“City Union Bank Limited

4QFY24 Earnings Conference Call”

May 20, 2024

MANAGEMENT: **DR. N. KAMAKODI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CITY UNION BANK LIMITED**
MR. R. VIJAY ANANDH – EXECUTIVE PRESIDENT – CITY UNION BANK LIMITED
MR. J. SADAGOPAN – CHIEF FINANCIAL OFFICER – CITY UNION BANK LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to City Union Bank 4QFY24 Earnings Conference Call, 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 any assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prabal Gandhi from Ambit Capital. Thank you, and over to you, sir.

Prabal Gandhi: Thank you, Sagar. Good evening, everyone, and thank you for joining the call. We have with us Dr. N. Kamakodi, Managing Director and Chief Executive Officer; Mr. R. Vijay Anandh, Executive President and Mr. J. Sadagopan, Chief Financial Officer, to discuss fourth quarter earnings of City Union Bank.

Without taking much time, I'll hand over the dias to Dr.N. Kamakodi for his opening remarks, and then we can open the floor for Q&A. Thank you, and over to you, sir.

N. Kamakodi: Good evening, everyone. Hearty welcome to all of you for this conference call to discuss the audited financial results of City Union Bank for the fourth quarter and year ended 31st March 2024. The Board approved the results today, and I'm sure you all have received the copies of the results and the presentation.

I'm happy to announce that we have achieved the 2 historical landmarks in this current financial year. We crossed INR1 lakh crores of total business, and we also crossed INR1,000 crores of PAT. Board has recommended a dividend of 150 % including 50 % special dividend for 120th year.

Before getting into the financial results, I would like to inform you about the key changes in our Board and senior management position. Our Non-Executive part-time Chairman, Mr. M. Narayanan had retired from the board on 3rd May 2024. He had served in our Board for 8 years in various capacities. With effect from May 4, 2024, Shri G. Mahalingham, our Director has taken charge as the Non-executive Chairman. Shri G. Mahalingam had over 3 decades of career with RBI reaching the position of Executive Director and also had a 5-year stint at SEBI as whole-time member. He joined our Board as an Independent Director on July 2022.

On senior management side Shri. R. Vijay Anandh has joined our bank as Executive President in March 2024. He is having more than 25 years of banking experience, covering retail banking, risk management, portfolio analysis, credit appraisals, recoveries, legal collections and due diligence. The Board has recommended his appointment as Whole-Time Director, which is under the consideration of RBI and about 10 executives in the rank of AGM and above have joined our bank recently to strengthen the senior and the top management. They will be strengthening our capabilities in retail, analytics, credit, operations, etcetera.

In our Q4 2023 results call, we had said the following things for financial year '24:

- We said though there could be headwinds in margin as well as base figure growth,
- we expect that we should be closing the financial year '24 with a decent PAT growth,
- substantial reduction in the net NPA, improved coverage ratio and
- ROA close to our long-term average of 1.50 %.

Our performance for the financial year '24 is by and large as per the forecast we shared with you during the last year. Further to that, during our Q3 FY 24 con call, we had shared with you the following things:

- we should be achieving our 4-digit PAT growth PAT for our financial year '24 for the first time.
- Our NPA slippages had come down significantly, live NPA recoveries had surpassed the live slippages and hence, going forward, we are on the right track in getting back to our pre-COVID level slippages.
- We also said that the digital lending process was going as per the schedule, which will help us in achieving improved credit growth in the coming quarters.
- We also said the ROAs are back to 1.50% plus, which used to be our long-term average and
- net interest margin is also stable.

Overall, our performance in Q4 is as per the expectation. Also, the whole financial year is as per the expectations we shared with you all during the earlier conference call.

We had crossed our 4-digit PAT figure for the first time in our history for the financial year '23, '24. Our PAT stood at INR1,016 crores, registering an 8 % growth compared to the last year. For Q4 financial year '24, we had recorded a PAT of INR255 crores with a growth of 17 % compared to the Q4 financial year '23. We had crossed landmark of INR1 lakh crores business, and our total business stood at INR1,02,138 crores as on 31st March 2024. Our deposits stood at INR55,657 crores, registering a 6% growth, and our advances also improved by 6% INR46,481 crores on a Q-o-Q basis compared to our Q3.

During our last con call, we had detailed discussion about de-growth of KCC loan and other issues leading to the reduction in the daily average advances growth. With improved credit growth in the last quarter, the daily average advance growth is showing improvement. Also, we are getting back on track in the growth front.

The total slippage for financial year '24 is INR1,013 crores as against INR1,276 crores in the financial year '23. The total recoveries made is INR1,031 crores comprising of INR816 crores from live NPA accounts and INR215 crores from the technically written-off accounts. For the current quarter, the total slippage is INR219 crores while the total recovery is INR275 crores, comprising of INR233 crores from live NPA accounts and INR42 crores from the technically written-off accounts. As said in the last con call, the live recovery has surpassed the live slippage in the current quarter as well.

The trend of recoveries over and above the slippages had helped us to reduce our gross and net NPA numbers. The gross NPA declined to 3.99 % as on 31st March 2024 compared to 4.47% as on Q3 financial year '24 and 4.91% as on Q1 financial year '24, showing sequential decrease. The net NPA declined to 1.97% as on 31st March 2024, compared to 2.95% on the corresponding period last year. Our gross net NPA had reduced for 3 consecutive quarters, and our net NPA had come below the 2 % mark.

Also, our net credit cost has significantly decreased to 0.24 % for the financial year '24 compared to 0.90 % in the financial year '23. Overall, SMA 2 numbers to the total advances as on 31st March 2024, also stands at 2.08 %, including restructure and ECLGS accounts also.

