"City Union Bank

Q4 & FY2023 Earnings Conference Call"

May 26, 2023

ANALYST: **MR. MR. PRABAL GANDHI - AMBIT CAPITAL PRIVATE LIMITED**

MANAGEMENT: **DR. N. KAMAKODI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – CITY UNION BANK**
MR. J. SADAGOPAN – CHIEF FINANCIAL OFFICER – CITY UNION BANK

Moderator: Ladies and gentlemen, good day and welcome to Q4 and FY2023 Earnings Conference Call of City Union Bank hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prabhal Gandhi from Ambit Capital. Thank you and over to you!

Prabhal Gandhi: Thank you Jayshree. Good evening everyone. Thank you for dialing in. On behalf of Ambit Capital, I welcome you all to Q4 earnings call of City Union Bank. We have with us Dr. N Kamakodi, MD and CEO and Mr. J. Sadagopan, CFO. Without further ado, I will hand over the call to Dr. N Kamakodi for his opening remark post which we will open the floor for Q&A. Thank you and over to you Sir.

N. Kamakodi: Good evening everyone!

Hearty welcome to all of you for this concall to discuss the audited financial results of City Union Bank for the 4th Quarter / Year ended 31.03.2023. The Board approved the results today and I assume you all have received the copies of results and the presentation. You might also have seen announcement of 3 year extension approved for MD. Succession planning will start in about one to one and half years time.

At the beginning of the last financial year, during Q4 FY22 concall, we shared our expectations that our growth will be low to middle double digit and we did not have visibility of brighter growth because of War, Oil price, Macro instability etc.

Though we were not bullish during the beginning of last financial year, outlook improved during the middle of the year. But unexpected developments affected the progress. All those things are behind us now.

FY 23 had been a decent year of progress despite the above challenges we faced. Most of the parameters like PAT growth, reduction in NPA, ROA growth etc had been broadly in line on annual basis while the growth was below the expectation levels. As you all know, we had tightened underwriting process even before the

Covid when our approval rate for new customers logins which used to be 45%-50% was brought down to around 25%.

We did not make any change in our composition of advances. Major segment is MSME with 43% share and much of the advance came from Gold loan which is presently 25% of our advances. Historically, we did not concentrate much on the segments like Housing, Credit card segment, vehicle loans, personal loan, loan against properties as well as co-lending model. Now we could see that our peers are growing in these segments. Based on our learnings in the last 3 – 4 years , we are at the verge of finalizing Boston Consulting Group (BCG), as our consultant to upgrade our existing digital lending processes. The approval proportion should progressively increase in the next few quarters. We are aiming for 12% to 15% growth for the current year which should be skewed towards year end. No major change is expected in composition of advances.

As discussed in the last quarter concall, we could not recognize interest subvention part of Agricultural KCC Jewel loan. We have completed necessary compliance for the 'Scale of Finance' and the required audit process. Post concall, we received one installment and waiting for the rest. This is a good sign.

At the year beginning, we estimated the slippage for FY 23 to be in the range of 2.5%-3.0% of closing advances. In addition to those accounts which are marked as NPAs by system automation, based on our past learnings, we have identified and recognized some accounts as NPAs in Q4 FY 23 which are showing signs of sickness but are not marked by the system as NPAs. After taking in consideration of all these, our slippage for FY 23 was at 3.02% which is 2 bps higher than our expected range. Our Gross NPA stood at Rs.1920 Cr as of 31.03.2023 and GNPA ratio stood at 4.37% as against 4.70% in FY 22. We expect good moderation in slippage this year. At the same time the recovery has improved substantially during FY 22-23. We had a total recovery / upgradation of Rs.1,107 Cr in FY 23 comprising of Rs.813 Cr from live accounts and Rs.294 Cr from technically written off accounts compared to Rs.795 Cr comprising of Rs.607 Cr from live accounts and Rs.188 Cr from TW accounts in FY 22. The NPA addition minus total recovery for FY 23 improved to Rs.222 Cr from Rs.481 Cr in FY 22. Net NPA also improved from 2.89% in FY 22 to 2.36% in FY 23 and it reduced sequentially from 2.67% in Q3 FY 23 to 2.36% in Q4 FY 23. We expect further substantial improvement in recovery in the current year also to get NNPA back to pre-covid level in the coming

4-5 quarters. In this process we expect that coverage ratio also to improve – with TW over 70% and without TW over 50% in a few quarters.

The overall SMA 2 to total advance now stands at 1.82%. It used to be around 6% during pre-Covid. Our standard restructured asset also reduced to 2.85% of total advances as of March 2023 from the peak of 5.91% to total advances in Sep-2021.

As you all know we had tied up with 6 insurance companies covering life, general and non-life insurance. They have also started showing results. During 2019, we had bancassurance commission of Rs. 9 Cr which had improved to Rs.27 Cr in FY 23. We expect that it will improve further in the coming years.

In addition to the COD increase, the non-recognition of interest subvention amount had also reduced our NII in the last couple of quarters and our NIM for the current quarter ended with 3.65% and for FY 23 it closed with 3.89%. We expect that there will be pressure in NIM because of deposit re-pricing is widely envisaged across industry. Our Cost to Income ratio for FY 23 is reduced to 38.85% as compared to 40.37% in FY 22. In the absence of treasury profit the CIR will stay in the range of 42 % - 45% in the next financial year.

