

## Management Discussion

### **Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thank you. Good evening to everyone, and thank you for joining us. I'm also joined here by our two EDs designate, Jagdeep Mallareddy; and Ganesh Sankaran; as also our CFO, Viral Damania.

I will begin with the broader operating environment and then share how the bank is progressing on its strategic priorities. Despite an uncertain global backdrop, India's economic momentum has remained resilient, supported by strong macro fundamentals and a stable financial system. For the banking sector, this continues to provide a constructive backdrop even as funding discipline, risk selection, and execution quality remain important differentiators.

Against this backdrop, Q1 marked a clear inflection point for the bank. Having substantially completed the balance sheet and earnings calibration undertaken over the past year, we have now entered the next phase of our journey, focused on accelerating sustainable risk-adjusted growth from a significantly stronger operating foundation. The progress made across deposits, asset quality, profitability and capital position gives us confidence that the bank is well positioned to deliver stronger growth, improving profitability, and better returns in the coming quarters.

We will now move to key highlights of Q1, and then cover business-specific progress and financial performance. The balance sheet pivoting towards growth. Our end-of-period deposits and advances grew 3.7% -- at 3.7% and 3.3% Q-on-Q, respectively, reversing the moderation witnessed through much of the last financial year. Deposit franchise continues to strengthen with average retail deposits growing 4% Q-on-Q, and share of retail deposits as per LCR further improving to 49.5% from 47.9% Q-on-Q.

On the asset side, we resumed growth in the wholesale book under our revised risk-return framework, while the SME and retail portfolios were broadly stable. Within retail, we saw steady disbursements across segments. However, Q1 seasonality kept the outstanding portfolios flat Q-on-Q. Improving asset quality trajectory, importantly, growth momentum was achieved without compromising portfolio quality and provides an early indication of the underlying traction now emerging across the franchise. Annualized net slippage improved further to 1.5% versus 2.43% Y-o-Y and 1.7% Q-on-Q.

With microfinance, asset quality is improving materially and moving steadily towards more normalized operating levels. We undertook write-offs of INR1,435 crores during the quarter. As a result, both gross NPA and net NPA improved to 3.25% and 0.95%, respectively with stable PCR Q-on-Q. The improvement is now visible across portfolios and early stress indicators reinforce our confidence that the corrective actions and underwriting changes implemented over the last several quarters are translating into structurally strong credit outcomes.

Building an AI-powered bank, we believe AI will be a key competitive differentiator for the bank. Our focus is on embedding AI deeply into customer engagement, credit decisioning, risk management, and employee productivity, enabling superior customer outcomes, faster decision-making, and improved operating efficiency at scale. We continue to scale AI adoption across the bank with over 12,000 employees already receiving training on AI. Our AI-powered knowledge management platform Indus Compass serves 15,000 plus monthly active users, and delivers over 55,000 responses every month, while our enterprise AI chat platform has 12,200 monthly active users, generating around 875,000 interactions each month.

AI and machine learning are increasingly embedded across our customer, credit, and risk

management journeys. Multiple ML models enable personalized customer engagement, while our suite of 50 plus ML models evaluates nearly 0.5 million applications -- loan applications every month, helping underwriters make faster and more consistent credit decisions. AI is also a key enabler for our risk management framework. Our ML models monitor transactions for around 40 million customers on an hourly basis, strengthening fraud detection, financial crime prevention, and overall operational resilience.

Financial outcome for Q1, pre-provision operating profit, PPOP stood at INR2,773 crores, growing 8% Y-o-Y, and 21% Q-on-Q. Even adjusted for a one-off income tax interest recovery, the PPOP growth was robust at 8% Q-on-Q supported by balance sheet growth and ongoing optimization of operating expenses. Provisions declined further to INR1,384 crores with continued improvement in asset quality outcomes.

As a result, profit after tax improved sharply to INR1,037 crores from INR594 crores in the previous quarter, reflecting the meaningful improvement achieved across growth, asset quality, and improving operating performance. Excluding the one-off gains, ROA improved to 0.63%, and we remain firmly focus progressing towards our immediate target of a ROA of 1%, supported by improving business momentum, lower credit costs, and continued operating leverage. Our capital adequacy is healthy with a CET1 ratio of 16.1% and CRAR of 17.15%, providing ample capacity to support future growth.

Let me now take you through individual businesses. On vehicle finance, our book now stands at INR99,718 crores, growing 3% Y-o-Y, while remaining stable Q-on-Q. Overall vehicle disbursements for the quarter were INR10,832 crores. Our disbursements excluding two-wheelers also grew 3% Y-o-Y in line with the loan book. As mentioned in earlier calls, we continue to calibrate our two-wheeler distribution and underwriting. This along with the impact of GST change in Q2 last year contributed to overall disbursements falling 4% Y-o-Y.

The annualized net slippage for the quarter was down at 2.01% versus 2.29% Y-o-Y, supported by tighter underwriting in two-wheelers, tractors, and maintaining diligence in the other segments. The slippages were higher Q-on-Q due to seasonality. Our overdue book remains range-bound, and we expect asset quality trends to improve in H2 as seen in earlier years. We continue to advance our digital transformation agenda through deeper sales force adoption across key product segments. We also rolled out process and compliance automation initiatives, expanded digital sourcing capabilities, and progressed our straight-through processing agenda.

