"South Indian Bank Limited
Q2 FY '25 Earnings Conference Call"
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MODERATOR: **MR. HARDIK SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the South Indian Bank Q2 FY '25 Earnings Conference Call hosted by ICICI Securities. 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 then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hardik Shah from ICICI Securities. Thank you, and over to you, Mr. Shah.

Hardik Shah: Yes. Hello, everyone. Good afternoon. On behalf of ICICI Securities, we welcome you all to the Q2 FY '25 post Earnings Conference Call of South Indian Bank.

From the management side, we have with us MD and CEO, Mr. P.R. Seshadri, Executive Director, Mr. Dolphy Jose; Mr. Anto George T., CGM, HR and Operations; Mr. Sanchay Sinha, CGM, Head Retail Assets; Mr. Vinod Francis, GM and CFO; Mr. Jimmy Matthew, GM and Company Secretary; and other officials. I now hand the conference over to the management for the opening remarks, post which, we will have the Q&A session. Over to you, sir.

P.R. Seshadri: Thank you very much, Hardik. Good evening to all of you, and thank you for joining us for the South Indian Bank Limited Q2 FY '25 Earnings Conference Call. Good evening to all of you, and our apologies for this slight interruption that has occurred because of unavoidable technical reasons. Thank you very much for joining.

The Q2 FY '25 Earnings Conference Call of the South Indian Bank Limited. I'm joined here by my colleagues, Anto George T., Chief General Manager, HR and Operations; Mr. Senthil Kumar, Head of Credit; Mr. Vinod Francis, our CFO; and Mr. Jimmy Mathew, our Company Secretary, along with other senior executives.

Let me start with the key highlights of financial performance for September quarter FY '25. There's some background noise. Can we put that on mute?

Moderator: Yes, sir.

P.R. Seshadri: Yes. Thank you. Let me start with the key highlights of the financial performance for the September quarter FY '25. The bank declared a net profit of INR325 crores for the quarter, registering a growth of 18% compared to INR275 crores in Q2 FY '24.

Total deposits grew by 9% to INR105,451 crores. Gross advances grew by 13% to INR84,714 crores. Total business of the bank grew by 10% to INR190,165 crores. Net interest margin for the quarter was 3.24%. The bank was able to show a healthy growth in average advances during the period, with the growth on a Y-o-Y basis of average advances being 14%. The bank returned -- excuse me, ma'am, we still have some disturbance on the line.

Moderator: Sir, I'm getting it checked and I'll get back to you in a few minutes.

P.R. Seshadri: Okay. The bank declared a return on assets of 1.07% and a return on equity of 13.71% for the September quarter. Net interest income for the quarter was INR882 crores as against INR830 crores during the same quarter last year. Capital adequacy ratio of the bank is at 18.04%, and Tier 1 ratio stands at 16.63%.

CASA increased by 8% Y-o-Y to INR33,530 crores. Provision coverage ratio, excluding write-off improved by 447 basis points year-on-year to reach 71.24%. And PCR, including write-off improved to 80.72%.

Overall, gross NPA reduced by 56 basis points from 4.96% to 4.40%. Net NPA reduced by 39 basis points from 1.7% to 1.31% on a Y-o-Y basis. So let me now take you through some other operational highlights. We continue to grow our gold loan business, which now stands at INR16,609 crores with an average LTV of 71.93%. This includes the LTV arising from portfolios that have been purchased by us with an average ticket of approximately 1.75 lakhs. The gold loan book has grown year-on-year at 11%.

Home loans and auto loans are other areas of focus in the retail segment. On a Y-o-Y basis, we were able to achieve 206% growth in home loan disbursals and 79% growth in auto loan disbursed. The home loan book as of the end of September 2024 is INR7,072 crores and auto loan book is INR1,828 crores. We've launched a series of new systems by which we are able to do our business. This is to enable faster processing and enabling to enable our branches as well as our other staff to become more productive.

These are listed in our investor presentation. But to name a few, we've launched a new system, which enables straight-through processing of auto loan applications called PowerDrive and another that enables easier processing of mortgage loan applications, or LAP applications, called LAP Power and both of these are now fully functional and live, and we are hoping that this will give us the requisite lift to increase our retail stroke MSME books.

So with that, I would like to open the floor for questions. Thank you.

Moderator: Thank you very much. The first question is from the line of Ravindra, who is an individual investor. Please go ahead sir.

Ravindra: Yes. So it's been a year, sir, you've assumed the office. And so the return ratios and the loan growth are exactly similar to what was 1 year before, right? And you have still not given the guidance for the future. So I just want to know like how it's going to look in October '26, 2 years from now? Yes, that's my first question.

