"City Union Bank Limited
2QFY23 Earnings Conference Call"
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MANAGEMENT: **DR. N. KAMAKODI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CITY UNION BANK**

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

Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank 2QFY23 Post Results Analyst 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 this conference call please signal an operator by pressing star and then zero on your touchtone telephone. 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. Good evening everyone and I welcome you again on behalf of Ambit Capital for City Union Bank's Second Quarter Earnings Call. We have with us N. Kamakodi Sir, MD and CEO of City Union Bank and his team. I will now hand over the call to Kamakodi sir for his opening remarks, post which we can open the floor for question and answer. Thank you and over to you, sir.

N. Kamakodi: Thank you, and 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 second quarter and half year ended 30th September 2022. The Board approved the results today, and I hope all of you have received the copies of the results and the presentation. Our bank had celebrated its 119 Foundation Day on 31st October 2022, which is about three, four days back. We are thankful to the, services done by our founders, our past & present employees, past and present members of our Board and all our customers who are with us for multiple generations.

We have an update on the management, particularly on the board constitution. Smt.Abarna Bhaskar, our Independent Director, has retired from the Board of the bank on 24th October 2022. She was inducted to the Board during October 2014 and had served in most of the committees of the Board. I take this opportunity to thank her on behalf of all of us for her valuable contribution.

Today, we have inducted Srimati Lalita Rameswaran into our Board with effect from today. She is a practicing Chartered Accountant and also a qualified information systems auditor (DISA)from The Institute of Chartered Accountants of India. She is specialized in the field of direct and indirect taxation, banking consultancy and also possess experience in appearing before the adjudicating authorities appeal commissioners and tax tribunals representing various financial institutions, including banks and other corporates also. She is currently serving the Board of IDBI Capital Markets and also had earlier served in the subsidiaries of Canara Bank.

On performance front, second quarter ended well and on key parameters like business growth, recovery of NPA, improvement of return on assets -- and also in controlling slippages . As stated in our earlier quarterly con call, going forward, the environment is expected to get better and better, and we have started pushing for growth towards achieving 15 % plus growth towards the year-end.

We shared with you all following expectations for financial year '23 during our earlier con calls. We had said that we would be pushing our growth pedal, and we'll be achieving 15 to 18 % of credit growth for financial year ’23, the expected overall slippages to be in the range of 2 to 2.5 %, slippages should come down and the recovery should improve from current year, resulting in Gross and Net NPA significantly reducing by the year-end.

Net interest margin to stay around 3.85% to 4%. Working towards ROA level to reach 1.5 % -- and cost-to-income ratio may hover between 42 to 45 % in the absence of Treasury Income. The highlights of the performance for the second quarter and the first half of financial year '23 are as follows:

Almost on all parameters, progress is as per expectations shared.

Deposits recorded a growth of 8 % from INR 46,316 crores to INR 49,878 crores year-on-year. Advances grew by 12 % from INR 38,012 crores to INR 42,701 crores year-on-year. Business grew by 10 % stood at INR 92,579 as on 30th September 2022. CASA recorded a growth of 16 %, that is more than the overall deposit growth. to INR 15,609 crores from INR 13,411 crores, and the CASA % to deposits improved to 31 % in Q2 financial year '23 against 29 % in Q2 financial year '22.

Net profit increased by 52 % from INR 182 crores to INR 276 crores between second quarter of last year to second quarter financial year ’23. Return on assets stands improved to 1.72 % in Q2 financial year '23 against 1.32 in second quarter last year corresponding period. For half year ended, 30th September 2022, the ROA stands at 1.59 %. Net interest margin, is at 4.02% for the half year FY-23 and 4.09% for Q2 FY-23

Gross NPA at 4.36 % and net NPA at 2.69 % on 30th Sept 2022- both sequentially got reduced from 4.65% and 2.89%, respectively, from 30 June 2022. As per our expectations, the credit growth is getting back on track. We had grown by 12 % like last quarter in second quarter. As stated in the last quarterly call, we have slowly started pushing to accelerate growth to 15 to 18 % for financial year '23, and the growth will be back as usual.

We have already started taking things in that direction. The results will be seen by the fourth quarter. As done in our earlier con calls, we wish to provide some updates and latest developments about the status of SpiceJet. The management of SpiceJet has started to settle their dues in phased manner as per agreed time schedule. They have been servicing their interest and dues regularly and interest has been paid up to October 2022. So far, they have repaid INR 17.5 crores dues -- and the current outstanding limit is INR 82.5 crores. And the last installment is scheduled for June 2023. And there will be monthly repayments and an agreed schedule is already given.

