“The South Indian Bank Ltd
Q2 FY 2023 Earnings Conference Call”

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MODERATOR: **MR. SREESANKAR R – INCRED EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Bank Earnings Conference Call for Q2 FY '23, hosted by InCred Equities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sreesankar R from InCred Equities. Thank you, and over to you, sir.

Sreesankar R: Thank you, Mike. Good afternoon, all the participants. Good afternoon to the management of South Indian Bank also. We have Mr. Murali Ramakrishnan, Managing Director and CEO; Mr. Thomas Joseph, EVP and Group Business Head Sales; Mr. Anto George, Senior General Manager, Mr. Sanchay Sinha, Head of Liability and Branch Banking; Ms. Chithra H., the Chief Financial Officer; Ms. Minu Moonjely, General Manager Credit; Mr. Senthil Kumar, General Manager, Collection and Recovery; and Mr. Vinod, General Manager, Head of Treasury. So we have the entire vertical heads of the South Indian Bank also present.

Let me take this opportunity to hand over the call to Mr. Murali Ramakrishnan for his opening remarks and take you through the presentation. Over to you, sir. Hello?

Murali Ramakrishnan: Good morning to all of you, and thank you for joining us for the South Indian Bank Limited Q2 FY '23 Earnings Conference Call. We are joined by my colleagues, Mr. Thomas Joseph, EVP and Group Business Head Sales; Mr. Anto George, Senior Head, HR and Administration; Mr. Sanchay Sinha, Head Retail Liabilities; Ms. Chithra, CFO; Ms. Minu Moonjely, GM Credit; Mr. Senthil Kumar, GM Recovery; and Mr. Vinod, GM Treasury.

Let me start with the key highlights of financial performance for the quarter ended September 22-23. Bank had declared quarterly results with a net profit of INR 223 crores as against a loss of INR 187 crores during the corresponding period of the previous year. CASA amount increased by 14% year-on-year from INR 26,773 crores to INR 30,548 crores as at September '22. CASA ratio improved by 370 bps year-on-year to 34.53 from 30.83.

Provision Coverage Ratio, PCR, including write-offs, improved by 777 bps year-on-year to reach 72.79% in Q2, ’23, against 65.02% at September '22. Overall, gross NPA reduced to 5.67% from 6.65% as at September '22. Net NPA reduced to 2.51% from 3.85% as at September '22. Following the robust collection drive, our SMA-2 portfolio has come down to 58% on a year-on-year basis.

Build a new book of INR 33,768 crores with better underwriting, reflecting GNPA close to 0.03% and SMA-2 book of 0.32% is excluding INR 4 crores of FLDG and INR 4 crores of gold where there is 0 LGD. CRAR ratings and India ratings and research have revised our rating outlook for our bank from negative to stable.

Let me now take you through the other operational and financial performance of the bank. The total business for the bank increased by 8% and stands at INR 1,56,440 crores as of September 30, 2022. Advances grew by 17% year-on-year to INR 67,963 crores backed by total disbursement of INR 26,089 crores during half year ended September '22. The details of disbursement are as follows: corporate INR 15,384 crores, predominantly to A and above rated corporates, Gold INR 5,746 crores, Business segment INR 2,713 crores, other retail INR 2,246 crores. The share of A and above rated large corporates has improved from 75% as at September 30, 2021, to 88% as at September 30, 2022.

We have nil slippages to NPA in our new corporate book. Gold is a segment, which has been consistently growing for us. Our disbursement year-on-year was INR 10,610 crores with an average LTV of 79.69% (with buyout 88.21%) and ticket size of about INR 1.57 lakhs. Gold loan book grew by 36% year-on-year to reach INR 12,913 crores. Personal loan is another segment where we are seeing good traction, since the launch of preapproved personal loan in September '21. As on date our PL book had crossed INR 1,400 crores mark.

Credit card is another growth area which we launched during FY '22. As on date, we had issued more than 1,50,000 credit cards with monthly average spends off INR 22,111. The total book as of September '22 stood at INR 497 crores.

As far as SME is concerned, we are seeing good uptick in disbursement month-on-month over the past few quarters. We are cautiously growing this segment with monthly disbursements of more than INR 450 crores as against the average of INR 185 crores for Q2 FY '22.

A healthy economic growth and government spending towards infrastructure sectors will help credit uptick in the coming years. Our aim is to grow loan book by double digit in FY '23. Coming to liabilities, our core deposits grew by 6% year-on-year to INR 87,111 crores. CASA deposits increased by 14% year-on-year to INR 30,548 crores, predominantly due to continued improvement in SA business, which grew by 14% year-on-year to INR 25,538 crores.

CASA ratio continued to improve and increased by 370 bps year-on-year to reach 34.53 of the total deposit as at September 30, '22. Bulk deposits declined by 69% year-on-year to INR 1,366 crores, in line with our strategy. NRI deposits continue to be our strength and now stands at INR 27,500 crores. It contributes to 31% of our total deposits. Low-cost NRI deposits grew by 11% year-on-year to INR 9,127 crores.

The bank saw a robust growth of 18% year-on-year in our NRI remittance business during the quarter. Our investment book was at INR 26,152 crores split into HTM of INR 19,308 crores and AFS and HFT of INR 6,844 crores. Last year, Q2, the M duration of the investment book was at 2.98, which we cautiously reduced to 2.44 as at September '22.

The bank booked an income upfront during the last year first quarter, and as of now the opportunity does not exist. The fresh slippages was reduced by 34% year-on-year from INR 531 crores during Q2 '22 to INR 350 crores during Q2 '23, which was within the overall guidance. The overall restructured book stands at INR 1,997 crores of which business segment is INR 1,279 crores, personal segment is INR 308 crores and corporate is INR 410 crores.

The bank holds standard and restructured provisions of INR 594 crores. Gross NPA reduced by 98 bps from 6.65% as of September '21 to 5.67% as of September '22. During the quarter, the bank recovered or upgraded to INR 291 crores worth of NPA, the net NPA ratio improved by 134 bps from 3.85% as of September 30, '21 to 2.51% as of September 30, '22.

