

## Q1FY25 Analyst Call Opening Remarks

Dear all,

Good evening and thank you for joining this call. Let me start with some macro commentary and then go into the bank specific details.

Domestic economic activity sustained momentum during Q1 after delivering robust GDP growth of 8.2% in FY24. Manufacturing activity continued to gain traction on the back of strengthening domestic demand, while services sector maintained its buoyancy. In banking system, liquidity conditions remained in deficit but improved marginally compared to the last quarter. Looking ahead, recent budget has maintained continuity while laying down the future policy agenda of new government towards the goal of a becoming a developed economy. Adequate budget allocations have been made to support Rural economy including increasing allocation to the flagship MNREGA scheme compared to last year. These along with steps taken pre-budget augur well for a rural recovery and rural spending would be outpacing urban segments.

Coming to the quarter specific developments, the Bank navigated a challenging quarter where a typically seasonal weak first quarter was coupled with issues from heatwaves & election related disruptions. The key highlights for the quarter were:

- Healthy Deposit Growth – Our deposit growth accelerated to 15% YoY and 4% QoQ. We maintained our traction on retail deposit mobilisation with retail as per LCR deposits growing at 16% YoY, ahead of our loan growth. Increase in Cost of Deposits at 5bps QoQ also remained under control despite ongoing liquidity conditions.
- Loan Growth Trajectory – Our loan growth at 15% YoY was driven by 18% YoY growth in retail loans and 13% YoY growth in corporate loans. We were cautious on disbursements in vehicle and microfinance during the election phase and runrates have already picked up this month. Corporate growth continues to be driven by mid and small corporates. Overall, the headline loan growth should see pick-up going forward with seasonality benefits.
- Progress on new initiatives – Our digital banking offering INDIE continue to see strong traction and we now have more than 1.3mn customers on the INDIE app. Our liabilities initiatives of affluent and NRI banking maintained robust traction growing at 23% and 33% YoY respectively. Our home loan book grew by 31% QoQ and now stands at Rs.2,348crores.
- Asset Quality – Focus on collections resulted into gross slippages improving to 0.45% vs 0.47% YoY despite the external challenges this quarter. Our gross NPA & net NPA were at 2.02% and 0.60% respectively with healthy PCR of 71%. Our restructured book continues to run down at 0.34% compared to 0.40% QoQ. We have maintained our contingent provisions at 1,000cr.
- Robust Core Profitability – Our Net Interest Margin remained stable at 4.25%. We have not used any contingent provisions this quarter. Adjusted for this, the core profitability remained resilient for a seasonally weak quarter. Our core PAT adjusted for contingent provision reversal grew by 10% YoY and 2% QoQ. Our Capital Adequacy Ratio remains healthy with CET1 of 16.15% and overall CRAR at 17.55%.

Now coming to individual businesses.

## 1. Vehicle Finance:

- Our vehicle finance loans grew by 15% YoY and 2% QoQ.
- Vehicle disbursements for the quarter were Rs.11,260 crores. The quarterly disbursements were lower due to subdued demand during the election phase, extreme heat in most regions and Q1 being a generally weak quarter.
- Within vehicle categories, we saw sequential growth in Commercial Vehicles, Cars and Construction Equipment. Two-wheeler and Tractors segment were weaker and de-grew during the quarter.
- The gross slippages in Vehicle Finance improved to 0.75% vs 0.77% YoY showing stable asset quality in spite of external disturbances last quarter.
- The restructured book in vehicle finance also reduced to Rs. 417 crores from Rs. 547 crores QoQ with majority of the reduction due to upgrades and recoveries.
- First quarter of the financial year has generally been a seasonally weak quarter and the second half of a year contributes larger share of disbursements as well as recoveries. With election related uncertainties also behind us, we expect the trend to continue in this year too. The timely onset of monsoon and government's capex push in recent budget also augurs well for the outlook of vehicle business.
- Overall, we have seen activity levels improving from July. We expect vehicle demand to pick up pace as the government spends resume post the budget and monsoon period gets over. We should thus see acceleration in the vehicle loan growth as the year progresses.