The slippage during our second quarter financial year ‘23 is INR 261 crores as against INR 270 crores in first quarter financial year '23. The annualized slippage ratio for second quarter is 2.44 % compared to 3.10 % for financial year 2022 showing a sequential decrease.

During the Q2 financial year '23 we recorded a total recovery and upgrades of INR 228 crores, comprising of INR 189 crores from live accounts and INR 39 crores from technically written off accounts, compared to INR 189 crore comprising of INR 128 crores from live accounts and INR 61 crores from technically written off accounts in the second quarter FY-22 and the gap between the slippage and the recovery is about INR 33 crores only. The current SMA2 number stands at 2.26 %, which includes accounts from ECLGS, Restructured & Regular accounts.

The cost-to-income ratio for second quarter ’23 and H1 ’23 was at 38.43 % and 39.10 %, respectively, as against 40.51% and 40.49% for the corresponding period last year. As stated in the earlier con call, the cost-to-income ratio may be slightly elevated because of non-availability of profit-making opportunities from the treasury, maybe around 42 to 45 % as we had discussed in the earlier con calls.

The capital adequacy ratio of the bank currently stood at 20.08 % in second quarter financial year '23 vs 19.24 % for the corresponding period last year. We have not diluted any capital in the last 8 years. And last time, we had raised the funds during July 2014 through QIP route to the tune of INR 350 crores.

Even during the COVID period, we were one of the few banks who could pass through the crisis without going for augmentation of fresh infusion of capital -- the capital adequacy ratio has slightly reduced compared to Q1 financial year '23, mainly because of increased the contribution from non-gold loan portfolio. As our ROE is comfortable, our Retained earnings has taken care of growth.

We have not opened any new branches in the second quarter financial year -- but as stated in our last call, we are planning to open another 50 to 75 branches across different states in India for the current financial year towards the year end.

The operating profit for the second quarter was INR 456 crores against INR 405 crores, registering a growth of 13 %. Operating profit for first half stood at INR 904 crore compared to INR 786 crores for the corresponding period last year, showing a growth of 15 %. Total provision made during the second quarter and first half was INR 180 crores and INR 402 crores, respectively, against INR 223 crore and INR 431 crores for the corresponding period last year.

The net profit for second quarter was at INR 276 crores, perhaps the highest profit we had made so far as against INR 182 crores during the second quarter financial year '22, it's a growth of 52 %. For the half year ended financial year '23, the net profit was INR 502 crores against INR 355 crores in the corresponding period last year. This is for the first time the bank's profit after tax is crossing INR 500 crores in one half. This quarter's profit is highest in the history, and we had crossed INR 200-plus crores of PAT for the past 3 quarters on a continuous basis.

Net interest margin stood at 4.09 % in second quarter compared to 4.03 % in the corresponding period last year. Net interest margin for the first half stood at 4.02 % as against 3.95 % for the corresponding period last year. The RBI had taken steps to restore the repo rate to pre-COVID levels and also we are seeing rate hikes.

We expect the NIM to stay around the current level plus or minus 10-20 basis points.

In our earlier con calls, we had shared our expectation that contribution from improved recovery management coupled with reduced slippage, we are hoping to achieve ROA of 1.50 % by second half of the financial year. We had exceeded our expectation and the ROA for Q2FY-23 is 1.72% and for H1 FY-23 stands at 1.59%

The another major item is that we have been repeatedly even after this result goes out, we got -- we received calls from few of the analysts and the investors, particularly to talk about the growth and also the, let's say, how we are, let's say, how good is our technology and things like that. I have to clearly say that as I told you in the last, let's say, quarter -- we are in the, like say, already started pushing towards growth of 15 to 18 % for the current year. And you will be seeing it firmly in the fourth quarter for which we have already started taking steps. We hope the only negative risk on that will be from the performance of the general economy, the war extends and the oil price stays high for an extended period of time and inflation and which creates the issues in the macroeconomic stability and particularly from the issues you see in the, issues at the economy of the developed countries. But as of now, our expectation is that there should not be much of issue going forward. And still, we feel towards the year-end, we should be closing the financial year 2023 with about, like, 15 to 18 % growth accordingly.

