IndusInd Bank

Q4FY24 Analyst Call Opening Comments

Dear all,

Welcome to the Q4 results analyst meet. At the outset, I want to mention that the bank completed its 30 years of operations a few days back. The journey wouldn't have been possible without your support and confidence in the bank. Thank you and looking forward to continued support over the coming years. Let me start with some macro commentary and then go into the bank specific details.

The Indian economy has been resilient in navigating the global challenges. Real GDP growth is amongst the fastest in the major economies. Improving economic activity helped bank credit growth sustain above 16% during FY24. While Deposit growth at 13.5% YoY picked up compared to 9.6% last year, the liquidity environment remains challenging for the system. FY25 is expected to be a year of balanced growth for Banking sector. We remain confident on our growth journey whilst being watchful about the inflation and rates environment.

Coming to the bank specific developments. Some of the salient highlights for the quarter were:

- The retail deposit momentum continued during the quarter with retail as per LCR deposits growing at 18% YoY.
- Our Loan growth was at 18% YoY driven by 23% growth in retail loans.
- Our vehicle business grew at 17% YoY, microfinance at 22% YoY and other retail at 32% YoY.
- Within corporate, small corporates grew by 33% YoY, mid corporate grew by 8% YoY and Large corporate grew by 13% YoY.
- We continue to scale-up our new initiatives with Affluent grew by 24% YoY, NRI deposits grew by 33% YoY.
- Our merchant loan book originated via BFIL now crossed Rs.5,500 crores mark, while home loan book now stands at Rs.1,792 crores.
- We saw sequential improvement in asset quality with slippages reducing across all the business units. Our Q4FY24 credit cost was at 111bps and we closed full year credit cost of 113bps within our communicated expectations.
- The profitability metrics have remained healthy and stable over the course of last year.

Now coming to financial highlights for the quarter and financial year:

- Our net profit for Q4 was at Rs.2,349crores growing at 15% YoY.
- All key ratios are healthy with NIM at 4.26%, ROA at 1.90% and ROE at 15.23%.
- Our GNPA and NNPA were stable QoQ.
- I am happy to share that our balance sheet has now crossed Rs.5 lac crores mark.
- Our NII grew by 15% for the quarter with stable margins.
- Other income grew by 16% YoY & 5% QoQ. Core fee income at Rs.2,293 crores grew by 6% QoQ. Trading & other income was at Rs.215 crores during the quarter.
- Our Overall revenue growth was healthy at 16%.

- We continue to invest across our distribution, digital, human capital & marketing initiatives. We have added 256 branches during the quarter. We have also added around 2,100 employees during the quarter and more than 11,000 employees in FY24, across our group distribution. As a result our cost to income have been on the higher side for last few quarters.
- Our provisions were down 8% YoY and 2% QoQ.
- Profit After Tax grew at 15% to Rs.2,349crores for the quarter and 21% for the full year to Rs.8,977crores. EPS for the year was at Rs.116 per share.

I will now cover our progress across key businesses as highlighted in our investor presentation.

Well Diversified Loan Book across Consumer and Corporate Products

- The loan mix has moved in favor of retail during the year at 56%.
- Consumer businesses grew at 23% YoY.
- Corporate book grew at 13% YoY.

Vehicle Finance: Granular Portfolio Across Vehicle Categories

- Our vehicle finance loan book grew 17% YoY with full year disbursements crossing Rs.50,000 crores for the first time in our history.
- We had another quarter of healthy disbursements at Rs.11,963 crores. Disbursement growth picked up sequentially in MHCV and Construction Equipments whereas growth was sluggish in LCV, tractors and passenger vehicles.
- During the quarter, we have also completed migration of around 5mn vehicle customers to finacle from the legacy system. This caused couple of weeks of impact on business but it was a critical transition for us.
- Asset quality improved sequentially with gross slippages reducing to 0.57% vs 0.73% QoQ in vehicle finance.
- The restructured book in vehicle finance reduced to Rs.547 crores from Rs.705 crores QoQ with majority of the reduction due to upgrades and recoveries.