Looking ahead, our focus will be on strengthening market leadership through digital and AI-led customer journeys, expanding our presence in under-penetrated geographies, and deepening our customer engagement through cross-sell of liabilities and retail banking products. We continue to see opportunities to gain share across key vehicle segments, while improving productivity and turnaround times.

Rural banking. Let me now turn to our rural banking portfolio, where we have seen encouraging progress during the quarter, particularly in micro loans. Asset quality trends in the micro loan portfolio further improved meaningfully with key indicators such as fresh slippage, collection efficiency, and overdue levels moving closer to normalized levels. Gross slippage moderated to INR191 crores versus INR884 crores Y-o-Y and INR504 crores Q-on-Q, while the 31 to 90 DPD book declined to 0.6% versus 2.2% Y-o-Y and 0.9% Q-on-Q.

Disbursements were at INR5,200 crores, broadly in line with the previous quarter, despite a seasonally weaker Q1. The overall micro loan book stood at INR16,305 crores, declined 3% Q-on-Q.

Around 74% of the portfolio is now covered under the CGFMU credit guarantee, including Q1 disbursements, which are currently under process of being covered. Beyond microfinance, we continue to make good progress in diversifying our rural franchise.

Our merchant finance portfolio grew 11% Y-o-Y to INR8,095 crores, serving over 575,000 borrowers, while affordable housing portfolio grew 21% Y-o-Y to INR2,889 crores. Kisan credit card and other rural products stood at INR4,128 crores. With microfinance test now moderating meaningfully and portfolio quality improving steadily, we believe the business has reached an important turning point, creating the opportunity to gradually pivot from repair towards growth, while maintaining underwriting discipline and diversification initiatives.

Consumer banking assets. We continue to reshape our consumer banking franchise with a greater emphasis on secured loans, while maintaining a disciplined approach towards unsecured products and portfolio quality. We have strengthened our leadership team with experienced talent that has successfully built large-scale retail asset franchises. We have also invested in enhancing our distribution, analytics, and technology infrastructure across customer journeys to support sustainable scale.

Overall, consumer banking assets at INR31,617 crores grew 2% Q-on-Q. The actions taken over the recent quarters are beginning to gain traction, reflecting in consumer asset disbursements growing 16% Q-on-Q. We expect the resulting momentum to increasingly translate into stronger portfolio growth over the coming quarters.

Secured lending has been a primary growth driver during the quarter. Our home loan portfolio grew 38% Y-o-Y and 6% Q-on-Q to INR6,889 crores, while the gold loan franchise continues to scale up with the book crossing INR1,200 crores. In unsecured lending, we have maintained a selective approach prioritizing portfolio quality, while investing in customer retention, analytics-led sourcing, and cross-sell opportunities.

Personal loan book at INR9,930 crores de-grew 4% Q-on-Q and credit card loan book at INR9,418 crores de-grew 3% Q-on-Q. Asset quality improved with annualized net slippage at 4.19% versus 5.76% Y-o-Y and 4.22% Q-on-Q. Over the medium-term, our strategy remains focus on scaling secured lending businesses such as mortgages, gold loans, and other asset-backed products, while continuing to grow unsecured portfolios through analytics-driven customer acquisition, deeper customer engagement, and cross-sell. We believe this approach will drive sustainable granular risk-adjusted growth across the franchise.

SME banking represents one of the most significant medium-term growth opportunities for the bank and will be a key contributor to our growth strategy going forward. During the quarter, our focus was on strengthening the franchise operating model and execution capabilities under the new leadership team to create a stronger foundation for future growth.

We launched several initiatives to deepen our presence among SMEs and emerging businesses with a greater focus on transaction banking, trade finance, supply chain solutions and ecosystem-led client acquisition. The underlying business momentum in SME remains encouraging net of migrations to wholesale banking. Our LAP portfolio grew 8% Q-on-Q and business loans grew 4% Q-on-Q. The actions taken during the quarter positions us well to accelerate growth, deepen client relationships, and improve cross-sell opportunities in the periods ahead. Our focus remains on becoming the preferred banking partner for entrepreneurs and emerging businesses, through ecosystem-led acquisition, transaction banking, supply chain finance, and sector-focused solutions.

Moving to the wholesale bank, we successfully reaccelerated growth in our wholesale bank franchise during the quarter following the completion of portfolio optimization and operating model enhancements undertaken over the last one year. Our average wholesale bank loan book grew 7% Q-on-Q, marking an inflection point following the portfolio optimization and recalibration undertaken over the last year. Growth was broad-based with all three subcategories, mid-market, large corporate, and institutional banking groups showing healthy Q-on-Q traction.

The portfolio -- the proportion of A and above-rated customers of wholesale banking portfolio was steady at 82%. With business momentum picking up, our corporate and SME fee grew 28% Q-on-Q. Our focus continues on building sustainable fee income streams with transaction banking fee contributing 55% of the overall wholesale and SME fee incomes.

