"City Union Bank
4QFY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the 4QFY2022 Earnings Conference Call of City Union Bank hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajit Kumar from Ambit Capital. Thank you and over to you, Sir!

Ajit Kumar: Good evening everyone and welcome to 4QFY2022 earnings call of City Union Bank. On this call we have Dr. N. Kamakodi – MD and CEO of the bank and Mr. V Ramesh – CFO. We will start with the opening remarks from the management side first and then we will move over to the Q&A. over to you, Sir!

N. Kamakodi: Good evening, everyone. Dr. Kamakodi here. Before starting, it looks like there is some technical disconnect. If we get disconnected will be joining back just it may take a few minutes and all kindly wait.

Hearty welcome to all of you for this concall to discuss the audited financial results of City Union Bank for the Fourth Quarter / Financial year ended 31.03.2022. The Board approved the results today and hope you all have the copies of results and the presentation. The Board has recommended for payment of dividend of Re.1 per share i.e 100% on face value of Re.1/- per equity share of the Bank, the payment of which will be subject to the approval by the shareholders of the Bank at the ensuing Annual General Meeting.

As you might have seen from the numbers, the COVID is finally over. Things are back to pre-COVID level almost on all fronts. We hope that the impact of Ukraine war on economy won't extend indefinitely. But for this unknown, everything else seems to be under control.

On the management side, RBI has approved the appointment of Sri. M. Narayanan as the Non-executive part-time Chairman of the bank. Sri. M. Narayanan, a Chartered accountant by profession, had assumed office as part time Chairman of the bank effective from 4th May 2022 in place of Sri. R. Mohan, who had successfully completed his tenor of 3 years on 3rd May 2022 as approved by RBI. Sri. R.Mohan will be retiring from Board on 27.06.2022. Sri. M.Narayanan joined the Board on 03.05.2016 and served many committees including that of Chairman of Audit Committee. He will serve as non-executive part-time Chairman for two years.

Prof. Dr.Veezhinathan Kamakoti, Director of IIT Madras, has been inducted in to our Board as an additional director with effect from today. He had already served in the Board from April 2011 to April 2019 and also served as Chairman of Information Technology Committee in the past. Being a professor in Computer Science he will add more value to the Bank on improvement and development in technology front.

On performance side, we shared with you all the following expectations for FY22 during our earlier concalls;

We had said that we would be achieving mid to high single digit credit growth for FY22. ***We closed FY22 with a double digit credit growth of 11%.***

We had said that Gross and Net NPA % for year FY 2022 would be lower than that of FY 21. ***Our Gross and Net NPA % has come down below that of FY 21.***

We had said that Recovery operations were back on full-swing following the full functioning of Courts and we could even see collections more than the slippages. ***Our Q4 recovery is Rs.277 crs Cr comprising of Rs.211 crs from live accounts and Rs.66 crs from technically written off accounts crossing Q4 slippages of Rs.221 crs. This is the highest recovery happened in any quarter in the history of our Bank.***

We said that the RoA to reach a level of 1.50% towards the second half of financial year FY 2022-23. ***Current Quarter ROA is at 1.4% and we are on track to achieve ROA of 1.5%.***

The highlights of financial performance for FY 2022 are as follows:

Deposits recorded a growth of 7% from Rs. 44,537 crs to Rs. 47,690 crs

Credit grew by 11% from Rs. 37,021 crs to Rs. 41,156 crs

Business grew by 9% and stood at Rs. 88,846 crs on 31.03.2022

CASA recorded growth of 20% to Rs.15,529 crs from Rs.12,981 crs and CASA% to deposits improved to 33% in FY 22 against 29% in FY 21.

Net profit improved by 28% from Rs.593 Crs to Rs.760 Cr. Net profit for Q4'22 is Rs.209 crs which is highest in any quarter

ROA stands improved to 1.35% in FY 2022 as against 1.15% in FY 2021 and 1.42% for Q4 FY 22

NIM is 4.01% for Q4 FY 2022 and 3.98% for FY 22 – on daily average basis.

Gross NPA is at 4.70% & Net NPA stood at 2.95% on 31.3.2022 - both sequentially got reduced by 51 bps and 49 bps respectively in Q4'22.

The progress made so far is even better than what we had expected earlier.

Until Q3 '22, we were growing only through Gold Loans & ECLGS as there was less confidence on General Economy. With the improvement in economic situation, we started to push for growth in a slow and steady manner starting from Q4 '22. During our last concall, we stated that could see improved credit growth and we will look beyond Gold Loans and ECLGS. We will continue to push for credit growth and we should be having low to mid double digit growth for FY 23 as well. Out of Rs.4,135 crs credit growth in FY 22, Rs.2,463 crs is from gold loan. In Q4 '22, out of Rs.2,769 crs credit growth, Rs.834 cr is from Gold loan and Rs.1,935 crs from other advances.

