Q3FY24 Analyst Call Opening Comments

Dear all,

Good evening and thank you for joining this call. Let me start with some macro commentary and then go into the bank specific details.

Indian economy delivered robust Q2 real GDP showing 7.6% yoy growth & RBI raising FY24 growth forecast markedly to 7%. Economic activity sustained momentum in Q3 supported by resilient urban demand & gradual turnaround in rural demand. Investment activity continues to be aided by buoyancy in public sector capex. Financial markets and banking system conditions remained largely stable. Bank credit growth remained steady around 16% while growth in deposits picked from around 12% to 14%, reducing the gap between them. Liquidity in the banking system turned into a net deficit shrinking with the withdrawal of pandemic era monetary accommodation by the RBI. Looking ahead, private consumption should gain support from gradual improvement in rural demand, strengthening of manufacturing activity and continued buoyancy in services. Government's thrust on infrastructure spending and expected momentum in private capex should drive investment activity.

Coming to the quarter specific developments. During the quarter we had some excellent achievements as well as some misses. On the positives, the retail deposit mobilisation was one of the best in several quarters with moderate increase in cost of deposits, the loan growth was broadbased across retail segments, the visibility from marketing campaign was as never seen before, key profitability metrics like NIMs, PPOP margin, RoA etc were healthy. On the misses, we saw slippages on the higher side than expected and we are working towards normalisation in this quarter. Overall we did have many positives in Q3 and aim to make it better in Q4.

- <u>Robust Loan Growth Momentum</u> – We witnessed another quarter of strong retail growth of 24% YoY which drove the overall loan growth of 20% for the Bank. Retail saw healthy momentum across vehicle, microfinance & consumer segments. We were selective in Corporate loan growth at 15% focusing on mid and small corporates.
- <u>Retail Deposit Accretion Gaining Pace</u> – We saw one of the sharpest sequential improvement in the share of Retail Deposits as per LCR of around 1% in one quarter. Our retail deposits grew 5% QoQ despite the challenging liquidity environment. We are now touching the PC-6 ambition of 45%-50% retail as per LCR with still couple of years to go. The increase in Cost of Deposits was also moderate at 9bps QoQ.
- <u>Progress on new initiatives</u> – Our digital banking offering INDIE is seeing strong traction aided by increased awareness via our marketing campaigns. INDIE now has 4mn downloads and 800,000 customers executing 4mn transactions per month. We continue to scale our liabilities initiatives of affluent and NRI banking with deposits growing at 20% and 29% YoY respectively. Our home loan book grew by 37% QoQ and now stands at Rs.1,377 crores.
- <u>Asset Quality</u>– Our gross NPA & net NPA remained steady at 1.92% and 0.57% respectively. Gross slippages were at Rs.1,765 crores and net slippages were at Rs.1,236 crores. The slippages in Vehicle book were impacted by adverse weather conditions towards the end of last quarter and since then have already started

showing improvement. Our restructured book continues to run down at 0.48% compared to 0.54% QoQ.

- Healthy Earnings Stability – Our Net Interest Margin remained stable at 4.29% sequentially. Other income grew by 15% YoY driven by granular retail businesses. We continue to invest in human capital, physical and digital infrastructure as well as marketing initiatives, resulting in opex growth of 6% QoQ. Our PPOP margin to loans remained steady at 5.2%. Overall, our Profit After Tax grew by 5% QoQ and 17% YoY to 2,301 crores. Our Capital Adequacy Ratio remains healthy with CET1 of 16.07% and overall CRAR at 17.86%.

Now coming to individual businesses.

1. Vehicle Finance:

- Our vehicle finance business continued robust growth momentum with highest ever disbursements in our history of Rs.13,700 crores growing at 7% QoQ. The cumulative 9MFY24 disbursements at Rs.38,380 crores were up 15% YoY.
- As a result, vehicle loan growth remained healthy at 20% YoY and 5% QoQ.
- Within vehicle categories, Cars, Utility Vehicles, Construction Equipment saw more than 15% QoQ growth in disbursements. Two-wheeler segment also saw healthy growth in disbursements with demand picking up on the back on improving rural sentiments & festive season.
- Commercial Vehicles and Three wheeler disbursements were slower QoQ driven by lower industry volumes. We have however maintained our market share across the segments.
- We have doubled our auto loan book in last 2 years with market share now close to 4%. This has helped us balancing the vehicle loan book between commercial & passenger segments derisking cyclicality.
- The gross slippages in Vehicle Finance were at 0.73% vs 0.93% YoY and 0.64% QoQ. The slippages moved up sequentially due to adverse unseasonal weather in December such as floods in southern side as well as heavy fog in northern side impacting collections to some extent. The situation has since then improved and we have already seen around 10% of the Q3 slippages getting upgraded in couple of weeks of January. We expect to see this momentum continuing in rest of the Q4 resulting in normalisation of this temporary slippages.
- The restructured book in vehicle finance reduced to Rs.705 crores from Rs.910 crores QoQ with majority of the reduction due to upgrades and recoveries.
- Overall, our vehicle portfolio is now diversified across product categories and we are well positioned for sustainable growth across different product cycles. This could also be evident in this quarter's numbers where despite the sequential softness in MHCV segment we maintained our robust growth momentum.