During mid-FY 21 at the peak of Covid, we said that we should be getting back to pre-covid ROA of 1.50% by second half of FY 23. During H1 FY 23, we had achieved a PAT of Rs.500 Cr and ROA of 1.59% with unexpected contribution from various quarters like treasury profit, write back from NCLT recoveries etc. Those opportunities are not available now. Though there were challenges in growth, NIM reduction, lower contribution from other income front and also marking of NPAs in addition to system marked NPAs, we closed the FY 23 with ROA of 1.46% which is closer to our long term average of 1.50%. We hope to close FY 24 also with the ROA of 1.50%. NPA recovery will be a major contributor. Though there will be challenges in H1 FY 24 for PAT growth, it will be compensated in second half because of both business growth and improved NPA recovery.

Our PAT had registered a growth of 23% and stood at Rs.937 Cr in FY 23 as against Rs.760 Cr for FY 22. This year also we expect 12% - 15% growth in annual profit in tune with business growth and improved recovery.

To sum up, Despite headwinds in margins, base figures and growth, we expect that we should be closing FY 24 with decent PAT growth, substantial reduction in net NPA, improved coverage ratio and ROA close to our long term average of 1.50%. So this is the overall outlook whatever we are having for the FY2024. There were certain unexpected issues which created some dent in the last year and those issues are behind us. So with these opening remarks, I open the forum for question. Over to you all…

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Good evening. So just taking up from your opening remarks you mentioned that there will be increased focus towards retail, but also you mentioned that loan mix is unlikely to change in FY2024 is that what I got correctly?

N. Kamakodi: No, I did not say that I will concentrate on the retail. What I am trying to say is many of our peers have shown greater growth in the retail, but we may be thinking of it maybe for the 2024-2025. Currently we do not expect any major change in our overall loan mix is what I said.

Mona Khetan: Got it and as far as margins trajectory is concerned even in H1 of next fiscal do we feel that 3.85% to 4% will be doable or will they be relatively muted?

N. Kamakodi: There will be maybe 10 to 15 basis points lower than that like whatever range we gave it in the past. The Q4 average is 3.65%. So our margin will be around this range for the current year because you will be having one end there is some interest rate hike has been passed on during the Q4. At the same time there will be impact on cost of deposit front due to repricing and hike will be there. Also we are having the disadvantages of not able to recognize some part of KCC subvention. So based on that we are making the expectation with the available data and this is where we are.

Mona Khetan: Okay full year margins will be closer to what you saw in Q4 of FY2023?

N. Kamakodi: Yes plus or minus 10 basis points.

Mona Khetan: Got it and just finally in FY2024 if I understand it right you are also moving to CTC based salary structure for the employees?

N. Kamakodi: This year's increment will be the last of the time scale based increment and the actual impact of the CTC basis will be visible only next year.

Mona Khetan: Okay so is that why we are expecting the cost ratio to be higher this fiscal or just because of the lower topline?

N. Kamakodi: No basically last year in the first half we had a good amount of profit from the treasury and also lump recovery from the NCLT accounts which gave a lot of addition to the other income. Those facilities are not available. As I told you more than Rs.200 Crores of benefits we have got from NPA slippage minus recovery front for FY2023 compared to the FY2022. So this year we will be getting even improved benefit from that slippage minus recovery front which will be compensating us for all the dent in the net interest income and non availability of other income opportunities from the treasury and all such fronts. So overall in the first two quarters since you do not have the opportunities from the treasury and we had Rs.500 Crores profit in the first half. Profitability growth over and above that in the first half will be challenging and it will be getting compensated in the second half. Despite all these things we are confident of having whatever PAT growth and ROA we are expecting for the next year for which we are having the visibility.

Mona Khetan: Sure Sir thank you so much. I will come back in the queue. All the best.

Moderator: Thank you. We have our next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good evening Sir and thanks for the opportunity. Sir when we are guiding for a NIM of around 3.65% plus or minus 10 basis points for FY2024 and a ROA which in 4Q was around 1.3% and we are guiding for a 1.5% kind of a ROA for FY2024. So just want to understand what will drive ROA improvement and in 1H also we have guided no growth in profitability vis-à-vis the last year 1H?

N. Kamakodi: Major agenda whatever that will be driving is the improved recovery which we were not having during the 2021. Sas I told you we had the addition minus recovery of NPA actually let us say you had already seen about Rs.250 Crores or so difference between the last year and the current year and from this year to next year also based on our analysis of the NPA that is giving us enough comfort that we should be able to maintain our overall ROA number and PAT growth simultaneously seeing the reduction in the net NPA number also. Major driver for PAT growth this year along with the growth in the business in the second half major driver is going to be the improvement in the recovery as we have demonstrated compared to between FY2023 to FY2022 in terms of slippage minus recovery.

Rohan Mandora: Sir what will be the expected credit cost that we are billing for FY2024?

N. Kamakodi: See actually if you look into the presentation the provision you made net of the recoveries you made in the technical write-off, it comes to about 90 basis point for the FY2023. The similar number was about 0.82 for FY2018 and 54 basis points for the FY2019 which increased to about 1.5 and 1.3 in subsequent quarters. So what I basically want to convey is that you have already seen Rs.200 Crores increase in the addition minus collection between FY2022 to FY2023. We expect similar jump in the current year also.

Rohan Mandora: So the net slippages that you are saying there will roughly?

N. Kamakodi: As you have seen already the SMA2 numbers have also substantially come down. The restructured standard assets have also started substantially come down. So our incremental both in terms of the slippage we expect a reduction and also the recovery numbers are also improving what we have already started seeing. So these items are going to be a major driver for the PAT growth and improvement of ROA for the FY2023-FY2024.

Rohan Mandora: So the credit cost can fall down to 50 to 60 basis points for FY2024?

N. Kamakodi: I do not have an exact number. It will finally depend upon where you want to keep your net NPA because that will be a moving target so that is why I will have some flexibility on that and that is why I give you a broader picture on this. That decision we will be taking as we enter into the year.