Asset quality in the wholesale portfolio continues to be robust with annualized gross and net slippage improving to 0.17% and 0.09%, respectively. Overall, our focus remains on building high quality relationships across corporate, institutional, and government segments, while selectively participating in sectors aligned to India's structural growth opportunities. We believe a combination of disciplined lending, deeper transaction banking engagement, and a higher fee penetration will drive sustainable growth and profitability for the franchise.

Now coming to liabilities. Building a granular, stable, and cost-efficient deposit franchise remains one of the bank's highest strategic priorities, and we made further meaningful progress during the quarter. Average retail assets as defined by LCR now stand at INR1,90,166 crores, growing 4% Q-on-Q. The share of retail deposits now stands at the highest-ever level of 49.5% versus 46.2% Y-o-Y and 47.9% Q-on-Q.

The share of CDs and total deposits and borrowings and total liabilities were steady at 5.9% and 7.9%, respectively. Liquidity position improved during the quarter with average LCR at 127% versus 118% Q-on-Q. Cost of deposits improved by 12 basis points Q-on-Q to 5.95%, reflecting the benefits of the improving deposit mix and optimization initiatives undertaken over the past few quarters. The improvement was driven both by SA and TD repricing downwards.

We have a strong NRI deposit franchise with a market share of approximately 3.6%, much ahead of our natural market share in overall deposits. This positions us well to participate in the ongoing FCNR (B) mobilization efforts. Our affluent banking along with NRI franchise now contributes INR85,000 crores of deposits for the bank, which grew 2% Q-on-Q. Our efforts on streamlining and strengthening the product offering continue this quarter as well, especially on the senior citizens proposition, mobile app enhancements, etc. These, along with other customer engagement initiatives has resulted in robust new-to-bank acquisition run rates for the quarter.

Overall, our strategy remains focused on deepening primary banking relationships across retail, affluent, NRI, SME, and entrepreneur segments. We continue to leverage our distribution network and digital capabilities to drive granular deposit growth, improving funding quality, and further strengthen the liability franchise. The continued increase in the retail deposit share reflects the strength of our franchise and provides a significantly stronger foundation to support future balance sheet growth.

Let me now hand over to Viral to take you through the financial performance.

#### **Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

Thanks, Rajiv, and a very good evening to everyone. So let me start with the balance sheet, and then I will share more highlights on the profit and loss. So our average advances grew 2% sequentially

from Q4, and that's driven mainly by wholesale banking and secured retail segments. Average deposits inched up by 1%, supported by healthy retail deposit growth. Average CD ratio was at 83% versus 82% quarter-on-quarter, and the share of average borrowings in total liabilities continued to be steady at around 8%.

Moving on to the P&L, reported net interest income for Q1 stood at INR4,685 crores. And if you adjust for a one-off interest recovery on IT refund of INR284 crores, normalized net interest margin was at 3.35% versus 3.39% quarter-on-quarter. The decrease of 4 basis was largely due to changes in portfolio mix towards wholesale banking and secured retail assets, and that's partly offset by the improvement in cost of deposits. Non-interest income at INR1,787 crores that grew 4% quarter-on-quarter, supported by improved business momentum. Operating expenses declined 2% quarter-on-quarter to INR3,698 crores. That reflects the benefits of our ongoing cost optimization initiatives and lower regulatory costs.

So as a result the normalized operating profit at INR2,489 crores that grew 8% quarter-on-quarter, and consequently normalized PPOP to average loans improved to 3.13% versus 2.93% quarter-on-quarter. The provisions and contingencies for the quarter at INR1,384 crores was down 21% year-on-year and 7% quarter-on-quarter, and that's driven by reduction in net slippages.

We had write-offs amounting to INR1,435 crores during the quarter, and that is very consistent with our policy. In terms of asset quality, GNPA and NNPA, both improved quarter-on-quarter at 3.25% and 0.95%, respectively, and the PCR has been maintained at around 71%. Overall net slippages have improved sequentially, driven by decline in micro loan slippages. Segment-wise details on NPA movement are given on Slide 24 of our presentation.

The SMA1 and SMA2 book was at 11 basis points versus 17 basis points quarter-on-quarter. Net security receipts declined to 7 bps versus 8 bps quarter-on-quarter, and restructured ones has declined to 5 bps versus 6 bps quarter-on-quarter. So the profit after tax for the quarter was at INR1,037 crores versus INR594 crores quarter-on-quarter, and that takes the normalized ROA to 0.63% versus 0.45% quarter-on-quarter. On capital adequacy, the bank continues to have a very healthy capital adequacy and liquidity position. Our CET1 was at 16.1%, and total CRAR at 17.15%, and the average LCR was at 127%.

With that, let me now hand it over to Rajiv for his closing comments.

#### **Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thank you, Viral. Overall, Q1 marks an important milestone in our journey. We delivered a return to balance sheet growth, further strengthened our liability franchise, continued to improve our asset quality, and achieved a meaningful recovery in profitability. More importantly, the strategic actions undertaken over the past year have materially strengthened the quality of our balance sheet, earnings profile, and operating platform. As a result, we are entering FY '27 from a position of greater resilience with stronger fundamentals and improving business momentum.

