"City Union Bank Limited
1QFY24 Earnings Conference Call"
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MODERATOR: **MR. PRABAL GANDHI – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to City Union Bank 1QFY24 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 assistance during the conference call, please signal an operator by pressing star then zero on your touchtone 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, Aman. Good evening, everyone. On behalf of Ambit Capital, I welcome you all to first quarter earnings call of City Union Bank. From the management side, we have Dr. N. Kamakodi, MD and CEO; and Mr. J. Sadagopan, CFO. Without further ado, I'll hand over the call to Dr. Kamakodi for his opening remark, and post which we can open the floor for question and answer. 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 unaudited financial results of City Union Bank for the first quarter ended 30th of June 2023. The Board approved the results today, and I assume all of you have received the copies of the results and the presentation. You might also have seen the announcement of our Annual General Body meeting to be held on 23rd August 2023, which will happen through virtual mode. On behalf of the Board and the bank, I invite all of you to participate in the AGM.

During Q4 FY '23 con call, we had detailed discussion about the headwinds in margin, base figures and growth. Despite those challenges, we had said that we should be closing FY '24 with a decent PAT growth, substantial reduction in net NPA, improved coverage ratio and ROA close to our long-term average of 1.5. Our advance had grown by 4 % in Q1 '24 as compared to Q1 '23, that is 30th June 2023 to 30th June 2022, and stood at INR.42,405 Crs.

As we said in our earlier con call, the first quarter will be quieter in terms of the growth. As announced earlier, we are aiming for double-digit or at least 12 to 15 % whatever we had announced earlier, which would be skewed towards the year-end. No major changes expected in the composition of advances what we told you.

As said during our last con call, we had appointed Boston Consulting Group as our consultant to upgrade our existing digital lending processes. We expect that benefit of digitalized lending process, will get transferred into the growth in the second half of the FY’24.

Our deposits stood at INR 51,655 Crs for Q1 '24 as compared to INR48,772 Crs for Q1 '23, registering a growth of 6 %. Our net interest income had grown by 15 % in Q1 '24, increased to INR1,266 -- our interest income has grown by 15 % in Q1 '24 and that increased to INR1,266 Crs from INR1,099 Crs in the Q1 '23.

Basically, we had a subdued growth, as we discussed during the last con call. When we compare our growth rate with almost all of our peer banks, the growth rate is lower. But the growth rate in the retail, agriculture and MSME together, particularly on the retail front, all our peer groups have shown substantial growth. And also the co-lending and all have helped them. We are also in the process of evaluating those prospects and those processes.

Until last FY, we used to consider recoveries made from the slippages and upgradation happened in the NPA accounts from the quarter ended to the date of approval of the accounts. Because of the regulatory observations in this quarter, we had not considered the recoveries and upgradations happened after the quarter ended. However, NPA accounts, which got closed between the quarter end and the date of accrual accounts have been considered.

The recoveries from the slippages in the Q1 FY '24 to the tune of INR 75 Crs and upgradation to the tune of INR 23 Crs in the live NPA account were not considered in the NPA collection happened from 1st of July to the date of audit, which we used to do it in the earlier times. Because of the above changes in accounting, the slippages for the current quarter is elevated at 3.6 % (annualized basis), our gross NPA is at INR 2,081 Crs, Gross NPA stood at 4.91 %, our net NPA stood at INR 1,039 Crs and NNPA ratio to 2.51 %. Had we followed the old method, the slippage would have been less by 70 basis points, that is about 2.9 % annually. And our gross and net NPA would have been lesser by 23 basis points.

The spike in the slippage and the NPA will be one-off this quarter, and will get back to the normal levels, as I said above, based on the collections of about INR 98 Crs will be included in the second quarter that has happened between quarter ended date and the audit date.

With respect to the provision coverage ratio, we had stated that we will reach 70 % PCR with the technical written-off and 50 % PCR without technical written-off in the second half of the FY. But we have achieved the target in this quarter. Our PCR, including the technical written-off, as on 30th of June 2023, stands at 70 % and our PCR without technical written-off is at 50 %. Mainly, we use the extra provisions, whatever we had made for the Spicejet account which got closed. We will strive to maintain this level in the future also.

Overall, SMA 2 numbers to total advances now stands at 2.45 %. Our standard restructured assets got reduced to 2.69 % of the total advances as on 30th of June 2023, from the peak level of 5.91 % to the total advances in September 2021. On the yield front, we had passed policy rate hikes and it started to show our yield on advances increase and it currently stands at 9.53 % for the current quarter, showing a sequential increase compared to previous 2 quarters.

Similarly, the policy-rate transmission had its effect on the cost of deposit front also. Our cost of deposit stood at 5.36 %, showing a sequential increase. The net interest margin for the current quarter ended is 3.67 %, similar to what we had in the last quarter.