And once again, we are repeatedly being asked about our digital preparedness and we could see and feel some wrong perceptions in the minds of some investors, analysts, particularly about the traditional private sector banks like us in terms of the digital capability. In fact, last year, during one quarterly call I explained in detail about this, I want to reemphasize now. We are almost at par with any new Gen Bank in terms of the technology implementation. Our customers have access to almost all technological services, like any other new generation bank. As you all know, we were pioneers in using robotics and usage of wearables like key chain debit cards. To give you an idea about the select tie-up, which we have done with the Fintech companies, we are continuously evaluating and also evolving in terms of our digital capabilities. And we want to ensure that our customers are not at the disadvantage position, and we are also at par with any developed new generation bank for that matter.

Now we have soft launched voice-based biometric authorization for our mobile banking app, once again as a pioneer. We are working with a company called Zuci Systems in the area of artificial intelligence, machine learning to do predictive analysis for our businesses in multiple areas like cross-selling, campaign management, reduction of probability of default in various loan products and things like that. Using API technology, we are working with a fintech called Vanghee, which provides a connected banking solution and integrated net banking solution and accounting software of the customers like Tally. Through this integration, the reconciliation of the transactions are getting simplified without manual feed. After integration directly from the accounting software of the customers, the customers can do fund transfers and they can also generate MIS report, without any hassle.

As a part of our digital automation, we have tied up with companies like Digio / eMudra/ Odyssey etc, for stamping of digital documents and to get digital duplicate certificates. We have tie-ups with various fintechs to provide the technology for payment systems like Easy swipe, Pinelabs, ATOS which provide end-to-end solution for POS machines, QR-code deployment, particularly where, the authorization has to happen at business entities like shops. We use a " Namaste Credit" platform for artificial intelligence, machine learning based digital lending solutions. NuGen is another company with which we are trying to upgrade the digital lending solution. We are one of the first banks to introduce video KYC in a sense, starting from the customer onboarding to end-to-end of credit disbursement.

But as I have been repeatedly saying, when the brand is focusing on the SME based lending, we use these fintech relationships to improve the efficiency of the credit decision-making process, but the disbursement being a secured credit has to happen and some amount of manual intervention will be there. But wherever it is possible, we are using the best use of technological solutions that are available.

And moreover, we think these things are becoming hygiene factors banks have in one form or the other, when -- hence, we don't make any big noise about it. But since I got repeated questions whether we are also in that journey. Similarly, for your -- the incorporation of the blockchain are taking things to the cloud, so all these things, both in terms of the broader infrastructure solutions and also , making the customer to get access to all sort of easy solutions for their doing their digital transaction. We are almost at par with any new generation bank.

In the presentation also, we have added a few slides where on corporate banking, what we have given for retail banking, what we have one just to give you a flavor and give you confidence that, the on technological front, we are not lagging behind. We are also at par with – best in the industry. And also, this is something which I want to use this opportunity to record and just to give you comfort to that, we are taking all the steps which are needed to be, keeping us at par with the best.

So to sum up, for the financial year '22, '23, we hope the growth is getting back and we should be closing the year with 15 to 18 % as assured. We have already started taking actions at the grass root level for which the results will be seen in future. The expected overall slippages to closing advances are almost back to the pre-COVID level of 2 to 2.5 %,

Slippages have come down and recoveries are improving. So going forward, it should result in a significant reduction in the gross NPA and net NPA over the quarters. And the numbers will be very significantly reduced towards the end of the current year, that is on the last quarter. Net interest margin, as I told you, should be staying around the same, maybe with a plus or minus 10, 20 basis points and more with an upward bias because of we are into the increasing interest rate scenario.

ROA level, almost, as you have seen, things are around 1.6 % 10 basis points higher than whatever expectations, we shared with you all. So things should be looking healthy. The cost-to-income ratio may hover between 40-45 % due to non-availability of income from the treasury. The overall P&L numbers are also are looking, healthy for the remaining part of the current financial year.