2. **Bharat Financial Inclusion Limited**:

- BFIL distribution is now running at its potential capacity with outstanding loan book originated of Rs.40,544crores growing 24% YoY. The growth was robust in both the microfinance as well as merchant acquiring segments at 20% and 55% YoY respectively.
- We have been cautious of growing the book balanced between new customer acquisition without execessively leveraging customer ticket sizes. Our active loan clients stand at 9.4mn reflecting a growth of 17% YoY and 4% QoQ.

- <u>Microfinance</u>
  - Our microfinance business continued momentum with YoY growth improving to 20% from 16% over last quarter.
  - Our average loan outstanding per customer reduced by 1% QoQ as we were cautious with elections in a few large states last quarter.
  - Our net slippages improved to 0.55% vs. 1.24% YoY and 0.57% QoQ.
  - MFI standard book net collection efficiency for Q3 was at 98.6% and our early delinquency buckets are better than the industry.
- <u>Bharat Super Shop i.e. the merchant acquiring business</u>
  - Our merchant loan book stood at Rs. 4,783 crores with 55% YoY growth.
  - The loan book reduced by 2% sequentially with focus on collection and average loan outstanding reducing from 70k to 68k per customer QoQ.
  - The standard book net collection efficiency from this client base stood at 99.1%.
- <u>Bharat Money Stores i.e. the kirana shop model</u>
  - We have around 61,000 Active Bharat Money Stores providing banking at the doorstep in remote areas. We continuously work towards converting inactive stores into active or close them if not successful over a period.
  - Liability book sourced from customers serviced through BFIL increased by 56% YoY to reach Rs.2,541 crores. The customer base of 16.7mn accounts also registered an increase of 24% YoY and 6% QoQ.

- Overall, BFIL continued the growth momentum during the quarter which augurs well for the overall bank’s profitability. We are well placed to participate in the large rural opportunity with our deep distribution network while transitioning from micro finance to micro banking.

3. Global Diamond & Jewellery Business

- The business continued to maintain its global leadership position. The growth however has been an issue for several quarters due to global macro challenges. The portfolio has degrown by 8% QoQ and now contributes 3% of overall loan book.
- The asset quality nevertheless remains healthy with no SMA1, SMA2 or restructured accounts.

4. Corporate Bank:

- We continue to grow our corporate book in calibrated manner with focus on areas of competitive advantage rather than chasing headline growth numbers.
- The overall corporate growth of 15% YoY continues to be led by mid and small corporates growing at 17% YoY and 3% QoQ. Within this small corporates grew by 5% QoQ driven by seasonal uplift in agri portfolio during the quarter. Growth in large corporates was 2% QoQ and 14% YoY in line with our expectations.
- Specialized verticals outside the diamond business constitute 31% of corporate book. This includes Real Estate, Financial Services, Food & Agri, Education, Healthcare. The exposure under specialized verticals is managed well basis sector specific strategy. The segments continue to show healthy risk adjusted returns and growth profile.
- The proportion of A and above rated customers has improved to 77% vs 74% YoY with weighted average rating improving to 2.54 from 2.64 YoY.
- The Net Slippages in corporate book were at Rs.155 crores vs Rs 158cr QoQ. The slippage was mainly due to one stressed account of Rs.140 crores. Overall 9M annualised net slippages have reduced to 25bps vs 48bps last year showing healthy improvement and rangebound credit costs in corporate book.
- Overall, we continue to progress on building corporate bank franchise focused on selective areas of competitive advantage with granular risk profile. We remain comfortable with the overall asset quality trends in corporate segment considering the improvement made in risk profile & granularity of portfolio.

