IndusInd Bank

Q2 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
+
MANAGEMENT TEAM MEMBERS

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Moderator: Ladies and Gentlemen, welcome to IndusInd Bank Limited Q2 FY26 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Anand – M.D. & CEO, IndusInd Bank. Thank you and over to you, sir.

Rajiv Anand: Thank you, Michelle. Good evening and thank you for joining us today. I understand that today is a long day for you all and appreciate you taking time for us especially also during the festive season. It is a privilege to address you for the first time as the Managing Director & CEO of IndusInd Bank. I am also joined by our CFO Viral Damania and other management team members of the Bank.

Let me begin with a quick view on the macro environment. The global uncertainties are persisting, driven by tariff-related disruptions and geopolitical tensions. In contrast, India continues to demonstrate resilience, supported by its domestic oriented growth model. While the pace of growth has moderated over the past 12-18 months, underlying fundamentals remain strong. Recent policy measures, such as income tax rationalization, GST rate cuts, and accommodative steps by the RBI are expected to support consumption and investment. A strong monsoon and rural momentum further strengthens this outlook.

I remain optimistic that these developments will bolster economic momentum. We will work towards positioning IndusInd Bank to participate in the recovery as it unfolds. The Bank has shown strong resilience during recent periods of turbulence. As I take on this role, my focus is on realizing the full potential of the Bank, by leveraging our capabilities, scaling our strengths, improving in areas where we can do better and unlocking new areas of value creation.

We will now cover key highlights for the Q2FY26 and then go into business specific progress and financial performance.

1. <u>Stable Core Businesses Navigating the Turbulent Operating Environment:</u>
    - During the quarter, we consolidated our balance sheet by letting go wholesale deposits and cautious disbursements on microfinance.
    - Our Retail deposits remained steady while wholesale deposits de-grew 3% QoQ. Share of retail deposits as per LCR improved to 47.3% vs. 46.5% QoQ.
    - On advances, the vehicle disbursements were impacted with deferment of purchases due to GST changes in the last quarter. We remained cautious on microfinance disbursements. The corporate and other retail disbursements were steady.

2. <u>Asset Quality:</u>
    - Asset quality, excluding microfinance, continues to hold steady, with sequential improvement in both gross and net slippages across vehicle, other retail and corporate segments.
    - Microfinance slippages remained elevated during the quarter, and we undertook accelerated provisioning to prudently rationalize the outstanding NPA book.

- Our GNPA and NNPA have thus improved QoQ to 3.60% and 1.04% respectively.

3. Progressed on Strengthening Leadership Team:
   - We have made progress on rebuilding our leadership team. This quarter saw the onboarding of several key leaders, including a new CFO, Legal Counsel, Head - Internal Audit and Head - Business Transformation, each bringing fresh perspective and deep expertise.
   - We expect a few more senior leaders to join in coming months, further enhancing our strategic depth and execution capabilities.
   - As this team comes together, we are confident it will play a transformative role in shaping the future of the Bank.

4. Financial Outcome for Q2:
   - Our core pre-provision operating profit at Rs.1,940 crores remained stable QoQ in spite of lower disbursements in vehicle and microfinance.
   - The accelerated provisions on microfinance have resulted in a net loss of Rs.437 crores for the quarter. We have written off Rs.1,579 crores of microfinance loans and increased coverage on the residual MFI NPAs. We believe this is a prudent measure and strengthens the balance sheet.
   - The Bank has healthy capital adequacy with CET1 ratio of 15.88% which will be further supported by recent announcement on risk weight reductions.

I will now take you through highlights on individual businesses.

1. Vehicle Finance:
- The vehicle business saw a dip in disbursements between GST cut announcement till the implementation as the customers deferred their purchases. This resulted in disbursements for Q2 dropping by 4% YoY and no sequential loan growth.
- The disbursements however have picked up significantly post 22nd September and we see the traction continuing in this quarter as well. The purchases are also further aided by the ongoing festive season.
- The asset quality trends continue to be benign with gross slippages reducing QoQ and YoY. The bank had chosen to inhouse collections instead of selling to ARCs. This has reflected in improved recoveries and thus net slippages have improved more than the gross slippages.
- The gross slippages have been YoY stable or better in commercial vehicles, passenger vehicles, construction equipments and 3-wheelers. The tractors and 2-wheelers saw YoY higher gross slippages but those too have moderated QoQ.
- As we move into the second half of the year, we expect the demand momentum seen in late September to continue, supported by festive season, GST 2.0 impact, strong monsoon & kharif harvest and broader pickup in economic activity.