Micro Finance/ Inclusive Banking via BFIL:

- We had another strong quarter of business at BFIL with outstanding loan book originated of Rs.44,750crores growing at 10% QoQ and 23% YoY.
- Both the microfinance as well as merchant acquiring segments grew handsomely at 22% and 38% YoY respectively.
- Our microfinance loan disbursements were at Rs.13,800 crores growing 19% YoY.
- Microfinance gross slippages for Q4 reduced to Rs.335crores vs Rs.363crores QoQ.
- The merchant acquiring business resumed its growth journey crossing 5,500 crore mark with 16% QoQ growth. We now have around 700,000 borrowing merchants onboarded. The diversification initiative is playing out well with Merchant business now forming 13% of BFIL originated book.
- Deposits mobilized through BFIL stand at Rs.2,912crores and we have ~18mn SA & RD accounts via BFIL so far.

Other Retail Assets – Growing Sub-Scaled Businesses

- Other retail assets continued robust momentum with 9% QoQ and 32% YoY growth.
- Our MSME book under business banking maintained strong traction with 21% YoY growth. New acquisitions have reached at all time high during FY24 driven by our reinforced focus via MSME 2.0 strategy.
- Majority of the MSME new acquisitions are granular from less than Rs.2crores segment i.e. Small Business Banking segment leveraging our digital lending platform.
- Our home loan book now stands at Rs.1,792 crores growing 30% QoQ.
- We have cautiously moderated sequential growth in unsecured products like credit cards & personal loans at 5% vs. 9% QoQ growth last quarter.
- Our credit card spends market share was at 4.9% as per latest available RBI data.
- Overall, scaling other retail assets is one of the key focus areas for the Bank and we aim to grow our other retail assets at faster pace while improving the balance towards secured mix.

Corporate Portfolio – Focus on Granular, Higher Rated Customers

- Our corporate loan book grew 13% YoY.
- Within corporate, small corporates grew by 33% YoY, mid corporates excluding gems and jewellery grew by 19% and Large Corporates grew 13% YoY.
- Gems and jewellery book continues to see working capital reduction due to weak global demand. The asset quality of gems & jewellery book remains pristine with no NPA, SMA1 & SMA2.
- Corporate fees remain granular & diversified as we removed reliance on chunky sources like Investment Banking/ Structured finance.
- The proportion of A and above rated customers is now 77% compared to 73% YoY. The weighted average rating too improved to 2.51 from 2.65 YoY.
- Overall, we are growing our corporate book in calibrated manner with focus on granularity and areas where we have right to win rather than chasing headline growth numbers.

Now coming to Liabilities:

- The retail deposit momentum continued during the year with retail as per LCR deposits growing at 18% YoY.
- As mentioned in the balance sheet release, adjusted for outflows for deposits originated through a fintech partner, our retail deposits growth was at 20% YoY and 4% QoQ.
- With our constant endeavor to bring forth innovative propositions, we have recently launched contactless payments wearables, 'Indus PayWear' India's first All-in-One tokenizable wearables for both debit and credit cards.
- Cost of deposit increased by modest 4bps QoQ driven by the mix in favour of term deposits and some repricing.

- We have added 256 branches during the quarter and 378 branches in FY24. Our branch count now stands 2,984.
- We maintain healthy average surplus liquidity of around Rs.39,400 crores during the quarter with Liquidity Coverage Ratio at 118% vs 122% QoQ.
- Overall, we are making steady progress towards deposit retailisation journey amidst the challenging liquidity environment and will take you through our initiatives in PC-6 discussion.

Executing Digital 2.0 Strategy

- Our digital platforms continued to show robust growth
- Direct to client platforms are scaling with efficiency creating a new tech led business model.
- Overall, during the year, Bank acquired 2mn clients digitally in DIY mode, disbursed more than Rs.1000crores of personal loans to new to bank clients acquired digitally and acquired 2,50,000 credit cards digitally.
- While the business is growing strongly, the digital business model also drives better business efficiency in the lines in which it operates.
- INDIE – the flagship digital platform for individual segment is off to a strong start and completed 6 months of operations
    - We have ~5mn installed base and 1.2mn clients on INDIE.
    - More than 9mn transactions are processed every month on INDIE platform and transactions are doubling month on month.

