"South Indian Bank's Q4 FY'22 Earnings Conference Call"

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MODERATOR: **MS. DIVYA PUROHIT – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the South Indian Bank Q4 FY'22 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Divya Purohit from ICICI Securities. Thank you and over to you, ma'am.

Divya Purohit: Thank you, Tanvi. Welcome everyone. On behalf of ICICI Securities, I welcome you all to the Q4-2022 Results Call of South Indian Bank. I would now like to hand over the call to Mr. Murali Ramakrishnan -- Managing Director and CEO, South Indian Bank. Thank you and over to you, Sir.

Murali Ramakrishnan: Good morning to all of you, and thank you for joining us for the South Indian Bank Limited Q4 FY'22 Earnings Conference Call.

We are joined by my colleagues Mr. Thomas Joseph K -- EVP and Group Business Head, Sales; Mr. Anto George T – Head, HR and Administration; Mr. Sanchay Sinha – Head, Retail Liabilities & Branch Banking; . Ms. Chithra H -- CFO; Ms. Minu Moonjely – GM, Credit and Mr. Senthil Kumar – GM, Collection & Recovery.

Let me start with a key highlights of financial performance for financial year ended March 2022

- Built new book of Rs. 22,750 crores with better underwriting mechanism
- GNPA on new book were less than 0.1% and SMA 2 book is 0.35%
- Provision Coverage Ratio increased to 69.6% which was in mid-fifties for past few years
- Bank saw a record recovery & upgrade of Rs. 1,450 crores from GNPA and good recovery from technically written off accounts, compared to Rs. 500-700 crores range seen in last few years
- Overall GNPA improved to 5.90% from a peak of 8.02% during the year
- Net NPA improved to 2.97% from peak of 5.05% during the year
- Following the robust collection drive, our SMA2 portfolio has consistently improved quarter on quarter from Rs. 2,139 crores in Q1-2022 to Rs. 892 crores in Q4-2022

Let me now take you through the key highlights of operational and financial performance.

The total business for the bank stands at Rs. 1,50,957 crores as at March 31, 2022.

Advances grew by 4.0% YoY to Rs. 61,816 crores backed by total disbursements of Rs. 24,533 crores during financial year ended March 2022.

The Bank disbursed more than Rs. 10,200 Crores of corporate loans during FY2022, predominantly to A & above rated corporates. The share of A & above rated large corporates has improved from 63% as at March 31, 2021 to 89% as at March 31, 2022. We have zero delinquency and zero SMA2 book in our new Corporate book i.e. disbursements starting October 1, 2020.

Gold portfolio is the segment which has been consistently growing throughout the pandemic. Our disbursements increased by 96% YoY to Rs. 7,998 crores during financial year ended March 2022, with an average ticket size of about Rs. 1,48,000/-. Gold loan book grew by 20% YoY to reach Rs. 10,766 crores.

Personal loan is another segment where we are seeing good traction since the launch of pre-approved PL in September 2021. As on date, our PL book crossed Rs. 1,000 Cr mark. We are seeing steady monthly disbursement run rate of Rs. 100 crores.

Credit card is another new product which we launched during FY22. In April 2022, we had more than 72,000 credit cards with monthly average spends of Rs. 20,279.

As far as SME is concerned, we are seeing good uptick in disbursements month on month over past few quarters. We are cautiously growing this segment with monthly disbursements averaging at Rs. 300 Crores in comparison the average of 175 Cr in the first two quarters.

We expect healthy economic growth and government spending towards infrastructure sectors will help credit uptick in coming years. Our aim is to grow loan book by double digit in FY23.

Coming to liability, our Retail Deposits grew by 10% YoY to Rs. 85,320 crores. CASA deposits increased by 20% YoY to Rs. 29,601 crores, predominantly due to continued improvement in our SA business which grew by 22% YoY to Rs. 24,740 crores. CASA ratio continued to improve and increased by 125 bps QoQ to reach 33.2% of the total deposits as at March 31, 2022. Bulk Deposits declined by 21% YoY to Rs. 3,821 crores in line with our strategy.

NRI Deposits, which has been growing steadily, rose by 6% YoY to Rs. 27,441 crores and contributes about 31% of total deposits. Low cost NRI Deposits grew by 13% YoY to Rs. 8,844 crores. The Bank saw a robust growth of 36% YoY in our NRI Remittance business during the quarter.

Our investment book was at Rs. 22,534 crores, split into HTM of Rs. 19,365 crores and AFS & HFT of Rs. 3,174 crores.

The Bank witnessed slippages of Rs. 345 crores during Q4-2022 and Rs. 2,142 crores in FY2022, which was within the overall guidance of Rs. 2,500 crores given for FY2022. This is the first quarter since covid outbreak where recovery and upgrade of Rs. 412 crores were higher than slippages. The overall restructured book stands at Rs. 2,417 crores, of which, Business segment is Rs. 1,338 crores, personal segment is Rs.305 crores and Corporate is Rs. 774 crores. The Bank holds standard and restructured provisions of Rs. 617 Cr.

The Bank's collection efficiency during the quarter was 102%, with individual month collection efficiencies of 105%, 104% and 102% for January, February and March 2022 respectively.

Gross NPA ratio improved by 107 bps from 6.97% as at March 31, 2021 to 5.90% as at March 31, 2022. During the quarter, the Bank recovered / upgraded Rs. 412 crores worth of NPAs and sold Rs. 151 Cr of GNPAs to ARC. The Net NPA ratio improved by 174 bps from 4.71% as at March 31, 2021 to 2.97% as at March 31, 2022. Our endeavour is to bring GNPA below 5% and Net NPA closer to 2% in FY23. Expect the credit cost to be in the range of 1.75% – 2.0%.