P.R. Seshadri: In the near term, sir, we have basically said that our returns would be in the neighbourhood of 90 basis to 110 basis points. There will be some fluctuation. And as our strategy has been very clearly articulated that we have some advantages on cost of funds.

So if you were to look at our cost of funds and compare it with our competitors, you'll find that our cost of funds are slightly lower than those of our competitors. So we want to keep that advantage, which means that we have to grow strategically our deposits at the rate at which our natural growth is occurring, which is about 10% a year.

And we want to grow our balance sheet on the asset side between 10% to 12% a year, but we want to change the mix. We want to get out of corporate and we want to get into retail and MSME, which is slightly higher-yielding assets.

And in so doing, firstly, we want to get to NIMs of about 3.5%, and thereafter, in the longer term, get to about 4%. If we are able to achieve all of that, automatically, our return ratios will change and improve.

So right now, the mix change is at a very, very early stage. And given the fact that we have a very large balance sheet and we've just started this process of transforming ourselves from where there was a preponderance of corporate assets to one where we want to have a more balanced structure, the process is going to take some time.

So we are consolidating at this level currently. And I think over a 2-year period, our return on assets will get closer. I mean, if I may hazard a guess, we've not done this analysis. It's easy to do these kind of analysis on Excel, but when reality intervenes, it becomes a little bit more difficult.

But from a point of view of having a go-to number, we would like to reach somewhere between 140 and 150 basis points over the next 2-year period, that would be a good number to get to, but it does require a series of things to happen for us before those outcomes become possible.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Firstly, on the point of growing the SME book, which is a higher yielding book. So 2 questions here. If you look at last 2 quarters, we've been degrowing this book. So I just want to understand the challenges in this right now. And also, if you look at the slippages, it's closer to 4%. So what should be the normalized level that we should assume here? That's the first question.

P.R. Seshadri: The challenge that we are having is that we are a single distribution channel entity. So we end up distributing almost all our products to our branches. And we -- what we are trying to do is to grow the number of distribution channels available. So at the beginning of the year, in April-May, we had created something called the Emerging Corporates Group, which is basically a set of relationship managers who will take over this business and who will relationship manage it going forward and also act as salespeople for acquiring new customers.

This is a new approach which gives us now 2 distribution channels, one acquiring from the branches and the second acquiring through these relationship managers. And given the fact that we are a 90-odd-year-old entity, it does take time for the sales architecture to fall in place and start producing results. And it is that, that we are driving at this point.

In addition, we are also looking for alternate distribution channels to be established. And we think that as and when they do come on stream, we will start getting more throughput. The good news is that we are seeing significantly enhanced disbursals on this front. But given the fact that the balance sheet was large, it continues to reduce in size, unfortunately, over the last couple of quarters, but at progressively lower or slower levels and consequently, we are reasonably confident that we will either, this quarter or the following quarter, be able to stanch this and start turning it around and growing again.

So it's a long answer to your question, but we are growing our distribution network and channels. And we think with that we should be able to address this problem going forward. With respect to NPA. Majority of the NPAs that you are talking about is coming from the historical book, which is disclosed in our investor presentation. We've actually given you a breakup of where the NPA is coming from. And you will notice that the majority of the NPA is coming from the old book, the new book is behaving reasonably well.

So given our new underwriting standards and new underwriting mechanisms, we believe that this is a reasonably safe bet for us to take, and we want to double down and grow this book. Thank you.

Rohan Mandora: Sure. Sir, secondly, on the home loan piece, the disbursements that have increased in the last few quarters, especially in the previous quarter. So if you can just touch upon how are you originating this? What is the average yield on this portfolio? And is there a DSA pay outcome structure that we are referring to? Or it is again a branch-driven origination that is happening on home loans?

And associated with this is LAP. So another bank, SouthWest Bank has also reported good growth in LAP portfolio. So where is the demand coming in, which are the sectors which are driving the demand in LAP?

P.R. Seshadri: Okay. So let me answer the second question first. With respect to LAP, we haven't had that much success in this quarter. So we've got a new system. We've got a new process. We can sell it and we can process it much better than we could in the past. But the system came live only in September. So we haven't had much time to use it and get significant sales. So I guess, where the demand is coming from and where we are finding those customers is a question that I'll be able to answer better during the next call.

With respect to housing loans, we have a breakup, 75% of our loans by value actually come from our branches, are originated from our branches where we are not paying any commissions. 25% are originated by DSA/builders where there may be a commission that is due. At this juncture, the economics of this works reasonably well for us. I do not have the exact yield on this book, but we'll try and figure out if we are in a position to give that to you subsequently.

Moderator: The next question is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: Sir, I just wanted to check on other income, right? So last 2 quarters, I mean, this line item has helped us in overall revenue, while the loan growth has been a little bit of muted. If you can throw some light, apart from the treasury, we can see some core fee growth also possible, I mean, also strong.