Rohan Mandora: Sure and secondly on the loan growth. For FY2024 like when we are taking about the back ended growth and the target of 12% to 15% so just want to understand like are there any newer products that we would look to launch or any geographical expansion or this is going to be mainly coming from the same geographies and the same product profile that we are operating in. When we are seeing the growth will be back ended in the year? What kind of a growth one can expect in the first half vis-à-vis the period and number of March 2023?

N. Kamakodi: The point is the current level of growth rate only will be there in the first half. As I told you we had in fact pulled down the approval rate for new customers from about around 50% to 25% just before the COVID and we thought we will be releasing that in the FY2022-2023 and keeping that in mind only I also shared with you all that we will be going for a better growth rate. We had to revisit the entire processes and put in place and those things are almost completed and also to ensure for the better measurement of risk we are also in the process of tying with BCG so that our existing digital lending processes for MSME loans also needs some amount of fine tuning and all. Those things like maybe the current level of growth will be continuing for the next couple of quarters. These issues will take a shape and we will be in a position to see improved growth rate in second half.

Rohan Mandora: Sure Sir and lastly the question that I wanted to ask was that on this approval rate of 25%. So it is a function that the proposal that we are getting from the market right now are not credit worthy enough to be sanctioned or is it just from a process perspective, we continue to remain slightly more conservative and that why is the approval rate is low?

N. Kamakodi: If you remember, along with the Q2 results of the FY2019-FY2020 before COVID, we said we are tightening our growth and we are taking our legs off the growth pedal. At that point of time, we tightened and the inflow is almost average. At the beginning of the last financial year, we did not have confidence. In the middle of the year, we started getting the confidence. We said we will be starting to open that but unfortunately we could not do that last year so we are starting to open that. At the same time, fine tuning the other digital processes are also going to happen parallelly so this is how we see this year will pan out to be.

Rohan Mandora: Sure Sir thanks. I will get back in the queue for other questions.

Moderator: Thank you. We have our next question from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Thanks for the opportunity. Sir just taking forward from the last participant's question in terms of growth that we saw was it also a function of competitive intensity on the ground or something? How do you look at MSME ecosystem around wherein you are dealing with in terms of health and that is why our approval rate was slow and what was the logic behind not increasing the approval rate from earlier that you talked about from 25% that we reduced during COVID? Why was it not raised during the second half which you anticipated it to increase?

N. Kamakodi: See as I told you it has nothing to do with the competitive intensity or anything like that. The major item that happened in the second half particularly on the restructured assets, regulatory inspection, divergence and all, we had to learn some lessons and we had to ensure that the internal things are taken care of and those things do not happen again. To ensure all the things are in place, we decided to postpone our time taken to push for the growth so we just continued with whatever we had done during the pre COVID. Those issues are now by and large behind us. At the same time some fine tuning is necessary which we have found out that in our digital processes particularly on the measurement of risk, revisiting our model and all, we are starting that process and it will take one or two quarters to settle. So keeping all these things into account I am giving you the thing. Apart from that, this is not because of the competitive intensity or this is not because of we are not getting proposals etc. So we have to ensure that whatever we take from this point of time, we will be able to push for the growth without any hassle for the next 10 years or so. Some amount of internal fine tuning, we are in the process of doing. We are almost there and with this association of BCG. Once it is complete all the integration has to happen properly after which we will be in a position to push growth fully.

Prakhar Agarwal: Sure Sir. Sir your thoughts on any stress that you will probably see on MSME side or do you look at MSME ecosystem and heath around those are there any red flag that you are seeing in the segment that you operate in terms of health of those customers?

N. Kamakodi: See as I have clearly given to you the SMA2 numbers are at a historical low. I have not seen these types of low SMA2 numbers in my life in my total experience. Similarly even less than 4% of SMA1 and SMA2 and all in my life, I have not at all seen. So the health of the MSME is decent. Whatever issues that were there they had got washed off during the COVID period. By and large those things are almost over and that is when I conveyed that going forward for the current year we will be seeing both reduction in the slippage. More than that, there will be increase in the recovery. Overall the addition minus recovery will be showing even good improvement like whatever we have seen between FY2022 and FY2023 and that is giving me enough confidence to say that both in terms of PAT growth and ROA we should be in a position to handle it for the whole year but we will be having issues in the first half because we had Rs.500 Crores profit after tax last year which was supported by treasure profit and also lumpy recovery from the NCLT cases which are not available in the first half of this year. So in first half growth in the PAT may not be good but the year as a whole we are able to have visibility to see growth both in terms of PAT and also having a lower NPA and ROA crossing our historical average.

Prakhar Agarwal: Sure Sir. Just one more question on margins. So when we say that we probably for the full year next year we will have similar levels what we saw for FY2023 which is 3.65 plus or minus 10 basis points and on the other hand we also say that probably because of the deposits cost rising there might be some pressure. So how exactly we are going to maintain because we are going to see some higher rates in first half and how exactly we are going to maintain an exit run rate of 3.65 because there will be some size which is there?

N. Kamakodi: When I say that number the impact of all these things are already built in.

Prakhar Agarwal: Got it and just one last thing in terms of recoveries from written off accounts. What was that number for the full year FY2023 and how do you think that particular line item plays through in FY2024?

N. Kamakodi: Basically we had in terms of suit recoveries we had a Rs.294 Crores for FY2022-FY2023 vis-à-vis Rs.188 Crores last year. That is why when I gave the information do not just look into the write off of recovery. If you consider both recovery of the written off accounts and also the recovery of live accounts together if we consider it as a recovery the growth in the FY2022-FY2023 is about Rs.250 Crores in addition to whatever you had in the FY2022 so this year we expect further improvement on that line.