Looking ahead, our priorities remain clear. Accelerating profitable growth across retail, SME, rural, and wholesale banking, deepening our deposit franchise, scaling transaction banking capabilities, and leveraging our digital and AI investments to enhance customer experience, productivity, and risk management. With strong capital, ample liquidity, improving asset quality, and a strengthened operating platform, we are well-positioned to deliver sustainable growth, steadily improve profitability and returns, and create long-term value for all stakeholders.

With this, we can now open for Q&A. Thank you to all of you, and over to you.

## Questions & Answers

### Operator

Thank you very much. [Operator Instructions] First question is from the line of Kunal Shah from Citigroup. Please go ahead.

### Kunal Shah - Analyst, Citigroup Global Markets

Hi, thanks for taking the question. So firstly, on this entire corporate growth, so last two, three quarters we have been recalibrating the balance sheet, and this quarter the overall wholesale growth is almost 11% odd quarter-on-quarter with large corporates at 16%. So how different is this profile, maybe compared to what we have already run down? And in terms of going forward, how should we look at the mix between the retail SME and corporate? Is it like one-off quarter of the corporate growth or we will keep on maybe capitalizing on the opportunity, which comes in, and corporate might continue to grow at a faster pace? Yes.

### Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited

So I think the growth that we are seeing on the corporate side is a function of the strength that we have built in that business over the last six to nine months. Yes, there are ample opportunities that are available in the marketplace at this point across mid-corporate, large corporate, and start-up corporate. But we will pick and choose those transactions that make sense for us from a risk and return perspective.

What is also very important to us is reciprocity, meaning that we will do transactions where the probability of getting reciprocal transactions, meaning transaction banking, current account floats, payment of GST, salary accounts, etc. The probability of that is higher than the others. And so therefore, we think of this not as individual transactions, but rather as relationship building. And like many other banks, we use a RAROC format to be able to assess the profitability on the wholesale side.

Given where we are, I think there is ample opportunity for us to grow on the wholesale side. But having said that, I think the other engines of growth on the SME, the more traditional retail asset businesses, and our core strengths, which have been vehicle and microfinance, are also showing a strong trajectory to be able to grow. And so therefore, we will obviously, want to optimize growth such that we meet our ROA aspirations.

### Kunal Shah - Analyst, Citigroup Global Markets

In terms of the profile difference between what was run down and what we are building?

### Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited

See, if you look at the disclosure that we have made, 82% of the portfolio is A minus and above. And so therefore, even within that framework, we have found ample opportunities for us to be able to grow profitably, while containing or managing risk.

### Kunal Shah - Analyst, Citigroup Global Markets

Okay. And the second question is on cost of fund side and cost of deposit side. So we have already seen it being down, cost of size also now 4.72. So how much is the further scope of improvement left on the cost side or we have almost bottomed out on the cost of deposits now?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

So Kunal, I think there is still a lot of work that we need to do on the deposit side, both on quantity and quality. I think what we are beginning to see -- what we are seeing is really the beginning of that journey. I'm not saying that, this will happen every quarter, but I think the work on improving both quality and quantity has begun. I mean, we need to -- if you look at the cost of funds gap between us and our closest peer, it's about 150 basis or so. Our aim is to continue to close that gap in the medium-term.

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

Also Kunal, just to add some of that reduction that you're seeing is not about this repricing, right? It's also a change in the mix. We are doing more RNSBC deposits, so that's helping us lower the cost. It's not only a pricing thing.

**Kunal Shah - Analyst, Citigroup Global Markets**

So still scope to further get it down?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Yes.

**Kunal Shah - Analyst, Citigroup Global Markets**

Okay. Thanks. Yes. That answers the question. Thanks and all the best. Yes.

**Operator**

Thank you. Next question is from Rikin Shah from IIFL Capital. Please go ahead.

**Rikin Shah - Analyst, IIFL Capital Services**

Hi, thanks for the opportunity. I had four questions. The first one, you know, just going back to the loan growth, all of this growth in the quarters wholesale, the only thing that trying to get some comfort is accelerating retail and SME is always harder vis-a-vis the wholesale, and the vehicle, MFI, SME, all are not growing. So what are the portfolio actions that you are doing in this segments, which is pulling back on the growth? And when do we see that turning or accelerating here on? So that's number one. Second...

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Can we do this one by one? I mean, I may not remember four questions.

**Rikin Shah - Analyst, IIFL Capital Services**

Yes. Sure. No, no, absolutely, Rajiv.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

I think both microfinance and commercial vehicle Q1, typically is seasonally weak. And even in that situation, if you look at disbursements on the microfinance side, have actually been flat on a Q-on-Q basis. And so therefore, you should see meaningful actualization on the microfinance business really from Q2 onwards. And similarly, you've seen that disbursements on the vehicle finance business ex of two-wheelers continues to accelerate. Our medium-term ambition there, we've lost some market share over the last few years. Our ambition there is to get that back.