In the TV interview, I think you had mentioned that part of that is because of the penal interest getting booked here. So I wanted to check, sir, what are the 2, 3 key components here and about the sustainability of this line item?

P.R. Seshadri: So out of the total other noninterest income, which amounted to about INR449 crores, which is a 26% growth from prior year and it is a 6% growth quarter-on-quarter. So when you look at it sequentially, there isn't that much growth. But when you look at it on a year-on-year basis, there is a substantial growth. And if you were to compare it on a year-on-year basis, the big change -- there is -- of course, on the treasury side, there's quite a substantial pickup, which is very, very helpful because last quarter was very propitious both on the fixed income as well as on the equity side and we took full advantage of it. Obviously, treasury income is volatile and nobody can guarantee that it will happen every quarter.

But having said that, we feel pretty good about it. So treasury is a large area of growth. The other is that there is this reclassification of certain interest income that used to come in the net interest income line, which has got reclassed and as -- from a penal interest, it's got reclassed to a penal charge.

It may or may not correspond exactly to what it was there in the past, but it is a shift from one line to another. This is the first quarter where there is any meaningful accrual on that front. And we think that income is likely to continue, I mean, in the sense that it is likely to be repeatable, and it is not likely to shrink or change very violently as we go forward.

The other area that we've got increased earnings is on sales of third-party products where there was a certain amount of renegotiation of the rates plus a little bit more focus on selling them, which yielded reasonable returns. So from our point of view, if you were to look at the noninterest income lines, we think that aside for treasury, which is roughly 1/4 of our total income that is disclosed here; aside for this, the rest, there may be some movements, but it's not going to be very large fluctuations.

I think there are -- those are repeatable largely, but the treasury line is the area where we think that there will be -- there could be significant movements depending upon the environment that we are operating in. I trust that answers your question, Jai.

Moderator: The next question is from the line of Suraj Das from Sundaram Mutual Fund.

Suraj Das: Congratulations on a good set of numbers. Sir, a couple of questions. What could be the residual tenure of the old loan book? And this INR20,000 crores roughly would be SME and corporate only?

P.R. Seshadri: We have a -- I think a reasonable chunk of it is overdraft. It's hard to hard to estimate a tenure for those. But -- and I'm not -- I don't have the exact breakup of the old residual tenure wise breakup, but we can give it to you offline. At this juncture, it's not readily available.

Suraj Das: Sure. Understood, sir. And what would be the net NPA on this old book or let us say, what is the provision that you have on this old loan book?

P.R. Seshadri: The -- we are holding -- as you know, the net NPA on an aggregated basis is at 131 basis points. So the net NPA on this book will also be if anything, slightly higher than that. So net NPA on this old book is -- we'll recompute and give it to you at this point because on the total book is 1.31% and on the new book, GNPA is at 40 basis points. So the old book will be slightly higher what the higher number is. We don't have the net NPA number right here, but it can be recomputed because the –GNPA in the new book is at 40 basis points. So I think if we do a little bit of math, we should be able to get. The net NPA, the old book, I'm sorry, is about 5%.

Suraj Das: Okay. Understood. And sir, one, I mean, related question that in terms of if the old loan book is purely -- I mean, largely overdraft, then what we are seeing is that over a period of time, the GNPA levels in the old book is continually increasing and it is something like 16%, 16% or 17% as of now. I mean, when do we see that this kind of slippages from the old loan book normalizing? What is your expectation?

P.R. Seshadri: See, the way I think that we need to look at it is on an aggregated basis, the old book is with us. And we have to live with it, and we have to go forward. On an aggregated basis, our total slippage is about -- for last quarter was 36 basis points, which is not annualized.

I mean this was slippage for that particular period. And slippage on a new book is very limited. So I think the near-term view should be that the slippage will remain plus or minus at this level for the near term. As the old book winds down, the slippages will improve as long as the new book continues to perform and holds out the way it is currently performing.

So the details are available. I mean we can do a lot of analysis on how this thing is going to wind down and how this thing is going to move forward. But I think it's a little bit more useful for you as well to know that our slippages will remain in the same region or at least that's our expectation. And as the wind down happens, our slippages will start coming down and come.

As it is, I think our slippage rates are reasonably good compared to our competitors. I think over time, if our new book continues to behave that the way it is currently doing, we will then become one of the better portfolios on the street.

Suraj Das: Sure, sir. Got it. And one last question. In terms of yield, what could be the, sir, blended yield on the disbursement? And now since you are looking to focus more on SME and then probably you are launching products and all that thing. So is there any scope for further improvement on that front, the blended yield on disbursement?

P.R. Seshadri: Can we give you those numbers...

Suraj Das: Sure, sir. Okay. Sure.

P.R. Seshadri: Thank you.

