"The South Indian Bank Limited
Q3 FY '24 Earnings Conference Call"
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MANAGEMENT:	**MR. P. R. SESHADRI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SOUTH INDIAN BANK LIMITED** **MR. THOMAS JOSEPH – EXECUTIVE VICE PRESIDENT AND CHIEF BUSINESS OFFICER – SOUTH INDIAN BANK LIMITED** **MR. ANTO GEORGE T –CHIEF GENERAL MANAGER AND THE HEAD OF HR AND ADMIN – SOUTH INDIAN BANK LIMITED** **MR. SANCHAY SINHA – CHIEF GENERAL MANAGER AND HEAD OF DISTRIBUTION AND BRANCH BANKING – SOUTH INDIAN BANK LIMITED** **MS. CHITHRA – SENIOR GENERAL MANAGER AND CHIEF FINANCIAL OFFICER – SOUTH INDIAN BANK LIMITED**
MODERATOR:	**MR. CHINTAN SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '24 Earnings Conference Call of South Indian Bank 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. Chintan Shah from ICICI Securities. Thank you, and over to you.

Chintan Shah: Yes. Thank you, Yashashri. Good evening, everyone, and welcome to the Q3 FY '24 earnings conference call for South Indian Bank. We have with us, from the management, Mr. P.R. Seshadri, Managing Director and CEO along with other senior executives from the management team.

So without further delay, I would now like to hand over the floor to the MD sir. Thank you, and over to you, sir.

P.R. Seshadri: Thank you very much, Chintan. Good evening to all of you and thank you for joining us for the South Indian Bank Limited's Quarter 3 FY '24 Earnings Conference Call. I'm here together with my colleagues, Mr. Thomas Joseph, Mr. Anto George, Mr. Sanchay Sinha, Ms. Chithra, and others.

Let me start with the key highlights of the financial performance for the quarter ended December 2023. Total business grew by 10% to reach INR [1,76,841] crores. Total deposits grew by 9% to INR 99,155 crores, just a touch short of INR100,000 crores. Gross advances grew by 11% to INR 77,686 crores. Net profit for the quarter grew by 196% year-on-year to reach INR 305 crores. CASA amount increased by 3% year-on-year to INR 31,529 crores. Net interest margin for the quarter stood at 3.19%.

Provision coverage ratio, excluding write-offs, improved by 688 basis points year-on-year to reach 67.08%. And PCR, including technical write-off, improved to a touch under 78%. Gross NPA reduced by 74 basis points from 5.48% to 4.74% on a year-on-year basis. Net NPA reduced by 65 basis points from 2.26% to 1.61%. Improvement on ROA to 1.07%. So this quarter, a return on assets came in at 1.07%. And given the structure of our balance sheet that resulted in a return on equity of 16.38% against 6.42% for the same quarter in the prior year.

Recovery and upgradation in NPA accounts stood at INR 377 crores. CRAR at the end of the quarter stood at 15.6%, of which Tier 1 stands at 13.37%.

We continued to grow our gold loan business. This now stands at approximately INR15,369 crores. Personal loan is a segment where we are a late entrant and we have small book, but the book continues to grow. We launched our preapproved personal loan business in December 2021. As on December 2023, our book stood at approximately INR 2,186 crores.

Credit card is another area of some growth, which was launched in 2022. As at December 2023, we had issued 3,77,134 credit cards with monthly average spends of approximately INR22,780 per card. The total book as on December 2023 was INR1,427 crores.

On the liability side, core deposits grew 7% to INR95,088 crores. NRI deposits continued to grow and now stand at INR29,236 crores.

Investments. Approximately, our total investment book stood at INR26,654 crores, of which HTM was INR22,374 crores and AFS and HFT, the rest.

Fresh slippages for the quarter was INR267 crores, which is amongst the lowest numbers that we've had in recent times. And it is in line with the guidance that my predecessor had given you. The overall restructured book stands at INR894 crores. And the bank holds standard asset provisions, including standard restructured and FITL loans of the extent of INR451 crores.

Net interest income for the quarter was INR819 crores. Core fee income increased 19% year-on-year to INR178 crores. Treasury profit for the quarter was INR113 crores. You would have seen from the investor presentation that has already been uploaded that a significant portion of our growth continues to come from the corporate side. In the asset book, corporates now constitute roughly approximately 39%. And we also have included a section that talks about the steps that we're going to take going forward to a, rebalance our balance sheet, improve our efficiencies, and also improve operating results for the institution.

