"City Union Bank 1QFY25 Earnings Conference Call"

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MODERATOR: **MR. PRABAL GANDHI – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to 1QFY25 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 will now hand the conference over to Mr. Prabal Gandhi from Ambit Capital. Thank you and over to you, sir.

Prabal Gandhi: Thank you, Rituja. I welcome everyone on the first earnings call of City Union Bank for Fiscal 2025.

On the Management Side, we have Dr. N. Kamakodi – MD and CEO; Mr. R Vijay Anandh – Executive Director; and Mr. J. Sadagopan – CFO.

Without further ado, I will hand over the call to Dr. Kamakodi for his Opening Remarks and then we can follow it up for Q&A. Thank you and over to you, sir.

N. Kamakodi: Good evening. Hearty welcome to all of you for this conference call to discuss the unaudited financial results of City Union Bank for the 1QFY25.

Board approved the Results today, and I hope you all have received the copies of the Results and the Presentation.

As you are aware, RBI wide its letter dated 28th May 2024 given approval to appoint Mr. R. Vijay Anandh – Executive President as Executive Director for a period of 3 years. Subsequently, he was co-opted as Additional Executive Director by the board at its meeting held on 24th June 2024. You might also have seen the announcement of our annual general meeting to be held on 22nd August 2024, which will be happening through virtual mode. On behalf of our board, I invite you all to participate in the AGM.

During the 4QFY24 call, we had stated below our expectations for FY25.

With all new digital initiatives together with the strengthened top and senior level management, we could see some visibility in the growth front growing forward. Post MSME, digital lending model will be expanded to secure retail lending such as housing, micro–LAP in 1QFY25.

On the asset quality front, we will continue with the trend of reduced slippages coupled with the improved recovery for the current year.

We have restored our ROA to our long term average of 1.5% and it will continue.

We will see the benefits of digital lending process in the coming quarters. Since we are taking the cost upfront, our cost to income ratio will be slightly higher than the current year and once full benefits of the digital lending and other initiatives transfer into growth, the cost to income ratio will start to come down.

By and large, the numbers are in tune with our expectations.

Historically, if you see our credit growth in the 1st Quarter of every FY, we used to have a negative growth compared to the last quarter of the previous FY. But this year, we had registered a marginal increase in advances growth in the 1st Quarter of FY 2025 compared to Q4 FY 2024. We are seeing these positive numbers after 10 years. We have registered 10% advance growth in Q1 FY '25 year-on-year. And our advances closed over and above Q4 FY 2024. That is Rs. 46,481 crore and increased from Rs. 42,405 crore in Q1 FY 2024 to Rs. 46,548 crore in Q1 FY 2025. BCG have completed their assignment with respect to MSME lending unsecured products in June 2024 and now we could see the implementation of digital lending started to give initial results.

Apart from our core strength of MSME, now we are slowly spreading our avenues in secured vertical like secured retail, micro-LAP housing etc. We have piloted the digital unsecured lending only for existing customer, predominantly salaried and yield around 13% to 14% with the complete digital workflow application. We have just built a small portfolio of Rs. 3 crore to Rs. 4 crore on this particular pre-approved credit. So, we will just wait to see the behavior before we do any scale up or what it is. We have made a very small beginning in this.

Our deposits stood at Rs. 54,857 crore for Q1 25 as compared to Rs. 51,655 crore in Q1 24, registering a growth of 6%. Average CD ratio of 1st Quarter FY '25 stood at 84%. Theoretically, we can grow advances by about Rs. 3300 crores with existing deposits and surplus funds. On asset quality front, we had stated that we will continue to have recoveries over and above the slippages. For the current quarter, the total slippage is Rs. 178 crores. While the total recoveries is Rs. 226 crores consisting of Rs. 192 crore from the live NPA account and Rs. 44 crore from technically written-off accounts resulting in recoveries more than the slippages. As a result of this, our gross NPA percentage are sequentially decreased from 4.91% in Q1 FY '24, 4.66% in Q2 FY '24, 4.47% in Q3 FY '24, 3.99% in Q4 FY '24 and now further reduced to 3.88% in the current quarter. Similarly, our net NPA number has reduced to Rs. 853 crore and net NPA percentage to 1.87% in Q1 FY '25 from 2.51% in the Q1 FY '24 and 1.97% in the Q4 FY '24.

