies, because there is one brother sitting here, one in Dubai and one sitting at Antwerp. So you must know what he is doing and they must know what the brother sitting here is doing, that's why the partnership agreement with ABN AMRO. So I have always said that this is like a necklace where the information must flow seamlessly. You can't say I have taken this part of the necklace; the rest of the thing can go wherever it wants to go. You have to know what's happening in other parts of the world. ABN AMRO wants to know what is going to happen in India because this is the fountainhead of the diamantaires**.** We want to know what they are doing there, therefore, the sharing of intelligence, sharing of client servicing, and sharing of risk practices; very very critical. That's the only differentiator. Know our clients is not as important as knowing the culture of the clients. So we are very confident that we know this business as well as we know the Vehicle Finance business and that's why in the Vehicle Finance business where everybody showed very high level of delinquencies and people wondered why IndusInd is not showing, that was the reason.

Participant: Sir, how many employees did you acquire?

Romesh Sobti: There is a team of 12 specialists who run their business there, they are coming over. And there are about 20 people who do the processing, they will also come over, so around 30-32 people.

Sharad: This is Sharad from Axis Wealth. The question which comes to my mind is, are you quite confident that you will reach the 40% target of CASA because you have started reducing your Savings Bank rate and can we expect that there is going to be more downward trend in the Savings Bank rate?

Romesh Sobti: Well you know, we only announce ambition. So it's an ambition. We announced a 30% ambition, slowly we got there. We announced a 35% ambition, we got there. So a level of confidence concerned it only can be based on your track record. Plus the fact that the model seems to be working, the model at the branch level seems to be working on the Savings Bank side. The fact that your deepening is happening is because you are cross-selling more and more products on the SA base as well, the fact that you get 65,000 new customers every month. All this leads us to raise our ambition and raise the bar. So you can only be as confident as the track record allows you to be confident. And I think that given a timeframe of whatever two years or so, or two and a half years, we should be closer to 40s than to 35. Then you talked about the SA rate?

Sharad: So obviously the question comes, since you are confident that you will reach the 40% mark in this environment that is why you reduced the rates, so if the confidence improves can we expect greater cuts in the Savings Bank rate? That's the question.

Romesh Sobti: Ultimately it should normalize.

Sharad: The equilibrium will reach at around 4% from that 6%?

Romesh Sobti: Look, the big boys and girls stuck to 4%. The smaller kids felt that the only way to attract the customer was to raise it to 6%. Now the smaller kids believe that there is a higher degree of confidence, customers have begun to realize that there is a differentiation in their product offering and things like that, the branch network is not

200, its 800, going to 1200. So your distribution is improving, product quality has improved, and quality of people selling the product has improved. Certainly we would also want to normalize and get back to the 4% but it won't happen in one giant leap for mankind, so it's happening in small steps but we are getting there.

Sushil Chowksi: Sushil Chowksi from Indus Equity Advisors, your outlook on large Corporate lending and your investment banking?

Romesh Sobti: We need to have Suhail and Roopa talking about it.

Sushil Chowksi: Specific infrastructure lending which you are looking at.

Suhail Chander: If you are talking infrastructure, the answer is different from Large Corporates so let me answer both since you have raised both of them. I think Large Corporates is a key focus for us. We will continue to look at it and we have grown 25% to 30% in that segment in the past with the environment increasing. Or we have gone close to the 25% mark and with the environment getting better we will go close to the 30% mark. Infrastructure lending has never been a very big activity for us. Having said that, I think that as the economy bottoms out and investment starts to improve, there will be opportunities of project finance not necessarily infrastructure. So we are setting up a unit which will look at project finance as we move forward but the book will never become a significant or a very large part of our balance sheet. We will have a small part which will sit there and I am sure that you will agree that there will be opportunities for banks to participate in good projects and all the ancillary revenue streams that come as a consequence, cash management, LCs, guarantees, all of that will happen. So a small book will be built over time as we see the environment improve. Investment Banking – it's a steady state business for us now. I think that we have done it now for three and a half years. It has stabilized. It continues to show good growth. The nature of the client that we attract to this business now has also improved the quality of our deals. You may have seen our ads, there was a lot of speculation about the nature of the transactions we do, so we started communicating even publicly in the last two or three quarters. Every quarter we do publish a small ad which highlights the key transactions that we have done in that quarter. The quality of the client that we started to attract here has also improved a lot and that's a function of our ability to structure and deliver, I think that business has done well and will continue to do so as we move forward.

