IndusInd Bank

Q3FY22 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Limited Q3 FY22 earnings conference call. As a reminder, all participants' 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. Sumant Kathpalia – Managing Director and CEO, IndusInd Bank Limited. Thank you and over to you, sir.

Sumant Kathpalia: Good evening and thank you for joining this call on a Saturday evening, I will start with some macro commentary and then go into the bank specific details. We will upload this commentary on our website for ease of reference.

Economic activity continues to gain strength helped by a release of pent up consumer demand during the festival season, pick-up in general government spending, strong public investments and record exports. This recovery was reflected in the highest quarterly GST collections and improving bank credit growth. The recovery may see some impact due to COVID-19 pandemic resurgence. However, increasing coverage of fully vaccinated population and low hospitalization rates so far, have ensured limited restrictions.

On the global front, major global central banks have put forth guidance of faster-than-anticipated monetary tightening over 2022. While this can disrupt the easy financial conditions and exert upward pressure on rates, we expect that the domestic monetary policy to remain supportive to strengthen the nascent recovery by pursuing a gradual normalization. The Budget for the next fiscal too would look to reinforce a structural push for the economy, by channelizing a greater share of public resources towards investments and by further incentivizing a private capex cycle.

Coming to Q3 - during the quarter we focused on:

- <u>Addressing Concerns on Microfinance</u> – We ensured BFIL operations remained smooth without any impact on customer servicing or collections. We have completed the internal review. In addition, the Bank appointed external consulting firm to undertake an independent review which is underway. The updates of both the reviews including financial implications are broadly in line with management expectations. I will share further details subsequently.
- <u>Maintaining disbursement traction on non MFI Portfolios</u> – The overall loan book grew by 4% QoQ. Our vehicle finance disbursements were up 5% QoQ. The strong disbursements ensured the vehicle book grew by 2% QoQ reversing decline in previous two quarters. The consumer book other than vehicle and MFI too grew by 2% QoQ. The corporate loan book has maintained its growth trajectory after the last year's consolidation with a QoQ growth of 6% driven by SME and small corporates. We were cautious on microfinance disbursements pending reviews during the last quarter and they have already picked up this quarter.
- <u>Continued Deposit Momentum</u> – Our deposit growth was strong at 19% YoY and 3% QoQ. We let go some expensive deposits given abundant liquidity. This helped further reduce our cost of deposits to 4.66% from 4.85% last quarter.
- <u>Asset Quality</u>: Slippages during the quarter net of upgrades and recoveries were at 0.9%. As expected, bulk of the slippages were from microfinance at 4.4% of MFI book whereas slippages from the balance 88% of the loan book were contained at 0.3%. Our GNPAs have reduced to 2.48% from 2.77% and restructured book too reduced to 3.3% from 3.6% QoQ. We have maintained our PCR at 72% and increased our contingent provisions to Rs 3,328 crores or 1.5% of loans.
- <u>Maintaining profitability of the franchise:</u> Our Net Interest Margin improved to 4.1% helped by falling deposit costs. Non interest income continued to remain healthy growing at 14% YoY. Our Cost to Income increased marginally to 41.6%. This resulted in maintaining our healthy PPOP margin at 5.90% of loans.
- <u>Digital Launches</u>: We launched Indus Easy Wheels during the quarter – a portal for used vehicle ecosystem. We scaled up our Q2 launches of Indus Merchant Solutions' app, Indus Easy Credit stack for Business and Debit Card EMI on IndusInd Bank debit

cards in Q2. We went live with updated version of IndusMobile app with enhanced security features and improvements. The mobile app has seen good response with user base increased by 36% YoY. Overall, we remain on track on digital along with new initiatives on individual and vehicle finance segments planned for launch in coming quarters.

Now coming to individual businesses.

1. **Microfinance**: I will start with an update on the reviews followed by business performance during the quarter.
   - As informed earlier, the Board of the Bank conducted internal review on the anonymous allegations received in Q3FY22. We have completed the internal review. In addition, the Bank appointed external consulting firm to undertake an independent review which is underway. Based on the findings of the internal review and preliminary status update provided by external consulting firm, key findings and actions initiated by the Bank are as follows:
     - A microfinance product was offered to provide liquidity support for customers impacted by the Covid 2nd wave after they clear existing dues, however it was observed cash disbursements and repayments of arrears took place on the same day, which is a procedural lapse. The product was discontinued in Sep-21 and prior to receipt of the anonymous complaint. The standard loans outstanding under this product were Rs 179 crores as of December 2021. The Bank has on a prudent basis fully provided for this exposure during this quarter.
     - All microfinance products required disbursement of loan with a biometric or an OTP consent from customer. It is confirmed that 'disbursement of loans without client consent getting recorded' was as a result of a system issue. The standard loans outstanding for such customers were at Rs 7 crores as of Dec-21. Prior to receipt of the anonymous complaint, the Bank had changed the disbursements process wherein loans are disbursed only with biometric consent (except for one state).
     - A few areas of scope for improvement in governance and oversight of the banking correspondent activities of the subsidiary are highlighted. Steps have already been undertaken including strengthening of process controls, integration of control functions, formation of oversight committees etc.
     - The management has evaluated the matter for possible impact on the asset classification, revenue recognition and provisioning. Further, evaluation also included factors which could lead to regulatory issues and they have been already addressed adequately.
   - The Bank will constitute a committee to assess staff accountability, if any, arising out of the findings of the review.