I believe Vehicle finance is a key pillar of the bank. The business is well managed maintaining its market leadership with significant market share across leading OEMs and navigating asset quality cycles efficiently. The business will be further strengthened by investing in its distribution and leveraging digital capabilities. The business should also see support from the long overdue auto upcycle.

2. Micro-Lending / Micro-finance:
- We continue to be cautious on microfinance business and have taken several steps which should help the bank weathering subsequent cycles.

- Some of the steps include conducting income assessment of every loan, additional Voter id checks, and other field verification checks over & above conservative bank rule engine for underwriting approval.
- The bank has also strengthened internal audit function for better portfolio coverage and identifying any lapses in controls and processes ensuring zero tolerance for wrong practices.
- We have carved out dedicated collection vertical to focus exclusively on 90+DPD customers
- We have also started availing credit guarantee i.e. CGFMU coverage for disbursements done in FY26 and it covers 22% of standard book as on Sep-25. This coverage will continue to grow in the coming quarters.
- These steps should help in normalising gross slippages which continued to be elevated in Q2 as well. The 31-90 Days Past Due book was at 3.2% in Sep-25 vs 2.2% in Jun-25.
- The cautious stance coupled with seasonally weaker demand resulted into loan book contraction of 25% QoQ.
- We continue to scale Bharat Super Shop i.e. the merchant acquiring business to leverage our rural presence. Our merchant loan book at Rs.7,262 crores spread across 636K borrowers, grew by 25% YoY. CGTSME guarantee covers 63% of this book.
- The share of non-MFI book now stands at 25% vs 15% YoY, reflecting continued diversification.

Overall, we believe the tighter norms may result in near term impact on disbursements but they should, along with credit guarantee, help reduce the extreme swings in credit costs through the cycle. Microfinance will continue to be an integral part of the bank's approach especially meeting its financial inclusion and priority sector ambitions.

3. **Corporate Bank:**
    - We resumed disbursements in Corporate Bank which were tactically slowed down in earlier couple of quarters for efficient balance sheet management.
    - Within Corporate book, the focus remains on granular mid and small corporates with better risk adjusted returns and being selective on the large corporate space.
    - The proportion of A and above rated customers and the weighted average rating have been steady QoQ at 77% and 2.60 respectively.
    - The asset quality remains healthy with negligible net slippages for the quarter. The Gems & Jewellery business too maintained robust collections with no SMA1 or SMA2 customers as we speak.

Overall, I believe the Bank's corporate franchise has become robust over the last few years. We will invest in building coverage and capabilities particularly in mid and small corporates. The transaction banking offerings have significant scope for penetration. The mobilisation of low cost LCR efficient liabilities too would be an area of focus as we move forward.

4. **Other Retail Assets:**
    - Our other retail assets grew by 13% YoY.
    - We continue to scale our home loan book with outstanding now crossing Rs.5,500 crores mark growing 84% YoY and 11% QoQ.

- LAP book at Rs.12,581 crores maintained steady traction with 10% YoY & 1% QoQ growth.
- MSME book under business banking now stands at Rs.18,195 crores growing 1% QoQ.
- Credit card spends at Rs.26,900 crores remained steady QoQ. Our market share in credit cards spends was at 4.9% based on latest available data.
- Asset quality across segments has remained within a stable range.

The traditional retail assets will be a key growth driver as we build universal banking franchise. While the bank will continue to grow in its domains i.e. vehicle finance and microlending, we see huge opportunities to grow our retail asset businesses not only to diversify the portfolio but also to support our liability franchise. The MSME space is a large opportunity for a bank of our size. We have minuscule presence in home loans and can scale this up irrespective of the cost of funds disadvantage. The unsecured segments too are now poised for cyclical growth. We believe retail segment will contribute meaningfully to our growth in the future.

5. Now coming to Liabilities:

- We continued to optimize our deposit mix, exiting some of the non LCR accretive wholesale and certificate of deposits, while maintaining a healthy liquidity position.
- As a result, total deposits stood at Rs.3,89,600 crores, declining 2% QoQ. Our retail deposits as per LCR remained stable during the quarter at Rs.1,84,144 crores.
- The deposits of combined Affluent and Non-Resident segments remained stable QoQ at Rs.74,300 crores. The NRV now stands at Rs.1,22,000 crores growing 7% YoY.
- Our flagship digital platforms INDIE and INDIE for Business apps for retail Individual and MSME clients respectively, showed healthy user growth during the quarter.
- INDIE app now has a registered base of more than 5mn clients and monthly active users grew 40% QoQ. INDIE for Business with a registered base of 2.3 lakh MSME clients saw monthly active user growth of 122% QoQ.
- Both apps continued to show healthy ratings on Play Store and App Store. INDIE is rated 4.7 on App Store, 4.4 on PlayStore; INDIE for Business is rated 4.5 on App Store and 4.4 on PlayStore.
- Cost of deposit for the quarter at 6.23% improved by 21bps QoQ largely driven by savings account re-pricing.
- We further reduced our dependence on bulk sources, with Certificate of Deposits down 16% QoQ and borrowings at Rs.45,350 crores, down 13% QoQ.
- We maintained healthy liquidity position during the quarter with an average LCR of 132% and average surplus liquidity of Rs.56,000 crores.