Prakhar Agarwal: Got it. Thanks. Thanks a lot.

Moderator: Thank you. We have our next question from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Good evening and thanks for the opportunity Sir. Sir my first question is on agri slippages related subvention loss of net interest income. I remember last quarter there was Rs.32 Crores loss of net income because of this subvention slippages was there any such element in this quarter as well?

N. Kamakodi: There is no reversal like that Rs.20 Crores to Rs.32 Crores what we did last year but we could not recognize about Rs.25 Crores or so income in this quarter.

Jai Mundhra: So Sir the NIM declined this quarter is mainly because of the rise in cost of deposit right which is more or less?

N. Kamakodi: Say around 5 to 6 basis points contribution will be from the non recovery of what you call the agricultural thing. Also you might have seen the cost of deposits has increased from 4.60 to 5.07 which is about 45 basis points. While there is about 15 basis points only is the increase of yield on advances. Some passing of rates has happened in this quarter for the advances so there will be some increase in the yield on advances in the current quarter. So considering both whatever we have passed on and also the expected increase in the cost of deposits we conveyed the expected net interest margin. Another point what you also need to see about not less than 15 to 20 basis points impact because of the lowered CD ratio.

Jai Mundhra: Right and may be the higher slippages this quarter as well right?

N. Kamakodi: It is even lower than whatever slippage we recognized in the Q3 so sequentially that impact it is already like say to a greater extent built in. In fact it is advantageous compared to whatever margin we had in the previous quarter.

Jai Mundhra: Right so Sir hypothetically let say this quarter RBI inspection and everything is done for this agri slippages we cannot accrue the lost interest or there is a case that you can start accruing from Q1 onwards? You will anyway accrue but can you recoup that lost interest?

N. Kamakodi: See the receipt of the first installment is a very good sign. We do not want to commit or over promise anything. Since it has been found out we have completed all the compliance process and audit, we have submitted papers to them and one installment has already come in. So hopefully the impact may not be as bad what we thought originally but we do not want to take a chance. We will go for accrual when we feel it is okay to go for accrual. Till that point of time we would like to just leave it as such and wait for the finality on this matter.

Jai Mundhra: Right so these are standard accounts right Sir? They are not NPA?

N. Kamakodi: No these are all standard accounts. See basically the logic is may be for the benefit of everyone let me repeat. You have what is called as KCC scheme in which interest subvention is given by the government to borrower. Normally what happens is that for getting that interest subvention a question was asked to us whether we have calculated the amount eligible for the borrower based on the scale of finance. So we had done a thorough exercise, went account by account and tried to find out what proportion of the accounts are full filling the norms and what proportion of the accounts are not full filling the norms. By and large we expect a very small proposition overall our audit says that maximum amount of these accounts are fulfilling the criteria of the scale of finance. Basically what happens is that government gives about 1.5% to the bank and 3% to the borrower if they repay within one and a half years. So basically this 3.5% is what we are not able to recognize at this point of time so we have full filled and by account by account we have taken the thorough exercise and it is audited by the external chartered accountants. The final compliance is already submitted for approval. Normally how it happens is that, the payment by the government may get delayed by two years to three years and these things will be in accrued and in receivable basis. Receipt will happen something down the line and this time after all this issues came in to picture also, we have received one installment for our past due which is a very good sign. So once we reach a stage where the back logs are cleared then we will get the confidence that we can go for recognizing the accrual.

Jai Mundhra: Right no so what I wanted to check is this is KCC loan so the installment is once in a year only right or there are multiple installments?

N. Kamakodi: Yes. If they become NPA within 15 days they will get auctioned and you will be recovering. It will be finding a path in the overall NPA in the jewel loan. That part is about Rs.10 Crores in the total outstanding slippage and that Rs.10 Crores also will be from the jewel loan accounts where the borrower is deceased or he is not available locally, court procedures or stay is pending or something like that.

Jai Mundhra: No Sir I was saying Sir if the KCC loan has only one installment annually and we have already received that right then what is stopping you from recognizing the interest which is already received in cash?

N. Kamakodi: The problem is you will be getting only 4% interest from the borrower. Another 4.5% will be received from the government so that 4.5% originally we will be accruing. Even after we give the jewel back to the borrower that 4.5% income we will be recognizing on an accrual basis and the government may be paying that account in due course. When that objection of scale of finance came, the doubts were raised whether we will be getting that 4.5% whether we will be eligible. We have to demonstrate that we should be eligible for that 4.5% which we have done now by and large so once it is approved we will get the money. The first installment has now come. One installment has come after this issue came out to light.

Jai Mundhra: Any how many installments are there Sir so let us say?

N. Kamakodi: We do not know. It depends upon the budgetary approval so the government will make some approval and send it to the Reserve Bank of India. The Reserve Bank of India will be distributing this money to all banks in proportion basis so the actual payment is depending upon how much money that is transferred by the government to the Reserve Bank of India.

Jai Mundhra: And let us say in Q1 everything is sorted? Let us say it becomes very clear that you have the necessary documents to prove that these are eligible agri subvention loan so do you receive the backlog also or the Q4 and Q3 interest just does not come back?

N. Kamakodi: No what I am trying to say is that once I get all installments up to FY2022, now I have received only part of FY2021. So it will happen with a delay of let us say at governments' own time line. We cannot force anything. It happens at its own pace so once we get for whatever demand we have raised, once we get dues for FY2022, I will start recognizing on accrual basis the FY2023.

Moderator: Thank you. We will move on to the next question from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: Thanks for the opportunity. Sir a couple of questions. The first one was on slippages front. Did I hear right you mentioned that there was some standard accounts that were borderline and this you recognized the slippages or NPA during the quarter?