The Bank reported net profit of Rs. 272.1 crores in Q4-2022 mainly due to improvement in net interest income and reduction in provisions on account of lower slippages and better recoveries. Further, the Bank reversed the tax provisions to the tune of Rs, 68 Crs on receipt of favourable judgements / assessment orders for the previous financial years.

Net Interest income for the quarter increased by 7% YoY to Rs. 598 crores. Net interest margin improved by 16 bps QoQ to 2.80% in Q4-2022. The sequential growth in CASA has led to improvement in cost of deposits of 13 bps QoQ to reach 4.54%. We endeavor to reach NIM of 3% in FY23.

Non-interest income was Rs. 204 crores. Our core fee income increased by 14% YoY to Rs. 142 crores.

Overall provisions decreased by 83% to Rs.78 crores in Q4 FY22. The reduction in provisions was mainly due to lower slippages, better recoveries and reversal of standard provisions of Rs. 60 crores on account of recovery from fully written off account. Our PCR improved by 10.82% during the financial year from 58.73% as at March 31, 2021 to 69.55% as at March 31, 2022. Our aim is to further improve PCR to 75% in FY23.

PCR excluding write off improved by 17.27% during the financial year from 34.00% as at March 31, 2021 to 51.27% as at March 31, 2022.

Our overall capital adequacy ratio continues to be robust with 15.86% as at March 31, 2022, the Tier I ratio stands at 13.22% as at March 31, 2022.

We are hopeful that the momentum in disbursements and collections will continue in the coming quarters to achieve the desired targets.

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

Moderator: We will now begin the question-and-answer session. Vaibhav Badjatya from Honesty and Integrity. Please go ahead.

Vaibhav Badjatya: So, you have given this nice break up between the old and new book. Out of the new book of Rs.22,752 crores, can you provide the breakup as to what is the gold loan and what are other like corporates, SMEs and personal Loan kind of these new book?

Murali Ramakrishnan: Out of Rs.22,752 crores, retail is about Rs.5,039 crores, corporate is about Rs.7,204 crores, business segment is about Rs.2,023 crores, agri is about Rs.8,486 crores.

Vaibhav Badjatya: Sir, this new book of average tenure obviously you have started in October 2020. I mean to say that, a lot of this would be loans which is very early in the tenure as of now and credit cost will be lower as of now. How much of this would be related to project expansions and on this interest, is it still being capitalized in the book?

Murali Ramakrishnan: I didn't understand the second part of your question. The first part of question you're saying is, since you have built this book fairly in the second half of this year, is it too early to talk about quality? Yes, I agree that it's too early to talk about quality. But having said that, since we are using advanced techniques in terms of credit underwriting, we are fairly sure about what we are onboarding. Therefore, I'm fairly confident that this book will hold. As you know, especially in retail, the nature of the deal will start showing up much earlier. If you've not onboarded a good customer, you will start showing delinquency much earlier. While addressing, I talked about the quality of corporate credit which we are adding. All these are rated A-and-above and substantial portion of my new book is on highly rated corporates. Similarly, business segment also we are using tools available and we are also now sort of completing our pilot, using a credit model which has been built with the McKinsey's help and with which we are underwriting now. So, we are fairly confident of the quality of the book which we are adding. So, even if we look at the GNPA from this book, obviously, it's very low. But even if you look at SMA-2 or SMA-1, they are very, very low as of now despite the fact that the average age of this book. I must say that it is still too early, but I'm very hopeful that it will sustain.

Vaibhav Badjatya: Lastly, on this new book again, how much of this Rs.22,750 crores is basically to customers which were not previously the customers of South Indian Bank as on October 1st 2020?

Murali Ramakrishnan: In terms of number of customers, probably I wouldn't be able to tell immediately, but I can tell you that in personal loan predominantly, we have used a pre-approved model, where we have actually mined our own database using data analytics, we formulated our Data Science division during this year, this was one of the important strategy which I wanted to adopt using analytics for sourcing and underwriting. So, PL, which we have almost added Rs.1,000 crores during the year, I must say that most of them would be from existing customers. But we have started now sourcing new-to-bank customers obviously using the imputed score model, where customers may not be banking with us, but they might be banking with somebody else, but then they have a good CIBIL score, using bureaus help and doing some analytics, we are onboarding a lot of new-to-bank customers also. In credit card, I must say that out of the 72,000 cards which are sourced, initially, we started with giving cards to our existing customers, but off late, we have started ramping up the number of cards in terms of averaging close to 15,000 cards to 20,000 cards, almost 60% of them will be new-to-bank customers who have got an excellent credit score. And that actually is a fertile ground for me to go and cross-sell many of my retail products. So, this is one of the biggest source for new-to-bank customers. So, with this, I am planning to build credit card counts close to 1,30,000 cards plus. I'm expecting that a lot of new-to-bank customers will get added during the year.

Vaibhav Badjatya: Yes, but then it is only a small portion of the book. I think out of Rs.22,750 crores, about Rs.8,500 crores is agri and I think Rs.5,000 crores is what you said corporate.

Murali Ramakrishnan: Agri includes agri gold also, just for clarifying that.

Vaibhav Badjatya: In those two large segments, how much would be the new customers?