Moderator: The next question is from the line of Mr. Vivek Jain from Chanakya Capital. Please go ahead. Sir, there is no response, we'll move on to the next question. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead sir.

Rohan Mandora: Sir, this is with regards to the old book explanation that you had given to a previous participant. So sir, my understanding was that when a loan is renewed, especially in cases of OD kind of a thing and once that renewal proposal has been appraised, the loans were moving to the new book.

So since we have been maintaining this classification, a lot of overdraft book, which would have been good performance would have moved to new book. Would that understanding be correct? And so what is remaining here is after renewal also we find -- and these are potential stress accounts, and that's where we are not moving into a new book. So how should one understand this?

P.R. Seshadri: My understanding is that whenever we change the product category, so supposing it was an overdraft and we changed it to term facility or we change it to a drop line OD or something of that kind and when the product category changes, then the loan moves to the new book or when there is an enhancement, supposing we had given somebody INR1 crore and we now make it INR1.5 crores, then the loan moves to the new book.

Mere renewal does not change the loan from one to another. So wherever only renewals are happening and there is no incremental exposure being taken on the overdraft, it continues to remain in the old book. It may be a performing asset in the old book. So the other point to note is our total SMA 2 now is at INR490 crores, which is about 60 basis points, which includes both the old and the new book, and therefore, whatever is going to slip is per force will have to be either SMA 1 or SMA 2 at this point in time and SMA 2 has been trending down nicely.

Rohan Mandora: Sure, sir. Sure. And just any guidance on the yields for second half and other cost of funds?

P.R. Seshadri: Our cost of deposits improved by 5 basis points from Q1 to Q2. See, strategically, we'd like to keep our cost of deposits as an advantage at 535 basis points. I think we have in our peer group, one of the better cost of deposits. See, it depends on how the market is moving. Currently, the rates being offered by our competitors are still significantly higher than what they were in the past. And if we see that our flows at the current rates that we are offering slowdown, then we may be forced to offer slightly higher rates.

So my view is that there may be a pickup in our cost of funds as we move into the next quarter, if the environment does not materially alter very soon. But the net impact on our P&L or on the entire balance sheet will be maybe 5, maybe 7 basis points even if we do increase it. And you know it depends on how the environment looks. Right now, the bias is that there may be some increase from where we are today.

Rohan Mandora: Sure. And on yields? Last quarter, you had guided that there will be an improvement in yields in 2Q, but we've actually seen a decline, so I just want to know the differences? Yes.

P.R. Seshadri: No, I think it's a very good question. The decline in yields that you are seeing are on account of 2 factors that we had not taken into account. One is, as I said, the reclassification of penal interest from one line to another, which has an impact on the NIM because the earnings then gets reclassed as other income as opposed to interest income.

The other area where we do have something that we are still thinking through is that we had moved to putting our corporate balance sheet and linking our corporate balance sheet to treasury bills. And the reason why we did that was because we noticed that the correlation between our cost of funds and the external benchmark was highest with treasury bills and significantly lower than with REPO.

So that was a conscious choice. And once we made that choice, unfortunately, the view at that point in time was that REPO may change downwards, but REPO hasn't changed downwards and treasury bills have moved downward, and that has caused a part of our corporate book to get repriced downwards, and that's putting a little bit of squeeze on the aggregated yield on the portfolio.

While the retail business has grown, the reason why our yields are holding at this level and not having -- not dropping further than this is because the proportion of retail and MSME assets has actually increased where the yield is higher. And as a consequence, the aggregated numbers are looking the way they are. So had the treasury bill movement not been so adverse for us, I think you would have seen the increase in yields that I was talking about.

Rohan Mandora: Sure, sir. And sir, lastly, if you can quantify the impact of this penal interest on other income and interest income?

P.R. Seshadri: Penal interest as a proportion of interest income is roughly about INR20 crores.

Moderator: The next question is from the line of Harshit Toshniwal from Premji Invest.

Harshit Toshniwal: Sir, the question is that if you look at the old book and the new book of the INR20,000 crores and the balance of the new book, how much would be overlap in terms of the customers or basically the corporates to whom we have exposure if you can help that? And are there cases where for the same corporate we have different classifications? One is old book and the one is the new book. And what would that percentage be? And the second question, sir, if you can also help around the -- some kind of mix of the sector to which our corporate loan book cater to, it would be very helpful?

P.R. Seshadri: Okay. Let me answer the second question first. The corporate loan book is -- we can give you the breakup separately. But the point that I want to leave you with is these are very high-quality corporates. We have a large exposure to government and quasi government in one form or another.