So we continue to maintain momentum in disbursements and collections. Our strategy has not fundamentally changed. We continue to focus on elements that my predecessor had focused upon with nuanced changes as to how those need to be implemented as we go forward. And the results that you see today are a reflection of the fact that the underlying basis on which the strategic elements were put into place was sound. And we hope that as we continue to go forward, our outcomes will be suitably rewarding.

With that, let me turn you back over to Chintan.

Moderator: Should we begin with the question-and-answer session, sir?

P.R. Seshadri: Yes, please.

Moderator: We have a first question from the line of Rakesh Kumar. Please go ahead. We have a question from the line of Parth Mehta. Please go ahead.

Parth Mehta: Sir, my one question is how's the cost of funds panning out for us vis-à-vis competition?

P.R. Seshadri: I think the numbers you'll find in our investor deck. Our costs of funds continue to rise on account of the fact that our deposits are repricing. So our deposit cost, cost of deposits is right now at 5.18%. And I think that compares favourably with some of our competitors who are Kerala-based. And so we continue to be well placed on this front.

But as our deposits mature, and as they get repriced upwards, we do have continuing cost of fund increases as can be seen in this chart on Page 16 of our investor deck, actually.

Parth Mehta: Okay. Okay. So is there any cap that you are looking at? Or it will be a moving phenomenon as we go ahead?

P.R. Seshadri: So you were asking about our peer banks and how our cost of funding was compared to them?

Parth Mehta: Yes. Yes.

P.R. Seshadri: You can see that on the Federal Bank investor deck if you so desire and compare the numbers yourself, and you'll find that we compare favourably.

Parth Mehta: Favourably, okay. And the way ahead for us? It will get better -- it will keep on rising from here on?

P.R. Seshadri: Yes it will continue to rise from now on.

Parth Mehta: Okay, that's it. I'll join the queue. Thank you.

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

Rakesh Kumar: Yes. Am I audible, sir?

Moderator: Yes.

P.R. Seshadri: Yes, you're audible.

Rakesh Kumar: Yes, thank you. So sir, firstly, considering the disbursement number for the 9 months and the book outstanding that we have loan book, I would like to understand what is the average maturity of the loan book that we have, sir?

P.R. Seshadri: We have not computed that as such. So our loan book consists of multiple parts. There is a corporate loan book, which is the largest chunk of our balance sheet, as you can see. Then there's gold loans, gold loans are on average 6 months maturity. Then there's home loans then mortgage loans then the stuff of that nature, which is a smaller chunk. And then there's MSME between overdraft and terms, which have reasonably long maturities.

The area where we have very significant repayment and then disbursal again is on the corporate side. And we've not computed the average maturities at this juncture. We can have -- make that available to you. We believe that it does -- in a rising interest rate environment, it offers us some advantage in the sense that we are able to reprice our assets periodically, keeping in view the price of -- on the liabilities end. And therefore, the structure as such is not disadvantageous to us under these circumstances.

Rakesh Kumar: [Technical Difficulty].

Moderator: Mr. Rakesh Kumar, you are sounding muffled, please use your handset mode.

Rakesh Kumar: [Technical Difficulty].

Moderator: No, we can't hear you.

Rakesh Kumar: Is It better now?

Moderator: Yes. Please go ahead.

Rakesh Kumar: So sir, the other question was just pertaining to the notes of accounts. There is a mention of provision for around 3.1 billion, around INR300 crores, for security receipts. So if you can elaborate on that what is the change that we have found in the RBI guidelines pertaining to the security receipts?

P.R. Seshadri: I think you are referring to an event that took place in the Q3 of the prior year, wherein certain provisions were made on -- to the assets that were held by us in the form of security receipts and they were written down to the extent of that amount. And this is not an event that has taken place in this quarter. This is an event that happened a year ago.

The consequence of that was the fact that profits for that particular quarter were depressed. And as another consequence, the profits for this quarter compared to that quarter seem -- are consequently 200% greater.

Rakesh Kumar: Okay. Okay, sir. Okay. And sir, this fraud account, there is a provision for a fraud in one branch, so what was that related to?

