

Management Discussion

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

Good evening, everyone, and thank you for joining us today. I'm joined by our EDs Jagdeep and Ganesh; our CFO, Viral; and our Head of Investor Relations and Strategy, Indrajit.

I will start with the operating environment and then cover our progress on the bank's strategic priorities. During the quarter, global markets faced renewed geopolitical tensions and higher energy prices. India's growth momentum, by contrast, stayed resilient, backed by strong economic activity and sound macroeconomic fundamentals. Banking system liquidity improved meaningfully, helped by FCNR (B) deposit flows, and credit demand continues to strengthen. Together, these conditions have created a constructive environment for the banking industry.

Against this backdrop, the bank has delivered a healthy operating performance. Growth momentum picked up and we kept a prudent approach to risk and liquidity. We also made further progress on our strategic priorities with better asset quality, a stronger balance sheet mix, and higher profitability. These results show the benefits of the disciplined action we have taken over the last several quarters.

I will now cover the key highlights of Q2 FY27, followed by business-specific progress and financial performance. Retail deposits grew sharply during the quarter, helped by FCNR (B) mobilization, and asset growth picked up across both retail and corporate segments. As a result, deposits and advances have returned to double-digit growth at 10% and 11% YoY, respectively, compared with a decline last year. Under the RBI swap window, we mobilized USD3.51 billion of FCNR (B) deposits. This implies a market share of 2.75%, well above our natural market share of about 1.5% on overall deposits. It is also meaningfully -- meaningful relative to our own size at 6.3% of our Q2 average deposit book and was supported by a relatively higher share of retail and non-leveraged deposits, reinforcing the quality of our funding profile.

On the asset side, retail growth was robust at 12% QonQ overall and 4% QonQ excluding FCNR (B)-related lending. Disbursements accelerated across vehicle, rural, and traditional retail. The wholesale book kept its momentum, growing 10% QonQ, while the portfolios under mid-market and SME segments also witnessed healthy 13% QonQ growth.

Asset quality improved across all subsegments. Annualized gross slippage fell to 1.8% from 2.1% QonQ and 3% YoY. Our continued focus on recoveries ensured a larger improvement in net slippages, which fell to 1.1% from 1.5% QonQ and 2.5% YoY. The outstanding stress book has declined with gross and net NPAs improving to 2.73% and 0.83%, respectively.

Residual stress indicators remain negligible. Net security receipts are at 0.03% and SMA 1 and 2 combined is at 0.05%. We resumed expanding our physical distribution footprint, adding 124 outlets primarily within BFIL. With business momentum picking up, we plan to add about 100 bank branches in H2, expanding into underpenetrated geographies and reaccelerating growth in select markets where expansion has previously moderated.

In parallel, we strengthen our frontline capacity by adding around 4,300 employees at the overall bank level, largely in sourcing roles. These investments in distribution reach and sales capacity position us well to support future growth.

Our generative AI initiatives continue to see strong employee adoption. More than 50% of our employees now use AI chatbots, and over half of the active users use them daily with satisfactory outcomes. AI-assisted productivity is steadily becoming a part of day-to-day work across the

organization. We have also expanded our conversational AI program with six voicebot programs launched and a further 12 customer and employee journeys identified within the roadmap. These programs are helping validate use cases, user adoption patterns, and operational benefits while creating a pipeline for broader deployment.

We had set an ambition of a 1% exit ROA for this year, and we are making clear progress. Q2 ROA improved to 0.87% compared to a normalized 0.63% in Q1, despite temporary margin pressures from FCNR (B) mobilization. Pre-provision operating profit rose to INR2,874 crores, up 15% on the normalized previous quarter. Robust business growth and healthy fee income drove the increase, while disciplined balance sheet management contained the margin impact of the FCNR (B)-related liquidity.

Provisions declined 12% QonQ and 54% YoY, reflecting sustained improvement in asset quality and lower fresh stress. As a result, profit after tax rose to INR1,242 crores. This is up 51% QonQ on a normalized previous quarter against a loss a year ago. Capital adequacy remains healthy with CET1 at 15.55% and overall capital at 16.59%, giving us ample capacity to support growth.

I will now take you through individual businesses starting with retail followed by wholesale. Viral will then cover the financial summary. On the retail deposits, our deposit franchise is anchored by a wide distribution network, strong segment-led propositions, a comprehensive product suite, and a capable workforce. Over the last few quarters, we have further strengthened our liability franchise through targeted senior and middle-level leadership hires, greater integration across branches, across branches affluent and NRI banking teams, and enhancements to digital onboarding and acquisition journeys.

During the quarter, we mobilized USD3.5 billion of FCNR (B) deposits under the RBI swap scheme. This shows the strength of our NRI franchise and our ability to seize market opportunities through sharp execution. We have used these inflows prudently to improve the quality of our liabilities. Part of the proceeds replaced high-cost bulk funding which brought CDs down to 3.3% of deposits from 5.9% QonQ.

Our deposit mix continues to improve. On an end-of-period basis, retail deposits as defined under LCR grew 11% QonQ and rose to 50% of total deposits. Customer acquisition gained momentum with nearly 3.6 lakh new-to-bank accounts opened during the quarter, up 12% QonQ, supported by a stronger customer proposition and a more productive distribution. Cost of deposits was 5.96% compared to 5.93% QonQ. While both savings and term deposit costs repriced downwards, the marginal increase came from lower CASA mix due to the FCNR (B) mobilization.