We do have some exposure to NBFCs. But within the NBFC, again, it is state-owned or state-controlled NBFCs form a reasonably large chunk of it. We will try and give you details as to where our exposures are for the corporate book as we come into the next investor presentation. But we have given you details, our large exposure framework, 99.6% of the large exposure framework which is loans above INR100 crores, which amount to almost INR21,000 crores out of the INR33,000 crores that we have in corporate is to the entities rated A and above.

So this is a high-quality balance sheet. Approximately 2/3 of this large exposure is to AAA-rated entities. So the rest of the details, we'll try and provide the next time around when we are preparing the investor presentation.

With respect to your first question, which is the degree of overlap between the new and the old, I think it's a very good question. I unfortunately don't have the details at this point in time. We will run -- we can -- if we can give you an answer subsequently that would be very helpful.

Harshit Toshniwal: Got it. Sir, just if I may clear this part, so INR33,000 crores is the total corporate book, of which INR20,000 crores is the legacy book.

P.R. Seshadri: No, no, no. INR20,000 crores is not just corporate.

Harshit Toshniwal: Okay. It's including also. So within that, how much is the corporate, sir, the corporate part legacy?

P.R. Seshadri: That's what, the breakup is not immediately available to me. I'll make it available offline to you. The large corporate, which is yes, so we'll give this to you offline, if that is okay.

Moderator: Thank you very much. The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead sir.

Chinmay Nema: Two questions from my side. Firstly, regarding what you said that eventually, you would want to move out of the corporate segment and purely operate in the retail segment. Are we internally following some time line or a long-term sense around when we would want to stop operating in this segment? That's the first question.

And secondly, if you could give some color on what is that improvement in cost to income over the last 2 quarters and the last year? And what is the steady-state number that we should look out?

P.R. Seshadri: So allow me to correct myself, if I gave the impression that we are getting out of the corporate business, that's not what I intended. I apologize if I conveyed that by mistake. What we are saying is the proportion of the portfolio that we want to have in corporate, we want to reduce.

Currently, we are at 40%. And I also walked an earlier question through the quality of the corporate book that we have. So we have a large exposure framework. Almost all of it is rated A and above. And therefore, the returns that we get on lending money to them are quite low. So in order to improve the NIM, and in order to improve return metrics for ourselves, what we are intending to do is have larger proportion of our balance sheet in MSME and retail.

Retail, we are seeing the growth. MSME, so far, we are not seeing the growth. It is not that we are exiting corporate. That is not the intent at all. We've worked very hard to build decent corporate franchise. We've built relationships in the corporate world, which we want to continue.

So we think that as our balance sheet grows, corporate will grow, but it will grow much smaller or much less than retail and MSME. And over time, we are hoping that we'll get to about 33% corporate and the rest being retail, commercial and agri that's the mix that we would like, and that's where we are working -- what we're working towards. And if we can achieve that over the next 2 years, we'd be very happy.

With the second question, was very indistinct to me. I mean, were you asking about cost-to-income ratio? Is that what you're asking?

Chinmay Nema: Yes, sir.

P.R. Seshadri: So cost-to-income ratio, we've been highlighting the fact that we are a little bit of an outlier and that we have a higher cost-to-income ratio than many of our peers and that our aim was to ensure that we improve our operational metrics, start creating positive Jaws for ourselves, which is that we start creating an environment where our revenues are growing faster than expense so that our pre-provisioning operating profits can start growing.

So I'm very happy to note that this quarter, we have revenue growth of 12% and expense growth of 8%, leading to a significant growth in pre-provisioning operating profit. So currently, our cost-to-income ratio is 58.7%. Our stated goal was to drop our cost-to-income ratio by about 1,000 basis points over a 3-year period. So I think we are continuing with that objective.

We don't know whether we'll get there or not, but we are going to give it a damn good shot. And to do so, we have ensured that we are managing our costs very, very tightly. As you can see, from Q1 to Q2, there is no change in cost effectively. And in Q1, all the costs associated with the IBA settlement, et cetera, had come into our balance sheet and P&L. And those are getting -- are being carried through and by managing our staffing appropriately, we are keeping costs at the current levels. So if we can continue to grow our revenues and keep a tight lid on costs the way we are currently doing, we should be able to continue to keep cost-to-income trending downwards and that is the strategy for now.

Moderator: The next question is from the line of Himanshu Upadhyay from BugleRock.

Himanshu Upadhyay: My one question was, our corporate loan book has grown pretty decently in last 5 years and is currently 40% of the loan book. At one point of time, the aspiration was that we should be able to get more allied business from corporates, okay, like general financing, salary account, et cetera. How successful have we been in our endeavors to get allied business from the large corporate customers we have right now?

P.R. Seshadri: I think we've had pretty mixed results, if I were to be honest with you, not as well we have been -- we've not been as successful as we would have liked to be. So that is one of the reasons why we want to grow other businesses because at the end of the day, we've ended up providing balance sheet without getting nonbalance sheet revenues. And this is something that we are continuing to work on, but the outcomes have not been as good as we'd like them to be.