Murali Ramakrishnan: Hardly anybody will be new, because as you know this segment comes back for loan again and again, once their initial loan gets matured, they can come and again take, especially since we are experiencing COVID, where clearly the disposable income of the customers, especially in the semi-urban and rural, have come down. It's natural for them to come back and avail loan again, may be pledging the gold again. Therefore, there may not be many new-to-bank customers, but we are actually not really differentiating when it comes to products like gold, as you know, credit risk is minimal, it's only operation and fraud risk which we need to be concerned about. A long as you have those in traction, it doesn't really matter whether the customer is new or existing.

Moderator: The next question is from the line of Prashant Kumar from Sunidhi Securities and Finance. Please go ahead.

Prashant Kumar: My question is on operating expense side. Just to understand where after one year or two years, the overall cost-to-income ratio is going to be sustaining? I mean, the staff expenses is decreasing obviously churning off the old employees and I think so voluntary retirement, and other operating expenses increases because of business and others. So, what will be the staff expenses for FY'23 & '24 quarterly or yearly basis, if you can give some guidance?

Murali Ramakrishnan: One thing which I want to tell you is this cost-income ratio, which is one of the piece which we are focusing on as part of our 6C strategy, clearly is to bring down the cost-income ratio to 45% below will be the most healthy ratio. But having said that, the structure in which the bank has been organized as you know, we follow IBA methodology and IBA as a certain frequency of negotiation, which happens on behalf of all those banks where IBA system is followed for employee salaries. So, those settlements also happen at regular intervals, and obviously, we need to impute those costs. Therefore, the only way to bring down the cost-income is to increase the income. And the increase in income as you know will happen, when the economy actually starts really showing up opportunity for more and more quality assets, and when the interest rates in the market start going up. Now, with the inflation going up, the traction in terms of interest rates hardening in the market is certainly seen now. We are hoping that both in assets as well as in our treasury investments, we have a good opportunity to reprice our assets at a much higher interest rate than what we were contracting earlier. And whenever any case, whether it's SME or corporate comes for renewal, the pricing will be better in the increasing interest rate scenario. I'm looking at making an impact in cost-income not necessarily by tweaking on the cost because cost is something, it's given, we need to manage that and we need to continue to work with that. But only way to bring down the ratio is to increase income. And that is what we are attempting to do. And whatever measures which I talked about in terms of focusing on good quality assets and high yielding assets and repricing the entire book depending on the interest rates hardening in the market. We hope that the traction on overall income will start going up, which is one of the better ways to bring down the cost-income ratio.

Prashant Kumar: On the other one, I think I missed you have already mentioned but just to repeat, what will be the credit cost guidance for FY'23?

Murali Ramakrishnan: We are looking at 1.75% to 2.00%.

Moderator: The next question is from the line of Aditya Doshi from Chanakya Capital. Please go ahead.

Aditya Doshi: Sir, just a follow up on the previous one also. So, our credit cost guidance of 1.75% to 2%, so can we say that South Indian Bank has reached a steady state in terms of our past NPA?

Murali Ramakrishnan: I wouldn't say a steady state. You start saying only when you see consistent performance, that is what steady is all about. So, we have just come out of much higher credit costs. This is the first quarter where actually our recovery has been better than the slippages and we need to replicate this in the quarters to come. The way actually I look at it is when we compare this with many of the large banks, there is a certain amount of slippages which happen for every bank in terms of their portfolio composition, which typically I've seen it is in the range of 1.5% to 1.75% of the portfolio. Normally, when they say these percentages they include even the restructured book, whereas for us, since we had restructuring following two consecutives floods, COVID restructuring and MSME restructuring. The book composition is predominantly in the business segment, clearly the restructured book, which was about Rs. 1,200 crores about a year back, today is at about Rs. 2,400 crores. From there I'm expecting a slippage of close to 25%. So, what I'm hoping is approximately Rs.1,000, Rs.1,100 crores to come from regular slippages in my overall portfolio, plus another Rs.600 crores to come from my restructured portfolios, I'm looking at the overall slippages of about Rs. 1,600 - 1,700 crores for the full year, which obviously is a better number compared to Rs.2,200 crores which I had experienced this year and Rs.2,350 crores last year. Though this year, it was lower than the guidance which we gave in the beginning of the year. So, we need to really work on this and with the double digit growth which I'm anticipating in my overall loan book, from currently at Rs.61,000 crores to about Rs. 68,000 crores. If you take this into account, our slippages ratio will be in the range of 1.75% to 2% and accordingly our credit cost will be lower.

Aditya Doshi: My second question is where does South Indian Bank want to be having a competitive edge with other banks on a few segment of business?