Our interest income had grown by 10% in Q1 FY '25 compared to the corresponding period Y-on-Y and increased to Rs. 1389 crore from Rs. 1266 crore in Q1 24. Our yield on advances stood at 9.59% for Q1 FY '25 as against 9.53% for the same period last year and it was 9.85% in the Q4 FY 2024. Our NIMs stood at 3.54 for the current quarter.

Generally, earlier banks were permitted to charge the penal interest on stressed loan accounts and the same was discontinued from April 2024 further to the changes in the RBI guideline. Now banks are permitted to charge the same as penal charges. If we add back this portion of the penal interest compared to what we were doing for the earlier quarters, our yield on advances would have been 9.67% and our NIM would have been 3.6%.

Our cost to income ratio for Q1 FY '25 stood at 49.34% as compared to 51.26% in the Q4 FY '24, showing a sequential decrease. The fees paid to BCG for the digital lending implementation was over by Q1 FY '25 and the cost of the new avenues of retail business will take at least 6 quarters to get adjusted with the increased business volume.

As explained in the earlier quarters, this year all the expenditure are taken upfront. Income will start picking up only towards the end of the year. Next year there will be breakeven and after that only we will be having profit getting added because of these initiatives. Because of this as we discussed in the earlier quarters, our cost-to-income ratio will be in the same range of 48% to 51% for the next 4 to 6 quarters.

And as per our expectations, our ROA stood at 1.51% for the Q1 FY '25 compared to 1.40 for the corresponding period last year.

Our PCR has improved to 73% with the technical write-off and 53% without technical write-off in Q1 FY '25, as compared to 70% with the technical write-off and 50% without technical write-off for the corresponding period last year.

Overall, SMA-2 number of the advances also currently stands around 2%, as explained in the earlier quarters.

We had achieved a PAT growth of 16%, and our PAT stood at Rs. 264 crore against Rs. 227 crore in Q1 FY '24, that is 16% growth year-on-year between 1st Quarter last year and 1st Quarter this FY.

To sum up, with the help of the digital lending and better and efficient underwriting methodology, we hope our advances growth will be back on track. We are exploring various avenues of advances growth in addition to our core strength of MSME. We are putting our best efforts to reach the industry level growth as soon as possible. So, in the last concall many questions were asked about what is the guidance and all, I refrained from giving any guidance and I said you have to make a call from the numbers. Now we are able to see some amount of increase in the numbers and we are working hard to ensure that there is a stable growth going forward. And as we have seen, we have reached a double digit from 30th June to 30th June and also first time positive growth in the 1st Quarter after about 10 years which is giving us sufficient confidence that things should be better as we move forward. And ROA is expected to remain at our current level of 1.5% plus. We should achieve our PAT growth with the help of reduced slippage and provision requirement.

As you have seen, because of the other upfront expenditure and all what we are taking, we have to wait for maybe 2-3 more quarters to see the operating profit showing corresponding increase compared to the business growth. Our cost to income ratio should remain in the range of 48% to

51% for the current FY. So, as discussed in the previous concall once again, we are building our capacity both in human resources and technology infrastructure for future growth engines, particularly retail. So, that will be a drag in as we have seen, in the profitability as explained earlier. So, it will be reaching breakeven only next year and probably adding to the profit kitty by next, like say, beyond that. 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. The first question is from the line of Harshada Gite from Prabhudas Lilladher. Please go ahead.

Harshada Gite: So, we see that the fee income has increased Q-on-Q. So, what are the drivers? Does it include the PSMC income?

N. Kamakodi: No, as explained, some amount of incremental fee income has come through your both, the asset, the interest income which had to be booked as other income for the SMA accounts and also some amount of positive momentum we are seeing in the insurance front. So, these two are adding some amount of push for the other income growth.