Himanshu Upadhyay: And secondly, if we look at the loans less than INR5 crores, this is I'm talking about Slide 9, okay? So INR40,000 crores it has gone or increased to INR42,000 crores. And again, the mix is of personal category also, okay? We have added significant number of customers, okay? But loan book in SME segment is not growing. And one of the first products where we had changed our credit model and processes was the SME financing business, okay?

So why is still so slow growth means -- and about our employees, are they able to get it. Some thoughts on that would be helpful.

P.R. Seshadri: No, I think we are completely seized of the fact that the MSME book has not grown. You make a good point in that the first automated product that we rolled out was a GST loan system, which is end-to-end automated. And we have not -- unfortunately, we haven't seen the traction that we would like, and that's a fact.

Historically, our employees have believed more on service than on sales at the branch. So our customers love us. We are a nonthreatening bank. We don't try and sell you something or the other every time we call you. We genuinely try and provide solutions for you.

But at the same time that kind of approach has resulted in lower than optimal sales for us, and we are aware of it, we are working on it. We now have a program of tracking the branches on sales. Average aggregated value addition from the branches still remain lower than where we would like them to be, but these are factors that we are aware of and working on.

So I think this is a 96-year-old institution. It takes time for us to change behavior. I'd like to add that we have very high-quality people. They understand this business. We need to have a substantial shift in mindset that we are working on. And once that happens, aggregated delivery out of the branches will improve.

Meanwhile, we are also trying to create new distribution architectures that will enable us to originate these loans without the branches being involved. And those are work in process, and we are hoping that, that will also prove to be another channel through which this business comes in.

But if you can see the financial parameters have started moving. You can see that our balance sheet structure has started changing. It's on the MSME side, there hasn't been as much traction as we have liked. But we -- on the retail side, that traction is visible and demonstrated in the investor deck.

But this is something that we are looking forward to talking about as we go into Q3. Hopefully, then we'll have a different set of numbers, which will give you some amount of confidence that the dream of growing MSME in this organization can actually be met.

Himanshu Upadhyay: One question. When we started on this journey, one of the thoughts was that our employees should be on the business loans when they are giving, they should have a good understanding of a risk-adjusted return and the underwriting based on this risk-adjusted returns and how much return should be earned. So that sanitization process what we started, has it been -- is it still being followed and acceptance level has it increased quite materially or there is still acceptance is going to take more time?

P.R. Seshadri: No, I think there has been a substantial change in the way we are doing stuff. Our processes are much simplified. The total number of aggregated loans that we are booking today are significantly more than what we used to book about a year ago.

The branch staff, especially the branch managers have all been retrained. Not all, during this year, we are hoping that all 955 of them will go through a MSME training program, which is a 5-day residential program that we are running, where they will get indoctrinated on our principles, our policies and also gain system knowledge, etcetera, etcetera, so that they become more competent to answer questions that customer may have.

Just give me one minute, we have a lot of noise here, which we are trying to find a solution for. So we are working on retraining our staff. Exactly when that will start resulting in very significant uptick in performance at the branch level is something that I find a little hard to answer at this point in time, and we are trying to insulate ourselves from that by creating alternate distribution channels. You must be cognizant of the fact that we have another challenge in that we do have higher cost-to-income ratios than many of our competitors.

And therefore, the leeway that we have in terms of building alternate distribution architectures is a little less because that has an implication on cost. So we are trying to do a fine balancing act so that we get the right outcomes for the institution and for the shareholders, while at the same time, creating optionality for the future.

Himanshu Upadhyay: No, I agree to it. See, on these employees and the cost to income, if you look at our peers, small banks, okay, and where we are operating, the employees per branch is 9 to 10 and similar to us, okay? But their book is much more granular, okay? And has a higher component of the SME segment. So can we expect if once the segment starts improving, our cost-to-income ratios will start moving down and more...

P.R. Seshadri: The short answer is yes. Yes. As retail and MSME becomes a larger proportion of our balance sheet, revenues will rise because our NIMs will increase. You must give us a little bit of credit, our cost of funding is, I think, the lowest amongst our peer group. So we've done a very good job of keeping costs low. The disadvantage that we have is that we have a very large corporate book relative to -- as a smaller bank, we -- one would normally expect us to have more MSME and retail.

So had we had that our NIMs would have been significantly higher, and that would have aided in profitability for us. So as MSME starts growing -- retail has already started growing. As MSME starts growing and retail continues to grow, the balance sheet structure shifts. Our spreads on our corporate book will probably be 200, 250 basis points at best against the cost of funding that we are disclosing in the investor presentation.

