"IndusInd Bank Limited Q4 FY'20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the IndusInd Bank Limited Q4 FY'20 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. Sumant Kathpalia -- Managing Director and CEO, IndusInd Bank. Thank you and over to you sir.

Sumant Kathpalia: Good evening. Thank you for joining the call. This is my first quarter and financial year analyst call. It has been a testing time to say the least due to the unprecedented times which we have found ourselves in over the past month or two. I trust you all are keeping safe and will like to use this opportunity to complement our staff for sticking to the task despite the disruptive period. At the macro level, the government acted swiftly to lock down the country, provide healthcare support and roll out initial round of fiscal expansion for the poor with the likelihood of more to follow. With the IMF characterizing the economic disruption and global recession following the COVID-19 pandemic to be the worst since the Great Depression, the government will have to step in with a much larger stimulus this time around. RBI became more accommodative on rates and on liquidity and I am sure all of you have seen the headlines on the RBI's initiatives. The RBI's actions on CRR cut, refinance of 50,000 crores through SIDBI, NABARD, lower repo and reverse repo rates have been beneficial to all banks. Other benefits such as increased MSF facility is fully available today if we need. As inflation is likely to be below target zone, RBI may cut rates further to boost demand. RBI may consider unconventional measures such as the repo window against corporate bonds and continuation of refinance window for banks to lend to mutual funds for easing liquidity.

To begin with, I would like to give you some operational highlights in the context of COVID. One, we have offered three months installment moratorium to all our retail customers other than those who choose to opt out. However, over 95% of our vehicle finance customers have paid their March installments. We have maintained a standstill on NPA as at 1/3/2020 as per RBI guidelines. Of course, there are many segments where collections are coming in and we will talk about that when we discuss our portfolios. Educational campaigns are run on collections, notwithstanding the opt-out nature of the moratorium to customers. Eligible corporate customers have to opt in for the moratorium.

Two, RBI requires COVID additional provision to those who would have turned NPA that is already 60-days overdue as of 1.3.2020 basis for which we are required to make a provision of Rs.45 crores over two quarters as per RBI directives. We have taken Rs.23 crores provisions this quarter as per this guideline and an additional floating provision of Rs.260 crores, upfront, making our total provision Rs.283 crores for COVID. I repeat Rs.260 crores additional floating provision for COVID in addition to the Rs.23 crores which we have taken as per RBI directive. This provision is mainly to cover any additional credit cost from the vehicle finance and micro finance portfolio.

Third, we have completed our initial sensitivity analysis based on the latest available information on the lockdown withdrawal in stages and expected timelines for economic recovery. I will ask Ramu, our CRO to talk about this later. But we have estimated the potential impact on the Bank on a mild-to-moderate case COVID impact is a delta of nearly 80 basis points of GNPA. Of course, this is our model. And if things get worse, it may be difficult to predict the outcome.

Other than this, our 1,911 branches have been up and running and the ATM network is at 95% capacity. Call centers have seen activity at 60% of normal levels in the lockdown so far. 53 branches are in various stages of completion, but were hampered by lockdown. We have ramped up our digital activities since the lockdown. Our current daily digital NTB are 2x online, FDs are 4x and/or digital partners volume of 1.5x of pre-lockdown.

Lastly and by no means the least we have played a meaningful role in the contribution to the community through significant grant to the PM Fund and the State Disaster Relief Fund. Bharat Money stores have assisted customers to avail DBT transferred by the government. We have worked through our various CSR partners to support village level communities for preparing and distributing food, assisting with sanitization, social distancing, etc.,

Next, I would like to come to the Financial Highlights of the Quarter: Q4 witnessed a strong operating performance with revenues up by 32% and operating profit up by 38%. Net interest income grew by 45% whereas fee grew slower by 14%. Fee was partly impacted by the yearend lockdown as a large part of our distribution income comes towards the end of quarter. NIM improved by a good 10 basis points from 4.15% to 4.25%, driven by a fall in cost of deposits sequentially. On a full year basis also, revenues were up 36% and operating profit was up 34% and PPOP over assets were healthy at 3.8%.

Due to the moratorium placed on a bank followed by some large government deposit withdrawals from private sector banks in March, we saw year-on-year deposit grow at 4% for the year. We also had the impact of COVID-19 lockdown from March 27. To manage the gap, we resorted to IBPC, refinance, foreign currency loan and use of some excess liquidity held. We maintained our liquidity as measured by LCR in the range of 110% to 120% throughout this period. Our retail deposits continue to grow, and overall deposits are stable as we speak. We have ramped up our digital sourcing of retail deposits and are opening approx. 4,500 FDs per day, of which 30% are new to bank lines. This will be further ramped up once the lockdown is eased. Our ambition is to achieve quarter-on-quarter growth on deposit. We slowed down our loan growth due to the COVID-19 towards the end of the year resulting in 11% year-on-year loan growth for the year. We also slowed down corporate loans during the quarter. Retail business continues to grow resulting in retail-wholesale mix of 56%-44%. Higher retail share also benefits our NIMs.