Murali Ramakrishnan: Aspirationally, we all would want to be a big bank. However, there is a path which we need to take to reach at that level. So, the vision for the bank is in terms of milestones, first, we need to get the matrices right. All the bank performance matrices in terms of CASA, GNPA, net NPA, PCR, capital adequacy, slippages, credit cost, employee cost, cost-income, everything we will have to get to the level where it is respectable. So, journey has already started and if you look at almost in all these parameters, which I just mentioned, we have shown a good improvement from where we started. And this journey will have to continue and we need to keep building the asset book. And in the whole process, what happens is the entire team will also get used to the right way of doing business, right way of sourcing, right way of underwriting, right way of monitoring, right way of collection, and also doing excellent customer service, which has always been our strength. So, with that, we expect the book growth to happen. And this book growth if you lay emphasis on quality, clearly, the profitability of the bank can really go at an exponential pace. Let's say if some bank having operating profit of Rs.1,600 - Rs.1,700 crores and has a negligible provisioning, you can pretty well imagine that at least two thirds of that can actually get reflected as a PAT, if we do manage our book very well. So, the endeavor is to build the book, which is of high quality, continue to work on improving on your income without sacrificing on the matrices, which a bank will be measured on. So, clearly, the end state would be to realize that the market recognizes this turnaround, market recognizes that we have put all the building blocks in place and the bank really is poised for a big growth, that's when it will have a positive cycle, and that will only help us to grow more and more, and eventually the first goal will be to reach some of the big milestones, which I mentioned earlier like reaching 1 lakh crore of asset book, reaching a ROE of 15% plus, ROA of 1% plus. These are some of the milestones which we are working towards.

Moderator: The next question is from Suraj Das from B&K Securities. Please go ahead.

Suraj Das: I have two questions. The first one on the NIM side. So, I mean, your NIMs have improved QoQ; however, that seems to be driven mainly by the easing cost of deposits. Because if I see your yield, I mean, that has declined QoQ and if I see the yield on the new book that you are building, that yield is looking on the lower side. You are guiding that the NIMs will improve gradually from here from 2.8% to 3%. So, how do you envisage that, because I believe in the rising rate scenario, your cost of deposits may have bottomed and it should go up, any comment there?

Murali Ramakrishnan: I think some factual corrections which I wanted to do. The NIM of the Rs.22,750 crores book which we have added is 3.70% . If you look at my Q4 ROE, ROA, all of them have shown the range where we want to be; ROE is in excess of 15%, ROA is in excess of 1%. You know that we have added substantial portion of our asset book in the second half of this concluded year. While your observation is right in terms of the yield coming down, but you should actually compare it with the rate in which the market yields have dropped. This is something which I've shared with all of you earlier also that till recently SME's we are getting rates of 7% to 7.3%, in corporate's we are getting sub 5.5% rates, and even the retail loans, like home loan, it's been hovering between 6.75% to 7.5%, good quality auto loans are at about 7.5%. So, these are the rates which are prevailing for a good credit in the market. If you look at my yield and the quality of the book, which I'm maintaining, I must say that the team is really negotiating hard and getting good yield, because I'm maintaining an yield of 8.8% today, with my quality, which is close to fairly clean. So, this improvement will happen on two counts; one is with the market rates hardening, our ability to price our loans will be better; number two, with our constant efforts towards bringing down the cost of funds, which is clearly happening due to CASA going up, and all the four engines of CASA firing today, whether it's government banking, TASC, Retail or Non Resident India. Further, we have got our agency license during the year and have already started engagement with many governments for improving CASA by doing business with them. Similarly, TASC has also started showing good traction and Retail has always been our forte. We are also seeing good traction happening in the current account also where Salary account always have been showing good growth. And NR clearly is also firing. Today, my CASA from NR alone is close to Rs.800 crores for the full year. My low cost CASA continues to increase and with our constant traction in bringing down the cost of funds by calibrating on cost of bulk deposit which is continuously showing decline. My overall NIM, that is the difference between the lending rate and cost of deposits, even in the situation where market rates were going down, we have been able to maintain it. And this was maintained not at the cost of sacrificing quality, this has come at the cost of impeccable quality. So, I'm fairly sure that the effort in this is not so much about what is available in the market, it's also to do with ability of our team to go and negotiate hard as far as the rates are concerned and ability of team to go and continue to improve work on CASA, TASC, government as well as NR. I'm sure we'll be able to increase the spread. I agree with you that the deposit rates will have to be fine-tuned depending on the hardening which is happening in the market. Definitely, we will do that because at the end of the day, one of our biggest strengths is our liability franchise. So, we certainly don't want to disappoint our liability franchise. We will continue to price it as it should be priced and we will continue to enjoy their patronage, that's something which we'll definitely do. The last one is on the yield on the investments. One of the reasons why my NIM is also going down is due to my fairly large investment book and as you know the treasury yields, and the opportunity in fixed income has clearly dwindled, and we did a smart thing of reducing our duration within the first quarter itself. Now, with the rising interest rates we are well poised to reprice the portfolio, and we are actually much better placed than many of the large banks in terms of improving yield as the market rates starts going up. So, with all these, I'm fairly sure that we will work on improving NIM. I'm anyway not giving too much of guidance on improvement. I'm talking about improving it marginally, which I'm sure we'll be able to do.

Suraj Das: Can you give a breakup of the total loan book, how much is T-bill-linked, how much is fixed, how much is MCLR-linked, any guidance here would be helpful?

Murali Ramakrishnan: I don't have the data, but maybe we can get you offline. Just to tell you that predominantly, the rates are linked to T-bills or the rates are linked to repo. I have talked about well rated corporates of A-and-above. So, their expectation is to link it to these rates. So, my Rs.10,000 crores of disbursement which I have done in the corporate book, which is a combination of short-term and bills as well as long-term. They are linked to reference rates which are one of these two -- treasury or repo rate. So, with the repo rates which are already at 4.4% and the expectation is that repo rates are going to be hiked depending on how central bank looks at the inflation trajectory, I am sure there will be an opportunity for us to keep repricing them and obviously we need to ensure that we meet with the expectations of the corporates.

Suraj Das: If you can give the outstanding disbursement of ECLGS or outstanding portfolio and how the book is behaving in terms of slippages or NPA and GNPA from this book?