Our other income for Q1 '24 is INR 191 Crs, against INR 218 Crs in the corresponding period last year. It was mainly because we had a few major recoveries in lumpy cases in the corresponding period last quarter, which is not available in the current quarter. The cost-to-income ratio for the first quarter is 41.98 % compared to 39.78 % in the corresponding period last quarter. Our expectation for current FY will be between 42 to 44 %. In the absence of treasury profit what we had in the last FY, despite increased provisioning and elevated slippage, the current quarter profit is at INR 227 Crs as against INR 225 Crs in the first quarter last year. Our ROA stood at 1.4 % for the current quarter, showing sequential growth from the last quarter.

During the second quarter, we had declared a profit of INR 275 Crs because of various favorable factors, so many factors may not be available this time. So for the second quarter, there will be, some amount of dip in the profit, but it will be compensated in the H2 because of expected lower slippage and the improved recovery for the year as a whole.

Even though we had about a sanctioned the limit of cash credit limit by about INR2,000-odd Crs, the utilization in the CC limit currently stands at about 70 to 72 % which used to be 78% to 80% earlier. And also lot of growth by our peer group banks is from opportunities of co-lending and growing assets by retail. We are also now looking at opportunities to use that.

Taking into consideration all these things and also the expected digital lending to come on track, we should be able to, get to the double digit and close to 12 to 14 % as what we have promised during the second quarter. So all the actions are currently in place. We should be in a position to see that in the second half.

Board had its meeting held today, formed a subcommittee for a smooth succession planning. As you all know, my current tenure will get completed on 30th April 2026. The committee is assigned with the task of finding a successor and ensure a smooth transfer of responsibility when the tenure ends in 2026, considering the fact that there has to be an overlapping period between the successor and myself, which will be a slow and steady process happening over a period of time.

And also, in this tenure, my focus will also be on 2 things. One, as I said, accelerate the proper implementation of the digital lending, the project initiated with the BCG, and ensure that the growth is accelerated. And also to strengthen the leadership team, which will make the organization future-ready with added expertise on digital, retail and other areas where we need to strengthen our skill sets, which will become the growth engine for the future.

To sum up, we are taking measured and right steps towards the growth in advances, enhancing the customer experience by a way of digitalized lending and better efficient underwriting methodology. This may take a few quarters to show the benefits in our top line and bottom line. We are working hard to achieve the FY '24 double-digit advance growth between 12 to 14 %, PAT growth, and etcetera. As I told earlier, last year, during the second quarter, we had declared a profit of INR 275 Crs because of various favorable factors. So for this time, sequentially the trend will be followed, but it may not be crossing INR 275 Crs, unless and otherwise any one-off thing shows up. But all these dip will be compensated in the second half and overall the year. We are saving hard to achieve, a 4-digit profit figure for the current year, for which the important drivers will be reduce the slippage going forward and the improved recovery as we have shown between FY '22 and '23.

With this opening remarks, I leave the forum for the discussion. Over to you all.

Moderator: The first question is from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Sir, in the opening remarks, you mentioned that you will be looking at evaluating certain co-lending opportunities. So if you can just elaborate further on what kind of businesses and what kind of partnerships you're looking at?

N. Kamakodi: Basically, just now we are starting and when we got into the first-level interactions, we are able to discuss with a few of the NBFCs based out of the Tamil Nadu where the bulk of the lending is happening on the vehicle front and also in gold loan. What we are basically looking forward is the co-lending opportunities in the secured front -- secured advances, predominantly we are expecting them to be in either the gold loan front or vehicle front or the housing loan front.

Rohan Mandora: Sure. And just when you're looking at gold loans, so we also do directly. So will the customer segment be different of these NBFCs?

N. Kamakodi: Yes. Basically, these gold loan companies with whom we are discussing the opportunities, bulk of them, the majority of their business is coming from the non-Tamil Nadu where we are very strong in the gold loan. But the the names and other things, which I don't want to disclose now. Basically, their main areas of operation is predominantly non-Tamil Nadu.

Rohan Mandora: Got it, sir. Second is that in terms of the digital lending that we are evaluating at the consultant, so when do we intend to launch that? And what kind of customer profile will be target to that? What kind of businesses are we looking to do?

N. Kamakodi: See, basically, as I discussed in the last quarter con call, initially, we are starting with our existing customer base and to make the part quicker and give better approval rates and things like that. So it will first start with the MSME lending, less than INR 5 Crs. Parallelly, it will process the renewal which will give a lot of free space in our processing capacity.

So after that, it will be getting into improving our presence. We have a small housing loan portfolio. The opportunities where we can improve our TAT is the fundamental requirement of these digital lending processes for which the policies have already been finalized and the preparation of the software and scoring model are underway. So they should be coming on track during the second half. Our current level of turnaround time is 1 week to 15 days. This will improve that probably to 1 to 2 days for giving the soft approval, followed by other policy, the legal opinion and the other procedural aspect, which has to be taken into account.