Whereas, on the retail and on the MSME side, it will be closer to 400 basis points. That's the difference. And that's the type of shift that you can get, if you can move from wholesale into retail. And that's what we are hoping to drive. Historically, the bank has had a propensity to do loans which are larger in size because when you do a larger loan, the earnings are higher.

It takes the same amount of effort as doing a smaller loan, so there is a bias for size, which we are trying to correct. Now this is an evolutionary process. It will take time. It's not going to happen overnight.

Moderator: The next question is from the line of Arvind Datta from Marigold Wealth.

Arvind Datta: Congratulations on a good set of numbers. My question is what are the top 3 products in retail or consumer loans that you would be focusing on for the next 1 to 2 years to grow our consumer loan business? Second question is on home loans and LAP. Like are these fresh loans that you are generating from the market or these are buyouts or these being sold to the existing clients? And on the third question is that what is the cross-sell opportunity available to you from your existing customer base?

P.R. Seshadri: Allow me to take number 3 first. As I said, 75% of these loans on the housing loan side are coming from our branches. And I expect a very large proportion of those are to our existing clients. So that is cross-sell to perhaps a liability customer or maybe he's a liability plus asset customer already. So a good proportion of our sales are coming as cross-sell.

On the home loan side, we track it actively. 75% of our home loans are coming from the branches and that is cross-sell. It could be both, a takeover of an existing loan that was there somewhere else or it could be a new purchase. The breakdown is not entire -- is not immediately available with me, but we can provide those numbers to you subsequently.

Let me go to the first question that you asked, top 3 products. On the retail side, our product, we want to build a high-quality book that has low volatility. So housing loan is a place that we have started with and this is owner-occupied end user type of housing loans that we want to do largely. The full product set is available with us, but that's the product that we want to focus on and get some traction on.

We understand that this is a low-margin business. We also understand that it will create some form of what is called basis risk for us as an institution because these are all external benchmark linked and largely linked to REPO, which, as I said, is a measure which has very limited correlation with our cost of money.

But having said that, it has underlying characteristics, which are attractive from a risk-reward perspective and also from a capital requirement perspective. So home loan is 1 product. The second product is loan against property. We are not participants in this space. So our total portfolio today is a little north of INR3,000 crores. For a bank, which has an INR80,000-odd crores book, we are underrepresented in this space. So we want our reasonable share of this.

Maybe it is INR8,000 crores, maybe INR10,000 crores. So we want to grow that because there is, in our estimation, approximately 400 to 425 basis points of spread to be had in that particular product. The third product is a mix of personal loan to cards. Our current unsecured exposure as a proportion of our total -- retail unsecured exposure as a proportion of our total exposure is about 5%.

We want to judiciously grow that ensuring that a majority of the P&L remains with us. So we are working on a whole set of new systems and processes to make that happen. So I trust that, that answers your question. There was a middle question which I seem to have forgotten. So if you could remind me what it is, then I can answer that.

Arvind Datta: No, I think you answered all my questions. Thank you, and best wishes for the next quarter.

P.R. Seshadri: Thank you very much.

Moderator: The next question is from the line of Saikiran, who is an individual investor.

Saikiran: Sir, just 1 observation is that you have consistently seen the reversal of provisions on the restructured advances in FITL. And at the same time, we are also seeing some reduction on the restructured assets in absolute rupee crores. So can you just please explain is there any relationship there? And also how do you see the restructured advance of INR475 crores running down? If you can help us explain.

P.R. Seshadri: So restructured advances, as you know, sir, are advances that are at some level weaker advances than normal advances. So my own experience 30-odd years in the banking world is an asset that is restructured has a reasonably high chance of turning into an NPA over time.

The good news for us as an institution is that our total restructured advance today has come very low. I mean it's a little north of INR400 crores from where it used to be. And so if you look at our stressed book, which is basically restructured assets plus security receipts that we may be holding plus the unprovided NPA that we may be holding, the net NPA number, everything put together today is in the neighbourhood of INR1,500 crores, INR1,600 crores.

And when you compare that to our total capital, which is north of INR9,000 crores, our total stressed book as a proportion of NPA is at, I would think, one of its lowest levels in recent times or maybe even longer than that. I mean, we've looked at it for the last 3 or 4 years, and we know that we are at a very, very low number.

And we also know that we are in reasonable shape from a capital/risk perspective. Now what is going to happen to this INR400-plus crores that we have in restructured assets? I think a portion of them will continue to perform and there will be a portion that will become NPA as time progresses. Some of them, when they meet the RBI guidelines will get reclassed as regular assets if they perform long enough, but a reasonable proportion will become NPA, and as a consequence, will fall off, and you will see this number continue to drop. I trust that answers your question, Mr. Sai Kiran.