With these few words, I'll leave the forum for discussion. Over to you all.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer-session. Anyone, who wishes to ask a question at this time may enter star and then one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star then two. Participants are requested to please use handsets while asking a question. We will wait for a moment while the question queue assembles. Our first question is from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy: I had two questions, Dr. Kamakodi. One is on the ROA itself, right? So you have ended 2Q with 1.72% kind of an ROA now, historically, you've always said the sustainable ROA should be 1.5%. Do we assume because guys are going through a fantastic credit cycle, this cycle, you can push up the envelope and move to a 1.7% kind of an ROA level sustainably? So that's the first question. The second question is the deposit growth overall has been weak at 8% Y-o-Y. Now I mean why your LDR has already touched 85%. Now if you want to push your loan growth to 15% to 18%, you have to get your deposit growth up by 8% is not sufficient at all. So, what are you trying to do on the deposit front? And is that not a worry? Over to you, sir.

N. Kamakodi: So I will answer the second question first. As I have been mentioning, I have sufficient surplus funds even now to take care of the – to achieve that 15 to 18 % of growth for the remaining part of the year. That's why, like I said, we were very slow in increasing our term deposit rates, and that's why I don't want to -- I'm not, I need to push it beyond that. And I'm adequately having sufficient liquidity to take care of my year-end figures. So that is one thing. This answer is, once again, connected with your, first question on the ROA, so the -- if I push more, once again, I will be ending up with more, what you call surplus front. Once again, I have to invest in the government securities and once again in the increasing the interest rate scenario, that will be your, what you call yield or some negative carry and things like that. That's why we are handling all these things together. So I have sufficient money with me to take care of -- even though you look the -- what you call your credit deposit ratio, I have got room for another 3, 4 % of increase without pushing too much on the liquidity front, that is the one thing.

Just to answer your question, like I said, the whether we will be in a position to push grow like say, ROA beyond 1.6%, 1.7% sustainably. Whether we will be doing that - Obviously, the priority for, every bank, top management is to try and push ROA to the maximum extent as possible. And whether it is a sustainable, definitely, there are chances -- and basically, it is going to be once again determined by, for example, as I told you earlier, the slippages are decreasing and the recoveries are increasing and some amount of, the positive contribution from the credit card will definitely have capacity to do that.

How sustainably we will do. I don't want to promise everything and for tomorrow, there are always uncertainties about the macros, let us stay each and everything step-by-step and let us move things, in a stable and sustained manner. As you all know, as I just told you, we just celebrated our 119th Foundation Day. The consistency is one thing which is always our first priority. We are looking into those aspects. And definitely, we will make our honest attempt. We will announce about the sustainability once we get to total control.

Suresh Ganpathy: And what is your LCR this quarter and what was it earlier quarter? Can you just share that number?

N Kamakodi: You mean liquidity coverage ratio. Yes, it is a 200 %-plus.

Suresh Ganpathy: 200?

N Kamakodi: Yes.

Suresh Ganpathy: Your competitors are at 120%. So okay, fine. Yes.

Moderator: Thank you. Ladies and gentlemen, before we take the next question, we'd like to remind participants that you may enter star and one to ask a question. The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: This strong operating performance to before our PCR because, of course, I understand that our entire secured book, but when we look at the peers who are also into the same kind of secured book business, those guys are maintaining PCR anywhere about 50% to 60%. So why not we also maintain that kind of a PCR when we have a strong operating performance?

N. Kamakodi: See, as we have been repeatedly saying, as per the regulatory guidelines, we monitor the Provisioning Coverage Ratio, taking into consideration the technically written-off portion also. So we right from the beginning, when we provide fully to a book, we go for a technical written-off thing.

And our Provisioning Coverage Ratio is about 65 %, it is in the mid-60 % like almost all of our peers. And we feel even these to some extent, it is our confidence looking into the -- whatever visibility we are getting on, for a few more quarters. It looks like we should be able to achieve significant improvement in these numbers going forward. And you may have probably absorbed, we had about 1.5, 1.75 % in net NPA during the pre-COVID period, which we had established over a period of time, which we normally keep it as our standard thing. The looks like even with this operating metric with a reasonable estimation, we feel that we should be able to move towards that number in maybe next three quarters, four quarters or so, even without compromising the overall operating metrics.

Renish Bhuva: And sir, last question is a bit on the strategy side. So of course, sir, we have a very strong relationship with our SAP customers, so sir, when do we expect our bank to become a primary sort of bank for their entire family banking kind of a model. Maybe as of now, we might be catering to the business owners. But how can we tap the entire household and the citizen can become a primary bank, which will eventually lead to the fee income pool, which is sort of a little subdued now, sir. any commentary on that?