Harshada Gite: Okay, got it. And my second question is what are the drivers for the decrease in the other operating expenses Q-on-Q?

N. Kamakodi: See, I am not saying that you basically have the other expenses or by and large there is a sequential from 369 to 363, but year-on-year, there is a growth of 21%. We don't expect any major decrease in that going forward. In fact our annual increments will be coming only in the second quarter and all. So, we don't expect any drivers, but once the productivity picks up, as we said, which is a few more quarters away, the increase in the income will be there. With the stable cost structure, there will be a reduction in the cost-to-income ratio. So, we don't expect any sequential decline in the cost drivers in the other expenditure.

Moderator: Thank you. The next question is from the line of Rahul Malani from Sharekhan by BNP Paribas. Please go ahead.

Vijay Kapoor: This is Vijay Kapoor here from Sharekhan. My question is, could you give us some more light on your digital expenditure and how this will benefit across the board?

N. Kamakodi: Yes, in fact, we had detailed discussions in the last conference call. We appointed BCG last year for one year contract which got ended on the 30th June. Using them, they helped us to build the digital lending processes, API integrations and all such things and some of our peer banks had earlier done that and we were waiting for them to settle. After that, we started. So, now, we started with less than Rs. 3 crores then we extended it to Rs. 5 crores. And currently, as per the RBI's definition of regulatory retail portfolio is Rs. 7.5 crore. So, from all the proposals less than Rs. 7.5 crore goes through this digital software now. It basically automates starting from the KYC to Aadhar number check to PAN number check to your CIBIL check to then it analyzes your GST returns on an online basis. Then it analyzes the account statement through Perfios software, then it analyzes the account operations after that income tax and other financial returns.

Then it fits into our policy and then distinguishes the proposals whether it can be given or it cannot be given or it has to be referred to the credit for the manual check if at all any deviations are required but proposals are by and large doable. So, the first product was put on track way back in November. So, after that subsequent changes were done. Similarly, both for MSME and also for retail products like housing loan and LAP. So, all the fundamental checks and putting into the system are automated. And that process has, by and large, after completion, the BCG also completed their assignment and this is where we are currently.

Vijay Kapoor: Just one follow up question is, how much expenses you have made for this digital lending process?

N. Kamakodi: Yes, we discussed in the last concall, we gave about Rs. 25 to Rs. 30 crore to total fees to the BCG which works to about 2% to 3% of our overall PAT. This is apart from the software cost and implementation, API's, most of these API charges are on the paper use basis. So, the software comes to about Rs. 10 to Rs. 15 crore or something like that. So, this is the overall expenditure on this particular project.

Moderator: Thank you. The next question is from the line of Puneet from Macquarie. Please go ahead.

Puneet: First of all, on the growth front, it's been disappointing. Last year, I remember, FY24, we were heading towards a double digit growth. I know there is a seasonality in 1Q and all that stuff, but still it's flat on low base. It's very disappointing. So, are we still targeting the double digit growth? What are the reasons for the lower growth this quarter if you could elaborate on that?

N. Kamakodi: See as I told you cyclically 1st Quarter we always used to have a negative growth and after 10 years for the first time, our Q1 figures are more than Q4 and we are able to see some initial momentum after whatever investments, whatever practices we had done on all the things we have been discussing so far. So, as I explained in the last concall once again, the December 2022 to December 2021, we had a 14% growth, but that 14 came to almost flat or 1%-2% for December 2023. So, now after that once again the growth has started in a slow and steady fashion. You have already started seeing 10% first time double digit growth after multiple months. And we are working our best to ensure that this momentum is taken care and get to the next level.

Puneet: Double digit target remains, right, for the end of FY25?

N. Kamakodi: Yes, that is what. Already we have reached that and we are working to ensure the growth rate further accelerates from where we are.

Puneet: Also on the ROA target, it will remain 1.5% so that also holds there right, continues, the ROA target that you..?