Our full year provision to loans were at 2.25%. This is higher than our usual run rate. During the year we have increased our PCR from 43% to 63% over four quarters, fully provided for a large infra group at both holding company and SPV exposures translating to 65 basis points of loans for the year. We have now 100% provision on this account. We incorporated for COVID provision of Rs.283 crores, Rs.260 crores floating plus Rs.23 crores as per RBI directives, which were statutory. Our total provision for the year excluding IL&FS and COVID would be at 1.45%. We have made provisions this quarter on several festering loan accounts. One of these accounts was a broking account and we have decided to provide 100%. We have proactively recognized a few accounts showing weakness but were not 90-DPD. Exposure to the 3-stressed groups is now down to only 30 basis points, of which 12 basis points is cash flow backed. Our overdue book has fallen sharply quarter-on-quarter. SMA-2 is therefore down to just 16 basis points. SMA-1 and 2 together would be around 70 basis points with or without the days count freeze versus 1.3% last quarter. The day count freeze means that the DPD was stopped as of a particular date of February 29 and if you would classified it as an NPA what would have been your gross NPA? And our SMA-2 and SMA-1 book would have increased by a few basis points. While the GNPA is slightly up from 2.18% to 2.45% due to slippages from the higher SMA-2 book last quarter, the net NPA fell significantly from 1.05% to 0.91% due to higher PCR ratio and COVID provisions. For the full financial year '20, PAT has grown 35% year-on-year to Rs.4,458 crores despite taking higher provisions. Full year ROA was at 1.6% and the year-end capital adequacy maintained at 15.04%. RBI has cancelled the ability to pay dividends for all banks as at March 31st so there is some capital conservation here.

Third, I would like to now give you some feedback on our key portfolios. Number one, livelihood loans related to microfinance and vehicle finance. We have provided you with additional information in our 'Investor Presentation' on the portfolio positions of these two segments and sub-segments. In all categories, you will find that the portfolio is well placed versus the industry. So, we expect the portfolio to perform better than market in this trying period. 95% of vehicle finance customers paid their March installments and we are seeing good traction of April installments as well. On micro finance, 99% of weekly installments have been paid until lockdown and we are predominantly rural, whereas the virus impact is lower with the lockdowns being removed, we do expect our customer profile to outperform the market on portfolio. We are in touch with our customers with over 9 million calls till date covering 80% to 85% of our unique customers. We have launched a new initiative called "Sampark". Even though it may not be comparable, in demonetization and floods, we have seen collections bouncing back to 96% to 98% once normalcy was restored.

Gems and Jewelry: Whilst the growth in the portfolio remains slow, it is an extremely profitable and robust portfolio. Some of the key markets like China, Hong Kong are recovering while others like USA and Europe are impacted. This is a very well secured book with post-shipment finance covered by pre-approvals of higher value, pre-shipment covered by inventory and the overall portfolio further collateralized with another 54% by cash, property and AAA financial institutional guarantees. Only three clients opted in for the COVID relief for the interest due till June amounting to less than Rs.10 crores of the total exposure.

Corporate Bank: Our strategy is to grow in a measured way in corporate and improve the portfolio quality, concentrations, risk and returns. We are closing the year with a small SMA-2 book so that provides a degree of comfort. Meanwhile, we have strengthened policies, early warning signals and underwriting especially in vulnerable sectors. Incremental disbursements are being placed at higher rating profiles than the current book. We are moving firmly and determinedly on this specifically on three sensitive sectors –

Real Estate: the sector continues to behave as before with no SMA-2 overdue nor NPA. No account has approached the bank for a loan extension. But we still keep RE at a moderated level.

NBFC: All accounts are standard, but we are supporting those NBFCs where at least two-third of the lenders provide continued support.

Telecom: One account needs relief in particular and we believe there is a government proposal before the court for a moratorium over 20-years which if approved brings the potential risk to the bank down quite considerably. We have created a telecom provision of Rs.75 crores by way of standard asset provision. This is not counted in the PCR.