   Coming to the business performance of microfinance during the quarter.
   - The increasingly broad-based recovery in economy was also reflected in the microfinance business during Q3. The Covid third wave too did not affect Rural India as much as Urban locations.
   - BFIL added 564,000 customers during the quarter. The member acquisition has picked up this month as business activities are improving across India.
   - The positive momentum in the business activities was also reflected in improvement in collections. Collection efficiency in Dec'21 was at 93% on overall book and 98% on standard book excluding NPAs and restructured book.
   - West Bengal and Kerala continues to pull the overall collections down with collection efficiency of 95% and 91% respectively on standard book.
   - Within Q3 incremental NPA customers, 70% customers paid some instalments during Q3 indicating potential for recoveries, even though we have made conservative provisions. On overall NPA base, 40% customers paid some amount during Q3.
   - The restructured book was at 1,003 crores against 907 crores QoQ.
   - Overall, for BFIL, 86% customers paid all weeks in Dec, 8% are intermittent payers in Dec and 6% are non-paying. Among standard portfolio, only 2 % clients are non-paying.

- This also reflects in terms of quality of portfolio outstanding wherein portfolio current on all instalments has improved QoQ from 83% to 92% of standard portfolio.
- Our 0 to 90 DPD book has reduced QoQ from Rs 4,746 crores to Rs 2,153 crores of which 60DPD book is Rs 643 crores.
- The net slippages during the quarter were Rs 1,239 crores. The net slippages cumulatively for the 9 months FY22 were Rs 1,851 crores or 6.7% of the book.
- Looking at the performance of the overdue book as of now and assuming coverage of 80%-90% on the delinquent book, we remain confident of credit cost from MFI book for the year to be broadly around 6%-8% as stated earlier.
- We continue to scale up our non microfinance initiatives. The merchant acquisition business grew to 437,000 merchants from 320,000 merchants QoQ. The loan book from these customers was at Rs 1,463 crores from borrowing customer base of 261,000 merchants with 98.2% collection efficiency. We have also further scaled Bharat Money Stores from 91,000 to 94,000 during the quarter.
- Overall, we remain committed to the microfinance business. The BFIL business model has delivered outperformance versus the industry not just in Covid but also in disruptions pre-merger. BFIL prides in being a process driven organisation. The focus for this quarter will continue to be on improving field discipline, process tightening and quality control without impacting customer acquisition and collections.

2. Vehicle Finance:

- Our vehicle finance disbursements for the quarter were at 8,800crores reflecting 5% QoQ and 14% YoY growth. Similar to the Q2, the disbursements are also higher than the pre-Covid levels.
- Within vehicle categories, disbursements are now ahead of pre-Covid levels for Commercial Vehicles, Cars, Utility Vehicles and Tractors. The three wheeler and two wheeler volumes will take a few quarters more for the Covid impact to pass.
- Strong disbursements in the last two quarters have resulted in vehicle loan book growing by 2% sequentially after being stagnant or declining for the past few quarters.
- We have maintained or gained market share in most of the vehicle categories except two wheelers.
- The vehicle finance restructured book remained stable at 3,769 crores QoQ with marginal fresh additions during the quarter. The collections from the restructured book too improved to 87%. Collection efficiency from rest of the book is back to normalcy.
- We see continued improvement in freight availability for the existing vehicles along with stability in fuel prices. This has supported the portfolio quality and will also result in new vehicle demand for the coming year.
- This is also evident in the Q4 so far with disbursements improving further. We aim to maintain the growth trajectory, distribution reach and work towards improving to pre-pandemic levels in the last quarter as well.
- On the vehicle finance management leadership front, Mr Parthasarathy has identified AG Sriram as his successor. AG Sriram has been with the Bank for over three decades running large portfolios including Commercial Vehicles and Construction Equipment. AG Sriram is being groomed over the last several quarters to take on the leadership role. Mr Parthasarathy has been instrumental in building the vehicle finance domain for the Bank and will continue to be associated with the Bank post transition as a mentor to AG Sriram.

3. Other Retail Assets:

- This segment contributes 15% of the overall loan book and includes non vehicle non MFI products.
- The loan book grew by 2% QoQ driven by growth in both secured and unsecured products.
- Credit card spends continue reach new highs every quarter with Q3 spends at Rs 14,256 crores growing 28% QoQ.
- The secured assets disbursements were amongst the best in the last several years. This segment however is witnessing intense competition and we have let go customers where risk reward was not favourable.