5. Other Retail Assets:

- Other retail assets remain the fastest growing segment within the overall portfolio with 30% YoY and 6% QoQ growth.
- Our MSME book under business banking is at 15,800 crores which grew 24% YoY and 3% QoQ and LAP book maintained steady traction with 10% YoY & 3% QoQ growth.
- We have re-defined our MSME branches with enhanced capability & upskilling of the branch staff. With this, we have already started seeing green shoots in the downstream metrics like branch leads, logins etc.
- We will continue to focus on MSME as one of our growth engines with tighter onboarding norms. We have put in place a robust Early Warning Signal framework which is enabling us with timely triggers to ensure healthy asset quality.
- Home loan product continues to scale with loan book now at Rs.1,377crores as of Dec-23 growing 37% QoQ.
- Share of unsecured loans remains around 5%-5.5% and we aim to maintain it rangebound around current levels.
- Credit card growth was driven by new cards acquisitions & strong spends. We recorded healthy spends at 25,444 crores growing by 15% QoQ. Our spends market share has further improved to 5% as per latest available RBI data.
- Overall, We are focused on growing our consumer assets while improving the balance towards secured mix with scale-up of home loans.

6. **Now coming to Liabilities:**
    - We mobilised Retail deposits as per LCR of Rs.8,200 crores in Q3 making it the best quarterly accretion since the begining of upward interest rate cycle.
    - This translated into Retail as per LCR growth of 20% YoY and 5% QoQ. The share of retail deposits improved from 43.7% to 44.8% during the quarter – again one of the best improvements in the last several quarters. Retail deposits contributed over 75% of the incremental deposit growth during the quarter.
    - We continue to let go non retail deposits e.g. share of Certificates of Deposits reduced from 3% to 2.5% QoQ. As a result, our overall deposit growth was at 13% YoY and 3% QoQ.
    - The deposit growth also came along with moderate increase in cost of deposits of 9bps in line with our communication earlier.
    - CASA ratio remains stable at 38.5% QoQ. We would be one of the few banks seeing accretion in absolute savings account book. The accretion is mainly driven by continued focus on customer acquisitions as well as new launches such as Indus Grande in Q2 and Indus Solitaire in Q3. Indus Solitaire is first of our community focused relationship products aimed to leverage our strong position in gems and jewellery segment.
    - During the quarter, as many of you would have seen, we did a massive marketing campaign associating with the ICC Cricket World Cup held in India. We reached over 1.25 million fans in the stadiums and over 520 million viewers via television coverage through the tournament. The initiative was instrumental in improving our visibility as per independent survey by 1.5 times and we should see the benefits continuing in the upcoming couple of Cricketing events scheduled later this year.
    - We also added 97 branches during the quarter taking our branch count to 2,728. We remain on track and committed to add around 1,000 branches during this 3 year period.
    - We continued to scale our initiatives of Affluent and NRI during the quarter. Affluent segment deposits grew 20% YoY to Rs.50,200 crores during the quarter. Affluent AUM was also up 16% YoY to Rs.77,100 crores.
    - NR deposits grew 29% YoY and 6% QoQ at Rs.42,300 crores. Our market share in Non Resident segment stands at 3.3% as per last available data vs 2.9% YoY.
    - Share of borrowings in total liabilities was at 8%. The borrowings continue to be oriented towards long term sources of funds.
    - Our liquidity position remained healthy during the quarter with average LCR improving to 122% vs. 117% QoQ and average surplus liquidity at Rs.39,500crores for the quarter.
    - Overall, we are making steady progress towards deposit retailisation journey amidst the challenging liquidity environment. We continue to believe in our phygital & segmental strategy and with constant investment in traditional, digital and new initiatives we remain comfortable of achieving our deposit growth ambitions.

7. Digital Traction:

- During the quarter – the bank officially launched INDIE coinciding with a campaign that ran throughout the cricket world cup. INDIE brings a revolutionary way to Bank with many industry firsts.
- Within a short span of launch, Bank has acquired more than 0.8 mn customers on the platform and close to 4 million installed base.
- We continue to see momentum on INDIE with 5 accounts being opened every minute, more than 1 transaction every second. Engagement is increasingly steadily with users and we are seeing near doubling of transactions month on month and active clients do as much as 35-40 transactions per month.
- Further, it is a "earn" model as is the philosophy that underpins the digital business and not a "burn" model and with asset products already integrated in the platform such as line of credit.
- We plan to keep expanding the product suite on INDIE and migration of existing clients desirous of moving to INDIE as a platform will also start soon. We will soon have credit cards, wealth management, NRI and MSME proposition unfold on INDIE – each with many industry firsts
- On the existing platforms, Bank continued to see scale up of user engagement. On Indusmobile, user base increased by 23% YoY. What is more interesting is that there was an increase of 15% in percentage of users who are monthly active on the app. So, greater proportion of our users are now active every month on the platform
- Merchant app saw the user base nearly double YOY and during the quarter we enabled Video KYC led self / remote onboarding journey on the app for MSME clients
- The Digital Business model continued to scale and remote / do it yourself led business now contributes significantly to our retail and MSME business –
    - 56% of savings accounts in the Bank are now acquired in remote / do it yourself digital manner by customers
    - 40% of term deposits are acquired the same way
    - 45% of personal loans and of that 33% is pre-approved while another 12% is real time decisioning enabled
    - 22% of credit cards are acquired in same manner or via partnerships through open API stack integrations
    - In MSME business, 7% of current accounts are now remote / Do It Yourself and digital and more than 20% of unsecured business loans acquired the same way.