As we all know, the liability franchise is core for sustainable profitability of any bank. IndusInd has made considerable progress over the last few years. I will aim to accelerate the Retailisation journey further especially focusing on the low cost deposits. We will aim to enable frontline by streamlining processes, offering competitive products and bringing 'One Bank' approach in delivery.

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

Viral Damania: Thanks Rajiv and good evening, everyone.

At the outset, I would like to mention that Year on Year comparison may not be appropriate given the adjustments carried out in last couple of quarters. Hence, we will focus on sequential trends for a few quarters.

The financial performance of this quarter was impacted due to sharp reduction in microfinance business and lack of treasury gains. The drop in NII, NIM, other income and the large increase in credit provisions are all attributable to these two factors. Barring this business has been stable and we have had some offsets by improvement in cost of funds as well as containing operating expenses.

So, with that overview, let me now go through some of the details starting with the balance sheet.

- Advances dropped 2% sequentially from Q1 which is largely the drop in microfinance loans.
- Deposits dropped 1.9%. Of that, 1.2% drop was solely from reduction in CDs which we are looking to calibrate down. Our retail deposits as per LCR perspective remained steady.
- CD ratio was maintained at 84%.
- Borrowings have been brought down by 13% QoQ.

Moving on to the P&L

- Net Interest Income for Q2 stood at Rs.4,409 crores. QoQ drop explained by the lower microfinance book.
- Adjusted for one-off recoveries in Q1, Net Interest Margin was marginally lower at 3.32% vs. 3.35% QoQ. NIM was supported by 26bps reduction in cost of funds on the back deposit rate cut actions taken earlier. This was offset by the impact of lower asset yields due to corporate loan repricing and adverse loan mix.
- Core fee income came in at Rs.1,543 crores, growing 1% QoQ. However, overall non-interest income declined sequentially, as the previous quarter had strong treasury and recovery gains.
- The operating expenses declined 5% QoQ driven by disciplined cost optimization across functions.
- As a result, core operating profit for the quarter at Rs.1,940 crores remained stable QoQ.

- This then brings us to provisions and contingencies. The increase of Rs.896 crores is entirely from incremental provisions on the microfinance book. As we had shared last quarter, we have seen higher slippage in this portfolio. So, we did an accelerated write off this quarter and prudentially upped our PCR.

- GNPA and NNPA at 3.60% and 1.04% improved QoQ and overall PCR increasing to 71.6% vs 70.2% QoQ

- In terms of asset quality:
  - Slippages, excluding microfinance, continues to hold steady, with net slippages improving to 0.36% vs 0.42% QoQ.
  - Elevated slippages in the microfinance segment kept overall gross and net slippages broadly unchanged at 0.76% and 0.63%, respectively.
  - The gross slippages by key segments were Vehicle Finance Rs.694 crores, Corporate Rs.64 crores, Other Retail Rs.697 crores and Microfinance Rs. 1,083 crores.
  - Our SMA 1 and SMA2 book was at 26bps vs 33bps YoY.
  - Net Security Receipts declined to 17bps vs. 31bps YoY.
  - Restructured advances declined to 8bps vs. 29bps YoY.

- The accelerated provisioning and write-offs, however, resulted in net loss for the quarter at Rs 437 crores.

- Important to highlight that the Bank continues to have healthy capital adequacy and liquidity position with CET1 of 15.88% and CRAR of 17.10% and LCR at 132%.

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

Rajiv Anand: Thanks, Viral. While it's just been couple of months in the Bank, my interactions with several teams across locations have been exciting. I believe this is a unique franchise. The Bank has a large distribution network with presence across geographies, diverse customer segments and ability to serve bulk of the financial requirements of our customers. The Bank also holds leadership positions in select businesses such as vehicles, gems and jewellery and microfinance. The corporate franchise has been steadily growing without any asset quality issues. The Bank has progressed on granularizing liabilities and there is further scope for improvement as we move forward. Scaling up of MSMEs and traditional retail assets are also large opportunity pools for the Bank. We also need to finetune our delivery infrastructure of these products by streamlining processes, empowering channels and investment in digital channels. The Bank has strong capital and liquidity positions providing us the flexibility to grow with confidence.

