"City Union Bank 3QFY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the 3QFY2022 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. Welcome to 3QFY2022 earnings call of City Union Bank. On this call, we have Dr. N. Kamakodi, MD & CEO of the Bank and Mr. V. Ramesh the CFO, so without further delay hand over to N. Kamakodi Sir for his opening remarks and then we will move to Q&A. Over to you Sir!

N. Kamakodi: Good evening everyone. Hearty welcome to all of you for this conference call to discuss financial results of CUB for the Q3 FY22 and 9M FY22. The board had approved unaudited results today and hopes you all have the copies of the results and the presentation. I trust you all are safe and hopefully all of us are out of the COVID wave. We shared with you all the following expectations for financial year FY2021 and financial year FY2022.

During our Q4 financial year FY2021 call on May 28, 2021 and subsequent calls for Q1 and Q2 we said that the credit growth to be at mid to high single digit for the financial year FY2021-FY2022. If the economic environment and the COVID second wave get better and if the COVID second wave behaves like last year we are on track with our expectations and achievement. We have achieved a credit growth of 5% and we may end the year with a slightly higher growth rate. We also said that overall slippage to closing advances to be slightly below that of financial year FY20-21 for the financial year FY2022.

The slippages may be more front loaded with increased slippage in the Q1 and Q2 of FY2020-FY2022. Gross net NPA for the financial year FY2022 will be lower than the closing figure for financial year FY2021 with probably few quarterly spikes. The results show we are exactly on track except the fact that the RBI circular on November 12, 2021 on NPA classification slightly altered our equation, which I will explain later, but yet we are almost on track with maybe some minor aberration. We said that recoveries to be impacted because of the lockdown and nonfunctioning of government registration departments, codes or more sympathetic towards defaulter more than the banks and things like that.

Things have improved in the current quarter and Q3 recovery is the highest in the history of the bank. The present situation is much better than the year beginning and we could see improvement in the recovery also. We also said that ROA to reach the level of 1.5%

towards the second half of the next financial year FY2022-FY2023. We are on track to achieve whatever we communicated to you and it could even improve from there which will be clear as we move forward.

Also during the last few concalls from December 2019 we have been repeatedly saying that we have not preferred to push for growth due to unfavorable economic conditions and we will push the growth pedal only when we see clear visibility on the general economic situation. Until then, the bank will concentrate only on gold loan, ECLGS and other zero risk weighted assets. We had also said that we will slowly and steadily move in double digit credit growth in the next financial year once the things improve. Despite the second COVID wave and the omicron threat in the form of COVID third wave, the performance during the period was in tune with our expectations whatever we shared with you all and also getting better and better.

The highlights of the financial performance of Q3 financial year FY2022 and nine months financial year FY2022 are as follows. The highlights of financial performance for Q3 FY 22 / 9 M FY 2022 are as follows:

Deposits recorded a growth of 8% from Rs. 43,288 crs to Rs. 46,722 crs

Credit grew by 5% from Rs. 36,504 crs to Rs. 38,387 crs

Thus, Business grew by 7% and presently stands at Rs. 85,109 crs.

CASA recorded growth of 17% to Rs.13,918 crs from Rs.11,898 crs and CASA% to deposits improved to 30% in Q3 FY 22 against 27% in Q3 FY 21.

Net profit improved by 15% and 14% for Q3 FY 2022 and 9M FY2022 and in absolute terms the same stands at Rs.196 crs as against Rs.551 crs against Rs. 170 crs & Rs. 482 crs in Q3FY21 and 9M FY 21.

ROA stands improved to 1.36% in Q3 FY 2022 as against 1.29% in Q3 FY 2021

NIM at 4.00% for Q3 FY 2022 as against 4.16% for Q3 FY 21

Gross NPA is at 5.21% & Net NPA stood at 3.44% both sequentially has started showing reductions. and hopefully the pace of reduction should increase as we move into the future.

The progress made so far is slightly even better than what we had expected earlier and shared with you all. The credit growth between December 2021 and December 2020 was at 5% and we expect that there will be an improvement on Q4 to Q4.

It could be a minor improvement, but there could be some improvement definitely. So far we were growing only through gold loan and ECLGS loan as we are not having confidence on the general economy. Presently the current general economic situation is giving us confidence to start growth and we are starting to push the growth pedal slowly and we believe that we should be having high single digit growth slightly more than a 5% for financial year FY2021-FY2022 and it will improve to a low double digit growth for the next financial year as we shared with you all during the year beginning so overall whatever reservations we had have come down to a greater extent not only from the macroeconomic indicators, which are getting published, but also through the SMA figures and other anecdotal evidences from our discussions with the customer base is giving us enough confidence that we can start slowly pushing the growth pedal.

After the last concall we had on November 12, 2021, the same evening RBI issued a circular on IRAC norms with respect to upgradation of NPAs, which resulted in additional slippage of Rs.50 Crores to Rs.60 Crores over the level we had expected for Q3 financial year FY2022. We have been following an upgradation policy where if an NPA account pays money and overdue reduces less than 90 days on any day it could be upgraded as a standard account. The November 12, 2021 RBI circular said that the upgradation should happen only if the overdue is zero. So now we are in full compliance with the RBI circular for which we have to face extra slippage of Rs.50 Crores to Rs.60 Crores addition to NPA in this quarter. Spillover effect could be there for one or two more quarters, but it will be very minor. The slippages during Q1, Q2, and Q3 financial year FY2022 are Rs.482 Crores, Rs.297 Crores and Rs.275 Crores respectively.

The slippages during Q3 financial year FY2022 is shade better than Q2 financial year FY2022 despite giving effect to the revised RBI circular on IRAC norms. The slippages will come down significantly starting from the next financial year, which will be inclusive of all slippages from regular accounts, restructured account and ECLGS portfolio, etc., reaching to a level where the recoveries should be more than the slippages and we will share the exact expectations during the Q4 financial year FY2022 results.

In Q3 itself the total recoveries were Rs.228 Crores against a slippage of Rs.275 Crores where the gap between the recoveries and slippage is only Rs.47 Crores so this gap should go on improving and probably we could even see negative territory as we enter into the future.