The FCNR (B) window gave a strong boost to our affluent and NRI banking. These segments now hold around INR105,000 crores of deposits, up 23% QonQ. We also added SIP offerings to our approved product suite, giving clients access to more sophisticated investment solutions and strengthening our wealth proposition.

We continue to strengthen our customer proposition through selective launches and partnerships. A partnership with Navi UPI to strengthen digital payments. A partnership with J.P. Morgan Payments to launch Xpedite, a cross-border remittance solution. New customer features, Secure Deposit and Safe Buddy on INDIE to enhance security and trust. Going forward, we'll focus on improving CASA, increasing the retail deposit share, and optimizing the cost of deposits. We will do this through deeper engagement with retail affluent NRI, senior citizens, and SME customers supported by digital, AI, and data capabilities.

Moving to retail assets, let me start with vehicle finance. Our vehicle finance portfolio crossed the INR1 lakh crore milestone this quarter. Book now stands at INR100,651 crores, up 5% YoY and 1% QonQ. Disbursements picked up to INR11,968 crores, up 17% YoY and 10% QonQ. As we said on earlier calls, we had been cautious on tractors and two-wheelers. Excluding these two segments, vehicle disbursement grew even stronger at 24% YoY and 14% QonQ. The disbursement growth was driven by commercial vehicles, which grew 32% YoY and 17% QonQ, and passenger vehicles at 13% YoY and 12% QonQ. Asset quality remained stable, backed by disciplined underwriting and collections. Analyzed net slippage fell to 1.67%, down 34 basis points QonQ and 30 basis points YoY, and the overdue book stayed within our operating range.

Looking ahead, festive demand and seasonality should support growth in the second half. We, however, remain watchful of macroeconomic trends, especially around fuel prices affordability considerations and monsoon-related developments across markets. Our focus remains on profitable growth, gaining market share in our chosen segments, and deepening customer relationships through cross-sell across the wider retail bank.

Our rural banking franchise continues to improve across the board in both disbursements and asset quality. The microloan business returned to growth after nearly eight quarters of decline. The portfolio grew 8% QonQ to INR17,571 crores on disbursements of INR6,548 crores, up 25% QonQ. Asset quality improved further, reinforcing our confidence in the underwriting changes made last year. Annualized net slippage on microfinance loans fell to 2.2% from 3.4% QonQ and 14.1% YoY. The 31-90 DPD fell to 0.4% from 0.6% QonQ and 3.2% YoY. Around 89% of the portfolio is now covered under the CGFMU guarantee scheme, including disbursements whose cover is currently being processed.

Beyond microfinance, our diversification initiatives continue to scale. The merchant finance portfolio grew 20% YoY and 7% QonQ to INR8,694 crores, serving nano retailers across more than 550 cities. Merchant finance now contributes 33% of loans originated by BFIL versus 25% YoY. Affordable housing grew 18% YoY, while KCC and other rural loans remained stable QonQ. Rural banking remains an important franchise both for profitability and priority sector lending.

Having strengthened underwriting and operating processes in microfinance, we have resumed growth in a calibrated manner and expect to build on this momentum as we enter the seasonally strong second half. At the same time, we continue to monitor potential risks from drought conditions in a few states, fuel and inflation trends across the next state elections, and we will calibrate our growth strategy accordingly.

Building on the momentum of the first quarter, traditional consumer banking assets witnessed further acceleration in growth during the quarter. Excluding FCNR (B)-related loans, the consumer loan book grew 7% QonQ to INR59,776 crores, led by healthy traction in secured retail and MSME. We continue to scale our secured retail and MSME franchises while maintaining a selective approach towards unsecured lending. Our home loan book grew 39% YoY and 12% QonQ to INR7,733 crores. Within SME, small business banking grew 10% QonQ to INR10,523 crores. Loan against property grew 7% QonQ to INR14,407 crores. Both reflect encouraging traction in our focus segments.

On the unsecured side, origination trends improved, but we continue to put portfolio quality and risk-adjusted returns ahead of volume. As a result, the credit card portfolio declined 3% QonQ and the PL portfolio declined 2% QonQ. With new originations improving, we expect both CC and PL books to return to growth in the next few quarters.

Asset quality improved further during the quarter with annualized net slippage of 3.3% versus 3.7% YoY and 3.5% QonQ. Over the last several quarters, we have strengthened our leadership team and invested in distribution, analytics, and technology. That work is now showing in better momentum across our business -- focused businesses. Mortgages, gold loans, LAP, and small businesses are contributing a growing share of incremental growth and diversifying the loan portfolio. These businesses are central to our strategy of building a more granular, balanced, and resilient universal bank.

Coming to the wholesale bank. Wholesale bank sustained last quarter's momentum with loan book growing 10% QonQ and YoY. The commercial and mid-market group grew fastest at 13% QonQ, large corporate and institutional banking both grew 8% QonQ. Growth was well diversified across sectors including NBFCs, metals, transport, automobiles, digital services, and gems and jewelries. Customer acquisition strengthened with new-to-bank credit relationships up 43% QonQ. This was supported by continued expansion in commercial and mid-market, supply chain finance, and corporate banking.

