“City Union Bank 1QFY23 Post Results Analyst Conference Call”

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MODERATOR: **MR. PRATIK MATKAR – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, welcome to City Union Bank 1QFY23 Post-Results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Matkar from Ambit Capital. Thank you and over to you, sir.

Pratik Matkar: Good evening, everyone and welcome to 1QFY23 Earnings Call of City Union Bank.

On this call, we have Dr. N. Kamakodi – M.D. and CEO; and Mr. V. Ramesh -- CFO of the bank.

Thank you sir for giving us opportunity to host this call. I will now request Dr. N. Kamakodi to take us through the opening remarks and then we will open the floor for question-and-answer. Over to you, sir.

Dr. N. Kamakodi: Good evening, everyone. Hearty welcome to all of you for this conference call to discuss Unaudited Limited Review Financial Results of City Union Bank for the First Quarter-ended 30th June 2022. The board approved the results today and I assume you all have received the copies of the results and presentation. I hope all of you have received our AGM notices as well as annual report for financial year 2022 through e-mail. I take this opportunity to invite you all for participating in this annual general body meeting to be held on 18th August 2022 through virtual mode.

On the management side, we have a new director on our board, Shri Gurumoorthy Mahalingam was co-opted as Additional Director on the board of our bank w.e.f. 6th July 2022. He is a career regulator in the financial sector, having worked over 34-years in RBI, holding the position of executive director at the time of retirement and five years in SEBI as whole-time board member. He holds a Master's Degree in Statistics and Operations from IIT Kanpur and MBA in International Banking from UK He has extensive experience in banking regulation and supervision as well as in market regulation and operation. In fact, he was handling the Reserve Bank of India Treasury when he was Executive Director. His appointment in the board would be beneficial to the bank, particularly in governance, regulatory matters, finance, FOREX, treasury, etc.,

Coming to the performance, the first quarter ended well in almost all parameters, be it growth, NPA, both on slippage and recovery, in every parameter the performance is satisfactory, even in treasury, the depreciation is well within our control. Going forward, the environment looks getting better and better and confidence of pushing the growth is increasing. We are starting to push the growth pedal towards achieving 15% to 18% for the year end, that is mid to double-digit compared to low to middle double-digit what we discussed during the earlier con calls. Growth should be slowly accelerating and growth will be back-ended.

We shared with you all during the earlier conference calls on the expectations for financial year '23 as follows: We had said that we would be pushing our growth pedal and we will be achieving low to middle double digit credit growth for financial year '23. We said we expected overall slippages will be in the range of 2% to 2.5% on an annualized basis. The slippage should come down and recovery should improve from financial year '22 year resulting in gross and net NPA significantly reducing by the year-end of financial year '22-23.

Net interest margin to stay around 3.85% to 4%. Working towards ROA level to reach 1.3%. In fact, during the middle of the financial year '20, we said we should be getting our ROA back to 1.5% level towards the second half of financial year '22- 23. We are almost already there. Cost-to-income ratio may hover between 42% to 45% in the absence of treasury income. So, this is what we shared with you all regarding our expectations for the financial year '22-23 in the earlier concalls.

If you look into the highlights of the financial performance for the first quarter 2023, they are as follows: Almost on all parameters, progress is as per the expectations we share. Deposits recorded a growth of 9% from Rs.44,606 crores to Rs.48,772 crores year-on-year. Credit grew by 12% from Rs.36,395 crores to Rs.40,934 crores year-on-year. Business grew by 11% and stood at Rs.89,706 crores as on 30th June '22. CASA recorded a growth of 25% to Rs.15,387 crores from Rs.12,299 crores year-on-year and CASA percentage to deposits improved to 32% percentage on June 2023 vis-à-vis 28% on 30th June 2021. Net profit improved by 30% from Rs.173 crores to Rs.225 crores between 30th June 2021 and 30th June 2022. ROA improved to 1.46% for the quarter-ended 30th June 2023 against 1.29% for the corresponding period last year. Net interest margin for the first quarter is at 3.95% on a daily average basis. Gross NPA is at 4.65% and net NPA at 2.89% as on 30th June 2022. Both sequentially got reduced from even 31st March.

As we stated in our last few concalls, the credit growth is back on track and we have grown by 12% for the first quarter compared to the corresponding period last year. Now the environment looks okay for pushing the growth pedal, we are looking forward to take the growth rate to 15% to 18%, that is mid to high double-digit for financial year '23 and growth will be more in the second half as usual. While the fear of Ukraine war is by and large subdued and subsided let us hope for the best in the Taiwan-China conflict and all.