Our bank has a cash credit exposure of Rs.100 Crores over the SpiceJet Airlines, which was sanctioned in the financial year FY2014-15 based on the long standing customer relationship with then promoter Sun TV Group, which was collaterally secured by a fixed deposit in the name of the promoter. In March 2015, the Enforcement Directorate provisionally attached the fixed deposits. The trial court ruled against the Enforcement Directorate attachment, but the ED preferred to appeal in the High Court. Meanwhile it is reported in the media that there are court cases going on asking for liquidation of SpiceJet. As the account operations were not satisfactory, we have decided to recall the advances given to SpiceJet. If the SpiceJet does not close the account, it may have to be classified as NPA and the provisions need to be made till the final judgment on ED is received.

We have provided Rs.30 Crores in this quarter for that purpose. As the provision requirement for the COVID related stress is by and large over, we have earmarked about Rs.10 Crores provisions form the earlier made COVID provisions which could be utilized for this making total provision available for this as Rs.40 Crores and we should be able to make adequate provisions if needed in the subsequent two to three quarters. Meanwhile SpiceJet had paid interest and dues on CC till January 31, 2022.

The overall outstanding balance of borrowers who availed the ECLGS on December 31, 2021 is Rs.13,674 and SMA1 and the SMA2 portion was Rs.151 Crores and Rs.245 Crores respectively. For the same on September 30, 2021 was Rs.339 Crores and Rs.235 Crores respectively. The percentage SMA1 and SMA2 to ECLGS portfolio got reduced from Rs.2.94 Crores in Q3 financial year FY2022 from 4.67% in Q2 financial year FY2022.

Remember all these accounts are continuing to repay the regular term loan installments and there is no moratorium given so you have to consider them as like say accounts which are paying regular installments and this SMA position gives you the true opinion about the status of the account in terms of the overdues and arrears. For the overall SMA and the SMA2 position currently is only 2.94% percentage for this ECLGS portfolio, which is not much, compared to whatever we had seen in the past.

As on December 31, 2021 about 3179 accounts amounting to Rs.2205 Crores remains as restructured category out of which an amount of Rs.661 Crores constituting 30% of the restructured book where the repayment has already started and for remaining Rs.1545 Crores the demand for repayments as per schedule is yet to commence. However, for those accounts where the repayment demand has not started or otherwise still in moratorium period about 70% percentage of those accounts have already started repaying their monthly installments, paying more than three months even before the start of the repayment demand leaving only 30% of that or otherwise about Rs.500 Crores have made repayment for less than 3 months of which only Rs.252 Crores are yet to start the repayment and availing moratorium.

Except these Rs.252 Crores, all other restructured portfolio have already paid one installment or more to us and even in that most of them have already made minimum three installments or more already. The outstanding portion of SMA2 in this category is only Rs.187 Crores and these figures give us enough confidence or at least give a fair idea of current level of stress, which are very much under control, which gives us enough confidence to say that the incremental slippage ratio and incremental slippage will come down while recoveries will increase and overall we will be getting into recovery over the slippages as we enter into the future quarters.

We have discussed many times about the SMA2 numbers which used to be in the range of 5% to 7% in the pre-COVID days, which was reduced to 3.04% in Q1 of financial year FY2022 and it is further decreased to about 2.59% percentage in Q2 financial year FY2022. The current SMA2 number for Q3 financial year FY2022 stood at 1.99% and even SMA1 numbers reduced to 1.9% in Q3 financial year FY2022 from 2.79% in Q2 financial year FY2022.

Overall, improvement in the economy as well as constant follow-up and the monitoring efforts, which we took in the pandemic period has in fact resulted in a reduction of SMA numbers and also the accounts, which were having problems earlier whether they have already some of them have turned into NPA and some of them have sold their properties, reduced their outstanding. To sum up overall SMA numbers are much better compared to even a pre-COVID time.

In the earlier quarters, we discussed about the delay in legal recovery processes and how defaulters got sympathy from the legal system, but now things are showing improvement as I told earlier with the legal proceedings are coming back to the normalcy. The numbers we saw in the Q3 financial year FY2022 and what we expect for Q4 under the current circumstances are very much in line or even slightly better than our earlier expectations we shared with you all during the earlier concall on the recovery front.

In Q3 financial year FY2022, we recorded a total recovery of Rs.228 Crores comprising of Rs.186 Crores from live accounts and Rs.42 Crores from technically written off accounts compared to Rs.189 Crores comprising of Rs.128 Crores from live accounts and Rs.61 Crores from technically written off accounts in Q2 financial year FY2022. The current quarter the recovery has been highest in the recent years, but still has to improve from there.

We expect this trend to continue in the next financial year as well. We expect that the slippages would decline and the recovery should improve and the improvement in the recovery coupled with the reduction in slippages will be a driving force for ROA improvement over the next couple of years.

During the Q3 financial year FY2022 we had a treasury profit of only Rs.1.38 Crores and in nine months period it was Rs.60 Crores as against Rs.93 Crores and Rs.203 Crores respectively in Q3 financial year FY2021 and nine months period financial year FY2021. This is one of the main reasons for not having sufficient growth at the operating profit front. We had already shared our expectations of lower treasury for profit during financial year FY2022 due to nonavailability of favorable yield movement. The yield has started increasing and we expect the trend to continue in the financial year FY2023 also. We expect the other income will sustain like last year’s only because of improved recoveries from the technically written off accounts.

The cost to income ratio for Q3 financial year FY2022 and the 9M FY2022 was at 43.13% and 41.41% respectively as against 36.73% and 39.45% in the corresponding period last year. The reduction in the treasury profit as well as increase in the operating expenses has resulted in the increase in the cost to income ratio, but the main contribution is from the reduction of treasury profits. This is more or less closer to our general guidance of 42% to 45%. This overall cost to income ratio income ratio will continue for the next financial year as well.