The slippage during Q1, Q2, Q3 FY 22 are Rs.482 crs, Rs.297 crs and Rs.275 crs respectively. As expected, the slippage for Q4 FY 22 was at Rs.221 crs which is much lower than the earlier quarters. We had also stated that we will be reaching to a level where the recoveries will be more than slippages. As explained earlier, Q4 total recoveries surpassed the slippages during the quarter. We hope the recoveries will show improvement for the FY 2023 as a whole, though there could be quarterly aberrations.

As explained earlier, In Q4 '22 we recorded a total recovery of Rs.277 crs Cr comprising of Rs.211 crs from live accounts and Rs.66 crs from technically written off accounts compared to Rs.228 crs comprising of Rs.186 crs from live accounts and Rs.42 crs from TW accounts in Q3 '22. The current quarter recovery is being the highest in history of our bank surpassing the Q3 recovery by Rs.49 crs, and still we expect it to improve from here. For FY 22 the total recovery was Rs. 794 crs consisting of live recovery of 606 crs and collection through TW a/cs at Rs. 188 crs against Rs. 221 crs and 103 crs respectively for FY 21. We expect that this trend will be continued in the coming quarters. This improvement in recovery coupled with reduction in slippage will make significant contribution to our RoA improvement in the coming years.

During our last concall, we had briefed about the status of M/s Spicejet. We wish to provide an update on the same:

The cash credit account of Spicejet was not renewed and should have been classified as NPA on 2nd May 2022, i.e Q1 of current year, even though they are continuing to service the interest amount. Spicejet had filed a case against the bank before the District Magistrate, Gurgaon insisting that their account should not be classified as NPA. In the mean time the District Court had issued an interim stay for classifying the account as NPA. Till Q3 '22, we had earmarked a contingent provision of Rs.40 crs and we made an additional contingent provision of Rs.45 crs in Q4 '22 taking the total provision to Rs.85 crs against their total outstanding of Rs.100 crs.

The overall o/s balance of borrowers who availed ECLGS as at 31.03.2022 is Rs.14,366 crs as against Rs.13,644 cr as on 31.12.2021. The ECLGS portion as on 31.3.2022 is Rs.2,656 crs as against Rs.2,626 crs as on 31.12.2021. The SMA 1 & SMA 2 portion as of 31.03.2022 was Rs.213.95 crs (1.49%) and Rs.68.41 crs (0.48%) respectively. All these accounts are continuing to repay their regular term loan installments and there is no moratorium given for their regular installments.

As at 31.03.2022 about 1913 borrowers amounting to Rs. 2184 crs remain as restructured category. Out of which, the repayment was started for accounts amounting to Rs.1,308 crs (constituting 60% of restructure book) and for the remaining Rs.876 crs, the repayment is yet to commence. Those accounts where the repayment demand has not started (i.e Rs.876 crs which are still in moratorium) accounts with about 59% of outstanding (Rs.517 crs) have already paid their monthly installments in advance before the commencement of due date for more than 3 months and 24% of outstandings (Rs.210 crs) have already paid installments in advance before due date for 1 or 2 months leaving only 17% (Rs.149 crs) which are effectively availing moratorium. The o/s portion of SMA 1 and SMA 2 is Rs.249 crs and Rs.138 crs respectively out of the said restructured advances of Rs.2,184 crs. Overall restructured portfolio currently stands at 5.31% against 5.74% in Q3'22

We have discussed many times about the SMA 2 numbers which used to be in the range of 5% to 7% in the pre-covid days and which was reduced to 3.04% in Q1 '22 , 2.59% in Q2 '22 and 1.98% for Q3 '22. The current SMA 2 number further reduced to 1.36% which includes accounts from ECLGS, Restructured and also regular accounts. As stated earlier, the overall improvement in economy post-COVID as well as our constant follow-up and monitoring efforts which we took in the pandemic period has resulted in reduction of SMA numbers. We have to wait and see if the economic uncertainties caused by Ukraine war will have any impact.

During our Q3 concall, we stated that we do not foresee any significant contribution from domestic treasury profit front due to unfavorable yield movements. For Q4 '22, we had a trading profit of only Rs.11 lakhs and for the full financial year it was Rs. 62 crs as against Rs. 233 crs in FY 21. The treasury profit on the whole declined to Rs. 246 crs for FY 22 against Rs.309 crs in FY 21. The present changes in the monetary policy is leading to yield movements upwards and we may not have favourable income from domestic treasury operations during FY 2023. Till such time, the other income will be compensated to some extent by improved recoveries. At the same time, by proper management of duration, we expect minimum MTM provision for AFS/HFT going forward.