During our last few con calls, we had been providing you updates about the status of our exposure to airline company, SpiceJet. We wish to provide the latest developments on the same as follows: The management of SpiceJet has come forward to settle their dues in phased manner. They have been servicing their interest dues regularly and interest are being paid up to July 2022. They have requested us to renew their existing facility and terms and conditions for such renewal is mutually agreed upon. As per the agreed terms and conditions, SpiceJet has immediately paid Rs.3 crores dues in July 2022 and pledged two crore share with us as collateral owned by the promoter of SpiceJet. The market value is more than almost around Rs.90 crores plus currently. Further, they have agreed to pay additional Rs.12 crores before the end of August 2022 and agreed to settle the balance dues in a phased manner before June 2023. The account is renewed with a limit of Rs.97 crores since the renewal plan is agreed upon. The account is now moved out of the SMA status. Till third quarter financial year '22, we have made a provision of Rs.85 crores and further we made a contingency provision of Rs.12 crores in first quarter 2023. So, we have made a contingency provision of Rs.97 crores against the total outstanding of Rs.97 crores here.

Slippage during the first quarter financial year '23 is Rs.270 crores against Rs.482 crores in the corresponding period last year. The annualized slippage ratio for the first quarter is 2.64% compared to 3.1% for the financial year 2021-22, showing a sequential decrease. In Q1 financial year '23, we recorded a total recovery upgrades of Rs.252 crores, comprising of Rs.160 crores from live accounts and Rs.92 crores from the technically written-off accounts compared to Rs.100 crores, comprising of Rs.82 crores from the live accounts and Rs.80 crores from technically written-off accounts during the first quarter in the last financial year.

In other words, the gap between the slippage and recovery has narrowed down to Rs.20 crores in the current quarter. The current quarter recovery is closer to our last quarter, that is fourth quarter financial year '22, recovery which was highest in our history. We expect that this trend will continue in the coming quarters also.

Overall outstanding balance of the borrowers who availed ECLGS loans as on 30th June 2022 is Rs.13,397 crores and ECLGS balance is Rs.2,500 crores and the allied account balance is about Rs.11,186 crores.

SMA-I and SMA-II portion from the ECLGS portfolio as on 30th June 2022 was at Rs.499.88 crores and Rs.222.73 crores respectively. As at 30th June 2022, about Rs.2,963 crores accounting to Rs.2,033.7 crores remain as restructured category. Out of which, an amount of Rs.11,075 crores outstanding, 58% of restructured books where the repayment had already started and for remaining Rs.858 crores, repayment is yet to start. But of those accounts where the repayment has not started, still in moratorium period, about 62% of the exposures have already paid their monthly installments for more than three months even before the start of the repayment and 24% of the exposure have already paid their monthly installments for one or two months before the start of the repayment, leaving only 14% of the exposure amounting to Rs.120 crores are yet to start the repayment and are availing the moratorium. The outstanding exposure under SMA-II here is Rs.197 crores out of the said restructured advances of Rs.2,033 crores.

Whenever I met investors, I got repeated calls expressing concern over the restructured portfolio and all. In fact, I compared our own experience of restructured advances way back in 2008 after the Lehman crisis and all. So, overall, the conditions have been encouraging, no undue concerns and all. Current SMA-II number stands at Rs.820 crores which includes accounts from the ECLGS restructured and regular advances, which amounts to only 2% of the total advances. Once again I repeat, this 2% comprising of contribution from all accounts which availed ECLGS or which were restructured, or even normal account, which is very low compared to our pre-COVID.

In our last con call, we stated that we do not foresee any significant contribution from the domestic treasury profit front due to the unfavorable yield movements. For Q4 financial year '22, we had a trading profit of only Rs.11 lakhs, and in the current quarter, it was only Rs.51 lakhs. The recent changes in the monetary policy had restored the policy rates back to pre-COVID levels and it is leading the yield movements upwards and we may not have favorable income stream from the domestic treasury operations during this financial year as stated in the earlier con call. The lack of treasury profit will be compensated to some extent by the improved recovery as we continue to say. At the same time, with proper management of duration, we expect minimum mark-to-market provision for AFS to HFT going forward.

The MTM provision made for Q1 financial year '23 with respect to government securities, stood at Rs.30.41 crores, against which already we held a provision of Rs.5.61 crores in the financial year 2022. During Q1 financial year '23, we have made additional provisional requirement of Rs.42.50 crores which includes Rs.25 crores towards the GSecs, Rs.14 crores towards the residual provisioning for the security receipts SR and Rs.3.5 crores towards shifting of security from AFS to HTM in April. Out of Rs.30.41 crores MTM loss, an amount of Rs.4 crores will be released by fourth quarter financial year '23 and another sum of Rs.14 crores will be released by financial year '23-24, because of the maturity of corresponding short dated securities, resulting in the receipt of face value and MTM provisions or notional losses booked between book value and be market value. In other words, these securities were held at a discount at our books compared to the face value. And also that's why when the maturity time comes, so, we will be able to recover the face value.

Also, we wish to mention a point here that even though the MTM losses as on June '22 stood at Rs.30 crores, the requirements came down to Rs.24 crores as on 5th August Mainly because of the dip in 10-year YTM, and 7.3% from 7.45% during June 2022.

The cost-to-income ratio for first quarter '23 was at 39.58% for the first quarter as against Rs.40.60% for the corresponding period last year. Because of the expected core profit from the treasury, cost-to-income ratio for the current year is expected to be slightly elevated and may touch 42% to 45% as we had said in the earlier quarters.