N. Kamakodi: See, as I have been repeatedly saying in the past con calls, the gap between the particularly the fee income on the third-party distribution, the gap between the best and the, lower part of the entire value chain, it is not as old as it is being perceived. There are only a couple of product, few products which are missing which we had not concentrated in the past, for example, like credit card are, for example, housing loan and car loan.

There are some difference between your view and our view. That's a part -- so we are in the process of how to like say, have those products and particularly, when our CASA ratio also has improved from lower 20s to, lower 30s, it is giving us enough elbowroom to have a few other products also without compromising on the ROA front. And those things will eventually happen maybe in the next four quarters to six quarters, also.

Moderator: Thank you. Ladies and gentlemen, you may enter star one to ask a question. Our next question is from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: Sir, if you can provide some color on the restructured book. Last quarter, you mentioned around 68% in terms of book had started billing and another, we have seen some kind of repayments either one or two EMIs being paid. So if you can provide more color on the restructured book?

N. Kamakodi: Yes. Basically, out of INR 1,964 crores in the restructure category, about 62 % of the book, which worth about INR 1,228 crores have already started repayment and INR 736 crores, though technically, they have not yet started, the due has not started. A bulk of them have started making the repayment in the sense that, overall, 87 % have paid -- have started paying EMIs even though only 62 % due has actually started. So another 25 % repayment has come even advanced repayment, even before the actual due has not yet started. Only INR 96 crores is where, the repayment is yet to start. So when I gave that 2.26 % of SMA 2 number also, it includes let's say, overdue portion in this particular pool.

Darpin Shah: Second was on ECLGS. If you can provide some data there as how much is outstanding now? How is slippage are seen there? And lastly, on the operating expenses, the other expenses have dipped significantly on a sequential basis. So if you can provide some light?

N. Kamakodi: To give you an ECLGS portion on a broader single measure, if you look into, the overall SMA 2 portion from that situation it is only INR 324 crores and overall contribution to the SMA 1 and SMA 2 from that portion is only 1.5 %.

On your second question on operating expenses, because of that increase in your yield some amount of reduction in the establishment expenditure due to actuarial valuation on the leave encashment. There is some small INR 10 crores benefit, which looks better.

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

Gaurav Jani: Firstly, in terms of -- if you could elaborate on the competitive landscape especially in Tamil Nadu. So during COVID times, you have said that earlier that competition was pretty significant. So has it been reducing? And how should we look at that?

N. Kamakodi: Competition is something which is there, as I told you, the banking as a product is basically a commodity. And the competition is there, since liberalization, it is always there, and it will always be there. So all of us, we have to work our way to manage this competition. It's never ever you are going to have a period when you say that there is no competition, it is not just in banking, any business per se, competition is the part and parcel of the thing, which every business have to encounter.

Gaurav Jani: No, that's how the intensity has gone up, right? So I was just trying to…

N. Kamakodi: As it has been there overhead.

Gaurav Jani: Just an extension to that. So you have sounded pretty confident on the 15% to 18% growth number, so sir, if you could elaborate as to what has related to this confidence as to how our SME cash flows shaping up? And how do you think about the demand sustains for SMEs?

N. Kamakodi: See, when we discussed probably our results for the fourth quarter and also, fourth quarter last financial year, even the third quarter last year. Particularly during the fourth quarter. The expectations of the macro shock because of the higher oil price because of that Ukraine war, the impact on overall expectations on the performance of the businesses, there were increased uncertainties. But when we got into the first quarter, we could clearly see things were not as bad as we all expected. Okay, still that uncertainty is there okay, how many more quarters the war is going to continue and our oil price, okay? It is now it has come below $100, whether it will go below some sort of uncertainties are already there. But taking into consideration all these things, it gives a reasonable confidence that things were better than whatever we expected with the third and fourth quarter in the second half last year.

And even whatever we had that gave us enough confidence that things are improving. So when this general confidence level is increasing, we are in the process of changing our overall thing. Like it's not that today, I want to grow tomorrow you get credit growth and all. So we had to change certain operating level policies and things like that and some level of internal changes and all, which we have already started doing that.

Things are getting back to normalcy slowly and steadily, which is giving us enough confidence that we should be seeing this whatever numbers I shared with you, towards the end of the current year. The year-end should be reasonably good. Of course, with this uncertainty, which we feel -- if things don't deteriorate from whatever they are currently we are reasonably comfortable and we should be able to achieve the figures whatever we discussed with you all.