N. Kamakodi: About two quarters back or so, we got back to that 1.5% trajectory. So, as I told, some amount of upfront expenditure we are taking and some increase in the cost is there. So, there is some amount of impact on the operating profit, but we are still able to make 1.5% because of favorable conditions with us in terms of the asset quality. Now the slippages are less than the recoveries. So, because of this, we are getting benefits from the asset quality, I mean, credit cost, which is helping us to maintain this. And we have enough elbow room in this factor for at least another 4-5 quarters or so. With this, only we are talking about maintaining the 1.5% ROA.

Puneet: So, these 4-5 quarters, you expect these strong recoveries to continue, right? Another 4-5 quarters, if I can take it in that?

N. Kamakodi: Yes.

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

Shreyas K: Sir, I wanted to ask the competitive intensity on MSME loans has increased given the recent digital push by bigger players on MSME loans?

N. Kamakodi: See, as we have been saying that it's not that competitive intensity which is going through a major thing because this competitive intensity is in place for almost a decade which perhaps started as I have been repeatedly saying when ICICI bank took over one of our peer banks Bank of Madura two decades back. New generation banks are with us for almost more than a decade in every places and the competitive intensity is pretty much there for almost a decade if not more. More than anything else, in fact, last year or maybe about 4-5 quarters back, you had some amount of insane pricing. Those things also cooled subsequently. Sanity was restored back in the pricing front. In fact, things have improved in the last one year. And over a period of time, the competitive intensity is like this only and there is no major change.

Moderator: Thank you. The next question is from the line of Krishnan ASV from HDFC Securities, please go ahead.

Krishnan ASV: If you could just throw some light around this entire BCG exercise. More importantly, what percentage of your existing customer base, according to your own analytics, becomes eligible for this end to end digital journey in terms of being just pre-approved so that they can go through the pipe. I mean, have you had some initial assessment around this? What is your assessment of where we are today? You said you had built a 300-400 crs portfolio already. Just wanted to understand your early experience in this portfolio and what's the kind of addressable market that you think within your own because it's meant for ETB. Was trying to understand that.

N. Kamakodi: See, fundamentally speaking, one of my existing customers whose exposure is below Rs. 7.5 crore, they have to go through the pipe in the future even for the renewal. So, once they are entering into my system, after fulfilling their KYCs and after giving their GST return or P&L or account statement, which is once again, if they are existing customer, my own existing statements. And even if it is for new clients also, based on our policies and our track record, what is the quantum they will be eligible, the system will be throwing. So, in other words, 100% of my existing customers who have taken less than Rs. 7.5 crores, both existing and also new to the bank, they have to necessarily go through this particular software only. So, the software makes multiple recommendations, whether they are eligible for credit, whether we can give. If we decide to, if we give credit, what is the risk rating, what is the range of pricing that they should be eligible for this. This is what the system looks into. Earlier turnaround time which used to take at least 2 to 3 weeks for taking a credit call. Now if the customer gives the OTP and the documents in the required format, he will be getting a decision within 2 to 3 working days. If he gives everything, once the entry is done, in the same day he will be in a position to release it at the best. If it comes under the amber category where some manual deviations have to be taken, at the best in 2-3 days they will be getting a decision. This is where things are at this point of time now. And one more thing on unsecured front, in a very small way, it is almost zero. It could be a potential product maybe three years down the line or 4 years down the line. We have just made a small beginning. We ran analytics and took about 2000 customers. In that, we got a hit rate of about 10% and overall the book built through this scheme is hardly about Rs. 4 to Rs. 5 crore or whatever it is. And 2-3 months we are watching and we don't have any delay in the repayment or whatever. So, it has been started in a very small way though the amount is insignificant today, it will give us some experience to look into this maybe over the period of next 5 years to come.

Krishnan ASV: Understood. And purely on this unsecured piece which is meant for retail unsecured, just wanted to understand how, so is that also meant predominantly for ETB customers who we have already been banking with or does that book also expand into NTB customers?