As we have on boarded 6 insurance companies covering life, general and nonlife insurance companies during the financial year 2023, our insurance income contribution has also doubled and stood at INR55 crores in the financial year '24, compared to about INR27 crores in the financial year '23. We expect a significant growth in the current financial year also.

ROA for financial year '24 stood at 1.52 % for financial year '24, against 1.46 % last year. Our yield on advances for Q4 financial year '24 stands at 9.85 % compared to 9.31 in the corresponding quarter last year. For FY 24, our yield on advances is at 9.72 %, against 9.23 % in FY 23. Our NIM in the current quarter is 3.66 % and for the financial year, '24 is at 3.65 %.

Our cost-to-income ratio for Q4 FY '24 is 51.26 % and the same is at 47.06 % for the FY '24 which is as per the guidance number for the current financial year. As we are taking some cost upfront the cost-to-income ratio will be slightly elevated like what we have now till the returns start coming for the investments we make. So there could be a few quarters when we have to go through this phase before we're actually seeing the cost-to-income ratio coming down in the declining path.

As stated in our last call, we have opened our 800th branch in Ayodhya. We are planning to open about 50 to 75 branches during the current financial year.

The digital lending implementation for MSME is reaching the last leg and should be through before the mid-June. Along with the MSME, digital lending model is being expanded to secured retail lending such as housing, LAP, micro LAPl. Currently, we are doing that, and they should be completed before the end of Q1.

With all the new digital initiatives together with the strengthened top and senior level management, we could see visibility on growth front going forward, and we will update you about our growth projection as we progress into the coming quarters in the current financial year. On asset quality front, we'll be continuing with the trend of reduced slippages coupled with the improved recovery for the current financial year also. We have restored our ROA to long-term average of 1.5 % plus, and it should continue.

Our net interest margin continued to be stable and on current level, maybe at the best 5 to 10 basis points this way or that way. We will see the benefits of these digital lending processes in the coming quarters. Since we are taking the cost upfront, Our cost-to-income ratio will be slightly higher, like now. And we should start seeing them coming down as we see the full benefits of the digital lending and also other initiatives that transfer growth to income and the cost-to-income ratio will also start coming down as we move forward into the future quarters.

To sum up, overall, things have very much come back on track. We should be able to see improvement from the current level in every parameter as we move forward. By and large, things are taking shape at this point of time.

With this brief background, I leave the forum open for question-and-answer session. Over to you all.

Moderator: Thank you very much. The first question is from the line of Rajesh Mangal Agarwal from Rajesh Mangal & Company. Please go ahead.

Rajesh Agarwal: Sir, what is your project estimation for this gross NPA, net NPA and ROA for financial year '24,' 25.

N. Kamakodi: Sir, last year, it was close to INR1,300 crores and about INR250 crores to INR300 crores reduction in the slippages has happened over the financial year '24, '25. We expect the similar reduction in the slippage maybe about INR700 crores to INR800 crores slippage we could be having for the current financial year. Going by this trend, our current expectations on our closing year net NPA -- towards the end of the current year, we should be having between maybe around 1 to 1.25 % plus or minus. Gross NPAs and other things are all depending upon how much technical write-off you do. I think these 2 numbers will give you a broader idea on what you expect.

Rajesh Agarwal: Okay. And what about the ROA, sir?

N. Kamakodi: We are working to improve from whatever we have achieved so far to the next level.

Moderator: The next question is from the line of Manish Shah from Investec.

Manish Shah: Sir, I wanted to ask about the growth, sir. What kind of growth are you seeing in this current year? Because last -- I think in the last 3, 4 quarters, you had mentioned that you will be coming back to that growth of 12% to 15%. Now as you have expanded the employees and all other costs. Now when you are seeing that growth will come back, sir.

N. Kamakodi: See, we wanted to put everything and wanted to achieve the figure of 12 to 15 % in the financial year, '24, '25 itself. Things did not go as per our plan. But we are putting our best effort to ensure that we are able to achieve more than what we promised. That's why I specifically did not give any number for the current year. Last year, if you had a chance to look into the growth during the COVID year, the improvement in the gold loan gave us a lot of boost.

We had to go for some amount of de-growth on KCC numbers. Now as you said, we have already put the people in place, both at the grass root level and on the management level. We have also almost established the sales vertical for our core advances growth, which we had not done in the past. We have also started building the team for the retail vertical to start with the secured retail starting from the housing loan, LAP and things like that.

We are in the last leg of putting the digital lending process across all these segments, I mentioned over here. And all these things put together, they should be helping us to accelerate the growth to the next level. We are working to put the pieces together. I will give you a proper guidance once we are showing a double-digit growth of the credit, which should happen in the coming quarters when we will be giving you the exact numbers.

But the only thing what we are assuring you is that we are putting in place required ingredients for our growth both on our core MSME sector and also on the secured retail to start with, along with feet on street and also on the middle and senior management, which should give us, decent growth as we progress. Unsecured retail front will start after we put in place all these things. Once we reach that, then we'll start them in a small way as we discussed in the previous quarters.

Manish Shah: Sir, another question was about the other income and fee income. Sir, do you see that going up? And another thing was that how confident you were last in the last con call compared to this con call about the loan growth which you are talking. Are you more confident in this con call compared to the last con call?

N. Kamakodi: Yes, definitely, the figures themselves would have spoken to you. Much of the growth for the current year has happened in the fourth quarter. If you look into sequentially in Q1, Q2, Q3 the growth that has happened in Q4 is substantially more than previous quarters which given us sufficient confidence to take things forward. Q1 probably will be having a lull as in the past, but this year we hope it would not be as lull as we had it in the earlier years.