Fee momentum stayed healthy. Wholesale bank fees rose to INR446 crores, up 37% YoY and 9% QonQ, with transaction banking contributing 52% of the fees. Transaction banking continues to scale and deepen client relationships. We saw healthy momentum in trade finance, cash management, capital markets, and government banking businesses, which support growth both in fee and liabilities. The share of customers rated A and above in the wholesale portfolio was at 76%, remaining steady on a QonQ basis. Asset quality remains robust. Annual gross slippage fell to 0.07% and net slippage was negative because of recoveries and upgrades which exceeded fresh slippages.

Going forward, we will focus on scaling commercial and mid-market supply chain finance and transaction banking, on deepening relationships across corporate, institutional, and government clients. We will drive higher penetration of trade and cash management and capital market solutions, strengthen our self-funding relationships, and stay disciplined on risk. This will support sustainable growth and higher fee intensity.

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

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Sure. Thank you, Rajiv. So as usual, I will start with the balance sheet and then move to the profit and loss account. So on the balance sheet, excluding FCNR (B)-related advances, the average advances book grew 6% quarter-on-quarter, driven by better momentum in both retail and wholesale. Including the FCNR (B)-related loans, average advances grew 9% sequentially. Average deposits grew 7% quarter-on-quarter, supported by FCNR (B) mobilization, while we continued to reduce certain wholesale deposit balances. The average credit deposit ratio was 84% compared to 83% in Q1 FY27. Average borrowings rose to 9% of total liabilities up from 8% QonQ, mainly because of the FCNR (B)-related foreign currency borrowings.

On P&L, net interest income was INR4,569 crores, which is up 4% QonQ on a normalized basis. Net interest margin was 3.23% compared with a normalized 3.35% in the previous quarter. The 12 basis moderation was mainly due to FCNR (B) mobilization. About half came from the FCNR (B) deposit-related balance sheet expansion and then the rest from other changes in the balance sheet. Non-interest income was INR2,248 crores, up 26% quarter-on-quarter, supported by strong business momentum and healthy treasury income.

Operating expenses were INR3,943 crores, up 7% quarter-on-quarter. This increase reflects higher business volumes, growth-related spend, and marketing and brand-building initiatives. So as a result, pre-provision operating profit was at INR2,874 crores, up 15% quarter-on-quarter on the normalized previous quarter. Provisions and contingencies were INR1,223 crores, down 54% year-on-year and 12% QonQ, and that was driven by lower net slippages. In line with our policy, we wrote off loans of INR1,671 crores during the quarter.

Moving on to asset quality, GNPA and NNPA both improved QonQ to 2.73% and 0.83%, respectively, with the PCR at 70%. Net slippages have improved sequentially with declines across segments. Segment-wise NPA movements are presented on slide 24 of the presentation.

The SMA 1 and 2 book was 5 basis and that compares with 12 basis quarter-on-quarter. Net security receipts fell to 3 basis points from 7 basis points quarter-on-quarter. Restructured advances have also fallen to 4 basis points from 5 basis points QoQ.

On profitability and capital, our profit after tax was INR1,242 crores and that compared with a normalized INR824 crores in the previous quarter. The normalized ROA therefore improved to 0.87% from 0.63%, and that reflects continuing progress in profitability and asset quality. The bank's capital and liquidity remained healthy with CET1 at 15.55% and CRAR at 16.59% and the LCR at 127%.

Let me now hand back to Rajiv for his closing comments.

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

Q2 reflects the growing strength of the franchise and the progress we have made in rebuilding momentum across the bank. Growth has strengthened, profitability has improved, and asset quality trends remain encouraging and our funding profile is becoming more granular and resilient. These outcomes are underpinned by the work we have done over the past year to strengthen our leadership team, enhance governance and risk standards, and invest in technology and operating capabilities. It is particularly encouraging to see our retail growth engines gaining traction. Secured retail, MSME, and microfinance are contributing stronger business momentum, while our liability franchise continues to improve through a higher share of granular retail deposits and reduced resilience -- reliance on wholesale funding.

As we enter the second half, our priorities remain clear: accelerating high-quality growth, strengthening our deposit franchise, deepening transaction banking and fee incomes, and continuing the normalization of credit costs. We will continue to leverage technology, data, and AI to enhance customer experience, productivity, and scalability. The work of strengthening the franchise is translating into results. With stronger fundamentals, healthy capital and liquidity, and momentum building across the business, we are entering the second half with confidence and a clear focus on delivering sustainable growth, stronger profitability, and improved returns over time.

With this, we can now open the line for communicate -- for questions. Thank you, and over to you.

Questions & Answers**Operator**

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Rikin Shah with IIFL Capital. Please go ahead.

Rikin Shah - Analyst, IIFL Capital Services

Hi. Good evening, and thanks for the opportunity. I had six questions, we'll just phase them out. First one on the loan side, the average growth momentum has clearly improved and so has the disbursement in vehicle MFI loans. The question is that while you have mentioned to grow loans in line with the system in the past, it is still trailing the system loan growth, which presumably is running ahead of your expectations. So just wanted to get a sense on the growth outlook hereon? That's my first question.

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

So let's take -- six is a lot of questions, so why don't we take it one at a time, otherwise I'll forget. So please understand that what you're looking at is YoY growth. Here the two quarters in the year ended 31st March 2026, the book actually degrew. And so therefore, if you look at it on a YTD basis, Q1, the book grew about 4% or 5%, and you've seen the growth in this quarter. So I think there is a bit of a base effect that is playing out and which should adjust itself in the second half of the year.