The Cost to Income Ratio for Q4 '22 and FY 22 was respectively at 37.49 % and 40.37 % as against 49.17% & 41.72% in Q4 '21 / FY21. The operating expenses had sustained at the earlier year levels and on the other hand the increase in suit recoveries had improved the other income which had resulted in marginal reduction in CIR. Because of expected poor profit from treasury, the CIR for current year is expected to be slight elevated and may increase to 42% to 45% range.

Capital Adequacy of the Bank stood at 20.85% for FY 22 Vs 19.52% in FY 21. We have not diluted any Capital in the last 7 years and the last time we have raised the funds was during July 2014 through QIP route to the tune of Rs.350 crs. Higher capital adequacy is mainly because of growth from gold loans, which carry zero risk weight.

For FY 22 we have earned an insurance income of Rs.21 crs against Rs.16 crs in FY 21. Apart from Life Insurance Corporation of India, we have identified 6 more partners for doing the bancassurance business. After the tie-up, we could see an increased contribution from insurance income from the current year FY 2022-23.

During the last quarter we had opened 23 branches taking the total number of branches to 727. We are planning to open another 50 to 75 branches across different states in India for the current financial year.

The operating profit for Q4' 22 was at Rs.440 crs compared to Rs.299 crs corresponding period last year. For FY 22 it stood at Rs. 1,595 crs against Rs. 1,468 crs in FY 21.

The Total provision made during Q4 '22 was Rs.231 crs against Rs.188 crs in Q4 '21. For FY 22 it was Rs. 835 crs as against Rs. 875 crs in FY 21.

The net profit for Q4 '22 and FY 22 was at Rs.209 crs and Rs. 760 crs against Rs.111 crs & Rs. 593 crs during Q4 '21 & FY 21. For the first time in our history we crossed Rs.200 crs PAT in a quarter. If Covid had not struck, this should have been the profit we could have made in FY 20.

The Net Interest Margin stood at 4.01% in Q4 '22 compared to 3.72% in Q4 '21. The NIM for FY 22 stood at 3.98% and it should stay around current level plus or minus 10 – 20 basis points.

With the contribution from improved recovery management coupled with reduced slippages, we hope that we will achieve 1.50% of ROA soon as we have been stating in our earlier concalls.

On the SR front, of the outstanding of Rs.143 crs as at 31.03.2021, we have received a payment of Rs.54 crs in FY 21-22 and the outstanding SR for 31.03.2022 stood at Rs.92 crs. We hold a provision of Rs.64 Crs for the same. At peak level, we had SR to the tune of Rs.375 crs on Mar 2015 and we recovered about Rs.205+ crs from it.

During last concall, we had discussed in detail about the latest digital initiatives like Neo Banking/ Open Banking, introduction of contactless payment solutions through wearable by way of CUB Easy Pay - CUB Key Chain Debit Card and CUBFit Watch Debit Card and also offering Application Programming Interface (API) Banking by partnering with IBM.

We have also launched F-Ex retail platform for customers so that they can finalize the buying/selling rates themselves. Apart from that, the submission of Import LC application is enabled through net banking so that the time needed for typing and submitting the LC document to branch is saved for our customers.

'Credit card' is one missing product in our offering. We tied up with SBI cards for giving 'co-branding cards' to our customers. Unsecured credit had not been our core strength in the past. We feel it is time to launch our own credit card. The general consensus is that ratio between debit cards and credit cards issued by the bank is 3:1 or so. We currently have 26 lakhs debit cards meaning that our customers should have around 9 lakh credit cards. You might have observed some of our peer banks have tied up with a company for giving cards.

Meanwhile, we received a proposal from a company called '42CS' lead by Mr G.G. Srinivas and team which had managed credit cards for multiple Banks in India and other markets in the past, mentored by Mr.P.R. Seshadri, former MD, Karur Vysya Bank. They will be the Third party service provider (TSP) for the bank in providing technology and operational services on profit sharing basis. We will start slowly and steadily covering our existing customers. Final nitty gritties are being worked out. Soon we will be linking the wearables with the credit card as well so that the customers will be keen in using it more by availing all the benefits through the credit card.

I want to re-emphasis, there is no change in our risk appetite and we will be extremely careful in building this business.

As suggested in the earlier calls, we are striving our best to be on par with the best in terms of our digital initiatives and you might have seen us being the 'pioneer' in many digital initiatives like Robotics or Wearables. You can be rest assured that we will do everything to be on par with the best. We not making big fuss do not mean that we are outdated in 'Digital'.

So I just want to make sure that we are at par with the best and we are continuously working on that so no need to worry about that and we are continuously demonstrating that we are trying to be on par with the best on this and whatever latest we are continuously evaluating and whatever changes we are ensuring that we also one of the leading banks in terms of the digital initiatives.