So we are not starting with the unsecured lending. Apart from our existing portfolio and focus areas like MSME, commercial trading and also the housing loan, we find a significant number of our existing customers using housing loans from other banks. Hence, this particular action will improve our penetration or improving the wallet share.

After that, the other secured products like LAP can be introduced slowly, for which the digital lending process will improve the TAT.

Rohan Mandora: Sure, sir. And sir, in your opening remarks you said that whatever collection would have happened in July, you were adjusting that as part of recoveries in the slippages part. So I just want to understand, earlier when that recovery was adjusted, was the account going back to 0 DPD or below 90 DPD for you to classify in that recovery?

N. Kamakodi: 0 DPD. So you can upgrade the account only when they become 0 DPD.

Rohan Mandora: Okay. Okay. Okay. And then lastly, why was the tax rate lower this quarter?

N. Kamakodi: Basically, you have 2 things - in terms of write-off and in terms of extra provisions. Basically, the taxable income is reduced by INR 133 Crs after taking into account the provision and the write-offs that have been made in this quarter when compared to Q1'FY23. Hence total tax provision is reduced by INR 133 x 25.17 % i.e INR 33.50 Crs. So we have made about INR40 Crs for this quarter against INR 70 Crs we made for Q1'FY23.

Moderator: The next question is from the line of Alagusundaram, as an investor.

Alagusundaram: In terms of the bad debt, there seems to be a substantial increase in provisioning in comparison to the previous quarter. And also, there is a reversal of provision towards contingency. So is there any specific details which can be shared on this?

N. Kamakodi: Yes. Basically, we had that extra provision for the Spicejet. Since that account is closed, we had to reverse that. We were talking and a lot of discussion about improving the provision coverage ratio above 70 and 50 taking into account the technical written-off and free from technical written-off respectively. So we use this opportunity of that reversal to, improve the provision coverage ratio, and that's how it has gone.

If you had a chance to look into the NPA slippage for FY '22 and '23, they were hovering about INR 1,200 Crs to INR1,300 Crs. And this year, we expect the incremental slippage to come below INR 1,000, maybe between INR850 to INR1,000 is what is expected this year. Year as a whole, you might have seen the total live recovery plus technical written-off recovery also improved between 2022 to 2023, about INR 250-odd Crs. We expect some improvement over there. Year as a whole, we expect our net NPA to come below 2 %, closer to whatever we had during the pre-COVID level of 1.75 % to 1.80%, something like that.

Alagusundaram: No, that is comforting. And also, you were mentioning about digital lending, where you're saying that the focus will be more towards gold loan and also vehicle loan, am I right? That is what you are mentioning.

N. Kamakodi: No. The question was on co-lending and the portfolio buy out. That will be secured - like gold loan and vehicle lending.

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

Jai Mundhra: Sir, first question is on opex, right? So if I look at our staff -- number of staff or staff spend, Y-o-Y, it has increased by around 20%, from around 5,300 to 6,300 headcount. This is also a year of where at least while we are not attached to IBA, but still the IBA salary, banks have started making provision, anywhere between 10% to 15%. And we also have a 19%, 20% rise in the headcount. In that context, sir, what do you think would be your staff cost for FY '24 Y-o-Y? I mean what kind of staff cost growth can happen in '24?

N. Kamakodi: See, basically, you might have seen Q1 last year to Q1 current year, there is not much growth in terms of staff cost. It is basically because, when you make the staff cost, it is your basic salary and other benefits plus the provisions you need to make for the leave encashment and other future benefits, which is a function of the interest rate for which you need your actuarial calculations and things like that. There was no need for making additional provisions this quarter because of the increase in the interest rate assumptions and things like that.

Number two, we are not part of IBA. And we have already slowly and steadily getting ourselves into the CTC remuneration structure. Also we had never been a part of the pension scheme, as our pension is defined contribution and not defined benefit. So overall, our expectation is that definitely in tune with the overall headcount. There will be some amount of increase. So around 10 % average incremental, maybe 10 to 12 % incremental salary will definitely happen.

Jai Mundhra: Right. So sir, 10%, 12% is the wage revision. And we also have a 20% higher headcount also, right?

N. Kamakodi: No pay revision. It will be because you are into the CTC structure and annual incremental thing will continue, and there is no concept of pay revision at all.

Jai Mundhra: Right. Okay. But -- okay. And sir, is this -- the second question is related to growth, right? So while every first quarter, we see a QoQ decline. But in this quarter, the absolute rupee decline from March level has been very high. It is even higher than first quarter when the COVID had hit us or hit the banking sector in first quarter of FY '21. So is that also a function of the bank moving to CTC? Is that -- I mean the growth -- the lower growth is also a function or somewhat related to CTC migration?