Unsecured Credit Card/personal Loans. Although the card/personal loan book is the smallest 4.5% or 5% of the overall book for both products, over 90% of the book falls in the CIBIL prime category and above. The key driver is demographics, income, debt capacity, and various other scorecard inputs. Bureau rating is separate and not part of the scorecard assessment. Overall, well over 70% is salaried segment, and the balance is self-employed with a variance of 30 basis points on 90-plus DPD versus salaried. We had 96% plus collections in March on end February dues and even though we have a moratorium offered to all, we continue to run educational campaigns to drive disciplined client behavior. In April too, we have seen considerable flow through in the card and the PL portfolio.

MSME: Business Banking and LAP: Our LAP and BB book which is 10% of our loans is stable so far. As you are aware, we have stopped the growth of these businesses two years back and we were growing at about 8% to 10% only. This was because post-demonetization we felt that these books needed to be stabilized before we press the accelerator on growth. Both these products are cash flow backed with LAP having a 49% mortgage book LTV and Business Banking is typically 100% collateral, of which significant portion is property collateral. As per CIBIL data, both products have delinquencies considerably below the average of the market. The Business Banking book is mostly sole bank revolver, whereas the LAP book has fixed installments where we run campaign for opting out of moratorium. There is some tightening in underwriting on debt burden, more selective on sectors, tightening of LTV due to real estate valuation.

I would now like to hand over to Ramu to talk about the corona sensitivity and what have we done and what is the implication on our portfolio?

Ramaswamy Meyyappan: So we did sensitivity analysis with assumption that the countrywide lockdown will be lifted entirely by June 30th. We assume that by May 15 to May 21 about 50% of the country, especially in the rural part of the country where the COVID impact has been minimal compared to the urban areas, will come back to normal economic activity or at least a reasonable level of economic activity. Another 25% of semi-urban areas will come back between May 31 and June 1st week. This again depends upon how this plays out and finally the urban areas will see activity to resume towards the end of June. This is the assumptions that we have seen and done about 10-days ago based on what developments are. And these assumptions will have to be looked at every fortnight depending on what the government decides. The next critical date being May 3rd when this lockdown is supposed to end and what the central government will direct and what state governments will take actions on. Basis this, we look at our portfolio both at the corporate level and at the retail level. We look at the scenarios of mild, medium impact and the impact due to the cash flows and revenues of our borrowers and also the time that may be taken for recovery, for example, in microfinance, how long will it take to get back with all the social norms on how the meetings happen at the microfinance centers, how will the collections happen similarly with vehicle finance. And also, we have looked at how the sectors have reacted sometimes in the past where there has not been an event of this nature across the country. So we have had those experiences over the years which have been in our specialized verticals like microfinance and vehicles. We also looked at the rating downgrade possibilities so as to assess the impact on our capital. So we made certain assumptions there, and on the basis all of this, we looked at our book and in the corporate sector we specifically looked at the sectors which are going to be highly impacted, which is like exposure to hotels, anything with the services sector, if we had a LRD in a mall for example, or if it was a multiplex operator, wherever there is going to be a large gathering of public which will not be allowed for quite some time because of the social distancing norms and what we have seen other countries around the world do. So, those we consider as high risk and then we look at other industries medium risk. In the corporate side most of the large borrowers have been spoken to by the relationship teams. We have done reviews of the portfolio. And we have assessed the likely impact and we classify those as high, medium. To look at the probability of default we have applied a higher probability of default for those sectors which are in the category of high risk. We have considered no RBI concessions at this point in time in our estimates, though it is believed that RBI may give more concessions but now we have not considered any of those yet. Considering all of these, we came up with a number based on these assumptions; which is about 80 basis points increase in GNPA, credit cost would be about 50 basis points. We have presented this to our board, to our risk management committee, every fortnight provide these data and accordingly, we estimated the Rs.260 crores provision as our M.D. mentioned earlier in this floating provision in this quarter. We will then reassess and depending on what the decisions are, we will continue to protect the balance sheet.

Sumant Kathpalia: Thanks, Ramu. Finally, before we open the floor for questions, I would like to highlight some key elements around the business model and how we plan to take it forward. PC 5 Strategy: We have completed our strategic plan for the planning cycle 5 and covering the three-year period for financial year '23. While we have similar themes of 4D as in the last three years, Digitization, Focus on Domains, Building Differentiation, and Identified Areas of Diversification, we have added sustainability as one of our key strategic imperatives, not only from an ESG perspective, but from the perspective of how we will build out the business so that we can stand the downturn. We will articulate our strategy on PC 5 after Q2 in more detail when the visibility of setting the ambition is possible.