P.R. Seshadri: That is related to an event that has taken place in one of our branches, a consequence of which is that we've -- that we suspect there could be an impact to the extent of INR28.6 crores or thereabouts, and that has been fully provided.

Moderator: Mr. Rakesh Kumar?

Rakesh Kumar: Sure sir. Thank you sir. Thanks.

Moderator Thank you. We have a next question from the line of Saransh Sethi from Samar Wealth Managers. Please go ahead.

Saransh Sethi: Am I audible?

Moderator: Yes.

P.R. Seshadri: Yes, please.

Saransh Sethi: Sir, my question about cost-to-income ratio. As we see it is higher compared to peers. How does management see these 1 or 2 years down the line? And what's the guidance on net interest margin for coming years?

P.R. Seshadri: So let me answer that. There are two questions, cost to income and net income -- or net interest margin. On the cost-to-income side, as you rightly mentioned, compared to our peers, our cost-to-income ratio is higher. We are currently at about 61.98%, which is very close to 62%. So if you see our investor deck, there are five areas that we, as a management team, are going to focus on.

One is enhancing our portfolio resilience, which is basically a complicated way of saying that we want to have a more granular book, we want to improve our branch productivity, and third is cost optimization. So we are seized of it. We -- the current high levels are on account of a few one-timers that we've had to take. So this quarter, we've provided for the IBA wage settlement that happened.

We were accounting for it at 15%. And in this quarter, we've had to make a difference between the 15% and 17%, which is the final settlement amount. And we estimate that is approximately INR24 crores incremental provisions were taken.

So to that extent, our expenses are overstated from the normal. But having said that, our base expense ratios, even without this one-timer is higher than our peers. And as a management team, we are looking at methods of addressing that and attacking that as we go forward.

With respect to net interest margins, our net interest margin for the quarter came in at about 3.19%, which is sequentially lower than the prior quarter. And that is on account of basis risk playing out in the sense that our liabilities are now repricing faster than our assets and, as a consequence, squeezing our margins.

To address this, there is no short-term method of addressing this very, very quickly. The only way to do that is to change the structure of our balance sheet from an asset's perspective, and that we have walked you through in this strategy parts of the deck that we put out.

The other thing that I want to bring to your attention is what I just mentioned. Our assets are of shorter duration. The lower yield assets, which are put out to very high-quality corporates are of very short duration. And the hope is that as interest rates rise, we'll be able to transfer some of that to our customers and consequently keep the NIM at reasonable levels. So I trust that answers your question.

Saransh Sethi: Sir, any guidance on NIM for upcoming years?

P.R. Seshadri: Sorry, sir, could you repeat that question?

Saransh Sethi: Sir, any guidance on NIM for upcoming years?

P.R. Seshadri: I hesitate to give you a guidance because we are in the process of putting together a long-term strategic plan for our institution at this point in time. All I will say is that we want to restructure our balance sheet and have higher yielding assets, larger proportion of them on the book.

So from a directional standpoint, we will be working towards taking NIMs up as we go forward. We are hoping that all our analysis and work can be done reasonably quickly, and we can come back to you with the guidance reasonably quickly.

Saransh Sethi: Thank you sir. That's all from my side.

Moderator: We have a next question from the line of Prabal from AMBIT. Mr. Prabal?

Prabal: Hello. Am I audible?

Moderator: Yes, please go ahead. If you can speak a bit louder, please.

Prabal: Just give me one second, please. Is this better now?

Moderator: Can you use your handset mode?

Prabal: Yes, yes, I have. Is this better now?

Moderator: Yes, please go ahead.

Prabal: Sir, congratulations. Sir, my question is just an extension of the previous participant's question. How do you get in branch productivity and cost optimization, if you can explain your strategy there.

P.R. Seshadri: So on the branch productivity, we've done a few things. We've started -- see, branches do two things, Prabal,. One is they provide service. So customers come in, they have a query, they need something, they provide that service.

The second is they sell products. So we are doing -- we've started -- we've done a whole bunch of analytical work to figure out, on average, different products when they are sold to a customer, what the revenue stream is in the future. And we have discounted that back to arrive at an expected value per product. And we have started measuring -- and this is something we call sales value added. And at the branch level, we've started measuring what is the value addition that is happening at the branch.

