"The South Indian Bank Ltd
Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to South Indian Bank Limited Q1 FY2023 earnings conference call, hosted by Antique Stock Broking Limited. 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. Prabal Gandhi from Antique Stock Broking Limited. Thank you, and over to you, Sir!

Prabal Gandhi: Thanks. I welcome everyone. On behalf of South Indian Bank management, we have Mr. Murali Ramakrishnan - Managing Director and Chief Executive Officer; Ms. Chithra - Chief Financial Officer and other senior management on the call. Without further ado, I will hand over the call to Murali Sir for his opening remarks post which we can open the floor for Q&A. Thank you and over to you Sir!

Murali Ramakrishnan: Good morning to all of you and thank you for joining us for the South Indian Bank Q1 FY2023 earnings conference call. We are joined by my colleagues, Mr. Thomas Joseph - EVP and Group Business Head Sales; Mr. Anto George C - Head HR and Admin; Mr. Sanchay Sinha - Head Retail Liabilities; Ms. Chithra H – CFO; Ms. Minu Moonjely - GM Credit; Mr. Senthil Kumar – GM Recovery and Mr. Ritesh – Treasury.

Let me start with key highlights of financial performance for the quarter ended June 2022-2023. Bank had declared quarterly results with a net profit of 115.35 Crores as against Rs. 10.31 Crores during the corresponding period of the previous year. CASA grew by 17.92% year-on-year from Rs. 25,725 Crores to Rs. 30,335 Crores as of June 2022. Provision coverage ratio increased to 70.11% which was 60.11% last year. Overall, GNPA improved to 5.87% from 8.02% as on June 2021. Net NPA improved to 2.87% for this quarter from 5.05% as on June 2021. Following the robust collection drive, our SMA2 portfolio has come down by 48% on a year-on-year basis. We have built a new book of 27,787 Crores with better under writing which is reflected in the GNPA close to 0.02% for the new book and SMA2 book of 0.24%.

Let me now take you through the other operational and financial performance of the bank. The total business for the bank increased by 7% and stands at Rs.1,52,900 Crores as at June 30, 2022. Advances grew by 10.95% year-on-year to Rs.64,704 Crores bagged by total disbursement of Rs.12,548 Crores during quarter ended June 2022.

The details of disbursements are as follows:

Corporate Rs. 7,595 Crores predominantly to A and above corporates; Gold Rs. 2,978 Crores; business segment Rs. 939 Crores; other retail Rs. 1036 Crores. The share of A and above rated large corporates has improved from 56% as at June 30, 2021, to 88% as at June 30, 2022. We have new slippages to NPA in our new corporate book. Gold is a segment which has been consistently growing for us, disbursement year-on-year was Rs. 9,653 Crores with an average LTV of 77.8% and a ticket size of about 1.32 lakh. Gold loan book grew by 28% year-on-year to reach 11,961 Crores. Personal loan is another segment where we are seeing good traction since the launch of pre-approved PL in September 2021, as on date our PL book had crossed 1100 Crores mark. Credit card is another growth area which we launched during FY2022, by June 2022, we have issued more than one lakh credit cards with monthly average spends of Rs. 21,344, the total book as of June 2022 for credit cards stood at Rs. 330 Crores. As far as SME is concerned, we are seeing good uptick and disbursement month-on-month over past few quarters, we are cautiously growing the segment with market disbursement of more than 300 Crores as against the average of 175 Crores for Q1 FY2022. We expect the economy to pick from the current situation. A healthy economic growth and government spending towards infrastructures sectors will help credit uptake in coming years. Our aim is to grow loan book by double digit in FY2023.

Coming to liabilities, our core deposit grew by 8.8% year-on-year to 86,460 Crores, CASA deposits increased by 18% year-on-year to Rs. 30,335 Crores predominantly due to continued improvement in SA business which grew by 18% year-on-year to Rs. 25,457 Crores. CASA ratio continued to improve and increase by 399 bps year-on-year to reach 34.39% of the total deposits as at June 30, 2022.

Bulk deposits declined by 63% year-on-year to Rs. 1736 Crores in line with our strategy. NRI deposits continue to grow and is at Rs. 27,598 Crores, it contributes at 31% of our total deposits. Low-cost NRI deposits grew by 10% year-on-year Rs. 9086 Crores. The bank saw robust growth of 22% year-on-year in our NRI remittance business during the quarter.

Our investment book was at Rs. 23,489 Crores split into HTM of 19,122 Crores and AFS and HFT Rs. 4367 Crores. Last year Q1, the M duration of the investment book was at 3.13 which is cautiously reduced at 2.57 as of June 2022. The bank booked income upfront during last year Q1 and as of now that opportunity does not exist. The fresh slippages were reduced by 48% on year-on-year from Rs. 879 Crores during Q1 2022 to Rs. 435 Crores during Q1 2023 which was within the overall guidance, the overall restructured book stands at 2,198 Crores of which business segment is 1319 Crores, personnel segment is 308 Crores and corporate is 571 Crores. The bank holds standard and restructured provisions of Rs. 590 Crores. Gross NPA ratio improved by 215 bps from 8.02% as at June 30, 2021, to 5.87% as at June 30, 2022.