Right now I want to talk about the "Business Sustainability." On sustainability, we have focused on granularity of deposits through initiatives on digital distribution, merchant acquiring non-resident and residential segments. This will increase the retail component of our deposits and also further improve the liquidity profile of the bank to facilitate slightly higher access liquidity levels for the bank. Also, if we do not get the granular deposits, we will align growth accordingly. Similarly, we are well on our way to sharpen our risk focus on corporate and moderate concentrations of all types. Our top 20 exposures are already sharply down to 10% of advances from 15% year-on-year. We will improve the overall portfolio behavior including exposure to sensitive sector. Exposure to all sectors such as real estate, NBFC, etc., is down quarter-on-quarter. We will keep the bank well capitalized and have more conservative balance sheet buffers to PCR. I do not want to articulate a target, but you will see it in our action.

Change of Structure: We have announced the management team that will drive the organization forward. It is more of the same except some tweaks to take on responsibilities that I previously managed and others that will drive accountability in areas that we want to ensure the bank will be sustainably positioned. A very senior hire of CDO has been completed to drive our digital ambition. We have split consumer division into three segments - Affluent, Other Than Affluent and Wealth / Para Banking. As my direct span has widened, we have consolidated certain positions, including appointment of Arun Khurana in the role of Deputy CEO. As we have expanded the scope of all transaction banking products added to his management of global market clients, trading and ALM. A new portfolio management unit has been set up for sharpening corporate RoRWA and focusing more granular and annuity business. This is going to be driven by Sanjay Mallik. I can also tell you that the team is engaged, agile and we will also suitably incentivize management to drive our agenda.

In conclusion, I would like to highlight that we have proactively taken a lot of provisions in Q4 including COVID provisions. This is the way we will work. We will be more conservative, we will be more transparent in the way we will approach things. Over this year, we will pace our growth as COVID-19 impact unveils, but deposits will grow faster than loans. Number two, NII will be the driver of our revenue. Efficient cost management resulting in stability of PPOP margin. Also, as I mentioned earlier, we will come back post-Q2 with clear ambition when visibility should have improved.

That is all for now and we can open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Of our total loan book, what percentage of the loan book under moratorium as of now from our borrowers?

Sumant Kathpalia: We put all our accounts on to moratorium, but we are receiving payments, and 95% of our clients are giving us repayments. On the corporate side, we do not follow this. The clients have to opt in. And I think a very few clients have opted in. Only one month is over, and we are not seeing a large moratorium in the corporate side including BBG.

Sanjay Mallik: Just to add to the second part of the question is that, for this period, we saw Rs.460 crores and the required provision against that in terms of what could have been the DPD is Rs.23 crores which is 5%, so, we need to make 10% which is 5% over two quarters. And this is without factoring in any collections that would have happened in the ordinary course. Just having said that, even though we made a provision of Rs.23 crores, we have taken a floating provision of Rs.260 crores on top of that, I think as Sumant mentioned earlier, particularly for the vehicle finance and the microfinance portfolio. So, altogether for this quarter we have taken significantly higher provisions of Rs.283 crores and that has been part of the reason why our PCR has moved up by 10% in this quarter and 20% for the year, and we stand at 63.3% today.

Manish Ostwal: Second, you talk about more granularization of the balance sheet for the deposits and loans side anywhere reducing concentration of the loans also. So do you expect our investment bank fees can see material downside on a yearly basis since we are changing our business model?

Sumant Kathpalia: Investment banking fees is dependent on deals which will come over and the environment is not conducive right now to structured deals. I think we have said that our corporate bank will grow at 8% to 9% and our loan mix changed to 56:44. In the coming year, that is what I have said, and our ambition is to go to 60:40.

Sanjay Mallik: I just want to also add, I think when you look at our fee income, we give you a break-up of the fees, so, if you look at the fees in our 'Investor Presentation', the trading and other income fee is 21%, consumer banking is 52% and the corporate banking is 27%. Now, if you take out the trading income if you just look at the core fee, then two-thirds of our total fee come today from the consumer banking side. So, one-third comes from the corporate banking side. The consumer banking side is going well except for the fact that we had this lockdown, so the year-end sort of fee got impacted. But, if you look at the one-third which is corporate, the syndication and investment banking fee is actually a pretty small part. More than half of the corporate banking fee which is one-third is just the flow business of trade, remittances and FX. So, in the other residual part there may be a slightly slower growth, but the overall fee income is still being driven by consumer.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Just two qualitative questions if you can answer. On microfinance, what is the game plan for conducting group meetings or instructing collections after the lockdown opens up? And secondly, within your Commercial Vehicles portfolio could you split that into large fleet operators, small fleet operators, and any comments if you can make on the small fleet operators income pools, because as far as I understand the freight rates, activity and all that has dropped, so how are their finances looking like, basically just any qualitative comments about what do you expect in those segments.