N. Kamakodi: No, it is currently only ETB customers who are having salary account with me. And we worked out based on their average balance, monthly credit, their CIBIL score. And so many factors were taken into account. And we just took a small sample of 2,000, sent them messages that they are eligible for the pre-approved credit. And the entire journey was digital, do it yourself mode. So, we wanted to just test whether it is working okay. So, it worked okay. Once we crossed the 10% acceptance, we just closed the funnel. Almost, 2-3 repayments cycle is over. So, far all those accounts are without even any DPD, Days Past Due or whatever it is, so once we get a grip how to expand that to my other broader existing customers, we may be, but this particular segment, as we have explained in the past, this is not in our immediate priority. So, our first priority is to go ahead with the MSME lending, then followed by the secured retail portfolio like housing loan and car loan. And this particular unsecured thing for existing customers we have started, but this unsecured thing may show some amount of next level improvement over a period of time, maybe in the next period of 3-5 years as explained.

Krishnan ASV: Just one last question, you mentioned about the first piece which was around Rs. 7.5 crores limit for the regulatory retail classification, how much of your existing to bank business would actually be eligible below that Rs. 7.5 crores?

N. Kamakodi: The existing to bank business upto Rs.7.50 crs as of now roughly around Rs.24000 crs out of Rs.35500 of core business apart from Gold loan portfolio of Rs.11000 crs.

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

Jai Mundhra: Sir, two questions from my side. One is there was an RBI regulation that suggested that the banks now have to charge interest only from the period of disbursement and not from the date of sanction, have we implemented is there any impact in this quarter or maybe going into second quarter?

N. Kamakodi: Yes, for us, this one we had been in compliance even before the arrival of that circular. This has basically happened particularly whenever predominantly for the retail lending new to the bank where disbursal happened through the checks or whatever where there could be difference between the time of sanction and the time of what you call actual reduction from the money withdrawal from the bank account. But for us, we never had this particular issue right from even before the arrival of the circular.

Jai Mundhra: Secondly, sir, in terms of the new products that we had started under the leadership of Mr. Vijay, if you can just update, sir, sorry if this question was repeated, I had joined the call a little bit later, if you can highlight the progress there and by the end of the second quarter, should we start to see the book building up or how is the progress there?

N. Kamakodi: Yes, we are in the process. Mr. Vijay is here who will be explaining how the progress is being made in terms of assembly of people and how the technology infrastructure and other things. Vijay will be explaining to you.

Vijay Anandh: Yes, we should be there by September as communicated in the last call. We are looking for a pilot launch by September. Our digital process is getting ready. Predominantly, again we are getting into classifications of basis risk score and one which can be immediately decisioned and one which should go to underwriter for decisioning. New team is also joining. We expect the team to be here by August, September. The systems are also broadly in place, hence we should start our pilot disbursals by September second week to third week. And from fresh we expect this to happen in Q3 and Q4. This is what the broad progress on this. And we intend to do loan against property, home loans, affordable and micro-LAP.

Jai Mundhra: And Kamakodi sir, in that context, now we have delivered 10% Y-o-Y advances growth and flattish Q-o-Q, which is better than last, let us say 4, 5, 6 quarters on a Y-o-Y basis. Is it like fair to say that we would now be double digit growth trajectory, we will not fall back to single digit predictors and if there is anything you want to update here?

N. Kamakodi: See, this is what we are working hard for and we wish you see that the consistency as we move forward.

Moderator: Thank you. I will take the next question from the line of Puneet from Macquarie. Please go ahead.

Puneet: Just on the OPEX bit, our growth has been not in line with the OPEX. OPEX has been sequentially higher. I understand you mentioned that the technological expenses have been high, but even the employee expenses have been high. I am sorry from this. Could you comment why is that?