During the quarter, the bank recovered or upgraded Rs. 235 Crores worth of NPAs, the net NPA ratio improved by 218 BPS from 5.05% as at June 30, 2021, to 2.87% as at June 30, 2022. Our endeavor is to bring GNPA below 5% and net NPA closer to 2% in FY2023.

The bank reported a net profit of Rs. 115 Crores in Q1 2023 mainly due to improvement in net interest income and reduction in provisions on account of lower slippages and better recoveries. Net interest income for the quarter increased by 11% year-on-year to Rs. 603 Crores. Net interest margin improved by 19 bps year-on-year to 2.74% in Q1 2023. The sequential growth in CASA has led to improvement in cost of deposits by 61 BPS year-on-year to reach 4.35%. The endeavor to reach NIM of 3% in FY2023. Non-interest income was Rs. 246 Crores as against Rs. 204 Crores during Q4 FY2022. Our core fee income increased by 41% year-on-year to Rs. 128 Crores. Overall provisions decreased by 72% year-on-year Rs. 139 Crores in Q1 FY2023. The reduction in provision was mainly due to lower slippages and better recoveries.

Our PCR improved by 10% on year-on-year basis from 60.11% to 70.11% as of June 30, 2022. Our aim is to further improve PCR to 75% in FY2023. PCR excluding write-offs improved by 13.63% year-on-year from 38.97% as at June 30, 2021, to 52.6% as at June 30, 2022.

Our overall capital adequacy ratio continues to be robust with 16.25% as at June 30, 2022, the Tier-I ratio stands at 13.62% as at June 30, 2022. We are hopeful that the momentum and disbursements and collections will continue in the coming quarters to achieve the desired targets.

With this, we open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Doshi from Chanakya Capital. Please go ahead.

Aditya Doshi: Thanks for the opportunity and good set of numbers. First, my question is regarding you have reported in segmental reporting that we have booked a loss of 81 Crores in wholesale books, so just wanted to understand what led to that. Second, there are lot of large private banks has been talking about mispricing or dislocation pricing in corporate book and we have had some growth in our corporate group across major segments of more than 100 crores, 25 Crores-100 Crores, so just wanted to know if you could give a qualitative color on that and third, we have a good run rate in other banking operations in segments, so just wanted to know what led to that growth? These are my questions. Thank you.

Murali Ramakrishnan: First I want to take that some banks have reported about the mispricing in corporate etc. Frankly, I need to get into details of what exactly they are talking about but as far as we are concerned, we knew exactly what we were doing, so for each of our corporates whenever we negotiate for any transaction, we look at the credit rating of the customer, the kind of facilities they have with existing banks and the kind of facility which they are seeking from us and whether we are in a position to price it appropriately and whether that pricing would be acceptable to them, so every single transaction which we have done have been done with the combined discussion of business with the Treasury team and since we had for our major part of the year we also had lot of surplus funds with us because as you know when we were restructuring the entire advances book as well as the bank, we were going slow on asset growth, we were wanting to grow quality assets only, therefore we had surplus since our liability franchise continues to fire and our CASA franchise was continuously firing. We had surplus one, so we were always looking at the opportunity cost of deploying these funds the next best avenue available, therefore for some of the short term products like three-month or six-month kind of thing which anyway is based on bidding whenever it comes to large corporates, so if you price it appropriately if we get the bid then we get to take part, if we do not win the bid, we do not get to take part, so our pricing is clearly based on the opportunities available and every pricing decision is been taken after thorough discussion on the alternate avenues available, so this as far as the pricing of corporate book is concerned and the reason why we continue to pursue opportunities in the corporate space is that we see lot more opportunities which can come up once you start engaging with large corporates because there are enough and more businesses to come through them in terms of vendor financing, dealer financing, funding of their key resources, funding of the wealth of the top executives etc., so there is a whole lot of benefit which comes by dealing with a corporate, therefore we will continue to see this as a big area because this year I believe that opportunities will be more in the corporate banking space, since the post COVID,SME and retail are still recovering from the shocks and also the rates that are pretty low for both these segments, not really priced to the risk, therefore we are cautiously building them especially the LAP as well as the higher end of SME segment, therefore we will see the opportunity panning out and we will do appropriate action which as far as the question on the pricing is concerned, your overall operating guidance as we continue to articulating, we would want to grow the overall, see last year we had a growth of only 4% in our asset book and year before last it was a degrowth and we also had more than 4500 Crores of slippages over the last few years. The whole endeavor was to set the processes right set the products right to put the teams in place to make the teams get equipped with the skills to handle these products, all these has taken time and now we are in a position to sort of settle down in these and we are now looking at growing each of these business and therefore we have set ourselves an ambitious target of double digit growth which is in tune with what market would grow for this year, so our growth we would want to grow in all the segments, currently the only criteria being quality assets across all product segments irrespective of whether it is from retail or corporate or SME. However, having said that if one of the opportunity keeps coming in any of these segments, we will definitely tap those opportunities to make use of the available funds. Your first question I did not get the question, can you repeat your question?