Sumant Kathpalia: So first, we will take the microfinance. We told you that our microfinance portfolio has also seen a lot of downturns about four or five, and has always bounced back. If you look at it, they have recovered very fast from a 4% default rate, 96% efficiency on the collections, they moved up to 98% to 99% as soon as normalcy was restored, I think we have also said that there are two differentiations which we have on our micro finance portfolio. We give loans for economic purposes and if you look at our portfolio, a lot of our portfolio comes from livelihood financing in the microfinance piece and we insist on that. And the second is, we have a weekly collection scenario. If you look at the delinquency on the CIBIL or on the credit bureau, and we have put that portfolio on the investor presentation also, you will see that the delinquencies on these type of portfolios is far lower than what you see on the normal portfolio. We have MR with us. I think, MR can throw some light on the collection strategy. And I also know that "Sampark" program has been commenced, and already 9 million clients have been contacted through the "Sampark" program through his digital engagement.

MR Rao: Thanks, Sumant. I think one of our advantages is that 80% of our book is from the rural side of the business as against the industry which is heavily skewed on the urban side. So we have just two cases of COVID reported so far amongst our borrowers. The second advantage we have is our low ticket size, which is 28% lower than the industry ticket size. And as Sumant mentioned, we have a weekly model. We have trained staff. From 2008 global financial crisis, 2010 AP microfinance crisis, 2016 demonetization, we have come out of all these because of our process discipline. And now we have the technological support. And as Sumant was mentioning, we downloaded an app to all our 17,000 loan officers in 24-hours and they are able to get in touch. We have made 2 crores calls so far and got in touch with 98% of our borrowers base. We exactly know what the status of each borrower is, is business running, not running, will she be able to pay installment etc. And just like in the past, we are fairly confident that we will come back on our feet and the regular collection of 98%, 99% very soon. The other aspects of the business is the fact that most of the loans that we give are to the net producers in that village. So a woman has bought a buffalo, she sells the milk within that village itself. And if they are selling vegetables, it is consumed within the village. I mean, all these are the advantages that we have. And right from our loan officers to our senior management, 7 out of our 10 senior management people have seen all the three crisis. 92% of our field leadership, that is unit managers who manage three to five branches have been with the company for more than 12-years. I think these are the strengths that we have which gives us the confidence that we will bounce back very quickly once the lockdown is lifted.

Sumant Kathpalia: On the commercial vehicles side, this is a business which we are in for 30-years. It was known as Ashok Leyland Finance. It has seen more downturns than all of us combined together. And we believe one of the businesses which will revive first post the lockdown is the commercial vehicles business. We have the business head here. I think he can give you more insight into the last mile vehicle and what happens on the freight. Partha?

S.V. Parthasarathy: See, there was a specific question that what percentage of our portfolio consist of fleet operators and others. We specialize on what we call as livelihood operator. These operators have been truckers for generations and I have been personally dealing with them for possibly the third generation or so. I would rather think that right now one of the first industry possibly to get out of COVID situation would be the transportation primarily because industry, agriculture, whole economy is starved of mobility. Immediately upon announcing the opening of economy I think these persons should start move faster and the livelihood operators know how to operate and most of them are family transporters and many of them are drivers-cum owners also. Therefore, they, according to me, adapt much faster than a fleet operator. Therefore, according to us, we have also seen even in the past last mile connectivity as well as small road transport operators are much more versatile and much more agile to the situation than are the others.. Therefore, the moratorium period of three months which has been given, as Sumant had already pointed out, substantial portion of the persons have paid March installments, therefore, should the moratorium not continue also, people need not have to pay till June, therefore from July onwards, I do not think there should be any problem or we do not foresee a major disruption in terms of mobility as well as payment.

Sanjay Mallik: One more point to add to what Partha and I think MR had mentioned. We had made a sort of new disclosure in our 'Investor presentation.' So one is the qualitative aspect as to what might play out. The other is what is the stock, how do things stand today vis-à-vis the rest of the financing industry And we have given you a pretty good flavor covering the last many months on how our portfolio stacks up on all the retail products, whether it is tractors or it is CV or microfinance or any of the other retail asset classes versus the rest of the financing industry. So I think one is the starting position and the second is how do you sort of execute on the ground when things come back to normalcy. I think on both counts, we are quite well placed. So we are quite hopeful that whatever the outcome, it should be superior to our competition.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Sumant, during the call you mentioned about the GNPA ratio and provisioning basis points. So what is a broad breakup of the NPA that you would see, whether it will largely come from the consumer piece or there is addition to the corporate also that we are seeing? And another was basically that the provision coverage ratio has now already gone past about 60%. So do we intend to take it to towards 70%-odd or we are largely done with the overall provisioning now on the top of the business?