N. Kamakodi: Yes, as I explained last time, we are taking some expenditure upfront both in terms of technology and building the team and it will take some time for that engine to give the business. So, that is why our cost-to-income ratio also has shown some increase. So, initially there will be some drag in the profitability, next FY, we will be breaking even, and it will be adding to profit kitty only beyond that. So, that is where we are in this particular item. And one more item, our annual increment cycle will start from the 1st of July, so there will be some increase in the salary expenditure sequentially. But overall, as I explained for the whole year, we had a cost-to-income ratio of about 47% for the year as a whole for FY '24 and the last quarter we had about 51% cost-to-income ratio. Overall for the year, we should be having somewhere in between and we had about 49 odd percentage for the current quarter. This is how the expenditure part looks now.

Puneet: And secondly, on the unsecured loans, you just mentioned that the pilot process of LAP home loans, micro-LAP affordable is going to start from September. Unsecured has already started, right? And what is the mixing target, I know FY25 might be a short process, but by FY26 to get to book mix of secured and unsecured, currently it is very small, but any guidance there?

N. Kamakodi: Please understand the first priority on retail will be only secured. So, as explained first priority is for having this housing loan, loan against property and all. Expansion of that portfolio is what Vijay Anandh explained which will start to show some light at the end of the tunnel after we start in the September month Q3 and Q4, some amount of growth you will be seeing over there, but unsecured retail funding is only as a test case we have started and it is not in our priority now. We hardly have about Rs. 4-Rs. 5 crore currently. We are trying to learn to ensure that the particular portfolio works okay, what are all the things we need to learn. And it will be, we will look into the suitability of that in our portfolio maybe beyond 3 years or maybe between 3- and 5-year thing. We will not be expanding fast as we have done in the past. Our focus will be more on the secured lending. So, earlier we focused, we had always been on the MSME and secured lending for the creation of business as such. So, some amount of extension we are doing into the loan against the property and housing loan like what do you call your secured retail lending and don't expect much for unsecured lending. It is only the proof of concept and we are a very long way from building that going forward. Be very clear about it. Good that you asked that question.

Moderator: Thank you. The next question is from the line of Rahul Malani from Sharekhan by BNP Paribas. Please go ahead.

Rahul Malani: So, my question is, sir, credit cost is very low for this quarter as compared to on a yearly basis. And this is adding for the overall profitability. So, what do you think for a whole year FY25? Is this end I think the lower credit cost would can sustain and continue and continuously it will add up for the profitability for the whole year?

N. Kamakodi: In fact, if you had looked into the last 2-3 years, last year we had a slippage of about Rs. 1,000 crores and for the FY 2023, we had about Rs. 1,300 crores. So, effectively the slippage came down from 1300 to 1000 to this year we expect about maybe about Rs. 800 crores or something like that, maybe even slightly below that is what our calculations currently demonstrate. The recovery numbers are almost Rs. 1,000 crore plus, the stable numbers which we have started seeing, about Rs. 200 crores to Rs. 250 crore. Both live and technical write of accounts put together is the run rate which we are anticipating. So, as explained in the previous quarters also, this year also, there has to be a considerably reasonable credit cost moderation compared to last year.

Moderator: Thank you. The next question is from the line of Rajagopal Ramanathan from Sada Khush Investments. Please go ahead.

Rajagopal Ramanathan: I just have one question, sir. What is your long-term balance sheet growth aspiration and steady state ROA because you have been a bank which has delivered reasonably good ROAs over a long period, you have seen a long cycle, you have gone through the ups and downs. So, do you think over the next 5 or 10 years, you would be anticipating that your ROA should sort of stabilize between say, 1.20% and 1.30% and your balance sheet growth aspirations would be anywhere between say 10% to 12% or max 15%?

N. Kamakodi: See, as you explained, up to FY '19, we stabilized our ROA, we crossed 1.5% and started reaching about 1.6-1.7% levels also. We started planning for our next level of ROA expansion that is when the COVID came, bulk of our calculations were tested, we got back to 1%, then we increased it to 1.15%, 1.35%, 1.45 and 1.5% the pre-COVID level almost demonstrated. We expect once we start seeing the delivery or productivity from the new growth engines which we are trying to add, definitely, there could be expansion in the ROA beyond 1.5% whatever we are there. And in this cycle, maybe for at least another not less than six to seven quarters or so, there is every possibility that current favorable credit cost environment may prolong. Maybe we have to wait for the next cycle.

