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Market Watch

Everything about IndusInd is known. The panic is exaggerated

BY [JOEL REBELLO](#) & [MC GOVARDHANA RANGAN](#), ET BUREAU | UPDATED: MAR 19, 2020, 08.49 AM IST

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The IndusInd stock lost almost a third of its value in a matter of hours. This is not a normal worry about your exposures. There is something beyond...

SOBTI: What we have in our books is what everyone in the market knows. We have opened our books like nobody else in the industry. The sort of disclosures we give is unseen in the industry. Some new speculative items have come...like why this pledge (by promoter [Hinduja family](#)) was created and how it's going to play out. This clarity has been given by the holding company. It is an old pledge that was formalised. There is speculation that a lot of this will flow into the market. Not a share has flown into the market. This is all speculation.

KATHPALIA: Our disclosures have been more than normal for banking companies. We have gone ahead and disclosed our exposures to NBFCs and non-funded exposures. We have also given segment-wise SMA-2 exposures. We have been far more transparent in what we have been disclosing and that is the better way out for us.

Shouldn't that have been disclosed earlier? Or can bank promoters even pledge the shares in the first place?

SOBTI: It was disclosed in 2016 to the exchanges, but nobody noticed it then. Now the form has changed and that is what we have disclosed. Nothing else has changed. No new



Outgoing CEO Romesh Sobti

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pledges have been created is what we know. The rest is for the promoters to clarify. We have nothing to say beyond that.



What has changed for the market to get so nervous about you if your disclosures say all?

SOBTI: The fact-based disclosures are there for everyone to see. Between the end of the third quarter and now nothing has changed. We have disclosed every piece and all our stressed names. We have said time and again that there are no new names added. We have said zero NPAs in real estate, in gems and jewellery and commercial micro finance portfolios remain in a range. So, nothing has changed as far as we are concerned but the speculative activity has grown many times. The latest theme is the pledged share theme. Hopefully this will play out in the next few days but that's for the promoters to handle and management does not have a role to play in that.

For many years analysts worried about the assets side. Now they are questioning the liabilities side, i.e., deposits. How sticky are they? Are the bulk deposits at risk?

SOBTI: Over the last 12 years CASA (current account and savings account) has grown from 14% to 43% and what can be more granular? Retail fixed deposits have grown from being negligible to 26%. So that makes almost 70% of our deposits. The bulk element is there in every book in the banking system and we also have that. Over the years we have tried to reduce our dependency on bulk deposits and we have weathered at least three liquidity cycles in the last 12 years. Our margins have only fallen by 15 to 20 basis points.

Then what is causing the worry?

SOBTI: There is some speculation on state government deposits. Till yesterday we have seen a 2% outflow. Our track record is that we have been able to weather liquidity cycles of this nature. This cycle is because of the moratorium on a bank which gets lifted this evening and it will calm the [markets](#). Nobody lost money. Not a single rupee was lost by any depositor. The new CEO-designate said that only one-third of the depositors exercised their right. So there is an exaggerated panic.

But there are also questions about how you book your fee income which some say is not conservative.



Incoming CEO Sumat Kathpalia

KATHPALIA: Only 32% of our fees comes from corporate banking. The structured finance or upfront of fees is only 2%. About 68% of our fee is consumer banking which is general banking, loan processing, distribution and foreign exchange. Even on the corporate side, 50% of the fee is from foreign exchange or trade FX and not from structured finance. Unlike the other bank we are just 2%. Foreign exchange and trade and remittances make up 60% of our fees. We don't focus on upfront but more on annuity-based granular fees. We have not raised capital for five years. If we were only doing the bulky deals and highly rated paper, our capital utilisation would have been very high. We don't use capital so much. We are very capital cautious and if we had to create such fees we would do lower rated paper and create them.

How does one read the disproportionately

high fee income?

SOBTI : A fee space is linked to the year. If it is a three-year fee it has to be amortised. Each bank has its own construct. There are no elephants in terms of fee income. One of the highest rewarding businesses is the unsecured credit which some banks have done really well. We have not been able to get there. But we have high margin drivers embedded in our business where we have domain expertise and leadership like vehicle finance, micro finance, and diamond which gives us 4% spreads. Corporate yield is the lowest at sub-9%.

Now you know that the reliance on wholesale funding can cause wild swings. What's the way ahead?

KATHPALIA : We want to move to 80% retail in the next three years. One of our initiatives is to make liabilities more granular. Our outflows in the corporate deposits are not much, they continue to be a cornerstone and fill a very important gap in our business. We believe that we are very strong in the government business. About 20% our business comes from there and that's a very healthy trend.

It is spread over different states but of course we have lost deposits in Maharashtra because of the notification by the government. We are still highly liquid and today also we are lending in the call market which would not be possible if we were not highly liquid.

There is speculation about some banks not dealing with IndusInd.

SOBTI: All banking with all counterparties remains intact and it is business as usual. You can make that statement in bold. We have been lending our small surpluses in the call money market. All our counterparties and banking facilities are business as usual.

When you got into this bank, not a single analyst covered it. Now there are scores of analysts and marquee funds own your stock. Now the sentiment is turning from faith to being doubtful. What you want to tell them?

SOBTI: The business model that we created has held out across many cycles and I am very confident that it is going to hold out through this cycle as well. Fundamentally, we are diversified in our revenue streams, we manage our costs well. We have had a spike in credit costs largely caused by one particular exposure which has cast a few shadows here and there. But excluding that exposure, our credit costs remain the same and we have not seen variations in that. The business model steadiness is a constant and we have added new boosters to our business model. The acquisition of Bharat Finance to my mind is a needle turner. We have added dimensions to our businesses which is going to play out in the next five years. These shadows will also fade away and the real value of the bank will emerge.

KATHPALIA: We will go into the rural areas now. It is our new frontier. From a very low contribution to our profits it will become 25% in the next three years. In [Bharat Financial](#) we have got a new distribution capability with number of outlets going up to 150,000 compared to 52,000 bank branches.

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