Capital adequacy of the bank stood at 20.48% for the 30th June compared to 19.58% for the corresponding period last year. We have not diluted any capital or issued any pressure because of the QIP or whatever in the last eight years and the last time we have raised the funds was during July 2014 through QIP route to the tune of Rs.350 crores. After which we have not gone for any capital raising through QIP and all. Anyway, we are asking for the shareholders permission in every AGM… we are asking for that permission in this year AGM also. But we have not used that for the past eight years. Higher capital adequacy is mainly because of the growth from gold loan, which carry zero risk weight. As our ROE is comfortable, our retained earnings have taken care of the growth. For first quarter 2023, we have earned insurance income of Rs.2 crores against Rs.1 crores in the corresponding period last year.

As you might have seen in various print media as well in social media, we had a joint hands with six partners for doing bancassurance business including Tata AIA and the Bajaj Allianz for life insurance. We already have an alliance with LIC of India, Shriram General Insurance and Royal General Insurance are general insurance business and the Care health and Aditya Birla for the health insurance business. After the tie-up, we could see an increased contribution from the insurance income going forward.

We have not opened any new branches in the first quarter financial year '23. But as stated in our earlier con calls, we are planning to open another 50 to 75 branches across different states in India for the current financial year towards the year-end, it will be towards maybe the end of third quarter and fourth quarter.

The operating profit for the Q1 '23 was at Rs.447 crores compared to Rs.381 crores for the corresponding period last year showing a growth of 17%. Total provision made during Q1 '23 was at Rs.222 crores against Rs.208 crores in Q1 '22. Net profit for the first quarter 2023 was at Rs.225 crores against Rs.173 crores for the corresponding period last year. During our last quarter call, we had stated that we had crossed Rs.200 crores PAT in the quarter for the first time in our history. We had bettered that in this quarter. Net interest margin stood at 3.95% in the first quarter financial year 2023, that is current quarter compared to 3.86% for the corresponding period last year. The NIM for the financial year '23 should stay around the current level plus/minus 10-15 basis points as we had been sharing with you all in the earlier quarters.

In our previous calls, we had our expectations that contribution from improved recovery management coupled with the reduced the slippage, we are hoping for achieving our ROA of 1.5% plus which is the pre-COVID level by second half of the financial year. We are almost there with 1.46% ROA in the current quarter results.

On the SR front, the total outstanding as on 30th June '22 is Rs.82 crores, of which SR to the tune of Rs.78 crores will be crossing eight year time limit towards the end of financial year '22-23. As on 31st March 2022, we held a provision of Rs.64 crores. As a prudent measure, we have made additional provision to the tune of Rs.14 crores in first quarter financial '23 itself, that is in the current quarter results, thereby making full fruition of Rs.78 crores for those accounts, which will cross eight year timeline towards the end of the current year.

We are one of the oldest private sector banks in India, which is leading to the general perception among the investor community and market at large that we are not making enough efforts in the technological and digital front. We have been providing updates regularly on our con calls about the digital initiatives. But still there is a perception about our bank how it needs to be changed. So, we have already added three, four slides in our presentation. We are almost at par with the rest of the banks in terms of our digital initiatives. Customers of our bank has access to almost all technology digital services what our other bank customers are getting from the bank. So, our digital banking is almost at par with the best in the industry. This is not happening just like that. We have been maintaining that right from the beginning.

We are one of the first old private sector banks to go for core banking solution almost two decades back.

We had also started offering internet banking as well as mobile banking services to our customers, much ahead of almost all our peers.

We are the first bank in India to launch robot for our customer service, and also to offer multilingual interactive voice chat bot facility to our customers.

We are the first to roll out interoperable cardless cash withdrawal, "ICCW" in our ATMs, and UPI 123PAY, UPI security for all our basic phone users.

We are one of the first few banks to introduce video-based KYC account opening for individuals as well as corporates. Almost over 90% of our new accounts are getting opened through this video-based KYC facilities, that is through digital banking.

In the last couple of quarters, we had introduced debit card embedded with wearables like a smartwatch and key chain for contactless payments, again, first bank in India to do that.

To reiterate, we are not lagging behind in any of the top class banks in the country in terms of digital initiatives, and we never shy away from adapting latest technological developments in banking industry. Almost all banking services right from onboarding of new customers are digitally-enabled in our bank. Connected Banking, Digital Signature to the Corporates in soft token to do their online transaction securely, WhatsApp Banking, Wealth Management through Net Mobile Banking, DigiMall through Net Mobile Banking are some of the digital initiatives offered to our customers. Around 90% of our transactions are happening through non-branch channel including digital channels.

Once again to repeat, we are almost on par with the best-in-class in terms of digital initiatives. We have also discussed in detail about our tie-ups with the FinTech companies and all. The illustrative list is there in the presentation. So just once again to tell on all digital initiatives, we have been continuously making investments and we are almost on par with the best-in-class on that. So I just want all of you to take note of that.