Aditya Doshi: Sure Sir. Got it. In segmental results, we can see there are 81 Crores reported loss in wholesale banking?

Murali Ramakrishnan: The 435 Crores of slippages which we experience this quarter, this includes two specific corporate accounts one is the retail outfit and the other one is Delhi based company, for both of this there is a provision which we had to do and the total provision in this segment comes to Rs. 81 Crores. It is actually not a big deal if these two are taken out if you look at the slippages it is close to 310 Crores which is very much in tune with what we have experienced even for Q4.

Aditya Doshi: Yes Sir. Thanks, got it Sir and my third question regarding we had a good run rate in our other banking operations even this year compared to year-on-year, so just wanted to know what is the traction going on then?

Murali Ramakrishnan: Sorry, comparison to what?

Aditya Doshi: If we see the segment wise which is results the other banking operations we have reported 94 Crores compared to last year 54 Crores, so what led to that growth?

Murali Ramakrishnan: Can we get back to you because these are all specific things which probably, we cannot give it in one single answer, we will get back to you specifically on this. We need to give you proper details, so right now that require some work to be done.

Aditya Doshi: Okay. Thank you and all the best.

Moderator: Thank you. The next question this is from the line of Ravindra, an individual investor. Please go ahead.

Ravindra: Congrats for the wonderful results. So we can see this turnaround but we need the clarification saying like can the provision remaining the similar lines or it is chance of increased or not, this is my first question and initially there was lot of challenges in the corporate loans bank moved strategy from corporate to retail loans and again due to the COVID we are moving to the corporate, so how often this why frequent change in the strategy and all, what is the guarantee that we will not get the again the corporate loans challenges again and what is the under writing standards which have changed from the previous teams to your teams, we can see the new book is performing very well but what are the challenges earlier and what are the credit understanding standards which have changed?

Murali Ramakrishnan: Yes, first one is with respect to provision, see quite frankly we expect the slippages, we are conservatively saying that it will be 2% 1.9% to 2% provision we would want to curtail it within 1000 Crores for the full year this is much lower compared to what we actually had provided for in the last two years, so this is more a guidance than anything we would obviously endeavor to provide as much less as possible by doing good recovery and collection. As far as, there is no shift in strategy or anything, we continue to I have been saying that we will continue to work on quality assets irrespective of the segments etc., clearly what ailed this bank in the past was lumpy exposures to corporates and where this corporates will also not that well rated corporates and also probably the period the economy the period in which these lending have been done were also the period when many of the banks which had focused on corporate went into problems but how are we taking care of that, we have been continuously reiterating that whatever we are on boarding today are all very well rated corporates and my composition of the corporate book if you look at it, it is 85% is A and above, so to that extent and we go by rating given by the very well reputed rating institution to that extent we will continue to be focused on onboarding quality assets, so therefore while having said that definitely this being one of the I mean since if the exposures typically in the corporate will be of a larger quantum, we will continue to exercise caution to closely monitor as to how those accounts are behaving etc., and I am happy to say that in the 27,000 Crores of new book which we have added of which the corporate space also had substantial portion, I must say that there is hardly any delinquent slippages into NPA, so zero slippages into NPA as of now but having say it is about 21 month since we started building new book, we will continue to exercise caution and in the corporate book was the nature of the corporate book is some of them will be short term, some of them will be medium term and to that extent short term as you know it will be bill discounting and those kind of things and so where well rated corporate probably of default in three months or six months or nine months is not going to really alter much, so and they had an impeccable track record, we deal with such corporates where the track record has been impeccable, so therefore we are pretty sure of who we are lending to and how we are lending wherever it is long term exposure we also look at the kind of players who are taking part, the kind of appraisal which has happened and we look at the end use of the funds for which it is going and what is the track record of the corporate in terms of how well they have executed the projects in the past etc., and what has been their track record in completing projects in time, all that is factored when we assess a project loan for any corporate, so the way we have tightened our underwriting, we have tightened underwriting across all products segments including corporates, so to that extent if you look at specifically if you want me to quote few things, for example in SME we closely look at the CMR ranking of the SME which is a new CIBIL not new it is about two years – three years old now where they give a ranking of CMR for SMEs from 1 to 10 one being the best and 10 being the worst and they constantly come out of data to say what is the probability of default for CMR 1 to five and what is the probability of default for 6 to 10, so whenever we onboard any SME customers, we closely look at what is the CMR ranking apart from doing our own appraisal. We have an appraisal criteria and we do a proper analysis of whether the cash flows are sufficient for entity to service our debt as far as the retail is concerned, we have used credit models to build with the help of bureaus and we are using benchmark probability of default which we would want to have and we are also continuously monitoring these portfolio by joint vintage covers to track how well the portfolio is performing as we age the book, so as far as corporate is concerned, detailed appraisal keeps happening and we do our benchmarking and we do peer comparison, we do the market news about this week for every quarter our risk team does a , industry outlook of which are the industries which are stable, which are growing, which are degrowing, so whenever we take exposures in a industry which is stable or growing we give it higher weightage in the rating criteria wherever it is a degrowing industry, obviously it will carry adverse weightage in the rating criteria, so all that we factor when we look at exposures for corporates, so overall I would say that heightened focus has been given on onboarding quality cases, so that is a way I would probably put it. What is your next question?