Rikin Shah - Analyst, IIFL Capital Services

Got it. Fair. So I think as the momentum builds up, you feel confident that you can grow by the end of the year or the next year largely in line or faster than the system, right?

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

I think we've been saying our expectation is that we will grow in line with market. I think the momentum that we've seen in the first half of the year gives us confidence that we should be able to meet those expectations.

Rikin Shah - Analyst, IIFL Capital Services

Got it. Thanks. The second one is on the certificate of deposits, you've clearly paid them down due to FCNR, but even the SA deposits have degrew 5% QoQ. Was there some bulk component there which you have also let them run down, or is it some retail SA which has kind of run out?

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

So one of the things that has happened there is that we have a very successful savings -- dollar savings account product in GIFT City, which is used by NRIs. And so therefore we did see some money move out of our savings accounts into the FCNR (B) for obvious reasons, and therefore to some degree that drop is reflecting in that.

Rikin Shah - Analyst, IIFL Capital Services

So it's some cannibalization of your NRE deposits, I'm presuming, which has -- would have come back as FCNR? Got it. The third one is on short-term foreign currency loans have gone up, presumably to fund the FCNR leverage. Was curious to know what is the cost, duration of this loan, and was the interest rate on this loan hedged?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

You're talking about the borrowing or you're talking about the lending rate?

Rikin Shah - Analyst, IIFL Capital Services

The borrowings, short-term foreign currency borrowing to fund the FCNR leverage presumably.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Yeah. So as of now it's not fully hedged on a tenor basis, but that's typical treasury optimization

which you will do over a period of time. So it's not like absolutely match funded, but yes...

Rikin Shah - Analyst, IIFL Capital Services

Viral, so...

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

...that borrowing is towards funding the leverage loan book. Yeah, absolutely.

Rikin Shah - Analyst, IIFL Capital Services

Got it. But the way the SOFR and the dollar rates have moved, should this result in some treasury losses down the road?

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

So, see, the entire portfolio is managed within the -- within our NOOP limits, et cetera. And so therefore, we are -- any gaps that we are running on the FCNR -- on the FX side is well within the risk limits that we have approved by the Board.

Rikin Shah - Analyst, IIFL Capital Services

Got it. I mean, the only reason to ask this question is for most other banks, they wouldn't have taken any interest rate risks on providing this leverage. So I was just wondering whether this is something which may come and hurt us in the coming quarters or not really?

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

Not really.

Rikin Shah - Analyst, IIFL Capital Services

Okay. Got it. The fourth question is on bancassurance income. It was INR960 crore in FY26, almost 15% of total fee income. So based on your early assessments, assuming there is no watering down, what do you think could be the eventual impact from this draft IRDI norms?

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

I think the -- like the rest of the industry, the impact to us, given the fact that we have two pieces here, one is the policies that we sell through the branches and the credit life scheme, the impact is -- I mean, on an as-is/where-is condition is -- will be material. But I think it's too early to talk about how much the impact, et cetera, is, because it is -- we are not clear on what is the final commission structure. Does it get passed on to the end consumer? Will that have an impact on volumes? Too early to make all these calls. And remember that as a bank, we are a multi-product player to serve our customers. And so therefore, we do have the ability to -- there may be some leads and lags, but given the very large distribution franchise that we have, we do have the ability to perhaps -- if -- to move efforts such that the overall impact on our P&L is minimized.

Rikin Shah - Analyst, IIFL Capital Services

Okay. Got it. The next one is on ECL. So in the past, you've guided that the one-time transition impact is about 1.5% to 1.7% of loans pretax. So that's roughly INR5,500 crore. So A, is that correct? And also, could you comment now whether how does the recurring credit cost impact look like for us from next year?

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

So firstly, that amount is not correct. It's more like 1.1% of assets. And on a recurring basis, it is not

significant.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

1.1% of loans.

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

Sorry, 1.1% of loans. And on a recurring basis...

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

5 basis points to 6 basis points.

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

...between 5 basis points to 6 basis points is what we've been saying.

Rikin Shah - Analyst, IIFL Capital Services

And this 1.1% is post-tax right or pretax of loans?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Pretax.

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

Pretax.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Pretax.

Rikin Shah - Analyst, IIFL Capital Services

Pretax. Okay. Okay, got it. And 5 basis points, 6 basis points on recurring. Got it. The second last question is on CET1, you know it -- we have seen almost 40 basis points of consumption in this quarter. We are at 15.5% now. How do you think about a potential capital raise? Whether that's something that can happen in FY27 or it's still some time away?

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

There is an enabling provision in place. We will look at a capital raise at an appropriate time.

Rikin Shah - Analyst, IIFL Capital Services

Okay, Rajiv. And just the last data keeping question. If you could just spell out the loan book mix via different rates, EBLR, MCLR, on the total book? I see that you have given it for wholesale, but on the overall book, that would be helpful?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So let me spell that out. So 45% of the loan book is floating. Of that, 63% is repo-linked, and then remaining is across MCLR, T-Bill, and other EBLR.

Rikin Shah - Analyst, IIFL Capital Services

Okay. Got it. Perfect. Thank you so much.

Operator

Thank you. Our next question comes from the line of Kunal Shah with Citi. Please go ahead.