Our endeavor is to bring GNPA below 5% and net NPA closer to 2% in FY '23. The bank reported a net profit of INR 223 crores in Q2 '23, mainly due to improvement in net interest income and reduction provisions on account of lower slippages and better recoveries. Net interest income for the quarter increased by 38% year-on-year to INR 726 crores. Net interest margin improved by 72 bps year-on-year to 3.21% in Q2 '23. The sequential growth in CASA has led to improvement in cost of deposits by 61 bps year-on-year to reach 4.23%.

We endeavor to reach NIM of 3% in FY '23. Noninterest income was INR 255 crores as against INR 157 crores during Q2 FY '22. Our core fee income increased by 22% year-on-year to INR 142 crores. Overall provisions decreased by 57% year-on-year to INR 179 crores in Q2 FY '23. The reduction in provisions was mainly due to lower slippages and better recoveries. Our PCR improved by 777 bps on year-on-year from 65.02% to 72.79% as of September 30, '22.

Our aim is to further improve PCR to 75% in FY '23. PCR, excluding write-offs, improved by 13.44% year-on-year basis from 43.84% as at September 30, '21 to 57.29% as at September 30, '22. Our overall capital adequacy ratio continues to be robust with 16.04% as at September 30, '22. The Tier 1 stands at 13.42% as at September 30, '22. 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.

Moderator: Thank you. We will now begin the question answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question.

Ladies and gentlemen we will wait for moment while the question queue assembles. We have the first question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Congrats on a good set of numbers. Sir, first question was on NIM. You indicated that for '23, we'll still continue with the guidance you've sent. But for 2Q, we have crossed to around 3.21%

Moderator: Mr. Rohan, your audio is not very clear. I request you to kindly go off the speaker phone and address the management.

Rohan Mandora: I am on a handset mode.

Moderator: Yes. Now we can hear you better.

Rohan Mandora: Okay. So I was saying that on the NIMs, the guidance that the management is

Moderator: Sir, sorry to interrupt. But your voice is again very muffled.

Rohan Mandora: Let me reconnect proper lining.

Moderator: We have the next question from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Congrats on great set of numbers. So sir, my first question is on our strategy, so not specific to Q2 results. But if I remember correctly, we have been always been saying that incrementally, we want to grow the retail book. But when we look at the last one year incremental growth it is predominantly driven by the corporate book and within corporate book when we look at it is mostly driven by the INR 100 crores plus kind of corporates. So sir, I mean, how one should read this data directionally?

Murali Ramakrishnan: Yes. Good question. See, you are right that we were talking about wanting to diversify the risk by growing the retail and SME book. This was the strategy, which was laid down in September '20, and that was the period when, if you recall, we were in the midst of COVID and COVID one was still there and COVID two wasn't even known.

And if you look at the history of the bank, the predominant reason as to why the bank had a problem in the quality of the book was due to corporate book and also particularly due to the concentration risk, which was there in the corporate book. The bank anyway it started taking action in 2015 to move away from concentration risk by getting into retail and SME.

But unfortunately, in the SME and retail during the two years of consecutive floods in Kerala and subsequently in 2020 with the COVID panning out quite intensely after that, if you look at the way the slippages were happening. The slippages were happening predominantly from retail and SME book during COVID one and two. And that's the reason why you would have seen during our Q2, Q3 results also we talked about how much of slippage is happening and how we are excessively providing in order to beef up our PCR. So, it's not to say that we don't want to grow retail or we don't want to grow SME. Our focus continues to be growing retail and SME.

I'm sure you know that retail takes a lot of time to build. It's a granular business. So for INR 100 crores business to get built in a PL, it takes easily two to three months if you start from scratch. Therefore, we need to invest time. We need to invest technology. We need to invest the skills to do all these businesses the right way. So when you are experiencing SMEs to have 9% NPA, when you are experiencing SMEs to have 11% NPA as to a legacy book.

It means that we need to completely revamp the way the businesses need to be done, in terms of processes and products and that correction and the team's ability to source the right kind of proposal to do the underwriting of such proposals and to build a book which will take a lot of painstaking effort granularly.

And that's what, where we are today. While doing all that, as a bank, I need to be conscious of my ratios. I need to be conscious of the slippages which I'm experiencing. So the two years of COVID actually made the bank to have a slippage of close to INR 4,200 crores, if you had to look at our numbers. So because of my strategy saying that I'll grow only retail and SME.

If I don't grow my book in the right fashion with a high-quality book wherever it comes from, my degrowth will only exacerbate my slippages and that's the reason why we would have seen that our NPA reached as high as 8%. But I was all through the journey, I was very clear that incremental business which you want to add should be of high quality, and it should not create any more new NPA issues to my book and all my NPAs, which I'm experiencing today, were from the legacy book and how we correct those legacy NPA book and incrementally churn my portfolio so that I get better and better quality.

While doing that, how do I build my retail franchise and SME franchise to deliver what it is set out to do. Therefore, I'm sure you know as an analyst that when you are building home loan business, it is to bring in stability. When you are building gold loans, it is to reduce credit risk. When you are building SME, it is to create a granular book. When you're building PL, you are getting yield. So each business serves one purpose.

And as a bank, I think we need to be really putting our fingers on what are the issues faced by the bank and what levers do I move rightly so that the bank keeps moving in a stable fashion. It's not to say that I'm losing my focus on building what I needed to build. I'm very, very clear that over a long period, stability in continuously getting retail and SME is going to be the mainstay of the bank.

Because corporate business is lumpy, corporate business is volatile. But the way we have built our corporate business. If you look at it very carefully, which I've articulated also in my earlier calls. And we were not disbursing due to quality proposals being very scarce due to COVID. We were using our excess liquidity to really go in and tap well-rated corporates, where we got the beginning. Now we are getting more and more traction with those corporates, and we have started doing medium and long-term businesses with them.