During the last con call, we had discussed in detail about tie-ups with Fortytwo CS to manage our credit card business. We have rolled out our own credit card, CUB Visa Credit Card to our customers with technology assistance from, M/s. Fortytwo CS. This new credit card will have all the features available in the industry. As discussed earlier, we don't expect to be aggressive in this line of activity and there is no change in our risk appetite. But this will fill up one gap that was available in our product plan which is now covered.

We have introduced the facility of "Pay to Contacts" in our CUB UPI available in our All-in-One Mobile Banking App. This feature allows the customers to make the payment directly to the mobile bank through UPI, instead of account number or VPA or QR or whatever. It is like pending amount to a mobile number. There will be an icon in the home page of UPI, where the "Pay to Contacts" by clicking the same, the beneficiary name will be reflected. Customers can check the name of the beneficiary and initiate the payment. So, like that it is just an example.

So just to sum up, for the financial year '22-23, as we told in the last quarter itself, COVID is behind us. Over and above that, growth is coming back and credit growth for the current year will be mid-to-high-double digit and loaded towards year-end. So, we hope we should be able to achieve aim to upgrade our 12% to 15% percentage whatever we shared with you all to maybe 15% to 18% percentage for the year as a whole, but the growth will be in the second half as usual.

The overall slippages to closing advances, we expect that to be in the range of 2 to 2.5 which is also equal to the pre-COVID level. The slippages should come down and recoveries will improve thereby resulting in the gross and net NPA significantly reducing by the year-end. The net interest margin to stay around 3.85% to 4%. ROA level to reach 1.5% for the year as a whole and we are already almost there. The cost-income ratio may hover between 42% to 45% as in the absence of the treasury income. So, everything is looking much even positive now compared to whatever we saw during the last con call.

We hope other international factors like war in Ukraine or the conflict between China and Taiwan and, resultant effect in the logistics particularly in the oil price or inflation and all, though they are there, negative impact will be significantly under control, and we are working hard to achieve whatever we shared with you as per our expectation. So, overall things are positive in almost all fronts as we discussed. And you might have seen we performed reasonably well in the treasury front also because of our sustained risk management practices.

With these opening remarks, I open the floor to questions. So, we will go for one-to-one answering of the questions. Over to you, all.

Moderator: We will now begin the question-and-answer session. First question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: On the loan growth guidance, we have increased the guidance from 15% to 18% from 12% to 15%. And in this quarter, overall growth on the loans was slightly soft on a sequential basis. So, what gives you the confidence in being able to increase the guidance on loan growth, what has changed in this one quarter, if you could highlight things around that?

Dr. N. Kamakodi: As we had been talking with you all during the earlier quarters, we had not pressed the growth pedal at all. As we felt there were a lot of uncertainties even though the impact of the COVID was over and because of the oil price and inflation and all, we were taking a guarded approach. After looking into the performance of our book and also on discussion with the customers and all, it is giving us sufficient comfort that we can now go for slightly accelerated growth. That's why we have given the acceleration from 12% to 15% to 18%. If next couple of quarters things gives a better comfort, then we will not miss the opportunity if at all we want to press the growth pedal and see. But as of now, it looks as if we feel pressing the growth pedal towards the third and fourth quarter we should be able to achieve the mid to high double digit, that is between 15% to 18% growth for the year as a whole. This is based on our comfort on both environment and with the conviction that we will start pushing for the growth.

Rohan Mandora: We have seen good trends in the treasury where we have not booked any losses for the current year, quarter as well. So, at what level of yield are we protected and when there would be possibility of MTM head?

Dr. N. Kamakodi: As I explained about the treasury, our duration is very low in our AFS book and all the short dated securities whatever we are keeping that are basically maturing in the next 18 to 24 months. So actually speaking, we are holding the security at a discount compared to the face value. Though there is a difference between the market value and our book value, for which we are taking the notional provisioning, when the maturity of the securities happen, that is going to be the reversal of these books. Honestly speaking, the overall impact because of this movement of treasury yield even though there could be the sort of smaller provisioning making here and there, we are to greater extent protected because of the yield movement. And we learned our hard lesson a couple of decades back during 2004 because of the yield movement and that has been properly embedded into our treasury policy. And that's why with this comfort and confidence I'm telling you this.

Rohan Mandora: Lastly, just two questions on recovery part. One, the recovery from return of assets this quarter, is there any large account or is it more granular? And second, the provision reversals that will happen in SpiceJet, will be used to increase the PCR or will it be consumed against normal NPA incrementally?

Dr. N. Kamakodi: What was your first question?

Rohan Mandora: Recovery from return of assets?

Dr. N. Kamakodi: Reasonably a big account of about Rs.40-45 crores out of this Rs.90-odd crores recovery we had made. But we feel overall number, the live plus technical written-off together, that number will be staying around the same region as we move forward. To answer your question on the SpiceJet, we will take a call towards the end of the current year depending upon the recovery and the things like that. Actually speaking, we have taken this provision as the contingency provision, keeping in mind about this particular account. So we will take a call how to deal with that maybe towards the end of the current year when substantial recovery should have come from this account.

Moderator: The next question is from the line of Madanagopal Ramu from Sundaram Alternate. Please go ahead.

