“IndusInd Bank Ltd. Q2 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to IndusInd Bank Limited Q2 FY23 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. Thank you and over to you, sir.

Sumant Kathpalia: Good evening and thank you for joining the call. I will start with some macro commentary and then go into bank specific details.

Indian economy continues to be amongst the best performing economies even in the wake of external disturbances and tightening monetary conditions. Global economic growth is expected to slow down with synchronised and aggressive monetary tightening, lingering uncertainty from geopolitical tensions, continued supply chain disruptions and high inflation. India's external fundamentals however remain stable and external financing remains manageable. High frequency data suggests demand conditions remained strong during Q2 and poised to expand further during the festival season. In current quarter too global economic and market developments would dominate domestic policy and market conditions. Improving domestic demand with an ongoing festival season boost and public capex push would help sustain growth, while exports demand is likely to contract. Overall, we expect India is likely to remain among the fastest growing economies despite the confluence of global headwinds driven by macro stability remaining intact and inflation expected to ease over from H2FY23.

Coming to the quarter specific developments. The quarter saw continued improvement across our key business units both in terms of growth and asset quality. The first half of the year is seasonally weak for vehicles and microfinance. We have nonetheless seen one of the best performances by all three domains in the recent past. Corporate and Retail businesses continue apace growing 20%+ with no asset quality surprises. The liabilities and client fees too maintained traction during the quarter. Overall, salient highlights for the quarter were:

- <u>Broad based Loan Growth Driven by All Business Units</u> – Our vehicle business recorded highest ever quarterly disbursements of 10,660 crores. Microfinance too saw disbursements of 9,700 crores putting behind the blip from regulatory changes. Corporate Bank maintained momentum while Non Vehicle Retail accelerated sequentially. Overall, we had a healthy 5% QoQ loan growth with Consumer at 4% and Corporate at 6% QoQ growth.
- <u>Traction on Deposit Mobilisation</u>– We achieved 4% QoQ and 15% YoY growth in deposits during the quarter. Our retail deposits as per LCR accelerated during the quarter growing 5% QoQ. Our Affluent and NRI businesses too saw acceleration in deposit mobilisation during the quarter.
- <u>Asset Quality –</u> Our gross slippages during the quarter reduced by 30% QOQ driven by reduction in both standard as well as restructured slippages by 25% and 37% respectively. Our Restructured book has reduced meaningfully by 1,277 crores from 2.1% to 1.5% QoQ. Our NNPA too reduced to 0.61% from 0.67% with PCR at 72%. Our contingent provisions are at 2,653 crores with total loan related provisions at 140% of GNPAs. Our credit cost has reduced from 50bps to 44bps QoQ.
- <u>Investment in the Resources</u>: We continue to invest in our physical and digital resources. We have added 55 branches this year along with 2,700 employees in the bank and additional 3,650 employees in vehicle and microfinance distribution during this year. We are scaling up our existing digital launches and are on track for the planned launch of individual and SME offerings in the year.
- <u>Healthy profitability of the franchise –</u> Our Net Interest Margin improved to 4.24%. Client fee income grew by 24% YoY driven by healthy retail fees of 71% of total fees. Our Cost to Income was at 43.9% and our PPOP margin remained healthy at 5.7%. Our Profit After Tax grew by 11% QoQ and 57% YoY to 1,805 crores. Our annualised EPS has now moved into nineties at Rs 93 per share. Our Return on Assets improved further from 1.73% to 1.80% and Return on Equity was at 14.45% for Q2. We also maintained healthy Capital Adequacy Ratio with CET1 of 15.95% and overall CRAR at 18.01%.

Now coming to individual businesses.

1. **Vehicle Finance:**

- The vehicle business continued its one of the best runs in the last several years. The business has been achieving record disbursements every quarter and first half of this year is no different despite the seasonality pressures. The disbursements have been improving across all vehicle categories making this a diversified growth trajectory.
- Disbursements during the quarter were at Rs 10,664 crores up by 6% QoQ and 24% YoY. This is the consecutive second quarter where we have achieved over 10,000 crores of disbursements per quarter.
- The vehicle disbursements are typically weaker in H1 compared to H2 of previous year with seasonality factors such as monsoons, festivals etc. This year however H1 disbursements have been higher than H2 of previous year or for that matter any half year in our history.
- Consequently, the vehicle finance loan growth accelerated from 8% YoY to 13% YoY over the quarter and 4% QoQ growth. We have moved into double digit loan growth after 3 years.
- Within vehicle categories, Commercial Vehicles, Utility Vehicles, Cars and Three Wheelers saw more than 20% YoY growth in disbursements. Disbursement growth in other segments i.e. Construction Equipments, Two Wheelers and Tractors was in mid-teens YoY.
- Vehicle asset quality remains steady with gross slippages during the quarter from standard customers improved from 0.8% to 0.6% QoQ.
- The restructured book in vehicle finance reduced by 861 crores to 2,270 crores from 3,131 crores QoQ. We are seeing restructured customers completing satisfactory performance and becoming eligible for upgrade to standard category. Upgrades and recoveries contributed 70% of the reduction in the restructured book during the quarter.
- The collection efficiency of the remaining restructured customers was at 83% in line with our expectation of 80s collections as mentioned earlier.
- Overall, we are expecting disbursement momentum to gain further traction with festive demand in Q3 and new year purchases / income tax benefit driven purchases in Q4.