Ravindra: Yes, the final question is Gold loans are pretty much they are risky, right, and so banks including South Indian Bank I think we are charging around 8% or less than 10% but how the similar Gold loan is charged more than like 16% or at least 20% by the NBFCs and all and why cannot we increase our yield on those Gold loans by doing better marketing and onboarding the more customers on the Gold loan?

Murali Ramakrishnan: This discrepancy will always be there, there are segments where NBFCs will have a humongous advantage, they are all single product entities and obviously they ability to therefore garner a customer or the ability to quickly turnaround, the ability to accept a few deviations, all that is quite possible when it comes to dealing with NBFCs which are focused on single product, so this differential if you look at it, it exist since ages so I mean if you look at many, many business segments, there will always be differences and there are commercial vehicle, used commercial vehicle charged by NBFCs are 22%-23%, there are banks which charge at 13%-14%, there are NBFCs charge used car at about 22%-23%, there are banks which charge about 11%-12%, the differential will always exist, the single product NBFCs have the ability they are regionally strong players, they will put more people, they do not mind putting some 15 people in street, we cannot afford to such people in a bank with given their cost structure etc., so there will always be this territory which is clearly ear marked for where NBFCs can play role where banks can play role I mean we should not think that we can compete with them and we need to compete with them by putting that many resources, it may not be viable and it is also there is a risk also in that, see as a Universal bank we do not want to get stuck with only one product also firing for us, we need to be diversifying a risk and we need to ensure that we go grow in all segments because economy at the end of the day has go dues options for opportunities in various segments, therefore I would not really like to compare ourselves with NBFCs and say why cannot we charge more I mean they play their game and we need to play our game, as far as we are concerned if we are clearly pricing our product correctly and if you are taking care of the fraud risk which is inherent in Gold business and operation risk which is also inherent in a Gold business so long as we take care of that I think we are running our book fairly well and we are happy with the way we are growing, currently my Gold loan book is growing quite well and as the price keeps increasing in the market, we are also continuously re-pricing our Gold book and we are seeing whether it has got any impact on elasticity of the volume, that also is holding now.

Ravindra: Fine Sir. Finally, can we expect double digit ROE in this financial year or at least like near to 1% ROA can you guide on that I think you guided for 3% NIM I do not if we cross that, how about ROA and ROE?

Murali Ramakrishnan: ROA and ROE if you recall my strategy document, I said that we will reach double digit in 2024 March and ROA are 1% in 2024 March, this was even before we experienced COVID one impact and COVID two impact etc., there after our impact of all this we actually shifted the entire strategy by one year, so technically we are wanting to reach these levels by March 2025 but I am sure I will reach all these levels much before as I am talking to you my ROA has improved to 0.46% now and our ROE has improved to 7.68%, so we will certainly our aim is also to reach double digit ASAP but in hurry to do price it aggressively we should not lose the purpose for which we are taking to build a solid book which is quality and you know quality assets do not come cheap, so we need to price them appropriately, so we will have to manure both these very well to ensure that we create a good solid performing book which continue to earn more and more money for the bank, that is the spark, I will definitely make use of the opportunity to reach it ASAP but it is important to put the building blocks right and grow it correctly while working on these benchmarks.

Ravindra: Fine Sir because these parameters are very much necessary to raise the capital because their current price, we cannot raise the capital if you want to just raise from 1000 Crores, we need to dilute our like equity 100% so that is not at all good price to lift capital, so fine Sir. All the best.

Murali Ramakrishnan: Well said. Thank you, yes, I do agree with you. Well said. Thank you.

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

Suraj Das: Thanks for the opportunity. I have couple of questions. First question if you can give up the break of the new book in terms of various segments such as corporate, retail, business loan and agri, what would be the rough breakup of the new book?

Murali Ramakrishnan: I think it was part of my opening remarks. For this quarter we have disbursed total of 12,548 Crores of which corporate is 7,595 Crores, Gold is ….

Suraj Das: Sir, I was asking more of from the outstanding point of view, disbursement you have mentioned in the slide I can see there but out of 27, 787 Crores which is outstanding new book let say as of June 30, 2022, what would be the breakup there and if you have it kindly?