N. Kamakodi: No. Actually, we had about INR 835 Crs negative, which was the earlier highest, as you said rightly, in the year '19-'20. This year, basically, we are seeing a pattern. As you know, typically, about 55, 60 % of our non-gold loan portfolio is from the cash credit and balance, 42 %, is from newer term loans. What is basically happening, what trend we are seeing is that the cash credit utilization, which normally used to hover about 78 to 80 % is getting moderated to about 70 to 72 %. That's the lowest we are seeing.

And also some amount of repayment in the agricultural gold loan happened. So for which we need typically the acceleration of about INR1,000 Crs to INR1,200 Crs every month to have my average growth rate going forward.

We have not gone into the retail lending and also on the services lending or NBFC lending in the past. Now I think we have to get into those segments and also to take it to the double-digit growth rate for the current year, for which we have started making our initiatives.

Moderator: We'll move to the next question that is from the line of Amish Thakkar from Siguler Guff India Advisor.

Amish Thakkar: Yes. I have 2 questions, sir. One is you just mentioned that banks will have to get into some newer segments to get to a 10 -- 12% to 14% sort of a growth rate in loan book this year. So is there a short-term challenge in terms of the core MSME segment, which has been the bread and butter and the core segment for the bank? And what will be long-term average -- because some of the other things that you mentioned would be new to the bank. Is there a separate team or a separate vertical that is being assigned? So that's question number one.

And question number 2 is on you've been maintaining that the gross slippages and the net slippages are improving, which we have seen over the past 2 years, but -- versus whatever you indicated for the whole year. This quarter has been slightly higher. If you could just maybe help us understand why this number is looking so high versus the annual guidance?

N. Kamakodi: See, on the first 2 questions, in terms of going for the newer opportunities, our expectation is that when we want to grow by a double-digit growth of 12 to 14 % for year as a whole, the arrival of digital lending process will improve our task going forward and it will just get us to the double-digit growth.

We have existing team to take care of dealing with the other NBFCs, portfolio buyout, co-lending and tie-ups with the NBFCs etc., and we have started working on these lines

But for improving the retail loans like housing loan and other segments, we need to go for the verticalization, for which we have started the action. But to have them in place and have a meaningful incremental, it will take a few quarters, if not a few years.

So the initial growth rate has to both come from our existing MSME, commercial trading, etc., where, we have started seeing requests for capital investment and expansion. On the co-lending and corporate relationship, we have our existing mechanism and some amount of internal capacity is already there. But for other retail things and all, we have to take a few quarters to build them, and it will be the future growth engine, as I started at the beginning.

And coming to your slippages front, we had always taken collections, if the account is closed or if the account is upgraded with a total repayment. We hope this year, our total slippages for the whole year should be less than INR1,000 Crs. We should be getting about not less than INR 200 Crs to INR 300 Crs benefit in the slippages. So about INR98 Crs the benefit which we did not take in the first quarter right away, which is available for my second quarter and which we'll get to average it out as they move forward.

Amish Thakkar: Okay. Understood. And sir, as a follow-up to your first explanation. If I was to look at or we want to look at a 3- to 5-year glide path for the bank, how much -- what would be your aspiration and achievable goal in terms of a 5-year loan book growth rate? And at the end of that 5 years, what would be the contribution of these newer verticals, which are housing loans or some of the other things that you would want to set up with self-sourcing engine. What would be the contribution of that loan book? What would be the aspirations?

N. Kamakodi: Going forward, my expectation is that it should be close to 15 % is what we are expecting in that newer portfolio of the co-lending.

When we use the capacity created by the NBFCs and other fronts, this should come close to about 7 to 10 % of our overall loan book maybe 5 years down the line. Under the retail, our regular MSME, commercial trading, gold loan etc., can have a growth rate of about 10% to 11% and incrementally about 25 % of the growth rate will be constituted by these new lines of activities. Together, they should be constituting about 12 to 15 % in our overall book in a 4- to 5-year timeframe.

Amish Thakkar: So 10%, 12% of loan book would be co-lending and portfolio buyouts. Another 10-odd percent will be self-source retail loans for which you are setting up the verticals. And the balance, 75% to 80%, would be the core book that we have today, the MSME loans, the agri loans and the agri gold loans and gold loans. Is that...

N. Kamakodi: No. No, no. The 85 % will be from my existing portfolio combination, 15 % will be from the new areas. In that 15 %, about -- around 8 to 10 % will be from the co-lending and other areas. And about 5 to 7 % will be from the increased retail and other area which we are building our internal strength.

Moderator: The next question is from the line of Rakesh Kumar from B&K Securities.

Rakesh Kumar: Yes. Sir, just firstly, slightly going in the background, we have had quite a strong rise in the funding cost, term deposit costs going up by around 90 bps or so. In the previous quarter also, we had quite significant rise in the term deposit cost. And so overall funding cost has been rising. So what is the reason that we reduced our MCLR by around 25 bps in previous quarter. So what is that causing us to take that decision?