## 2. Bharat Financial Inclusion Limited (BFIL):

- Outstanding loan book originated via BFIL now stands at Rs.42,350 crores growing 17% YoY with microfinance & merchant loan book growing at 16% and 25% YoY respectively.
- Growth was driven by client acquisition and active loan clients increased by 11% YoY. Share of non-MFI book stands at 13%.
- The collection efficiency was impacted during the quarter as mentioned earlier. The organization, however, prioritized collections over growth and was able to contain forward flows. The gross slippages from BFIL were at Rs.338 crores for the quarter.
- Total liabilities franchise sourced through BFIL now stand at 2,346 crores driven by new customer acquisition, cross sell of liabilities products and now ~93% of loan disbursements are done in IndusInd account.
- Microfinance
  - While Q1 disbursements are typically lower, we were also watchful for any untoward developments due to election activity.
  - Our average loan outstanding per customer at Rs.42,031 was reduced by 4% QoQ.
  - The collection intensity continues this quarter and we aim to restore normalcy in the overdue book in a few months. We remain comfortable with our full year microfinance credit costs to be broadly stable YoY.

- Bharat Super Shop i.e. the merchant acquiring business
  - We have now around 700,000 merchant borrowers under this program.
  - Our merchant loan book stood at Rs.5,304 crores with 25% YoY growth.
- Bharat Money Stores i.e. the kirana shop model
  - We have around 88,000 Bharat Money Stores (up 27% YoY) providing banking at the doorstep in remote areas.
  - These merchants have sourced around 2.6mn savings accounts registering growth of 68% YoY.

Overall, we focused on asset quality during the quarter to mitigate impact of several external challenges. We are already witnessing centre meetings discipline restoring. With good monsoon predictions and external disturbances getting behind the industry, we are well placed to participate in the large rural opportunity with our deep distribution network while transitioning from micro finance to micro banking.

### 3. Corporate Bank:

- The corporate loan book grew 13% YoY with growth continues to be led by granular mid and small corporates.
- Within corporate, large corporates grew by 10% YoY, mid corporates by 14% YoY and small corporates by 22% YoY.
- The healthy growth in mid and small corporates continues with increasing coverage focus on this segment and focus on selected industry segments.
- The diamond business too showed sequential growth after a few quarters of contraction due to weak global demand. The asset quality in diamond clients remains pristine with no NPAs or SMA1 / SMA2 customers.
- The proportion of A and above rated customers has been at 79% vs 76% YoY with weighted average rating improving to 2.48 from 2.61 YoY.
- The Gross Slippages in corporate book were Rs 48 crores for the quarter and net slippages of Rs 4 crores only.
- Overall, we continue to progress on building corporate bank franchise focused on selective areas of competitive advantage with granular risk profile.

### 4. Other Retail Assets:

- During the quarter, our other retail assets grew by 23% YoY.
- Our MSME book under business banking is at 16,683 crores which grew 13% YoY and LAP book maintained steady traction with 12% YoY growth.
- We tweaked our branch operating model last year to facilitate sourcing MSME asset customers. We have also re-defined our SME branches with enhanced capability & upskilling of the branch staff. This is showing results in terms of increased contribution by branch led origination.
- We are also revamping our onboarding journeys and credit assessment engines by bringing in the desired digitization and data-backed analytics, in credit assessment and onboarding of the customer. With a focus on branch sourcing & digitization in process

& client capability, we expect MSMEs to become a meaningful growth driver for the Bank.

- Our Home loan product continues to scale with loan book now at Rs.2,348crores as of Jun-24 growing 31% QoQ.
- We recorded healthy credit card spends at Rs.24,019 crores growing by 19% YoY. Our spends market share has further improved to 5% as per latest available RBI data. We have been cautious in maintaining share of unsecured card and PL at 5-6% of the loan book.
- Overall, we continue to focus on growing our consumer assets while improving the balance towards secured mix with scale-up of home loans and MSME.