So all our products that we sell out of the branch, we have this metric. So at any given point in time, we are in a position to tell how much sales has actually happened and value addition has actually happened. So that measurement metric has now been rolled out. And we are using that to also provide some form of rewards to our people

So we hope that this will make for two or three things. It make for comparison between one branch and the other because in the past, branches sell various products. We are an old generation private sector bank. The branches sell not only liabilities, they also sell assets, they also sell funded, nonfunded products, all kinds of products they do.

And comparing one branch to the other was -- became very difficult because you had to compare them on many axes. With this, you can compare them with one number. And given that we've also started a mechanism by which our people can be rewarded on their performance, we think that will change -- bring out some amount of increased productivity at the branch level.

The other thing that we've done is that we are working on our processes and our systems. So we had implemented 2 loan origination systems, one for our retail businesses and one for our wholesale business -- it's not the wholesale, but the MSME business. These are generic system installations, which enabled us to book any type of customer for both the retail and the MSME business.

We are fine-tuning these so that these can be -- these become more -- these become frictionless and they are in a position to actually do these loans quickly. So there's a whole work stream around that, which is an enablement work stream that enables the branches to service our customers better.

So all of this is actually in the deck. I'm happy to walk you through it in greater detail at another time. But in the interest -- given the fact that we have a large number of people on this call, I'm afraid I'll have to end this at this point. But if there are other questions, I'll be able to give more clarity.

Prabal: Yes. Next question will be -- sir, the MSME book has been sort of flat in last 3 quarters. So what is happening there? And how do we ramp up the book from here on?

P.R. Seshadri: Okay. The MSME book has been flat. In fact, it has declined marginally. It is an area of focus for us. Again, I -- it has two elements to it. One is we have to get our sales engines firing, and we also have to get our processes and the technology arm associated with the processes working again.

The good news is the new originations in quarter 3 was the highest that we've had in recent times. Some of the reduction in balances that you noticed are because of utilizations coming down in our overdraft accounts. But having said that, it's still not robust enough for growth to come.

So this is an area of great focus. We are working with our teams. We are trying to enhance the number of people in this business. And at the same time, we are trying to change the process so that product, process, all of that to make it more appealing in the marketplace. So this is something of a long haul, we need to work on it so that we get appropriate results as we go forward.

Prabal: Okay. And just last question. So how much of our deposits will be coming from Kerala? And just a related question will be, we have improved our credit-to-deposit ratio in the last few quarters, so...

P.R. Seshadri: 62% of our deposits come from Kerala. And what was your second question, I'm sorry?

Prabal: Second would be, we have improved our credit-to-deposit ratio in last few quarters. How is our treasury team thinking about any range that we would want to settle at, credit-to-deposit ratio.

P.R. Seshadri: So we are currently at about 78 and change credit-to-deposit ratio. We would like -- I think there's a few percentage points left where we can go up on the CD ratio without creating any issues on liquidity management and impacting other liquidity-related matrices for the bank. It'll also be profit accretive if we were to be able to do that.

So from a bank's point of view, two things have to be noted. Our deposit book grew 9% year-on-year. And we believe that the 9% growth is predicated by the fact that on the deposit side, our pricing has been such that our landed costs of deposits are lower than our immediate peers.

Should our asset side growth pick up very dramatically, we believe that we can get more deposits quite easily. And therefore, from a credit-to-deposit ratio point of view, we believe that we are well placed. 78% is not too high. I think even RBI is talking about between 70% to 80% and so on and so forth. 70s, early 80s, I guess, is an area of comfort for them. This is my understanding from whatever newspaper reports I have been reading.

So we think that we are well placed. We think that there's space for us to grow this, and that will be P&L accretive. So at this point in time, that's where we are taking our business.

Prabal: Thank you so much and all the best.

Moderator: Thank you. We have a next question from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Yes. Good evening. Thanks for taking my question and congratulations on the quarter, sir. Just two questions. One, on the capital raise just wanted to understand, has the Board taken any decision in terms of timing, quantum of the capital raise and the route that we would -- through which we would like to do the fundraise?

P.R. Seshadri: Umang, I'm afraid on this subject, there is no information that I am at liberty to give you at this point in time because no decisions have been taken. And at the right juncture, we will make all this information available as we go forward.

Umang Shah: All right. Okay. And sir, the second question is now while we do appreciate that, clearly, you and your team are in the process of putting out a long-term strategic plan for the bank in place. But just want to understand that clearly, we have crossed the 1% ROA mark after a very long period of time, right?