Murali Ramakrishnan: I am including all of them in ECGLS, one extension, two extension, three extension, four extension, etc., If we look at the number of accounts which is 9,950, the limit is Rs.3,163 crores, as of March '22 and a book of Rs.2,665 crores, of which NPA is about Rs.131 crores.

Moderator: The next question is from the line of Selva Muthukumar, an individual investor. Please go ahead.

Selva Muthukumar: Do you have any further plan of reduction in branches in upcoming years? In the past three to four years, we are not able to get any dividends for long-term investors. So, please try to provide dividend in next year.

Murali Ramakrishnan: Yes, we appreciate that we have not been able to do that. Certainly, we will work towards that. These are outcome of how well we are actually repositioning the bank in terms of profitability, Clearly, we are conscious of it and we know that we need to do a lot more hard work to ensure that we declare dividends.

Moderator: The next question is from the line of Akhil Hazari from RoboCap. Please go ahead.

Akhil Hazari: So, I just want to know the tax credit that you've got this quarter. Is this a one-time thing for this quarter and going forward would there be any other tax credits that you're getting?

Murali Ramakrishnan: Yes, it's an continuous effort. I think what we have got clearly has been due to the sustained efforts put in by the management and we have got lots of orders favorable to us of the cases which we had filed over the last few years. And this is a continuous exercise, we will continue to do that in the coming year. Obviously, you know that these are not something which we can predict as to how much will come, how much will not come, but efforts will be on to continue to work on wherever there is a possibility of redeeming, we will definitely redeem them.

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

Rohan Mandora: Wanted to understand post the RBI Master Direction on the running arrangement and on the data sharing part. How does that effect this partnership and what is the data sharing that we were having earlier with OneCard?

Murali Ramakrishnan: As I'm talking to you, we are also looking at very closely the RBI directions and how the bank as well as the partner will have to realign the way we are having the partnership today to ensure that we continue to have a working relationship with them. That's the broad thing which I want to share. Second thing is obviously, the arrangement has taken off very well, and clearly we expect that this partnership is something which will continue in this year, and we have a plan to really take it up to a significant level this year. But this will be obviously after we completely scrutinize the impact of the new regulations, there could be little bit of tweaking which we might have to do in terms of the agreements entered with them. And we also need to ensure that whatever we are setting out is in complete alignment with the guidance, which has come from the regulator. So, we are closely looking at what needs to be done to ensure that we completely satisfy the regulatory requirements.

Rohan Mandora: If you can just elaborate a bit here in terms of what is the data sharing that would be happening with OneCard or what are the things would need to change post the circular, if we have some clarity on that front right now?

Murali Ramakrishnan: We have a tie-up with One Card, where they have methodology of sourcing new customers probably who could be new to our bank. So, those customers are obviously looked at for credit quality. And once they are meeting with the norms which the bank has specified in terms of what we need for issuance of credit card, such individuals are given cards. So, that is one thing which is working. Second thing which was working is wherever we have an existing customer base, we are using data science to ensure that we do a data mining of our customers and whoever are eligible, we share the details with One Card and they then issues card to our existing customers. So, clearly, the customers belong to us and the risk norms are obviously ours. The third product which we are working with them is a secured card, where the credit card limit is backed with the FD. There are many customers who hold FD with us, and we would probably give a secure card where the limits will be backed by the FDs which we carry. So, now, one of the important things, I think which as per our understanding, as per the new regulation is, obviously, the partner should not have access to the transaction data., and particularly in a credit card kind of business, you need to understand that. There are three four big areas where we have the partnership; one in terms of technology alignment; second in terms of sourcing and processing; third one in terms of collection; and fourth one in terms of customer service. So, we need to see that how we ensure that all these are done by fully complying with the regulations which has now been introduced. So, team from our side and team from their side is carefully going through all this and whatever needs to be done to ensure that this is fully met, we will endeavor to do that and we hope to put everything in place so that we are fully compliant with the regulations.

Rohan Mandora: The second is in terms of priority sector lending agreement, how're we placed at the end of the year?

Murali Ramakrishnan: We are always well ahead of whatever is the requirement of regulator. So, we have no challenge there. Always, we are surplus. So, we keep selling PSL and we are very well placed.

Rohan Mandora: If you can talk about how is the PSLC rates are trending right now.? And are there any expectations of that increasing given that the larger bank is going to –?

Murali Ramakrishnan: Let me put this way. It's more opportunity based sale which we do. We really don't do that as a business. We look at it if there is an opportunity and if we are finding it to be surplus where we are fully meeting with all the requirements of the bank we go and look for rates at that point in time and if it makes sense, we do that. It's not looked at as the main business activity or anything like that.

Rohan Mandora: Lastly, on the new book that we have generated post, say, October 2020, what will be the effective ROA, ROE if we were to look at only that particular book?