And that's the reason why, if you look at our ROE, it has shown a substantial jump because your capital consumption for A rate and above are far less. So today, when I'm adding incrementally 90% of my corporate book with better rated corporates, my provisioning impact is so low and the

ROA and ROE both are improving while I'm consciously building my retail book. If you look at the disbursement happening in SME, it has really shown a traction from what we used to have INR 150 crores per quarter to now on a monthly, we are now touching almost INR 600 crores, INR 650 crores, and I'm sure and this book is also giving impeccable quality. There is hardly any delinquency in the new SME book also.

So with all that, I think we are steering in a way that the bank has to not only compromise, not only reach its objective in terms of the NIM and ROA and ROE, etcetera, and the CRAR, most important. My capital I need to conserve. I can't so this is a complex issue, which you need to tackle by looking at your strategy, not by sticking to strategy in a stone fashion, but to be flexible in your strategy by looking at what is working for you.

Renish Bhuva: Got it. No, no, sir, this is very, very helpful. I mean, thanks a lot for such a detailed answer. But just to sort of in continuation to that. I mean in that journey, where do we stand currently in terms of, like, say, over if I look at over the next couple of years considering most of the legacy pain has been already recognized and when we look at PCR, it also suggests that we are adequately provided also. So incrementally, should we assume that the growth will be, let's say, retail 50 and wholesale 50 or it will be -- for a couple of quarters, it will be still skewed towards the corporate?

Murali Ramakrishnan: No, there is nothing sacrosanct about proportion of what businesses each one has. Quality doesn't differentiate which one -- quality comes from everywhere, right? So I mean in my earlier avatar, I have seen where when a bank had 60% corporate, it had good run also, it had a bad run also. So when the bank had 60% retail, it had a good also, it had a bad run also. So it's not to say that percentage of contribution is critical. As I said, each business comes with its own flavor. So you need to balance your portfolio by focusing on which one is going to be appropriate at that point in time.

So going back to your first question, where are we in this journey. Clearly, the INR 67,000 crores with the book, which is currently, which we are having today, 50% churning has already happened. We have already done about INR 34,000 crores, which have replaced the old book.

Now this 50, obviously as we keep disbursing in the second half of this year and the next year, I'm sure the entire legacy book will be churned. Obviously, the good book wherein legacy will continue to stay and the bad book either will be recovered or collected or it will be settled or it will be replaced with the new book, new quality book. So we are in the journey of churning the book and we are well on our way, 50% done already and I'm sure as we go along, we'll be churning more.

With respect to all other parameters, if you look at ROE, ROA, NIM, whichever I'm articulating. I gave a milestone, which we wanted to chase when we came out with the strategy document. And if you can look at the way we are progressing many of them, we have progressed much more than what we thought we would be. And probably we are reaching some of those numbers even this year itself. So this journey will continue. And I'm sure we would -- like I keep saying, we would want to under promise and over deliver. That's what we are doing.

Renish Bhuva: No, understood sir. Good strategy, sir. So sir, just last question from my side on the margin, okay. So when we look at the yield on advances expanding sequentially. So is it fair to assume that whatever the 190 basis point repo rate hike had been happening last six months is entirely passed on the advances through EBLR or you expect this improving trajectory in yields to continue?

Murali Ramakrishnan: No, it is see, this 190 increase in repo rate, obviously, not every corporate or not every SME customer, not every retail customer will be accepting. It depends on their appetite for taking this increase in risk. So there are individuals also who come back and say you cannot pass it on because they are super prime individual customers to who you cannot pass on the entire increase in repo rate.

Similarly, triple A and double A corporates at times will come and negotiate hard because they won't be able to take such high increase in their cost. So I think all these are dependent on how you look at the relationship. See, as you know, money doesn't get made only by credit. You actually have to have a comprehensive view on the customer and therefore, what all can you do with the customer so that your penetration with the customer increases and your overall value, which comes from the customer towards the total wallet share which you're getting is what is going to decide the relationship strength.

So we will, wherever it is, clearly, we are pursuing that the corporate or SME or individual is worthy enough to be in our books. We'll have to compromise a little bit on the rate, and we need to keep them in our books. Wherever we feel that the risk return equation doesn't permit us to hold them, and we don't foresee any more income coming from such customers, I think we'll have to take a -- swallow the pill and we need to say enough is enough and move on. So that's the approach.

Renish Bhuva: Okay and just a follow-up on that. So when we look at the deposit growth. It has been muted since the last three, four quarters. And when we are expecting credit to grow in the double digits, ultimately tells me that second half deposit growth has to pick up, and once that journey starts, of course, the downward trajectory, what we have seen in the cost of deposit, ideally that should reverse in second half.

So sir, the 3.2% NIM, which we have seen in September quarter and with 0.8% ROA because both these go line by line. So how one should look at the NIM trajectory in second half, considering the deposit growth or the cost of deposit will outpace the credit growth and the yield expansion?

Murali Ramakrishnan: Excellent question. See, this is what you said is exactly what one needs to play both this thing very carefully. See if I keep, if we want to grow my deposits blindly by offering rates much higher than what competition is offering. Clearly, I'm playing on my cost of funds to go up substantially, which will affect my NIM and which will affect all my profitability parameters.

At the same time, if I price it to too unattractive, then I will lose my existing customers also who might prefer to go to somebody else. From liability side, I need to be cautious on what rate band

I'm operating. And we need to see which band of this is elastic, where I can play with my rate and which one is elastic, which one is inelastic. Therefore, that's on one side. The other side, how much can you pass on the increase in costs, etcetera, to what kind of customers? And how you are going to shape your portfolio quality going forward?

That's the reason though the earlier speaker couldn't ask this question, but I think his question was more on that line, saying that when you are saying 3.2% is the NIM for this quarter, why are you giving guidance of 3% for the full year, precisely for the same reason which you said. We need to actually play with these factors, both on cost side as well as on the yield side to ensure that we don't down play anything or we don't overdo anything.