- The collections from this consumer segment are back to pre-covid levels with net slippages well under 1%.

4. **Corporate Bank:**
    - The corporate book maintained its growth trajectory with QoQ growth of 6%. YoY growth was strong at 19%, albeit on a weaker base.
    - We continue to focus on well rated corporates with average rating profile of the corporate book improved to 2.67 from 2.76 YoY i.e. equivalent to “A” rating.
    - The growth was driven by demand from NBFCs, small corporates and SME.
    - The slippages from corporate book remain well contained with Q3 slippages at 56 crores. This would be one of the lowest quarterly slippage in the last several years.
    - A part of corporate book under restructuring will complete one year of satisfactory performance and expected to be upgraded this quarter. We are however watchful about developments in one of the restructured accounts under litigation.
    - Our exposure to stressed telco was at Rs 30bn as of Dec-21 of which funded is 10bn and balance non-funded. The consortium is evaluating a business plan and we will update you at appropriate time.
    - During the quarter, we sold down one of the ILFS exposures to an ARC for Rs 240 crores cash recovery with upside participation on final recovery. The exposure was already written off and recovery is used to augment the contingent provisions.
    - The Gems and Jewellery book reduced QoQ due to repayments and is maintaining its asset quality with zero NPAs.
    - Overall, the corporate franchise has seen a comfortable turnaround with focus on growth compliant with the underwriting framework.

5. **Now coming to Deposits:**
    - Deposits grew 19% YoY driven by 24% YoY growth in Current and Savings account and Retail Deposits as per LCR grew by 32% YoY.
    - The growth is achieved along with reduction in cost of deposits. Our cost of deposits reduced to 4.66% from 4.85% showing a decline of 19bps during the quarter and 139 bps cumulatively in 7 quarters.
    - We continue to remain surplus on liquidity and let go some of the expensive deposits during the quarter.
    - The Certificates of Deposits reduced in absolute as well as proportion of deposits during the quarter. The CDs now form 2.2% of the overall deposits.
    - Affluent segment total AUM stood at 60,000 crores, showing a YoY growth of 25%. In the same period, total Deposits in the segment grew by 21% and stood at 35,000 cr. This growth in deposits is driven by CASA, which grew 37% YoY and 4% QoQ.
    - Deposits from NR segment have been holding up well at 27,000 crores. The NR market has seen a sharp fall in the fresh inflow of deposits this year. We have however gained market share this year till date and aim to maintain the trajectory.
    - We have maintained our overall average LCR at 137% and were running surplus cash balances and excess investments of over 60,000 crores.

6. **Digital Traction:**

    - We have been executing digital strategy focused on a) improving efficiency of existing businesses, b) creating new digital business models and c) building digital propositions with wider ecosystem.
    - Over the last 9 months, we have built a comprehensive stack of digital platforms to serve the needs of Retail Individual and SME clients. These include IndusSmart for investments, Indusforex and recently launched Induseasycredit for personal loans and credit cards as well as purchase financing on debit card spends. In the MSME space, during the year, we launched easycredit for business and IndusMerchantSolutions to meet banking, payment and lending needs for small entrepreneurs.

- Consequently, our digital sourcing mix continued to increase during the quarter. Overall, 92% of transactions happened digitally and 71% of Bank's overall service requests are now processed via digital channels up from 68% a year ago.
- New developments during the quarter include:
    - We opened up IndusEasyCredit stack for Credit Cards to various channel partners and employees and it is gaining traction with more than 120 offline channel partners. We also integrated two digital partners and several more in pipeline. The platform is generating over 300,000 enquiries every month. With the platform launch, our cost of processing per application has come down by 80% as printing, dispatch, scanning, data entry are eliminated.
    - We launched an enhanced version of IndusMobile app with better user experience and security features. The mobile app continues to be rated 4.3 on playstore and IBL mobile & UPI transaction growth almost doubled YoY.
    - We enhanced features on whatsapp banking including pdf statements, card balances and bill payments. We saw good engagement on whatsapp with 3.6 mn registered base and over 1 mn conversations every month. WhatsApp banking user base increased by 82% YoY and transactions are up 2.9 times YoY.
    - IndusMerchant Solutions, a one stop solution app for small merchants saw good response in initial months of launch and garnered an installed base of 10,000+ organically with 60% of new to bank users indicating wider acceptance of solutions offered by the app. As we start the media campaign from this quarter, we expect a momentum to build in coming quarters.
    - The Bank has launched IndusEasyWheels. The website hosts ancillary services like road side assistance, mechanic services, insurance which is first of its kind in market. This portal also hosts the repossessed vehicles of the Bank for auction and provides a smooth user experience for anyone looking for pre-owned vehicles. This is the first step in journey of vehicle discovery and the future roadmap will include bringing in more inventory from aggregators, dealers, provide customer value added services on other customer touch points. The vision is to create a wholesome customer journey in complete vehicle ownership cycle and give enhanced user experience, transparency and value. This channel is expected to bring in niche digital footprint and market recall for vehicle finance.