Kunal Shah - Analyst, Citigroup Global Markets

Yeah. Hi. So firstly, overall in terms of margins, so I think you indicated 6 basis points was the impact on account of FCNR. Was that correct overall when we look at the 12 basis points decline which has been there adjusting for IT refund?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Slightly higher. It'll be like between 7 basis to 8 basis. But again, look, the challenge with FCNR is, it's a pool that's gone into the funding mix of the bank, right? So to fully isolate saying this is FCNR is a very complex task.

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

See, also Kunal, before you get to the question, there are two parts to this, right? I mean, one is the absolute funding the rate itself that we are paying to customers. Then there is the swap cost to cover the interest component. And then the positive is the CRR/SLR impact that we don't have to maintain on these balances and what PSL benefit that we will get on this next year. So put it all together, I think just looking at this, whether it is 6 or 7 is to my mind inappropriate.

Kunal Shah - Analyst, Citigroup Global Markets

Got it. And when we look at it in terms of cost of deposits, no doubt the increase quarter-on-quarter would be on account of a lower CASA. But to look at it from here on, in fact, we have used FCNR to repay some of the bulk deposits. There would have been the benefit, but maybe for a limited period in 2Q, and largely it will reflect in 3Q. And now I think CASA would also be there in a base. Not on an average basis, but at least on a period-end basis. So here on, in terms of cost of deposits, assuming that there is no rate hike which is happening on the deposit side, how should we see the movement on the cost of deposits? Should it be now contained or should we see it improving given that the bulk deposit repayment benefit will flow through?

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

So I think what you're -- if I look at it over the next six months, there are a couple of things that are already playing out from a macro perspective. One has to keep in mind that it looks likely that we will get more rate hikes between now and end of March. And second is to be able to manage liquidity, manage rupee, et cetera. We are already seeing -- and anyway currency leakage in the second half of the year -- we are seeing liquidity tighten. And so therefore to that extent the impact of all -- there are a lot of moving parts in this space and so therefore the impact we will have to wait and watch.

Kunal Shah - Analyst, Citigroup Global Markets

Okay. Got it. And then in terms of -- on the fee side this 1.35%, does it include any component of FCNR-related advances fee or processing fee out there? And how much would be the core fee if you have to look at it for this quarter? Because the jump is quite significant. Or maybe any elements which are one-off in the fee income?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

No. So we don't have a fee component there. Yes, there was a collateral or sort of benefit from the whole FCNR scheme prevailing at that period, but that's like INR40 crores, INR50 crores of higher FX sales income. But that's not a very large chunk. So no, there's no fee linked to the lending or anything of that sort. Yes, we do have a couple of smaller one-offs. We had some AFS HTM sale, INR48 crores, INR50 crores from there. But that's like both put together is INR100 crores. So a lot of the delta you are seeing is client-based fee income going up.

Kunal Shah - Analyst, Citigroup Global Markets

Okay. And this trading also it's quite high, maybe almost like INR360-odd crores even in this environment wherein yields have hardened. So you said like you have done some booking of the gains as well during the quarter. Is that leading to this treasury income?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So it's only INR48 crores and when you say treasury income you are including FX sales there most presumably.

Kunal Shah - Analyst, Citigroup Global Markets

Okay, yeah.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So that's not trading, right. That's pretty BAU. We do that all the time. So the only delta [Speech Overlap]

Kunal Shah - Analyst, Citigroup Global Markets

So what you said like earlier for INR48 crores, INR50 odd crores on forex, that is still getting classified in trading and others?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Yeah, it's FX sales. Yeah. That's true.

Kunal Shah - Analyst, Citigroup Global Markets

So INR100 crores delta is still. Yeah. So INR100 crores component which you indicated is still there in trading and others?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Correct. Correct.

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

But remember that, I don't know whether this -- in that sense, I must say that our treasury teams have done a great job managing volatility at this point in time, both on the FX side as well as on the fixed income side. And we do believe that as markets continue to remain volatile, it will give us opportunities to be able to create some of these incomes.

Kunal Shah - Analyst, Citigroup Global Markets

Yeah. No, the only question was when we look at retail and wholesale and the core fee which is there at 1.35%, that is still sustainable? That's the core one, there is no one-off element out there?

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

No, that -- yes, sorry, the -- your analysis is correct.

Kunal Shah - Analyst, Citigroup Global Markets

Sorry?

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

Yeah. What you said is correct.

Kunal Shah - Analyst, Citigroup Global Markets

Okay. Got it. Thanks. That answers all the questions. Yeah. Thank you.

Operator

Thank you. Our next question comes from the line of Chintan with Autonomous. Please go ahead.

Chintan Joshi - Analyst, Autonomous Research

Hi. Thank you. Can I check -- come back on the free income strength? So could you expand which areas are showing improvement and where can we get the sustainability? That would be my first question.

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

So simple, it is across both retail and wholesale. On the retail side, we are seeing increased disbursements of traditional retail assets, so that is giving us processing fees. The distribution on the insurance side, including credit life and simple things like locker fees and such like. On the retail side, we have done a lot of work in terms of optimizing some of the charges to our customers and that is certainly benefiting us.

On the wholesale side, there is work that has happened on the transaction banking, cash management, trade, some of the capital market transactions that we have done in addition to similarly there as well credit fees that we have received. So it is -- the improvement is across both retail and wholesale, and it is granular in nature.