Murali Ramakrishnan: We have calculated the NIM which is about 3.7%. In terms of the new book, SMA-2 is hardly Rs.79 crores out of Rs.22,752 crores and GNPA is only Rs.3 crores. So, it's clearly a negligible delinquency. And average yield for this new book is about 8.03%. And this obviously might look lower compared to the old book, but you must remember that the interest rate scenario actually has been going down. So, in the lower interest rate scenario, we are continuing to work on improving our cost of deposit and cost of funds and we are also continuing to work on improving the rates in a way that our spreads keep going up. So, ROA, ROE, we haven't really done for the new book per se, but Q4, which is what I shared I think earlier, my ROE and ROA are pretty good; 15%-plus for ROE and ROA is 1%-plus, but obviously it's a one-off, you can't really expect that to be replicated, because we have done a fantastic job in terms of recovery and upgrade in the Q4. In fact, the recovery and upgrade done in Q4 is equal to what we did for the FY 2021. So, we have almost improved our performance to 250% in terms of upgrade and recovery. We would endeavor to replicate that going forward. But we need to factor that when we are calculating the profitability. So, right now, the ROA and ROE for the full bank which clearly is very low and we need to work towards improving them, which will start happening as we churn the existing portfolio with more and more of new portfolio.

Rohan Mandora: Lastly, again on the new book part. Is the fee income profile as a percentage of say the average loan book similar to the old book or is better, and if it is better, where have we brought in that?

Murali Ramakrishnan: Substantially improved, I mean, the habit of charging fees, we've actually now inculcated into the team and in fact in all our income streams, if you look at whether it's a transaction income or a technology income or a fee income or a third-party, everywhere we have shown substantial improvement. I think as a culture, we are now looking at improving our wallet share.

Moderator: The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: If I look at our slide #18, we have given the breakup of new book in terms of ticket size. We are reducing less than Rs.5 crores to Rs.25 crores, Rs.25 crores to Rs.100 crores. The only segment where we have grown is above Rs.100 crores and there is a decent healthy growth there which is also improving the overall growth. I wanted to check sir is this going to be the strategy that maybe at least from near term perspective, you would be going more aggressive on this Rs.100 crores plus size, maybe then it'll be very good, or is there something, above Rs.100 crores and below Rs.100 crores, there is a clear difference in the way the bank is growing. I thought maybe the focus would have been more on granular below Rs.100 crores kind of loans, but somehow it is not coming out that way, what is going to be the strategy?

Murali Ramakrishnan: If we look at less than Rs.5 crores, it has grown from Rs.32,408 crores to Rs.33,833. With the retail growing obviously, that is growing. If we look at predominantly Rs.5 crores to Rs.25 crores and Rs.25 crores to Rs.100 crores, in terms of number of cases, we are actually churning wherever the cases are slipping. We are addressing them through recovery and collection. And any new addition in this segment, we are obviously looking at the quality as a criteria. And as you know, Rs.5 crores to Rs.25 crores typically would be SMEs who's average ticket size would be let's say Rs.8 crores to Rs.12 crores kind of segment. Across banking, this segment is something which we need to be very careful about because they may not have as much resourcefulness as a corporate would have. And they are much like retail in terms of their discipline and in terms of their maintenance of books. So, you need to be very good in doing quality underwriting. This is one of the reasons why SME as a whole also, always suffer from higher delinquency, if you don't have your credit act right. Coming to more than Rs.100 crores, clearly, we are focusing on large well-rated corporates who have requirements of a larger size and where we are very sure about the credit quality. Obviously, the flip side to that is the rates, would be relatively much lower compared to what probably you get for MSME or mid-corporate. To that extent, you will have a little lesser income, but then if you actually look at the risk adjusted income, they still will make a lot of sense.

Jay Mundra: Do you see higher competition in Rs.5 crores to Rs.25 crores and Rs.25 crores to Rs.100 crores, because other large banks seem to be getting more aggressive for the last few quarters?

Murali Ramakrishnan: Obviously, each bank is in its own stage of evolution as to how they want to do this act. But I can only talk about my bank, where I can tell you that this segment of Rs.5 crores to Rs.25 crores especially, we need to be very sure about the quality of our underwriting and we need to be really equipping our team to identify good cases. Because today typically Rs.5 crores to Rs.25 crores, if you look at average ticket is Rs.8 crores. I'm just giving a back-of-the-envelope calculation. If somebody is looking at Rs.8 crores, let's say we are in a multiple bank or a consortium banks, let's say Rs.30, 40 crores will be the working capital requirement which means you are talking about a company which has a turnover of let's say Rs.120 crores to Rs.150 crores. If you look at it in the last couple of years, this is the segment which has had the worst hit. 80% of SMAs facing losses were mostly in the smaller and mid segment. So, one needs to be very sure about the quality. So, the way we have gone about addressing this segment is clearly the appraisal of corporate underwriting methodology will be mimicking, at the same time there will be emphasis on collateral, because these are the segments with less resourcefulness, if you experience any delinquency there, you need to recover or reduce your LTV by having a good collateral backing you up. Therefore, we are carefully choosing the segment. If we feel that our model is right and our credit underwriting quality is definitely becoming better and better, and if the opportunities for this segment keeps moving up. Today, the opportunity also is pretty low in this segment. While you are saying that other banks are growing, if you look at it, they are actually poaching by offering very low rates. It's not that any new entities coming up today. They go and look at well-performing customers of let's say other banks and go and offer 6%, 6.5%, 7% which obviously smaller banks cannot afford. So, these customers are getting poached. That is what is happening. And this also to some extent puts pressure on the NIM of all the mid-sized banks, because in order to retain a loyal customer, they need to offer good rates, which is clearly the bank's own created situation. It's not the risk is going down in any way, or the pricing to risk is happening in a proper way. So, I am of the view that pricing to risk is clearly missed out in this segment. Today, people are growing in this segment just to show advances growth. In the overall scheme of their things probably still will be very low, because they got a much larger book size. Therefore, even if they grow aggressively in this segment, it may not be very contributing much to their book size. But for a bank like ours, especially when we are trying to correct a situation of slippages coming under control and credit cost coming under control, we need to be choosy about who we want to lend in this segment.