### **5. Now coming to Liabilities:**

- We accelerated our deposit mobilisation to 15% YoY narrowing the gap with the loan growth.
- We also maintained traction on retail deposit mobilisation with retail as per LCR deposits growing at 16% YoY. Share of retail deposits now stands at 43.7% vs 43.4% YoY.
- Cost of deposit increased by modest 5bps QoQ driven by the mix in favour of term deposits and some repricing.
- The Bank opened its milestone 3,000<sup>th</sup> branch last quarter and with total branch count of 3,013 as of June-24.
- We continued to scale our initiatives of Affluent and NRI during the quarter. Affluent segment deposits grew 23% YoY to Rs.54,679 crores during the quarter. Affluent AUM was also up 25% YoY to Rs.86,000 crores. The Bank is slated to take the affluent banking to next level with the launch of Pioneer Private banking next month. This will be a curated offering for customers with over Rs 30mn net relationship value. We are confident that this addition will provide another growth leg-up for our already sizable affluent franchise.
- Our Non Resident Indian i.e. NRI segment continues to see robust growth momentum on the back of strong NRI deposit flows. NRI deposits grew 33% YoY and 9% QoQ and further achieved milestone of crossing Rs 50,000 crores deposit base in July. Our market share in Non-Resident segment stands at 3.7% as per last available data vs 3.3% YoY.
- We continue to invest in our brand. We saw strong lift in our brand awareness during the quarter driven by our marketing campaign during the ICC T20 Cricket World Cup, where India was crowned as champion.
- Our reliance on bulk sources remains low with Certificates of Deposits at 2.5% of overall deposits and borrowings at 8% of total liabilities.
- The liquidity position remained healthy during the quarter with average LCR improving to 122% vs. 118% QoQ and average surplus liquidity at Rs.43,000crores for the quarter.
- Overall, Retailisation of liabilities continues to be cornerstone of our strategy and our balanced approach towards traditional as well as investments in new initiatives should support our growth ambitions.

## 6. Digital Traction:

- During the quarter, INDIE – the digital banking app of the Bank completed first full year of operational launch.
  - We now have more than 1.3mn clients on the INDIE app including 1.1mn New to Bank and 200k existing clients migrated to INDIE
  - The migrated clients have shown an increase in 35% in terms of liabilities per client and 20% in transactions per client.
  - We are in process to soon open this app as a platform to all clients of the Bank to manage their existing relationships; while new products and services continue to get launched on the app and continuous innovation happens in parallel.
  - We are also going to launch a revamped wealth management offering, INDIE for Business & revamped experience for NRI clients on INDIE app within coming weeks.
- While we are building the new, the existing platforms continue to scale as well.
  - IndusMobile has a monthly active user base of 3mn+ and registered a growth of 30% YoY in recurring bill payments. The rating of the app improved to 4.5 on App Store and 4.3 on PlayStore.
  - On Indus Merchant Solutions, we launched a new feature for merchants whereby they can add or manage “sub users” & delegate store operations such as collections.
  - On WhatsApp Banking, we have a registered base of 9.2mn and conversations and active users grew strongly at 200% and 30% YoY.
  - Indus Easy Credit – the flagship digital retail lending platform of Bank continued to see scale and now 100% of personal loans, credit cards, small ticket business loans and working capital loans happen digitally via the platform. The platform is now also integrated with Account Aggregator and for MSME clients enabled with CGTMSE.

## Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 11% YoY and 1% QoQ with Net Interest Margin remaining steady at 4.25% vs 4.26% QoQ and within our expected range of 4.2% to 4.3%.
2. Our Cost of Deposit increased by 5bps QoQ while cost of funds increased by 3bps QoQ. The Increase was offset by 2bps increase in yield on assets maintaining margins steady.
3. Our Other Income grew by 10% YoY. Core client fees excluding trading income too grew by 11% YoY. Share of retail fee remains healthy at 78%.
4. Our total revenue for the quarter was at Rs 7,849crores with 11% YoY growth.
5. We continue to see sequential moderation in opex growth. The opex growth reduced to 20% YoY vs 24% YoY in previous quarter. The sequential growth was curtailed further to 2% QoQ. The cost-to-income however increased largely due to slower revenues due to seasonally weak disbursements in vehicle and microfinance. We should see cost-to-income to improve as revenues pick-up during the course of the year.
6. The operating profit for the quarter was at 3,952 crores growing 3% YoY.