Chintan Joshi - Analyst, Autonomous Research

That's heartening to hear. And the second question would be on kind of NIMs from here on. So there is -- even if we take your number about 7 basis points, 8 basis points of FCNR adjustment impact on the NIM, there is underlying pressure on NIMs, maybe because of the loan mix and also because of the kind of CASA mix. But as you look forward to the next 6, 12 months, how do you see the drivers? There'll probably still be a little bit of FCNR impact next quarter as well, but then how should we think about NIMs? What will it be driven by predominantly apart from rates?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So it'll be both sides of the balance sheet. We would typically see higher retail growth happening in the second half, Q3, Q4 will be higher on both vehicles and the retail asset book. So that gives us the kicker on yield on assets and loans, right? So that helps us recoup some of that. And of course, the optimization on the liability side, and it was mentioned earlier about the delta effect of the CD book, et cetera, that gives us the entire quarter, so across the balance sheet. But yes, we would look at recouping the drop that we have seen over the next two quarters.

Chintan Joshi - Analyst, Autonomous Research

So it is mainly the loan mix shift that you are thinking about?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

And obviously the deposit side. We continue working on CASA, we are pushing hard on that, so all of those.

Chintan Joshi - Analyst, Autonomous Research

Okay. Excellent. Thank you.

Operator

Thank you. Our next question comes from the line of Piran Engineer with CITIC Securities International. Please go ahead.

Piran Engineer - Analyst, CITIC Securities International

Yeah. Hi team. Thanks for taking my question, and congrats on the steady turnaround. Just firstly on our trajectory to 1% ROA, a couple of quarters back you had mentioned that when we were roughly 40 bps, 50 bps, you said half will come from credit cost, half from PPOP. Now it seems like the credit cost part has played out, but is there more scope for further improvement coming from the credit cost front?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So first of all, you're absolutely right. I mean, we've talked about the journey and that's how it's played out. The 80 basis improvement, almost 50 basis to 60 basis of that on an ROE basis has been credit cost, 15 basis, 20 basis on expenses, and then the remaining on the income. And exactly how we had thought will happen, you're seeing the traction now on the income side. Fee, as you saw, is already up, and hopefully we sustain that and get back now NIM and recoup those -- that 12 basis that we have seen.

So credit cost, yes, we do see further opportunity because across all our ratios the absolute credit costs are still coming down. We are growing balance sheet and therefore the cost to asset, right, the credit cost to asset will still further drop. But frankly, that is not the big driver that we are looking at from here on. Yes, the delta will continue flowing through, but not the same scale and proportion that you've seen over the last two, three quarters.

Piran Engineer - Analyst, CITIC Securities International

Understood. Okay. And secondly, going back to one of the earlier questions on SA, and you mentioned that SA is down 5% -- I mean, SA is down mainly because of NRIs indirectly putting in FCNR. But if I adjust for that, would the SA book still have grown meaningfully? And if not, what's really our, sort of, strategy on CASA, because it's been weak for a few quarters now?

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

I think if you probably take that piece out, SA would have been flat. So there is -- obviously there is work, the number of accounts, I mean you've seen some of the commentary that I just put out, the number of accounts that we are opening has significantly increased. The number of accounts we are opening is now up to 50% on a QonQ basis, and we think that that momentum will only grow as we go forward. So therefore, to that extent, we are -- I mean, I think building on the granular SA is -- it will take time, but it is certainly a work in progress.

Piran Engineer - Analyst, CITIC Securities International

Okay. But then how do I sort of -- how do we explain this? We're adding more customers to the franchise, it should still add an absolute value to SA, right? But if I look at the last, say, four quarters, it's still sort of just at that INR85,000 crore, INR87,000 crore range?

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

Yeah. So I think what -- there is retail was -- if you look at absolute retail, on the rupee side, it is growing to the point that both you and I are making of the new accounts, et cetera.

Piran Engineer - Analyst, CITIC Securities International

Okay.

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

We saw some of the money going out, going into FCNR (B). And we have seen some outflows on the government side as well. I'm sure you know that the government is also getting a little more efficient, and so therefore we have seen some outflows in that -- on that side, but it is also relatively higher priced, so therefore it has minimal impact on PPOP. So therefore the focus really is to go -- is in the second half of the year is to grow SA on a much more granular basis and opening up these accounts. The first phase is to open the account, the second is to get funding into that, and third phase is to cross-sell into these. So that's the journey that we're down.

Piran Engineer - Analyst, CITIC Securities International

Got it. And can I squeeze in a third question?

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

Please?

Piran Engineer - Analyst, CITIC Securities International

Okay. Just lastly on loan yields, now they are down 25 bps QoQ in a quarter where retail share has increased, interest reversals should be lower because slippages are lower. So what is really happened here? Have we, I do not know, given discount [Speech Overlap]

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Quick answer on that. The FCNR leverage is playing out there, so that obviously impacts the overall yield of the loan book. But yeah [Speech Overlap]

Piran Engineer - Analyst, CITIC Securities International

Okay.

Indrajit Yadav - Head of Investor Relations and Strategy, IndusInd Bank Limited

No, I'm...

Piran Engineer - Analyst, CITIC Securities International

Okay.