Jay Mundra: Secondly, on this security receipts book that we have, so clearly out of our own Rs.1,600 crores book value, we have provided Rs.700 crores which is still NAV. Usually if this didn't look like the provisioning is on a lower side, do you tend to provide much more here or how do you look at the residual provisioning here?

Murali Ramakrishnan: No, I probably may not agree fully that we are providing less or anything, because if you look at the way ARCs which have happened in the past, clearly, the performance of ARC over the last several years, many of the sellers were not too happy with the way redemption was happening in SRs. But one thing which you should also remember that, for every quarter, there is a rating agency which looks at the possibility of recovery from various underlying cases, and they say what is the likely recovery. Now, given the fact that market has actually deteriorated in terms of recovery over the last two years, thanks to COVID, clearly, rating agencies have also rightly reduced their prediction of recoverability from these cases. And therefore, as a bank, we need to obviously take into account the provisioning which we need to take as additional provisioning. But now, if you look at the last 12-months scenario compared to the first year of COVID, when most of the courts were not functioning, most of the resolution mechanisms were not functioning, obviously, the recovery by ARCs were pretty low. But if you look at last six to eight months across all banks, recovery has been improving and so are we finding that even from ARCs. Today, ARCs are getting cases resolved either by going in for OTS or through a resolution. There is some traction happening, and we are also seeing that quarter-after-quarter things have started moving. I won't say we are in a happy state; we still have a long way to go. But whatever we used to experience earlier, compared to that I think what we are getting now is slightly better. So, I only believe that collection and recovery scenario will become better and that will make ARCs also improve their performance. And we continuously engage with all the ARCs to whom we have sold our portfolio. We have also done an additional initiative of assigning somebody who has got a rich experience in handling recovery and collection, who has been with the bank for many years to work very closely with ARCs so that our engagement with the customers whose accounts have been sold to ARCs are handled reasonably well and we are getting maximum value out of whatever we sold. So, that's how we are planning to address. In my view, we will take it as it comes. I mean, as of now, what you said is right, that 50% provision coverage is what we have, but depending on how the whole thing spans out, we will provide whatever is required to it.

Jay Mundra: Is there any capital raising plan?

Murali Ramakrishnan: No, actually, if you look at the capital adequacy, we are pretty well poised now. But having said that, for the opportunity in the market, clearly we need to beef up our balance sheet strength, for which definitely we'll be looking for opportunity to raise capital. If you ask me whether we are in a dire need to raise capital? The answer is 'no.' But will we be raising capital when there is an opportunity? The answer is 'yes.'

Jay Mundra: Last question on this OneCard for credit card. So, what is it for the bank? Why do you need OneCard partnership? One Card operates in a segment which a bank of your size would have very tiny percentage. I mean, you anyway as you said you have data mining and everything. So, maybe there will be very hardly overlap between their targets and then your existing customers. Wanted your thought there.

Murali Ramakrishnan: So, two things. One is if you want to start a credit card business on your own, credit card is a long gestation business and it requires a lot of considerable investments in the technology as well as in the human resources side. So, if you ask me whether it is a product, which we want to start on a roll and want to take it to the level where we might initially have to take some capital expenses as well as some losses before we turn around, this is a long gestation business. So, currently, in our scheme of things, we don't want to venture on our own. Having said that, it's worthy of pursuing because this one business which can give you much better ROA. And we are trying to basically partner with somebody who has got expertise in this field, who has done this credit card business for years, and all of them work with me, so, I know all of them, and they have good expertise in this area and we are specifying the norms, which will match with our risk appetite. So, we are clearly specifying, this is the risk which we would want to take in this business, because credit card business as you know is a high return, high risk business. So, how do you control risk? By only having your own risk appetite clearly understood and having your norms which will fit in with your risk appetite. So, with that, if you underwrite, obviously, you will have everything to gain. I would slightly disagree that the segment which they are targeting and the segment which we want to target, they are not different. When we are trying to say that we would want to grow in retail with a better quality, we would want to obviously target customers who's CIBIL scores are better, who are in the age group of let's say 25 to 35, who have got lot more professional career ahead and who are working in good sectors. That's the segment we want to look at for growing our retail. If somebody's looking for a credit card today, he might look for a home loan tomorrow, he might look for a car loan day after tomorrow. So, clearly, what you're acquiring as a customer today, you have a customer lifecycle dependent loans which we can do from the bank. So, the whole methodology is to acquire a customer and then work with the customer to keep increasing your penetration with the customer in terms of offering all of the products, apart from the third party products that you want to sell. So, clearly, it very much synchronizes with the strategy, which I have in mind in terms of increasing our customer base, increasing our product suite and improving the overall wallet from the customer, which will improve our overall ROE and ROA. So, it makes immense sense to go with the partnership at this juncture instead of starting on our own, which today may not make sense for the bank of our size.

Moderator: The next question is from the line of Sagar Roongta from Anand Rathi. Please go ahead.

Sagar Roongta: So, I just want to follow on the earlier question. If you can throw some color on how the market currently is in terms of competitive intensity among SME, business loans and about the growth prospect it has?