The capital adequacy of the bank stood at 19.39% for financial year Q3 financial year FY2022 versus 17.39% in the Q3 financial year FY2021 and the same would be about 21.16% if we add the nine months profit. Remember we have not infused any major capital through QIP or rights issue in the last seven years and the last time we have raised the funds was during July 2014 through QIP route to the tune of about Rs.350 Crores. We could tide over the COVID crisis without any issue of fresh equity through rights issue or QIP. The existing profitability itself was able to take care of that.

As such we are acting as a corporate agent for Life Insurance Corporation of India for cross selling of life insurance products and we have identified two more insurance companies for tie ups to boost the insurance income. For Q3 financial year FY2022 we have earned an insurance income of Rs.12.4 Crores in nine months financially at FY2022 against Rs.7.39 Crores in nine months financial year FY2021. We could see some positive improvements on other income as well.

During the year, we had opened only two branches and there could be another 23 branches before the end of the financial year so that we are planning to have 725 branches during the closure of the current financial year on March 31, 2022.

The pandemic has provided us an opportunity to look inward into our organizational structure. Even though from outside, it may look that the growth rate of the bank had been lower, we took many initiatives during the last two years to overhaul the organization and to make it future ready for the next phase of growth. The major initiatives we took can be broadly classified into three areas such as human resources, digitization initiatives, and customer management. The initiatives whatever we have taken will be having deeper impact in terms of both growth and also in terms of the risk management practices in the future.

On HR front, during the peak of the pandemic we entered into an agreement with our Officer Association and the Staff Union that we will be migrating to CTC basis remuneration structure starting from 2023 onwards to align with the HR practices of the new generation banks. Starting from that period even the annual increments will be based on the performance of the individual team members and not as per the time scale which have been the practice and which is also the current practice in many of the public sector bank and old generation bank. This transformation will make our HR policies more in sync with the new generation bank and this will completely change the approach of employees and will have deeper impact on their individual performance as we are moving from collective bargaining to individual performance based remuneration structure. Also we have conducted time and motion study which has provided, us an opportunity to identify the surplus resources and to channelize their utilization for better use.

On digitization front, we had implemented infrastructure for loan process automation and for offering Application Program Interface, API. The COVID period also has helped us to improve our digital transactions by 10%, which means that the transactions happening through the digital means stands at 96%. In other words, the manual transaction at the branch level has come down to 50% of what it was during the beginning of the pandemic, which is giving us surplus capacity within the system, which is getting now channelized for better purposes on both like say business development and better customer engagement and things like that, which could help to improve the productivity and revenue per person.

The human resources surplus capacity identified through the time and motion study as well as the surplus capacity created by the way of improved digital transaction were channelized properly to get in touch with our existing customers on more frequent basis to understand their credit health and needs or deepening the relationship with the third party like say sales, building effective customer relationships, closer and effective monitoring of borrower accounts, and better recovery process, which all positively will result in better credit portfolio and better customer management as we progress. This is the culmination of multiple levels of progress achieved over a decade of collaboration and negotiation with our office association and staff union. In a nutshell, we have made a strong foundation during this pandemic period on which our next decade of growth will be built upon.

Also I wish to inform you that we do not have any unprovided liability towards the family pension scheme like many other banks since we have defined the contribution towards the pension, which is managed by the Life Insurance Corporation of India.

We hope that we will achieve 1.5% ROA by the second half of 2022-2023 as we have been stating in the earlier concalls and in the past six to seven quarters whatever we assured you almost everything we were able to achieve at a pace we shared with you all so the progress had been extremely in tune with whatever expectations we shared with you all.

While the treasury income and the cost to income ratio provide moderate headwinds to ROA, we expect the reduction in the slippages and the effective recovery management will provide tailwind to achieve the desired level of 1.5% ROA in the second half of financial year FY2022-FY2023 as we committed earlier and also the increase in the growth will also be adding its own share like say to improve the ROA let us say beyond 1.5%.

The operating profit for Q3 financial year FY2022 was at Rs.370 Crores compared to Rs.448 Crores for the corresponding period last year. As we shared, there had been a reduction for about Rs.70 Crores to Rs.80 Crores from the profit opportunity from the sale booked on the treasury itself. So for nine months period, it was Rs.1155 Crores in financial year 2022 against Rs.1169 Crores for the nine months of the financial year FY2020-FY201.

The total provision made during the Q3 financial year FY2022 was Rs.174 Crores against Rs.279 Crores in Q3 financial year FY2021. For nine months period, it was Rs.604 Crores in financial year FY2022 against Rs.688 Crores in nine months financial year FY2021.

Net profit for Q3 financial year FY2022 and 9M FY22 was at Rs.196 Crores under Rs.551 Crores as against Rs.170 Crores and Rs.482 Crores for the corresponding period last year.

Net interest margin stood at 4% for Q3 financial year FY2022 compared to 4.16% on Q3 financial year FY2021. It cannot be a direct comparison because we had a standstill class during the same period last year. The net interest margin should be between 3.8% to like say 4.2% with midpoint at four for near future as discussed during the first quarter results concall.

On securitized receipts for NPA, the outstanding was at Rs.143 Crores on March 31, 2021. We had received a payment of Rs.25 Crores in H1 and Rs.6 Crores in Q3 making the outstanding on December 31, 2021 as Rs.112 Crores. We hold the provision of Rs.81 Crores as on December 31, 2021, which will be sufficient and even there could be a write back from these provisions as well.

During the last concall, we had provided a glimpse of our technological initiatives starting from the adoption of core banking implementation to internet banking and mobile banking era to introduction of robotics and multilingual Chatbot, automation of loan processing and things like that.

In continuation of our digital journey as the next step towards neo banking or open banking, we have launched two contactless payment solution through variables by the way of CUB EasyPay or CUB keychain debit card and the CUB fit watch debit card. We are the first bank in the country to offer these wearables, which could be used in almost all PoS machines. The customers can make payment smartly and conveniently without carrying their wallet or card anymore. Even the regulatory prescriptions allow payments up to Rs.5000 can be done by just tapping the wearable without even entering the PIN. Our existing customers as well as non-customers can easily apply for these products through City Union Bank all in one app in just three steps. The app is available both in Android and IOS platform. Through this launch, we are expecting a good amount of customer attraction. We are already seeing some improvement in that. It will add convenience to our existing customer base and it could be an incentive for the noncustomers also. I request all of you to make an attempt to get a firsthand experience. You can download install your app just by giving your Aadhaar number and then with that the selfie account will be opened. If you add money through UPI you can also directly apply for those products, which will be an interesting product to see.