Sumant Kathpalia: I will answer the second question first and then I will answer first and I will have Ramu add to that. We have always said that we want the PCR to be 70%. I think 60% was the start because we were way behind, we wanted to get above 60%. Now our ambition is to get to 70%,but that may not happen in a quarter. It may now be spread out over the year. And I do not think we will do that immediately. But you will see us getting to about 70% and that is something which we believe in. In in these times, we said one of our themes was sustainability. And PCR is one of the vectors we want to control on sustainability. So that I hope answers your second question. The first question is around the provisions. If you are talking about future, we do not give future guidance, but let me tell you, if you look at our SMA-2 book now and on the corporate side, last quarter when we were at 53 basis points, a lot of people said that the flow will happen, and they were right, because a lot of a items flowed out from the SMA-2 book into the gross NPA and some of them were not 90-DPD, we identified them as a weak account and we let them flow in. And we are down to now 16 basis points and I am very comfortable with that. I can say that next year our credit cost on BAU basis, which is business as usual basis, total provisions actually look at 120 to 130 basis points. And if you add to that the COVID provision which Ramu talked about, which is about 50 basis points, then I think we should be lower than what we are on today, we ended this year at about 225 basis points, normalize it for the IL&FS exposure, you would be around 144 basis points. So, there is an improvement which will happen next month, next quarter also. So, I think we are slowly now seeing an improvement in our corporate book. And COVID is an unknown, but we are cautiously taking provisions and we continue to take provision because we retest our assumptions every fortnight and if required continuously add to that provision so that we normalize our flow that we do not have a big bump at some point. So we are very cautious about that.

Anand Dama: And another thing was about these telecom accounts where we have made some provisions in this quarter of about Rs.75-odd crores. So do you think that the kind of exposure that we carry to this account is sufficient or this is just a start and we will have to make some more provisions over there?

Sumant Kathpalia: I do not know what is the basis of why we should make provisions. I think we have some very good relationship in Airtel, in Vodafone. I do not think Airtel is an issue. I think there is one telco company which is in stress right now. But we are expecting the government to intervene and give it a moratorium for 20-years. If that happens I think we have no issue. But what we did was, we took a telecom sectoral view and we said, all our funded exposure, we should take some provision and we took that provision right now. So that is all what we did. And I think if it is required, we will assess the situation on an ongoing basis and if it is required we will take the provision. So it is an ongoing scenario. Today, I do not believe anyone in the industry except one bank has taken the Vodafone exposure on a telco exposure as an NPA. That was an unsecured exposure. We are completely secure enough. And that was also on a bond and not on a funded exposure. So I think I just want to leave it at that. I am very confident that it should work out. If it does not, you will see us making very aggressive provisions on that.

Anand Dama: And your risk weighted assets have gone up by about 20% for FY'20 versus your asset growth of about 11% YoY. Any reason for that and any plan for capital raising?

Sumant Kathpalia: There are two or three reasons for it and I will just give you the reasons for that. I think the RWA has increased is driven by higher credit RWA due to rating migration of certain few accounts, that has happened. Two, we said that we have done some IBPC deals and these are higher rated paper. I think higher CVA on derivatives due to market volatility which will reverse as the transaction matures, and additional due to operational risk which happens on the Q4 of every year.

Anand Dama: Any plans to raise capital?

Sumant Kathpalia: When we have, we will inform. We keep on evaluating, but as of now there are no plans.

Moderator: Thank you. The next question is from the Amit Kumar Premchandani from UTI. Please go ahead.

Amit K Premchandani: What is the current status of deposits and liquidity say in April? We had known the March numbers.

Sumant Kathpalia: So the way you have to look at deposits is in three places. On the retail side, I think we have seen on a daily basis about Rs.50 crores to Rs.60 crores of net inflows are happening. Last week onwards we started seeing government flow coming in. And I think we were able to mobilize about Rs.600 crores to Rs.700 crores on the deposit inflow from the government and we believe we have another Rs.2,000 crores in pipeline. So, I think we are seeing some deposit inflow. I think we were able to mobilize Rs.6,000 crores of corporate deposits in the last 15-days. I think deposits are back. We are seeing traction on deposits and I think we will surprise the market on a quarter-to-quarter growth.