Overall, our aim in the near term would be:

- to build growth momentum in areas of focus such as vehicles, retail and profitable corporate business and of course the retail deposit mobilisation

- streamlining microfinance businesses to normalise slippages and pivoting towards sequential growth
- formalising the leadership structure along with filling up of any gaps
- identifying new profit pools to build a more granular less volatile franchise

We will come back to you with our medium term strategy in the coming months.

Thank you and we are now open for questions and answers.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Hi. Welcome, Rajiv. It is good to have you on the call. Just a couple of questions. So, now that you have spent a few months, what is the rebalancing in the book you would like to do, maybe in favor of a few assets, in favor of a few lending segments, any such thoughts? I mean, basically, I know you will share your detailed strategy at some point in time with us, but just wanted to get a sense of what kind of normalized margins would you be looking at in a one year out or two year out time period?

Rajiv Anand: So, Mahrukh, from a rebalancing perspective, I think the two big engines of growth are our vehicle business and microfinance and to some degree, our corporate lending business as well. But having said that, our muscles on the MSME space is relatively weak. And that is a space that that we are really looking to double down on. Two is if you look at many of the traditional retail asset businesses, home loans, affordable housing, gold loans, agri financing, etc., all these are currently subscale. And these provide us huge opportunity for us to grow as we go forward, not just in terms of diversification, granularizing and also meeting our PSL objectives. The first medium-term objective is to get to 1% RoA. And that is what the aim will be. And there are multiple levers for us to be able to do that. I think there is ample scope for us to reduce cost to assets. We need to get better productivity in the branches for us to be able to grow our liability franchise and reduce cost of funds as well. And I think as we look to diversify our portfolio, we should be able to get a different path to 1% RoA from what IndusInd has seen historically.

Mahrukh Adajania: Got it. But what would be the timeframe to reach 1% RoA?

Rajiv Anand: I think the exact timeframe is too early to call, Mahrukh, but, like I said, I am in the process of building a three year plan along with the current team members and some of the new members who are joining us. Just give us a little bit of time and we will give you more granularity as we go forward.

Mahrukh Adajania: Sure. And then just in terms of credit costs, you did accelerated write-offs. So, would it be the end of these accelerated write offs and would you see recovery in credit costs or lower write-offs going ahead, would there be a substantial reduction in credit costs in the second half, because your slippages seem to have stabilized and if MFI improves, maybe they come down more?

Viral Damania: Hi. Viral here. Let me try and answer that. So, let us put this into two buckets. One is the accelerated write-off and credit costs that you see in the current quarter. And that is as you mentioned pertaining specifically to the microfinance portfolio. Now, that brings us to a level of PCR, which we are currently comfortable with. But we would continue to look at that closely in the next couple of quarters. Yes, slippages have been high in the past couple of quarters. We do see early signs of that stabilizing, but this is an area we really have to watch here on for the next two quarters. Kind of early to conclude that we start improving, but that is really something we are looking at fairly closely. It is a portfolio we have calibrated down. So, we do think it should start stabilizing and hopefully at some point slippages start coming down.

Mahrukh Adajania: Got it. Thank you so much. Thanks a lot.

Moderator: The next question is from the line of Harsh Modi from JP Morgan. Please go ahead.

Harsh Modi: Hi. Rajiv, thanks. The question here I guess that Mahrukh also asked is kind of how do we think about is this the worst or we should brace ourselves for at least a couple more quarters of really tough numbers? And how do we start forming any views for FY27 given the scale of challenges? I know you said you will have some detailed comments later on, but anything that you can help us with would be great? Thank you.

Rajiv Anand: So, like I said, there are enough levers for us to be able to grow. And I also mentioned the fact that the macro environment is also getting benign for us to be able to grow across the various parts of our businesses. The levers are there. The ability is there. The intent is there. But I think the key challenge really is to be able to ensure that we get our hands around the process controls, fill some of the management gaps as well, and be able to do all the right things as we go forward. So, I am not in a great hurry to push the growth levers, because it is important for us to first stabilize the platform before we are able to do that. So, I think it will just take a little bit more time.

Harsh Modi: Right. Can I ask a question slightly in a different way? If I think about, let us say, the costs as well as the write-offs, from my understanding of what Viral said right now, it seems there is a lot more to go in terms of write-offs. And even if we are at 70% PCR, there is a possibility that the Bank may remain close to very limited profitability if at all for the rest of the year. Is that a fair assumption, given the scale of problem that you still need to manage and would rather try to clean it up in FY26 rather than push it out to FY27?