So we are definitely much more confident and answering your question on the other income, for us the other income the components of the other income usually comes from the core fee income of commission, exchange, brokerage fees, insurance income and things like that. You have a write-back of written-off assets collection. You have profit booked from the treasury and other miscellaneous income.

Now there is a headwind in the treasury income because of the interest rate at the moment and also changes in the regulatory policies on treating the HTM, how you vouch the treatment of treasury itself has changed, that will have some amount of headwind. But, ultimate to the ROA they will not be making much of difference. The write-back of written of recovery is definitely moving in a good thing.

And as I told you we could see significant growth in the insurance income compared to what we traditionally used to have, particularly from the multiple relationships that we have moved into. So we have headroom particularly in the treasury front because of changes in the regulatory policies and also because of the part of interest rate cycle we are in. This is where we are.

Manish Shah: Compare to last year can you see that this year our profit will grow by at least by 10%, 15% possible?

N. Kamakodi: For that only we are working hard.

Manish Shah: Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: So I have a couple of questions. The first one is on the cost-to-income ratio. Now sequentially, it moved up from 48-%odd to 51.2%. And in your opening remarks, you said that this is going to remain high for some time until the benefits of investments start flowing through. So how should we think about it? I mean should we assume that the existing rate which is 51% that is going to be the rate for at least FY '25. And then in FY '26, it starts tapering down. Is that how we should think about it?

N. Kamakodi: See you may perhaps take two quarters to see income from the new costs which you have incurred. So some amount of moderation we should be seeing in the second half. So at overall level you had a year as a whole about 47 % for the financial year overall. So the financial '24-25 we should be finishing somewhere in between the final quarter figure of 51% and the full year figure of 47 %. So once the income starts coming from these investments this moderation should start.

Rohit Jain: So the first half will be around the existing rate. The second half is going to see some benefit. So net-net you expect the overall year to be between 47% and 51% is what you're saying?

N. Kamakodi: It is what we foresee and keeping that in mind we are also putting our best effort to do achieve this range.

Rohit Jain: Okay. And second question is you obviously have refrained from giving any growth guidance at this point and you mentioned that the ROAs are back to the steady state level of 1.5%. And my question to you is given that cost ratios are going to be higher for a full year basis this year are we going to maintain our ROAs at this level? And if yes is that going to be driven by lower credit costs or do we have other levers to protect our ROA at 1.5% odd level?

N. Kamakodi: Exactly, as I told, our endeavour is to improve the annual ROA. Our best efforts are to ensure and see that the improvement in the ROA is seen as we progress even though we have higher level of cost-to-income ratio compared at about 50 %, 51 % compared to whatever we had last year.

So some amount of increase in the cost-to-income ratio since we are taking the cost of implementation of the digital lending and incremental manpower and things like that. Once the productivity level comes back to the required level there will be moderation in the cost-to-income ratio.

Rohit Jain: Sorry just to sort of clarify for the full year our ROA 1.52%. So you are saying that for the financial year FY '25 it should only improve from this level despite the higher cost-to-income ratio. Is that correct?

N. Kamakodi: This is what we are working for.

Rohit Jain: Okay. Understood. And just last question you mentioned that your ROAs are back to a steady state level of 1.5, but I see that your return on equity is about 13-% odd and historically we have operated at return on equity is higher than that. So how should we think about that going forward? Is this the thing in the new paradigm?

N. Kamakodi: Yes. The lower ROEs are because of the higher capital we are maintaining at this point of time. Once the growth engine kicks off and when we improve the

ROA, ROEs also need to automatically improve from the current level. You have two choices. When you have a lower growth rate whether you give the excess dividend, or you conserve the capital for the future growth. We took the second option. All our endeavour and all our focus is working step-by-step to ensure we get back to that improved ROE along with improved ROA also.

Rohit Jain: And just last question from my side. So 2024 was obviously a year of repair wherein credit cost was one of the key parameters that we were working on, but now that they are sort of stabilizing. Is it fair to say that 2025 is going to be a year of consolidation rather than growth?

N. Kamakodi: No, it is actually the other way. Let us say 22-'23 and 23-24 has been a year of consolidation when we did much of our repair. The repair process is by and large complete, and we are in the last leg of that. And we should be seeing the growth phase fixing in the financial year '24, '25 as we move forward.

Rohit Jain: Understood. Thanks a lot. Thanks for answering my question. Have a good day.

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

Mona Khetan: So firstly, on this digital process, just wanted to double check. So essentially, all our MSME loans today up to INR5 crores are digitally dispersed with TAT at 48 hours or thereabout?

N. Kamakodi: Yes, and we are in the process of taking it to INR7.5 crores which is the RBI limit for the retail lending. Let us say maybe the 24 to 48 hours at the best we should be in position to give TAT. You are right.

Mona Khetan: Got it. And secondly, on the margins. So last year if you look at the overall margins at 3.6% it's way lower than what we have seen historically. And here on while we are expecting asset quality to largely normalize which means that the impact of interest reversals may not be there. I mean do you still expect that margins will remain at current levels? Does that imply our overall yields are settling at much lower levels versus historically?

N. Kamakodi: See, actually as we have demonstrated in the earlier interest rate cycles our margins used to expand in the increasing interest rate scenario and start coming down once it settles and in the decreasing interest rate scenario. The reduction in the interest rate cycle is expected but the consensus is that it may get delayed by a couple of quarters. We feel the interest rate will be by and large around the same number in the current year.