Amit K Premchandani: So, basically you are saying this Rs.2,00,000 crores deposit as of March, as of today the number has actually moved up and will go out?

Sumant Kathpalia: We do not disclose number mix mid-quarter. What I told you is where we are and you will see a growth in the quarter. I can assure you that we are not going down the way we went earlier.

Amit K Premchandani: Sir, generally the LCR position you are holding above 100%.

Sumant Kathpalia: We are in the range of 110% to 120% on a daily basis and we have an SLR excess for 5% now.

Amit K Premchandani: So you do not need the repo window for liquidity right now, right?

Sumant Kathpalia: Not as of now. We have not used it.

Amit K Premchandani:: And sir, finally on the moratorium side, what percentage of the loan book you expect to go?

Sumant Kathpalia: I just answered that question some time back. You may have missed out. I think it depends on which segment you are offering what. So on the retail segment, we have offered moratorium to all our clients. But fortunately for us, our clients want to pay us back and we are educating our clients to pay us back because of the interest burden. So in the month of March, we got 96% of our repayment back in the non-vehicle part of our business and 95% on the vehicle part of our business. On the MFI part of our business, 99% of the payment of the March payments came in before the lockdown was announced, and I think in that the moratorium is working and right now the payments are not coming in on the month of April. As far as the corporate side of the book, we have an opt-in. And I think a very few clients have opted in for that moratorium right now. Percentage wise it is few.

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

MB Mahesh: Three questions from my side. One is if you can just give some clarity on what would be the maturity profile of your telecom exposure?

Ramaswamy Meyyappan: Funded exposures, about three and a half years before it gets repaid. On the guarantees, it is usually for a year at a time, so that is the usual time. BGs are usually between a year to 18-months, not more than that.

MB Mahesh: And it automatically gets rolled over or you have the option?

Ramaswamy Meyyappan: We do not have the automatic rollover. There will be demand from the DOT, but they can substitute with others. So maybe in the quarter of December, we did see a reduction. If you look at our last quarter, now we are seeing some reduction. That is because some BGs have fallen off because one or two of our telecom companies did pay up or they did get the BG stack.

MB Mahesh: On the asset quality front, for the last two, three quarters, the SMA data that you report and the slippages, these kind of do not move in tandem because you report very low SMA data but eventually your slippages turns out to be much higher. Any broad assessment as to how should we look at these numbers for FY'20? Second question to you again on the growth part. Given what the liquidity conditions of the balance sheet is what you are seeing today, how are you looking at the business for FY'20 and also on the asset side given the conditions on the ground, how do you look at the loan book for FY'20?

Sumant Kathpalia: Let me answer the third part of the question and then we will take the second part of the question which is the SMA 2 slippage and why is the slippage between the SMA 2 and this. On the growth path, we have said that our retail will grow faster than the corporate book and we eventually want to move to 65:35 in two years time, but at least, we will be 60:40 this year. Having said that, we will not stop the corporate growth, but I think our corporate will grow slower at about 6% to 9% range, whereas our consumer will grow at about 10% to 15% range and in those there are various products which will grow. So, I think 12% to 14% will be the commercial vehicle. We expect the second half of recovery in the commercial vehicles segment. And I think by that time the COVID as well as the BS IV - BS VI norms would have been cleared by that time, the vehicle finance recovery will happen at that time. On the micro finance, I think MR was explaining, the recovery in the rural, we expect to be faster. And I think microfinance institution will have a difficult job of lending at that point of time. We have a huge opportunity at that point of time in the places in which we operate. And we will be back to the late 20s in our growth in the microfinance portfolio. Our non-vehicle finance portfolio grows at about 20% to 22% and will continue to grow. And with our unsecured portfolio not greater than 4% to 5% of the portfolio, we did not grow that portfolio so far. So that is on the retail part. On the corporate side, I told you that we will moderate we will see how we have to grow and we will granularize the book rather. You may not see large growth but you will see moderation in growth because of granularization which is happening. Does not mean that the business is stopping, the number of cases is so, but the ticket sizes will be smaller. So you can see a 6% to 8% growth in the corporate as a consequence.

Ramaswamy Meyyappan: And your question on the SMA data, we have reviewed accounts closely. If there is an inherent weakness or we see a potential issue that is coming up, it may not be due to DPD and or SMA, or if it is part of a group where we think the exposure is or the group is in trouble or the ratios. We have recognized them and to that extent, I think you are seeing that is a bit. But we are at end of the cycle. So now we believe that most of this what we have to review, the names that had come to us, we have reviewed already. I think it was addressed earlier when Sumant spoke about it. So we have kind of looked at that, but maybe in future you can correlate better between SMA and thing with the data, but now we are just trying to accelerate some of the provisioning and take that ahead.