Madanagopal Ramu: My first question is you gave certain numbers on the restructured book. Broadly from what you said if I understood rightly, except for 15% of the book, mostly others have started to pay and there are no concerns. Is the understanding right?

Dr. N. Kamakodi: Yes.

Madanagopal Ramu: What is the sense on this 15% book, sir, is there a chance of slipping here and how do we see recovery here?

Dr. N. Kamakodi: See, the due date for this book has not yet started. Maybe some of them have another two, three months to go and all. They want to utilize this particular item. Our expected slippage percentage with the closing advances for the current year should be around 2% to 2.5% almost similar to whatever we had during the pre-COVID period, which will include the ECLGS, which will include restructured advances, and which will include other normal regular advances also. So with this broader number at a sight, there is no need to go for the hair-splitting of these individual components.

Madanagopal Ramu: Second, you mentioned on the digital initiatives. Really good to see. There are two things that banks are trying to achieve. One is customer service, which we are already doing and we can see that. The second is ability to cross-sell and create a funnel to bring in new customers to win higher growth in the future using digital initiative. With all the digital initiatives that you're taking, you think a reasonable amount of contribution on cross-selling and new products can add to our loans in the future?

Dr. N. Kamakodi: How we look at starting from even customer onboarding, to all the transaction, as you said, the customer service part is taken care of. We have been making continuous initiatives in terms of your data analytics part and all. Those initiatives are also parallely happening, and they are already doing some contribution in terms of cross-selling and all. The initiatives on the analytics and all are also parallely happening.

Madanagopal Ramu: But at this point, it's too early to consider any big contribution in terms of loan growth or we are seeing some growth coming in from the cross-selling opportunities?

Dr. N. Kamakodi: Definitely, it will be there. One thing which I want to clearly say is particularly on the growth front using analytics, the contribution on growth for the SME by analytics is going to be lower than the contribution and analytics can happen in a personal loss. So since our concentration is on, what do you call SME loans and all, yes, they definitely help us in the cross-selling opportunities for our existing customers. They also help us to have better risk management in terms of credit sanctioning and all, which are also parallely happening. The contribution is going to be not just on growth, it is going to be across all parameters including growth, risk management, fraud prevention, cross-sell, everything.

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

Mona Khetan: Sir, my first question is on the OPEX side. So if I look at your cost-to-assets ratio, pre-COVID it averaged at around 2.1% or so and it was 1.9% in FY'22. So, you highlighted that per branch employee requirements has come down, but at the same time, there will be employee additions during this year to support growth. So, given this backdrop, what sort of cost-to-assets could we expect from a steady state perspective for this fiscal as well as going forward?

Dr. N. Kamakodi: These sort of things we don't have a target and work. So, these employee cost and all are depending upon, we already told you we will be opening about the 50 to 75 new branches and all. So depending upon the sort of extra branches opened, and growth opportunities and all, these sort of things come. Honestly speaking, you have to make your own intelligent assumptions on that. There is a long term average on those fronts, is around the number which you are telling. So we don't get into too much of hair-splitting into this number. So overall ROA numbers we track and overall other parameters we track and we don't take any decision or execute any decision having these things on mind.

Mona Khetan: But broadly trying to understand whether cost-to-assets could decline because of the benefit of lower requirement per branch or could it come back to pre-COVID levels over time as things normalize?

Dr. N. Kamakodi: It will be somewhere in between.

Mona Khetan: Secondly, if I look at the restructured book, it has gone down from Rs.2,200 crores to about Rs.2,000 crores, a decline of Rs.200 crores over time. So, just wanted to understand how much of this could have slipped and how much of this could have been probably repaid, etc.,?

Dr. N. Kamakodi: In Q1, NPA slippages from the restructured book is about Rs.57 crores.

Mona Khetan: And cumulatively, how much would it be including last quarter or would this be broadly the number?

Dr. N. Kamakodi: The same number during the fourth quarter was Rs.44 crores.

Mona Khetan: So, about Rs.100 crores or so has slipped so far. Got it.

Moderator: The next question is from the line of Renish Harishbhai Buva from ICICI Securities. Please go ahead.

Renish H Buva: Sir, my first question is on the employee count. So from last three, four quarters, we are seeing the total employee base declining quarter-by-quarter. And if I were to look at last one year trend, we have almost sort of sliced that number by 500 people. Since now we are targeting for a relatively higher growth in FY'23, do you feel you need to ramp up the employee base in next two quarters or do you feel the existing infrastructure is good enough to sort of give us the kind of growth we're expecting right now?

Dr. N. Kamakodi: Definitely, there is going to be an increase in the headcount considering both the new 50-75 branches which need to be opened, and also the incremental growth opportunity, which we anticipate.

Renish H Buva: The last one year rationalization was more of attrition and we are not hiring back. How one should look at it?

Dr. N. Kamakodi: About 8-10% attrition whatever that is coming, we did not ramp up.

Renish H Buva: Last question on the ECLGS book. If I remember correctly, last quarter, we had added SMA-I and II in this portfolio, 1.5% in SMA-I and 0.5% in SMA-II. So, if you can just tell us the corresponding number for this quarter?