Moderator: We will take the last question from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: Yes, sir. And lastly, I wanted to check, sir, this quarter, we have seen a change in the growth constituent, right? So we have taken IBPC and we have not grown corporate. Would it be fair to say that now we have come to a stage where you don't want to grow corporate from, let's say, this quarter onwards and incremental growth as we have always said that it will be retail MSME. Have we reached that stage? And what is the total growth came -- I mean, what is the total number or quantum of IBPC, if one were to see what is the growth without the IBPC, yes?

P.R. Seshadri: So Jai, the IBPCs have been around in the balance sheet for some time. We've cycled out of IBPCs that had corporate assets and got IBPCs which have retail/MSME type of assets. So the growth that we are seeing is real growth. It's not driven by IBPC.

So this balance sheet is largely immune to that. The reason why we've specifically mentioned the IBPC is because we have given numbers on the retail side, and we are saying that these numbers are growing and therefore, we had to actually give you the numbers and explain why it's growing so much so dramatically by saying that it is IBPC.

To the first part of your question, is that you're saying, "Hey, are you going to stop growing corporate?" No, I mean, we are not stopping the growth of corporate. If our balance sheet were to grow by another INR10,000 crores, we want corporate to go another INR3,000 crores. I want -- we want to have the corporate proportion to drop over time to 33%.

So we are not binding ourselves saying that corporate will not grow going forward. It will grow much slower than the rest. So over time, we are hoping that corporate as a proportion of total balance sheet will shrink to 33% and again, replaced by retail and MSME.

Right now, we have traction in retail. We unfortunately don't have traction in MSME, and we still have some work to do there. Once both are firing, then I think we'll have a little bit more wiggle room to act the way you mentioned that is we will not -- we will be much, much more choosy on which corporate assets to take. But right now, we don't have that luxury, unfortunately.

Jai Mundhra: Right. No, understood, sir. And just a small clarification. Have we -- are we done linking the corporate book to T-bills? So in case there is a REPO rate cut, we will be more influenced by that what happens to T-bills, right? Less to do with REPO. Is that transition over? I mean, is that the linking mostly over? Or would it be like done in, let's say, 1, 2 months?

P.R. Seshadri: No, about 6 months ago, we took the decision that all new corporate assets we link to T-bill because we were worried about what will happen is REPO were to be cut. And we wanted the basis to be something which we had a little bit more visibility on. We have not changed that policy.

So we continue to be on T-bill. Unfortunately, the loans that we gave 6 months ago that bet has gone against us in the sense that while REPO hasn't moved, T-bill has moved, right? So we are -- but today, we haven't changed our stance. All these corporate loans have to be benchmarked to an external benchmark, and we are using REPO I'm sorry, using T-bill.

But -- and we are trying to contain the proportion of our portfolio that is REPO linked because of obvious reasons. But having said that -- yes, go ahead.

Jai Mundhra: Sir, if you have the number, let's say, loan book, how much is linked to REPO, how much is EBLR and how much is MCLR. I think that can make things easier if you have that bifurcation handy?

P.R. Seshadri: Yes, we can give you those numbers. Approximately 30% of our book is REPO linked. So let me just -- give me a minute, I'll give you the numbers. Yes, approximately -- yes, REPO-linked is about 1/3 of our book is REPO-linked. T-bill-linked is about 20%, approximately. I'm giving you approximate numbers. MCLR is about 10%, and fixed rate is about 1/3 of the book.

Jai Mundhra: Yes, we have reached the end of the conference call. Thank you so much for giving us the opportunity to host the call. If you want to make any ending comments, sir.

P.R. Seshadri: Thank you very much, Jai, and thank you for hosting the call. We really appreciate it. From our point of view, we think that we've had a reasonable quarter. We have set ourselves a very demanding agenda. We want to actually change the way the bank has operated, changed the asset mix, change culture so that sales as an activity becomes central to our branches, et cetera.

These changes are not effected overnight. These have to be worked on, and there is an action plan. We are trying to engage not just the management staff, but also every individual within the company and impress upon them the need to have a change in mindset. We are making progress. I think the financial results that you've seen for this quarter are demonstrative of the fact that the serious work has taken place.

We are reasonably confident that we can continue with this. I think from a technology perspective, there is enormous quantum of work that has taken place. We now have a Strategic Initiatives Unit that is working to build system-to-system connections with third parties that we can leverage, which means that there's a lot of work that has happened to: a, make our branches more efficient; b, to derisk ourselves from the branches and have alternate systems through which business can be done.

All of this put together makes us reasonably confident that the progress that you see today can continue. Obviously, the proof of the pudding is in the eating and when we meet here the next quarter we should be in a position to demonstrate that some of the things that we are talking about are happening. And I look forward to meeting again 3 months from now, and hopefully, we have equally good news, if not better. Thank you very much.

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