Should we assume that regardless of the changes that you intend to bring into the bank, the earnings trajectory, or the trajectory of the returns ratio that we are seeing at this point of time will more or less be sustained and then probably we see a gradual improvement? Or do we see some bit of a disruption initially and then see a pullback? How should we look at it from a near-to medium-term perspective?

P.R. Seshadri: So at this point in time, business as usual continues. So we've not changed anything very dramatically over the last 3 months. The areas of focus that my predecessor had put in place continue to remain our areas of focus. There are some nuanced changes that are highlighted in the 5 or 6 pages that we have put out in the investor deck.

And the aim of these changes is to ensure that we make change incrementally and we deliver these changes over a period of time without impacting the near-term P&L of the institution. If anything, over a period of time, the P&L should grow. At least that's our wish and desire.

There is nothing that we are doing at this juncture that should have a negative impact on the immediate P&L of the company. And it's quite clear if you were to go through these five or six pages that we have in the form of an investor presentation. Personally, I think there are no numbers on these pages, but I'd urge you to take a look at it. And when we have more time, I can walk you through it in greater detail.

Umang Shah: Sure. No, I think that's quite helpful. I've already been through the presentation. So clearly, that's helpful, and we would be waiting for your detailed strategic plan. Just one last data point, which I wanted a little more clarity upon. In our presentation, this time around, we have put out a risk weighted density, RW density, which is at about 44-odd percent. Just wanted to understand that within our corporate book, would it be possible for you to share details as to what proportion of the book will be to, let's say, A-rated and above NBFCs per say?

P.R. Seshadri: I think we've given details on the structure of our total balance sheet where 96% of our large corporate exposure is to A and above entities. 55% is to AAA and above. NBFCs, as a subset, we deal largely with high-rated NBFCs. So I would think that 19 out of 20, 95% in other words plus, will be A rated and above. The exact number, we can come back to you. I don't want to -- but it's in that ballpark. Would that answer your question?

Umang Shah: Yes, sure. So just one more data point. So out of the total corporate loan book, how much would be NBFC lending?

P.R. Seshadri: Roughly a third would be NBFC.

Umang Shah: Okay. Perfect. No, I think that helps. Perfect. Thank you so much.

P.R. Seshadri: This includes certain types of NBFCs which are quasi-government. These are not private NBFCs. These are quasi-government, including one which is quasi-owned by the central bank.

Umang Shah: Okay. All right. Okay. No problem. I think that gives a good flavour. Perfect. Thank you so much, sir. Wish you good luck.

P.R. Seshadri: Thank you.

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

Jai Mundhra: Hi, sir. Good evening. Thanks for the opportunity. Congratulations on good quarter. Sir, first question is more -- first is thanks for adding the strategy, those five or six slides and then the key focus area. Within that, sir, if I see -- of course, you have earlier also indicated that you want to granularize the book more. And maybe you would want to debulk the corporate piece. Would that mean, sir, that the overall growth may be impacted as we go ahead because corporate is still around 40% of the overall loan book and hence the overall growth may look a bit weaker?

P.R. Seshadri: Thanks, Jai, for the question. We are trying to do it in such a fashion that growth does not suffer. So we are hoping that we'll continue to press the pedal on corporate till such time as other areas start growing. So in the near term, corporate continues. Our focus on corporate, high-quality corporates continue. High-quality corporates with shorter duration exposures continues.

At the same time, we will work on other businesses so that we get them up to speed. And as they start ramping up and growing, then we start deemphasizing on the corporate side. It does two things for us. One is it has a positive impact on net interest margins because almost every other place where you can lend money has higher spreads than AAA rated corporates, that too shorter duration exposures to them.

The second thing that it does is that it changes the tenor profile on our asset side. So it gives us duration on the asset side, which is matched by duration on the liability side. So our strategy -- to answer your question in short, our strategy is not to take our eyes off the ball on the corporate side. We'll continue to emphasize that. And as we get growth on other areas, that's when we will see how to restructure our own approach and how to rebalance the portfolio. Up until then, I don't think there will be any change in the growth rates.

Jai Mundhra: Understood. Thanks, sir. And sir, in your branch productivity slide, you mentioned tooth-to-tail ratio, right? I think it's currently a 75:25 and then you intend to take it to 85:15 over the period. If you can elaborate, sir, what do you mean by that?