We all have implemented new infrastructure for offering Application Programming Interface banking by partnering with IBM. This architecture pays way for more partnership with the Fintechs to improve our customer service further and also strengthen our digital journey be it digital lending or partnering with account aggregator framework or any service that are required can be done with ease. We are assured that this will help us in meeting the existing customer demands and also attract the prospective customers. APIs will definitely increase customer engagement and meet the customer needs in a secure and agile way, tie up for buy now pay later and a new launch of credit card also are made possible through this API platform. Integration is in progress.

Remember we are only keeping infrastructure ready and all our steps will be measured taking into consideration our risk appetite so we will not be in a hurry to push anything up, but we will always be ready for any future challenges or introduction of any new product that are coming in the market to be at par with the best in the industry. The customer on-boarding are also made easy through our video KYC for both the savings and current account opening. CUB is one of the pioneers in launching this in the year 2020.

Apart from meeting the customer needs, our internal processes are also digitized. The risk management is also improving because of this digitization. We have implemented robotic process automation for more efficient internal processing and implemented digital document management system. We have been seen considerable improvement in all our internal processes during this pandemic period, which is giving us considerable confidence and the considerable improvement in the efficiency of our operations.

To sum up, the performance of Q3 financial year FY2022 is slightly better than our earlier quarters and what we shared with you all. The slippages and the recovery are doing positive signs. The treasury income will continue to be on the lower side in tune with the yield movements. The gross and net NPA percentage has shown dip compared to Q2 and we expect that that will be on track to have lesser gross and net NPA percentage for March 31, 2022. Recoveries have improved and we have seen improvement in the last two quarters.

The impact of COVID is by and large behind us and we are preparing ourselves for the next phase of growth. Improvement in the market condition gives us confidence that we can push for growth and the results will reflect in the coming quarters. The last seven to eight quarters since the onset of COVID helped us to internally reorient ourselves for the next phase of growth. The changes in the HR policies, the digitization of processes, stressed account monitoring and management, etc., have undergone upgradation increasing the confidence to not only achieve ROI of 1.5%, but also increase our belief in increasing ROA beyond 1.5% also. So with these opening remarks, I open the forum for questions.

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 Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Thanks for taking up my question. Firstly, on the fee income. Despite a healthy growth we have seen this quarter at 3% the fee income levels declined both Q-o-Q and year on year so any color on that?

N. Kamakodi: That is why I said the other income decline is because of reduction in the treasury profit, which about Rs.90 Crores in the actual profit, which was booked in other income between your last year Q3 Vs this year Q3.

Mona Khetan: Referring to the core fee income, which is at Rs.72 Crores even that has declined?

N. Kamakodi: Basically on Q3 last year, we had Rs.219 Crores of other income, which compared to Rs.160 Crores now. In that like say all the other guarantee commission, fee collection, and locker rent all those things are by and large the same as the last year. Nothing major impact so if you give impact to this particular item in fact if you see the loan processing fee and all also let us say they stayed stable. Overall, other income stayed stable, which is normally in tune with your credit growth of 5%. This particular item had disproportionately pulled off that thing so when you have between Rs.160 Crores to Rs.212 Crores and Rs.60 Crores, about Rs.90 Crores is explained by the reduction in the treasury profit.

Mona Khetan: On the standard asset provision - apart from the general provisions and those made against restructured book, do we hold any other standard asset provisions ?

N. Kamakodi: You already have a regulatory prescription on standard asset provision and also provision for standard restructured accounts. There are regularly prescribed provisions, which we hold. Beyond that we had made the COVID provisions. In this quarter, we had made that additional Rs.30 Crores provision, which we have earmarked as COVID provision or we are mentally keeping it ready if at all any provisional requirement for Spice just comes.

Mona Khetan: So apart from the Rs.30 Crores we made this quarter how much was the COVID provision this year?

N. Kamakodi: We first made about Rs.100 Crores last year. We have about Rs.40 Crores which is there, which is said to be Earmarked.

Mona Khetan: This Rs.40 Crores is inclusive of the Rs.30 Crores we have made against?

N. Kamakodi: Yes and from that Rs.40 Crores during the course of discussion, I told maybe Rs.10 Crores I earmark for this.

Mona Khetan: The size exposure that you mentioned currently despite the recalling of the loan our current exposure stands at about Rs.100 Crores?

N. Kamakodi: Yes.

Mona Khetan: Just finally on the ECLGS book. What has been your experience on the slippages side from that book any color if you could give?

N. Kamakodi: We had as I told you the current SMA numbers I have already told and about Rs.245 Crores had already become NPA, which works out to about 1.8% of the overall portfolio, which received ECLGS advances.

Mona Khetan: Most of these portfolios of yours about whatever Rs.3000 Crores or something this is entirely the moratorium against this are over by now?

N. Kamakodi: As I told you if the accounts are not restructured, their regular term loan repayments will continue. Those restructured, they may be having moratorium for their ECLGS portions repayment but their general repayment schedule for the existing portfolio will continue.

Mona Khetan: So I was just referring to that other portion where we had this principle moratorium for one year. Is that over for a large part of the book or what percentage is it over if you could give some color there?

N. Kamakodi: Almost half of them even they should have started the repayment for the ECLGS portion also.

Mona Khetan: Thank you. That was useful and all the best.

Moderator: Thank you. The next question is from the line of Madan from Sundaram Asset Management. Please go ahead.

Madan: Sir there is a clear recovery that we are seeing so happy to hear that. Sir the first question is there is this fear that a lot of restructuring has happened and the ECLGS probably as we go forward in the next say six to nine months some of this can slip back is the fear. But are you seeing improvement in cash flows of many of these customers that is giving you more confidence that we may not end up seeing more stress on that book?