Now coming to the financial performance for the Quarter:

1. Net Interest Income grew by 18% YoY and 4% QoQ with Net Interest Margin remaining stable at 4.29% sequentially while improving by 2bps vs 4.27% YoY.

2. The Net Interest Margin was supported by moderate increase in Cost of Deposits of 9bps which was offset by increase in yield on advances by 15bps. The repricing on the loans as well as mix change in favour of retail helped improve yield on advances.

3. Our Cost of Deposit at 6.44% increased by 9bps QoQ in line with our expectations. We have been in an elevated rate environment for 18-20 months now and we are now in the last phase of deposit repricing assuming stable rate environment.

4. Our Other Income grew by 15% YoY and 5% QoQ. Core client fees excluding trading income too grew by 12% YoY. Our non-core fee income was Rs.231crores during the quarter.

5. Our total revenue for the quarter was at Rs 7,692crores with 17% YoY growth.

6. The opex growth of 6% QoQ was driven by continued investment in human capital, distribution network & marketing initiatives. The bank employee base grew by 5% QoQ. We have also opened 97 branches in Q3 vs 25 branches in H1FY24.

7. The operating profit for the quarter was at 4,042 crores growing 10% YoY.

8. On the asset quality and the provisioning front:
   - The annualised provisions to loans for Q3 has come down to 119bps vs 156bps YoY. Annualised 9MFY24 provisions to loan ratio was at 120bps vs 169bps YoY.
   - As explained earlier, net slippages were sequentially impacted by vehicle finance which is since then normalising.
   - The restructured book reduced during the quarter from 0.54% to 0.48% QoQ with bulk of the reduction due to upgrades and recoveries.
   - The Net Security Receipts have further reduced to 37bps from 39bps in previous quarter. The bank made additional provisions of Rs 165crores towards the SR book during the quarter.
   - Overall, the GNPAs at 1.92% and Net NPAs at 0.57% were steady for the quarter. We have maintained provision coverage ratio of 71%.
   - We used contingent provisions during the quarter as we expect reduction in stressed book including that of a telco exposure. Our SMA1 and SMA2 book collectively is now only 19bps. We have nevertheless not changed our view of continuously adding into the buffers ahead of cyclical impacts if any.
   - Total loan related provisions are at 2.2% of loans or 114% of the GNPAs.

9. Profit after Tax for the quarter was at Rs 2,301 crores growing 5% QoQ and 17% YoY. Our return ratios saw sequential improvement with Return on Assets at 1.93% and Return on Equity at 15.45% for Q3. Our CRAR including profits remains healthy at 17.86%. This reflects impact of recent RBI circular on risk weights and adjusted for that CRAR improved QoQ.

Overall, as mentioned at the beginning of the call, we had quite a few positives during the quarter and some areas of improvement which we are focusing on priority for this and next few quarters.

- The retail deposit growth has been a bright spot with a CAGR of 20% since the interest rate cycle changed. We are in sight of our PC6 target of retailisation and will aim towards achieving upper end of the 45-50% ambition over next couple of years.

- The retail loan growth too now is quite diversified with all key business of vehicle, microfinance and consumer growing upwards of 20% with further boosters from new initiatives.
- The asset quality, while better than the last year, has potential for further improvement. We are already seeing improvement this quarter so far and will aim to deliver a better Q4.
- The investments in new initiatives, branding, physical and digital businesses continues and we have preferred investing for future over near term earnings.
- The Net Interest Margins have been stable through out the challenging times and we expect support once the interest rate cycle turns. The RoA and RoE profile thus has potential for improvement as we see benefit from NIMs, Cost to Income as well as Credit Costs coming through over the next few quarters.

With this we can open for Q&A.

Additional Information Discussed During the Analyst Call:

- **Gross Slippages Details:**

BU (Rs.cr)	Gross Slippages (Standard Book)		Gross Slippages (Restructured)		Gross Slippages (Total)	
	Q3FY24	Q2FY24	Q3FY24	Q2FY24	Q3FY24	Q2FY24
CFD	554	443	44	56	598	500
MFI	355	335	8	9	363	345
Other Retail	483	397	8	10	492	406
Corporate	304	206	8	8	312	214
Total	**1,696**	**1,382**	**68**	**83**	**1,765**	**1,465**

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