Rajiv Anand: No, that is too pessimistic an approach. I am not in that camp. Like I said, as we go forward, I do see growth in the books. And so, therefore, the income stream should be stronger. Fee income should be stronger. And so, therefore, to that extent, I am not that pessimistic.

Harsh Modi: Right. And so if I could just push on that a bit, in terms of confidence of depositors, confidence of employees with the headline loss, what are the few steps you would have taken and you are taking to manage the fallout?

Rajiv Anand: I think that is an important question. It is very important for us to communicate, which we are in the process of, both to customers as well as to our own employees. The fact is that much of this loss has come from the accelerated provisioning side rather than anything that was damaging, like what we saw in March of 2025. The core PPOP is actually stable on a QoQ basis. NIMs are broadly stable. The book is broadly stable. And that should give confidence in addition to the fact that all our capital numbers continue to be strong. I am confident that we should be able to communicate this confidence to our employees as well as our customers.

Harsh Modi: Great. Thank you.

Moderator: We will take the next question from the line of Rikin Shah from IIFL Capital. Please go ahead.

Rikin Shah: Thanks, Rajiv. So, just a few questions. The first one is if you could just elaborate on the key hires that you have made after joining the Bank and flag what are the key vacant positions which are yet to be filled? That is number one. Secondly, the slippages even outside of MFI are still a tad elevated and even on overall basis flattish QoQ. When do you expect this to start improving? And continuation on this is while we have taken some accelerated write-offs in the quarter, the net NPA ratio is still 1% versus 0.6% a year ago. So, would not we still be required to continue with this accelerated write-offs to bring down the net NPA? That is the second. And third is on margin. Of course, we will wait for your detailed outlook in terms of where the medium-term trends stabilize. But just a clarification that if there are no further rate cuts, should we think that margins are at the bottom and from here onwards at least no further contraction should be expected?

Rajiv Anand: So, let me take the first question. During the quarter, we saw Viral, our new CFO joining, our new head of internal audit, Pragati, our new legal counsel Anand Vardhan and our new head of business transformation Pankaj Sharma have joined. And they have been in the Bank for anything between, let us say, 15-20 days to about 30-40 days. As we go forward, during the course of the next three months, a new head of HR, a new head of digital are expected to join. And in the medium term, there are a few others, senior hires that we are looking at as well. We have also got a new head of marketing, Sheran, who is sitting here, who I forgot to mention. She has also joined. Because there is a lot that we can do from a brand perspective as well. So, she then becomes a critical hire for us as well. So, some of these people are already on board. Some of them, I mean, it is like effectively like one or two people joining pretty much every month from here on.

Rikin Shah: Just on this, Rajiv, how about various business heads both for the assets and liabilities, are there still any gaps for the businesses?

Rajiv Anand: Yes, there are gaps on the business side as well. We are in the process of closing those out. There is nothing that I can update you on this at this point in time.

Rikin Shah: But what businesses would this be broadly just?

Rajiv Anand: Both on the corporate and retail side. We are also hiring a new CEO for BFIL, who should be joining in November as well. So, in subsegments of our retail and corporate businesses, there are some new hires that we are looking at. The last question was around margins. I think the way to think about this is that, while the cost of funds has come down, the fact that disbursements on the microfinance side has been relatively muted, has impacted yields on the asset side. That one lever itself as we start to grow that business going forward should ensure that that margins begin to improve. And as we recalibrate our overall portfolio, both on the retail and corporate side, I do believe that there are levers for us to certainly hold the current margins. But certainly the intent is to improve margins as we go forward.

Rikin Shah: Got it. And just the last one on that write offs, which I mentioned, given that net NPA ratio is still higher at 1% versus 0.6% a year ago. So, do the write-offs continue essentially?

Viral Damania: So, I think as I mentioned earlier, there are two pieces to this. One is the accelerated write-off. So, obviously, that is not something you will keep seeing in the subsequent quarter. So, the delta that you see this quarter, Rs.872-odd crores unlikely that you will see the same level of maintenance or provision of credit costs in the subsequent quarter. So, that will surely come down if you take current quarter as a base.

Rikin Shah: Thank you.

Moderator: The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Hi Rajiv. Two questions from my side. One, why was the accelerated provisions made for the quarter in MFI?

Viral Damania: So, let me try and explain some of the drivers on that increase. So, it has basically got to do with the slippages that we have seen over the past couple of quarters. They have been elevated. And we thought we really needed to up the coverage ratio on that portfolio. So, it is basically accumulated impact of the fact that slippages have gone up over the past quarter. So, you see some of that translating into credit losses. And we have tried to improve the coverage ratio itself on this portfolio. So, it is the aggregated impact of these two that you see there.