Stable Margins

- Overall margins continue to remain stable around our expected range.
- Loan mix moving in favour of retail loans provides the ability to absorb deposit repricing

Diversified and Granular Fee and Other Income Streams

- Core fee remains healthy growing at 6% QoQ.
- Share of retail fee continues to be healthy at 72%
- Overall fees remain steady at 1.9% of assets.

Healthy Assets Quality

- Our GNPA and NNPA were steady QoQ.
- We saw improvement in all the asset quality metrics such as gross and net slippages, restructured book and security receipts during the quarter.
- All the four business segments saw sequential improvement in slippages.
- Gross slippages reduced down to 0.44% vs 0.56% last quarter.
- Our restructured book continues to run down at 0.40% compared to 0.48% QoQ.
- Our Net SR book reduced to 0.34% of loan book vs 0.37% QoQ. We have made ~Rs.91 crores provisions for Security Receipt book this quarter.
- Our SMA1+2 book was at 0.24% of loan book.
- Our Q4FY24 credit cost was at 111bps and we have closed FY24 with full year credit cost of 113bps in line with our communication at the start of financial year.

- We continue to carry strong loan related provisions.
- Our PCR on GNPAs remains healthy at 71%
- During the quarter, we also saw full repayment of the funded exposure towards a stressed telco of Rs.990 crores. The Bank had made a prudential contingent provision towards this account. The bank has retained large part of this provision in the contingent buffers.
- The contingent provisions of Rs 1,000 crores provides cushion for any volatility in microfinance and commercial vehicle segments. We aspire to keep 2% extra on microfinance and 0.5% extra on MHCV portfolio as buffer.

Robust Capital Adequacy

- CET 1 was at 15.82% and CRAR was at 17.23%.
- Our credit risk weighted assets grew at 15% YoY vs. loan growth of 18% YoY.
- Sequential growth in RWAs is higher due to operational RWA addition in Q4.
  Capital utilization remains efficient with improved risk density and strong internal capital generation.

Planning Cycle 6 Progress

We completed first year of Planning Cycle – 6 in Mar-24 and outcomes have been largely in line with our ambitions. We made steady progress across key themes of PC-6:

1. **Continuing Retailisation Journey:** Increasing Share of Retail Deposits

- We progressed towards our retailisation journey with ~73% incremental deposits in last 4 years coming from retail as per LCR deposits & CASA.
- Share of retail deposits is now at 44% compared to 31% in Mar-20.
- We continued to invest in our distribution network and opened 378 branches during FY24 and 1,073 branches in last 4 years. We believe our investment in the distribution should aid us maintaining the growth momentum in retail deposits.
- We have lowered our dependency on bulk deposits and borrowings.
- Certificate of deposits remain low at 3% of deposits, while borrowings contribute 9% of total liabilities.

2. **Diversifying Domains**
   Vehicle Finance: Sustainable Growth Across Product Cycles

- Over the period, the Bank has diversified its vehicle finance book with addition & scale-up of new vehicle categories like Light Commercial Vehicles, Cars, Utility Vehicles, Construction Equipment & Tractors etc.
- We have gradually reduced dependency on MHCV segment which now contribute 6% of overall loan book compared 11% in Mar-18.
- We have ramped up LCV business by carving out dedicated business unit. Bank's LCV market share has now crossed 10% from sub 5% a few years' back
- We have also scaled up passenger vehicle book improving balance between passenger and commercial vehicles.

- Overall, vehicle portfolio is now diversified across product categories and the Bank is well positioned for sustainable growth across different product cycles.

Bharat Financial Inclusion Ltd (BFIL): Evolving from Microfinance to Micro Banking

- We continue to progress on the journey of transitioning BFIL's rural business from microfinance to micro banking.
- We have scaled-up our merchant business via our Bharat Super Shop offering. The loan book has now crossed Rs.5,500crores spread across 7lacs nano retailers in tier II & tier III cities.
- The share of non-microfinance loans is now close to 13% of overall loan sourced via BFIL and we aspire to take it to 30%-35% in next 2-3 years.
- Our initiatives on the liabilities side are also moving steadily and we now have close to 18mn SA & RD account opened via BFIL with deposits of more than Rs.2,900crores.