I have explained about that in detail in the past and that is why I am not getting into the details now. To sum up our financial year 2022-2023, the COVID is behind us and hope uncertainties are the Ukraine war will not last indefinitely blocking the positive outlook whatever we are seeing now. The credit growth for the financial year 2022-2023 should be lower to middle double digit. The expected overall slippages for the current year should be in the range of 2% to 2.5%, which should be getting back to the pre-COVID level. I am talking about the annualized slippage. The slippages should come down from the current level, which is 3% plus annualized and should improve from the current year resulting in the gross and net NPA significantly reducing by the year end.

The net interest margin to stay around the current level maybe plus or minus 10 to 20 basis points as discussed. We are working toward reaching the pre-COVID ROA level of 1.5% plus as quick as possible. The cost to income ratio should hover between 42% and 45% because of the absence of the treasury income and we have consistently ensured all the efficiency and profitability parameters are intact. The COVID impact was over and the entire episode is now behind us, so hopefully going forward on growth front, on efficiency and the profitability parameters, asset quality and all things should be pretty good. As I explained even SMA 2 numbers whatever we are seeing are very substantially lower than whatever we saw during the pre-COVID phase, which includes ECLGS restructured and other regular advances.

So, overall things are looking good, the only uncertainty is the economic impact because of the Ukraine war, the way it has impacted the oil prices or the changes in the policies of export of commodities cotton or steel whatever things that are happening, but we hope all those things will not extend indefinitely and the year should be good as we move forward. With these opening remarks, I open the floor for questions. Over to you all!

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Good morning, Sir and thanks for the opportunity. Sir, with treasury income what was the comment that you mentioned for Q4 income rate as per presentation that 50 Crores profit and 15% year-on-year growth?

N. Kamakodi: See, the point what we are trying to say is that from the domestic treasury income will not be available. Whatever the income of 50 Crores which is booked is coming from the integrated treasury when we take money from here and invest in the overseas deposits along with arbitrage opportunities through the forward contracts, so going forward whatever profitability we had in the domestic treasury we will not be having. The point what we are trying to say is, if you take the financial year 2020-2021, on securities trading from the domestic treasury we had 78 Crores in the first quarter, 51 Crores in the second quarter, 103 Crores in the third and only 12 lakhs in the fourth quarter overall we had 233 Crores from the securities trading against to that in first quarter current year we had 49.66 Crores, 10.95, but in the Q3 and Q4 only 1.38 Crores and 11 lakhs, so overall profit from the domestic treasury is only 62 Crores against 233 Crores whatever we had in the last year so this is the opportunity from the domestic treasury is declining.

Rohan Mandora: Fair, Sir and you had any quantification on what would be our MTM gains or losses which are unbooked as of the yields right now?

N. Kamakodi: Like I said, up to March 31, 2022 it is booked, post March 31, 2022; it is still in the single digits. Nothing much to be worried about.

Rohan Mandora: Sir, second question was around with the raw material inflation that we are seeing recently, are there any profit for the portfolio, which would see an adverse impact on asset quality and also if you can comment on the cotton/textile portfolio because the cotton prices have increased and there were some strikes in Tamil Nadu against that?

N. Kamakodi: It was a short-time strike, so these sort of thing they happen, the only thing what we have to continuously ensure is that they would not build a huge stock at high cost and they get into the mark to market clauses. So far we have not come across any situation currently during the last six weeks or so because of the erratic movement in the raw material cost both in steel and cotton.

Rohan Mandora: Sure, Sir and lastly there is a sharp increase in the borrowing in second half to almost total of incremental funds have come from borrowing and currently on your commentary you indicated that deposit you are not taking differential that we do not pass in investment, could you explain why the increase in borrowing?

N. Kamakodi: We had some opportunities in getting refinancing from the financial institutes at lower interest rate and we had opportunities to make arbitrage through the forex market in the integrated treasury. That increase explains you that 50 Crores whatever that is being made, so that opportunity was utilized and when you get the fixed term refinancing facilities you do not have the headaches of SLR and CRR and whenever we see that sort of arbitrage opportunities we had utilized those opportunities.

Rohan Mandora: Sure, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Prashant Kumar with Sunidhi Securities and Finance. Please go ahead.

Prashant Kumar: Thanks for the opportunity, Sir and congratulations for the good set of numbers and especially on the opex side, the bank has performed in very controlled manner. What is the status of the migration to CTC basis remuneration structure and also the number of branches have increased by around 25, but at the same time in last one year, the employee number of head counts have decrease by around 500, so if you could give some colour on this?