N. Kamakodi: Let us be candid about it. Let us say the fear whatever you have do not totally discount to them. At the same time do not think them they are absolutely healthy accountant and all. Some minor changes were there. You also need to take into consideration the restructuring facilities were not given to sick accounts as on February 29, 2020 so all these accounts were healthier accounts. If they are SME accounts, they could not have been a SMA2 account or if they are non MSME account, they could not be even a SMA1 account as on February 29, 2020 as per the regulatory dictate so all their issues were mainly because of the COVID related stress. That is why I told when I explained a major portion of them even those whose repayment schedule has not yet started they have started making payments. Only Rs.200 Crores or so have not yet started making repayments even one installment who are availing moratorium. Even they are making advance payment even ahead of their repayment schedule and many of them have made three months payment and all which gives me satisfaction that already sufficient surplus cash flow has come and they voluntarily make their monthly repayment even though their repayment schedule has not yet started. So that particular thing gives us enough confidence that the things are improving. I will not say you will be having zero slippage to NPA from this segment, but definitely the indications currently gives us let us say only less than 10 percentage of them have not yet started making repayment. The balance all have started making their repayment, which has given enough confidence that the surplus is being made so this we are able to see this much amount of improvement in the asset quality particularly in the last three months. If this general situation continues the slippages in fact will be lower. I had even discussed in 2008 just around the Lehman crisis when the restructuring facility was given we had the highest restructured portfolio in the industry of which restructured portfolio only 10 percentage slipped in the next three or four years and until. This time, we expect that number could be much lower. In fact the percentage restructured is also lower and the slippage from that restructured portfolio to NPA should also be substantially lower compared to our earlier experience is the comfort what we have currently. But what I can definitely assure, the confidence which I have what I can communicate to you is that things have improved a lot in the last three months. If this holds good and improve I think bulk of the problems are by and large over.

Madan: Nice to hear that Sir really good. The next question that I had, after a long time you take the right call on the growth. I always appreciate that looking at how the scenario emerges so you are talking about growing the book now? Just to get your thought on this, the new growth trajectory will be in terms of mix will be same like focus on the MSME book and the same thing or can there be some new products that we will be adding as we go forward. Some high yield books like personal loans or something like that which we can think of or it will be the same mix? On that one more point that I have is a recent commentary from say HDFC Bank or even ICICI Bank they have grown very fast on the MSME side, is it some market share loss that you have had probably because we were a little cautious during the last one to one and a half years or not so much, we would not have lost the market share as such?

N. Kamakodi: Basically like nothing significant like say we lost. We lost up maybe a few hundred Crores, but not much, but we decided to take that call. We are not thinking of going for any high yielding or anything like that. We will just focus on the segment where we had been doing so far. We will be sticking ahead with the same segment and this is where things are currently at this point of time.

Madan: Great Sir. Thank you so much. Thanks for taking a question.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Thanks for the opportunity. The first question was relating to the pricing environment. we see consistent decline in lending yields so just wanted to understand how is the pricing environment and overall your thoughts on loan spreads into next year?

N. Kamakodi: You can clearly see a parallel movement between the reduction in the cost of funds and the yield on advances book. When you have a surplus liquidity in the system definitely there will be fight for yield . Yes the pressure is there, but it is not like say we have been holding. We are not just like that leaving our fort and we are able to very well manage and still we are able to have our net interest margin close to 4%. The five basis point here and there is because of changes in the average credit deposit ratios and things like that so you could clearly see the direction of cost and yield moment on both funds and advances. They are by and large margin like say 50 to 60 basis point in one year time frame. I will not say it is a very steep reduction or whatever it is. It is gradual without creating any panic. That is what I can say. Also I have to add, the bulk of our growth rate had happened because of the gold loan so incremental gold loans are mainly coming at around 8% to 8.5% which is lower than our average yield, which is also pulling down the average yield on advances,

Dhaval Gada: Sir the second question is relating to growth. Obviously situation has improved. It has surprised you positively and we can see that just overall what is required to go back to 15% to 17% kind of growth next year? Is there something still missing in the environment which is not giving you confidence? You mentioned low double digit growth. Just what is required for 15% to 17% growth if you would sort of give some perspective?

N. Kamakodi: So what is first needed is the time. Now I have to reorient my entire team and the period of inward looking is over. We have to start looking outside to identify customers, start meeting the customers and then start processing the proposal. It is something like starting a factory after the maintenance work so put everything in place and it is what you call a few months it will take for things to enter in and enter out. I have to make my market know that I am back in growth mode and if at all anybody needs credit with the proper credit profile matching our risk capital. We are here to tell we are into growth mode and get into the market and to start.

Dhaval Gada: On the HR changes that you talked about, just in your view is there any risk that we can see in the near term since the system getting adjusted? Culturally it is a shift that we see? Any risk or any points that one needs to be aware? any thoughts that you have on this?

N. Kamakodi: Basically we learned from the experience of some of our peers who wanted to do these changes at a much faster pace and paid the price. So we took sufficiently long time to explain all these things and incremental changes over a period of time so the system is by and large aware of what is to be expected and mentally ready for these changes over a period of time. The changes have happened at a pace which is acceptable and agreeable to the entire system and we are not pushing anything beyond what the system can take.

Dhaval Gada: Got it Sir. Wish you all the very best Sir. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Good evening Sir and Thanks for the opportunity. Sir the first question was on the employee count. We have seen almost 400 odd employee reduction in last two quarters and if you look at the employee per branch that was somewhere around 8.8 per branch pre COVID and it has come down to 7.8 per branch. So would it be fair to expect that there can be some more rapid attrition to employees going ahead after we move to CTC structure or is this the new structure that we are working with where employee is basically lower and if so will the origination of new business be impacted? What I wanted to understand was that as we move to CTC structure how should one look at the cost changing? Will there be any adjustment and also whatever are the sanctioning provisions will that be reversed or paid back to employees how will that accounting work?