Rajagopal Ramanathan: And on the growth part of it?

N. Kamakodi: If you had this data, in 15 years we demonstrated the growth at least about 2%-3% over and above the growth of the industry. And we could in a small way see what you call market share almost doubling from 0.2 to 0.4 or something like that. Then post-COVID, there is a push back and we are still growing below what do you call industry level. So, our long-term strategy over a period of decade as you rightly said, we are 120-year-old institution, even though we are one of the bigger banks for a longer period of time and for most of the cycles we have demonstrated ourselves as the bank with improved efficiency and profitability metrics are closer to the top ten percentage of the industry numbers. So, our aspirations are to get back to, we don't believe in having extra natural growth much beyond the industry level growth and paying the price later. So, we take steady path, growing maybe few percentage points over and above that of the industry growth rate is what we have demonstrated over a period of time, and it has proved good for us in terms of the long term stability of the institution, which we think we will be following that proven path as we had seen in the past.

Rajagopal Ramanathan: Which probably sort of, if I infer out of that, then where you are sitting with respect to capital adequacy at 21%, technically you don't require any capital for the balance sheet for another 5 years then because if we assume your balance sheet growth to be calibrated, I don't see any reason why you are likely to see significant capital consumption, would I be right in that assumption?

N. Kamakodi: Yes, you might have seen our last major capital raising through QIP was 10 years back. We are not, fortunately beyond year 2000 beat in the Y2K issue or after the 2008 global economic crisis or beyond that AQR because of the infrastructure lending and corporate lending, consortium lending and all, in every cycle, we survived without any problem and even COVID cycle we survived with a few bruises, not much of issues and we had not raised the capital in the past. So, the only thing is that like we have to improve our own return on equity, so matching if our return on equity and the growth rate by and large matches, we should not be requiring any additional capital or whatever. You may ask another question. In fact, our notice for the AGM is released today, in that once again we are asking for the QIP, but this, asking for the permission of QIP is the permanent fixture of our AGM approval for the past 10 years. We have that even more than 1.5 decades or so. We used it only once, but if at all any requirement comes in between maybe for any strategic reasons or any offer which we cannot refuse, we may have to, the process itself maybe time consuming. That is why after the arrival of QIP regulations by the SEBI some 15 years back, every year in our AGM we take approval from the shareholders, it is purely an enabling resolution. We used it only once and only when it is absolutely necessary or absolutely when the offer is irresistible. So, this particular asking for shareholder approval had been a permanent fixture in our AGM for the past, maybe more than 10 years or so.

Rajagopal Ramanathan: Actually, I was not bothered about that because I knew that if you are saying that you are essentially going to be shoring up your ROE over the next couple of years and with what your expectations are, clearly you are not going to be seeing capital consumption, and therefore it is quite unlikely that you will further tank up your capital and push yourself into an overcapitalized zone. So, if I am permitted to ask just one question, so you said a possibility of a strategic opportunity, so would you be interested or well, I am not putting words, but is it more from expansion of the lending business which means the potential opportunity on the NBFC front or on the tech front, what is the type of strategic opportunity that you might be interested in?

N. Kamakodi: See, we don't have anything in hand and we don't know what is in store for us. I will just give you one answer which will be making you some sense, we were asking for the shareholders' approval and I am talking about pre-2014 which was the year when we went for the capital raising. Before that, when I had a lot of pressures from the investors front or investment bankers and things like that, I made a claim that I will be going for QIP when I get an offer for two times price the book. At that point of time, I thought two times the price to book was something which was unreachable because when I started the price to book was 0.5 and when I made our first preferential allotment to L&T, LIC, Blue River Capital, Argonaut and all way back in 2008, it was at one time price to book, which itself was about 25% premium to then prevailing market price. But suddenly, people were prepared to give premium and two times to price to book opportunity came, which made me, you don't know what type of opportunity may come or whether it will be good and all. You are keeping all the options open, good that I am not talking to any press person who will write headline tomorrow saying that something is there. I don't have any opportunity now, I don't know what opportunity in store for me, it is a practice which we have been practicing over a period of more than a decade and we have been using it extremely in a judicious fashion, and only once we have used it. So, there is no reading in between the line, it is just a continuation of our past practices, nothing else. It is purely continuing the practice which we have been doing over a period of 10 years or so, nothing more, nothing less.