N. Kamakodi: Yes, as I explained during the earlier conference call, the CTC remuneration is starting only from the July 2023, so we are about one year away from that transformation and basically as I told during the COVID the digitation and utilization of alternate channel increased many fold. During pre-COVID time we had about 12% of our transactions going through the branch channel and suddenly they got reduced to 4% to 5%. The internal operation load came down one-third are so, and we conducted the time and motion study and found out surpluses are there and we ensure that whenever the attrition happens we did not refill, we identified about 700 to 800 such positions, so we did not go for campus interview for one year, we reduced our fresh intake in last financial year. But this year we will be back, but whatever cost advantage we have received to greater extent they will be continuing.

Prashant Kumar: I am just continuing on the same, are you going to hire in new digital era that already has been started, so are you going to hire on that new generation and on sale side actually?

N. Kamakodi: We had on all sorts of specialists. Last year we had one senior level person who joined from IBM to be the part of our systems technology. Basically the thing is like almost for the last five, six years bulk of our recruitment are through campus interviews and particularly from the tier 2, tier 3 management institutes from the mofussil areas who are reasonably skilled in the modern level digital initiatives, tech savvy people. So we had aligned this sort of requirement and skill sets over a period of decades and that is why we were able to achieve whatever progress on digital and alternate channel front whatever we have done and we are conscious of this and doing the fixed rate on a continuous basis.

Prashant Kumar: One other question on the provisioning front, are you going to improve further on PCR ratio considering restructure book and other regular book like?

N. Kamakodi: See, the answer is yes and no, on one side we have already said we have identified one account even before it becomes NPA, we are building the condition provision , on the other side about the other regular book as I have been repeating for many years, our recovery rate is about 60% to 70%, so we are comfortable, I mean I am talking this number taking into account the technically written off book also, so we are comfortable, we feel 40% provision coverage ratio will cover the entire losses and 60% plus whatever we have is more than enough. We went only when it came as an RBI dictum otherwise we are comfortable with 60% to 70% debt as we have done in the past and we do not have any specific thing because we do not feel any need for that.

Prashant Kumar: Thank you, Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Mona Khetan with Dolat Capital. Please go ahead.

Mona Khetan: There has been some reclassification that some quarter book has booked to SME, correct, so what is the average ticket size booked that has moved from quarter two SME?

N. Kamakodi: It is basically based on your earlier RBI circular where the definition of micro, small, medium were aligned with the SME act. So turnover and the fixed assets were taken into account in the earlier classification. The grey area would be in the range of turnover of 20 Crores, those accounts will migrate because earlier the classification was based on the fixed assets and now the changes became through the turnover and as per the MSME act, so the overlapping portion will be in that range.

Mona Khetan: Okay and what would the range of the ticket size for these accounts that have moved, if you could give me a broad sense?

N. Kamakodi: If the account is 20 Crores turnover they should be having 3 Crores to 4 Crores of cash credit or maybe 5 Crores to 6 Crores of exposure or whatever.

Mona Khetan: Got it, so which were earlier?

N. Kamakodi: See, you cannot give an exact number for this because it is the total change of definition, some account they may be fulfilling the criteria of fixed assets, but taking higher exposure or lower exposure, so the definition itself changes, but you can broadly take this as a broader number, but you cannot have this as an apple to apple basis.

Mona Khetan: Got it and what was the earlier classification for MSME, was it based on ticket or was it still based on turnover, but that has changed because of RBI?

N. Kamakodi: Yes, earlier it was investment in plant and machinery, so there was difference between the RBI definition and the MSME acts definition, they have now aligned, I do not have the exact numbers with me, you can very well check up with the circulars in the public domain.

Mona Khetan: Sure, I got it, secondly, how is the pricing environment in the MSME segment because while we saw from traction in the growth size for SME this quarter, can we get yield on advances, it continues to remain suboptimal versus the own, so earlier one of the reason you have cited was that because growth is coming from agri gold loans that is impacting the business despite traction here you are seeing, how is the pricing environment?

N. Kamakodi: See, even now one-third of the incremental advances in the fourth quarter is from the gold loan, which is below the average yield size, so we were going in the decreasing interest rate scenario and that is why the 30 to 40 basis point reduction in the yield has happened through the cycle, so the interest rate will start moving upwards with some lag so maybe one or two quarters this amount of the interest rate movement will go south wards before it actually goes north wards. In fact I told you that we are contemplating increasing the yield for the existing portfolio both on deposits and advances from the current level, the pass on is that whenever the increasing interest rate scenario happens the yields for the asset side corrects quickly and yield on the cost side for deposits it go through particularly on the return deposit it has a lag effect, so with that context we should be looking into the cost and yield at this point of time.

Mona Khetan: But at your end you are not seeing any irrationality in the pricing environment?