N. Kamakodi: See basically the year end employee count will be like say even slightly more than what we have. What we have planned is as I discussed through the time and motion study, reduction in the workload, and the proper internal process reengineering and all so even for March 31, 2023 probably getting the number of branches between 750 and 775, the total number of staff members on March 31, 2021 and March 31, 2023 will be by and large the same so this is what we are expecting at this particular point of time, which will be definitely as you said people per branch and all would have got reduced. This is mainly because the operational workload has substantially reduced. Let us say the resignations whatever happened, we had a freeze for some time. We did not replace it and the system also have understood these changes and since there is a 50% reduction there is sufficient time is also being there for the origination and things like that. So without any major change in the loan origination and the business growth there will not be lot of reduction, but the number of persons per branch will have some moderation, which will be slowly visible on the number of persons front. I do not expect any major change. Earlier based on the time scale based things and all, there were lot of discrepancies between the responsibility and the cost and the annual increments were based on the time scale with no correlation to the performance. These changes in culture and the policies will bring greater accountability and will improve the productivity, which is going to be a major shift. We do not expect like a magic wand a major change in the productivity or major change in the cost in a short span. It is basically a cultural shift. It will take some time for the system to absorb this and to see the results as we move forward. This is going to be a strong foundation and it is for the future and need time to see tangible results. On pension front, we had always been contributory to pension even right from the beginning that is why it is not going to have any major change because of that.

Rohan Mandora: This pension reserves which has created that will still continue and on retirement these people will continue to get some portion of that pension?

N. Kamakodi: Absolutely. When I say contributory scheme, it is like a new pension scheme right from the beginning. Every month employee makes his contribution and the management also makes its contribution. On the day of his retirement, the annuity is purchased and it goes to the concerned employee. That system will continue for both new joinees and also for the existing employees.

Rohan Mandora: Sure Sir. On the restructured book once the book was restructured will it be fair to say that the DPD got reset to zero? When I say overdue, say 30 days overdue or 60 days overdue?

N. Kamakodi: Yes the overview will be based on the revised repayment schedule.

Rohan Mandora: Sure so if I got the number right, we have Rs.187 Crores of SMA2 in the restructured book so this would be a part of the Rs.661 Crores which has started repayment would that be a fair assumption?

N. Kamakodi: Yes and also I said that remaining who all have made payment even before actually the onset of repayment schedule, which should be giving you sufficient understanding about the overall surplus and the profitability created in repaying the loan.

Rohan Mandora: Sure. Thanks a lot.

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

Renish Hareshbhai B: Congratulations on a great set of numbers. Just one question from my side is on the provision coverage ratio, which almost drops to 35% which is lowest in past 18 quarters. So what is the take on this lower coverage ratio? Is this because since we expect a better recovery going forward or we see a lower LGDs in this cycle and hence we tend to sort of maintain coverage ratio, just your thoughts on this will be helpful Sir?

N. Kamakodi: The point is we always follow the provision coverage ratio based on the RBI definition which takes in to account the technically written off accounts also. Based on that, we maintain a coverage ratio of about 60% to 62% percentage. 60% is the base which we always keep in mind and we always keep above that and the technical write off is what we make for other purposes which do not actually affect the recovery of the money. To answer your later question, based on our own internal assessment of the recoverability of individual accounts. If I get the entire money today there will be write back on the provisions we have already made or in other way our uncollectible portion is fully covered and whatever we will be collecting from the residual NPA is more than the what you call provisions gap whatever we have and so there will be a write back of provision.

Renish Hareshbhai B: Got it so basically you are hinting at a lower LGDs than what we are having currently?

N. Kamakodi: Exactly. We have our own expectations and calculations on how much we can collect based on the collateral what we have and things like that.

Renish Hareshbhai B: Got it. Just last question from my side on the growth side again what Dhaval has asked. Since we are in beginning of February, which is the part of next year and we are getting at the lower double digit kind of a growth so keeping in mind we will still have a couple of months to realign the manpower and branches to the new strategy, which is a growth focus strategy. So is there any upside risk to what we are getting currently assuming there is no further COVID waves and things should improve at the current pace?

N. Kamakodi: Yes definitely it is there.

Renish Hareshbhai B: Got it sir so conservatively we are carrying a double digit and you see a sort of stabilizer?

N. Kamakodi: As you put it in your question if like say there is no COVID risk and general economy is also supporting that overall okay we will shift to one more gear and go for a few extra percentage growth and all. Whatever visibility I have today I have communicated to you is what we are seeing at this point of time. If things improve it is always possible and you have also made an assumption that you are not going to have bad economy because of one more COVID wave or anything like that.

Renish Hareshbhai B: Yes I mean that is what we have learned from the survey? Our limited understanding is you have said that survey has literally no impact?

N. Kamakodi: Sir you have not factored into say Russia versus US potential Ukraine war. There are many unknowns are there. Based on whatever visibility we have I am conveying to you.

Renish Hareshbhai B: Got it so basically I just wanted to sort of get a sense that infrastructurally we are ready for a higher growth if economy continues to remain conducive? This is what a mixture of 5%?

N. Kamakodi: That is the sum up. I had withdrawn from growth in December 20219. Now we are saying that we are getting back.

Renish Hareshbhai B: Got it Sir. This is very helpful Sir. Thank you so much Sir.

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

Darpin Shah: Thanks for the opportunity. Most of my questions have been answered. On competition how do you see that because we have seen many banks talking about faster growth in SME? We also hear a South based leading NBFC talking about or entering into SME in next couple of years. So how do you see that and second is one on SpiceJet provisions so the remaining Rs.60 odd Crores will be doing in the next two quarters should we assume that?

N. Kamakodi: Basically for whatever growth rate I have visibility and immediate possibility I have already given to you. And these competitions have been there always in the industry. There is nothing new in terms of these competition, but there are enough market opportunities to see them getting into the next level.

Darpin Shah: The competition was already there but has it intensified further Sir?

N. Kamakodi: No. We do not see any major change or any drastic changes there. Even five years before pre COVID period, whatever had been there those things only continue to come in different forms.