N. Kamakodi: Yes. See basically these accounts were not NPAs. Your system basically gives based on the 90 day overdue as NPA. It will immediately throw that. There are a few accounts which might not have cross 90 days on March 31 ,2023 but are showing continuous signs of sickness based on the learning whatever we had in the previous years and so we had more than what is marked by the system. Some amount of accounts we had added in this quarter.

Darpin Shah: Sir if you can quantify them?

N. Kamakodi: It could be about Rs.75 Crores to Rs.80 Crores.

Darpin Shah: Okay and Sir was there any interest reversal also in this or just because they are standard there was no interest reversal?

N. Kamakodi: All built in. For others if it is more than 90 days the reversal would be lower let us say since they have their last installment which could be less than two installments or so. It will be proportionately lower.

Darpin Shah: Okay and Sir the second question is on loan books. Now your comments indicate that in the life span which you have seen, we have not seen this extended to at such low levels and still we are guiding for 12% to 15% growth only so where is the disconnect Sir?

N. Kamakodi: The disconnect is when you analyze the growth of most of our peer banks or whatever the substantial growth had been done by them in terms of retail advances like say home loans, vehicle loans or the what you call co-lending and things like that which we may not be doing in the FY2023-FY2024 also. So this 12% to 14% growth also like say I am discounting Q1 as usual you may not be having big growth. So for me taking into consideration of overall growth rate of the system for the current year, you might have also heard about even today's comment from the State Bank of India, the overall credit growth of the system for the current year is also expected to be moderated. We will be taking one step at a time. Many of our peers who have shown substantial growth in 14%, 15% and

16%, the significant growth has come from the retail and other things which at this point of time we are not entering. We will consider probably at the end of the current year or for the future, so I am not taking those things for my growth projections in the current year.

Darpin Shah: Okay thanks a lot for this. All the best.

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

Bunty Chawla: Thank you Sir. Thank you for giving the opportunity. Sir just kind of a repetition could be sorry for that. As you said for FY2023 there could be a dip in the margin as compared to last year and there could be a chance of cost to income ratio which is around 38% to 39% could increase to 40% to 41% so maintenance of ROA is completely dependent upon the recovery in the asset quality front. So can you guide for the credit cost for the full year FY2024 because if I see the 33 slide number credit cost for this year seems to be the lower among the last five years or equivalent to last five years as such so what should be the credit cost we should take for the FY2024 as such?

N. Kamakodi: I answered this question also earlier so I am not giving you any specific number on the credit cost because it depends on where we will be closing the net NPA. So that is why I am giving you a broader number. The NPA addition minus NPA recovery between the FY2022 and FY2023 is improved by about Rs.250 Crores so we expect the similar improvement on that front in the current year also. We expect a good moderation in the slippage. We also expect good improvement in the recovery. This difference will be as I told you about Rs.240 odd Crores got added that was the incremental benefit for me to my P&L between the FY2022 and FY2023. The addition minus recovery for FY2023 is Rs.222 Crores, whereas last year it was Rs.481 Crores which means about Rs.260 Crores of benefit I received because of this parameter. I expect an improvement on this particular number this year which will be helping me both in terms of protecting my PAT growth and also improving my net NPA position and also the coverage ratio.

Bunty Chawla: Thank you Sir and sorry for this repetition. Sir credit growth you said 12% to 15% for FY2024?

N. Kamakodi: Yes which will be back ended.

Bunty Chawla: Back ended. Okay thank you very much.

Moderator: Thank you. We have our next question from the line of Amish Thakkar from Siguler Guff India Adviser Private Limited. Please go ahead.

Amish Thakkar: Thank you very much for taking my question. I just wanted to understand what kind of steps you have taken in terms of your processes and any lapse you have had in terms of asset quality which lead to the regulatory diversion and is that completely over? Do you see any like next couple of quarters you will probably would try to perfect it and what gives you confidence that those issues will not pop up again and as you get on the growth strategy?

N. Kamakodi: See let us be honest about it. We had this divergence issues the second time and about seven to eight years back we had once. When other banks had hundreds and thousands of Crores in between after the AQR and all, we did not have much issue. What is the fundamental item is when you automate your NPA recognition the system when it throws something you will not have any issue about it. But there are many items which are nonfinancial and which are subjected to lot of interpretation where there will always be difference in the judgment how it is being perceived. Particularly when you take a call during the audit and subsequently after three to four months after you will also have the other information of what you call the operations in between. Even last year when the divergence happened you could have clearly seen about 25% to 30% of that had already been marked as NPA in the next subsequent first couple of quarters because they were all recognized by the systems. I do not think anybody will be able to say with 100% conviction that nothing will be there. Because when the system throws something there is absolutely nothing different but when it comes to the perception things changes. Last year the perception was basically different on the restructured cases where the issues were given and there were issues in the data of recognition of the NPA. Those things are behind us so taking into consideration all these things that is why I told even those accounts which are not recognized by the system but we have recognized which are showing some signs of sickness though they were not strictly coming under the 90 day norm, we applied some extra subjectivity and tried to ensure that we are on the right side of the recognition. So this is the best we could do and we have gone even to the next level. Then rest all we have to leave to the almighty. We have done everything possible in our control to do that and as you know it is a matter of reputation. No MD or no management will take chances on these things knowingly but when the perception and when the different views are coming, we are helpless and there will not be anything in your hand to save the day. Last year also we took everything in our care to do that. This year also and every quarter and every time we take whatever that is in the best interest. Six to seven years back when it came it was not the era of automatic NPA recognition. I think in 2016 we had to declare one time and it had happened for the second time unexpectedly and nobody would like to keep their reputation at stake when we declare the results and also we discussed this point with our statutory central auditors also. Both audit committee and all members also asking this question multiple times so we have taken everything in our control and even on the grey items we have taken our best possible items beyond which it is for the almighty to take a call.