So that's how we need to play. So you are right that the cost of deposits will start showing an upward change in trend because the cost of deposits will definitely need to be factoring the market determined rates in order to keep your customers with you. At the same time, you need to see how you can pass on this increase in cost to the customers and how you play your overall it's not just about yield on advances. It's also, as I said, about the relationship as well.

Moderator: Thank you. We have the next question from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Congrats on the good set of numbers. So just a follow-up on this NIM question. So we've seen a 20% Q-o-Q increase in your NII. Is there any one-off in this? As in is there any recovery from NPA or interest refund or anything that we have got? Or this is a sustainable absolute number that we've reported?

Murali Ramakrishnan: See if you ask me. If you look at the see, this is also a reflection of the NIM of the overall portfolio. If I look at my NIM of my new book alone, it's 3.6%. So therefore, so I really wouldn't say that it's one-off because I've been maintaining that my new book, I'm very clear that we are growing our book profitably and therefore we need to ensure that profitable growth through quality credit is what I'm driving.

Therefore, though there could be, I mean, we can't really say that it is, there may not be any one-off. Even if one-off is there, one-off can be there in one quarter, one-off may not be there in another quarter, but something else will be there. But we are not looking at them to really be giving a boost to our NIM.

We are constantly working to increase the value of each customer by working with them, by penetrating with the customer for offering more and more products and obviously, focusing on the growth of each businesses where we are now monitoring not only the yield rate of interest, but also the ROE coming up from each deal and each business head drives P&L with that focus in mind.

Yash Agarwal: Sure, sir. So basically, there is no major one-off in the number that we've seen, but yes, there could be some cool off because of increase in deposit rates, as we mentioned before, right?

Murali Ramakrishnan: Correct.Yes,

Yash Agarwal: Got it. And now, sir, at the end of the first quarter, you've given a rough guidance of about INR 1,000 crores of provision for this entire financial year, okay? But now as I see with the first half passing by and we have, obviously they are only at INR 320 crores for the first half along with improvement in the economy especially consumption picking up and a lot of PSU banks, everyone seeing good recoveries.

Would you want to sort of change that at the moment, your guidance on these provisions or your assessment even if not a guidance? But what is your assessment on provision costs going forward given the fact that our PCR is also touching almost 75%?

Murali Ramakrishnan: See PCR touching 72% as of now, it's including write-offs. So clearly as analysts who would see we would want to obviously improve on PCR excluding write-off which is currently at about 57%. We would want to take reach a milestone of 60% first and then probably aim to work towards 65%. To your earlier question, we had given a guidance of INR 1,600 crores of slippages for the full year.

It is basically from my restructured book, which was INR 2,400 crores at that point in time where 25% of the book was expected to be slipping. So INR 600 crores coming out of that INR 1,000 crores coming out of my regular book slippages. Therefore INR 1,000 plus INR 600 is what I had given as a guidance, INR 1,600 crores for the full year.

Pretty much, we are in tune with that were in line with that probably will be aiming to be within that INR 1,600 crores which I pointed out. As far as provision is concerned, clearly, even this quarter, for example, we have provided some INR 43 crores over and above what we needed to provide as a cushion. So we'll continue to do that in order to improve our PCR at the same time also to keep a buffer.

See, it's not just about the quality of the book. It's also to do with some of the sub-segments in the businesses. For example, business is like agri, etcetera, where we have, there is a KCC book, which is there, where you're giving them 360 days or 720 days etcetera, to make that interest payment. So we need to see how well they respond similarly ECLS 2 where some portion of it has already been fallen due for repayment. Some more will start falling only in the next couple of quarters.

So we need to factor all of that so that we don't over promise, we don't under promise. We need to be fairly realistic. So yes, if it's going to be lower than that, obviously we'll be happy about it. But then at the same time, we need to see how they pan out and we'll have to keep looking at the guidance accordingly.

Yash Agarwal: And how is the restructured book behaving as you know about you yet have INR 2,000 crores of restructured book now. What could be a rough collection efficiency on this book for the

September?

Murali Ramakrishnan: Slippages from this book, I continue to maintain 25% of this, we expect it to slip into NPA. We are holding on to that only. And just to tell you, restructured book actually has come down below INR 2,000 crores for the first time. I just want to, I don't want you to just pass it saying that it's still INR 2,000 crores. It's come down below INR 2,000 crores for the first time. We were at about INR 3,000 crores plus, INR 3,500 crores plus all these while.

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

Mahesh M.B.: Congratulations on a good set of numbers. Just a question on asset quality to continue the previous question. When you look at the recoveries and upgrades, how do you see the second half of this year? And if you're looking at the recoveries environment on the ground, could you give us some qualitative feedback as to whether borrowers business profile has improved or you've had to kind of unwind the collateral sitting against it to claim your dues?

Murali Ramakrishnan: See, obviously it's a combination of both. I mean, I'm sure you'll be knowing that a bank will have to focus on…

Moderator: It appears to be a cross connection.

Murali Ramakrishnan: Yes, I think. Shall we cut it off and come again.

Mahesh M.B.: Yes. Sure. I'll be waiting. Operator Participants please stay connected as we reconnect the management. Ladies and gentlemen, we have the management reconnected. Sir, you may go ahead.

Murali Ramakrishnan: Yes. So I hope the Kotak Securities person is on the call . The question was, obviously, we need to resort to when we are doing recovery and collection, we need to explore all possible ways to recover money, not only by engaging with the customer for recovering more and more. But also get into sometimes getting into onetime settlement with the customer or disposing of the securities, which we have to realize money.

So as we have been telling that the overall recovery and upgrade for the year ended March '22, we ended up for the full year doing almost INR 1,500 crores compared to INR 600 crores for the year before, the year ended March '21. So as again INR 1,500 cores which we did for last year. If you look at the first half also, I think we are recovery and upgrade are almost close to, if you look at, it was INR 234 crores in June and it's now INR 291 crores in September. And overall, I think it's about INR 662 crores for the first half.