N. Kamakodi: I wound not say that there is no pricing pressure, there is some pricing pressure, but not to the extent that it is being asked by many of your peers as if big thing is happening and it is crushing things. These 15 to 20 basis points per quarter changes is passed in tune with the interest rate cycle movement. Those pressures we are always seeing and I would rather say that this time whatever pressure we are seeing it is even lower than the pressures what I have seen in the earlier interest rate cycles.

Mona Khetan: Got it and just finally, what would be the share of ECLR linked loans in your book?

N. Kamakodi: I understand it is 70%.

Mona Khetan: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Nikhil Agarwal from VT Capital. Please go ahead.

Nikhil Agarwal: Good evening, Sir. Thank you for taking my question. First of all congratulations on a very good set of numbers, so my first question is that with such good recoveries and reduction in slippage and write offs, so what would explain the huge increase in the incremental provision for bad debts?

N. Kamakodi: So, I explained about the contingency provision which we have already made 85 Crores, which is the one of the incremental things which we have taken.

Nikhil Agarwal: For the non-fund assets again the 115 Crores that we have seen in this quarter?

N. Kamakodi: Yes, that is what I explained to you, basically I have to also keep into account the reduction of net NPA percentage, so having the recovery more than the slippages and also the incremental provisioning only slowly and steadily brings down your net NPA percentage, the net NPA percentages came down by 20 to 30 basis point because of that, 50 basis point because of incremental provision.

Nikhil Agarwal: Thank you and another question is, with regards to the new accounting seen that is not including the recoveries from technically written off accounts in the income line and the provision line, when are we planning on implementing that within the next quarter?

N. Kamakodi: Which one?

Nikhil Agarwal: Sir, the accounting you said that is not taking the recoveries from technically written off accounts into our income line?

N. Kamakodi: No, income from the technically written off account, there is no change because it is not in your calendar year.

Nikhil Agarwal: Any classification?

N. Kamakodi: No, the live recovery will change, which we are already incorporated. See the technically written off account the old accounting continues even as per the latest RBI guideline, for live NPA account only we have already incorporated that.

Nikhil Agarwal: And with regard to investment depreciation will it continue to be seen in other income?

N. Kamakodi: The investment depreciation also it is as per the existing guideline only.

Nikhil Agarwal: From the ECLGS number that you have mentioned 14366 Crores, how much of that has already been classified as NPA?

N. Kamakodi: See, the 14000 number whatever you are seeing is the total exposure of all accounts who have taken ECLGS, the ECLGS portion per se is only 2000 Crores odd and total NPA even that is there in the disclosure, NPA that has happened, if you ask the specific number I have to check out.

Nikhil Agarwal:

Nikhil Agarwal: Sir, with regard to the increase in rates that increases that we are looking at that we are anticipating in the loan book as well as deposits, is there any quantifiable impact that we can anticipate right now for the coming quarters?

N. Kamakodi: See, I will give you the pattern whatever we have seen in the earlier interest rate cycles, so whenever we increased by X basis points, you will be in a position to see in the next full quarter about 50% to 60% percentage of that X percentage increase getting transmitted into the system, on liability side. For term deposit side, it normally takes one full year to see the entire impact of the cost.

Nikhil Agarwal: Alright, Sir, one last question with regard to the unsecured lending and credit cards, so till now we have not focused on unsecured lending per se, but going forward what proportion of a portfolio would we be looking at in terms of unsecured lending and is there any timeline in place for the credit cards tie-up that can take place. When can that happen?

N. Kamakodi: See, basically as I told you we are not changing our risk appetite or whatever it is, even I mentioned about few of our peers who have gone with other companies, the credit risk is basically taken by these providers and they give the bank guarantees or deposits to the tune of X percentage of the portfolio or whatever it is and revenue is shared under that proportion takes care of this share in the bad debt. Theoretically speaking with the final risk we are taking the company alone comes into, we are not getting into the unsecured lending at all directly. At this point of time we are not anticipating any major change in the risk appetite or whatever it is, probably some clarity will emerge when I discuss with you the first quarter results.

Nikhil Agarwal: Sure Sir and credit cards, is there any timeline in place as to whether we can see that happening?

N. Kamakodi: Before our first quarter results.

Nikhil Agarwal: Thank you, Sir. Best of luck for future quarters.

Moderator: Thank you. The next question is from the line of Renish Bhuva with ICICI Securities. Please go ahead.

Renish Bhuva: Sir, congrats on a great set of numbers. Sir, two strategic questions related to Q4 results. In terms of this cross sell and up sell, I mean since we are almost 100 year old institution and almost 80% sort of sole customer base, so where do we stand in terms of cross selling and up selling to the existing customer base?