Vishal: Hi Sir, this is Vishal from UBS. On the Savings Account, we also do Government business which doesn't come at the rack rates. Generally you have to bid for higher rates, so are you also offering higher rates on the Government business?

Romesh Sobti: Selectively you do that, that's why your rate is at 6% otherwise it should be much lower than 6%.

Vishal: Yes so the second question which comes is then when you are trying to bid at like whatever number 8 to 9% for Government business, and on the other hand you are trying to cut the Retail rates, so I don't know are you cross subsidizing in a way, your Retail sticky customer base?

Romesh Sobti: Look, even in the bulk business which you are talking, Government business, if the bulk business comes at a rate which is ultimately higher than the Fixed Deposit rate, we will not give Saving Bank rate higher than the Fixed Deposit rate. So it's just the question of time, as the rates fall then it makes no sense at all, just because I call it Savings Bank, I don't want it, right? So right now there is a differentiation because the values involved are larger on the bulk Savings Bank which is this thing. But increasingly we have found that it's down-trended and headed more towards 6% than anything else. A lot of the money is actually at 6% which is our rate now because rates have fallen and as rates fall more and more, you will see even that will fall further. Till that time there will be slight differentiation. That differentiation is there even in Fixed Deposits. Today also you have a differentiation on Fixed Deposits as well. You are giving different rates for different slabs on Fixed Deposits. So you will have that running parallel for a while till rates come down and if the Fixed Deposit rate becomes lower than the Savings Bank rate that are offered to a bulk deposit, it makes no sense, some part of me has to be silly.

Vishal: Okay. And the other part is your third party fee, how much of it is coming from Mutual Fund and Insurance for this quarter because I think Mutual Fund was really high in terms of percentage commission.

Sumant Kathpalia: 70% of that income is Mutual Fund and Insurance. So Insurance includes Life and Non-Life and Health.

Vishal: Only Mutual Fund would be very small?

Sumant Kathpalia: It is very high.

Vishal: No, only Mutual Fund? Why I am asking is because whether it is sustainable because Mutual Fund is offering very high returns in this particular quarter on NFO.

Sumant Kathpalia: What you will see is the Mutual Fund because of the rate issue coming in that the income may fall but it's only a matter of a year that the trail income will start flowing, so that's not an issue.

Sumant Kathpalia: That's only a matter of time. It doesn't mean that we will stop…..

Vishal: And lastly on this FOREX income, I think we have obviously been debating about it. The volatility in FOREX income that from Rs. 100 crores it goes up to Rs 170 crores and again it comes back to Rs 100 crores , should we think this a good base now from here to grow or you still could see volatility down from this number?

Arun Khurana: Okay I presume you are talking about the client FX income, the Core Fee Income which has FX income, right? So the way to look at it is twofold. One is the flow income which is a constituent of that which has two components coming from Retail as well as the Corporate business. And the other is the Derivatives. So the Structured Solutions or the Risk Solutions business from the client side which is typically from the larger Corporate sectors, now that is based basically on market rates, so if you see last December quarter the swap rates in the 3 year, 5 year category at around 6.2-6.3% that's why there was a beeline of old Corporates and PSUs to come and hedge their exposures. So you had a pretty strong earning in there because of the hedging there was from both the Corporate and public sector. Whereas in this quarter, the swap rates are over seven and quarters. So they have gone up by over a percent so people think twice before they come and hedge their exposures because at the end of the day they count it as what they see in the net Rupee cost of funding, so it's just market dependent.

Vishal: So the structured part of it is, for example, Rs 110 crores you still would have some structured….

Arun Khurana: Yes exactly, that's very little this quarter that will be very little.

Vishal: So you mean that the Rs 110 basically most part of it is client flow income that should be sustainable?

Arun Khurana: Flow Income Yes absolutely.