Darpin Shah: Fair enough and the second was on SpiceJet so the remaining Rs.60 Crores provisions which was there should we assume will be taken in the next two quarters?

N. Kamakodi: It depends. As I told you they have paid up to January 31, 2022. There are a lot of things which are unknown that is why we are preparing ourselves safely for any eventuality.

Darpin Shah: Would you continue with that in March quarter as well?

N. Kamakodi: Yes. We will try to make a full provision as quick as possible.

Darpin Shah: Fair enough. That answers. Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Systematix Group. Please go ahead.

Rakesh Kumar: Good evening Sir. Thanks for the opportunity. So the first question was related to transition on the external benchmark regime. How we are progressing on that front?

N. Kamakodi: In almost all the fresh sanctions are as per the regulation. Almost more than 70% of our portfolio should be with the EBLR except those term loans which got sanctioned before that.

Rakesh Kumar: Got it. Very good. Sir considering the relative movement in the credit composition like you know because now we are at more than 20% of the gold loan composition. So change in credit composition and the asset composition how do we end up transition to you EBLR whatever the loan remaining to be done so what this interest margin we are looking at for next fiscal year?

N. Kamakodi: In fact I conveyed this I think a couple of quarters back and reiterated today the range should be 3.8% to 4.2%.

Rakesh Kumar: Very good. Thanks a lot sir and all the best.

Moderator: Thank you. The next question is from the line of Mahesh M B from Kotak Securities. Please go ahead.

Mahesh M B: Thank you Sir. Just two questions from my side. The outstanding ECLGS disbursed amount would be what would be the quantum Sir? It was Rs.1940 Crores last quarter?

N. Kamakodi: The outstanding portfolio of the entire the borrowers who received ECLGS portfolio is Rs.13,643 Crores, which inclusive of both their ECLGS and non-ECLGS.

Mahesh M B: What would be the disbursed amount Sir?

N. Kamakodi: It is the outstanding. For example we have been disclosing this because the ECLGS portion may be used to close your exiting portfolio so this is the outstanding of total borrowers who received ECLGS whatever way.

Mahesh M B: Perfect no issues. Just on the second question with respect to the employee policy. This requires you to take an approval from the from representation of the employees or you have to go through each and every employee accepting it and whether they have the right to say yes or no in this?

N. Kamakodi: No it is based on the settlement and agreement signed between the staff union and officer association through negotiation.

Mahesh M B: If the settlement is done it has to be unanimous?

N. Kamakodi: Yes. We have one union representing workman and one association representing officers. We always decide our remuneration through the mutual agreement and mutual negotiations. In that we had taken this as our long term objective about 15 years back. In every settlement, we used to take one or more steps towards this final objective and finally we signed this saying this is what is going to happen in future. We signed with effect from January 1, 2021 and effective date for implementation of this will be July 1, 2023 and every new employee joining after first January 1, 2021 will directly join through the cost to company basis. This is basically purely based on a negotiated settlement which had happened over a period of time and it is a settlement entered with the officers association and the staff union together.

Mahesh M B: One clarification again on this, in your assessment if you were to project the numbers for let a year from now in terms of employees cost what is your sense as to how does this change because of this?

N. Kamakodi: That is why I told you, the agreement is the existing remuneration will be the floor so the increments which used to be based on your time scale which will typically be an average for everyone now, there will be differentiation based on the performance. As I told, you will not be having major incremental change immediately, but it is going to be long term change in terms of the working culture. For example earlier if it is a 5% or 6% or one increment comes with that let us say DA and another thing is that the concept of dearness allowance is also taken out. It will be a fixed DA not linked to what you call inflation induction linked DA. The DA will be fixed DA and annual increment will be based on performance. Earlier normally if say for example the total increment per person say both basic and DA or remuneration together we say 6% the average 6% will be for everyone across the table. Now somebody may get 20%, somebody may get 10%, somebody may get 2% or somebody may get 0% depending upon their individual performance, but overall I do not anticipate any major reduction in the overall thing, but productivity wise and accountability wise things will change as you move forward

Mahesh M B: Sir it is very useful. Just wanted to understand this because if you look at some of the large private banks they have been able to go through this transition mainly because they have a reasonably high attrition rates and when we look at most of the banks in the regional side the attrition rates tends to be quite low and the cost ends up being very sticky in nature over and over you are building in productivity measure as well just wanted to understand whether it goes up or goes down?

N. Kamakodi: For example the new generation banks right from the beginning they did not have this problem. They got this problem only when they took over an old generation bank or an existing bank with this culture. But since their existing size of people was large from the merged banks they became insignificant minority and they got dissolved in that overall scheme of things. So that is why they were able to manage that, but probably we will be one of the first steps where there is an agreement to go for this transition

Mahesh M B: Perfect it is interest to see what you have done. We will probably discuss it really later.

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

Jai Mundhra: Thanks for the opportunity. The first comment on your growth. You had mentioned double digit growth for next year so just wanted to get a sense if I look at your loan book with Tamil Nadu is around 66% of loans and going ahead when you say double digit growth do you think it would be more or less similar or you suspect a higher growth in Tamil Nadu versus the rest of India or the maybe the other way around?

N. Kamakodi: You will see these numbers altering maybe over a period of next three to five years and on an annual basis that changes may not be very significant. It may be 1% or 2% this way or that way.

Jai Mundhra: Understood and second question Sir in your opening commentary you had mentioned that slippages should ideally come down anyway you have Rs.50 Crores to Rs.60 Crores one off in this quarter and then your recovery upgrade should move also so that would mean your net slippages I mean slippages net of recovery upgrade should continue to sort of come down? That comment was for Q4, that was also valid for FY2023?

N. Kamakodi: I am talking it as a trend right. The issue is like this quarter the change in the regulation had not come. Probably I should have achieved that in this year itself so there will be some spillover effect on that maybe for the next one or two quarters.

Jai Mundhra: But Sir if I look at slide 37, it looks like there is a huge gap right? For the nine months you have added around Rs.1000 Crores?