2. **Microfinance**:

- Our microfinance business too saw healthy recovery in disbursements growing 29% QoQ to Rs 9,740 Crore making it the highest ever second quarter disbursements. We also saw New-to-Bank customer addition growing 33% sequentially. The new business lines of Bharat Merchant Stores and Bharat Super Shop too scaled up during the quarter. The slippages from the MFI book were lower QoQ resulting in BFIL achieving growth at improved asset quality.
- Our MFI book at the end of Q2 at Rs 29,617 Crore was up 5% YoY and 1% compared to Jun’22.
- The RBI Master Direction on MFI issued in March 2022 have been fully implemented and the disruption in business caused in Q1 is now thus behind us. Household Income assessment for more than 70% of our active and inactive clients has already been completed, and the rest will happen as and when the customers come up for new loans.
- MFI standard book net collection efficiency for Q2 was strong at 99.1%. The collection efficiency for new clients sourced in last 12 months i.e. post Oct-21 remained healthy at 98.9% which is closer to pre-Covid levels.
- Our 30-90 DPD book including restructured customers was at 2.0% on Sep-22 compared to 2.2% at the end of Jun’22.
- The gross slippages during the quarter reduced to ₹435Crore as compared to ₹560 Crore during the previous quarter. Considering the recoveries, upgrades and write-off’s, GNPA reduced to ₹885 Crore which is about 2.9% compared to 3.4% at the end of Jun’22.
- We continue to expand our merchant acquiring business under the banner of Bharat Super Shop. Portfolio sourced through BFIL under this business has grown 20% sequentially to ₹2,675 Cr with 4.2 Lakh active borrowers.
- We continue to make good use of BFIL’s deep rural reach to broaden the banking relationship with our microfinance customers. At the end of Q2 FY23, the total liability book sourced from customers serviced through BFIL increased by 53% YoY to reach ₹1,662 Crore through 1.26 Crore accounts (SA, RD, FD, CA) with us. Our focus remains to be the banker of choice of our customer segment in Bharat.
- Overall, we continue to see improvement in rural activity levels driven by another year of near normal monsoons, government support through upward revision in agri prices etc. and

diminishing Covid impact. Our business model remains focused on growth diversified across geographies, new customer acquisition, lower ticket sizes and scaling up new initiatives.

3. **Global Diamond & Jewellery Business**

- The diamond business achieved its higher ever loan outstanding as well as revenue contribution during the quarter. The asset quality remains pristine at no NPA or SMA1 / SMA2 customers or restructured customers.
- Our portfolio saw healthy growth of 29% YoY growth aided by strengthening diamond prices and stable demand from the largest market.
- The industry continues to work within the domestic and international trade norms absorbing the impact of the geo-political conflict.

4. **Corporate Bank:**

- Our Corporate business has been delivering steady growth with no asset quality surprise for the past several quarters and this quarter was no difference. We achieved a growth of 23% YoY with standard book slippages of just 66 crores during the quarter.
- We saw growth across segments with large corporate growing by 10%, mid corporates by 1% and small corporates by 7% QoQ.
- Loan book growth was broadly driven by Large Corporate segments like strategic clients group & financial services and in Mid and small corporates like SME, Healthcare. The sectors driving growth were NBFCs, Real Estate, Steel, Power Generation.
- We continue to actively re-price the loan book. Our yield in corporate book improved by 40bps during the quarter vs. 7 bps improvement during previous quarter.
- The proportion of A and above rated customers remains healthy at 72% with overall weighted average rating of 2.65.
- The gross slippages from corporate book reduced from 603 crores to 179 crores. The slippages from standard book were at 66 crores. The restructured slippages were primarily from a stressed retail group and with this entire exposure from the retail group has become NPA and provided for.
- Our corporate restructured book has now reduced from Rs.5.6bn to Rs.4.7bn. Exposure to stressed telco was reduced from 18.5bn to 17.3bn including fund based exposure of 10bn and balance non fund based exposure.
- While there are anecdotal signs of capex revival by the private sector, the revival is skewed with select sectors and large players contributing to the bulk of investment in the economy. Broad based capex recovery is yet to percolate to mid & small companies in midst of the domestic and global economic uncertainties.
- Overall we do see corporate book to maintain steady growth driven by mid and small corporates with active repricing benchmarked to the market rates. We continue on our journey of corporate growth driven by higher rated, granular, shorter duration loan book.