Dr. N. Kamakodi: SMA-II number of our ECLGS portion currently is Rs.222 crores.

Renish H Buva: We have disbursed almost 26.5 billion, right?

Dr. N. Kamakodi: Overall. When we say Rs.222 crores, this will be the total exposure of the borrowers including the other loans also. Be clear about that. Even though the ECLGS balance is Rs.2,500 crores, these borrowers together they have a total exposure of Rs.13,687 crores, of which SMA-II portion is only Rs.222 crores.

Renish H Buva: You did mention about the SMA-II number for the entire book at 2% and I think the same number was 1.4% in last quarter. Is there any –

Dr. N. Kamakodi: Those numbers will fluctuate and year-end means we will be having definitely increased effort and that fluctuation is nothing material.

Renish H Buva: So, one should not look too much in terms of this number?

Dr. N. Kamakodi: Yes.

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

Jai Mundhra: Two things. One on yield, right. So, I think if you can share the proportion of EBLR and MCLR book as of this quarter?

Dr. N. Kamakodi: About 65% of our loan book is in EBLR and 25% is in MCLR and balance fixed and NPA and other things.

Jai Mundhra: Even last quarter, it was a similar number and then sir EBLR would have moved up and you would have also passed and starting to see?

Dr. N. Kamakodi: No, it is not that entire increase in rate has been passed on. So, with some amount of cushion on other parameters, about half of that might have got transferred.

Jai Mundhra: Some amount would be transferred, right, but if I look at yield on advances on quarter-to-quarter basis they have declined by two basis points.

Dr. N. Kamakodi: You will see that impact in the second quarter.

Jai Mundhra: So, there could be some lead lag but I just wanted to understand that you would not have reduced the MCLR, right, or you would not have reduced the EBLR?

Dr. N. Kamakodi: No-no, it was not because of the MCLR, it was because of let's say the increased reductions which we had considered for some portfolio and all, for which we have not given reduction in the past, such sort of consideration had to be given. Also, the gold loan which is about one-fifth of our portfolio, the yield of gold loan is lower than our average yield.

Jai Mundhra: Out of this 65% EBLR, what could be the split of repo and T-bill?

Dr. N. Kamakodi: Almost everything is repo only.

Jai Mundhra: And then sir, is it fair to assume that at least the initial 90 basis points increase that would have been effective mostly let us say beginning August?

Dr. N. Kamakodi: No, out of the 90 basis points, at the maximum about 40 basis points would have got transmitted.

Jai Mundhra: On your treasury, in your comment you had mentioned that the domestic treasury contribution is Rs.51 lakhs, but we have done pretty well on the treasury gains. So, in the earlier calls, you had mentioned that this is integrated treasury. So, if you can elaborate more what is the profit generation which is outside of domestic treasury and which is yielding phenomenal result?

Dr. N. Kamakodi: What has happened is the exchange profit what we call, we have made about Rs.63 crores for the first quarter. The same thing was about Rs.55 crores in first quarter last year and about Rs.59 crores in the fourth quarter. Even on the interest front, one of the things while instead of not going for the T-bill, which you need not make mark-to-market, we went for the short-dated securities advantage in the interest income basically. That's why I said to you that like even though I had to add a mark-to-market depreciation of Rs.30 crores, about 60%, 70% of that will be coming back to me in 18 to 24 months, mainly because of the residual maturity and things. So, if you consider all the parameters fully from the treasury, be it interest income or be it depreciation because of the adverse movement of your bond yield, overall things have been managed in the decent way and income had been maximized.

Jai Mundhra: This FOREX gain, is this proprietary trading or this is done on behalf of the client and the bank earn fee, is this the nature yield or is this like trading income?

Dr. N. Kamakodi: It is a small portion, but majority of that is the part of your integrated treasury operation, where you buy the dollar and invest there and also cover it by the forward. Whenever you have let's say arbitrage compared to the yield what you can get in the domestic market vis-à-vis what you can get in the overseas market and the forward premium will become the foreign currency profit.

Jai Mundhra: Just the small data points. You mentioned Rs.820 crores is SMA-II only, right or this is SMA-I plus II put together?

Dr. N. Kamakodi: No-no-no. The overall SMA-II is 2%.

Jai Mundhra: Any number for SMA-I? I think earlier we used to have 5%, 6% roughly.

Dr. N. Kamakodi: No, it's about 2.41% in SMA-I which sequentially reduced from 2.79% in the 31st March 2022. And comparatively during the last year around the same period, it was 3.74% in SMA-I and 3.34% in SMA-II.

Jai Mundhra: The last question is around deposit. So, when you are looking to increase credit growth from let's say 9% right now to 15%, 18%, on deposit side, you are also seeing as of now running at 7%, 8%, 9% YoY, how are you seeing the competition in the retail deposit side on both SA and TD because the system level deposits growth is slightly sluggish and when you have 15%, 18% credit growth, what is the sense that you're getting on the retail deposit side? And any increase in the competitiveness recently because of the large private bank individuals?