- We also continue to build on our open banking / platform banking strategy leveraging Bank's APIs live with 260 partners so that we can extend banking services by embedding ourselves on partner platforms.

Now coming to the financial performance for the Quarter:

1. Net Interest Income for Q3 at Rs 3,794 crores grew 11% YoY and operating profits at 3,312 cr was up by 12% YoY. Our operating profit margin remains healthy at 5.90% of loans.

2. Net Interest Margin improved during the quarter from 4.07% to 4.10%. The improvement was driven by continued reduction in the cost of deposits from 4.85% to 4.66%. The yield on advances came off from 11.66% to 11.36% due to higher share of corporate loans with better rating profile and slower MFI disbursements.

3. Other income grew by 14% YoY. Retail fees contribute 58% of total fee income.

4. On the costs side, we resumed investments in our branch network adding 88 branches during the quarter taking branch count to 2,103. We continue to invest on the digital initiatives as well. Our Cost to Income ratio was at 41.6% for the quarter.

5. On the asset quality and the provisioning front.
    - Our provisions for the quarter were Rs. 1,654 crores.
    - Net slippages for the quarter were at 0.9% of loans. As expected, bulk of this came from microfinance at 4.4% of loans whereas net slippages from rest of the 88% book were contained at 0.3% of loans.

- Our coverage on microfinance NPAs is at 95%. We also have standard provisions of Rs 368 crores towards full coverage on product with procedural lapse and 10% provision on all 30-90DPD loans. We also additionally carry significant contingent provisions for restructured loans. We are thus well provided on the existing as well as potential NPAs in microfinance.
- Overall, the GNPAs for the bank moved down to 2.48% from 2.77% QoQ and Net NPAs were down to 0.7% from 0.8% QoQ with PCR at 72%. The restructured book reduced from 3.6% to 3.3% QoQ.
- We have used recovery from an ILFS exposure to improve our contingent provisions to Rs 3,328 crores amounting to 1.5% of loans.
- Total loan related provisions are at 3.7% of loans or 144% of the GNPAs.
- Our SMA1 and SMA2 book was at 25 bps and 59bps respectively.
- Net Security Receipts were at 85 bps vs. 71 bps QoQ.

6. Profits for the quarter were at Rs 1,242 crores growing 8% QoQ and 50% YoY. Our CRAR including profits improved to 19.07% from 18.06% with CET 1 ratio at 16.16%. The CRAR was also boosted by the Tier 2 issuance of Rs 2,800 crores during the quarter.

Overall, I think Q3 was one of the toughest quarters since the first Covid wave and outcomes have been what we have been communicating. We are thus now well poised and pivoting to growth as reflected in:

1. Disbursements as well as collections in the 88% of the non-microfinance book have been stable. This book grew 4.3% QoQ with 30bps net slippages. We expect these portfolios to maintain this trajectory.
2. The microfinance portfolio has seen slippages broadly in line with our expectations. The updates from internal as well as external reviews also corroborate our views. The disbursements are now back on track and we expect loan book to grow hereon.
3. We have conservatively chosen to take the microfinance credit cost hit through P&L along with augmenting contingent provisions. The contingent provisions position us well to mitigate future credit cost cycles.
4. The liability franchise continues to scale with reduction in cost of deposits. We are well positioned for the upward rate cycle as well.
5. We are well on track on executing our digital strategy. We have so far launched 3 out of planned 5 initiatives i.e. indus easy credit, merchant acquiring and vehicle finance portal. These are being scaled up. The other two i.e. millennial and SME offerings are planned for launch in couple of quarters.

The profitability of the franchise remains healthy at 5.90% PPOP margin. RoA and RoE continued the journey towards normalisation and should see further improvement as microfinance costs have peaked. While the Covid remains a risk to watch out for, the implication of the recent wave on our businesses have been limited. We are thus committed to executing our strategy quarter on quarter.

With this we can open for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: So two, three questions. The first is this audit report by when can we expect it and has any of the slippage or write-off been precipitated as a result of any finding of the report?

Sumant Kathpalia: The internal audit report has been presented to the board and to the committee of the board of directors who were overseeing the audit. I think the external consulting firm's preliminary findings have also been released and a status update has been given to the committee of directors. The external consulting firm board report should be available very soon. They are internally validating the report and they would be presenting the report to the management for their comments before they present it to the committee of directors. I think it should take two to three weeks before it is out. We have said in our first call itself that we have taken the full provision on this portfolio, which was Rs.179 crores on a particular product.

Abhishek Murarka: And then 368 crores I think you mentioned that you're carrying separately for MFI. This is outside of any provisions for MFI?