Indrajit Yadav - Head of Investor Relations and Strategy, IndusInd Bank Limited

What you are comparing is not the like-to-like number. There was some 26 basis is including everything. Otherwise adjusted is 19 basis point decline Q1 versus Q2.

Piran Engineer - Analyst, CITIC Securities International

Okay, but then, Indrajit, 19 basis point is also fairly large, right?

Indrajit Yadav - Head of Investor Relations and Strategy, IndusInd Bank Limited

No, no, I'm not disputing the answer. I'm just correcting the factual comparison.

Piran Engineer - Analyst, CITIC Securities International

Okay. So then -- okay, why is it 19 basis points, let me then rephrase my question?

Indrajit Yadav - Head of Investor Relations and Strategy, IndusInd Bank Limited

That's what [Speech Overlap]

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Yeah. I was not [Speech Overlap] it's the same explanation. You are just correcting the math.

Piran Engineer - Analyst, CITIC Securities International

Okay. Adjusted for FCNR, you are saying that your loan yields are stable?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Marginally lower, yes, because of the mix. We have grown wholesale faster than from the retail. But yes. The larger impact really that you are seeing is that FCNR leverage playing this.

Piran Engineer - Analyst, CITIC Securities International

Okay. Got it. Okay. That answers my question. Thanks, and all the best.

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

Thank you.

Operator

Thank you. Our next question comes from the line of Antariksha with ICICI Prudential. Please go ahead.

Antariksha Banerjee - Analyst, ICICI Prudential

Yeah. Hi. I'm audible right?

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

Yes.

Antariksha Banerjee - Analyst, ICICI Prudential

Yeah. Hi. So, two questions. One is on your microfinance book, I can see that growth is now back and second half is generally stronger. I just wanted some idea about where are you finding this growth, how much is coming from customers who are entering for the first time, how much is existing, and where you see this going forward? And if you can separately talk about the traditional group loans and the other stuff that you're doing in rural?

Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited

So, Jagdeep here. Two quick points to that. On the micro credit side, roughly 73% of our borrowers have been having a three-year vintage with us. And almost 51%, 52% borrowers have a single facility with BFIL or IndusInd Bank. So growth is now consistent across the country. We are getting good growth. However, like we pointed out a little earlier, there are certain pockets where we are seeing the impact of drought being announced. States like Karnataka, Maharashtra, and Andhra. So we will continue to be focused on growth, but be very, very calibrated and keep adjusting according to the situation on the ground. As of now, the quality of the portfolio continues to be extremely strong. But we will have to watch out on some of these, which might play out in the next quarter or couple of quarters. So we are very, very watchful, but we continue to remain optimistic that as long as the macros hold on, we should see consistent growth in this business.

Antariksha Banerjee - Analyst, ICICI Prudential

So, sorry, just to add one point, what is the share of new-to-credit now in the incremental disbursements? Has it gone up?

Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited

We'll come back to you, but I don't think that number has significantly gone up.

Antariksha Banerjee - Analyst, ICICI Prudential

Okay. Sure. And the other parts apart from group loan, any comments there? I mean, are the same factors true in microbank merchant banking and the other rural stuff, that there also the drought could have an impact?

Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited

Merchant is slightly above the microcredit customers. They are more in the semi-urban and certain larger geographies that we operate in. There again, as of now, we continue to see good credit performance and we are watchful of that space. And even through the cycle last year, we continue to be within the range in terms of our credit performance there.

Antariksha Banerjee - Analyst, ICICI Prudential

Sure. Got it. Thank you. And just very lastly on the ticket -- I mean, the segments in retail that are also high yield, for example, credit cards or maybe in tractors, all much higher yield, they have also been declining for different reasons, some for you, some for the entire system. If you have any comments on where we are in that cycle individually? Because those are also important parts of the NIM journey when you talk about mix shift, right? So the segments within retail and SME which are disproportionately higher yield, any outlook on that, Jagdeep?

Jagdeep Mallareddy - Executive Director, IndusInd Bank Limited

So on our unsecured, like we said we've been taking risk actions and being thoughtful in the way we grow our business adjusted for risk-adjusted returns. But in that segment, we have started seeing an uptake in our disbursements and we are hopeful that that should start translating into book growth in the coming quarters. Credit cards, like you're aware, the entire system itself is being -- seeing very, very muted growth. We've had our own share of risk actions that we have taken. Our new [Technical Issues] acquisition is meaningfully up in the quarter, and we continue to remain focused on finding pockets where we can onboard more low-risk customers.

In terms of business banking, SME, like LAP, our small business banking, are all segments where we have started seeing the growth and you will continue to see that hold on over the next few quarters. So most of the high yield on the retail side, either the growth is continuing to sustain or in some of the unsecured pockets we are slowly pushing our disbursements up and you will start seeing that translate into book growth in the coming quarters.

Antariksha Banerjee - Analyst, ICICI Prudential

Sure. Thank you. That's helpful.

Operator

Thank you. Our next question comes from the line of Jai Prakash Mundhra with ICICI Securities. Please go ahead.

Jai Prakash Mundhra - Analyst, ICICI Securities

Yeah. Hi. Good evening, and thanks for the opportunity. Sir, we had shared that we want to exit FY27 at 1% ROA. We are on course to that, hopefully. Do you want to share any, let's say, exit FY28 or maybe for the full year FY28 ROA ambition?