So I think we are fairly sure that it will be touching similar numbers for this year also, maybe INR 1,400 crores kind of numbers for the full year in terms of recovery and upgrade. But one thing, which we need to factor is in the first two quarters, we have not had any significant big accounts getting resolved. So therefore, we hope that in the coming one or two quarters, we might be looking at one or two big accounts getting resolution in which case probably will be performing better than what we are anticipating. Hello?

Moderator: Mr. Mahesh can you hear us?

Moderator: Mr. Mahesh can you hear us? Mr. Mahesh are you able to hear us?

Moderator: **Yes**, did that suffice your question.

Mahesh M.B. Yes, you did. I just wanted to ask on thing, when you say about corporate recoveries, is it the corporate recoveries that you're talking about, when you are talking about these large accounts that is likely to be resolved?

Murali Ramakrishnan: Yes, two, three large accounts, which are where we are expecting resolution for the last two, three quarters probably might happen in this or maybe, in this quarter or maybe in the next quarter.

Mahesh M.B. Just to conclude, in general, when you are seeing the situation on the ground with respect to both the SME as well as the self-employed the situation is back to, where they are pre-COVID or there is still a lot of spaces where things have to still recover before you're confident to step up the pedal?

Murali Ramakrishnan: No there is nothing which is stopping us to step up the pedal even now. Quality proposals, wherever they are there, we want to do it. So it's not that we are withholding anything to really ramp up. So it's just a question of the team getting to understand the exact quality, which we want to source.

Therefore, there could be some rejections happening if they are not sourcing as per the quality. And as they learn, they will probably be sourcing more and more. If you ask me whether it has reached the pre-COVID level, I don't think it has reached pre-COVID level in terms of the health of SMEs because if you look at many of them they have started reviving only in the last six to nine months. And if you look at their GST numbers, etcetera, they have started now increasing month after month which was not the case in the last two years. But having said that, we are looking at good quality SME customers who are been able to even survive or do reasonably well even during covid time.

So we are targeting such customers and whose rankings, CMR ranking is one thing which we look at, which is brought out by Transunion CIBIL Bureau. So these are the other indices, which we use also to check whether the quality of sourcing is as per, what we want. Of course, we have developed our own score card. We have developed our own on credit model which we are using for underwriting these cases.

Moderator: We have the next question from the line of Bajrang B. from Sunidhi Securities. Please go ahead.

Bajrang B: Congratulations for a great set of numbers and coming back on fairly growth track which we are seeing after a long period of time. So sir, as per my understanding now your legacy book is under control and where you have 50% new book, which is not giving the shocks which the legacy book given for last couple of quarters. So now you have grown 16% during this quarter. And can we expect the growth momentum to sustain in the foreseeable future?

And how do you see going into future when probably in FY '24 when the new book, which is totally performing well, will see significantly lower slippages vis-à-vis the trend that we have seen maybe this year also? So if you guide on that line will be really helpful?

Murali Ramakrishnan: Yes. Good question. So first thing is, when we are looking at -- they're giving guidance for the growth for the full year. So I continue to see that we will aim for double-digit growth and it will be lower teens, not 15% plus kind of growth. So I'm looking at 12% to 13% kind of growth for the full year. The reason why I'm saying that is it's not that we don't want to grow at 16%, 17%. Definitely, we'll be happy to grow. But having said that, I don't actually keep saying I don't want the quality to be compromised for growth at any point in time.

So there is no, especially when all the external as well as internal institutions were predicting about the GDP growth for the country. They have been downwardly revising the GDP of the country. As we are talking there are people who have given us a growth of only 5.5%, IMF has given us 5.5% and somebody saying 6.5%, somebody is saying 7%. So anyway, the best number we have heard is 7% to 7.5%.

So as a bank, I am looking at growing at least two time the growth at which the GDP is growing. Therefore, 12% to 14% growth is what I think is a reasonable growth. And if I trying for that kind of growth then I can push the quality, which I'm expecting from my team. If I start pushing the pedal for more and more growth just for the sake of growth, there is a possibility that the teams might compromise quality for growth.

I don't want that to happen now, especially when we are trying to correct the situation. See, while I agree with you that the growth wasn't there in the past and we started growing, etcetera, and therefore, is it a time that we are fully ready now to really go on full steam.

I would say that the legacy book is still about 50% of my total book, and if you look at my NPA composition as I'm talking to, still the composition contains predominantly from the legacy book because as I said, the new book has got negligible delinquencies.

Therefore, we need to clearly address those issues. That's what we are trying to do through our recovery and collections and upgrades, etcetera. So we will have to keep looking at cleaning up that on one side and at the same time, looking for more and more quality deals to be sourced across businesses, which brings in stability as well as profitability.

That's the way I see. For the next year, you are right. If you are able to churn the book faster than what we are envisaging and if the quality of the new book prevails next year, definitely, the prospects of profitability will be far better than what we have seen till now.

But all this probably will be more clearer when me go near the January, March quarter. That's when we will get to see how much we have cleaned up and how much is still left and how much of traction has happened across various businesses, which we are driving now. And what kind of economic growth rate, which we can envisage for the coming year.

Bajrang B.: Got it. And just, sir, my last question pertains to fintech preparedness, because if we see the competition, which is closer to you, I don't want to name it, but there is a substantial movement that is happening on the tie-ups to the fintech companies and coming growth on the higher trajectory, and it is working for them the effort that has been taken for the last two, three years. So how are we preparing to tackle this fintech move, which is happening and garnering the growth from either co-partnering with NBFCs or this fintech partners? So just some guidance on that front, sir?

Murali Ramakrishnan:: Yes. Good question. See, I don't want to compare us with any other bank for the simple reason that each bank's evolution is very different. And there are banks which are at a stable pace, which they can then grow from that stable pace. And there are banks which are, which have got issues to tackle and while tackling issues, how they are preparing themselves for the future.