Sumant Kathpalia: You will see us being much more conservative in the way we take our provisions and I think we want to be on top of our business rather than carrying this load for the later date. That is number one. Number two, I think you would have seen this quarter also, as you see the detail data, we have taken two accounts into NPA which actually were not NPA accounts, but we felt that they will flow into the NPA later. So we are being a little bit more conservative. And third, as we look at our growth now, I think balance sheet protection becomes a very big concern for us. And I think the quality of the book is much more important to me than growth right now. And I think our focus will be to protect the quality of growth and how we grow our businesses and specifically given that we want to grow our liabilities also at this point of time. What you will also see is that we will always be protecting our PPOP. Even if we have to reduce our expenses, we will reduce expenses to make sure that our PPOP is protected.

MB Mahesh: The provisions that you have reported for the quarter, Rs.1,400 crores you reported for corporate and about Rs.344 crores for retail, there is a difference of about 650-odd crores.

Rs.260 crores pertains to contingent provisions and Rs.240 crores pertains to the net worth adjustment that you are doing on account, there is still Rs.150 crores shortfall.

Sanjay Mallik: There was a telecom provision, right, and standard asset provisions and we also had the fraud accounts, where we are taking one-fourth hit, so, there are two accounts where we have taken a hit of almost Rs.250 crores in the current quarter. So, all of that will be the balance, Mahesh.

MB Mahesh: So Rs.260 crores pertains to the COVID provision, Rs.240 crores pertains to the fraud. And Rs.150 crores?

Sanjay Mallik: Telecom is Rs.75 crores and then there is standard asset provisioning and then there is Rs.23 crores of statutory COVID provision in addition to the Rs.260 floating provision.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: The slippage in the retail book was at around 8 billion. If I am assuming this correctly, this is effectively for two months because in March month you would not have seen any slippages because of the moratorium. This is in contrast, I mean, Rs.708 crores which was there for the whole quarter in Q3. This number seems a bit elevated. Am I reading this correctly?

Sanjay Mallik: You are looking at one side of the equation. The net slippages for the quarter was much lower; it was around Rs.200 crores.

Gaurav Kochar: So that is Rs.606 crores, how much of that is recoveries and how much of that is write-off?

Sanjay Mallik: I think most of it is recovering but I will give that number to you offline, I do not have it in front of me right now.

Gaurav Kochar: And on the corporate side, slippages of around Rs.1,150-odd crores came in from the four accounts that you mentioned. These were largely I am assuming from the SMA-1 and 2 which were there in the 3Q. Any other account apart from the SMA-1 and 2 if disclosed which could be in watch list, any stress that you are seeing which could slip in?

Sanjay Mallik: There were two accounts that we recognize even though they were not in SMA-1 or SMA-2, one of them is a tea-related company. and one is I think real estate/services.

Gaurav Kochar: Any stress in other account that you might see maybe slipping in next couple of quarters?

Sanjay Mallik: If I were to just separate business as usual with COVID, if we were in a business as usual mode, I think this would be the worst period in terms of our slippages. There will be a gradual improvement in slippages as we go through the year on a BAU basis without counting the COVID impact.

Gaurav Kochar: I have not seen any change in the in the rating mix that you disclose, I mean, Q3 versus Q4, very minor change. Does that mean the Voda-Idea exposure of 30 billion sort of non-fund exposure that you have, is still considered as investment?

Sanjay Mallik: It has fallen to sub-investment grade. It is reflected in our rating profile. You will see a little bit of a blip there in terms of the funded, non funded secured book. But also in the standard investment grade book, there is a little bit of rating migration which can be expected in this period. All banks have a little bit of negative rating migration.

Gaurav Kochar: You mentioned that around Rs.6,000 crores of corporate deposits came back in the month of April and there were some government deposits too. So, are we still looking at the chunky deposits?

Sumant Kathpalia: No, the government deposit, ticket size is of Rs.50-100 crores and the corporate deposits, I think there is one deposit which has come off Rs.1,000 crores, but otherwise, it is about 150, 200, 250 crores. So, in public sector undertakings, you bid for it and the ticket sizes are Rs.1,000 crores and above. So I would not stop that from coming in right now.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kathpalia for closing comments.

Sumant Kathpalia: Thank you. As usual if there are any questions, Sanjay Mallik, Me, Arun, as well as Indrajit are always available, we can take all your questions. Thanks a lot for participating and talk to you soon.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IndusInd Bank Limited we hereby conclude this conference. Thank you for joining us and you may now disconnect your lines.