Gaurav Jani: Sir, just to touch up on some internal changes. Anything you particularly want to highlight

N. Kamakodi: Yes. In fact, the first and foremost thing is that for the last two and half years, I had told the field staff to keep quiet and don't increase the risk. Now I have already started changing the language and the rate, the priorities are getting into the system.

Gaurav Jani: If you can just touch upon how our cash flow is shaping for SMEs?

N. Kamakodi: It's okay. And that is also visible from our other numbers, and all, things are okay.

Gaurav Jani: Last question, sir, how much is the excess SLR or excess investments on the balance sheet, I mean, if you could give you an absolute amount?

N. Kamakodi: Another increase in our loan book by another INR 3,000 crore to INR 3500 crores, existing surplus liquidity itself will take care for us.

Gaurav Jani: Sorry, how much did you mention?

N. Kamakodi: INR 3,000 crore to INR 3500 crores.

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

M B Mahesh: I do have the same question. Just trying to understand in terms of recovery and upgrades, what is the situation on the ground? And whether there is some kind of conversations around the slowdown that you're seeing on the export sector like textiles?

N. Kamakodi: Our reliance on export is very minimum, as I have shared with you all during the many quarters in the past. So our focus is more on the domestic market and our export supporting that is hardly about less than 2 % of our total exposures. And even in those companies, there are capacity utilization, particularly where the products are now locally in demand.

I'm repeatedly saying, if the war continues for more than 4 quarters, which makes the oil price above 100 for another 1.5 years, probably that will create impact on the interest rates and the issues at the grass root level. Hopefully, if everything come back to the normal base by the earlier part of the calendar year 2023, I think we should not be having much problem.

M B Mahesh: Just 2 questions on the yield and cost of deposits. This quarter, you have seen approximately about a 35 basis points increase in the lending yields -- till, how far does it go looking at the current price changes that you have done on the portfolio?

N. Kamakodi: Like, as usual, I will give you a direction, but not the actual amount or 3 quarters to reach about 75, 80 % of the repricing on the liability level -- so you can safely assume when you are seeing the increasing interest rate scenario.

M B Mahesh: This is on the cost of deposit

N. Kamakodi: Yes. Yield.

M B Mahesh: Lending side on the loan side?

N. Kamakodi: It depends upon, how quickly the rates are high. You are about 1 % of level of % of…

M B Mahesh: Where we have increased?

N. Kamakodi: From the gap between what RBI has increased -- and what we have increased in the average is about 30, 40 basis points. We are catching that gap. So maybe,the passing on this will not happen maybe for another 50 to 70 basis points without any question.

M B Mahesh: So there is 9.5 go closer to 10?

N. Kamakodi: If another like a 50 to 75 basis point hike by the regulator happens over the next six months.

M B Mahesh: Okay.

N. Kamakodi: Yes, we have a 10 % yield just before the COVID.

M B Mahesh Yes, that's true. No, no, we are just trying to understand the direction and the pace at which this yield moves and when the cost of it -- cost of deposits starts to catch up on the other side?

N. Kamakodi: Yes. Typically, it will be just under 4 quarters, 3 to 3.5 quarters is when the deposit repricing takes shape.

Moderator: Thank you very much. Our next question is from Gaurav Jani from Prabhudas Liladher. Please go ahead.

Gaurav Jani: Yes. Just 2 questions, sir. One is if you can share the exposure towards EBLR, MCLR, etc ?

N. Kamakodi: 68% with EBLR and 25 % with MCLR.

Gaurav Jani: And sir, the majority of the book would be floating, right?

N. Kamakodi: Yes.

Gaurav Jani: Just a data keeping question, sir. What seems to have happened this quarter. Is that an investment yields seem to have shot up. So any color on that?

N. Kamakodi: See, if you look on the absolute number individually, it's not a big thing, almost only three, four basis points per se. And it is in June, which were -- I mean, the data with me is the yield on investment on the last quarter was 5.82 % and currently, it is at 5.86 %.

Maybe you may ask this question from the interest income because in the treasury operations, some of the surplus funds which we had parked in the overseas investment as deposits. On an average yield basis, the increase is not more than 4 basis points sequentially.

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

Jai Mundhra: I have a couple of questions. So first, sir, if you can highlight specify that till what level the branch managers would have an authority to sanction a loan in MSME and trader segment? And I mean, the MSME branch -- and then after what level does it go to the central office.