Pradeep: Hi, Pradeep this side from Phillip Capital. My question pertains to your LAP portfolio. As you mentioned, increasingly you will be focusing on your LAP part of the portfolio, so just wanted to have some color on that piece in terms of yields and nature of customers. And second, with lot of competition panning out in that space how do you see things moving in that piece?

Sumant Kathpalia: I think if I understand your question you want to understand how our LAP portfolio is, what is our LAP portfolio? I think please understand in the LAP portfolio we are focused on the Self-Occupied Residential Property, so about 80% of our portfolio is in the SORP and we do not do lease rental discounting in the Retail business. So we rarely do lease rental discounting on the business. Our average ticket size is about Rs 75 lakhs and LTV is about 48% on the portfolio.

Pradeep: And what are the yields?

Sumant Kathpalia: The yields are driven by the market. I think if you look at it today our yield is about 12.65% to 12.8%. We will continue to maintain the spreads on the business as we move along.

Pradeep: So don't you think with increasing in competition that yield between home loan and this part of the portfolio which is LAP, will narrow down going forward?

Sumant Kathpalia: I somehow think the spreads will always be maintained. So if there is a party which comes in that drops the yield dramatically, I think over a period of time he will have to neutralize because the banks will continue to maintain the spreads. The yield may change, the spreads may not change.

Prateek: I am Prateek from Emkay Global. I would like to know about your interest income breakup. That is my first question. And secondly in relation to NPA your upgrades, recovery and your write-off.

Romesh Sobti: You won’t get anything more than the line you see. In the public balance sheet you can see the different vectors in the published results. Your second question?

Prateek: In relation to your NPA, your upgrades, recovery, and your write-off?

Sanjay Mallik: Yes so that's what we were talking about all this while. The net slippages is negative Rs 110 crores. Additions less deductions is a negative Rs 110 crores.

Romesh Sobti: Let me explain. The net slippage that we saw during the quarter was about a Rs. -110 crores. Net negative, it was negative because of the sale to the ARC plus upgrades, plus recoveries. Net actually was negative that is why your gross NPA fell, gross NPA came down from 1.03% to about 0.81% and that includes the sale to the ARC as well as recoveries and upgrades.

Alpesh: Sir this is Alpesh from Motilal Oswal. First question is about after change in the Savings rate, have you seen any changes in terms of new customer addition and the changes into the average ticket size that you are acquiring now?

Sumant Kathpalia: I think we continue to do about 65,000 clients every month. Let me just bring this perspective, I think Retail customer creates stickiness by product holding. The stickiness of a Retail customer is created by product holding not only by Savings Account. So what is the product offering, what is the channel penetration, what is the other product penetration. So overall I have been saying it, our product penetration into the client's wallet is about 3.2%, and our channel penetration is 1.8%. So as long as you continuously increase the channel and the product penetration, the stickiness of the client will increase. The client's stickiness does not increase just because you have a Savings Account base and you are giving him Savings Account that does not increase the client base.

Alpesh: Can you explain slightly in detail in terms of channel penetration what do you mean by that?

Sumant Kathpalia: Channel penetrations are non-branch delivery channels, so example, ATM, Internet, POS, mobile banking, and video branch now which is the latest addition. So that is the channel penetration across the channel for that client base. So if you will go by segmentation, our highest level segment which is exclusive which is our emerging affluent, we have a product penetration of now 5.8.

Alpesh: Okay. And this 3.2 is on the existing?

Sumant Kathpalia: Overall base of the bank.

Alpesh: So after the change in the Savings rate you would have also observed the behavior of the customer, so someone who would have…

Sumant Kathpalia : See, we dropped the Savings Account rate in the less than Rs 1 lakh bucket, the Rs 100,000 bucket about nine months back, three quarters back or four quarters back. We did not see any change in behavior. Whenever we do a rate change on a slab change, there is a behavioral study which is done on the client base and we see the product penetration and the client transaction behavior before a rate change is recommended to the Board.

Alpesh: So after the deregulation of Savings rate somewhere in September 2010, the customers that you would have acquired and now they are with the bank. What could have been the normal cross-sell ratio or a product cross-sell ratio for those kinds of customers?

Sumant Kathpalia: I can only tell you that the overall cross sell ratio across the base today is 3.2.