Mona Khetan: Okay. So the margin guidance of stable NIM in FY '25 assumes that this year there may not be any decline in headline rates?

N. Kamakodi: Yes. We expect that could happen only in the fourth quarter or so and impact of that in the current financial year will be limited is the assumption with which we are giving you this number.

Mona Khetan: Got it, but what I'm trying to also understand is when we look at historical margins versus today if I look at say 7 years, 8 years of margins of yours versus today they are probably settling at much lower levels. So is it fair to say that because of competitive intensity we are seeing it overall yield through cycle settling at lower levels versus earlier?

N. Kamakodi: I have explained this in multiple concalls, let me explain one more time. See if you had a chance to look into our last 50 quarters or so, at least, for about 35 quarters to 40 quarters it used to settle between 3.4% and 3.7%. It was above 4 % for a handful of -- maybe about 8 quarters to 10 quarters or so, but our long-term average had been between 3.4% and 3.7% only.

Therefore our current net interest margin is by and large around our long-term average of say 50 quarters or so. During first quarter of financial year '24 in fact we discussed that there were so many the developments that were happening on multiple fronts and there were delay in passing on the rate of interest in two rate hikes. It probably had an impact of about 15 basis points, 20 basis points or something like that which is also a reason.

And like as you said because of some interest rate reversal that happened, it also impacted. So taking into consideration everything we say the margin is by and large reaching a stable level.

Mona Khetan: Got it, sir. And just one final clarification. So when I look at your gold book Agri or otherwise, what % of this would be via the cash disbursal route as well?

N. Kamakodi: See that issue doesn't come for a bank.

Mona Khetan: I understand. I'm just trying to understand is it a substantial part when you look at your gold year?

N. Kamakodi: I think across the board cash disbursal can be about INR40,000 to INR50,000. See every gold loan account will be linked with the savings bank account. So the credit will be given in the savings bank account they can immediately take the cash through the ATM instantly.

Mona Khetan: Okay. So from your end the disbursal is all digital nothing is on the cash side?

N. Kamakodi: Yes. Ultimately maybe after 5 minutes they will be converting it as the cash.

Mona Khetan: But then it's digital and from your side for most -- for almost 100% of your customers?

N. Kamakodi: Almost.

Mona Khetan: Got it. Thank you sir and all the best.

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

Rohan Madura: Sir, just wanted to understand on the digital initiatives among the retail products that we are planning to launch the home loan, LAP and auto loans. So what all segments we would cover will be primarily focused on salaried or self-employed. Sir in the earlier discussion you talked about a 48-hour disbursement TAT for loans up to 7.5%, is it from a new lead that gets generated.

So once it is logged into the system till the disbursement we are talking about or it's post sanction and if it's end-to-end, then like people just head on through the project in terms of underwriting model we are doing in the digital persistence?

N. Kamakodi: See, we made an internal calculation and evaluation we could see about INR7,000 crores of the products like housing loan or LAP or other vehicle loans our own customers have taken from the other financial institutions which will be the first segment which we tap.

The second stage it will be like our existing depositors and our existing customers who are going for a new loan on both housing loans and the LAP and the retail loan will be the next in line. The third segment will be for new customers whom we are talking and that will also be like appointment of what the DSAs and things like that and all those things will start on a stage-by-stage basis.

Rohan Madura: Sure.

N. Kamakodi: So it will be a combination of both the salaried and self-employed depending upon the location and depending upon the product and the segmentation which we do -- which we take based on the expected LGDs and things like that.

Rohan Madura: Sure. And sir for the SME, MSME segment like are we currently digitally underwriting as well?

N. Kamakodi: Yes. Almost KPI integrations are over that is the main purpose of the digitization per se. So many of the checks which used to be happening through the manual have been converted to the digital process.

Rohan Madura: Got it. And sir, what is the total quantum of technology-linked expenses that we are planning for FY '25 and '26?

N. Kamakodi: Already for the last year almost you can say 3 % cost-to-income ratio, incremental thing has come because of this investment in the digital lending processes on both the software and other improved AMCs and other things for the technology side.

Rohan Madura: Sure. So this was less than 6% of total opex?

N. Kamakodi: No. We already have the investment there and this is additional investment in this increased cost-to-income ratio.

Rohan Madura: Sure. So on a total opex level what would be the total technology leaving out?

N. Kamakodi: Capital investment and revenue investment close to INR200 crores expenditure every year happens at an average for the last 2 years, 3 years on the technology thing which works out to about 20 % of your PAT.

Rohan Madura: And sir, on the growth between Tamil Nadu and outside of Tamil Nadu if you can share the loan and deposit growth numbers for FY '24 within Tamil Nadu and outside of Tamil Nadu?.

N. Kamakodi: The composition is there in the presentation. It's in the Slide # 43 where we have the % of the branches and % of the business is already given. As of now by and large whatever growth we are achieving in the Tamil Nadu is at par with the overall average growth we are seeing.

Rohan Madura: Sure. Okay. So Tamil Nadu and outside Tamil Nadu it's similar growth ballpark?

N. Kamakodi: By and large. Yes.

Rohan Madura: And sir, lastly what will be the quantum of loans linked to EBLR for us right now as of 4Q end?

N. Kamakodi: 55-45.

Rohan Madura: Sure, sir.

Moderator: Thank you. The next question is from the line of SriKarthik Velamakanni from Investec. Please go ahead.

SriKarthik Velamakanni: Sir, are the change in employee expenses for the quarter -- is it a reflection of the new people that is higher in the top management? And is this the new run rate that we'll have to focus on?