N. Kamakodi: Honestly speaking though the results are not to the full potential. Things have already started and we have infused these things over a period of time. The convergence will happen after the migration to the CTC basis, as I told you, I also discussed about my numbers in the LIC business, we are one of the reasonably top players from the LIC's point of view in terms of the bank assurance partnership, and we have already finalized the tie-ups with the few couple of other life insurance companies and we expect the further initiatives on that insurance, just to continue we have started this cross selling few years back. Similarly on the investment side, we have made tie-ups online and we have communicated for the sale of mutual funds and things like that . Basically all these things will culminate and this basic DNA level changes, which will not happen overnight, but once the CTC thing comes over a period of time, the way the system things and all will also undergo a change and it is a process we are on that. At the same time, I am also very clear that the cross selling and up selling things may not impact your ROA more than 10 basis points. Overall the importance given by the system on that is disproportional to the contribution to ROA, so we hold that, but at the same time whatever that is incremental thing we are okay with that and we are making those changes on a continuous basis.

Renish Bhuva: Got it, and just a followup on that, maybe this journey of cross selling, do you foresee we may to breakup the management team who can lead this journey, also do you foresee any incremental investment to setup or let us say whatever technological gaps we have if any?

N. Kamakodi: Those things are already happening, we have recruited at a middle management level and the broader head level people from the new generation banks, which have experience on all these things, those things are already in place and investment in technology is also happening on a continuous basis and the results have started coming and even though it is at suboptimal level, we are seeing growth over there, and optimum utilization will start and it will improve as we move forward.

Renish Bhuva: Got it, Sir. This is very helpful. Just a last question from my side on the product bucket we have so of course we talk about the credit card product, but is there any product gets where you feel we might need to get into over the next 6 to 12 months?

N. Kamakodi: See the timeline I cannot immediately say, once this things settle probably the concept of wealth management will also be forming the part of thing, but on technology front the requirement of the customer front, we are continuously evaluating what are all the services given by the other new generation banks, any new products or services, which is given by other banks we are taking steps to get into our fold as quick as possible. So from the customer side they will not feel any gap or whatever it is, say for example, I spoke about the forex thing or LC opening we had offered. When we learn that new things are getting offered and whatever other players give that we should catch up those gaps for all which we are continuously doing.

Renish Bhuva: Right, Sir. That is very much appreciated. Thank you so much for detailed answer and best of luck.

Moderator: Thank you. The next question is from the line of Jai Mundhra with B&K Securities. Please go ahead.

Jai Mundhra: Sir, congratulations and thanks fort opportunity. First, on your loan growth in your opening remarks you had mentioned low to middle, double digit kind of a growth, if you can bifurcate between gold loan and non-gold loan, I mean do you think gold loan, which has grown by around this year by around 35% plus, would this continue or this should moderate?

N. Kamakodi: See, we are happy with getting our profitability from any business line wherever the opportunities available, the proportion of non-gold loan will increase going forward, it is not something like that I start immediately pushing things so that tomorrow onwards I am changing the direction. We never do such things whenever we take a path, so we will continue with the gold loan growth, we will look into the opportunities, we will look into other risk parameters, gold price and all such things, simultaneously we will for the non-gold loan business. We have already started slowly pushing for the growth, the alignment will take a few months, once that alignment comes the entire reorientation will start and the growth from the regular loans will start picking up, we have already started seeing that in the fourth quarter. Normally the first quarter will have all sort of transfer etc and is little bit slow; things will once again start from the second quarter. The gold loan should not be having any impact because of the sort of abrasions and all, so we will see how things move forward, I can only directionally say that the proportion of non-gold loan growth in the overall credit growth in the financial year 2022-2023 will be more than whatever we saw in the financial year 2021-2022.

Jai Mundhra: That point is well taken, when I look at growth for this year, if I exclude gold loan growth right, then the non-gold loan portfolio has actually grown at around 5% whereas the total growth is 11% and in the last one or two quarters you have been indicating that gold is slightly opportunistic?

N. Kamakodi: Yes, in fact I have also told when I spoke today, the growth from the non-gold loan is almost two-third in the fourth quarter and growth from the gold loan is only one-third that is also I spoke, so I do not want to restrict myself to gold loan or non-gold loan, I am keeping all the options open. What I am again and again saying is that going forward I am seeing incremental opportunity in the non-gold loan compared to whatever I saw in the earlier couple of years, as in the earlier couple of years I was not very comfortable, I have taken my legs off the growth pedal. As we are out of that COVID mind set or whatever it is, depending upon the opportunities and depending upon the potential as we see, we will be growing and the opportunities on non-gold loan looks higher compared to whatever we have seen in the past that is where I want to stop, more than how much it happens, quantitatively all this happens we have to wait and see.

Jai Mundhra: Right and secondly, Sir, on the growth again, so you mentioned ECLGS borrower loans is around 14300 Crores roughly, now a lot of these people would have got accelerated disbursement and do you think that there could be more than normal repayment in this portfolio, so what do you think could be the behavior of this borrowers, would they accelerate repayment or would you be having similar growth outcomes in this book?