Murali Ramakrishnan: If you ask me, see 27,000 Crores, I will just give you a rough number, 27,000 Crores is a new book which we have added and so it is about my total asset book is about 64,000 Crores, so it is constituting about 47% of the total, the joined book is about roughly 44%, what I will do is we have got it but right now it is not handy with me, we will send it to you.

Suraj Das: Sure Sir and second question was I mean as you were saying that your focus I mean you have obviously quality names or quality exposure rather than any segment particular and since you are also on the large corporate you have been growing and you do not find it any challenge there, I just want more flavor in the last corporate book in terms of let’s say sir how much would be your working capital exposure where you have these term loans and what would be average ticket size vis-à-vis let us say few years ago or what are the key industrial segment so where you are seeing the good traction in the last corporate book, if you can give any color flavor here that will be great?

Murali Ramakrishnan: Yes, before that first I will answer your earlier question, we just got a break up, so out of Rs. 27,787 Crores of new book agri is about Rs. 9,557 Crores which includes Gold loan, so business segment is about Rs. 2400 Crores, corporate is about Rs. 10,043 Crores, retail is about Rs. 5787 Crores adding up to 27,787 Crores this is the composition of the new book, so that is the break up, so your next question is basically on you are asking on term loan and working capital, is that question which you are asking, breakup of the..?

Suraj Das: Right Sir, so what would be the rough breakup?

Murali Ramakrishnan: Yes, I will give you. The total if you look at the total corporate loan, we have about 18,600 Crores is the corporate book as of Q1 end of which CC is about 2200 Crores, term loan is about 13,000 Crores, pre shipment is about 945, post shipment is about 314, domestic bill is about 2038 Crores adding up to 18,603 Crores, this is the breakup of the corporate book and as I am talking to you, I will give also the breakup of the SME book, as far as SME book is concerned the total book is about 18,372 Crores of which CC/OD is about 9,118 Crores, term loan is about 6200 Crores, pre-shipment is 284 Crores, post shipment is 31 Crores, domestic bill is about 2680 Crores, so these are breakup and I can only tell you that in terms of incremental growth in both corporate and SME, SME as you know is more and more of granular, our average ticket size in SME continues to be less than a crore, to that extent, we are continued to focus on granular segment, if you recall I have always been saying that SME has got two segments, one up to 100 Crores of turnover where the average ticket size will be up to 2 Crores and the one above 100 to 250 Crores of turnover where the average ticket size will be about 8 to 10 Crores. We are going little slow on the higher ticket because that we need to do good appraisal and any slip there will cost lot of damage whereas on the lower end given the fact that we have built a credit model using Mc Kinsey, we are using that model to underwrite fresh lower end SME cases, so with that the new book of SME is also behaving exceedingly well, so the challenge is to continue to work on the old book and build a overall book which is of good quality.

Suraj Das: Alright, understood Sir. Thank you so much. The second question is on the treasury side, so on the slide number eight, the treasury and forex income is on 4 Crores while as the breakup of the treasury and forex income that is there in slide number 10 is 6 Crores and this excludes the depreciation and investment, so if I calculate that would be roughly 32 Crores of NPA and that you have received, you have in this quarter, am I saying correct?

Murali Ramakrishnan: SR provisioning, yes was there which is you know the SR book whatever assets which we sell it to ARCs the SR which get issued they are booked as investment book, so that extent there will always be SR provisioning which will keep happening depending on the rating institutions assessment on the ARC’s ability to recover, so I will just give you, you are right that net final this thing is 4 Crores is what we had shown, if you look at the breakup of the income, we made 10 Crores in GSEC, we have made about 4 Crores in MF and equity put together and others 4 Crs, we made an exchange income of 18 Crores therefore total forex we have done about 18 Crores and there is a depreciation investment of 32 Crores which is towards SRs. Compared to previous quarters etc., we have actually started seeing good traction in SRs also now with the way ARCs are working on recovery, we believe that traction will happen more and more in the SR’s..

Suraj Das: Understood Sir and what will be rough recover the loan book by benchmark, let's say how much of the loan book will be linked to EBLR and how much would be linked to MCLR and what would be the reset frequency for the EBLR as well as MCLR book?