Sumant Kathpalia: No, these are for MFI. What We've done is we've taken 10% on 30 plus overdue portfolio as an extra provision and we have taken 100% provision on the current book of that particular product. 179 plus 120 or 130 crores on the 30 plus bucket is what we've taken as provision.

Abhishek Murarka: Understood. The second question really is on growth. Now at the current rate of growth, we may undershoot our guidance 16%-20% growth of this year. What is your view for the following year? You're saying disbursements are kicking back up. So what is your view for FY23?

Sumant Kathpalia: If you look at this quarter too, our growth outside the microfinance was 4.3% QoQ, so we are back to 18% to 20% growth YoY. If we get our microfinance growth back, which would be 5% QoQ or 6% QoQ and we would be delivering 5%-5.5% QoQ growth. In my view, our growth would be in the early twenties and we continue to believe that. We have to make up for the lost time. I think our growth will be in the range of 12% to 13% for this year and we should go to early twenties in the next year to make up for the 16% to 18% CAGR in the planning cycle 5 on the two-year period.

Abhishek Murarka: Finally, on MFI just a few questions. You're saying disbursements are back up. What was the disbursement last quarter and what have you done in January so far? Just to get a sense of..?

Sumant Kathpalia: I can’t give you the January number. The December quarter disbursements were Rs7,300 crores approximately. We do an average of Rs.8,500 to Rs.9,500 crores of disbursements per quarter.

Abhishek Murarka: We should be back up to those levels in this quarter, let's say?

Sumant Kathpalia: Yes. I am talking only about the member/JLG business. There will be another 300 to 400 crores of disbursement, which will happen in the merchant acquiring business.

Abhishek Murarka: This average ticket size that you have shared this is on AUM, right? What would it be on disbursements?

Indrajit Yadav: Disbursements will be slightly higher; I think ~32,000. Not much of a difference.

Abhishek Marda: Just so you're giving anyway quite a bit of data on MFI on paying, non paying disbursements, etc. just a request if you can put it in a slide. It just helps us compare because a lot of others give that data and would be useful to have at least the basic data about MFI separately so just a request there.

Moderator: The next question is from the line of Sameer Bhise from JM Financial Services, please go ahead.

Sameer Bhise: Just one question on how does one tie up the number of sale to ARC which says 740 crores in the presentation and around Rs.2,480 crores in the BSE release.

Indrajit Yadav: Sameer, 2,487 is the gross outstanding amount which was sold it to the ARC during the quarter, within that Rs.750 crores is the CTNL ILFS exposure, which was already written off and the balance is the retail loans which were sold during the quarter. The CTNL 750, as you know is the fully provided and written off exposure, of the balance. 1737, there were provision sitting on the books. The net amount is 1,213 as disclosed in the SEBI disclosure. Again, that 1,213, we received a consideration of 740. That's 740 is in the investor presentation. 740 is further reduced by, whatever the cash and SR book split that you receive against that, so that's how the 2,487 flows into the SR book and investor presentation notes.

Sameer Bhise: Okay. I probably just run down this once again, offline and I just wanted to get a sense on the corporate book, how will growth shaping up and from what kind of sectors?

Sumant Kathpalia: Our corporate book grew by 6% QoQ. I think on the large corporates, we are seeing growth in the NBFC segment, which has done very well for us. We have ~4.8% of our book there. We believe that's a very good business, which we are in. We've also added to the real estate sector. Two deals were done and we did smaller amounts, but very good deals. On the mid corporate and smaller corporate we saw growth. We saw the growth specifically in the smaller corporates at about 10% to 12%. The real estate loan disbursements were largely for existing projects, these were not new to bank customers, these were acquired earlier and disbursed over a period of time.

Sameer Bhise: And, and do you expect kind of high teens number to sustain on the corporate side?

Sumant Kathpalia: I believe so. I think the budget will throw up very good opportunities in the corporate. The CAPEX cycle is reviving and I believe that we will continue to grow on the corporate side. Like I said, our mix will be 45-55 and we are in that range on the corporate and retail side. We'll also see the retail side shaping up. On the retail side the vehicle is coming from a very low cyclical downturn. The vehicle side of the business will do very well. Microfinance, there is always a demand and you will see us growing the microfinance and on non vehicle asset business, you will see the growth momentum picking up. I think all the three businesses are well positioned for growth now.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities, please go ahead.

Kunal Shah: Firstly, with respect to the OPEX, so overall the OPEX has been quite contained, but we have seen increase across the board. So, do we see maybe investing further and we catch up on the OPEX or we still see like a costing managed at this level quite comfortably?

Sumant Kathpalia: No, what you will see is we will continue to invest in OPEX. I think OPEX is a very important component specifically on technology and people, where we are investing. Our branches, we are growing our distribution. We are investing in technology and we will invest in people. I think OPEX will continue to grow. But please understand the revenues will also grow. The nature of our business is such that we will continue to grow the revenue. I have always said our OPEX will be in the range of 41% to 43% and it will contain within that percentage. The absolute numbers of OPEXs will grow, but I think the revenue will also grow to take care of the OPEX.