5. **Other Retail Assets:**

- Our non-vehicle, non-microfinance retail loan book saw growth momentum accelerating during the quarter with 5% QoQ and 21% YoY growth. The growth was driven by both secured as well as unsecured assets.
- In secured retail assets, both our Business Banking and Loan Against Property grew by 3% QoQ, continuing the momentum from last quarter. With rising interest rates & tightening liquidity, we saw further rationalisation of pricing in the market.
- Credit Cards spends continued to remain strong for us as well as industry with spends of 16,700 crores for the quarter. As a result, our Credit Cards loan book grew by 10% QoQ. While the implementation of new RBI guidelines during the quarter impacted the outstanding card numbers for all players, our new acquisition continues to remain robust with 81,000 acquisitions in Sep-22.
- We also started pilot of our ‘Home Loan’ product during the quarter in select cities. Home loans will strengthen our universe of product offerings for retail customers. We aim to build a sizable home loan book in the next 2-3 years.
- As the festival season sets in, we expect growth momentum in retail business to continue in coming quarters.

6. Now coming to Liabilities:

- Our deposits grew by 4% QoQ and 15% YoY. Deposit mobilisation continues to be driven by granular customers and our retail deposits as per LCR grew by 5% QoQ & 16% YoY. CASA book also grew by 15% YoY in line with overall deposits.
- The deposit market saw withdrawal of surplus liquidity levels and heightening competition from peer banks. We continue to be selective in our rate actions with focus on balancing between growth & cost of deposits.
- Contribution of Certificate of Deposits remains low at 3.2% of deposits.
- Our CASA ratio was at 42.3% vs 42.1% YoY and 43.1% QoQ. The current accounts saw healthy growth of 8,900 crores of which almost half was due to spike towards quarter end from public sector dividend mandates. The savings accounts saw a reduction QoQ primarily due to implementation of centralised treasury settlements in budgetary accounts. This removes intermediary banks from government budgetary allocations and we had one such account wherein balances moved out.
- Our new initiatives viz. Affluent & NRI banking saw growth accelerating during the quarter. Affluent segment deposits grew by 7% QoQ from Rs. 36,300 crores to 38,700 crores. Affluent AUM at Rs. 63,300 crores too grew by 7% QoQ in line with the deposits. The segment also contributed highest ever quarterly fee income of Rs.101 crores. PIONEER, the flagship Affluent brand, continues to gain prominence in the marketplace though campaigns and unique, best-in-class PIONEER Lobbies. Currently we have 10 PIONEER branches and lobbies in 6 major cities and plan to launch 5 new branches in the current financial year
- After remaining stable for last few quarters, we saw pick up in NR segment deposits aided by easing guidelines by the RBI. Deposits from NR segment at Rs. 29,000 crores grew by 7% QoQ. We have garnered around 2,000 crores of NRI funds so far through the RBI dispensation window.
- We continue to expand our distribution with opening of 34 branches taking the total branch count to 2,320. We are aiming towards 2,500 branches by financial year end and around 3,500 branches over the next 3 year planning cycle.
- We had borrowing maturities during the quarter reducing outstanding borrowings by 3% QoQ and 12% YoY. The borrowing mix has also moved towards long term stable sources such as refinance from development finance agencies.
- We continue to maintain healthy average surplus liquidity of Rs 47,000 crores during the quarter.
- Overall, we continue to remain focused on retail liabilities mobilisation amidst the heightened liquidity environment. Our physical and digital distribution strategies have been aligned towards retail deposit. We continue to scale up new initiatives like affluent and NRI.

7. Digital Traction:

- Bank continued to scale up direct digital customer do it yourself and partnership led business which nearly doubled YoY. Bank has an earn model and not a burn model which is reflected in digital customer acquisition costs which have been reducing steadily with increasing business volumes across our easycredit, savings online and merchant stacks
- The new digital launches done by the Bank are scaling up well:
  - Indus Easycredit for Individuals is now live for personal loans and is enabling us drive scale with efficiency in personal loans and credit cards
  - Indus Merchant Solutions has seen a strong organic growth since launch with more than 100,000 user base and monthly active user base doubling QoQ.
  - Indus Easycredit for Businesses has digitised MSME unsecured and secured credit (upto 2 cr exposure) and nearly 50% of upto 2 cr MSME business is now digital which has unlocked process efficiencies and enhanced customer experience.
- Bank will soon be launching a new digital proposition for Individual Segment with several industry first innovative features.
- On IndusMobile, during the quarter the Bank went live with card tokenization. Mobile & UPI transactions continued grew 2X YoY and monthly active user base on the mobile app was up 28% YoY.
- Whatsapp banking and chatbots continued to scale with user base increasing 2X YoY. Whatsapp banking now has a registered base of 5.3 mn users
- Overall, 93% of the Bank's transactions are now digital.

8. Sustainability:

- At IndusInd Bank, we have embedded Sustainability as one of our strategic cornerstones and integrated it with the way in which we do our businesses. We already have a large Sustainable

Portfolio in the bank supporting livelihood finance and you will see us launch several new Sustainable Banking products.

- During the quarter, we launched EV financing program partnering with a leading OEM. We updated our ESG risk assessment framework and also onboarded a leading rating agency as knowledge partner for ESG risk assessment. We have also commenced forming strategic path towards achieving carbon neutrality by 2032.
- Climate risk management is becoming an important agenda with regulators and they have issued a discussion paper on the same. The Bank has already integrated ESG risk assessment with its credit appraisal process and we believe that we are well prepared for upcoming expected regulatory changes.
- The Bank has been awarded as the Best Bank in India for ESG award by AsiaMoney for FY 2022 and acknowledged as Market Leader in ESG in India by Euro Money. We are committed to maintain our leadership position in ESG space and contribute towards a sustainable future.