N. Kamakodi: See, it was mainly because of regulatory observation. In the regulatory observation you have various components of the MCLR like your basic funding costs with your other margin and all. In that, we had a markup within our model for which, there were a lot of discussions. And based on the regulatory observation, we had to take that margin up and that's why it is there.

Rakesh Kumar: Sir, this specific regulatory observation, what you are saying that has happened to us actually to the bank...

N. Kamakodi: Yes. It was an observation when they look into the components of the MCLR. This is extra 15, 20 basis points mark-up, what we had in the MCLR, we had to take it out of the MCLR.

Rakesh Kumar: So this is the occurrence of this quarter or it happened in the previous quarter, sir?

N. Kamakodi: No. It was based on the observation last year. This is after so many discussions happened later.

Rakesh Kumar: So implementation has started taking place from Q4 or Q1, sir?

N. Kamakodi: No, it started from the Q4 '23. Finally, overall yield in the first quarter is more than the Q4. Even though the MCLR has reduced, other transmission and the individual calculation change has helped the overall yield of the portfolio to sequentially increase.

Rakesh Kumar: Got it, sir. So actually, I was correlating the kind of reduction that we have seen, and this was kind of outlier in the entire banking sector that we have seen in this last quarter. And second thing also that the credit volume growth was also kind of quite tepid. So is it the case that just to remain competitive, are we catering to a completely different segment of customers? Is that the case also?

N. Kamakodi: No. Basically, it is the same customer, same business what we are doing. The difference between us and our other peers who are showing other volume is that, over and above the regular businesses from the MSME lending and all, the contribution of the retail products like housing loan and co-lending are giving them substantial tailwind in terms of growth. So far, we had restricted and kept ourselves out of that particular segment. The change in the environment is coming to a point that we also need to get into the bandwagon to take things forward.

And one good thing is that, in terms of the granular, there are not many changes. And that's why earlier, we focused more on the other business lending, but the market has now repeatedly showing that the risk-adjusted returns should not be as bad as we were thinking originally, which is making us to really look into our focus and also get into this bandwagon.

Moderator: The next question is from the line of Punit Bahlani from Macquarie.

Punit Bahlani: Just on the slippages bit, you had mentioned that 70 bps is -- the slippages must have been lower by 70 bps because you didn't recover close to like INR 98 Crs. Or you didn't account for that? Could you elaborate on that because I missed the opening comments.

N. Kamakodi: Yes. See, basically after the quarter end, before the audit, if the account is fully closed or if the account has come back to 0 days past due by totally making the payment, we used to give credit in the NPAs. But based on the regulatory observations, what we have now done is that we have not given any credit for INR 98 Crs in the first quarter, which we will be having it in the second quarter.

Punit Bahlani: Okay. So INR 98 Crs, those accounts are only partly paid, like you have not completely...

N. Kamakodi: No, no. INR75 Crs -- where total overdue is paid. And the INR 23 Crs, it is in the opening balance. In normal course, we have all along been using them and that is the way that's been practiced. And this time, we have changed that, which is a time difference, which will be observed in the second quarter.

Moderator: The next question is from the line of Prakhar Agarwal from Elara.

Prakhar Agarwal: Just a follow-up to previous question. So you possibly also didn't account for the additional slippage that happened between the balance sheet closing and the audit date. So what would that number be?

N. Kamakodi: About INR 30 Crs, INR 40 Crs will be the normal thing, which we will be considering

Prakhar Agarwal: So you said there were some repayments on agri gold loans and the utilization levels has dropped to historically low level. What do you anticipate the reasons are for these 2 statements?

N. Kamakodi: See, we discussed at length in the last couple of calls. It was on the agricultural gold loan on which a few observations by the regulators on the interest subvention and hence, we had to withdraw the particular product. Now we have made another product different from whatever that was given. Now things have started coming back on track. So gold loan we have started seeing positive growth in the non-agri front, wherever people need more money and things like that. So we don't have any issue.

Coming to the lower utilization of the cash credit, after many, maybe not just quarters, years, now only we have started actually seeing request from the customers on the capacity expansion, investment in the power generation and like solar or windmill and things like that. Maybe after 2019, almost after 4 years, now only we have started seeing those discussions which is giving me some hope that those things should be back on track.

Prakhar Agarwal: Got it. Sir, in terms of overall, when I look at growth versus margins and given where your cost of deposits are moving and the yields that you probably highlighted, first is where do you anticipate to close your full year margins for this FY '24? And in case that growth doesn't pick up, are we willing to sacrifice this for growth? What is our thought process?

N. Kamakodi: See, this is my 49th quarter I'm discussing. Out of the 49 quarter, if you see about the 40 quarters-or-so, our overall net interest margin, except for COVID period, it used to be between 3.4 and 3.7. It used to expand when the interest rate cycle is on the northward trend, and it used to contract when the interest rate cycle is coming back.