Kunal Shah: Maybe the way there has been surprised all across that we are not seeing particularly for Indusind and maybe I think credit card would be one component of it.

Sumant Kathpalia: We have a very small card base of 1.6 million clients. People have invested a lot during the festival season because of the large base. I think our investment will be Rs.8-Rs.10 crores, it doesn't move the needle.

Kunal Shah: Sorry. I don't know if you covered it earlier, but the write-offs primarily were pertaining to the MFIs almost like Rs1000 crores?

Sumant Kathpalia: Let me give you the number. We did a write-off of Rs.1,662 crores. Rs.281 crores was from vehicle finance, secure retail was Rs.41 crores. Unsecured retail was Rs.217crores. MFI was Rs.928 crores. Corporate was Rs.194 crores.

Kunal Shah: MFI was?

Sumant Kathpalia: Rs.928 crores.

Kunal Shah: Almost like 4% of the book is something which would have been written-off.

Sumant Kathpalia: Yes.

Kunal Shah: What was the pain, if you have to look at it in terms of the entire restructuring plus slippages over past several quarters and the write-offs which have happened, finally on that book, what is the kind of pain which we had seen over the last 4-5 quarters?

Sumant Kathpalia: On the MFI book Rs.1,850 crores is the overall slippages over the year on the book. I think we have touched the peak and you will only see improvements. By Q1 we will be on BAU, there may be an elevated provisioning in this quarter of about Rs.400 to Rs.500 crores, but I see that going down to about Rs.250 to Rs.300 crores and normal course of the business. It's actually gone down dramatically and that's reflected in the X plus of book. Which we have given you the data and it's almost 50% down.

Kunal Shah: So next quarter, we'll still see 400-500 then thereafter getting settled at 250 odd crores?

Sumant Kathpalia: I am saying that it is on its way down and I think the normalization should happen from next quarter. I think it may be elevated than the BAU next quarter, but overall, from Q1, it will be BAU and I am not taking any hits to the contingent provisioning and I'm taking it to P&L. I could have reduced the P&L cost by reducing it to the contingent provisions. So I'm not using my contingent provisioning right now and even the excess which we received from the sale of written off asset, we made a contingent provision. So, I am not using that provisions at all.

Moderator: The next question is from the line of Shagun Verma from Goldman Sachs. Please go ahead.

Rahul: Hi Sumant and team, this is Rahul here. Just a couple of questions. I wanted to understand the behavior on the ECLGS portfolio. So, we understand, and correct me if my numbers are wrong, but 4,500 crores was the amount. How has the behavior been, and do we have any micro-finance sitting in there?

Sumant Kathpalia: So, let me tell you what is our GECL portfolio. So, our total overall portfolio is 5,878 crores as of now. And how is the portfolio performing, Ramu?

Ramaswamy Meyyappan: We had very small slippages in loan against property. It's not been anything material as of date. The repayments have started, because the 12-month moratorium has ended for some of the early loans that were given in 2020, in second half of the year. So, we continue to monitor it, nothing material or any flags which have come up on this portfolio. And we haven't seen much traction on disbursements in recent times.

Sumant Kathpalia: And on the MFI portfolio which you asked which we have booked the GECL, there is an 87% collection efficiency.

Rahul: Sorry, this 87% collection efficiency is on the MFI book.

Sumant Kathpalia: On the GECL portfolio.

Ramaswamy Meyyappan: We have a GECL program for MFI clients, it's about 89% of the collection efficiency.

Rahul: And the full repayment of this book will happen in which quarter, the fourth quarter?

Ramaswamy Meyyappan: It goes on for three years and four years. The term of the proposal is one year moratorium.

Rahul: When does the moratorium for the entire book end?

Ramaswamy Meyyappan: Some of it will end by early next year because disbursed up to last December. Because GECL-3 also came in.

Sumant Kathpalia: MFI ends in March and the other may end up by another three months or six months later.

Ramaswamy Meyyappan: Because bulk of our disbursements happened last year, so many of them have already ended.

Sumant Kathpalia: We can give you the data. We don't have that real data with us right now, so we will share that data with you.

Rahul: The other question was on the two-wheeler and LAP portfolio. For the last 2-3 quarters that book is running down. So, when do we see that rundown stopping or the disbursements to start picking up in those portfolios?

Sumant Kathpalia: The issue is, there is a decline in the two-wheeler industry. We have to accept it. 30% to 40% decline. While we are maintaining our market share or increasing our market share, the issue is the number of scooters sold is decreasing and that is why the book is running down. However, we have seen the turn in cycle now and for the first time we saw a little bit increase. But yes, you are right, this book is running down, and we should start seeing an increase this quarter. But it will be a marginal increase of 30-50 crores because the runoff is also very high. On LAP we are seeing disbursement happening progressively. We did 260 crores of disbursements last month, but the issue is that the runoffs are also high. We had to touch to 350-400 crore and you will see the growth happening from this quarter onwards.