N. Kamakodi: Yes it is annually, the three quarters you have. This quarter you have started seeing it in less than Rs.50 Crores so as a trend you will be seeing it sooner. This is what I am trying to say.

Jai Mundhra: So from 23%?

N. Kamakodi: Immediately do not put in your spreadsheet that in Q4 itself whatever that happened in the three quarters will get reversed and not that way. Do not look at that way.

Jai Mundhra: Sure understood and lastly Sir said I had missed this number on overall SMA1 and SMA2? I think you had mentioned some number, but I missed that if you can repeat that? Thank you?

N. Kamakodi: Overall as a portfolio, the SMA1 and SMA2 for December 30, 2021, SMA1 is 1.97% and SMA2 is 2.14%.

Jai Mundhra: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Sir thanks for the opportunity again. Sir I just wanted to check on the strategy that we were following at a branch level of 10-6-3-1 so does that still continue with CTC? W will look at some changes because when we are trying to focus more on efficiency then maybe depending on geography or depending upon the capability of an individual and they may look to do some other set of businesses or maybe target on certain set of products so how do you change that?

N. Kamakodi: The tool of ten phone calls and three meetings per day will not change. For what purpose they use and how effectively they manage will be the key. To do this 10 phone calls and three meetings they will get the surplus time now because of the reduction in the operational workload. The 10 phone calls and three meetings will be done more efficiently by the system now, which had a lot of hiccups or pressure or stress whatever way you call to execute that with the available manual operational workload. Since the operational workload has come down more than 50% during this pandemic time because of what you call utilization of your alternate channels, every team member will get extra time to do these phone calls and the meetings, which will increase the productivity and also result in deepening or third party product or whatever it is.

Rohan Mandora: Sure Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Right so just to recapitulate what you were saying about growth over the last about 12 to 18 months that the business take out by the larger banks has not been an issue is that something that you mentioned?

N. Kamakodi: Yes it was about few hundred Crores.

Kashyap Javeri: Because in some of the product line versus March 2021 like for example wholesale trade, home loans and all, we have seen a significantly sharper cuts?

N. Kamakodi: In fact in many cases we went for wherever needed the reduction of the balance wherever up right from the beginning of the pandemic where initially customers had problems during the lockdown and all. We convinced them wherever they had to reduce the overall borrowing and all we did that.

Kashyap Javeri: But is there a way to check whether whatever limits that we reduced were they able to get it from somebody else because even if you want to you know sort of?

N. Kamakodi: When I say that the few hundred Crores, Rs.400 Crores to Rs.500 Crores or Rs.500 Crores to Rs.600 Crores this is purely based on the accounts which were taken over from us. There is a clear cut differentiation between that. If they continue to have that limit they might have made a repayment to their term loans and things like that. That is how it gets managed.

Kashyap Javeri: Right and the second question is on NPA. You mentioned that this 35% provision coverage is enough looking at the recovery trends. But if I look at since March 2020 till date almost about seven odd quarters, we would have lost almost about Rs.3000 Crores in terms of gross slippages and would have recovered something about Rs.800 Crores to Rs.900 Crores. Do we understand at over a period of next about six to eight quarters then the recovery should amount to almost about Rs.1200 Crores to Rs.1500 Crores in which case you know the 35% provision coverage will be justified?

N. Kamakodi: First of all, I want to object to the concept what you say the provision coverage ratio is 35%. Our provision coverage ratio is 62% as per the regulatory definition, which is inclusive of the technically written off accounts. You think this way so the coverage ratio is say 62% or what we have given. Normal recovery is about even 65% to 70% or so, so we have about 20% to 30% surplus provision made. You think in that way.

Kashyap Javeri: If I were to sort of look at it in a slightly simpler way of the unprovided NPA as of today, this should amount to about almost about Rs.1200 Crores to Rs.1500 Crores of recovery over the next few years or so?

N. Kamakodi: I answered your question this way. My recovery from my entire NPA and the technical written off pool, my recovery estimation based on the value of collateral a realistic estimate if everybody comes today, it is going to be much more than the net NPA level so it will cover the net NPA and also make a certain quantum from the provision reversed.

Kashyap Javeri: When we talk about recovery one should look at recovery including the technical written off account and then versus that what is the provision needed and that should be the surplus available?

N. Kamakodi: Exactly. Even that is in our presentation when mark the credit cost, we say total provisions made minus recoveries from the technical written off account is the net credit cost is what we give in that presentation.

Kashyap Javeri: Sure. That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Thank you for taking my question Sir. Just a clarification on the shift and employee policy so we would not require an RBI approval right for this?

N. Kamakodi: No need for RBI approval.

Gaurav Jani: Secondly again on the same subject, this transition as you mentioned from July 1, 2023 this would be on the entire set of employees?

N. Kamakodi: Yes. July 1, 2023 is for the entire employees of the bank.

Gaurav Jani: What I was asking you Sir for many quarters we have come to a net slippage of about Rs.80 Crores to Rs.90 Crores, which is actually the usual run rate right so do you think this could be maintained?

N. Kamakodi: It should get better because since you have a larger NPA pool it should get better is what I have told. The net number is only Rs.47 Crores for this quarter if you take into account the technically written off portion also and it should get better.

Gaurav Jani: Got it. Thanks.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Thanks for the followup question so just one point on the provision? Just wanted to reconcile so apart from the restructured provisioning and the SR provisioning is there any other buffer provisioning that we carry and if yes how much that is?

N. Kamakodi: That is what we said COVID provision of about Rs.40 Crores is there and we earmark about Rs.10 Crores for SpiceJet. This is what I told.

Dhaval Gada: Excluding SpiceJet Rs.40 Crores more is there?

N. Kamakodi: Including SpiceJet it should Rs.30 Crores.

Dhaval Gada: Got it. Thanks Sir.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

N. Kamakodi: Thank you all for patiently attending this. As I told the things are turning for a positive direction. Anybody having any more data points or any clarification they can always get in touch with Mr. Jayaraman whose contact number is there in that presentation. Once again thank you all for all the support you have been providing so far. Stay safe and good evening to everyone.

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