In the last cycle, because of PCA and a lot of things, the margins have stabilized around 4 %. As I explained, our average CD ratio we had to get it to 82 % from 85, 86 % where we used to operate. Our expectations for the current year is, our current level with maybe plus or minus 10 basis points, we should be able to move forward. And of course, good traction for the growth which will be translating into net interest income growth, compromising for a few basis points for the net interest margin. It always happens when you get into the decreasing interest rate cycle in the past.

Due to the inflation and other things, the expectation on the rate hike is diminishing. And maybe at the beginning of the next year, decreasing interest rate cycle may start. Before that point, both the cost of deposits will stabilize. Net interest income will also stabilize. And when the decreasing interest rate cycle starts, you will get into this dilemma and probably every cycle it happens in this way only.

Prakhar Agarwal: Sir, just 2 more questions. What happened to the tax rate? I missed the comment. So what happened to tax rate this quarter? And the numbers seems to -- the rate seems to be reasonably lower.

N. Kamakodi: See, the total taxable income is INR 133 Crs less compared to the last quarter of this year. So after you consider the 25.17 % tax rate, the net tax incurred for the current quarter is less by INR 33.50 Crs, and hence we have provided INR 35 Crs as against INR 70 Crs in Q1'23.

Prakhar Agarwal: Got it. Sir, just one last question. In terms of your succession planning, what is the logic of having this plan starting so early? So you have tenure until '26, and you just got a term for 3 years. What is the thought process of starting the succession planning so early?

N. Kamakodi: See, the point is it's always very difficult to find somebody exactly on time. Our planning is that you will need not less than 6 months to 1 year to identify a successor. And he needs to be with us for not less than 1 year for a smoother transition. After that, you have to apply to RBI to get the approval and it is a long-standing process. Probably, you will need some time to discuss what type of successor you want and things like that.

So it has to be done in stages, have multiple choices, evaluations and all. And it's something which happens over a period of time. I mean in all other cases where the successor just comes on the last day or even 1 or 2 days after the incumbent left, that process, it will take not less than a year.

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

Gaurav Jani: Sorry, sir, I missed your comment on the expected loan growth for '24. So did you mention 12% to 15%?

N. Kamakodi: No. We said 12 to 14 % in the last con call. We are still working towards achieving that towards the end of the current year.

Gaurav Jani: So sir, just an extension of that, right, 12 to 14 is what you're targeting or probably at least that is what you're starting to achieve. So tying that up with around the comment you made on BCG, right? So could you highlight as to what were the findings of this consultation with BCG? And what gives you the confidence that in the next 3 quarters, you'll actually achieve this sort of a loan growth?

N. Kamakodi: Yes. As I explained earlier, BCG is only helping us to digitize the process, improve the TAT and make the underwriting process better. In that, what is going to basically happen is that the digitization, along with the introduction of the scorecards and things like that, the TAT which we take currently about not less than 1 week to 15 days, it could be reduced to even 24 hours to 22 hours for soft approval. So that is the major requirement which we have given it to the BCG on which all the requirements are being worked out, which will enhance both our approval rate and also our conversion rate.

I also clearly explained, our existing business mix of MSME, trading, agriculture and gold loan put together, they will be taking us closer to the double-digit growth. When we compare our performance with most of our peers, apart from the growth from the core sector, whatever that has been done earlier, significant growth is coming from the NBFC lending, co-lending, portfolio buyouts and these sort of things which we had resisted in the past. Now the overall developments in the market and also the practices and all, we have to get into that practice also.

Along with that, another major factor, which is giving them all incremental growth prospects are from the retail lending from the housing loan, loan against the properties and all such things for which we have to build the capacity. So all these things put together, our hope is that it should be getting us to what our growth rate that is coming into.

And also, as I told, there was a significant reduction in the CC utilization. And after many years, now only we have started seeing the requirements of our capacity expansion and the capital investment in the MSME sector, almost after 3.5, 4 years, we are seeing the trend. So all put together, this should be our core growth comprising of our MSME, commercial trading, gold loan and things like that should get us close to the double digit. And the balance, 4, 5 %, should be coming from the areas of whatever I explained now.

Gaurav Jani: Just one subpart to this question. Why I ask this to you is because, well, generally whenever you hire a contractor, it just takes time to actually sort of reflect that on the balance sheet, that's number one. I mean the kind of segments you're targeting; typically, those would have lower ticket sizes, right? So it will mostly be focused on volume. So what's...

N. Kamakodi: Yes, yes, yes. See, basically, they are not making any bigger changes in the overall business mix and things like that. Their support is purely for streamlining the processes which they have successfully done for a few of our peer banks, which is now getting replicated.

Moderator: The next question is from the line of Abhilash Hiran as an individual investor.

Abhilash Hiran: Sir, so you mentioned about the BCG hiring. One of the reason was to better the underwriting process. So can you explain what was the usual process? And what changes they are going to bring?