MB Mahesh: Okay. Rajiv, just one question. There is constant news that keeps coming quite often in the media on some of the practices at the Bank. I am trying to understand how much of a change that you would need to make below the leadership level, looking at what you have seen in the organization at least in the last few months?

Rajiv Anand: So, firstly, let us look at this at multiple levels. One is that whatever happened within the Bank, all the financial impact was taken in March '25. Thereafter, investigations, etc., have happened. Some of it has moved into the legal world with law enforcement agencies, etc., And that is a process that will continue as we go forward. Needless to say, the Bank is fully cooperating with law enforcement agencies as we go forward. Based on all the investigations that have been done, staff accountability has been established and staff action has been established, some people have been asked to go, some people have been docked, etc., That is a process that is by and large being completed as well.

MB Mahesh: And Rajiv, is it fair to assume that there are no pending monetary related impact that is still yet to be identified?

Rajiv Anand: I think that is a fair comment.

MB Mahesh: Okay. Perfect. Thank you.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Hi, team and congrats Rajiv and Viral on your new role. Just firstly, in this quarter, can you comment on, a), quantify what are the slippages in MFI? And b), just comment on CV CE slippages also?

Indrajit Yadav: Piran, we have given those details. Vehicle is Rs.694 crores gross slippage, microfinance is Rs.1,083 crores, other retail is around Rs.697 crores and corporate is Rs.64 crores.

Piran Engineer: Okay. And what was CV last quarter if you do not mind?

Indrajit Yadav: Vehicle finance last quarter was Rs.743 crores, microfinance Rs.888 crores, other retail Rs.692 crores and corporate Rs.245 crores.

Piran Engineer: Okay. Fair enough. And secondly also, Rajiv, you mentioned that you would scale up home loans irrespective of the cost of funds disadvantage. So, what exactly, like why would we do that firstly, what am I missing here?

Rajiv Anand: What you are missing is the absolute size of that business that we have. I think that business for us is about Rs.5,000 crores give or take. And so therefore given that size, we can actually pick and choose both in terms of the kind of customers we want to lend to and the price that we want to lend to. And so therefore obviously we do not want to compete with other banks and NBFCs in the prime and super prime areas. But I think given the size of business we have, there is ample opportunity for us to be able to grow profitably within this business at least into the medium term. And more importantly, it feeds into our liability franchise as well. And that is probably even more important as far as I am concerned.

Piran Engineer: Sorry, just to be clear, you are not referring to affordable housing here, you are referring to mass housing?

Rajiv Anand: Yes, I am.

Piran Engineer: And honestly, how much does it really feed into the liability franchise? Because the guy who is taking home loan from you, a regular fellow, not an affordable housing guy, already has a Bank account. And I think even at HDFC and all, they open new SA accounts but the money there is equal to one month of EMI. So, maybe 30-40,000 bucks. So, is that really a needle mover?

Rajiv Anand: See, I think when you look at it on an individual account basis, the way that you put it, it perhaps may not be material. But as it continues to grow and the Bank has this particular customer on its portfolio, the ability to open the account improves, the ability to cross sell other products improves quite dramatically including, for example, our personal loan or credit card, business loans as well. So, the fact that we can do more with that customer, is unquestioned.

Piran Engineer: Understood. Okay, fair enough. That is it from my end. Thank you and wish you all the best.

Rajiv Anand: Thank you.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Hi, Rajiv. So, again, firstly, maybe the question was asked with respect to net NPA. And during the last earnings call, it was indicated that we would want to get towards 0.5%-0.6%-odd. But maybe the new CEO would take a call. So, what would be your reading? Maybe would you really want to get to that number or you are comfortable with 70% coverage and need not be necessarily in this year? How are you looking at the overall Net NPA number?

Rajiv Anand: I am certainly not comfortable at one plus. And I think we need to get to in the vicinity of 50-60 basis points in the medium term. I think that we certainly need to get there.

Kunal Shah: Okay, so that call still continues even with you. So, that we will get it in the medium term?

Rajiv Anand: Yes.

Kunal Shah: And even outside of MFI, this Rs.1,500-odd crores, the overall write-offs are like Rs.2,500-odd crores. So, Rs.1,000-odd crores run rate compared to maybe a relatively lower number. So, what is actually leading to that? So, was it like the accelerated write-off in other segments as well? And still we do not see GNPAs coming down despite this kind of write-offs in the other product segments. I think where you share in terms of the consumer banking GNPA, it is rising across the board. And in fact, even like MFI after the write-offs have seen a rise, maybe it is because of the book itself coming down, but other portfolios are not showing any improvement as such.