So there is no doubt that the bank, it clearly needs to be getting into a completely digital way of doing banking and that's something which I have been articulating and we are well on our way to do that For that, there are basic prerequisites which are required. For digital banking cannot be offered if you don't have the basic prerequisites in terms of your platform, in terms of your models and fully tested proven models.

And also, you need to whenever you're talking about the co-lending, et cetera, you need to be associated with the partners who share the same kind of risk appetite. Because at the end of the day, if you're taking 80% 70%, 80% of the exposure, and if you're partnering with somebody who is not aligned to your thoughts, then the book can behave much adversely from the book which you are wanting to create.

So we can definitely we are well on our way, and I'm sure you will see some progress getting shown in Q3 as well as in Q4. We are working with a few partners, and I'm sure they will all see the light of the day in the next two quarters, and we will, we don't want to see, there is no rush to do this, and there is no great hurry to do all this because when you are building an institution.

I don't think we should just keep comparing with somebody and keep doing things which are not good for your own institution. So I would strongly resist my urge to just keep looking at somebody and doing for the sake of doing. We need to see our own preparedness, our own infrastructure, our own capabilities, our own competencies. All this we need to see before we try to imitate anybody.

So I'm not saying that it's not worthy of emulating. Definitely, it's worth of emulating. But there is a time and situation when we can emulate such practices. It's not just bank neighboring to us. I think nothing stops us from emulating anybody who is the best in the country or best in the international scenario. So there is nothing today when I'm talking about the new book having INR 34,000 crores, book getting 0.02% NPA, I know that it's one of the best books in the country, where I'm not trying to emulate anybody. I'm setting my own benchmark, and I want to chase that.

So in the same fashion, I would want to chase what I would think is the right for my institution. So definitely, we are technologically a very strong bank. I'm sure you would have seen the kind of awards which we keep bagging in every area. So it's not that we have lacked anything in the technology area. But we need to put all the paraphernalia which is required for running this business correctly. If you just end up doing it in a hurry and if you don't get your act right, then you will be working in some other, trying to address some other issue. Instead of this issue, you'll have some other issue to address.

I don't want to rush these things in a hasty way. Having said that, are we showing sense of urgency? Of course, we are showing sense of urgency. We want to you will see the traction of that happening in the next two quarters.

Bajrang Bafna: It's very aptly put, sir. Very aptly put. All the very best for good performance going ahead.

Murali Ramakrishnan: Thank you.

Moderator: We have the next question from the line of Sonaal from Bowhead.

Sonal Kohli: Am I audible to you?

Murali Ramakrishnan: Yes.

Sonal Kohli: Sir, firstly, how much of your slippages in the first half was from the restructured book?

Murali Ramakrishnan: Yes, just hold on. I think I would say that it's pretty much in tune with what we have been giving guidance is almost 25% of the restructured book is, what is the thing, let me just tell you.

Sonal Kohli: Your restructured book is down by INR 420 crores. Is it all...

Murali Ramakrishnan: As I said, it is below INR 2,000 crores now. INR 1,997 crores is the – yes. So this quarter, I'd have to probably tell you, this quarter from the restructured book, we had a slippage of INR 73 crores, of which COVID is about INR 54 crores and others is INR 19 crores.

Sonal Kohli: Sir, I'm not talking about provisioning. I'm asking you out of your gross slippages. How many -- how much portion was from the restructured book. Your restructured book, to give a context, in last six months...

Murali Ramakrishnan: I get it, just a second. Just hold on, let me just take hold of that. One second.

Sonal Kohli: Can I ask my second question?

Murali Ramakrishnan: Yes. Yes, please go ahead with the second question while I'm trying to take the data, because since you're asking about the number, I need to get it. You can ask the second question, maybe I'll answer that and then meanwhile we...

Sonal Kohli: If I heard you correctly, you said for this year, you're expecting a gross slippage of INR 1,600 crores and recovery of INR 1,400 crores and therefore, a net slippage of INR 200 crores. Is my understanding correct?

Murali Ramakrishnan: Sorry, come again? Repeat your question, sorry.

Sonal Kohli: Sir, for this year, you are expecting a gross slippage of INR 1,600 crores and a recovery of INR 1,400 crores, so a net slippage of INR 200 crores.

Murali Ramakrishnan: So this INR 1,400 crores is, I would say, both are obviously estimates. We can probably we'll be probably overshooting in recovery and maybe under -- containing within INR 1,600 crores. But yes, you are right. If you're saying this thing as you can say you can take it that way, INR 200 crores is the difference between the 2. If we really hit the number of INR 1,600 crores in terms of slippages and INR 1,400 crores in terms of recovery and upgrade, yes, there will be a difference of INR 200 crores, of course. But I think in both, I would probably tend to think that we'll probably overshoot in our recovery and upgrade and probably curtail it within INR 1,600 crores, not really reaching that number.

Sonal Kohli: Sir, considering our net slippages already for the first half is INR 200 crores, which means that even if I take the scenario which you're saying, you're going to better that, still your net slippages for next two quarters would be 0 or less, or this should be recovery? Is my understanding correct?

Murali Ramakrishnan: No, I don't think -- I mean come again, your question is not really very clear to me. What were you asking? I mean, you are talking about credit-related provisioning for this year. Is that what you were talking?

Sonaal Singh Kohli No, sir. I'm not asking about that. Sir, for the first two quarters, you have a net slippage of INR 200 crores. For the full year, you are saying that your net slippage will be less than INR 200 crores.?

Murali Ramakrishnan: Yes. Correct, yes. It's possible that we'll be able to recover more than. See we have done that in the previous quarters also. Our recovery has been more than the slippages. Yes, it can happen, yes. As I said, a couple of big accounts get recovered where we are fully provided, where recovery and upgrade will be far more than the slippages, because slippages will have to happen from the existing book and the new book which we are creating. Recovery can happen from the entire legacy book. So it can be more also.