N. Kamakodi: Branch managers have zero power. This centralization happened about maybe close to 10 years back. They can, let's say, sanction gold loan, that too only up to 10 lakh And some loan against the deposits, they can handle apart from that every credit decision is centralized for almost a decade.

Jai Mundhra: Right. So by centralization, even if the MSME specialized branch would only source this and the credit underwriting and approval would only be done by the head office.

N. Kamakodi: Exactly.

Jai Mundhra: Or there could be regional offices as well?

N. Kamakodi: No all the sanction actually happens at the Central office level. You have regional processing centers who put up the proposals and who makes a recommendation on central. -- the sanctioning authority is centralized. It is not distributed.

Jai Mundhra: Right. And sir, if I look at the growth, right, loan growth, while it is improving every quarter and now it has come to 12%, but if you can highlight, so clearly, even in core MSME/trader segment, it looks like that the bank is losing a bit of a market share -- so just wanted to check if you can comment if this is across India or maybe outside Tamil Nadu or -- this is more or less broadly similar. So any comment there would be helpful.

N. Kamakodi: See, we have been very clear that like the markets are something, it comes only in the second or third priority.There were almost just before the beginning of the COVID. You may remember, somewhere from the November of 2019, we said we are not growing. And subsequently, we focused on gold loan. We compensated for the growth from the other core advances. And COVID came all those things are crushed -- and now only we are getting back to the, let's say, looking into the growth -- our core advances and all. And we feel going forward, they should be coming back to track.

Jai Mundhra: And sir, just to clarify, this non-staff cost decline quarter-on-quarter. This would not have any impact of the yield, right? So what could have led to reasonable drop in the non-staff opex in this quarter?

N. Kamakodi: I mean, you don't have any specific reason , basically, like I think you are talking about one of the major items there is repair and maintenance particularly on the AMCs, whenever they are booked, they are taken into P&L. So maybe this quarter, nothing much came

Jai Mundhra: And just to get it correct, that you said that as of now, RBI has raised the rates by 190 basis points and you are on yield side, you are 30, 40 basis points behind only right? So you have passed on at least 150, 160 basis points roughly?

N. Kamakodi: An average, it has come to about, let's say, 70, 80 basis point pass-on has already happened.

Jai Mundhra: I mean the card rate would have increased by, let's say, 150, 160 basis points, right?

N. Kamakodi: Some of them would have gone to that and some of them would have got reduced return. The average it is about 20, 30 basis points.

Jai Mundhra: And sir, what is your reset period for EBL alone? Does it reprices immediately or with some l lag?

N. Kamakodi: No. It's basically like the repricing happens every quarter. Reset happens every quarter.

Jai Mundhra: 90 days, let's say, right? I mean every 90 days from the contracted date, this will come up for renewal?

N. Kamakodi: Yes.

Moderator: Thank you very much. Our next question is from the line of Siji Philip from Mary Asset Capital Markets. Please go ahead.

Siji Philip: Yes, congratulations on a good set of numbers. So just a question on the gold loan portfolio. So our gold loan proportion is improving at almost now 24%. So at what share are we comfortable with since in our earlier quarters, we had said that we are trying to refocus on the goals on now. So what could be the share coming down or sustain has been slowed.

N. Kamakodi: See, the incremental share of gold loan will start declining once the growth from the core advances starts growing. If you had a chance to look into probably across the cycles over the period of share last 15 years or so, let's say, it started with about 18 %, it came to single digits to about 8 %, then it once again went up to, let's say, 17, 18 % came down. Now it is at 20 % plus. So it is basically determined by the opportunities available in, other core advances, which we will start seeing that in the next year.

Siji Philip: And sir, on the margins front, as in the pressure was not so visible now? Do you feel that it is a sustainable number at this point? Or we could see some pressure going ahead?

N. Kamakodi: See, you can't -- like say, as you said, it is okay. Now it was not okay, let's say, even three months back. So these things are fluid things depending upon the surplus liquidity available in the market. We can't extrapolate for, say, next few quarters and all currently now, the market is absorbing because there is a general acceptance that the interest rate is going northward,both from the borrower side and also what other competitors also do -- so it's currently, it is there. You can't extrapolate it for the multiple quarters or for the future in the medium to long term.