Amish Thakkar: Okay thank you and I just had another couple of questions on your credit to deposit ratio. So you have in the credit to deposit ratio has compressed by a couple of hundred basis points since COVID and that is putting pressure on your NIM margin. Any guidance on that? And within deposits you have mentioned in the past that you do not want to give any guidance on CASA till you reach 30% CASA ratio? Now you are there for the last couple of years so any guidance on CASA going forward?

N. Kamakodi: See on CASA front basically we took a few steps particularly on the government CASA front in the last two to three years which have been helping us to improve our CASA front. We have been taking our best effort. You have started seeing the results and there will be always some fluctuations here and there. I will give you may be few more quarters. Once I get a total control. You have started seeing the improvement let it be. Let us see how things move forward and on the other front what is that you were asking.

Amish Thakkar: CD ratio used to be 86%? It has come down to 84% now?

N. Kamakodi: CD ratio is something we have to take a call depending upon the surplus liquidity in the system and overall credit growth etc. So we decided to not squeeze till the last point and it will be staying over there for may be few more months till we see that we get a comfort to squeeze it to our old average.

Amish Thakkar: Sir one last question on gold loan. It is 25% of your book now? It used to be less than 20% so it is again one of the focus areas for our loan book growth in the last two to three years. Sir going forward any guidance and also your NPAs on gold loan are negligible compared to rest of the book? Your system average is 3.5% so if you remove gold loan the NPA on non gold loan for the book is even higher so any guidance on gold loan going forward and also your yields on gold loans some are around less than 10% versus the two listed NBFCs are close to 20% and there are all sorts of players between that range from both yield side as well as ticket size perspective so any guidance in terms of how you look at that product going forward?

N. Kamakodi: As you might have observed a significant portion of our gold loan is basically for the classification of agriculture which we have to mandatorily do and after the scale of finance issue there was some moderation. Our stand had been that, we will do it as we require it to achieve the agricultural target and also where ever we have surplus capacity and wherever we are not able to build our SME book we go for the gold loan. It has been very favorable to us and we can never come to the listed gold loan NBFC average of 20% yield. There are fundamental difference in the portfolio itself, particularly the classification of agriculture so that when we start seeing the growth rate of MSME increases we always have higher risk adjusted yield there at that point of time. If you had seen over a period of 15 years or so our bank, we started with single digit, increased that to about 18%, and after 2014 gold price crash, we got it back to single digit. Then once again we increased that. Whenever we felt we were not comfortable during the COVID period, we gave a thrust to these things so we will use it as an opportunity to grow when we feel that the growth opportunity on MSME loan has come back. So broadly our average will be about 12% to 15% and the fluctuations, the extremes could be about 27% to 28% depending upon the requirement. In fact beyond 25% itself we are not very happy about it. Let us see how it moves forward.

Amish Thakkar: Okay thank you so much.

Moderator: Thank you. We have our next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir thanks for the opportunity again. Sir I just wanted to understand in terms of the aggregator and the ONDC how are we placed right now or is it the BCC period that we are doing is with respect to getting onboard with respect to many of these things and especially as we understand many of the large private sector banks have made a significant development and that is helping them gain almost 25% to

30% growth in the loan segment which is our core focus area. So the point which was asked earlier in reference to competitive pressure, are we seeing competitive pressure emerging from those kind of lending as well which is taking market share from us?

N. Kamakodi: No not exactly. Those sort of things are basically happening at a level lower than our segment of say the Rs.1 Crores to Rs.5 Crores segment or whatever it is. The smaller segment this is there. We have already getting ourselves ready for ONDC for which the enrollment process has started and on the account aggregator framework in fact we wanted to be sponsor for one account aggregator but we could not get the necessary approval when the concept came about three to four years back. We are also in the process of doing that. All these things should be getting completed in the next couple of quarters. We are already on the job.

Rohan Mandora: Sure thanks.

Moderator: Thank you. We have our next question from the line of Rajakumar Vaidyanathan an Individual Investor. Please go ahead.

Rajakumar V: Good evening Sir. Thanks for the opportunity. Just one question, you are saying that you do not expect significant treasury income in the first two quarter. I just saw that the government bond yield has come down significantly in this current quarter so you should be able to get some decent treasury income for the Q1 right?

N. Kamakodi: You will see appreciation only for those government security purchases you made between the yields of the current yield and the peak yield whatever you saw. You never had surplus liquidity in that period to make the maximum entry. It can at the best reduce your mark to market loss and if you have to book a small profit you have to sell a big portfolio which is not going to help you in a very big way like what we saw in the last year comparative period.

Rajakumar V: Okay Sir thank you.

Moderator: Thank you. We have our next question from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Thank you Sir. Just firstly a couple of question on the margins, so from a full year perceptive we saw about nine basis points decline in the margins in FY2023 so do I understand correctly you mentioned we will be somewhere in the 3.65 to 3.7 range on an average basis in the entire of FY2024?

N. Kamakodi: At this point of time, our expectations are also almost closer to this.

Gaurav Jani: Okay Sir just to take that point forward, frankly this year barring even the one offs the yields have not gone substantially higher like we saw in the case of other banks despite we having a higher portfolio?

N. Kamakodi: You are right. Because of the shocks from the multiple unexpected quarters and also loss in income because of multiple factors, we were little bit lagging. We lagged in passing. One reason is that even before that we had passed, if you closely look into and even before increase in the external bench marks, we had been getting the yield at a reasonably higher level and in fact. Since we had other items to look into, some amount of passing has happened during the current quarter and small visibility will be there when we see the current quarter number but your observation is right. Others increased the rates more than what we had done but still in most of the cases our current level of yield is almost equal to most of our peers or even slightly more.