Murali Ramakrishnan: If you look at the SME business scenario, unlike large corporate, where to a large extent be driven by the outlook of the industry. In SME, since it will be mostly regional based or area based entities, clearly, the uniqueness of SMEs is what is going to make them survive. So, whenever we look at SME cases for onboarding, we need to see what is special about them, which will make them survive. Because if it's a very easy business where the barrier to entry is very low, anybody can get in if the margins are attractive, more and more people will get in and that is a sure way to spoil the spreads, and that is a sure sign that SME will go down the trend.

Therefore, when you're looking at onboarding good SME customers across the country, we need to see which business are they in, depending on the geography in which they're operating, let's say if it's SME based out of industrial center in Pune or Chennai, are they acting as OEMs to a major auto manufacturer over there. Obviously, you look at how long have they been supplying that product and how integral are they in terms of the overall scheme of the principle, etc., That's what we should look at when we're trying to onboard them. If you look at markets like Kerala, for example, we will look at whether somebody is in rubber plantation or tourism business, etc., and kind of penetration they have had in that line of business. So, when it comes to assessing SME potential, I must say that it is more and more regional based and more and more area based. So, what we are trying to do is since we have a fairly good distribution network, we have got 928 branches spread across the country with 18 regions, and each region has its own uniqueness. So, we clearly give the target and we sort of given the guideline on which industries are having outlook which are positive, which industries are having a stable outlook, which industries have a negative outlook. So, we try and stay away from industries which are not doing well, where there is a negative outlook. But here again, there could be locations where even though they might be in that industry, but their uniqueness in that locality probably will be helping them to do very well over there and they might have a long history of operating from there. Such customers, obviously, we would definitely onboard. So, when it comes to SME, it's more I would say, very locations based strategy is what we are following. The key to building an SME book is to be very sensitive about the quality. If you get your quality act right, you have a good money to make, especially in the rising rate scenario, you can afford to charge reasonably good rate for pricing the risk. So, right now we are at a phase where we were continuing to degrow for some time, now we started actually building back now. We are still to reach the level which we were, but this year, hopefully we will be able to surpass the book and we will be able to show some decent growth over there. I'm looking at overall double-digit growth for the entire portfolio, of which, definitely SME will be one of the key contributors to my business. The average disbursement run rate we are seeing is about Rs.400 crores to Rs.450 crores in a month. If you look at a six months average it will be about Rs.300 crores. So, we are seeing continuous traction happening in terms of disbursement happening. And here again, the sub-segment which is growing is the lower segment which is essentially up to Rs.2 crores ticket size where the average ticket size would be about Rs.1 crore where it will be more akin to retail and even the way the business is run will be akin to retail business, where you have a very standard set norms and you don't have too much of deviation, it will be backed with good collateral and the business model is sustainable and there is a uniqueness for the promoter to have a sustainable advantage.

Moderator: The next question is from the line of Mehul Khandelwal from Span Capital Services. Please go ahead.

Mehul Khandelwal: In last year, we have grown at 3% on loan book. So, what gives us confidence that we will grow double-digit in FY'23?

Murali Ramakrishnan: If you see my growth in the last four months, we were degrowing our book because we were setting up the entire structure of the bank to really do quality sourcing and quality underwriting and we are also setting up control division, to ensure that we are not hit with any conflict of interest and internal, external frauds. So, all that got stabilized. Economy was also not doing that well in the first quarter and even up till mid of second quarter, things were not that great. So, we actually started growing our book if you ask me from month of September onwards. If you look at the growth which we have actually posted especially in Q4, we have shown a growth of close to 10%, we have almost grown Rs.2,500 crores of book from the starting book of January. So, I am not saying that I will do an annualized growth of 30%-40%, I am looking at a growth of lower double digits. But I would like to repeat that between quality and growth, still go for quality because that's what it is going to sustain. If good quality assets are available, we will definitely grow more. I am not going to limit myself by saying that I will grow only 10% or 12% or 13% or 15%. If there are good quality assets available, and if the team really which is geared up now to really source more and more, I am sure we are taking an ambitious target of wanting to reach double digit. We will take it as it comes.

Mehul Khandelwal: Would you like to quantify double digit in terms of a number like what you are targeting, mid-teen or high teen, anything?

Murali Ramakrishnan: You can take it as 10%.

Mehul Khandelwal: Sir, you are targeting ROE of 15% and 1% ROA. In how many years?

Murali Ramakrishnan: It's a very theoretical question if you ask me because we would want to reach this level. It's not about in how many years we will reach. It's a question of how soon we would want to reach at that level, which is dependent on so many things, I mean, it's a composite number, right. So, you need to look at the book which you are trying to build, you need to look at the delinquency, the behavior of each of this sub portfolio, etc., In my original vision statement, I said we will reach it by 2024, but given the fact that COVID has really pushed everything by one year, I am hoping that we will reach it by 2025 March.

Mehul Khandelwal: Out of the restructuring book of Rs.2,400 crores, how do you see this panning out this year like what are the chances of recovery or any growth kind of improvement over there?

Murali Ramakrishnan: One-fourth of the book has slipped into NPA, rest of all I think will behave without much issues.

Moderator: Management, over to you.

Murali Ramakrishnan: If you have any more questions, please do not hesitate to send an e-mail or talk to any of our colleagues. We will be happy to take your questions. I would like to thank all the participants for taking your time out to be part of this call. As I keep saying in every analyst call, our endeavor is to provide as much information as transparently as possible. Whatever information we have, we would want to share it in full detail so that you know exactly how we are steering the bank and I sincerely expect all of you to continue to support us in the journey of transforming the bank and to reach the next level of growth. Thank you so much for organizing a wonderful tele-conference.

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