N. Kamakodi: See, it is because of 2 things. Let's say, earlier, we had quarterly adjustment of dearness allowance. As we are moving into the CTC era, the DA adjustment was once done in the July, August, September quarter and now currently in the January, February, March also. This, plus the new employee additions are also together take care of this expenditure.

SriKarthik Velamakanni: Got it. The second question is the sequential credit growth is actually slightly better than what in general we've seen for the last few quarters. I know Q4 cannot be extrapolated for all the quarters. I am just curious as to why you've refrained from giving any guidance because the asset quality issues are behind us, a lot of the operational issues are now stabilizing. So what is sort of stopping you from giving the guidance at all?

N. Kamakodi: It's only because of one thing. Last year, we gave, and we didn't achieve, so we don't want to cut a sorry figure. We will show the numbers, and then we will give you the expectations.

SriKarthik Velamakanni: Got it. Last question, what is our current LCR ratio? Or where are we seeing there in terms of a liquidity position?

N. Kamakodi: See, we are at about 200 % plus and will be published shortly in that Pillar 3 disclosures.

Some banks are treating all term deposits, I mean retail -- there are multiple levels of things are there. We are now looking out for the clarification and things like that. But as per the current formula, which we had been practicing over a period of multiple years and which we passed multiple audits and inspections, our current numbers are once again 200 plus.

SriKarthik Velamakanni: You're basically saying if you were to match it with some of the peer banks, it could be higher than 200%.

N. Kamakodi: I don't know whether we have to match with them, or they have to match with us, we don't know. What we have understood is that there are divergent practices, which are happening across multiple banks, which we are trying to get a grip.

Moderator: Thank you. The next question is from the line of Palak Shah from Elara Capital. Please go ahead.

Palak Shah: Yes. I have 2 questions on the possible this quarter has been 6% Q-o-Q. So what's left is growth? And how do we look at deposit growth going ahead? Also, my second question was whether the deposit ratio came in at 81%? What is the comfortable level of its ratio?

N. Kamakodi: See, on growth front, you are definitely able to see substantial improvement in the Q4. Q1 normally will be having a lull, but we should be having much better than what we had in the previous first quarter. We have put in the people, the processes on track and the things should improve as we move forward. But the exact number, I'm refraining from committing because once we see numbers firming up, then we will be giving it to you. We are comfortable with the current CD ratio.

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

Rakesh Kumar: Quite good sort of numbers with stable margin and negative net slippage number. Sir, one question I had with respect to the recovery that we do on the technically written off loan. The pace, if we see on a year-on-year basis, it's a bit volatile. So if you can give some guidance that how this recovery pace is going to be in the next fiscal year. Yes, that would be helpful, sir.

N. Kamakodi: See, the fundamental items, the recovery department honestly speaking, they don't care whether it is a written-off account or a live account. Their targets are, by and large, for the total number of or total quantum of recovery. If you collect a written off account, you will be getting that in the other income. If you recover a live NPA, you will be getting benefit in the below the line by a reduction of the credit cost, reduction in the provisioning.

The total recovery in the current year is comparable with the last year recovery. This year, definitely, there will be improvement in the overall recovery. It is very difficult to exactly fix how much will be from the live and how much will be from the technically written-off account at the beginning of the first year itself. Therefore, this is what we can say at this point of time. As you have seen, we had about INR1,300 crores total recovery during the last year as a whole.

We are working to improve that number beyond whatever we have achieved it during the last year. You might have seen this year there is a substantial reduction in the suit recoveries. At the same time, there is a substantial improvement in the live recovery and hence, -- the credit cost has come down from 20 basis points to 24 basis points, ultimately contributing favourably for your overall ROA.

Rakesh Kumar: Understood sir. Sir, one question was with regards to the MCLR progression that happened during February '23 to November '23 in the past. So I was just looking at other regional bank in the same Tamil Nadu region and private bank, so their cost of fund progression increase was broadly in line with what happened to our bank. But MCLR increased, there was a divergent trend that we saw during that period. So how do we see now the MCLR increase from here on. So obviously, it will be based on the marginal cost. But at that time, we had a quite divergent trend actually, that time with other regional private bank.

So how we are like thinking about that because that dented the margin trajectory for us as compared to the other bank quite a lot. So can we recoup that change? Is there a possibility? And have you thought about it. So just some clarity if you can provide, sir?

N. Kamakodi: Yes. See, ultimately, you look into the final yield on advances, by and large, those numbers are converging. What the issue is even though there is, MCLR, everything is getting adjusted in the risk premium, which is the function of final expectation of the ROE and things like that. The problem with this was like about 1.5 years back, in transmission of rates we could not do that because we had issues with the gold loan.

There are multiple issues, which we were hurting us at that point of time, and we were slightly behind in transmission of that rate, which created some amount of dent, as I discussed with you earlier.

Rakesh Kumar: And sir, just last question to clarify, the EBLR MCLR breakup is 55%, 45%. Correct, sir?

N. Kamakodi: Yes.

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

M.B. Mahesh: Three questions. One, on the loan book, has there been a reclassification in this quarter?

N. Kamakodi: Yes. some reclassification based on the changes in the definition, you see the main issue was, the MSME classification after the decision has been made 100 % in relation with the Udyam Registration classification.

M.B. Mahesh: Okay. So that has reduced the MSME exposure, and you put that in other loans.

N. Kamakodi: Yes.

M.B. Mahesh: Okay. And to answer a previous question, this quarter, we saw for the first time you have acquired loans in the current quarter of about INR500 crores.

N. Kamakodi: Which one?

M.B. Mahesh: In notes to account number 12, You have acquired about INR500 crores.