Gaurav Jani: What proportion of our loan book would have been repriced on an average basis in FY2023 post rate hikes?

N. Kamakodi: Yes almost the entire book. I think except about 10% odd all have seen a transmission of rate hikes and the transmission of the exact number had been depending upon the rating, depending upon the quantum and other. As you might have seen for 2% to 2.5% increase in the external benchmark rating overall average yield increase for the system had been reported to be about 1% to 1.25%. About four to five months in the last two hikes before the yearend we had been little bit slower in the transmission. We have tried to compensate it by whatever extent possible. The basic difference was that the last pass was something which we did not expect.

Gaurav Jani: Understood and Sir on the deposit side so what proportion of deposits are repriced?

N. Kamakodi: Almost about 40% to 50% got repriced and we had also reduced the peak interest rate whatever we had been given during the pre COVID so some amount of the incremental thing like incremental increase will be getting moderated.

Gaurav Jani: Sure so what I understand is because 50% of deposits are yet to be repriced that we expect the margin decline in FY2024?

N. Kamakodi: No. The margin decline is going to be for everybody. We are also going to have that so there is still some amount of repricing in the deposit side left. You already have a benchmark during the Q4 of about 3.65 so we have to consider the potential repricing effect. We have to consider a potential increase that could happen in the yield on advances. So there could be some changes in the CD ratio also positively. Taking all these things into consideration only we said this can be taken plus or minus 10 basis points going forward.

Gaurav Jani: Sure just last bit, did I understand correctly so FY2023 you saw net slippages of about Rs.517 Crores? This number you expect this to be lower because of higher recoveries?

N. Kamakodi: Yes what I clearly gave is say consider both recovery from the live and technical written off together. There should be improvement in the recovery and there should be expansion in this number is what I am trying to say.

Gaurav Jani: Understood. Thank you so much.

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

Rakesh Kumar: Sir thanks for the opportunity. Sir firstly, looking at this TW number, which is close to around Rs.1350 Crores to Rs.1400 Crores. So the recovery from TW would be lower going forward as compared to what we have seen in past especially in this year and recovery for NPA would be higher correct?

N. Kamakodi: No. What I am trying to say is there could be improvement in both. Basically when we recover and when we go for our recovery procedures, we do not differentiate the procedure for a live account and for technically written off account. How you get the response is something which you cannot have a total control.

Rakesh Kumar: Got it and how this TW number would be? What would be the average maturity like these are two years old and three years old so what is the average blended maturity of this Rs.1300 Crores to Rs.1400 Crores number?

N. Kamakodi: One to three years will substantially cover about 80% of them roughly.

Rakesh Kumar: One to three years okay and Sir in this quarter particularly there is a very sharp movement in the cost of term deposit. So anything specific like if we see the trend like there was hardly any movement in Q1? Obviously because considering that average maturity of deposit what we have based on disclosed number, this quarter we have seen very sharp jump more than 50 bps jump in the term deposit cost so anything very particular to it if you can help Sir?

N. Kamakodi: The last quarter of the last financial year, even public sector banks getting to even 8% interest for the term deposits and we have even offered 7.5% and 8% for the term deposits. Normally you say 25% repricing happening every quarter and over the period of time, the deposits which were maturing were at about 6% to 6.5% and there were about 1% to 1.5% or even 1.75% incremental cost for that deposits which were maturing which resulted in the increasing cost of deposits.

Rakesh Kumar: Okay and Sir there was reported number on the yield on advances showing increment of around 15 bps on a reported basis but on a calculated basis this number is kind of a bit volatile. Any higher amount of advances that we have taken in the book at the end of the period something like that?

N. Kamakodi: No we have not gone for any portfolio buyout or anything. These are all absolutely the regular advances. You will not be in a position to exactly calculate because when it comes to the daily average there will be fluctuations in terms of the cash credit utilization and things like that. We have not gone for any portfolio buyout in the last year.

Rakesh Kumar: Got it Sir. Thanks a lot Sir and all the best to you Sir.

Moderator: Thank you. We have our next question from the line of Shankar V S from Freelance. Please go ahead.

Shankar V S: Sir good evening. Can you kindly explain on the scope for engaging BCG? Any specific to lending or some restructuring of the organization like that?

N. Kamakodi: No. They are going to help us in terms of looking into the risk measurement, modeling of portfolio and looking into the loan organization to the sanction of digital lending process basically. We are not looking into changing the organizational structure. This is purely for the business process reengineering of the lending processes from the customer experience, renewal, from the loading of proposals into the loan origin system to loan sanction and disbursal. This is what we are engaging with them.

Shankar V S: So I understand that we will be having digitally underwritten loan model. Is that right Sir?

N. Kamakodi: Yes.

Shankar V S: Sir in continuation of it, if we are engaging BCG and investing on this digital end to end platforms and also obviously we will be incurring an upfront cost wherein the benefits of the same we could be realizing or getting it about some quarters after that maybe next year even. So could that upfront investment make any additional pressure on the margins you expect?

N. Kamakodi: The cost is not significant. It will be less than 3% to 4% of the annual profit what the bank is making and it will be having any significant impact on the overall P&L.

Shankar V S: Understood Sir. Thank you Sir. Thank so much.

Moderator: Thank you. We have our next question from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Just wanted to check on one of the airline exposure that we had there was some restructuring by the airline to a leaser right which wherein they have got the dues converted to equity? Does that necessarily mean that this is a second structuring and hence it could become technically NPA for the lenders? While I believe we have provided but wanted to check can that become NPA?