P.R. Seshadri: So basically, what we mean is in a bank, there are people who are customer-facing and who provide services and sell products to customers. And then there are control functions and others who are back-office functions. They don't deal directly with customers, they deal with papers, they deal with computer screens, they provide a valuable function, but they are not customer-facing and therefore, cannot generate new business for us as an institution.

So in our bank, at this point in time, our estimation is that the customer-facing roles are roughly 75. For every 100 people, 75 are in customer-facing jobs, maybe in the branch, maybe in other verticals where they're directly dealing with customers or maybe in a regional office where they deal with the branch and meet customers, everything put together. And over a period -- and there are 25 people who are more control, help, process, that type of people.

So if we want to have a more productive organization, we need to have more people directly facing customers and offering products and services. So that 75:25 we want to move over a period of time to 85:15. So that the number of arms and legs and bodies that we have that are actually directly producing increases. Does that answer your question, Jai?

Jai Mundhra: Yes, sir. It does. Thank you. And secondly, sir, on MSME, right? So clearly, that is likely to be the key focus for the bank. And you also mentioned that you want to intend -- that you intend to streamline processes, frictionless processes, etcetera. But is there anything tangible also in terms of, let's say, preapproved MSME loans, which some of the banks are doing? Or some of the banks are actually lowering the ticket size for which an RM is appointed. Are such things also on the table that -- which is more tangible versus the turnaround time and intangible kind of a thing?

P.R. Seshadri: So, I'll tell you what we've already done, Jai. So, earlier, these loans were being done by a small cadre of people who -- so our MSME business is divided into two parts, below INR2 crores and above INR2 crores. The below INR2 crores had about 130, 140 dedicated people who are selling these products. And they were also dedicatedly helping in processing these loan applications.

What we have done over the last three months is we have moved these 130 people into the branches, and we've told all the branch people that every one of them is responsible for selling these MSME products, not just this 130. We've also trained everybody in the branch on how to use the system. They bear the basic understanding of MSME requirements, credit, etcetera, etcetera. Full training has been conducted over the last few months, so that they are in a position to actually sell this product.

So from 130 people, we now have 948 branches, all of them capable of selling this product. So that activity has already happened. In addition to that, we are now saying that these processes will be simplified and systems will be set in place, which will enable this to happen. And frankly, any volume business, the process has to be fixed first. It is impossible for you to get volume unless your process and systems are such that they are frictionless and they actually enable things to happen.

So two things have happened. The less than INR2 crores has gone back into the branch. It is owned by the branch. It is run by the branch. We are hoping that that will be a big force multiplier for us. And to help that force multiplier actually deliver properly, systems, process, etcetera, are being reworked, together with some fine-tuning of products and so on and so forth. So all of that is underway, Jai. Does that answer your question?

Jai Mundhra: Yes, sir. It does. And last two data keeping questions, sir. We have done the wage revision assuming at 17%. But is there any residual provisions that need to be made for, let's say, pension-related liability?

P.R. Seshadri: Yes. There could be because at this juncture, it is not entirely clear to us as to how the pension-related aspects of the settlement would pan out. Information is not available. We didn't put that in our deck here.

Anyway, if we have missed highlighting that in our deck, my apologies. There could be incremental provisions that could be required depending upon how the IBA settlement deals with retirees. So to that extent, there could be an incremental provision. But we don't think that that is going to be very material.

Jai Mundhra: Okay. Sir, any ballpark number? I mean could it be like 100, 200 or even...?

P.R. Seshadri: No. Had we known, we'd have made the provision. No, Jai. We have no knowledge. So whatever is information that is available today where a liability could be crystallized, that has already been taken to the P&L. When information is not available, it is impossible for us to take that into our P&L.

Jai Mundhra: Right. And the last thing is, sir, the CET1 that we report, that is -- does that include the nine months profit, or that is without including the nine months profit?

P.R. Seshadri: It excludes the nine months profit.

Jai Mundhra: Sure. Thank you, sir, and the very best for the coming quarter.

P.R. Seshadri: Thank you very much, Jai.

Moderator: Thank you. We'll take a next question from the line of Tejas Shah from Laser Securities. Please go ahead.