N. Kamakodi: See, it should be 500 million or so.

M.B. Mahesh: Sorry, 500 million Okay. Is this something which you started news on this issue? Or is it business as usual disclosure.

N. Kamakodi: No. I see the 1 or 2 small deals we trade, maybe it could be one of them.

M.B. Mahesh: Okay. Just 2 other clarifications. One is on the changes in management that you had indicated earlier, can you just kind of just kind of highlight it once more what have you done and what all will you be doing from here onwards?

N. Kamakodi: If you look into the growth of the banking sector and particularly the regional banks, Bulk of the significant portion of the incremental growth has happened through the retail, both secured and unsecured. Our policy so far has been that we were focusing only for the creation of business assets. So we had to make some fundamental changes in the way since the banking sector is changing with a firm view for the future.

We also need to build the skill sets, particularly be it in terms of the digital lending, be it in terms of housing loans or LAP and other things which are expected to be having a very important contribution in the growth. Also, you need to add skill sets in terms of the analytics, you need to add in terms of changes in the way even in terms of accessing the information to the credit processing and all the things, which are changing. We felt the need of having these sort of skill sets. And that's why you might have also seen, RBI said every bank should be having, another whole-time director. So we took all these things into our consideration, and we have, got a new person who has worked in this environment of digital lending processes for MSMEs, retail secured, retail unsecured and all these things.

So that the new capacities built in our bank considering the future. As you know, we never had the concept of sales at all in our DNA. For the first time, we have built the sales vertical for even the core businesses. Sales vertical for the retail, for which we have identified the people at the senior level and building the team at the feet on street and the processes is partly complete. And it's expected to take some time before they also start giving you the results.

So the process is on, this is the thing which is going over there. Unfortunately, our credit head Mr. Mahesh, had to leave us because of some family consideration to relocate to another city. But nevertheless, about 10 executives we have taken in various cadres covering various skill sets. So the person who will be in charge of the MSME sales vertical has already joined. The person in charge of retail sales vertical is in the process of joining and he is serving his notice period with his earlier employer.

The person who will be looking into the analytics, we already have a DGM in charge of the analytics with us. One more expert in analytics is expected to join. So these are all the things which we spoke during the earlier con call, things are being set up, which would be giving the results sooner.

M.B. Mahesh: Just to clarify, Mr. Vijay Anandh has now moved to the board. And will there be more people join -- will there be another person also join the board sometime soon?

N. Kamakodi: See, Mr. Vijay Anandh, the approval has gone to RBI. He will join the Board immediately after getting the RBI approval. Now he has joined as Executive President and we are waiting for the RBI approval. The Board is contemplating having one more whole-time Director and he is yet to take the call. And once the call is taken, the further process for RBI approval will start.

Moderator: Thank you. The next follow-up question is from the line of Rohan Madura from Equirius Securities. Please go ahead.

Rohan Madura: Again. just trying to reconfirm the previous question on the query that you answered. Mr. Mahesh who's heading the Head of Credit, is left the bank. I think he had just joined in March 24. So I just wanted to understand that.

N. Kamakodi: He joined our bank and he relocated from Mumbai, and he came to Chennai. Now for family reasons he has to relocate back to another city. Today only, he conveyed his decision to the Committee of Board. Once the decision taken, it will be communicated to the market.

Rohan Madura: Sure, sure. So okay. So he's been with the bank for 2 months or so okay.

N. Kamakodi: Yes, unfortunately, his family priorities had to take precedence.

Rohan Madura: Got it. Sir, second was that recently there was this government notification to make payments to MSME in 45 days -- so just wanted to understand what would be the impact on the credit demand for our customer segments for the bank? Will we see a decline in requirement of working capital from the segment incrementally?

N. Kamakodi: Definitely, the thing is we could see in the mixed way, the smaller entities returned the money and that utilization was coming down. Under the larger industries their utilization improved because they had to make payment to the smaller entities. I think, largely, we settled and on a holistic basis, we had a reduction of utilization because of this. Even though we have not quantified the exact quantum that is definitely a reduction of utilization because many of them received their payment. But I think by and large, the things are stabilized on this.

Rohan Mandora: Sure sir. And recently, like there is a lot of decision around gold loans from the changes in terms of processes and other things from other regulators. So does it impact us in any way in terms of the way we process the gold loans?

N. Kamakodi: No, not exactly. But anyway, we have taken clue from the concerns and had multiple audits to ensure that things are safe. If you have a chance to look into in the last 10 years, the total amount we lost because of the purity of gold miscalculation, I don't think there will be more than even INR1 crores or so. It's very negligible, even if you take 10 years together.

Rohan Mandora: Sure, sir. And then lastly, as the 1st of April, what would be our AFS reserve is new guidance on investment book?

N. Kamakodi: The difference in valuation was about INR20 crores, understand.

Rohan Mandora: So INR20 crores positive contribution?

N. Kamakodi: Yes, it is.

Moderator: The next for of question is from the line of Rajesh Mangal Agarwal from Rajesh Mangal and Company.

Rajesh Agarwal: Sir, in Slide number 21, the CASA issue seems to be 30%, which is true less than the industry. What is the reason, sir?

N. Kamakodi: It is our long-term trend. In fact, it has improved by about 7 % in the last 3, 4 years. This is our model.

Rajesh Agarwal: So we want to maintain this CASA ratio around 30%.

N. Kamakodi: We always strive to improve that, but like particularly most of the regional banks, this is where the ultimate numbers are there.

Rajesh Agarwal: But sir, I think we should improve this to.