Murali Ramakrishnan: See out of the 64,000 Crores asset book which we are talking about MCLR linked is about 21,250 Crores, base rate link is about 587 Crores, fixed rate is about 19,557 Crores, EBLR link is about 19,000 Crores and others are 4,218 Crores, in all it is about 64,000 Crores then it comes to MCLR etc., we do the revision as on MCLR revision date which we keep holding ALCO at regular intervals and as far as the bench mark rates are concerned, reference rates are concerned as and when there is a change announced by the regulators we hold ALCO and the increase in rate gets passed on to the customer from the first of next month, earlier we had it for the first of next quarter but then we subsequently looking at the way the frequent things are going to happen, we sort of moved it to first of next month if we get implemented and also obviously the new pricing etc., we are ensuring that we quote with the expectation that if the disbursement happens within so and so time, it will be this rate after that it will be depending on how much repo rate extra get increased based on regulators guidelines, we will suitably alter the rates. As far as the passing of the rates in terms of deposit is concerned, we obviously as part of ALCO we discuss that also and we continuously reprice our deposits and we have repriced even our FCNR deposits due to the now to make use of the opportunity available for next four months where CRR and SLR won't be applicable. We have also increased our FCNR rates etc., to mobilize funds. So, this is something which is anyway we will continue to keep doing and I believe that over the next one year, we expect the rates to be further increased by regulators at least with the tune of 75 bps to 100 bps going forward. So, we will carefully watch them and we will also price our thing accordingly but what we do experience in that higher rated corporate especially AAA corporates etc., they clearly negotiate, they do not accept the full passing on of the rates, so there is a renegotiation which keeps happening, so if you want to be in that transaction then you need to price it appropriately which is in line with what other banks are offering to them.

Moderator: The next question is from the line of Rajiv Agarwal from Sterling Capital. Please go ahead.

Rajiv Agarwal: Thanks for the opportunity and good set of numbers. We have primarily a south focused bank so what is the strategy forward to expand in other parts of India, can you just elaborate on that?

Murali Ramakrishnan: See, as of now the strategy as far as the Brick and Mortar Office is concerned, we will definitely be going slow on that because for two reasons, one is we believe that the future of banking anyway is more and more towards digital therefore digital offering clearly has no boundaries in that sense so long as we are able to service a customer and we are able to collect and recover clearly geography is not a big constrain coming in the way, having said that we continue to keep looking for opportunities to open Brick and Mortar Offices in the areas where we have not represented, this comes out from the some of the branch consolidation we keep doing whenever two branches which are very close to each other when we feel that businesses can be consolidated, we release license from their and use that license for opening up a location where we are not represented earlier, so in full year of FY2022 March ended 2022, we opened about nine new locations across the country and this is something which we do it as a more like not as a strategy but more like to ensure that we are represented well in across locations but once this year probably will be defining year for us in terms of stability in our performance etc., we will definitely look for wanting to be present in more and more locations, once we get to see how the traction for the full year goes because we have just come out of negative growth of year before loss and 4% growth in the last year to double digit growth this year and you know that our capital position was also not that great two years - three years back, now we are fairly comfortable at 16.25%, so my thought was not to really filter away capital by investing in newer and newer branches when we can get more and more from the existing branches and we get more and more from the resources, so that is the continuous process, we will do that and we will evaluate may be during the year to see whether we need to open more in the coming year.

Rajiv Agarwal: One more question, these nine locations are in new cities, which are those cities?

Murali Ramakrishnan: I can send you that.

Rajiv Agarwal: Okay, I will mail you on that and Sir this collection efficiency this again has dipped in this quarter, so where we are seeing less collections in which segment?

Murali Ramakrishnan: No, collection efficiency has not dipped, see the more and more you recover from the bad cases, thereafter it is what is due for the month only you need to collect, right…

Rajiv Agarwal: Okay.

Murali Ramakrishnan: It will only be 100% maximum, therefore to that extent it will be, I am not saying that we have reached that stage but I am saying that, see you should also compare quarter to quarter, see Q4 recovery and collection cannot be compared with the Q1 recovery and collection, number one, you look at Q1 of last year to Q1 of this year, we have definitely shown improvement and I am also happy to say that with the more and more of overall portfolio book getting churned with high quality book, the customers are expected to pay on due date, we do not want collection team to accumulate some dues and then go and show 100% plus collections, that is not the objective anyway. The objective is to collect the dues, even before we asked for the dues the money should come, that should be the quality of the customer but even if that is not happening with a little bit of a soft collar, we should be to collect the money, so that is the endeavor, so obviously we will improve our collection, I am not saying that 98% is ideal, we should definitely collect whatever is due, so we will definitely, you will see that improvement anyway in coming quarters but Q1 in my view has always been little lower than the rest of the quarters.

Rajiv Agarwal: And Sir this 3799 Crores, this 3000 odd Crores NPA Gross NPA in the old, roughly how much would we have recovered money?