Sonal Kohli: Sir, how is your ECLGS book behaving? And what kind of, when would you have a clarity on the fact that it is not slipping significantly? Has it already started some repayments have already started in the ECLGS book?

Murali Ramakrishnan: You are talking about the repayment in the restructured book, you're saying?

Sonal Kohli: No, I'm not talking about the restructured book, as well as your ECLGS book.

Murali Ramakrishnan: No new book, as I said, from October '20, I'm talking about. So they obviously, all of them are coming to repayment long back. I'm talking about from October '20 onwards, whatever book we have created, we have had a delinquency of only 0.02%. It's close to INR 34,000 crores book of my INR 67,000 crores book. And slippages, the NPA level is 0.02%. So therefore, in the portfolio, this is the information.

If you ask me about the restructuring, yes, as I said, the COVID 1, ECLGS 1, obviously, the repayment has already started. In ECLGS 2, part of it is still to start and part of it has already started falling due, and we are seeing the recovery also. We are seeing some of them slipping also. And overall the sense is that 25% of the restructured book will slip into NPA.

Sonaal Kohli: So this ECLGS book, what is the total size and what was the amount in Phase 1 and Phase 2

Murali Ramakrishnan: See, if you look at my total restructured book, as I'm talking to its INR 1,997 crores, okay, INR 1,997 crores is the total restructured book of which my COVID 1 restructuring book is about INR 607 crores. COVID two is about INR 1,025 crores and others is INR 365 crores. These others include MSME restructuring and floods, etcetera. That is about INR 365 crores. So INR 1,997 crores has this composition. And if you look at the slippages, I mean slippages which have happened from this restructuring, let me just give you that. It's about, in Q1, 37.

Sonaal Kohli Q1 was INR 187 crores, Q2 was INR 73 crores. Totally, INR 260 crores?

Murali Ramakrishnan: Yes. Correct. Yes. So slippage during quarter one was INR 187 crores and during quarter two was INR 73 crores. Correct. Absolutely, correct.

Sonaal Kohli: You said total INR 260 crores for the first half?

Murali Ramakrishnan: Sorry?

Sonaal Kohli: You said total INR 260 crores for the first half, if I heard you correctly.

Murali Ramakrishnan: Yes, correct.

Sonaal Kohli: And sir, how much of your Kerala book gets impacted by tourism directly or indirectly?

Murali Ramakrishnan: That will be very I mean, we don't want to really look at sector-wise. But overall, we are not differentiating in our efforts or in sourcing with respect to geography. So we are as I said, flood is the only unique factor to Kerala and as I said out of the total restructurings, flood-related restructuring is about INR 365 crores. The total INR 365 crores of which flood is anyway now almost nil. There is nothing there now. Flood restructuring after '21, last one we had was in June '21, 14.5%, after that it is 0 only.

Sonaal Kohli: Sir, I'm trying to understand how is the Kerala economy getting impacted because of revival of tourism and how will it indirectly impact you?

Murali Ramakrishnan: No. That, I don't think we'll be able to. We are not that big enough to be really talking about the sector revival and talking about recovery from there. We all know that, yes, there is a recovery which is happening and hotels have started getting more and more booking and the airports are getting more and more crowded. Beyond that, I don't think we have enough data to tell you about Kerala.

Moderator: Thank you. Participants are requested to kindly restrict your questions to two per participant. Participants are requested to kindly restrict the questions to two per participant. We have the next question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Sir, just extending that NIM discussion and the cost of deposits getting repriced, as on a maturity profile that comes in the annual report, almost 70% of the deposits are in greater than 5-year bucket. So just want to understand, like over the next one year, what proportion of our term deposits will come up for repricing?

Murali Ramakrishnan: That number -- we'll get back to you with that number. I don't have that number ready made with me now. We'll get back to you with that number. But just to tell you, we will obviously, we'll have to reprice based on the rates which we are prevalent at that point in time, and we will, as I said, as a reply to other participants question, we'll have to play as per our need. And if you feel that we really need to keep deposits, we need to really mop up deposits to meet up with our liquidity requirement, we will definitely price it suitably in the band, which where there is elasticity.

Rohan Mandora: Sure, sir. And just on the CD ratio, which has moved up from 65% to 75%, till what level will we be comfortable before we'll see deposit growth matching the loan growth?

Murali Ramakrishnan: This level is 73% to 75% is what we want to keep it at.

Rohan Mandora: Sure, sir. And sir, this was on home loans. While you had indicated in one of the earlier discussions that home loan will be a focus area, but you have seen a decline in both year-on-year and Q-on-Q trends. So I just want to understand what's happening there and how should one look at it incrementally?

Murali Ramakrishnan: Yes. See, home loan, as you know, it's a business which requires amongst the retail business, it's one of the complex business. Therefore, we need to get many things right for the home loan business to really grow. And since it's a long-term book, we need to be really sure about the quality of sourcing, quality of underwriting, etcetera, so and it also requires a lot of working together with the builders and with the other infrastructure as needed for building this book.

So as fairly I would say, a new entrant in the market of home loan, because predominantly, the home loans, loans which were done in the past were towards building houses in a plot, etcetera, which was more, which is very-very probably unique to states like Kerala and a few other states.

But then, if you look at the overall growth of home loan book across the country, it's all predominantly funding of flats, etcetera, with various states, where you need to have a very good tie up with the builders and where we need to have a good traction with the builders. So this, it requires a lot of efforts to build relationship and also requires a lot of efforts in making the team to source the right kind of customers, etcetera.

So, you are right that we are not growing as much as we should be growing. In fact, the book is de-growing. It is due to the fact that home loan pricing in the market has also been very-very fine. All the banks, large banks as well as medium-sized banks offer rates which are extremely competitive, and it may not make sense for us to operate at those rates. Though our rate is not very far away from there, but still that will not help us to really build a profitable book.