N. Kamakodi: Yes, the aspirations are always there. But with that aspirations only, we improved by that 4, 5 % recently, let us see.

Moderator: The next question is from the line of Manish Shah who is an individual Investor.

Manish Shah: Sir, my question was regarding this -- after concerning all the nonperforming assets and anything I think from now on, maybe this year, maybe there may be more consolidation of the technological and digital initiatives. And maybe next year, we can go for growth? Or do you think that you are seeing already green shoots of growth in this year itself?

N. Kamakodi: As I answered in one of the earlier question, all the consolidation and things were over in financial year, 22-23 and 23-24. But this year sooner than later, we should start once all the extra verticals, whatever we have established, start delivering results, we should be able to see things getting better.

Manish Shah: Sir, after all the digital initiatives, do you think that your fee and other income should grow much faster than in the previous years?

N. Kamakodi: I don't expect all the fee income will substantially improve because of this digitization. As far as the digitization is for improving the efficiency, improving the TAT and probably calculating the risk in a more sophisticated manner so that the credit cost is controlled.

But at the same time, as we discussed at the beginning, during my opening remarks, we have seen substantial growth in the insurance in the last year. We expect that there would be some incremental growth happening in that area, particularly in the lines of fee income.

Manish Shah: Sir, in the last quarter, our other income and all that are very much down. So what is the reason for that sir?

N. Kamakodi: So as I explained, our other income will comprise of 4 inputs. One from the commission exchange fees - the core fee income, including insurance. The second is treasury profit. Third, is the write-back of written off accounts and last one is all other miscellaneous income put together.

We had improvement in the insurance income. But the treasury income is not favourable because of the interest rate environment. Going forward, there will be some headwinds because of the changes in the treatment of the treasury by the regulatory policies. There is a reduction in the recovery because of the technically written off accounts. But as I told you, we focus on what is the total recovery -- if the recovery comes because of the live NPA, it will support the credit cost by reduced incremental provisioning. And if it is coming as the recovery of technically written off NPA, it will come as the other income front. Since we had dent both in the other income and in the write-back of written-off assets and also on the treasury, this dent is there.

Manish Shah: Sir, for the current year, that is FY '24-25, already 2 months have passed April and May. Sir, have you seen the benefits of the digital initiatives we've taken in the last 2, 3 years?

N. Kamakodi: Yes. Definitely, we even started seeing in the February, March. Our first quarter normally used to be lull. Even in this lull period, the inflow sanctions are happening, much better than what we used to see in the earlier first quarter.

Moderator: The next question is from the line of Jai Mundra from ICICI Securities.

Jai Mundhra: Sir, I wanted to check on loan growth, right? So a few things there. We had actually a drag from KCC gold loan portfolio -- has that portfolio run down in full? And have we introduced a new product that serves the sale purpose?

N. Kamakodi: Yes, it has come down to the bottom. And the incremental growth rates started we have started seeing in a small way on a daily basis now.

Jai Mundhra: Okay, so we have already launched the new variant, right?

N. Kamakodi: See, the KCC, we have closed. The rundown of the KCC is complete. And we are now booking purely on both Agri gold loan and non-Agri gold loan.

Jai Mundhra: Okay. But because of this, sir, can we tap the lost opportunity? Or you still need to introduce a new product to that opportunity?

N. Kamakodi: As of now, we have decided to keep quite not to enter there.

Jai Mundhra: Okay. Secondly, sir, on growth side, right, so we now have a new team hired laterally and they have also hired senior people under them -- if you could talk about, sir, that -- which products would this new team start from? Because as you said that your regional peers, they have done slightly more aggressive on retail secured, unsecured, which City Union as a philosophy have restricted to MSME segment. So if you have any growth road map with this new team or the incremental team would be focusing on maybe the products and any milestone that you have.

N. Kamakodi: Yes. We have already started with the secured retail product. Unsecured, we will be setting it in a small way to test that and which will also be there taken subsequently. Meanwhile, I will leave the mic to our Executive President, Vijay Anand who is spearheading these products.

R. Vijay Anandh: So we will be largely focusing on retail secured, home loans, affordable home loans, loan against property and micro LAP to start with. And eventually, once we have set the process, we can go back to the market, then we will look at retail unsecured business. So this is a dedicated structure, which will run this business. This will also have liabilities process strategy, and we will also have a DSA sourcing for this.

Jai Mundhra: And how ready are you to introduce these products secured or you have already launched those products.

R. Vijay Anandh: So we will start our booking from Q2. Our policies are getting up, and we are also getting our systems in place. We have a couple of more things to cover in terms of legal and technical processes, and we wanted to do it digital for LAP and home loans so that we go back to the best at in the market. So eventually, we are looking at end of Q2 for launching.

Jai Mundhra: End of Q2, that is calendar year or financial year, sorry, just to be.

R. Vijay Anandh: Financial year.

Jai Mundhra: Okay. Financially year, so from September onwards, you start booking these products.

R. Vijay Anandh: Yes, we should start booking from September.

Jai Mundhra: Right. And. Okay. So -- and you said it is a mix of branch and non-branch DSA led product?

R. Vijay Anandh: Liability to strategy, which is a branch, and we will also have the DSA source.

Jai Mundhra: Right. Okay. Sure. That is very helpful. And yes, so that is good. And any internal sort of -- I mean it may be too early to ask, but if you have any internal milestone in terms of portfolio by maybe 1 year, 2 year what kind of a portfolio point you want to build out of these new products?