Murali Ramakrishnan: That is the difficult question to give a full number, what we are actually, see the way we work it out is that you have a gross NPA today of 5.8%, so we would want to continuously work on improving the gross NPA and net NPA and PCR, these are the metrics by which we measure how well the traction is happening in the impaired quality book, so as I am telling you, we are at about 5.87% in gross NPA which we would want to move towards 5% by the end of the year, net NPA which we have collected at about 2.87%, we would want to move towards 2% by the end of the year, PCR which we are currently at about 70% which we have improved by 10% over the last one year, we would want to reach 75% by the end of the year, so this is the including write off, excluding write off which we are currently at about 52% we would want to cross 60% by the end of the year, so the endeavor is to keep working on this. Many of the resolutions of some of these cases are also dependent on environmental factors, say depending on legal system in India, depends on courts going, it depends on IBC's resolving few cases etc.. It has hinged on many things and therefore even where it is a sole banking etc., we need to see whether we will be able to sell off those assets which has collateral at a price which is acceptable to us. So it is a continuous effort which keeps happening. What I can tell you in terms of recovery and collection, we ended the year of March 2022 with 250% growth over the collection and recovery for the year before last and that is the same level of collection and recovery is what we want to do this year. In Q1 we have done close to Rs. 230 Crores of recovery from NPA and other 70 Crores - 80 Crores of resolution which has happened but this is without any big account getting dissolved in Q1. We expect some resolution of big accounts to happen in Q2- Q3 etc., with that we hope that for the full year we would want to work at least Rs.1200 Crores to Rs.1500 Crores of upgrade and recovery and that is the way we would try to clean up. If you look at SMA2, that is another indication to look at, if you look at SMA2 for one year back to what it is today, we have brought down by almost 48% of SMA2 book, so our endeavor is to pull back SMA2 into SMA1 and then to zero and also to not to let to SMA2 so slip into NPA. So I do a weekly review of this collection and recovery to ensure that we pull back the bad accounts and we also not let bad account slip into NPA. So, it is a combination of many things which will work at place, and you will see the improvement of that happening. We have already seen improvement from 8% to 5.8%. We want to certainly work towards improving it further to 5% as the first milestone, then hopefully we will bring it below 4% over the period.

Rajiv Agarwal: Thank you.

Moderator: The next question is from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: Congratulations for a stable result Sir. What is the aspirational CD ratio if I take a 12 month or a 24-month outlook in a bank?

Murali Ramakrishnan: We are currently at about 72%, my first milestone is to reach 75%, I would want to reach it by the end of the year aspirationally, that will be the first milestone. I do not want to endeavor going beyond that right now because as you know it depends on how we manage both the liability and asset franchise and at the same time the stable growth of asset is also required and the stable growth of liabilities also needed to be in place, so we were at about 68%-67%-69% we have now crossed 70%, we were at 74% also but as I am experiencing this year that with the rate increase etc., happening will not really see how is the absorption of assets happen as the economy pans out, so my goal is to reach 75% by the end of the year.

Sushil Choksey: Linking to that, where do you see CASA and outlook on investment book in view of the volatility with the FED meeting outlook which will be announced today, how are we placed on that and secondly government's new scheme on NRI deposit, major banks are trying to drive a big way, South Indian Bank and mainly Southern banks have a good hold on NRI deposit, so what kind of measures to attract reasonable cost money to increase our CASA as well as FCNR deposit?

Murali Ramakrishnan: Excellent question, as far as CASA is concerned, we have got I just want to tell you that we have four channels which we fire for CASA, one is retail and the second one is TASC, third one is government banking and fourth one is NR, so first let me touch upon government banking, we have got agency license we got it last year and in fact amongst the banks which were issued licenses last year, we were the first one now to make it operational, we have already are up and running in our customs duty collection etc., and we have started seeing traction happening I mean this is just beginning of course the endeavor is to clearly move towards collecting direct taxes and collecting GST all that will hopefully help us to get a one day or one day float etc., for fairly large sums of money in government. TASC, if you look at over the period during COVID period many of the institutions had challenges in collecting fees etc., from the students that is the traction we have started and in fact we are quite seeing good traction happening in TASC contribution to CASA, so that again is firing for us very well. As far as retail is concerned CA current account continue to be a challenge for us because that clearly is like every other bank we also face ups and downs some volatility there, savings bank clearly is on the rise it is and NR is a very strong franchise for us 80% of our NR businesses are concentrated in Middle East in fact I have been recently in Middle East and met with all the exchange houses, met with our team, met with the high net worth customers etc., the way we have created our image in terms of service and in terms of our presence etc is very much appreciated there and we are also in talks with couple of very leading exchange houses to improve our remittances from Middle East etc., having said that 20% of our NR business also comes from rest of the world and we are in tune with the new regulations to say that whatever we raise through FCNR will not attract SLR , CRR we have also repriced our FCNR deposits, the endeavor is to capitalize on this window opportunity and see how we can beef up our forex resources. Having said that this also would help us in sort of pricing our loans especially for large corporates where there is a pressure on pricing and foreign currency linked to pricing wherever there is natural hedge available for corporate, it will help us to be in the market and continue to do transactions with them. So that is how I see the overall thing.

Sushil Choksey: So, what percentage of our balance sheet spend would be utilized towards digital transformation of the bank over a period of 2 years -3 years?