Rahul: Last question on employee expenses. So, last two quarter the run rate has gone up to 860 crores odd from 600 odd crores or thereabouts. So, is it how the run rate is going to be now or there is any one off sitting in there?

Sumant Kathpalia: It will be similar. We have added new people in Bharat Financial. We are adding resources in technology and digital, the cost of our resources in technology and digital have gone up. We made a bonus provision which is a little bit higher for the retention of people. We have also given an increment in January to our people at the lower level. So, I think all around we have done that, but I don't think it's going to be at that level for some time because it's all the cost which has been added up to that level. But we continue to believe that we will between 41% and 43% efficiently of our business.

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

Nitin Agarwal: When you guide for a loan book growth of 20% next year to make up for the slackness this year, how confident you are to grow the liabilities at commensurate pace. Because the mix of retail deposits has been sticky on 40. So, would you not focus to grow this, like a mix of retail deposits in a calibrated manner going ahead?

Sumant Kathpalia: See, we continue to believe that we can press the accelerator on deposits at any point of time. Because of this excess liquidity which we had, we actually ran off a little bit of our matured term deposits also. And I think it's only a matter of time that you will see this coming back. We did lose certain deposits because of our rates getting dropped, not to say that we did not drop the rates, we dropped the rates on savings account, we dropped the rate on TDs. I have always said our liability growth will be higher than our asset growth and we continue to maintain that. We have given a 48% to 52% SBC plus LCR outlook, and we will continue to stick to that plan.

Nitin Agarwal: Secondly, we have put strong treasury gains during the quarter. So, if you can provide some color on it and how do you see this fairing in the wake of tightening rate environment?

Sumant Kathpalia: There are two things in that. If you look at the other income, there are two things. One is the extend guidelines which have been modified and 240 crores of recovery income which came into the other income and then there is a treasury income which come in. So, the write off recovery is around 240 crores and then the other treasury income is about 120-130 crores which have come in there.

Nitin Agarwal: Lastly, on the corporate while we have talked about that the improvement in rating given this decline in yield but it's still pretty sharp.

Sumant Kathpalia: What has happened, we have been dropping our MCLR and the MCLR impact had to come in at some point, and it has come in. Number two, please understand that a lot of repricing happened because we were losing clients. The market rates on corporate banking is anywhere between 5.5% to 6%. So, how do you manage your clients? So, we had to give a little bit of attraction on our yield otherwise we would have lost a very good loan book, specifically in the SME side and in the BBG side. There are higher rated papers which have come in. Most of our disbursements are happening in higher rated paper, and we are moving towards working capital also in a large way.

Moderator: The next question is from the line of Alpesh Mehta from IIFL Securities. Please go ahead.

Alpesh Mehta: First question is again going back to this ARC sale. So, first and foremost this a nine-month number, right? This is not a third quarter number.

Indrajit Yadav: This is the third quarter number.

Alpesh Mehta: So, the gross value of the loans that we have sold is around 2500. The net value is around 1200.So, the provisions that you had made on this book is 1275. So, how is this entire provision consideration received on the shortfall is being accounted in the reporting?

Indrajit Yadav: I'll repeat the numbers again. So, out of the 2,487 crores of sale to ARC, 1,737 crores is the sale related to MFI & other retail book and 750 crores is regarding the ILFS exposure. Now, within this,750 crores was fully provided, and the provisions include provisions till date not just in the last quarter. So, the net value of CNTL is zero. The net value after provisions of other loans is around 1,213. That is the number reflected in the disclosure. Against this 1213 of net exposure that we have sold the consideration for that was 980 crores. Within that 980 crores 240 crores is for the ILFS asset and 740 is for the rest of the book, because the ILFS exposure was written off already that 740 crores is a recovery and that does not get reflected in the GNPA movement. The 740 crores is the number that is seen in the NPA movement. And part of 740 crores number then goes into the SR book for which we are carrying provisions.

Alpesh Mehta: So, this 240 crores would be a part of the recovery from written off accounts?

Indrajit Yadav: Yes, it's a recovery from written off accounts.

Alpesh Mehta: And it's a part of other income?

Indrajit Yadav: Yes.

Alpesh Mehta: And the shortfall between the 740 and 1,213, 500 crores, so that has been adjusted against the security receipt that you would have done. Right?

Indrajit Yadav: That's flows through the P&L. Whatever is the loss on the sale to ARC flows from the P&L in the credit costs for the quarter.

Alpesh Mehta: Now the second question iswhat is the outstanding quantum of security receipts on the balance sheet?

Indrajit Yadav: Net security receipts was 0.85% for the quarter against 0.71% last quarter.