Similarly, if you look at the more traditional retail asset businesses, those were actually de-growing over the last 12 months to 18 months. If you see the disclosure disbursements, they are actually up

18% Q-on-Q, and that's really the beginning. And the overall portfolio itself is quite small. And so therefore, in some of these other businesses, it's either been that these are seasonally weak, and so therefore, therefore, showing up as you rightly described. Or they are -- the building blocks are now getting in place. The disbursements are beginning to accelerate. So I think you should see over the next three quarters, many of these beginning to kick in.

**Rikin Shah - Analyst, IIFL Capital Services**

Got it. Okay. Sir, the second question is on other expenses. It's down sharply 8% Q-on-Q. So what are the components driving that?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

Sure, let me answer that. So it's a combination of a couple of factors. First, statutory costs. Those have come down, and by that I mean DICGC, PSLC, CSR, all of those costs. Second, we've been very focused and we've talked about that earlier on driving operating efficiency and therefore across the lines on operating expenses, we've seen that coming down across lines, in fact. So that journey will continue. Operating leverage is a big focus area, and that's really what we think will help us drive some of that ROA journey as well.

So those are key drivers. In addition to that also, some of the disbursements, right? Rajiv talked about some of these businesses growing faster, Q3, Q4, or Q2 onwards. So some of that disbursement link costs will also start growing later. We didn't see that much in this quarter. So some of that is also explained by lower transaction-related costs. But overall, the journey really is to keep optimizing on fixed kind of operating expenses, redeploy that a bit more towards cost on people cost, and investing in IT. So some of that cost will continue being invested in, but overall the journey on operating efficiency will continue.

**Rikin Shah - Analyst, IIFL Capital Services**

Got it, Viral. So that's actually the third one as well. If you could just provide a bridge on how do we reach that 1% target ROA by 4Q from your core ROA of 63% within the current quarter? So...

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Sure. So some of that answer lies also in what you've seen in Q1, right? The delta has really come from credit costs -- lower credit costs and lower expenses, and therefore PPOP to credit cost has been 60/40 really in that first-quarter journey. And I think that will pretty much continue for the rest of the year as well. That's really how I'm seeing it right now. PPOP 60 and 40 from lower credit costs coming into that 1% journey.

Now the building blocks within that PPOP, that may change by quarter, implying you've seen the NIM lower in this quarter. But as the other businesses start growing, we'll see some of that come back on NIM. But then some of the expenses start growing, as I said onto the next quarter. So there'll be some movement in terms of lines. But I think easy way to think of it is 60/40. 60 on PPOP, 40 on credit costs. But again, we'll firm up as we go through the quarters.

**Rikin Shah - Analyst, IIFL Capital Services**

Got it. Okay. And then just the last question. The resolution of equity capital raise of INR10,000 crore, how should we think about it? Is it just an enabling resolution or you will actually go after some confidence capital?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

So like I mentioned in my commentary, both CET1 and overall capital position continues to be strong. So therefore, this is just an enabling resolution. I mean, we will decide at some point in time whether we require capital or not. But at this moment, it's only enabling resolution.

**Rikin Shah - Analyst, IIFL Capital Services**

Got it. Okay, perfect. Thanks, Rajiv and Viral.

**Operator**

Thank you. Next question is from the line of Piran Engineer from CLSA India. Please go ahead.

**Piran Engineer - Analyst, CLSA India**

Yes. Hi team. Congratulations on the quarter, and thanks for taking my question. Just firstly, on the asset quality front in the consumer banking vertical, would you call this a normal quarter or are we still dealing from some backlog of stress in personal loans and credit cards?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Can I get Jagdeep to answer that for you?

**Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited**

Yes. So we've guided for the fact that we will slow down on our personal loans and credit cards, where we are correcting the portfolio quality and making a bunch of risk actions. We are now seeing the tail end of that risk that is flowing in. We will slowly start getting our growth back, and we'll start getting the risk costs much more in control. So you can treat this as mainly what is emanating from the tail of personal loans and credit cards as a risk.

**Piran Engineer - Analyst, CLSA India**

Okay. So in simple words, our slippages in this business can go down meaningfully in the consumer banking?

**Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited**

Yes.

**Piran Engineer - Analyst, CLSA India**

Got it, got it. Just secondly, on the deposit front and congrats on a good quarter year. How should we think about, how the retail deposit share trends over time as you kick-start deposit growth? Because right now our deposit growth is up 1% Q-o-Q, which is obviously not steady state. It would probably be 3% Q-o-Q. In that case, how confident are you that we can maintain this 50% LCR share, or would we have to rely more on wholesale versus retail?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

So obviously, our ambition is to first start growing in line with market, and then growing faster than market. There could be some lead-lags in terms of usage of -- as we are seeing asset growth across the system continues to be strong. So we may use some of the wholesale money, and I want to break up the wholesale money into two parts, which is franchise, where we get -- we get some deposits in the normal course of business because we are bankers to SME, mid-corporate, large corporates, etc. And then there is the larger bid-out business.