Viral Damania: I think maybe if you look at again these two in comparison, the escalation or the increase has clearly been on the microfinance portfolio and the others it is not a substantial increase. We are watching that. And we really think that probably going to stabilize in the next couple of quarters. So, not really a big concern at the moment, but something we are watching.

Kunal Shah: Okay. And Rajiv, with respect to your 1% ROA, where do you eventually see in terms of the potential of the franchise to deliver the fee-to-assets? Again, like this quarter it has been off. Maybe you would tend to believe that MFI, the processing fee out there would have also impacted. But there are a few more line items wherein the fee income is still down sequentially on a low base of first quarter. So, where do you see fee-to-assets settling for the Bank over the medium term?

Rajiv Anand: I think this is a franchise which can deliver fee-to-assets in the vicinity of about 1.5%. It may take a little bit of time, but I think there are enough levers for us to be able to get there.

Kunal Shah: Okay. 1.5% or maybe over a period of time?

Rajiv Anand: Yes. 1.5% over a period of time.

Kunal Shah: Yes. Got it. Okay. Thanks and all the best and wish you all a very happy Diwali.

Rajiv Anand: Thank you, Kunal.

Moderator: The next question is from the line of Chintan from Autonomous. Please go ahead.

Chintan: Hi. Thanks for taking my question. Can I check with you how the gems and jewelry book is doing? It is one of the areas that the US tariff is impacting. Are you seeing signs of stress? The anecdotal hearings on that industry are not great. So, that is why I wanted to check.

Rajiv Anand: So, one is we have a preeminent position in the gems and jewelry business. We have been in this business for many years. Two is we do business pretty much with the cream of the gems and jewelry side of the business. And so therefore, like I mentioned in my commentary as well, we have no NPA, SMA-1 and 2 as we speak.

Chintan: Okay. And kind of early signs. What are you watching in this space to ensure that you stay on top of the credit risk there? Because there is an impact. It is very palpable. So, how do you kind of stay on top of this credit risk?

Rajiv Anand: So, this is like any other portfolio. We monitor this portfolio very closely. The underwriters look at it regularly, the coverage team looks at this regularly. I have met most of the very large promoters within this space to understand what they are doing and what is the impact on their businesses. They clearly understand that tariffs are an issue, but they too have mitigants for them to be able to manage this. One is to be able to move some of this manufacturing out of India. Two is to refocus some of their businesses away from the US, which is a large market for them, to other parts of the world, including India, where demand continues to be fairly strong. And three is to move to the higher caratage, which then is probably more profitable from their perspective as well. But in the short term, yes, they are seeing pressure in terms of their overall businesses. But these are businesses that have been around for many years and these are players who have been in this business for generations.

Chintan: Okay. Thank you for that. Can I ask a second question? I mean, we have spoken about sustainable NIMs and stuff in the call. Can I just check the 14 bps NIM movement seen in the quarter? Could you just go through the moving parts there? What caused that impact? There is something coming from MFI, but if you can talk through the moving parts, that would be helpful?

Viral Damania: Let me take that. So, there was this one-off recovery impact last quarter. So, we first got to factor that. The impact of the microfinance portfolio going down, that is roughly 20bps on the NIM. So, I think these are the two moving parts which you need to factor in.

Chintan: Twenty from MFI. And what did you say the other one was?

Viral Damania: The one-off recovery in the first quarter, 11bps.

Chintan: Okay. And then the final question is, when I look at your LCR retail deposits, your end-of-period number is 2.1% different from the average number last quarter. We do not have this quarter's number yet. I am just wondering why should there be an end-of-period impact in a LCR retail deposit book, because it is kind of normal to expect that in a corporate book, just curious why such a big divergence between these two numbers?

Indrajit Yadav: Just a movement between the quarters. Depending on what kind of flows move in, move out during the quarter. Given there was a bit of volatility in the last six months, sometimes some of the large affluent customers move in, move out. That moves the averages a bit different way versus the end-period number. But otherwise, you are right. In normal course, the difference between period end and period average broadly remains the same. But we have been a little bit in the exceptional situation in the last six months.

Chintan: Okay. Fair enough. Thank you. And then final point, on the BFIL Qualified Audit Report, what are the issues there that led to that Qualified Audit Report if you could just throw some light on that? You have covered some of the points, but I wanted to ask it as a direct question.

Viral Damania: Let me answer that. Some of the issues which you mentioned in the subsidiary entity in terms of quantum and scale are really not material. Also, these are all pertaining to past periods and there is no incremental financial impact. Whatever loss was there, it was booked in past periods. It is basically got to do with the nature of the business. Some of these are inherent. And yes, there is some improvement in internal controls that we need to see with that particular entity. But I think it is very important to highlight that there is no new financial impact coming out from those issues. It is all the past. The only thing we look to do is enhance the controls and the governance framework specific to that subsidiary entity. Again, nothing really impacting the Bank. It is important to highlight that.