Now coming to the financial performance for the Quarter:

1. Net Interest Income continues to accelerate growing at 18% YoY in line with our loan growth. Net Interest Margin improved sequentially from 4.21% to 4.24% QoQ.

2. Similar to previous quarter, the Net Interest Margin was aided by synchronous repricing of assets as well as liabilities. We saw loan book yields improved by 12bps QoQ. Yield on overall assets improved faster by 30bps due to lower drag from excess liquidity. The cost of deposit increased by 31bps and the cost of funds increased by 27bps during the quarter.

3. The core fees maintained strong traction growing 24% YoY and 5% QoQ. The treasury income was positive and stable QoQ. The overall other income grew by 9% YoY and 4% QoQ. Share of Retail fees remained healthy at 71% of total fees.

4. Our total revenue for the quarter was at Rs 6,313 crores with 15% YoY and 4% QoQ growth.

5. Operating expenses grew by 5% QoQ. Employee expenses grew by 9% QoQ as we rolled out annual increments during the quarter and also due to fresh hiring in the financial year. Our overall Cost to Income ratio was at 43.9% QoQ.

6. The operating profit for the quarter was at 3,544 crores growing 10% YoY and 3% QoQ. The PPOP margin to loans continues to be healthy at 5.7%. Our Core Operating Profits grew by 18% YoY.

7. On the asset quality and the provisioning front:
   - Our provisions for the quarter have further reduced to 1,141 crores. The provisions to loans are thus down to 44bps now.
   - The gross NPAs are down from 2.35% to 2.11% QoQ and Net NPA down from 0.67% to 0.61% with stable provision coverage ratio of 72%.
   - The improvement in asset quality was driven by reduction in slippages from both standard as well as restructured book as disclosed in the investor presentation.
   - We utilised Rs 350 crores for restructured slippages in Q2 and contingent provisions stand at 2,653 crores or 1% of loans.
   - The Net Security Receipts have reduced from 72bps to 67bps QoQ.
   - Total loan related provisions are at 3% of loans or 140% of the GNPAs.
   - Our SMA1 and SMA2 book was at 15 bps and 43 bps respectively.

8. Profit after Tax for the quarter was at Rs 1,805 crores growing 11% QoQ and 57% YoY. Our CRAR including profits remains healthy at 18.01%. Return on Assets continued upward trajectory from 1.73% to 1.80% QoQ and Return on Equity improved to 14.45%.

   Overall, we continue to demonstrate consistent improvement in performance metrics every quarter driven by all round contribution across business units. We expect to maintain the trajectory on key metrics:

- We are comfortable with achieving our PC-5 loan ambitions as vehicle and microfinance disbursements are seasonally stronger in H2. The corporate and consumer businesses are scaling up every quarter along with traction on new initiatives such as home loans, merchant acquiring etc.
- We remain focused on our strategy of retailisation of deposits. We are investing in our distribution. Our new initiatives of affluent, NRIs too have gathered momentum and almost all of these deposits are retail as per LCR. Our Digital 2.0 launches too should further boost our retailisation agenda.
- Asset Quality trends are also as per our communication and we expect the stressed book to continue to fall. We will continue to maintain conservative contingency buffers.
- The operating profit margins are expected to be stable factoring in near term pressures from treasury and investment in franchise compensated by revenue building up from retail disbursements and retail fees.
- The RoA and RoE should thus continue to expand as our earnings scale up with annualised EPS now in nineties.

We can now open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: The first question is with respect to yield. So, as you highlighted, actually corporate yields are up 40 odd business points, and there is huge competition, and we are seeing more growth coming in on the large corporate side because of 10% quarter-on-quarter. So, what is actually driving this improvement on yield? And at the same point in time, when we look at consumer banking yields, okay, they are more or less steady on a quarter-on-quarter basis despite slippages also being lower. So, just want to get the sense in terms of the rate action on the retail products? And how do we see the movement over here?

Sumant Kathpalia: So, you are absolutely right. Our corporate banking yields are up 40 basis points. It is because of the loan book linked to the external benchmarks getting repriced, and our focus on the small and the mid corporate also getting us the better yields. That's number one.

Number two, on the retail side, it takes time for the portfolio yield to come up. While our disbursement yields have gone up, I think it's only a matter of time that you will see the portfolio yield also going up as we move forward. In my opinion, you will see the yields moving up in the consumer bank. Microfinance has already seen 35-40basis point yield increase. Vehicle finance is almost static on the portfolio yield right now, and the non-vehicle retail part is also static and should start seeing the portfolio yield coming up. It's more of a fixed rate book out there.

Kunal Shah: So, overall MFI we had still seen the Improvement, and this is on the book basis which you are highlighting or this is on disbursement?

Sumant Kathpalia: Yes. it's on the book basis. As you saw the NPA is going down on the book and the yield coming up. So, last quarter we saw a ~20bps. In this quarter, we have seen another ~20bps improvement in the yield.