Alpesh: Okay. Sir, one more clarification regarding this sale-to-ARC, what I heard was that there was one account which was classified by RBI as a fraud account and was that account was NPL in our book earlier or it just slipped in the quarter and you immediately sold it to the ARC?

Romesh Sobti: See the point is this, it may or may not be an NPA. Once RBI calls it a fraud you have to make a provision, period. Okay?

Alpesh: And was only one account sold to ARC during the quarter or there were two or three accounts sold to ARC?

Romesh Sobti: I said one plus three. One was this NPA, the other were three which were not NPAs yet, but were showing signs of stress because quarterly repayments, interest payments always came as a due. We also saw some impairment in the value of the security. Now these would normally have become NPA in the next one, two or three quarters. They may have come up for restructuring which cannot be done now. So we said that we will classify them as NPA and you can classify them as NPA even if they are not 90 days past due. So we classified them as NPAs, wrote-down the value of those exposures, and sold the residual value to the ARC. Therefore the sale on the Corporate bank was only Rs 40 crores. That means we wrote-down a large amount, brought it down. We believe that we were more conservative than we needed to be in the write-down that we did and the SR value, the Security Receipt value is Rs 40 crores for the Corporate bank and Rs 20 crores which we normally do for the Vehicle Finance side, Rs 60 crores is the thing. Then of course, there is the residual loss as a consequence of that when you write-down, that loss will be amortized over eight quarters and this quarter the loss came to Rs 32 crores. So if you really multiply it by eight, it comes to Rs 256 crores to be exact. That's the loss. That means that annually that's the credit cost of about 12 basis points.

Alpesh: So it's Rs 256 crores of loss, around Rs 60 crores of SR received, so the net book value on our balance sheet at the time of sale was around Rs 320 crores and we would have done some provisions also on this account?

Romesh Sobti: Yes.

Alpesh: I just want to understand what was the gross book value of this?

Romesh Sobti: So there was an existing provisioning of almost Rs 100 crores.

Alpesh: So accounts worth almost Rs 420 crores sold during the quarter?

Romesh Sobti: Correct.

Alpesh: Okay. And what is the outstanding SR on the balance sheet now?

S.V Zaregaonkar : Outstanding is Rs 163 crores is the NPA and Rs 60 crores is the standard assets. Rs 223 crores is the total SR as on 31st March 2015.

Alpesh: 160 is NPA and?

Romesh Sobti: 63 is standard assets.

Alpesh: So that SR of Rs 163 cr which is NPA, you need to do mark-to-market every quarter or it's only on the entire amount?

Romesh Sobti: That is why we said that we brought it down to minimum value of Rs 41 crores when we sold it. So we wanted to insulate ourselves from the future impairments.

Alpesh: And have we utilized any floating provisions on this transaction or our floating provisions remains at around Rs 50 crores or so?

Romesh Sobti: We have used the floating provision also for additional NPA provisions. What that we talked about that Rs 100 crores, part of that has come from floating provisions. That's why the PCR is also at 63%.

Suruchi: Three quick questions here. This is Suruchi from Morning Star. I had a question about the cost-to-income. What do you expect it to be in five years given that you are looking at 1200 branches?

Romesh Sobti: Five years is a long time. I can talk to you about two years because two years is the part of the three year plan so we have said that mid-40s, 45-46% is sort of what we expect till our branch expansion plan slows down. The ratio of new branches to total branches, when the ratio falls to below 10% we will start seeing a cost-to-income ratio fall below 45%, otherwise I think cost of income ratio should be in the mid-40s and they will trend towards the early 40s once the branch expansion plan that we have in mind is substantially completed.

Suruchi: I didn't understand what you mean by the 10%?

Romesh Sobti: That's the ratio, ratio of new branches to total branches. What that means is that you have a higher base of matured branches which are depreciated. When that ratio falls to almost 10% then I think you would come into a run rate and then we start seeing a cost-to-income ratio falling again.

Suruchi: Okay. And you mentioned in your last quarterly con-call that your NIM target would be 4% at some point. Is there any time period over which you are looking at that?