Murali Ramakrishnan: Right now I will not endeavor a percentage but what we are actually saying is that we are already completely digital in credit card offering, it is an end-to-end digital right from acquiring customer to fulfillment to issuance of card to transacting card everything is happening digitally, PL we have already enabled everything to happen digitally, home loan also we have enabled everything to happen digitally but we need a platform for doing end-to-end fulfillment of this, the platform we have engaged with the nucleus to set up the platform that is getting bit delayed due to attrition issues in the IT industry and due to other factors, so, we hope that it will come into force by end of Q2 or early Q3 once that is in place anyway our rule engines are ready, credit engines are ready so then the entire offering can be done from sourcing into up to collection and monitoring etc., we can do completely in platform, this is retail platform nucleus, same way we have engaged with Newgen for SME platform and again SME we have used Mc Kinsey to develop a credit model for us and once the platform is in place, we will offer the end-to-end offering of the loan through Newgen platform. Already supplier and vendor financing, we are using a platform for doing those businesses and with a new treasury system coming in we can offer variety of our treasury products also digital, so all in all the products which we are focusing on currently, all of them can be done once these platforms are in place but having said that we are not waiting for them, we are continuing to grow these businesses but once these platforms are in place I think our ability to turn it around will be faster, ability to price it will be much better and obviously our ability to monitor etc., will also be much, much superior because we can take out the entire data and do our data science, our data science team can do a complete analysis of the portfolio etc., for better reviews.

Sushil Choksey: So, you then asked me, in the plan the treasury and second thing is aspirational cost to income of last five years has been average around 50%, do we get there in short term or we have in medium terms?

Murali Ramakrishnan: That is one thing which will take some time for us, out of the 6Cs which I articulated cost income is one area which will take some time because this can work to the advantage of bringing down from current level of 62% to 50% level which is aspirational level for me that will happen only with the income really going up and that visibility of that we get to see only this year because this is the first stable year after two years of complete disaster in terms of economy and in terms of our own portfolio challenges.

Sushil Choksey: Congratulations and all the best for the financial year.

Murali Ramakrishnan: Thank you so much.

Moderator: Thank you. The next question is from the line of Mayank Gulgulia from SBI Life Insurance Company. Please go ahead.

Mayank Gulgulia: Thanks for the opportunity, so like out of our restructured loans, what would amount which will be still under some kind of moratorium?

Murali Ramakrishnan: See, out of the restructured book COVID one ECLGS one where moratorium has been already over, ECLGS 2 onwards the moratorium is still in place. We will get to see the repayment of them only from this quarter onwards, Q2 onwards, so we have a total restructured book of 2198 Crores I mean which include everything which includes MSME restructuring, COVID one, COVID 2, ECLGS etc., all that is part of this and 2198 Crores is the of which COVID one is about 7 Crores to 10 Crores, COVID two is about 1030 Crores and all others are about 456 Crores, so the 7 Crores – 10 Crores is the one where repayment has started, COVID two, we will start getting to see the repayment from this quarter onwards.

Mayank Gulgulia: Yes, we have SMA 2 book of SMA 2 loan book of 1100 Crores, so what would be overlap between restructured loan and SMA2?

Murali Ramakrishnan: No, SMA 2 book has got a mix of everything, mix of retail, mix of retail SME and corporate I mean it is a composition of the book which are overall SMA 2 book of the entire portfolio, right so it has got a mix of everything. Just hold on I can give you the breakup of this, restructured will not be part of that, restructured anyway standard restructuring, it will not appear in any of them I mean if that is your question then it does not come there.

Mayank Gulgulia: Okay and like we are working on underwriting like using having rating model for SME and retail segment, so for SME we are taking Mc Kinsey model, so that is work in progress or that has already been implemented?

Murali Ramakrishnan: Already implemented. We have done a pilot then we scaled it up to another region and last rollout is going to happen. You have already heard out of I think 18 regions, nine regions we have already rolled it out.

Mayank Gulgulia: And on retail side, on non-gold retail?

Murali Ramakrishnan: It is done, it is implemented fully.

Mayank Gulgulia: Same Mc Kinsey Model?

Murali Ramakrishnan: Retail, not Mc Kinsey, It is Experian.

Mayank Gulgulia: Okay and last question, in our granular SME segment what would be average LTV?

Murali Ramakrishnan: I mean ticket size will be about Rs.60 lakhs – Rs.70 lakhs. Our collateral cover generally at the lower end we generally take 100% plus kind of collateral cover apart from the primary security.

Mayank Gulgulia: Okay, yes that was helpful, thanks.

Murali Ramakrishnan: If you are referring to installment, we do not do much of installment loan in lower end SMEs it is all working capital.

Mayank Gulgulia: Okay, thanks a lot.

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to Mr. Prabal Gandhi from Antique Stock Broking Limited. Thank you.

Prabal Gandhi: Thank you everyone for joining us. Murali Sir, do you like to give some closing remarks.

Murali Ramakrishnan: I would like to thank all the participants who took their time out of busy schedule I know there is another conference today from a very large bank and despite that I think I really appreciate people who have taken part and if any of your questions which you could not have a chance to ask, please do not hesitate to write to us. We will be happy to share answers with you and we would like to give as much detail and we would like to be as transparent as possible in spelling out what exactly we are doing and what is working for us, what is not working for us. So, thanks a lot and take care. Have a nice day. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.