Chintan: Okay. Thank you.

Moderator: The next question is from the line of Jayant Kharote from Axis Capital. Please go ahead.

Jayant Kharote: Thank you for the opportunity. Just one bookkeeping question. The microloan book is down 25% QoQ, that is almost like Rs.7,000 crores. Could this help us understand the flow, what got repaid, what has slipped among the set of numbers for the movement? That is my first question.

Indrajit Yadav: Yes, so our opening book was Rs.28,300 crores. We disbursed around Rs.1,300 crores. We wrote off Rs.1,580 crores. And then there was change of some provisioning and repayments were around Rs.6,700 crores for the last quarter.

Jayant Kharote: Understood. If I understand the disbursements over here, how should we think about that over the next two quarters, because since the repayments amounts are going to be large, where do you assume this book comes off sharply now?

Rajiv Anand: So, like I had mentioned earlier as well, we have tightened some of the underwriting standards that we have within this space. We have increased the scrutiny. And the approval rates by definition have dropped as well. And that is somewhat reflecting in the lower disbursals. I do believe that as we get into the current quarter and as we get into the next quarter, disbursal amount should be significantly higher than what we have been able to achieve in the current quarter.

Jayant Kharote: Thank you. And the second question is on the vehicle book. You did mention in the opening remark that the festive uptick you are already seeing on vehicle. So, should we assume the asset quality there is stable and that gives you the confidence to now pursue disbursement growth aggressively there?

Rajiv Anand: Yes. I think that is a fair comment. We do believe that asset quality should be stable and we will certainly look to participate as demand comes back.

Jayant Kharote: Thank you.

Moderator: The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Hi. Good afternoon and thanks for the opportunity. I just have one clarification to ask, Rajiv, around the gems and jewelry business. So, when we speak to credit rating agencies, there is a fair bit of rating downgrades that have happened in that space like it is almost double-digit in proportion to the total rated clients that they have. So, has there been any such events in our portfolio that you see?

Rajiv Anand: No.

Nitin Aggarwal: Okay. Sure. That is it from my side. Thank you so much.

Moderator: The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life AMC Limited. Please go ahead.

Himanshu Taluja: Hi, sir. Thanks for the opportunity. Just a couple of questions. Can you just comment around any other segments where you are not comfortable to grow? And apart from vehicle, what could be your core segment of growth? The second question, is there any further tightening or requirement towards increasing the provision coverage in any of the segments? Like this quarter, you took some higher provisioning on the MFI. How do we expect this provisioning tightening in the coming quarters as well? And thirdly, if you have done anything from your understanding, if you can put any lumpy fee which is still and where can come and you can take as a calibrated approach? Yes, that is all. These are the three questions at my end.

Rajiv Anand: So, are we uncomfortable in any of the spaces? My answer is not really. Second is, will we increase PCR as we go forward? Our intent will always be to ensure that we are fortifying the balance sheet at all points in time based on multiple levers, including loss-given default rates, etc., And so, that is an ongoing process. I did not understand the last question.

Himanshu Taluja: Sir, the last question is around the fees. Any lumpy fee which can be calibrated where you have done any understanding according to you? Is there any feature in the fee income which can take certain calibration further?

Rajiv Anand: No. All the fee income is all franchise fees across both the retail and corporate side of the business. Our intent will be to grow this in a granular fashion.

Himanshu Taluja: Okay, sure. Sir, can we say along with this vehicle, MFI and the gems and jewelry will remain our key portfolios for the growth?

Rajiv Anand: What I have said was that these are domains that IndusInd Bank has built its capabilities and distinctiveness. I see no reason for us to reduce our presence in these spaces. But having said that, I see huge opportunities in areas like the MSME sector, in the retail asset businesses for us to grow businesses significantly. Therefore, it is quite possible that as we get into the medium-term, while some of the other businesses may grow much faster, the proportionality of these three businesses could potentially reduce. That, in a sense, will be the aim of the Bank as we go forward to build a more diversified portfolio, less cyclical and more predictable business as we move forward.

Himanshu Taluja: Sure. Thanks a lot. Thank you.

Moderator: Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Rajiv Anand for closing comments. Thank you and over to you.

Rajiv Anand: Thank you. And thank you to each one of you. And let me also take this opportunity to wish each one of you and your families a very happy Diwali.

Moderator: Thank you, members of the management. On behalf of IndusInd Bank, we would like to thank you for joining us and you may now disconnect your lines.

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