Moderator: Thank you. Ladies and gentlemen, you may ask a question by pressing star one on your phone. In the meanwhile, we have a question from Mr. Prabal Gandhi from Ambit Capital. Please go ahead.

Prabal Gandhi: Yes. Sir, can you update us on how is the transition to CTC cost-to-company structure happening?

N. Kamakodi: Yes. As I told you, like say, it basically starts from, 1st July 2023. The agreement with the association and Union and all were entered towards the December 2020. All new appointments after 1st of January 2021, almost for the last couple of years, 1.5 years, have already started happening on the CTC basis. So the integration or the reorientation will happen from the next year, July..

Prabal Gandhi: And would you attribute some slowdown in growth because of the transition phase that we have?

N. Kamakodi: No. I don't see any direct linkage between the two.

Prabal Gandhi: So, sir, question on the employee count. So from March, the employee count is almost stable, in fact, it has dipped slightly whereas if we see the employee cost it has done the 25% from the March level. So what would you comment on this?

N. Kamakodi: Comparing on the year-on-year will be better because we typically have a monthly thing. Apart from that, we have what is called a at two times the single payment and performance-related things are being made and also we need to now start as I told you, we'll be opening branches from second half we have to now increase in the headcount will also start. But overall, this migration to CTC basis will give enough control on the cost probably from the next year following 2023.

Prabal Gandhi: And sir, on the loan plan so the way we are seeing growth broadly in to three segments, it's a textile, metals and gold. Whereas new other players are comparable years are witnessing a broad-based growth. So what could you comment on this?

N. Kamakodi: Basically whatever we are seeing and whenever we meet, and as I told you, we have not yet fully. We are only started, putting things in place and in the process of starting to restart the growth, and as I told you during the last quarter. So clarity will emerge probably maybe around, along with the fourth quarter con call exactly on what is happening.

Prabal Gandhi: Understood. Sir, last question. What would be the status of balance transfer this quarter with respect to maybe previous quarters now?

N. Kamakodi: What balance transfer, I'm not able to get it. Can you repeat

Prabal Gandhi: Meaning our peers may be taking away our and we are taking away customers from the PSU banks or NBFCs?

N. Kamakodi: Once the rate of interest hike cycle started happening, there is a sudden drop in that transfer, I mean, what we could see.

Moderator: Thank you. We have our last question from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Sorry if I'm repetitive. As you have shared that Q2, the ROA has crossed 1.7% kind of a thing. And historically, we have been comfortable with 1.5% ROA. Should we believe 1.5% is easily achievable and we should cross 1.5% ROA for this year and could sustain for the next year?

N. Kamakodi: Yes, by God's grace and looking into the overall thing I think that 1.5 barrier, whatever we have seen, we have crossed and we are at 1.6 % for the first half, two quarters put together. So the half yearly number is something, 1.5% to 1.6% would be something which clearly looks visible at this point of time for the second half of the current year also.

Bunty Chawla: Okay. So can we say that now 1.6 should be sustained for this year as well as for next year?

N. Kamakodi: Pray for us.

Moderator: Thank you. That was our last question. I now hand it over to Mr. Prabal Gandhi for closing comments. Please go ahead.

Prabal Gandhi: Kamakodi Sir, would you have some closing remarks for us.

N. Kamakodi: Yes. I thank you all for participating in this con call. As usual, I think the numbers are already with you. You may be having contact details of GM Mr. Jayaraman, who will be in a position to help you for any specific details or any specific numbers. Overall, in continuation of whatever we discussed during the last con call results.

Things are, slowly and steadily, we are seeing things turning to positive, towards the end of the current year, as I shared with you all, whatever growth numbers and ROA numbers, whatever we discussed, I think the looks possible. only minor, uncertainty there is the global macros because of war, oil inflation and particularly, the actions taken by the bigger companies, which are disturbing the worlds are tough.

But if things don't deteriorate further from wherever we are and they come back to the normalcy, maybe in the next six months or so, I think things should be positive going forward. So till there could be the minor things could be there, but this looks very much under control. So once again, I wish things should be taking a better shape, and GM Mr. Jayaraman is always available for your details.

So let's hope for the best and whatever tension we had three, four quarters back and all, those things are pretty much out of these things. And the overall whatever problems are, the usual issues like pre-COVID level things and all virtually, to greater extent are out. So we hope things should be stable and moving up as we move forward. So once again, thank all of you and thank Ambit team for arranging this con call. Thank you all

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