Dr. N. Kamakodi: As you might have seen, the CASA growth for the system is 25% for us. CASA has grown between 30th June 2021 to 30th June 2022 at about 25%. We managed the rates of retail term deposit at such a rate so that it doesn't grow so much and where surplus we have to invest in the government securities and once again going for the depreciation and things like that. So we managed the ALM pretty well. And even today I can grow my loan book by about Rs.2,000 to Rs.2,500 crores without increasing one crore of deposits from the surplus liquidity position what we have. So we will have sufficient time to manage the credit growth and take appropriate actions to increase our deposits accordingly.

Jai Mundhra: How are you seeing the deposit rate think that how will you see the baud rate this point? How much would it be the deposit base, how much would the term deposit broader yield movement?

Dr. N. Kamakodi: RBI rates have definitely given a clarity on the direction of both yield movement and also deposits rate, cost movement. But there will definitely be a lag factor on that. And we expect the growth in deposits, which is following with some amount of lag with that of yield movement and towards the end of the financial year, we expect for the incremental deposits, which you have to be very careful in acknowledging that, we'll have maybe around 40 to 50 basis points from the current loans for the system as a whole.

Moderator: The next question is from the line of Prashant Kumar from Sunidhi Securities and Finance Limited. Please go ahead.

Prashant Kumar: My question is again on the liquidity side. As CD ratio reached already around 84%, so as per your guidance, accelerated credit growth would be around 15% to 18%, so, the credit growth will outpace deposit growth by a wide margin. Are you going to plan out that credit growth by redemption of investment? If you could give some color on the balance sheet movement like deposit, advance and investment mix for FY'23? And at what level CD ratio would we be comfortable?

Dr. N. Kamakodi: I have answered almost all your questions earlier, but I will once again reiterate. I can go for loan book increase of Rs.2,500 crores at least without increasing my deposits even by a single rupee. How it is going to come? I have surplus government securities and also overseas deposits which will be maturing and by using the government surplus securities, I can borrow by pledging that from the RBI. That is I can go for the thing. Similarly, most of my refinance window also is opening. So, I will always ensure that my credit growth doesn't get hampered by the non-availability of the deposits. So, I can even go up to the CD ratio of about 90%. 89% 90% and all had happened in the past during the pre-COVID thing. And already since we have the surplus capital funds also, that supports us in this sort of thing. So with all the surplus government securities whatever we have, we can always borrow from RBI by pledging that, which will be the source of my liquidity if at all I need that. But looking into the overall trend and all, I will have sufficient time to manage my liability side particularly my retail term deposits.

Moderator: The next question is from the line of Abhilash Hiran, an individual investor. Please go ahead.

Abhilash Hiran: Can you tell what is the percentage of a business that is coming from DSA and what is coming direct from customers?

Dr. N. Kamakodi: We don't have any DSA as a concept. Entire business is direct from the customers to the bank. No intermediary in between.

Abhilash Hiran: So, can you explain or what is the cost of setting up a branch in Tamil Nadu and outside Tamil Nadu?

Dr. N. Kamakodi: It will be about let's say 25 lakhs per branch or so and it will be by and large the same anywhere in the country. There could be change because of type of location, for example, whether it is urban or metro, that sort of difference will be there, that's also on rent and not much on the setting up cost.

Abhilash Hiran: What is the general breakeven period that we take after setting up a branch?

Dr. N. Kamakodi: Tamil Nadu-based branches will breakeven about one and a half years or so, and for other state branches, typically it used to take about two and a half to three years, average you can keep at two years.

Abhilash Hiran: You had mentioned in the past that we generally have a much stronger hold in the rural like the tier-two and tier-three geographies vis-à-vis the metro and the city parts. So, what are the reasons for our dominance in the tier-two and tier-three geography?

Dr. N. Kamakodi: Don't say rural. You said rightly it is tier-two and tier-three. Our target market particularly you can clearly see, the MSME, commercial trading and agriculture together constitute say about 70%, 75% of our loan book which is our core bread winner. And the presence of this segment is more in the semi-urban and tier-two and tier-three towns more than the metros.

Moderator: The next question is from the line of Neel Mehta from Investec. Please go ahead.

Neel Mehta: My question is on the gross slippages. So quarter-on-quarter we witnessed increase in our slippages. If you could describe the reasons for the same?

Dr. N. Kamakodi: Don't read too much into the quarterly numbers and all. First, second and third quarter had been very high in the last year and which is reduced substantially in the fourth quarter. So, we have shared our expectations. Year as a whole, we should be having between 2% and 2.5% will be closing advances. There will always be quarterly aberrations.

Neel Mehta: Can we say this is on account of some sort of seasonality in our business?

Dr. N. Kamakodi: Partly because of that and partly that is how it happens, that's all. It is very difficult to have what you call a straight line or having something which is very predictable range and all. There will always be some amount of thing and all. But what I can say is that it is not part of a trend. Still whatever information available to me and the comfort whatever I'm getting is that, year as a whole the total slippage should be much less than whatever we had year as a whole in financial year '22 and almost similar to the pre-COVID period.