Tejas Shah: Hi. Sir, just about treasury income, if you look at the segment-wise, is around some INR98 crores, if I'm not wrong. And earlier, it used to be in a loss of INR13 crores. Last year, it was some INR158 crores loss. So are we going to sustain these profits on the treasury side?

P.R. Seshadri: Treasury by definition is a little volatile. It is not an accrual income. It depends upon market factors. The trends are reasonably positive. I mean, 10-year G-Sec has been dropping. It has come all the way to 7.15%. It has picked back up now. But if those same trends remain, then I think all the banks, not just us, will have a reasonably good year going forward.

This treasury income, we were helped by a variety of factors. Whether those factors will continue to play out in the times to come, we don't know, but we are well prepared. And on the fixed income side, on the rate side, I think we are in a reasonably good position. If the rates move in a positive manner, I think a very substantial quantum of income can be had.

Tejas Shah: Okay. And can you throw some light on the higher expenditures towards staff and other things? Because your other expenditures have also gone up and even I think your employees' expenditures has also gone up. So if you can -- is that going to sustain? Or it will just show a little higher stress on those?

P.R. Seshadri: So our employee costs have gone on account of a onetime hit because basically the IBA settlement, wage settlement, we had been provisioning for it at 15%. It has come in at 17%. So for a period of 14 or 15 months, we've had to make good the 2%. And for that, we have taken a -- onetime hit of INR24 crores. So to that extent, our employee cost is overstated. If this 17% was not the wage settlement and it was 15%, then our employee costs would have been less by INR24 crores.

We have two areas where our expenses have risen and materially risen. One is employee costs, as you rightly pointed out. And the other is on expenses associated with our cards, credit card business. But on the credit card business, we also have very significant growth in revenue, and we have some significant growth in expenses, which is optically impacting the revenue trend line. So if you were to isolate or remove the credit card expense growth, you would find a more normal growth rate because the credit card business gives us a very substantial revenue growth as well as an expense growth.

If you look at it on a net basis on the revenue line, you'll find that the expense growth rate moderates quite considerably. As we go forward, perhaps, we can give you further details, so that it becomes a little bit clearer for you to understand our expense dynamics.

Tejas Shah: No problem. That is from my side. Thank you very much.

Moderator: Thank you. We have a next question from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Thank you for the opportunity. Sir, first of all congratulations on great set of numbers and on that 1% ROA mark and thanks for the strategy update. So there are two, three long-term questions from my side. Sir, one is on the mix. So you are saying that we'll be targeting MSME and retail and shifting our focus from the corporate. So how do we envisage the loan mix would look here on over the next year -- over the next two, three years or so? So how much could be the shift we expect to personnel and MSME from the corporate? And so how can that play out on the margin front? Yes, first was that.

P.R. Seshadri: So we do have a strategic plan, which we've worked out. We haven't disclosed it yet. We are in the process of fine-tuning it. The aim is to increase our margins. That's the reason why we are doing all of this. So over a period of time, not immediately, we -- our total balance sheet grows. We are hoping, it grows in the mid-teens. And we start with the corporate balance sheet remains where it is, which is currently 39%, 40% of our total outstanding.

And over a period of time, it starts shifting downwards. And over a three- or four-year period, we hope to bring that down to the early 30s and grow other businesses. I don't -- it doesn't mean that corporate shrinks. It only shrinks in percentage terms, correct? And that 6% or 7% difference is added to the higher yielding books on the MSME side as well as lap. We are very, very underrepresented in loan against property. Our total balance sheet size on lap is only about INR 2,000 crores.

So some of these areas where they are significantly underrepresented where there is an opportunity to grow, it gets added there. And we hope that, that gives us a significant fill up - on spreads. Given the fact that our cost of funding is lower than some of our peers, we are hopeful that the spread or NIM expansion to us will be quite considerable if the strategy were to work out.

Chintan Shah: Sure. Sir, this is helpful. Sir, one thing on this new initiative, which we are taking via increasing the branch morale, increasing the sales focus, giving empowering our employees more. So is there any resilience from the employee side or the employee union, or they are happy to do this and in return they'll also be getting some additional bonus or something? So how about -- the rewards are also very generous for them to work extra? Or how does that work? Yes.

P.R. Seshadri: So we are keeping those areas. I mean, we are trying to ensure that we communicate with all the constituents of the bank actively. So far, our industrial relations have remained healthy and there is no cause for us to believe that any of the actions that we are taking will So as we press forward and as we become more and more focused on these elements, we will continue to work together with the unions and associations to ensure that we maintain the current level of dialogue and discussion and the kind of relationships that we have.