Kunal Shah: And despite that this is flat. So, other product segments would have been slightly down because of the competition.

Sumant Kathpalia: No, it's not like that. I think the run-off of the book has to be taken into account. Some run-off which is happening in the book relates to three-year-old loans which were at the higher side of the yield. So, you have to take all that into account.

Kunal Shah: And secondly, in terms of CASA, so now you alluded in terms of the factors which have led to spike in CA, and even maybe the run down in SA, but then how should we look at it going forward, maybe even though it was a quarter-end phenomenon with respect to CA? Do we see it sustaining? Or maybe it should run down, and there could be some pressure on CASA going forward because SA was quite down on the quarter-on-quarter basis.

Sumant Kathpalia: Yes, you are absolutely right. I think, our CASA should remain range bound between 41% and 43%. On the CA side, there was a dividend mandate, which came in. Dividend mandate of ~ Rs.5,000 crores. I think, we should continue to get such deals. Our SA impact was as a consequence of a change in the government strategy where the centralized treasury system got implemented. Budgetary allocation accounts which are centrally allocated now go through the treasury accounts, and they don't use the intermediate bank as a settlement center. So, that's what has happened. And this has got implemented in the road and transport. It will get implemented in the power, shipping as well as other Industries also. And we have to watch out for this space. We have only one such account which is impacted by this implementation and that has been reflected in this quarter. In my opinion, you should see the CASA coming back and you should see our CASA range bound between 41% and 43%. The only thing I can tell you, our NIMs will remain range bound between 4.15% to 4.25% as a consequence.

Kunal Shah: And lastly, in terms of data points, so if you can give the breakup of the outstanding restructured pool, you highlighted on vehicle, but what could be the other segments? Corporate is also down. So, I think if you can give the breakup of these slippages as well as outstanding restructured book.

Indrajit Yadav: Kunal, Yes, we will disclose it like last quarter in the commentary.

Moderator: Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Service. Please go ahead.

Nitin Aggarwal: A few questions like, firstly, on the credit cost, now that over the first half we have consumed almost 1% credit cost against our guidance of 120-150 bps for the year. So, how do you see this in context to the guidance? And by when do you expect the slippages to normalize completely?

Sumant Kathpalia: The slippages are getting normalized. I think you will see us in the range of 120 to 150 basis points for the year. I can only tell you this. Our expectation is on ENR basis, not on ANR. And I think that is where our expectations are. We've always said our expected credit cost will be around 4,200 to 4,400 crores, and basis the overall ENR at the end of the year, it would be at 120 to 150 basis points.

Nitin Aggarwal: And secondly, on the mortgage side of a business wherein we are like looking to grow quite rapidly over the coming years. So, what customer profile, geographies, any color if you can provide on the distribution strategy that we want to employ to grow this business, and how much book size are we looking at over the next couple of years?

Sumant Kathpalia: So, I think you have to look at mortgage in two parts. One is the affordable housing, and one is the normal mortgage. The affordable housing is in 23 cities already, and that book is about 1,900 crores. We want to grow this book to about 5,000 crores, and that's our strategy on that. It comes at a yield of ~11%, and we are really fine with that.

On the branch banking side, our strategy is to grow where Pioneer grows, number one. So, I think our Pioneer is in 10 to 11 cities. It has to expand to 20 cities. So, we will launch mortgage in 20 cities. Wherever Pioneer or our affluent goes, we will follow that geography for home loans.

The other thing is we have a home market strategy, and we have currently identified 16 home markets. The Pioneer may overlap with that, but I think wherever Pioneer is not launched, and there is home market, we will also launch mortgages in that city and we want to expand to 25 cities, So, our segment is affluent plus a segment of branch banking which is, mass affluent. That's what we will focus on. In the affordable housing space, we are having our vehicle finance unit which drives that business.

Moderator: We move on to the next participant. The next question is from the line of Adarsh. Please go ahead.

Adarsh Parasrampuria: Sumant, just obviously, the macros look strong, but just if you can reflect on how do you expect to tide through liabilities, you know, there will be smaller banks which will give higher SA rates. There are large banks which need to increase deposit mobilization, and wholesale deposit rates have moved up quite sharply. So, if you can just elaborate on the liability side, how you expect this to pan out over the next 12 months?

Sumant Kathpalia: So, Adarsh, we have our strategies very clear, and I talked to you before, but let me just re-emphasize that. We have five playing fields on which we will play our game. One is we focus on Affluent and NRI, and you've seen the growth. These are the businesses which we will continue to invest in, and we believe in the next 12 to 24 months, these books will double. And I think Rs.25,000 to 30,000 crores of liabilities will come from each of these segments.