So in that sense, we need to get these things right. Therefore, we need to reduce our we need to really ramp up the business in the right fashion with right sourcing from good quality builders and good quality customers and also do our underwriting and pricing it appropriately so that it makes sense for us. So we are relooking at this business, and we will be we have identified a few areas for correction to be done, and we will probably do all that, and you will probably see growth happening from then on.

Actually, in terms of sourcing quality, we are very much there in tune with the quality expected from the market, but in terms of number of cases getting sourced really using the branch network to source many-many home loan cases. All that requires a lot more tie-ups, etcetera, to be done with the various builders. We are in the process of doing that. We also probably need to revisit the kind of people and quality of people we need to maybe beef up the business. So we need to do some of those key things before we really start seeing traction in this business.

Rohan Mandora: Sure, sir. And sir, lastly, in terms of the pockets of stress outside of the restructured book, are there any pockets where you think can lead to elevated slippage for FY '24, should we believe that '24 should be more of a businesses usual slippage year?

Murali Ramakrishnan: I expect the behavior to be very similar. See, if something has to fall off, it will fall off sooner than later. If the business model is not inherently right, the restructuring predominantly has happened in the SME and retail businesses. As you know, in SME and retail businesses, things have not worked out for more than a year, it will definitely fall off. If it's worked out for one year, I'm sure it will continue in the next year also.

So we expect 25% slippages to happen from that book, which means these are the businesses which are vulnerable and the business models can probably give them trouble, but once we are through with this, I'm sure they'll be able to manage. Because we are seeing that GSTs filing of these companies are on the rise, and it's a question of now the new business model or the revised business model is making sense for them in terms of doing more than what the breakeven is required.

Right now, many of them are just get care to the stage of breaking even or better in that, and we are seeing them servicing their interest properly. But we are also seeing business models which have had a major hit. They are not able to survive, therefore, they slip into NPA. But good news is that many of them have got a good collateral backup, so we will continue to engage with those customers. Wherever it is required to dispose of the collateral to recover our money, we'll keep doing that.

Moderator: Thank you. We have the next question from the line of Shailendra Mundra from Veba Financials. Please go ahead.

Shailendra Mundra: Congratulations for turning around the bank and showing good set of numbers. So my question is mainly towards the fact that there is tremendous competition in the market from the bank, from NBFC and from Fintechs. So what are you doing in the area of branding, image management and marketing and sourcing new customers, so can you please throw some light on that?

Murali Ramakrishnan: Yes, competition certainly is there. And obviously, this bank has seen competition over the last many years of its existence. Clearly, it is there and the each bank obviously works with their own strengths in trying to build a relationship with the customer. So as a bank, we have got excellent distribution network. We are present in more than 925 branches across the country with a very good prominent presence in Southern India. And also, we have got a good brand value, brand image. Many of the customers have stayed with us for many-many decades and both in the liability side as well as on the asset side.

But having said that, the bank is also recognizing that the future for banking is going to be in technology. Therefore, the bank has been investing quite a good sum in technology over the last several years and the bank -- the testimony is that the bank has been winning a lot of technology awards amongst the various banks, amongst the peer banks, even amongst all the banks in the industry.

Technology and trust are two big things which is helping the brand. So that's exactly what our brand positioning is, trust and technology, and that is how we are trying to position. And clearly, this is helping us in a big way because all our initiatives today, which we are taking are towards building these two fundamental factors, so even in terms of taking initiatives within the bank for providing customer convenience or providing products or services at a faster pace. They are clearly using technology. In fact, we have been using all the latest available technology in terms of artificial intelligence, machine learning, robotic process automation, crypto, I mean, the blockchain technology. We are using whatever is the latest in technology to really make a big difference in the way we are addressing the customer related or the product delivery related or service-related issues. So, and you must have also for a bank of our size, we also need to be very conscious of how much money do we want really splurge in, really making the brand presence felt. So, we have been given a budget on that. We discussed about it. We are working within that budget to ensure that we leverage our limited budget using the various ways and means to reach out to the customer who we are targeted.

So we are going big time in the digital, we are associating ourselves in all the events and entities, which are predominantly having a presence in the digital area, and we are reaching out to end customers, and our collaborations with the Fintech partners or the NBFCs who have a dominant presence in their own market, so that we can leverage their brand image, their positioning so long as their value system matches with ours, and so long with the risk appetite matches with our risk appetite. We are very-very happy to work with those, and we will ensure that our presence is felt. This is exactly how our credit card relationship is also working where we have tied-up with a company called FPL in coming out with One Card. This is a co-branded card, South Indian Bank brand. And I'm happy to say that we have already issued 1,50,000 cards from the time we started sometime in September, October last year and it's a good quality book which we're building and the card as the proceeding of the card is also it's a metal card gives a lot of pride in somebody holding this card, and we are also working closely with a few entities for co-lending relationships, etcetera.

So you will see some of this panning out in the next few quarters. And having said that, we need to be conscious of how much do we want to really spend on these areas because given that today, I'm limited in my capital, I need to really use it for the right end uses. So, I need to be very-very fussy about using capital, and I should use it where I'm getting a good return from my capital.

Moderator: Thank you. That was the last question. I would now hand it over to the management for closing comments.

Murali Ramakrishnan: Yes. Thank you so much. Thanks. I really thank all of you for taking part in this conference call. I know many of you would be tied-up with many other conference calls, which might be happening across various banks, because many banks have come out with results yesterday . But despite that, I really appreciate all of you taking time to be part of this call. And as I keep saying, still COVID has not completely gone away, take care and be safe. And it's our endeavor to be as transparent and as open as possible in telling you exactly where we stand in terms of our initiatives, in terms of where we are getting results, where we are not getting results. We are continuing to work on areas where we needed to show improvement.

In the whole journey, I would continue to expect your support and patronage and participation, so that we get a lot of insights from the way you question us, we also know what is important and we work on those areas. And we end the call, I wish all of you very happy Diwali and happy festive season. Thank you so much.

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