Chintan Shah: Okay. And sir, one last question from my end. So we are talking of cost optimization and probably some decline in the cost to income also in the coming years. But sir with that increasing focus on MSME and retail, so don't we see some rise in the cost as well, or most of the rise will be translated and the benefits would come at a later stage? Could you look at that way?

P.R. Seshadri: I think you asked a very good question. From our point of view, a very significant chunk of our costs are fixed. So if we can get higher productivity, cost to income ratio will automatically reduce. And that's the basis on which we've built this. As we try and create alternate distribution channels and as we buy and take out -- do some of the other things that are there, there may be expenses associated with them. and we will try and report that separately as we will try and report to you the core bank expenses separately, so that we can discretely see where it is going.

At an aggregate level, we are very, very conscious of the fact that 62% cost-to-income is a high level, and we want to have this reduced. So our strategy will be built around the fact that if we are doing something new and we are investing money on something, we will try and time it in such a fashion that the trend line on the cost side is reasonable and it shows traction, i.e., the cost is headed downward as we move forward. That is something that we'll be very focused upon.

Chintan Shah: Sir, point taken. Just one follow-up on this last one. So sir, we are assuming that the productive -- we are expecting that the productivity will increase, but how do you make sure that there is productivity will increase and that too won't lead to any additional costs? That is my question actually. How are we expecting that productivity will increase only that way?

P.R. Seshadri: So that is the management challenge. I mean, we have to get our productivity to increase. Our people are well paid. Our employee wage costs are driven by IBA standards. We need our productivity levels such that we believe that there is a reasonable scope for increase. And our costs associated with that increase is going to be minimal when compared to the aggregated costs that are fixed in nature.

As I said, we launched the sales-related rewards, which incentivizes people to be more active on sales. In the grand scheme of things, the cost associated with that is not material, which is why I say that if the management challenge can be met then we should get higher productivity without increased costs.

Chintan Shah: Sure, sir. This is actually very helpful and thank you specially for answering all my questions and looking forward to the strategy. All the best. Thanks.

Moderator: Thank you. We have our last question for today from the line of Ravindra, an individual investor. Please go ahead.

Ravindra: Hello?

Moderator: Yes, Mr. Ravindra, please go ahead.

Ravindra: Thanks a lot for the opportunity, sir. And wanted to discuss you in the last call as well, I did not get the opportunity. I'm a very long-term investor. From 2011, I'm an investor and I'm closely following up with the bank's progress. Sir, one question is, so banks like IDFC First Bank, they are giving a monthly interest on savings and they're gathering a very good CASA. So why is it not possible for the bank like us? That is one question.

P.R. Seshadri: No, sir, do you have a second question also? I can answer both together, sir.

Ravindra: Yes, sir. And I was going through your annual report in the Karur Vysya Bank and there, you had mentioned that loans within INR2 crores, there is some automation something, right, without manual intervention -- with less manual intervention maybe? Why is it not done in the SIB?

P.R. Seshadri: Okay. With respect to sir, the savings account high interest rates where paying interest on a monthly basis, the reason why we haven't considered it yet is that we have -- the only banks that are offering that are the newer institutions, sir, if you look at it. It is the institute there are come into being of recent times as banks. They are the ones who are aggressively offering that product. That is because they don't have a traditional CASA base.

We already do have it. And for us, to offer that would only mean a significant increased cost for us without very significant benefits to our customers. I mean from our customers, they transact with us on the basis of relationship they have with us and the comfort they have with the branches, etcetera. So this does not really provide anything incremental to them. It may attract new customers. But having said that, the cost of such a change is so high that we don't think at this point in time that it is warranted.

With respect to your second question, automation for less than INR2 crores, which is something that we are working on. That is part of our strategy. Hopefully, we'll be able to do this reasonably quickly, sir. I trust that answers your question.

Ravindra: Yes, sir. And recently, we received a communication, there will be a fund raiser using the rights issue. Is there any progress on that? Or is it just a discussion?

P.R. Seshadri: As this juncture, sir, I'm not at liberty to talk about that, sir.

Ravindra: Okay, sir. That’s my last question. Thank you. Thanks a lot.

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