Second is we believe that branch expansion still plays a very important role in India and we will continue to expand our branches. We are going to reach 2,500 by this year and then 3,500 branches. I think the difference is, the branch look and feel will be different as we progress, and what we are doing is, we are going into a concept which we call as Community Banking. And I believe we have selected five communities, and you will see our branches around those communities developing. We believe that when you're fighting in a very crowded market, you've to find a niche for yourself. We found a niche when we launched the liability in the home market strategy, which we will continue to expand. Now we believe in the client segments the niche will come in the communities which we want to offer. So, I think, for example, we are very strong in diamond. We believe diamond is a community which has end-to-end capability, and there are 800,000 workers on the ground which get an average salary of Rs. 100,000 per month. So, I think there is an opportunity of a very different nature which we are going to tap. The second, I think, can be defense. We are strong on some part of the defense vertical, and we believe that there is a large opportunity in the defense area in which we can make a very good use of. So, the strategy around segmentation along with the branch expansion is the number two strategy.

Third strategy is, digital. I believe that digital will play a very huge role as we move forward in the scale up of the client acquisition. The Indie will get launched in the month of December or January. We believe that in the first 12 months to 24 months, we will acquire 2 million customers with a 15,000 to 20,000 crore of balance sheet. Now that balance sheet is what we think will help us create a very differentiated liabilities book. The clients will be identified. We will start giving relationship management and everything through the Indie proposition. So, I think that's a very big opportunity.

Fourth, in my opinion, the Bharat Financial Network, which is still not been fully exploded. I think we have 70 lakh accounts, but I believe if we can start engaging with them in a different way, we are planning to take this book to 5,000 crores in the next 12 months, and that's again a very big opportunity for us.

Fifth, I think our client acquisition, specifically our current accounts proposition is taking a very different shape, and I believe that current accounts growth of around 10,000 crores in the next 12 months to 18 months will give the bank a COD advantage.

Last point, our rates will continue to be higher than the market, and our pricing will be a differentiated. We will continue to price basis selective segment and selected geography and then we will play a very differentiated game.

Adarsh Parasrampuria: That was useful, Sumant. And just a clarification on the SA. If you adjusted the large account government balances, would the core SA would have grown?

Sumant Kathpalia: Yes, that is what we are saying that retail deposits grew by 5% QoQ, and our retail balance sheet is what we are focused on. We could have got bulk SA, but we want to move out of the bulk SA, whichever is there in the book. Retailisation and granularization of liability is happening, and that's where the growth was 5% QoQ on that book.

Moderator: Thank you. Next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Sumant, just a couple of questions. One is, you know, on the loan book growth side. Just like to understand the logic behind growing the large corporate book so significantly as well as the unsecured PL and credit cards. Can you just help us understand what's driving these two components so sharply?

Sumant Kathpalia: So, let me answer the point number two. If you would have seen, we have not grown the Microfinance book, and the Microfinance book has remained at 11%. We have always said that we will not touch the 5% share on the unsecured non-microfinance book. There was an opportunity, and we grew that book at a faster pace within that cap. We are well within our unsecured cap. We were at ~3.8% 12 months back and we have moved to ~4.3%.

On the first part, on the corporate side, we are getting into very good A rated and above relationships. It's about balancing the book and getting the risk density right, and that is where we are working on. Also, there were very good fee and cross sell opportunities in the deals which came to us, and we did those businesses. We got into new relationships where we got good deals.

Rahul Jain: Just one more small point. Can you just help us understand the duration of this corporate book that we would have onboarded these largely working capital loans, what would be the duration of these loans?

Sumant Kathpalia: So, there is 60, 70% is working capital. 30% is term loans, but all these term loans are less than five to six years.

Rahul Jain: That's helpful. The other question is, you know, have we kind of changed our savings deposit rates, you know, in this quarter?

Sumant Kathpalia: Yes. We have changed it effective October 1. The rates are now less than 1 lakh remain at 4%, 1 lakh to 10 lakh at 5%, and 10 lakh to 100 crores at 6%.

Rahul Jain: Just one last question, Sumant. The CA growth has also been very strong. So, is there any interlinkage between the large corporate growth on the loan book side as well as the CA growth? And do you also plan to kind of, you know, moderate this corporate loan growth as the retail, other pieces of retail picks up like Bharat Financial and CVs etc.?

Sumant Kathpalia: See, We've always said that the loan mix ratio for us is range bound, and we have always said 55% to 58% will be retail and 42% to 45% will be corporate. And one quarter here or there doesn't matter, but I think that's where our loan mix will be to get our efficient NIM as well as our contributions. So, that's where we will be.

Number two, there were these dividends mandates come from various undertakings for us, and we have been in this business of transaction banking for a long time. These are our clients, and we get these mandates as a process. These are mainly PSUs, and we have a very strong relationship which gave us 9,000-crore book. While, the yields on these book may not be very high, but these are the type of businesses which we get from them, and we also do very good LCBG business, and we do this business very well. So, that's why we continue to get these mandates. You've to do your risk adjusted returns, and I think these are very good businesses, and they have a lot of transaction business, and as a consequence we get a good fee. And if you look at our FX fee revenue and the growth, you will find one of the reasons why we are doing these businesses.

Rahul Jain: And quickly on current account.

Sumant Kathpalia: 5,000 crores came as a consequence of dividend mandates which we got. I've also mentioned that in my opening remarks.

Rahul: I think I missed it. I missed it. Thank you so much, Sumant. That's helpful.