Neel Mehta: And also other which we observe in general like some products contributing to slippages more than the other?

Dr. N. Kamakodi: Please repeat. The voice is not clear.

Neel Mehta: Whether there were any trends observed in treasury or there some particular products are contributing more slippages than the other one?

Dr. N. Kamakodi: No, it is spread across different areas.

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

Darpin Shah: Sir, you mentioned that you now intend to grow the book almost by 15%, 18%, and you also mentioned that there has been some positive feedback which you're getting from the borrowers. The question is, what is that thing which is giving the confidence? Second is, are the borrowers concerned about the rising rates which have happened over the last three months?

Dr. N. Kamakodi: I get a feel that the investment cycle will start towards the fourth quarter, which will be giving that extra percentage growth, which I'm expecting. So, earlier, people who are only thinking, now I'm probably getting a sense that the people are now maybe one leg closer to the investment cycle. And that is one which is making me, and definitely, I won't say uncertainty has come to zero, but definitely the uncertainty level has come down now compared to whatever we had three months back. So all these things put together has given me that expectation.

Darpin Shah: Anything on the rising interest, are the borrowers concerned about that?

Dr. N. Kamakodi: Actually speaking, the interest rate currently is only equal to the pre-COVID level. They all know that, whatever they got the reduction during the COVID period is because of the special dispensation and all. So pre-COVID level people were comfortable with the rate of interest which is they're getting back to that level. We have to look in that way.

Moderator: We'll take the last question from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Two questions. One is structurally in FY'23 versus FY'22, could you see better margins?

Dr. N. Kamakodi: Definitely, on increasing interest rate scenario, there has to be a better margin. Then don't interpret that it is going to be one percentage more than last year or whatever it is. Let us go step-by-step. Don't interpret or extrapolate too much, but directionally, there has to be a stable, if not expansionary margins.

Gaurav Jani: To put in another way, could we assume that NII growth would actually be more than loan growth?

Dr. N. Kamakodi: Hopefully. We are working for that only.

Gaurav Jani: Second and the last question is slightly more structural. We're looking at a total stress of about close to 8%, there is 5% of restructured and about 3%-odd of the ECLGS. So from '24 standpoint, where do we see this stress actually going to and how soon could it reduce? and any sort of numbers do we have in mind?

Dr. N. Kamakodi: I have given me what is my stress. SMA numbers are against you and I have told our expected slippages for the current year is going to be 2% to 2.5% is similar to closing advances, similar to whatever we had during the pre-COVID period. And this is going to be sum of all regular ECLGS restructured and everything. So when the RBI said after one year of completion of the repayment, the restructured tag will go, is the regulatory guideline. Those sorts of number changes will be based upon the regulatory guideline whatever that is given, number one. Number two, when I cover the overall expected slippage number whatever that is given, it gives me sufficient comfort that this is the holistic slippage I'm expecting from every different segment of the portfolio.

Gaurav Jani: I probably would have missed this number, but how much of the restructured book will be due this year and next year?

Dr. N. Kamakodi: 65% of them I have made this thing. Almost 60% of them should be completing their one year repayment by the calendar year-end. And once they complete one year repayment, they will lose that restructured tax.

Moderator: We have one more question from Abhilash Hiran, individual investor. Please go ahead.

Abhilash Hiran: Sir, can you explain what is the breakup of a book, what percentage would be above Rs.100 crores and so on like some ticket size?

Dr. N. Kamakodi: Over Rs.100 crores is 4% of our book.

Abhilash Hiran: Sir, under Rs.5 crores?

Dr. N. Kamakodi: These sort of data points normally we don't keep in hand. So, you can contact the phone number which is given in the presentation.

Abhilash Hiran: About this Rs.100 crores, what generally would be the interest service coverage ratios for these loans?

Dr. N. Kamakodi: Normally, 1.33. This is the norm. It varies in the segment, some segment will be 1.33, some will be 1.5, some will be 2, depending upon the segment, they will be there.

Abhilash Hiran: Generally, what percentage of our employees are working in the collections or the recovery segment?

Dr. N. Kamakodi: We don't have what you call any collection agency sort of and all. This is typically the job of branch. Branch will be responsible for both giving the loans and follow up. Apart from that, we have about 50 people who are exclusively taking care of follow up and all. But normally we don't have a separate vertical approach in terms of these activities.

Abhilash Hiran: In the past, how many branches of the company closed and the reasons for the same?

Dr. N. Kamakodi: We have not closed even a single branch in the past ten years.

Moderator: You may go ahead with the closing comments.

Dr. N. Kamakodi: So thank you all for attending the con call and thanks for your wishes. Really gone well, even better than whatever we are expecting along with our fourth quarter call. We hope even the financial year '22-23 is going to be much better on all parameters; growth, NPA numbers, on asset quality, on every factor, looks like things are getting much better and better. And I hope I will be able to update you with the progress in the subsequent con calls. If you have any specific query or any data point, you can always get in touch with Mr. Jayaraman, whose number is there on the investor presentation part which is posted in the website. Thank you all for attending this call once again.

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