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

See, I think this bank has historically delivered ROAs in the vicinity of between 175 basis points to 180 basis points. So our medium-term ambition is to get there. How soon we can get there is a matter of execution.

Jai Prakash Mundhra - Analyst, ICICI Securities

Right. So medium term, and I think the risk appetite has also changed, right, versus the previous trajectory. So if you have any, let's say, FY28 exit or maybe full year FY28, given that maybe interest rate cycle is favorable from NIM perspective and asset quality, as you said, is now stabilizing, slippages, et cetera. It would be really helpful if you have that FY28 maybe exit or maybe full year [Speech Overlap]

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

So like I said, I mean, I think if our medium-term ambition is to get to 175 basis points and 180 basis points then -- and you're seeing our calibrated approach to building the business, you can break it up and figure it out. But I don't have any comment on next year.

Jai Prakash Mundhra - Analyst, ICICI Securities

Okay, sure. And secondly, this treasury and -- forex and treasury, right, which is a decent part of the fee income, if I do the DuPont [Phonetic], it is roughly around 25 basis points of ROA. It has been reasonably consistent, but is this sort of a core number? Is this a recurring number or how to look at this trading and forex -- trading and other income in the fee line item?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

Sure. So a large chunk of that is really FX sales, which is not trading by nature, right? That's more flow in a sense because you're selling. It's a client-based fee income pool, right. The pure trading is actually much, much smaller of that component. The trading component, for example, this quarter was roughly INR70 crores of trading income. So that hopefully gives you some perspective.

Jai Prakash Mundhra - Analyst, ICICI Securities

Right. Sure. And lastly, just on cost of deposit, because there are a lot of moving parts and rate cycle has also hardened, do you suspect that cost of deposit, overall cost of deposit, should remain stable, or do you think it has bottomed, the cost of deposit?

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

See, ultimately banking is a marginal cost business. So therefore, in an environment where if rate hikes happen, liquidity tightens, cost of deposits will go up, but then correspondingly, either through proportionality or in general lending rates will go up as well. There may be some lead lags around it.

Jai Prakash Mundhra - Analyst, ICICI Securities

All right. Thank you so much, and all the very best.

Operator

Thank you. Our next question comes from the line of Abhishek Murarka with HSBC. Please go

ahead.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Yeah. Hi. Good evening, and congratulations for the quarter. So just a few questions. Rajiv, how do you expect deposit rates to trend from here in SA and TD, just from a system perspective and your own approach in the next, say, two or three quarters?

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

See, I think the first -- I mean, first point I want to make is that the FCNR (B) inflows have not come proportionally to all banks. And so, therefore, banks that...

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Correct.

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

Some banks have excess. I mean, not -- may not use -- let me use the word excess in the widest sense of the term, but excess liquidity. And some banks who have not got are already beginning to see liquidity begin to tighten for them. Macro environment is such that we do expect that rate hikes will happen and liquidity will tighten either because of RBI actions or because of seasonal increases in currency in circulation, second half demand, et cetera. And so therefore I think it is fair to expect that some uptick in deposit rates is likely in the second half of the year.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

And how much additional [Technical Issues] are you carrying today?

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

Sorry, you are breaking up.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

[Technical Issues] you can deploy?

Operator

Abhishek, sorry to interrupt...

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Hello?

Operator

...your line is not clear, you are breaking up in between. Request you to please check your line.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Am I audible?

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

Yeah, now much better.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Is it better?

Operator

Yeah.

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

Yeah.

Operator

Yes.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Sorry about that. So I was asking how much additional liquidity are you carrying today which can be deployed even while meeting all the reserve requirements, et cetera?

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

No, no. So don't look at it like that. I mean, in the sense of we don't carry additional liquidity, right? I mean, so for example, we have paid down some of our high-cost deposits, we've paid down CDs. As and when we think that there is enough deployment opportunities, we can always go back to the market and replenish some of this stuff. But obviously given the focus on granular growth, obviously that will take time for you to build, meaning that you don't want to push growth just because you have liquidity.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

So is it the right conclusion that you would have to respond to other market participants if they were to increase their TD rates or SA rates?

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

Maybe with some lead lag, but, I mean, ultimately we are a relatively smaller player, so therefore to that extent ensuring our relative competitiveness from a pricing perspective is important.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Sure. Got it. And the second question is more just a data point. So the drop in Tier 1, it's because profits are not included in that or something else?

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

No, I think that's...

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

A 55 bps drop QoQ.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

That is a factor of balance sheet growth, right. You have seen loan growth pretty sharp in this quarter. Balance sheet growth is 5% to 6%, so that obviously we will consume capital, right.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Yeah. But RWA growth was still much lower than loan growth. So...

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

So the intensity or density is still at 73% of the...

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Correct.

Viral Damania - Chief Financial Officer, IndusInd Bank Limited

...asset. So that has not changed. It is proportionate to growth. We had some increase on market risk and some increase, roughly 13 bps or coming in from other change. But yeah, otherwise it is balance sheet growth.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

Okay. All right. I will just maybe clarify that offline. No problem. Thanks a lot, and all the best...

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

Thanks, Abhishek.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets

...for the future.

Operator

Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Mr. Rajiv Anand for closing comments.

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

Thank you for your interest in IndusInd Bank. Let me take this opportunity to wish you and your families a very, very Happy Diwali and Season's Greetings to all of you. Thank you very much.

Operator

[Operator Closing Remarks]