R. Vijay Anandh: Too early, sir, we will definitely come back once we are ready with -- it's too early.

Jai Mundhra: Sure. Okay. And lastly, from Kamakodi, sir, on opex, right, so what you talked about on cost to income. But sir, in your sense, we have done around 16%, 17% opex growth this year on a full year basis. How should one look at the opex growth for maybe FY '25, sir?

N. Kamakodi: Ultimately, what we are focusing and working out for is that like your fourth quarter was 51 %. Year as a whole was 47 %. So our focus is to see the overall cost-to-income ratio for the financial year '24-25 at between 47% to 51% or whatever. And that could be quarterly operations per se.

Moderator: The next question is from the line of Gaurav Jani from Prabhudas Lilladher.

Gaurav Jani: So firstly, you did mention about senior level how you working with Mr. Anand -- so if you could just give a brief background about where would they have been higher? I mean not as -- I mean not specifying for each and every one, but just give brief background about all of them isn't so not have they been hired and in was first year of experience?

N. Kamakodi: See, basically, like you might have clearly seen the gaps, whatever we have be it in terms of the digital or be it in terms of the retail business. Bulk of that expertise is with the new generation bank. So the hiring has to be from the new generation banks, foreign banks and things like that.

And when we do that, we also need to be conscious about the cultural compatibility with our existing team. So those people who are working for the southern states, they will be from the South and those who are recruited for the North, they will be from the respective states like that, we have worked out, and that is how the hiring is taking place. This is where how we are proceeding.

Gaurav Jani: Can you give the examples of these region banks, sir, if you can, I mean.

N. Kamakodi: So, for example, you had KVB, they got a team from Kotak and Axis and other banks. You might have also seen a bank like Karnataka Bank, who is also in the process of building that team. So this is how things are going.

Gaurav Jani: Sure. Okay, Secondly, sir, on margins. So we ended the full year at 3.65, right, for the full year? And you did mention that you're looking at about 5 to 10 basis points plus minus. My only issue is sir, I mean, given that you would focus on retail secured plus unsecured and large retail -- so how do you sort of ensure that margins or product is given also the fact that 55% you're looking at a decline of interest on interest rate environment for the next 1 or 2 years.

N. Kamakodi: Yes, it's a continuous process. We have to be very careful in the incremental asset mix, the product price mix, product price return, the risk metrics and -- the measurement whatever we had been doing in more unstructured way in the past; the things have to get into a structure. And the proper backup things are definitely underway. Ultimately, everything has to boil down to your ROA.

Gaurav Jani: Understood. Understood. Sir, last question, I mean, although you did mention that you want to give guidance right now. But I'm sure we're confident of a double-digit growth at least, right, for FY '24, I mean maybe early or maybe mid-double digits, but we are confident of a double-digit profile.

N. Kamakodi: Yes, that is precisely what we are working to get that as quick as possible. And then only we will be in a position to accelerate.

Moderator: The next question is from the line of Prashant Kumar from Sunidhi Securities.

Prashant Kumar: Yes. So just to recap, as you mentioned, cost to income will increase and it will be around 47% to 51% for current financial year. So just to understand what has been changed in the basic business model. And as per last con call, as you mentioned, 43% to 45% of guidance, so even though earlier, it was around 40%, 41%, 42%. So it is significantly moved up. And as we are going into the retail assets, so obviously, the cost will be higher, but I think so the income growth will also will be higher. So is it -- I mean, how it will work to control the cost and if you can give some maturity, right?

N. Kamakodi: Yes. As we have discussed in the earlier questions, there are basically 2 things happening. One, we have made investments in the technology and the investment in the people in building teams, sales verticals and things like that, which has not been there in the past.

So we are taking the cost upfront and there will be some more time before we get the return, and that's why. To start with, there will be increase in the cost-to-income ratio. And the cost income ratio has to moderate and start coming down when this incremental expenditure starts giving you the income. That is point number 1.

Point number two, there are 2 developments, particularly on development and on derivative thing, which is also responsible for this aberration in the cost to income account. One is that the changes in the treatment of the treasury, you will not be able to book profit from the treasury as we had been doing it in the past. So that is one thing, which is going to haves some impact on the other income front. Similarly, on the other income front, if you have more recoveries from the technically written off accounts, it will help you to save your cost-to-income ratio because it is getting accounted in your income.

And if the recovery is happening from the live accounts they will be helping you to save your credit cost. But the ultimate impact on the ROA will be same, whether you recover from the technical written-off account or you recover from your live NPA. So these 2 things are, contributing for the increased cost-to-income ratio. And you are right in suggesting that once this incremental investment starts giving results, there has to be definitely moderation in the cost-to-income ratio stage-by-stage.

Prashant Kumar: Okay. So is it fair to assume that FY '26 will reflect -- I mean, to earlier guidance around 43% to 45% range?

N. Kamakodi: No. As I told in the past, it should be in the range of 47% to 51%, I mean 47% is our annual current cost-to-income ratio for the current year and 51% is for last quarter. So for the year 2024-25 has to be somewhere in between.

Moderator: As there are no further questions from the participants. I now hand the conference over to the management for closing comments.

N. Kamakodi: Thank you all for coming for this conference call. But just to sum up, things are definitely showing improvement. The growth in the fourth quarter is definitely encouraging. Going forward, as I told already, incremental capacities are being created for the sales verticals and also in technology in terms of digital lending and things like that, they should definitely substantially improve things as we go forward.

We hope the financial year '24, '25 has to be substantially better, and we should be seeing the numbers as we progress. If you have any number related query or any specific numbers, as usual, you can get in touch with Mr. Jayaraman or Mr. Raguraman whose number is there in the presentation. And thank you all for joining us today. Thank you.

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