7. On the asset quality and the provisioning front:
  - Collections and cautious disbursements were key focus areas during the quarter given the external disturbances. As a result, we were able to improve gross slippage ratio at 0.45% vs 0.47% YoY in an otherwise challenging quarter.
  - The gross slippages by key segments were vehicle finance Rs.660crores, BFIL Rs.338crores, corporate Rs.48crores and other retail Rs.490crores.
  - The restructured book reduced during the quarter to 0.34% from 0.40% QoQ with bulk of the reduction due to upgrades and recoveries.
  - The Net Security Receipts have reduced to 32bps from 34bps in previous quarter.
  - Overall, the GNPA's and Net NPA's were at 2.02% and 0.60% respectively. We have maintained provision coverage ratio of 71%.
  - Our SMA1 and SMA2 book collectively is at 25bps.
  - Total loan related provisions are at 2.2% of loans or 106% of the GNPA's.
  - The Bank has not utilised any amount from the contingent buffers during the quarter. The annualised credit costs were at 121 bps for the quarter without using contingent provisions.
  - We thus remain confident of achieving full year credit cost of 110-130bps given that a turbulent and seasonally weak quarter is behind us with credit costs outcomes within our expected range.
  
8. Our core profitability adjusted for contingent provision reversal remained robust during the quarter. Our core PAT adjusted for contingent reversal grew by 10% YoY and 2% QoQ. Our Capital Adequacy Ratio remains healthy with CET1 of 16.15% and overall CRAR at 17.55%.

Overall, to summarise the quarterly performance:

- Q1 was a subdued quarter wherein a seasonally weak quarter got added disturbances from external factors. The disbursements are already picking up and we remain committed to the PC-6 growth guidance of 18%-23% growth.
- Our deposit growth is accelerating along with narrowing spread on deposit rates with larger banks. Our balanced approach on traditional and new initiatives would drive achieving our loan growth aspiration.
- The opex growth has started normalising and we should see revenue growth exceeding opex growth in a few quarters as the operating leverage and seasonality in key businesses play out.
- Our asset quality trends remain healthy especially seen the context of turbulent last quarter. Our Q1 credit costs were in our expected range of 110-130bps without using any contingent provisions.

We are thus confident of delivering higher growth with improving profitability in rest of the year.

With this we can open for Q&A.

.....



**Disclaimer:**

*This document has been prepared by IndusInd Bank Limited (the "Bank") solely for information purposes, without regard to any specific objectives, financial situations or informational needs of any particular person. All information contained has been prepared solely by the Bank. No information contained herein has been independently verified by anyone else. This document may not be copied, distributed, redistributed or disseminated, directly or indirectly, in any manner.*

*This document does not constitute an offer or invitation, directly or indirectly, to purchase or subscribe for any securities of the Bank by any person in any jurisdiction, including India and the United States. No part of it should form the basis of or be relied upon in connection with any investment decision or any contract or commitment to purchase or subscribe for any securities. Any person placing reliance on the information contained in this document or any other communication by the Bank does so at his or her own risk and the Bank shall not be liable for any loss or damage caused pursuant to any act or omission based on or in reliance upon the information contained herein.*

*No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained in this document. Such information and opinions are in all events not current after the date of this document. Further, past performance is not necessarily indicative of future results.*

*This document is not a complete description of the Bank. This document may contain statements that constitute forward looking statements. All forward looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially include, among others, future changes or developments in the Bank's business, its competitive environment and political, economic, legal and social conditions. Given these risks, uncertainties and other factors, viewers of this document are cautioned not to place undue reliance on these forward-looking statements. The Bank disclaims any obligation to update these forward-looking statements to reflect future events or developments.*

*Except as otherwise noted, all of the information contained herein is indicative and is based on management information, current plans and estimates in the form as it has been disclosed in this document. Any opinion, estimate or projection herein constitutes a judgment as of the date of this document and there can be no assurance that future results or events will be consistent with any such opinion, estimate or projection. The Bank may alter, modify or otherwise change in any manner the content of this document, without obligation to notify any person of such change or changes. The accuracy of this document is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the Bank. Minor inaccuracies during the analyst call discussion may be corrected by the Bank at the time of uploading this document. This document is not intended to be an offer document or a prospectus under the Companies Act, 2013 and Rules made thereafter, as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended or any other applicable law.*

*Figures for the previous period / year have been regrouped wherever necessary to conform to the current period's / year's document. Note: All financial numbers in the document are from Audited Financials or Limited Reviewed financials or based on Management estimates*