N. Kamakodi: As I told you almost 80% of the people here have started their repayment of their due date which have shown there, so it will be there, no doubt about it, let us say, whenever I project a growth rate of low to mid double digit I have taken this also into my consideration before giving you.

Jai Mundhra: No, your number is fairly okay, I wanted to understand from a system level also, this set of borrowers should see lower than normal growth right, because they would have some accelerated repayment?

N. Kamakodi: Yes, I have taken that into my account when I said our growth rate will be low to mid double digit.

Jai Mundhra: Sure, understood, Sir. Secondly, Sir, on your liability strategy so complements to you it looks like CASA growth has been very strong and much stronger than your previous trends, a term deposit have been very, very contained, so just wanted to check, what did we do differently in the last let us say one or two years to drive this CASA growth?

N. Kamakodi: To answer your questions more honestly and upfront the percentage CASA increase is more than the actual growth rate in the CASA, the important reason is our pricing strategy on containing the term deposit growth, so we make some calculations on the expectations of the asset growth and then we start our liability, this is the way we work at it, so we ensured that we repaid some bulk deposits and all such things and we ensured that the rates are at a level that there would not be any negative growth at the same time there is not extra positive growth, which will make us to once again invest in the government securities and lose on mark to market and things like that, so it was a tight rope strategy, which we normally run.

Jai Mundhra: Understood and last thing, on your restructured book how many of those loans are also out of moratorium and they started repaying, you said about ECLGS?

N. Kamakodi: Out of restructured portfolio of 2184 Crores about 1308 Crores have already started the repayment that is 60% of the loan book has already started their regular repayment and for the remaining 876 Crores about half of that about 59% or 517 Crores their regular repayment has not started, I mean the due has not started, have already made monthly repayments in advance before the commencement of their due date for more than three months and this 24% of that 876 Crores for which the due date for repayment has not yet started, they have already paid advance installment to the tune of one or two month which means only 149 Crores or 17% of the restructured portfolio currently are effectively still availing the moratorium. In the overall restructured book both where repayment has started, the SMA 1 and SMA 2 portion is 249 Crores and 138 Crores respectively.

Jai Mundhra: Very helpful, Sir. Those were my questions. Thank you and all the best.

Moderator: Thank you. The last question is from the line of Darpin Shah with Haitong Securities. Please go ahead.

Darpin Shah: Thanks, Sir. Couple of questions from my end, first again on growth, over the course of the call a few times you have mentioned that we are back to pre-COVID levels on various things, so why still we are talking about double digit kind of a growth, we have already done that in FY2022?

N. Kamakodi: See, the point is that the things are improving so we hope the current year will be definitely better than the last year in terms of the growth. Some uncertainties because of the Ukraine war are also there, keeping everything into account definitely we are now accelerating, this is what we expect, if they help us we may not restrict our growth to low to mid double digit, if things are becoming conducive in the thing we will try to take it further, so we are keeping all the options open and the positive mindset we are able to see, so we hope we will be improving from wherever we are in last financial year and move forward.

Darpin Shah: Roughly around how much did you do the provisions 40 Crores out of that 10 Crores was marked towards the airline exposure so that 30 Crores of additional cost will still be revenue, we have not utilized anything in the quarter?

N. Kamakodi: No, we have not utilized, , 40 Crores in the last quarter and 45 Crores in the current quarter we have got only 15 not provided and that too even before account actually becoming bad.

Darpin Shah: So, that was clear, but I was asking about additional 30 Crores which we had in terms of…?

N. Kamakodi: They just stay there.

Darpin Shah: Thanks a lot, Sir. All the best.

N. Kamakodi: If anybody else in the queue, you can take. We need now cut at the point of time, anybody still in the queue?

Moderator: No Sir, no one in the queue. We do not have anyone interest question queue, Sir.

Darpin Shah: Okay, go ahead.

Moderator: So, as there are no questions, I now hand the conference over to the management.

N. Kamakodi: Thank you Ambit team and Ajit and to everyone who made this conference call possible and thank you all the analysts and investor who are participating in this thing. I just want to reiterate that almost all the stigma of COVID is virtually behind us, things are turning positive and we are looking for further things from over there and hopefully the things also support the economy. Overall we are positive about what we will be achieving in the financial year 2022-2023, hopefully, as in the past we were able to fulfill all the expectations whatever we shared with you. Even in the current year we expect that we should be in a position by god's grace fulfilling whatever things we have been sharing with you all. Once again if you have any doubts or any data points and all you can take a call to Mr. Jayaraman whose number is there in the presentation, thank you all and hopefully we should be having better financial years giving a better ratios. Thank you all.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.