Alpesh Mehta: Last question is on the margins front. While obviously, the whole system, they are saying that the growth is picking up and some of the larger corporates are driving this growth, especially in the gone quarter and which is likely to be the case at least for the next one or two quarters. So, what's your outlook on margins or your view on volume versus the margins? How are you looking at this situation?

Sumant Kathpalia: Which margins are you talking about.

Alpesh Mehta: The overall net interest margin, I am talking about.

Sumant Kathpalia: Our net interest margin expectation has always been between 4.15 to 4.25. We are not in line right now. We are lower by 5 basis points at 4.10. But I think as the microfinance business picks up, we should be there.

Alpesh Mehta: So, even though you are planning you may grow the large corporate book, but your margins should remain intact within that 4.15.

Sumant Kathpalia: Mix of the book will also undergo a change at certain point of time. And if the mix moves a little bit towards microfinance and retail business, you will create more margins.

Alpesh Mehta: The last question, out of the total slippages what are the slippages related to the MFI for this for first nine months.

Sumant Kathpalia: Our total slippages in the Quarter 3 was 2,598. 1,341 crores is from the MFI book.

Alpesh Mehta: And the first two quarters would be?

Sumant Kathpalia: Quarter 2 was about 1070, gross slippages. Net slippages was about 1,239 in the Quarter 3.

Indrajit Yadav: Quarter 1 if I remember it was around 150 crores.

Alpesh Mehta: In case during the call if you get this number handy, what is the gross number of MFI slippage and the net number of MFI slippage, that would be very useful, in case you have it handy, for the nine months I am talking about.

Indrajit Yadav: We will try and collate before the call ends.

Moderator: The next question is from the line of Prakhar Agarwal from Edelweiss Financial Services. Please go ahead.

Prakhar Agarwal: Just a follow up on that as well. So, this time around you said 980 crores is the write off from MFI. What would be that cumulative number for nine months? How much have we written off cumulatively?

Indrajit Yadav: Write off would be very less. We will get you that number. Nine months number is not handy. I think we had disclosed every quarter, what is our write offs.

Response on MFI Queries (Information disclosed post the analyst call):

Rs crores	Q1 FY22	Q2 FY22	Q3FY22	9M FY22
Gross Slippages	674	1,070	1,341	**3,085**
Net Slippages	153	460	1,239	**1,851**
W/off	100	-	928	**1,028**

Prakhar Agarwal: If during the call if you could provide that number. The second is in terms of telecom exposure, has there been any change in the telecom exposure? Has something been repaid or something of that sort?

Sumant Kathpalia: Rs.258 crores of guarantees were repaid. We are expecting another 300 crores to go off and then we are expecting another 300 crores to go off in Quarter 1 or so. So, that's something which we expect. Then I think on the ARPU guarantees, the decision has to be taken by the government and we expect that decision to come through which should be another Rs.500 to 800 crores going off.

Prakhar Agarwal: But nothing on fund-based side that probably got reduced this quarter?

Sumant Kathpalia: So, we have already reduced 258 crores of guarantees like I told. And we should get another 250 to 300 crores reversed this quarter.

Prakhar Agarwal: Just last thing on this contingent buffer that you are carrying. What is the plan to utilize it? How are you thinking about it?

Sumant Kathpalia: See, there was an opportunity to utilize and I was tempted to do it this quarter. But we think that we should keep it and that's why we added to it also. And I think we should keep it and use it at an appropriate time. We will evaluate it next quarter because we want to come at our guided credit cost. Today if you look at it, my credit cost expectation was 190 basis of BAU credit cost and 50 to 60 basis points on the Vodafone. We are already at 190 today and 40 basis points on the Vodafone. If I have to maintain the expectation of 190 to 200 basis points, I will see whether I have to use the contingent provision. I may not have to use it much, but I may have to use 200-

300 crores. So, we will see whether we have to use it, or we will bust our credit cost expectation. So, we will evaluate it at an appropriate time.

Prakhar Agarwal: What would be your credit cost guidance for FY23?

Sumant Kathpalia: Not right now. We will come to it later. We have always said that our credit costs shall now go down between 125 to 150 basis points. But I am not giving a guidance. I want to see how COVID plays out.

Moderator: Thank you very much. Ladies and gentlemen, I now hand the conference over to Mr. Sumant Kathpaliafor closing comments.

Sumant Kathpalia: Thank you for being on the call on a Saturday evening. Thank you for being patient with us. The business going was not an easy. I want to tell you that the bank continues to remain strong, and we are very-very confident of the recovery phase, and we don't see any issue in what we have said. Our microfinance business is strong, and I continue to believe that we will continue to grow the business and we will continue to have a growth which we anticipated. We could have achieved our growth target this quarter also except for the microfinance. So, we are well on our way to achieving our growth target. Thank you so much. Me and Indrajit are available for any clarifications or any doubt you have. If we have not answered certain questions, we will make sure that that's uploaded in the investor deck. Thank you so much.

Moderator: Thank you very much. On behalf of IndusInd Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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