Romesh Sobti: We just articulated an ambition. It's an ambition. Arithmetically if you say that your loan book is rebalanced. Right? If the loan book rebalance to 50:50 the differential yield between the two loan books, Corporate and Retail, is 3.5%, at least more if you see this time, it's almost 4.5%. So if your Retail Book goes up by say 8 or 9% and the differential yield is 4% that is 32 basis points on the loan book but on your balance sheet that's less. On the balance sheet it is there, NIM is on the balance sheet. So that is the pure arithmetic but business does not work on arithmetical basis so there are so many moving parts. That's why that gives rise to the ambition that we should aim for 4%. Together with that you should have a drop in the Savings Bank rate, together with that you should have improvement in the CASA, together with that you should have dropped in the bulk rates that we are expecting. All those should fuel that ambition.

Suruchi: Okay, so no time period but you are aiming towards that. Okay. And the third question was again you had mentioned that normalized Fee Income to Total Income would be about 35%.

Romesh Sobti: Last time I mentioned that.

Suruchi: Yes. But how is that possible then if the fee income is continually higher than Net Interest Income, so at some point are you looking at….

Romesh Sobti: When interest income starts growing.

Suruchi: So you are looking at that happening.

Romesh Sobti: Your interest income is growing at 18%; your fee is growing at 29-30% that's why this thing is happening. But if your NIM improves and credit growth catches up, and NIM improves because your Retail portfolio is rebalancing, then NII growth should increase. When that happens there is a rebalancing. That's why I am saying that in a steady state you should be in that 35% range.

Nilesh: Nilesh from Edelweiss. Over the last two years we have still grown about 23 to 25% on the loan growth which is a respectable number considering what has happened in the industry and clearly this growth has largely come from the Corporate Banking business. Specifically again what has happened in the industry is pretty weak. Just wanted to understand over the next 12 to 18 months you have started talking about CV growth picking up and we see that segments growing. Overall loan growth will be still aim at about 25%. Would that mean that we would see some moderation on the Corporate banking side?

Romesh Sobti: So good times, bad times, our range remains the same 25%. In really good times we were 28-29% and bad times the worst we saw was 22%. Right? So we will aim at that. Now how do you rebalance the book? So we do expect that the Retail Book will start growing now. Does that mean that we will start cutting the Corporate Book? Not necessarily but you can sell down that book. And if you remember two years ago we used to sell down every quarter, every quarter we used to sell down and lots of banks who were willing to buy with the risk, that's how you rebalance. Why we sell down and why we prefer to take it and sell down is because the fee income comes with it, so you strip the fee income, you give the asset out to the potential buyer. So that's how we balanced the book at the peak when Retail was growing and we were 49% Retail and that's what we will follow again.

Nilesh: Origination may not slow down?

Romesh Sobti: No. If origination slows down then it hurts your fee incomes. It will hurt your global market income, FX income, LCs, guarantees, everything, cash management, everything gets hurt. You can't stop that.

Nilesh: The other thing was you mentioned about this quarter you have sold about three accounts which you would have thought would have come into NPA category over the maybe next one or two quarters. Now, a fair conclusion to take that currently as we stand today that you have almost taken care of stress which is currently that you are seeing?

Romesh Sobti: Yes. That is the whole purpose. The point is this, we could have let this slowly leak but we are seeing the stress in those accounts. Every month I put up this thing to the Board and saying this guy hardly meets his interest, he has met his interest this thing, then security valuation we see. Now, regulations permit you to classify them as NPA in two ways, one is, 90 days past due. Other is your view that security is impaired and his track record of repayment is not satisfactory. That he waits for the 89th day and then pays interest. Somehow he is saving it from a NPA. All those features, that's why we preponed it. Now of course, we have taken the benefit of the dispensation given by RBI that you can amortize it. So you can say that we have either this option or that option. Both of them had the same credit cost for us, it would not have made a difference but this was preponing and relatively cleaning out the book. Does it mean we will have no credit cost going forward? that's a utopian situation. We have credit cost in our Retail Book, we have credit costs in our CV Book and things like that but I think these were few accounts which were giving us discomfort and we said just take them out, bite the bullet and take this upfront rather than let them fester and reappear. Maybe some of them may not have become a NPA, it was quite possible, but we didn't take the chance we just took it upfront.

Management: Okay. I think we are done. Thank you very much for joining us.