N. Kamakodi: As far as we do not expect that for us the reason being they had given a repayment schedule and they have repaid up to almost 75% of the overall outstanding and there is only one installment left which they have to cover it by June 30, 2023 so that is where the things currently stand as of now for us.

Jai Mundhra: Okay understood. Sir if you can refresh what is the provisions how is the exposure now as of March and I believe we have 100% provision there so what would be reduced exposure?

N. Kamakodi: The outsourcing currently is around Rs.25 Crores or so.

Jai Mundhra: And that will be 100% provisions right?

N. Kamakodi: Yes.

Jai Mundhra: Thank you Sir. Thank you and all the best.

Moderator: Thank you. We have our next question from the line of Abhilash Hiran an Individual Investor. Please go ahead.

Abhilash Hiran: Sir can you explain the reasons for not entering into the consumption space lending?

N. Kamakodi: Basically like as a policy right from the beginning the banks original DNA had been to fund the creation of business assets and not for consumption and also over a period of time we had passed through multiple cycles. I had seen this in 2003 – 2004 and multiple cycles when people rush for the unsecured segment and some amount of heat comes in the future. So far our original ethos had not supported us taking the decision for the retail but days are changing. We also need to be open. We are waiting and watching the situation. Once after this digitization is completed and after perfecting the model and also when we are comfortable and confident that our risk measurement will be able to price the risk appropriately and identity appropriately, we will think about taking these decisions in the future. At this time, we have not made any major change in our overall policies whatever we have done in the past

Abhilash Hiran: Sir can you explain which other sectors we would not be opened to lending apart from the consumptions sector?

N. Kamakodi: Nothing like that. The overall MSME commercial trading and agriculture together constitute to so much. We have always restrained ourselves from entering large consortiums. In fact whatever we could do in the last two decades most of the things, the credits were not for doing something extraordinary but for not doing many wrong things so that it saved us during the AQRs and other things. Even when many of our peers went in a big way, we decided not to go for that and we were proved right subsequently so we see that way.

Abhilash Hiran: Sir just looking at the last annual reports, I am just populating the segmental results numbers, we see that the segment result numbers from treasury to the total segment result numbers is increasing whereas the whole sale banking and retail banking is slightly decreasing. Is it like there is some structural change in the retail and the whole sale book which the pricing we are not able to price in the correct risk so that we are not able to get required results as far as the core banking is concerned whereas the treasury has been contributing to the higher segment results which gets populated in the annual report?

N. Kamakodi: Do not look at that way. When your balance sheet grows you have more in terms of your treasury and there is income what you get from the interest income and also the profit what you book particularly getting into the integrated treasury operations. It also improves and last two to three years the growth in the core banking segment had been muted because of so many factors so that probably might have made you to see a pattern like that but we do not see that way. We have not made any conscious effort to change the overall structure as in the way you foresee.

Abhilash Hiran: Sir because it is just the numbers which are being reported and I can see?

N. Kamakodi: I full agree with you. It is because of the external environment and we do not expect that to continue in the future.

Abhilash Hiran: Sorry Sir to push here because the numbers have been dropping from 2014 and nothing to do with? It is just pre COVID numbers also I am seeing that from the wholesale and retail is?

N. Kamakodi: You see the combination of wholesale and retail together and treasury together how do you see the numbers contribution.

Abhilash Hiran: Sir if I just look from 2014 so say from 2011 it was 22% treasury to the mix, 31% wholesale and 43% retail banking which in 2014 which increased to 43% to 53% in retail banking and which fell again from 53% to 36% and 44% and which is again at the same level so these are pre COVID numbers I am taking not even?

N. Kamakodi: One minute. What is the treasury number at your beginning and what is the treasury number. Do not segregate wholesale and retail differently. There are a lot of reclassification happened in between because of the definitions changed in the MSME act and things like that. The contribution of the treasury fluctuates depending upon which side of the interest rate cycle you are in. We do not envisage any major difference over there. The reference point may not be a point that should be seen. We do not see it that way.

Abhilash Hiran: Sir, can you also provide for the credit? In the subsequent annual report could you provide also separately the credit cost for retail and wholesale? As for the segment analysis which is being reported in the annual report? Not only the way we put in the presentation but the way we put in the annual report as far as the segment results go? Can you provide?

N. Kamakodi: My suggestion will be look into the whole sale banking and retail banking together as the core banking and further hair splitting I do not think it is not going to serve any purpose.

Abhilash Hiran: Okay Sir thank you so much for your time Sir and all the best.

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

Rakesh Kumar: Thanks Sir for the opportunity. Just one question with respect to tax rate, this quarter it is looking slightly lower side. Any specific reason that we could not get to know from the disclosures?

N. Kamakodi: It is basically depends upon the expected tax that should be paid and also if you look into the annual basis by and large you do not see any difference in that. On an annualized basis you will not see much fluctuation.

Rakesh Kumar: Sir the write off amount which is looking slightly on a higher side. Does that have any impact on the tax rate?

N. Kamakodi: It will definitely have.

Rakesh Kumar: Okay thank you. Thank you Sir. Thank you so much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments. Over to you sir.

N. Kamakodi: Thank you all for attending. Last year despite having the shocks overall the things had ended well. This year also even though we expect headwinds in multiple parameters like cost of funds or other aspects, overall we feel because of the better contribution in terms of slippages and recovery whatever improvement we have seen between the FY2022-FY2023, we should be seeing the similar betterment here. First half there could be something but the year as a whole we are confident of seeing both ROA growth and also the reduction in the net NPA. At the same time as you might have seen other things are also behind us so hopefully the FY2023-FY2024 also we should be having an overall profitability well in line with whatever we had discussed with you. So let us hope for the best. Thank you.

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