So therefore, the normal franchise money I'm very happy to take today, tomorrow, next week,

whatever. However, we will use the bid-out part of deposits tactically based on how asset growth is happening. But the core of the liability franchise has to be driven by higher and higher retail and HBC deposits.

**Piran Engineer - Analyst, CLSA India**

Got it. And today, after this FCNR announcement, let's say as of today or yesterday, what would be the difference between wholesale and retail TD cost for your all, incrementally, of course?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Meaning. So you mean if I do bid-out or whatever it is and...

**Piran Engineer - Analyst, CLSA India**

Exactly.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Let's say about 50 basis points.

**Piran Engineer - Analyst, CLSA India**

That's it? In that case, why not just bid out more to get more business? I mean, because your asset yield is still at a higher rate than what most of your peers do. Even if you have to pay 50 bps more, it still makes more sense to get that deposit and grow faster.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

There are multiple issues. You also have to take into consideration the outflow rates. Retail is at 5%. The institutional part will be anything between 25% or 40%. I'm assuming that we won't take the 100%, outflow money from financial institutions. So therefore, one has to then weigh out, what is the incremental cost of deposits against the kind of yields that you're getting on the portfolio.

You don't want to -- we are actually moving away from the more traditional IndusInd bank model of high cost of deposits and a riskier portfolio to a more balanced portfolio which is more predictable from a profitability and ROE perspective. So therefore, if you want to reduce the volatility on ROA, then reducing the usage of bulk, then becomes important.

**Piran Engineer - Analyst, CLSA India**

Understood. Okay. That was it from my end. Thank you, and wish you all the best.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thank you.

**Operator**

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

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Yes. Hi, Rajiv and team and congratulations for the quarter. So my first question is on the NIM outlook. In the last quarter, you had made a comment that in your PPOP journey as part of the ROA bridge, more of that journey will be contributed by fee and opex. But the way I see it, there's a lot of scope to improve margins, right? Especially given your strategy to improve retail deposit percentage. LDR can go up. Loan mix itself can change towards retail and SME. So what is the outlook there for the next two, three quarters?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

So there's a -- think of this in two parts. There's a short-term journey and there's a long-term journey, right? So if you think immediate few quarters as some of the high-yielding businesses start growing and we get back share or mix within the loan portfolio, that NIM does come back. But when you think of it on that 1% journey, it's a very different story. We've already seen NIM drop a bit in the first quarter. We'll have some pressure in Q2., start growing back Q3, Q4. So end to end in that 1% journey, that's a much smaller contributor. But when you think returns going beyond that, absolutely. We really have to look at NIM as an opportunity. No doubt about that.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

And in that context, from the loan mix you have today, let's say, I don't know, two, three years out, do you have any target mix in mind from 50% retail, 13% SME, 37% corporate. Is there a target mix in mind?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Yes. So I think what we've been guiding that over the next for about three years -- over the next three years, you should see a drop in -- two things happen on the wholesale side. Some drop on the overall mix. And even within that, a greater focus on SME, mid-corporate, large corporate, and less so on the strategic side. And the other businesses will certainly grow much faster than the wholesale side.

I've also spoken, Abhishek, about the fact that we are now looking at our microfinance business more like a rural business rather than just a plain microfinance business. I think that business can -- we've been guiding that -- the straightforward microfinance business should be about 7%. We can do 3% to 4% of our Bharat Super Shop and another 3%, 4% of all other products like MicroLAP and such like in the rural space, including affordable housing. And so therefore, that business -- the rural business, given the quality of the franchise that already exists for us, will be -- will then become a meaningful portion.

And we are already beginning to see the more traditional retail asset business beginning to kick in. I think given the size that we are, I think we can see fairly strong growth in that as we go forward. And finally, the vehicle finance business, I think, is a more steady business -- steady and more mature business. Broadly speaking, I think some of the segments will grow faster than market, some of the segments will grow broadly in line with market.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

And Rajiv, I think you also made this comment at the beginning that there is a lot of scope in SME and it'll be a key contributor. So at least the SME growth, would it start growing faster than the industry anytime soon, or how are you thinking about it? Because it's just 13% of your mix, and that also has scope to increase, I don't know, maybe to 20% or something. [Technical Issues] that in your mind?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

No, no, I completely agree. I think that is the -- we're just putting some of the building blocks, the foundations, the technology, people in place. The intent is really to grow that significantly faster than where we are -- what we are doing today.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Got it. Can I squeeze in just one more question, if that's okay?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Sure, sure. Thank you.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Thank you. In terms of the ECL transition, what would be the one-time impact, and maybe what would be the ongoing impact post-transition? Would you be able to give some guidance around that?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

Sure. So we've shared that earlier. We've maintained that we are looking at the one-time transition impact to be between the 1% to 1.5% of loan. We continue to maintain that. But -- as we go along, we will true it up, right? It's still early days and the portfolio is also changing, right? How it is by March is something we'll have to watch.