Moderator: Thank you. Next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: So, one question again on yields. Can you give some sense of the yields on your large corporate, mid corporate, and small corporate segment individually? And how they would have moved between last quarter and this quarter?

Sumant Kathpalia: We don't disclose it. But I can assure you the yields in the large corporates has moved the lowest. I think the yields in the SME and the small corporates have moved the highest. That's all I can tell you.

Abhishek Murarka: And so could you give a sense of the kind of movement? 40 is your blended, but on an incremental, would it be higher by 100 basis points or so?

Sumant Kathpalia: Incremental acquisition. See, incremental disbursals, are happening linked to an external benchmark rate plus a margin. So, the yields will be higher because it's linked to the external benchmark rate which have raised over the period. So, if it's linked with Treasury bill or or it's linked to the CD rate, we will get a benchmark plus margin. So, the rates will be higher accordingly.

Abhishek Murarka: The second question is on SME. Now because of this increase in rates, right, a lot of it obviously has to do with the EBLR. Are you looking at, are you sensing any kind of pressure in SME or any kind of early delinquency indicators? How are they trending? Just wanted to get a sense.

Sumant Kathpalia: We have insignificant delinquency on SME. Almost Zero percent delinquency. We have a small book. It is about the ~10,600 crores book. On the BBG side, we have taken a lot of losses over the last two years what we had to take, and I think the flows have slowed down dramatically. What you should ask me a question, are you seeing attrition in your book because of the rate change? And I think we have to watch out for that space this quarter.

Abhishek Murarka: And finally, just a quick data point on in your credit card book, what is the revolver mix?

Sumant Kathpalia: I don't know why the revolving rates are not going on. We are still struggling at 27 to 29%. It's not growing. The revolver rates is not growing. But what we do well is the EMI portion on this business.

Abhishek Murarka: How much would that be?

Sumant Kathpalia: It would be around 25% of the book as of now. So, we have a credit card book of ~7,000crores of which 1,400 to 1,500 crores will be EMI book. So, it will affect the yield on the book, because the EMI book comes at a lower spread while the revolver rate comes at a higher spread. So, the yield fluctuates between 16% to 18%.

Abhishek Murarka: And any sense of why or when the revolver rates would pick up? Just a broad sense whatever you can.

Sumant Kathpalia: So, history tells you that when there is an inflationary environment, first, the personal loan disbursement increases dramatically. So, if you go historically into the unsecured business, first the personal loan disbursements will rise, and then the revolving rates on the OD products starts rising. And that's where the card revolving rates will increase. So, I think first you have to watch out for the personal loan disbursements in the banking sector, and you are seeing a increase in personal loans. We are very watchful of that, and then you will see the credit card revolving rates going up, and that is where the debt trap happens.

Moderator: Thank you. Next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just a quick question on fees. So, gradually see as a proportion of assets is kind of inching up. You think it probably goes back to above 2% as it used to be long back because corporate balance sheet growth is also now coming back. So, just wanted some thoughts here. And secondly was on the OPEX trajectory. Some, some outlook there in terms of branch additions and spends. Thank you. Those were my two questions.

Sumant Kathpalia: So, Sameer, on the fee part, if you look at our fee composition, 71% of our fee comes from consumer. And what is more important is you must see how client acquisition in consumer clearly coming up and what is the product holding in consumer banking. So, if you look at 12 months ago or 18 months ago, we were at 3.6 product holding, and we come to 3.9 to 4 product holding. As a consequence, your fee composition is increasing.

So, it's a composition of the upstream measures rather than the downstream measures. The upstream measures are showing an improvement in the consumer bank, and as a consequence, the fees is increasing. It's not the downstream measure. So, I think as long as these upstream measures are going, I think we were 68% is now moved to 71%. And I continue to believe that we will fluctuate between 70 to 75% in the consumer bank fees as we move forward.

On the corporate side, I have always said there are fees to assets ratio should be between 1.6% to 1.9%. That is where good corporates are, and we will continue to be that. Overall, I see the fees between 1.8% to 2.1%, and that is our expectations that we should be in fee to assets at 1.8% to 2.1%.

Sanjeev Anand: And 95% of the corporate fees is from trade FX and the normal processing fees. So, IB fees is very less.

Sumant Kathpalia: So, if you look at our OPEX, we have seen a gradual upswing on the OPEX, and I think we should in a quarter or two come back to 43%. But it will take a quarter or two, once the revenues also start coming up. As we are investing in new businesses like mortgage and new technologies, the cost is going up. On the employee cost side we have also done our appraisal process in this quarter, and I think what we thought will be the appraisal cost actually came out a little higher, because the market has moved very dramatically at that point of time, So, employee cost was up 9% quarter-on-quarter. Cost increase what you are seeing is not only because we have taken upfront cost, but it's also of new hiring as we hired 6,400 staffs during the quarter. So, I think on the cost factor, maximum we will go on our efficiency is 44% to 44.2%, and then I see it settling down to about 41 to 43 range, as we are growing new businesses like in merchant, home loans etc.

Moderator: Thank you. Next question is from the line of Marukh Adajania from Nuvama Wealth. Please go ahead.