N. Kamakodi: The major change will be in the TAT. So like I said, this improvement in the process through digitization can reduce the soft approval rate from the current level of about 1 week or 2 weeks to 1 or 2 days. Making the tie-ups with the fintech the data can be automated and the processing can be automated. So those things, which they have successfully done in a few of our peer banks, that process is getting replicated in our bank.

Abhilash Hiran: Sir, two questions on the data front. Can you give an advances mix? You're working on INR5 Crs ticket size for FY '23 and FY '22?

N. Kamakodi: Overall in terms of the gross advances, above INR 5 Crs is 21 %. About 80 %, it's less than INR5 Crs.

Abhilash Hiran: This is for FY '23, right?

N. Kamakodi: It is for the June 2023.

Abhilash Hiran: Okay. Historically, has there been any segment that we had entered into and then we closed it out later after understanding perhaps that was not our -- from an underwriting or any reasons perspective?

N. Kamakodi: See, normally, we don't enter any segment in a hurry. We make our own judgment overall. That is the reason why in the previous bad asset cycles, be it in a consortium lending or be it in the infrastructure lending or be it in the unsecured lending, in the past 25 years we track results, we don't do anything in a hurry. And whenever we have gone inside we had not got into any major accidents or anything like that. Things have been steady always.

Abhilash Hiran: So sir, basically, we have never exited any segment that we have entered into, historically?

N. Kamakodi: For example, in gold lending, we started with the single digit. We increased it to 16 %. We got back to 8, 9 %. Then we, once again increased it and it is currently at 25 %. This entry and the exit will depend upon the profitability and the opportunities available at that point of time. And we have not exited any segment because it has given us lots of losses or whatever. We do it on a practical basis, depending upon the alternate opportunities available to us.

Moderator: The next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: What would explain the composition of the slippages? If you were to look at the INR 380 Crs and allocate it to MSME or agri or probably on the retail side, how would that slip look like?

N. Kamakodi: It's almost proportional to our overall exposures only. By and large, your gold loan is not going to have a bigger thing. So everything is going to come from the MSME, commercial and agriculture lending only. So as usual, out of that INR 382 Crs, INR 227 is from the MSME.

M.B. Mahesh: In your assessment, when you look at this segment of the customers, they still haven't recovered from COVID as of date. What explains the persistence of the slippage?

N. Kamakodi: See, the issue is I can put it this way. If you take some of our peers, they had huge issues with the corporate lending or the consortiums. The bulk of their problems got cleared, then at the point itself. Our problems started late and expected to get completed late.

So we see we are almost in the last 10, 15 % of the issues. We typically used to have about, 2 to 2.5 % slippages before the COVID, which increased to about 3 to 3.5 %. This year, our expectation is that we should be getting back to that 2.5 to 3 %, and we are almost in the last leg of that particular issue. So the visibility we are getting now.

As I told in the last con call, we used to have about a 6 to 6.5 % SMA 2 numbers. That number is currently about 2 to 2.5 %, which is giving us sufficient confidence that we are entering into the final segment. I mean almost everybody, either who had problems pre-COVID, are those whose capital got cleared, or who doesn't have a proper business model to make profit in a formalized environment. All of them are, by and large, either already dead or almost in the last stages. Those who survived this period, they will be thriving and growing forward.

M.B. Mahesh: Okay. Sir, my second question is also linked to this. Roughly about INR 1,400 Crs of technical written-off pool is still available. But yet, recoveries in that book has been a bit slow. Given the nature of the collateral that sits there, what explains a slow recovery in that segment?

N. Kamakodi: The main impediment which is happening currently is your legal system. The recovery happens through 3 things. One, negotiated settlement; number two, DRP; number three is the SARFAESI. We go for both legal routes in terms of DRP and also through the SARFAESI, which makes some pressure for the borrower to come for the negotiation table. Last year, you had almost half of the DRPs did not have a presiding officer. Amendments were made in the SARFAESI Act and particularly during the COVID period of 2 years, the legal system, particularly on the recovery front, was not basically working.

So our expectation is that out of this INR 1,400 Crs 40, 50 % should be recoverable. To take the physical position through SARFAESI Act, that power is now given exclusively to the Chief Judicial Magistrate. There is also some amount of delay happening. But overall, whatever we are recovering in the past, we are able to see that happening on an ongoing basis.

Moderator: The next question is from the line of Ashish Agarwal from BNP Paribas.

Ashish Agarwal: Yes. Sir, in the last call, you highlighted that your approval rates have gone down primarily due to tightening of your credit standards. Do you see stress kind of set in the MSME segment? And how do we see disbursements from here? Because I know you kind of mentioned that your loan growth came out due to repayments of agri gold loans and utilization of lower credit limits. So are you seeing any stress in the MSME segment, which could impact your disbursements from here?