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

Gaurav Jani: So, just a couple of questions from my end and one is on the yield, right, if the penal interest was adjusted for the same good yields have been similar to the last quarter?

N. Kamakodi: As I explained the NIM would have been 3.6%.

Gaurav Jani: But if you just please tell us on the yields, would they have been stable or slightly lower?

N. Kamakodi: I think, sequentially speaking, the yield we would have closed with 9.59%. If you added that back, it will be about 9.65%-9.7% range.

Gaurav Jani: And sir, just a broader question, right? Obviously the penal interest has impacted the entire structure, but otherwise our now interest income is now, free of aberration and last few quarters we have seen a lot of aberration, so now it should be seen right?

N. Kamakodi: Yes, hopefully.

Gaurav Jani: So, secondly, on the LCR so to pass the question, one is, you had mentioned last time that there was some discussion with the RBI on the LCR definition. It was about 200% odd. So, is that number revised or is it higher that is the first part? And the second is your initial assessment of yesterday's LCR circular please?

N. Kamakodi: See, based on those things, I think this is the news I was actually expecting this question. What has basically happened is that you have now a draft circular, particularly on the LCR calculations and all, which probably will make us to change some of the calculations or interpretations with which we had been calculating over a period of since the concept of LCR came about close to a decade back or whatever. And because of these changes, I think the entire sector of LCR will converge around maybe 115 to 125% or 110 to 120% or sort of. You won't be having aberrations. Everybody will be now getting to this range. And there will be requirement of redeployment or reorientation of the resources. Even for us, we have some overseas deposits which we used to invest for maybe few basis point extra interest. So, we had to now get those things back from the overseas, on maturity we have to bring them back to our fold. Once we get them back, we will also be stabilizing around that number. So, basically the non-callable deposits also we have in that, we have about Rs. 2,900 crores which we got that and all which is getting eligible for this favorable calculation. So, after some amount of aberrations, ups and downs, things should be stabilizing around 115 to 125 for all of us and for us also.

Gaurav Jani: This is after considering the impact of yesterday's circular right. That is what do you mean or without that?

N. Kamakodi: Yes, taking into consideration the latest discipline.

Gaurav Jani: Just one small question in the extension of this? Do you expect, because of this redeployment towards excess security, do you see further margin pressure because this or I mean you are okay?

N. Kamakodi: Nothing material. These sort of things are done on a treasury basis for one or two basis point arbitrage and things like that. Nothing material will be happening because of this reorientation.

Gaurav Jani: And sir, last question please, if I can squeeze one, cost of funds have peaked or you still expect further hikes?

N. Kamakodi: It has almost peaked, and we expected the reduction and the interest rate cycle will start, but now enough indications are that they are not going to be as quick as it was expected. So, by and large, it has almost peaked.

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 of you for joining this press conference and thanks for Ambit team to arrange for this. As explained this quarter, for the first time after 10 years, we have positive credit growth in the 1st Quarter. Things are improving and we have got back to double digit growth after multiple months. Hopefully things will be getting better and better from where we are. If you have any specific questions and all, the contact numbers are given in the presentation, you have the contact numbers of Raghuraman, who is the contact person for the investor contact whose number and e-mail IDs are given. You may also contact any of our executives, be it CFO or our GMs, Mr. Jayaraman or Mr. Ramesh or whoever it is, who will be in a position to explain you the numbers. I hope things get better and better from where we are going forward. Once again, thank you all for participating in this conference.

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