Gems & Jewellery: An Approach to Community Banking

- The Bank is adopting 'One Bank' approach to capture entire echo-system via community banking.
- We have launched 'Indus Solitaire' a community focused relationship programme offering a gamut of tailored banking services for the Diamond Industry.
- While in the interim we have cautiously slowed down on the growth amidst global demand challenges, the asset quality of the book continue to remain pristine with zero NPA and zero SMA1 & SMA2.

3. Scaling Sub-scale Businesses: Growing Existing and New Initiatives

- We are scaling our new and existing initiatives across assets and liabilities. This is one of the key focus area for PC-6
- On the asset side, our home loan book is now at Rs.1,792 crores while merchant advances via BFIL are at Rs.5,565crores growing at 38% YoY.
- Our MSME initiatives have shown strong traction driven by sharp focus via dedicated business units & best in class digital offerings. Overall, loan book via our MSME focused business units grew at 26% YoY in FY24.
- We continue to scale our existing liabilities initiatives of Affluent and NRI Banking. We will further expand our affluent and NRI offering with launch of Private Banking focused on HNI/ UHNI customers.

4. Accelerating Digital 2.0: Innovative Digital Platforms

- We have laid a strong digital foundation with progress on our 'Digital 2.0' strategy and created a strong stack of digital products & capabilities.
- Our recent launch 'INDIE' is seeing healthy early trends & user adoption with 5mn+ downloads, 1.2mn accounts opened and around 10mn transactions per month.
- We will continue to Integrate digital across our businesses with scale up of existing initiatives and plan launches.

5. **Imbibing ESG into with Business:** Multiple Initiatives at Place

- The Bank has deepened its impact on the society through responsible lending, mitigating climate change, and promoting social behavioural changes.
- We have launched multiple initiatives including:
    - ESG linked products such as green deposits, sustainability linked bonds etc.
    - Indus WE, a platform for women entrepreneurs offering holistic banking and non-banking services
    - Indus Solar, offering Rooftop Solar Loans to MSE clients, fostering innovation in solar energy utilization
    - ESG oriented debt solutions for corporate solutions for corporates.

Our FY24 progress has largely been on track with our PC-6 ambitions across parameters. We remain committed to achieving our Planning Cycle 6 goals. The key focus areas for FY25 are:

- Steadfast focus on retailisation of deposits navigating challenging environment.
- Calibrating loan growth in sync with deposit growth, prioritizing diversification and granularity.
- Integrating 'One-Bank' distribution structure to fully leverage its strong distribution network across key segments
- Scaling new initiatives like Home Loans, MSME, Affluent Banking, NRI Banking etc
- Leapfrogging Digital 2.0 with planned launches & scale-up
- Relentless focus on compliance & governance
- Maintaining healthy profitability in top quartile of industry.

We have shown healthy traction on all the key metrics and expect to show similar trends going into FY25 as well.

- We aim to grow ahead of industry. We are committed to PC-6 growth rates whilst being watchful of operating environment quarter on quarter.
- We remain comfortable with our margins with some potential upside when interest rate cycle turns.
- We continue to invest in digital and other liability initiatives. The cost to income thus should be range bound in near term and improve as the operating leverage plays out in a few quarters.
- The asset quality is now in steady state and any improvement would be used to build contingent buffers.
- Overall profitability of the franchise would thus be stable in the near term and improve as some of the benefits from margin and operating leverage plays out over the course of next few quarters.

With this we can open for Q&A.

Additional Information Discussed During the Analyst Call:

1. **Gross Slippages Details:**

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q4FY24	Q3FY24	Q4FY24	Q3FY24	Q4FY24	Q3FY24
CFD	460	554	28	44	488	598
MFI	333	355	2	8	335	363
Other Retail	442	483	1	8	444	492
Corporate	162	304	0	8	162	312
Total	**1,397**	**1,696**	**31**	**68**	**1,428**	**1,765**

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