N. Kamakodi: Definitely, we have started seeing improvement in the approval rate. That is one of the reasons, we accelerated the BCG project because of which it will improve things further. Already, we have started seeing things improving. And we should be seeing that approval rate improving from where they were.

And I have to admit some amount of rejections, we were too stringent more than what it was required. And now we are getting back to our normal pre-COVID level of approval rate, whatever we want to, by properly trying to have some extra points to measure. Things are definitely improving on the positive side.

Ashish Agarwal: I guess, sir, just a follow-up on that. So what is the approval rate for the quarter, if you can just mention that.

N. Kamakodi: Yes, yes. See, we used to have about 50 to 60 % approval rate during pre-COVID. After COVID and last year it came down as low as 25 to 30 %. Our expectation is that we should be getting back to that 50 % plus when digitization gets completed. Until that point of time, we will be seeing a step-by-step improvement from 30 to 35%, 35 to 40% and things like that.

Moderator: The next question is from the line of Chintan Shah from ICICI Securities.

Chintan Shah: So just expanding on the previous question on the BCG. Any timelines on when we will be starting with this digital lending or the co-lending arrangement?

N. Kamakodi: It will start from the third quarter.

Chintan Shah: Okay. Okay. So sir, considering that we have guided for a loan growth of 12 to 14 %, any ballpark numbers of what could be the growth from H1 to H2? Since considering that we already had de-growth in the first quarter, 12% to 14% looks kind of on the very much optimistic end.

N. Kamakodi: Yes. See, normally, we used to have about 1/3 of our growth in the first half and 2/3 of the growth in the second half. This time, since we are also looking into some amount of the co-lending, you're concern is rightly placed. But we are taking all our steps to get into that point. One of the things which is giving me some amount of extra confidence is that, after almost 3, 3.5 years, some sort of investment cycle in the MSME cycle, we have started seeing. When the CC utilization improves, that itself should be giving me some amount of incremental growth. So let's hope for that, and we are putting our best effort to achieve those numbers, what we are discussing.

Chintan Shah: Sure, sir. And sir, lastly, on the opex front. So given that we have done the tie-up with the BCG and many digital initiatives are in place, so this is likely to keep the opex elevated, as you mentioned. So then what should be the key ROA drivers in this FY '24 apart from treasury? Anything more on the operating front? Margins are probably likely to be stable. So anything else I'm missing?

N. Kamakodi: Yes. Bulk of our expectation is about INR250 Crs to INR300 Crs reduction in the slippage. So that should give me some amount of a breather. The maximum amount of that lever has to come from the credit cost. So we should be getting back to our pre-COVID level net NPA position during the year-end with reduced credit cost, which would be giving us the lever for that.

Moderator: The next question is from the line of Aravind R from Sundaram Alternatives.

Aravind R: You were talking about this new co-lending business. Like when we talk about vehicle loans, is it like commercial vehicle or personal vehicle? That is one of my questions.

And in terms of our growth in the first quarter, like I could see like MSME being very weak, and that is one thing. And where do you think the growth will come back from, again, in terms of sector or something like that?

And just one more thing, like the yields have improved, but also I could see like a lower yielding segment like agri in terms of proportion of the loans are just coming down. That is one of the lower yielding product. So I was trying to understand like how much of the mix change actually contributed to the yield? Or is it just from the repricing effect?

N. Kamakodi: Yes. Your question on the vehicle loan, it will be a mix of commercial vehicle and personal vehicle, but bulk of it will be for the commercial vehicles. The question, on the yield front, it is mainly not because of any major change in the product mix, it is because of the interest rate, passed on because of monetary policy.

Aravind R: I was talking about like MSME growth being -- where do you see the growth coming back from like -- which sector or which segment would be the driver for it?

N. Kamakodi: Yes. I mean two things I'm basically expecting. One, after many years, some sort of proposal for the capital investment has just started coming, which I hope should accelerate in the second half. And number two, the digitization and the digital lending is available during my second half for the MSME. It should reduce my TAT and improve my capacity utilization. And, the cash credit utilization also we expect to see some improvement. All put together, it should be helping me to get back to the double-digit growth.

Aravind R: Okay. Just one more question, if I can, like what could be the guidance for NIM for this year?

N. Kamakodi: Current level, plus or minus 10 basis points.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you, and over to you.

N. Kamakodi: Thank you all for attending this conference. We are taking all efforts to improve the growth, as we said, and all the initiatives we are taking should be helping us to get it to the next leg. So our focus now will be to streamline the existing processes, augment the skill sets and the capacity needed for the new areas, be it retail lending or other co-lending and things like that, and ensure that the organization is future ready by building the bench strength as we move forward in the next couple of years to take things to the next level orbit.

So if at all, you have any specific data points or other things, the contact details of our General Manager, Mr. Jayaraman, is there in the presentation, which you can connect as such. And thank you all for attending this con call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of AMBIT Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.