Flow, we don't see that much of an impact. It's quite marginal because that's only on the incremental disbursements that we do later, and I'm not seeing a very large impact from that. Now, of course, the EIR impact, that's something which we'll have to watch because both fees and expenses will get dipped. Now, that estimation we still need to firm up. But, yes, broadly, this is how I'm seeing it, 1% to 1.5%.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

And this 1% to 1.5%, is this a gross and you can -- you have any offsets against it or this is just your net final, approximately final impact?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

So this is a number on the loan book that I'm giving you. Now, if your question is more from a capex perspective, we will have offsets because, as you know, the Basel guidelines have changed or will change effective 1st April, '27. So that gives us something back on capital. So the capital impact will get some offsets. We do see some opportunity there.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Yes. So the ratio will -- sorry, just one sec. The ratio will not get impacted to that extent, but absolute net worth could be impacted to that extent, right? So would that necessitate any type of capital raise or do you think you'll be fine even after that?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

So we will watch it. Certainly, need for capital is something we continually assess, and we've been open about it, that as we think there is necessity to raise, we will certainly do that. But, yes, we will continue watching at 16.2%, 16.1% CET1. Currently, that's not urgent in that sense. Yes, we'll continue tracking.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Sure. Thanks so much. Thank you and all the best.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thanks, Abhishek.

**Abhishek Murarka - Analyst, HSBC Securities & Capital Markets**

Thank you.

**Operator**

Thank you. Next question is from Jai Mundhra from ICICI Securities. Please go ahead.

**Jai Mundhra - Analyst, ICICI Securities**

Hi, good evening, sir. Thanks for the opportunity. Sir, question on slippages, right? If I calculate slippages as a percentage of respective segments, MFI is now around 5%, vehicle is around 3%. Both looks reasonably stable numbers. You mentioned in some other participant that consumer business may see a lower slippages. But would you think that MFI slippages at around 5% and vehicle at around 3% is more or less broadly stable sort of a number, or these businesses can also show a material improving trajectory?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

We do see further journey on micro. The net slippage of 3.41%, we think there is still further opportunity the way we are seeing it. The early trends on SME are telling us that, that'll -- that should come down further, but that scale of change that you've seen over the past quarters, obviously, will not be the same. But, certainly opportunity there. Consumer, we talked about earlier. Vehicles, Q1 generally is tough, right? That's cyclical. That tends to come down across the quarter. That's more like a cyclical movement, but certainly more opportunity on micro. Not too big scale, but certainly more coming there.

**Jai Mundhra - Analyst, ICICI Securities**

Sure. And secondly, on your retail fees, right, or other income, whichever way you look at it, I mean, we used to have a very reasonably good base then there was change in accounting and everything. And now, of course, this quarter, I'm not looking from a one-quarter perspective, but how to look at fees growth. Is there any area where we are lagging a little bit? Or how should one look at the retail fee?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

I think there is ample scope. There is work that is being done, which is basically looking at the kind of fees that we are charging customers, looking at it relative to our peers, etc. There is opportunities there. There is opportunities -- we are going down to the level of how many lockers are empty and what can we do to ensure that the lockers vacancy rate comes down. So therefore, similarly, there's ample opportunity from a distribution perspective, both insurance and mutual funds.

And finally, two of the machines there have been stuck for the last 18 months or so. One is the credit card business, and I think as that starts to grow, credit card fees will begin to kick in. And finally, the retail asset business as disbursements, and we spoke about the fact that disbursements have started this quarter. That will start to bring in processing fees on the retail asset piece as well. So lots of opportunities for us to grow fees there

**Jai Mundhra - Analyst, ICICI Securities**

Right. Thank you, sir, and all the very best.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thank you.

**Operator**

Thank you. Next question is from line of Krishnan ASV from HDFC Securities. Please go ahead.

**Krishnan ASV - Analyst, HDFC Securities**

Yes. Hi, very good evening. I had a query around your liabilities. The SA balances have been going down quite sharply over the last five, six quarters, and yet you said that when you do wholesale, that's one of the key things you're watching out for. So could you just throw some light on what is the strategy on SA balances?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Yes. I think what has happened is some of the more lumpy SA balances that we have had and relatively higher cost dollar balances that we have had out of GIFT City, we have let run off. And I think the intent, obviously, is to replace it with more granular SA balances, and that you should start to see in the coming quarters.

**Krishnan ASV - Analyst, HDFC Securities**

Okay. Could you just throw some light around what kind of balances you are going after now? Whether in SA or retail it can be, just to shore up your RSD, what kind of balances are you going after? What kind of successes have you seen?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

I'm -- I think given the situation that the industry -- where industry is chasing every rupee of deposits, we have reasonable presence across the three savings pools, which is basically household savings. We have a strong presence on the government side. And obviously, the institutional businesses, which is both corporate and institutional, are beginning to grow. There is greater focus on the RMs asking for more and more deposits, both from the corporate itself, but also things like salary accounts and stuff like that.

We are also focusing our SME businesses both on the retail side as well as on the wholesale side around getting the promoters account, trust accounts, and such like. So therefore, like I have been mentioning earlier as well, we are focused both on quality and quantity. It is not as if we are, maybe in the medium-term, I would sacrifice quality for quantity. But our starting position in that sense on the liability side is relatively weaker as compared to the asset side. And so therefore, we are working on multiple engines here.