Marukh Adajania: My first question was on MFI. So, why has the book grown only 1% QoQ? Is it based on results and because of the reorganization, I mean, the new guidelines?

Sumant Kathpalia: No, it is also because of the runoff factor which is coming in. With this book, we now have ~8,600 crores of runoff on a 29,600 crores book. That's the issue. So, please understand that the book is very big, and the runoff factor is coming into play. Yes. So, we'll have to go to a disbursement of 10,500 to 11,000 to achieve the incremental growth. But, you know, you should push the pedal when it's required. It's not required as of now.

Marukh Adajania: And Sumant, you very well explained about the third quarter demand that the festive demand is picking up. It's strong. Second quarter was also good. But would you have any slightly longer-term outlook on how demand pans out beyond the third quarter in terms of loans and also, so deposits you explained, you know, community and your other strategies, but just in terms of loan growth, where do you see where or when do you see demand picking?

Sumant Kathpalia: So, I think as long as public CAPEX picks up, the demand for loans will pick up. And that demand will come from the SME, MSME, and the mid-market corporate side. We are seeing that public CAPEX is picking up, and that should create loan demand. There are demands which are coming from certain segments like real estate, the demand is very high right now. Cement, the demand is coming up. I think we see demand in the steel side. We are seeing demand in the power generation side. So, we are seeing demand, and we are also seeing some private CAPEX here or there coming up.

But, yes, as you rightly pointed out, we have to see how the macro plays out in the long run before we start pressing the pedal on the growth on all these vectors. While quarter three and quarter four looks great and we should see a very good demand. I think we have to wait and watch. I can't give a projection for the long run because there are a lot of geopolitical as well as, other macro factors which are at play here. And I don't think anybody can predict the next 12 months today. I can think about the next two quarters, and the next two quarters I feel India will see a very strong demand coming up.

So, for the macro, if the growth does not come back in the western world, you can see exports slowing down. So, you have to see how the demand shapes up overall to say that what will be your growth in the asset. Though we have shared our expectations that this year we should grow at about 20% plus, and we continue to maintain our stance that we will continue to grow at 20% plus. Though we have grown an 18% this quarter, I think we should hit the 20% mark this year.

Marukh Adajania: That's helpful, and just one very specific question on your comment. So, your power generation is private thermal or it's public only?

Indrajit Yadav: Because one of the public entity which increased during the quarter.

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

Anand Dama: Thank you for the opportunity. Sir, question was continuing with what Marukh asked and you said that you can predict for the next two quarters. So, therein do you believe that the run rate we have seen in terms of growth in the current quarter, can we clock about 20 odd percent growth for FY '23 which you are obviously prediction about 18 odd percent?

Sumant Kathpalia: Yes, I think that's what we said. We're very comfortable. Please understand this 18% growth has come in the background of no MFI growth which should happen in the H2.

Anand Dama: And what's the outlook on the CV book? Do you see that book picking up in the second half of the year?

Sumant Kathpalia: What we have said is for H1 of this year, we have never seen such disbursements. So, it was a record disbursement in the H1 of this year which was even higher than what we saw last year is the H2. We generally see that 45% of the disbursements happen in the H1, and we expect a very strong H2 for the vehicle segment.

Anand Dama: Sir, do you believe that even the commercial vehicle book would contribute meaningfully in the second half of the year?

Sumant Kathpalia: I would like to correct you. Pardon my saying, but I think you please understand look at the vehicle categories which we are in. We are in seven vehicle categories and commercial vehicles book is only 37% of the vehicle book. The balance book is coming from somewhere else.

Anand Dama: You are seeing decent growth in UV as well.

Sumant Kathpalia: Yes. So, you are seeing growth in personal vehicles, used cars, scooter loans, tractors, you know, construction equipment, small commercial vehicle. So, I think you should not only focus on the MHCV, and we have also diversified into light commercial vehicle where we have a 10% market share. We are growing very fast on that. So, I think you should see it in all the segments where we are growing.

Anand Dama: So, what percentage of your corporate and SME book is linked to Exim trade, export or import trade?

Sumant Kathpalia: Consolidated, how much is it? Yes. So, I think 70% percent of our clients do a trade transaction with us in the overall corporate book whether it's export, whether it's import. Let's not confuse. 70% of our clients do transaction with us in the corporate bank.

Anand Dama: No, I think my question was the outstanding loan book that we have fund and non-funding both put together on the corporate and the SME side, how much is linked to Exim trade? So, the corporate is engaged into some kind of export or import.

Sumant Kathpalia: That's what I said.

Arun Khurana: Diamond is 11%, so which is around 11,000 crores portfolio.

Sumant Kathpalia: So, if you just go into the corporate, I have just told you, 70% of the clients will have Exim trade, like, for example, the Diamond is 100%. So, it is 70% of our clients. We will discuss this offline with you for further clarification.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as a last question. I now hand the conference over to Mr. Sumant Kathpalia for closing comments.

Sumant Kathpalia: So, thank you for joining the call. I wish you and your family a very happy Diwali and a seasoned greetings for the year. If you have any further questions, you can contact Indrajit or me, and we will be available. Thanks a lot and God bless.

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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