**Krishnan ASV - Analyst, HDFC Securities**

Okay. Just one last question. Can you just explain what has happened with your NIMs? Because your asset yields have gone down nearly 20 basis points sequentially. Your cost of funds has gone down only by about half that number, and yet your margins -- your reported margins are up about 18 bps sequentially. So can you just throw some light around this math?

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

So let me simplify it for you. I think if you look at all the pluses and minuses, lower cost of deposits, lower yield on the asset view, etc., and narrow down. It is really just simply two factors playing in that 4 basis drop that you are seeing. One is the change in the loan mix. Wholesale share has increased from 34% to 36%. Vehicles went down a little bit in that sense from a share perspective. That obviously means the aggregate average yield has gone down a bit. So that is one way to think about it.

**Krishnan ASV - Analyst, HDFC Securities**

So 20 bps sequentially, right? So 11.15 has gone to about 10.95.

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

No. So if I isolate only that mix impact, that's roughly 2 basis of that 4 basis that you're seeing on NIM, which as I said, I'm simplifying it for you. We also had an RIDF addition, that's roughly 1 basis. That's the 3 and then 1 is all of them put together. I think that's an easier way to think about it. Otherwise, lots of offsets. You're seeing a lower yield on advances, you're seeing lower cost of deposits. A lot of these just net out.

**Krishnan ASV - Analyst, HDFC Securities**

Okay, fair. Thank you. Thank you. All the best.

**Operator**

Thank you very much. Next question is from the line of Anand Dama from Nuvama Wealth Management. Please go ahead.

**Anand Dama - Analyst, Nuvama Wealth Management**

Hi. Thank you for the opportunity. In the beginning, you talked about the growth. The industry growth is now far more higher and you earlier said that you would want to get to the industry growth. So this year, should we build in about 13% to 14% kind of a growth, which possibly could be lower than the system? But, still, I think if you're able to protect on the margins front, I think we should be happy about it. Is that the right way to look at it?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

I think our broad -- if I may use the word guidance, has been that we will grow in line with the market this year, with an exit ROA of 1%. We stand by that.

**Anand Dama - Analyst, Nuvama Wealth Management**

Okay. But what could be that market that will grow at? Any assumptions that you have in mind [Indecipherable]?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Whatever the market is, boss, you assume what the market is, no.

**Anand Dama - Analyst, Nuvama Wealth Management**

Okay. Second, there are some banks who have actually put a claim to CGFMU, and they've got money in the microfinance space. Have we also put in any claim, and should we expect some recovery over there? And second, I think there was some seasonality in the vehicle finance portfolio this quarter. Is it all about seasonality or are you seeing some stress in the CV portfolio, and that basically warrants some caution?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

On the first question, no, we have not made any claims. On the second question, this is largely seasonality other than what we had called out on the two-wheeler side, and to some degree on the tractor side. But, otherwise...

**Viral Damania - Chief Financial Officer, IndusInd Bank Limited**

Yes, just a small clarification. The CGFMU cover, that's only playing out last 12 months to 15 months, right? So obviously, there's no question of a claim yet on that. But on the CGTMSE, certainly, I mean, it's a much smaller quantum. That we obviously keep claiming, we'll get some collections from time to time.

**Anand Dama - Analyst, Nuvama Wealth Management**

I think Rajiv, you are commenting on the asset quality.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Yes, yes, So no, there is no concern other than the two portfolios that we have been consistently calling out, which is on the two-wheeler side and tractor. Otherwise, we don't see any concern.

**Anand Dama - Analyst, Nuvama Wealth Management**

In the CD, you don't expect any increase in the asset quality or the NPAs going forward, given that the fuel prices have gone up and so on?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

We are not seeing the causality that you're talking about. It's difficult to assess. But, having said that, if you look at early trends, there does not seem to be any indication that stress is building.

**Anand Dama - Analyst, Nuvama Wealth Management**

Sure. Any FCNR target that we have in our mind, I think we already operate out of GIFT City. What kind of flows that we should expect? Are we working on that? We have a strong presence in the Middle East market and among the exporters. Is there any number that we have in our mind that we are targeting?

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

So we are looking at all three streams, which is basically retail FCNR (B) deposits, leverage through our own GIFT City, and leverage being provided by partner banks. All three segments is something that we are targeting. Our market share on the NRI side is higher than our natural market share. On the NRI side, it is a little over 3.6%. We are fairly confident that we will raise at least as much as our natural market share is.

**Anand Dama - Analyst, Nuvama Wealth Management**

Sure. That's helpful. Thanks a lot.

**Operator**

Thank you very much. Ladies and gentlemen, we'll take that as the last question. I'll now hand the conference over to Mr. Rajiv Anand for closing comments.

**Rajiv Anand - Managing Director and Chief Executive Officer, IndusInd Bank Limited**

Thank you to all of you for your interest in IndusInd Bank. I look forward to meeting all of you again next quarter. Thank you all.

**Operator**

[Operator Closing Remarks]