"The South Indian Bank Limited

Q4 FY '23 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Bank Q4 FY '23 Earnings Conference Call hosted by InCred Equities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Sreesankar R. Thank you, Ryan. We have great pleasure in hosting the fourth quarter earnings call of South Indian Bank. In line with what guidance that South Indian Bank has been giving and from what we have seen over the last so many quarters, company has provided an excellent results, and congratulations to the management for that.

We have representing South Indian Bank Mr. Salim Gangadharan, the Chairman; Mr. Murali Ramakrishnan, the Managing Director and CEO; Mr. Thomas Joseph, EVP and Chief Business Officer; Mr. Anto George, CGM, HR and Operations; Mr. Sanchay Sinha, SGM and Country Head, and Ms. Chithra, Senior General Manager and CFO; along with other senior executives participating in this call.

Without much ado, I hand over this call to Mr. Murali Ramakrishnan, the Managing Director and CEO of South Indian Bank. Over to you, sir.

Murali Ramakrishnan: Thank you. Good afternoon to everyone. South Indian Bank Limited Q4 FY '23 earnings conference call. We are joined by my colleagues Mr. Thomas Joseph; Mr. Anto George; Mr. Sanchay Sinha; Ms. Chithra; Mr. Sony; Ms. Biji; Mr. Senthil Kumar; and also, we have our Chief Credit Officer, Minu also on the call and our Treasury Head, Vinod; and our Head of Policy and Monitoring, Nehru Singh. All of them are forming the senior management team of the bank.

During this financial, the performance of the bank was an all-round one with key ratios and numbers showing a significant improvement from the past few years. This overall improvement in the performance was brought by managing both asset and liability portfolio with equal importance. While quality and profitability is focused on asset side, pricing of liability portfolio is also done in appropriate manner. Both hardening of interest rates and tight liquidity in the market has impacted the sector. However, in our case, cost of deposit has been more or less stable with a very small hike in fourth quarter. Increase in the yield on investment portfolio also helped in NII increase.

Let me start with the key highlights of performance. For the year ended March '23, bank achieved its best ever performance in the following areas: Highest-ever business of INR1,63,743 crores in the history of the bank, highest ever net profit of INR 775 crores in the history of the bank, highest-ever net interest income of INR3,012 crores in the history of the bank, highest ever CRAR of 17.25% and Tier 1 ratio of 14.74% as of March 31, 2023, highest-ever PCR, including write-off of 76.78%, highest NIM of 3.3% in the last 17 years, highest return on assets 0.72% in the last 9 years and highest return on equity of 11.61% in the last 9 years.

Let me now take you through the financial performance of the bank for this year. Net profit for the year stood at INR775 crores as against the profit of INR45 crores during the last financial year. Operating profit for the year increased by 21%,from INR1,248 crores in FY '22, to INR1,507 crores in FY '23.

CASA amount increased year-on-year from INR29,601 crores to INR30,227 crores as of March '23. CASA ratio stands at 32.98% as against 33.21% year-on-year. There's a marginal dip in CASA from 33.21% to 32.98%. Cumulative NIM for the year improved to 3.3% against 2.62% on a year-on-year basis. PCR, including write-off, improved by 723 bps year-on-year to reach 76.78% in FY '23, against 69.55% during FY '22.

PCR, excluding write-off, improved by 1,385 bps year-on-year to reach 65.12% in FY '23 against 51.27% during FY '22. I wish to reiterate that PCR excluding write-off improved by 1,385 bps year-on-year to reach 65.12% in FY '23 against 51.27% during FY '22. Overall gross NPA reduced from 5.9% to 5.14% on a year-on-year basis. Net NPA reduced from 2.97% to 1.86% on a year-on-year basis.

I'm happy to share that net NPA has come down below 2%, and it's reached at 1.86% for the year-end. Significant improvement in ROA at 0.72% for FY '23 as against 0.04% during FY '22 and ROE at 11.61% against 0.77%. Recovery and upgrades in NPA accounts increased from INR1,464 crores in FY '22 to INR1,814 crores in FY '23.

Continuing our focus on collections, our SMA-2 portfolio has come down by 37% on a year-on-year basis from INR892 crores to INR559 crores. Built new book of INR41,566 crores from October '20 with better underwriting reflecting GNPA close to 0.09% and SMA-2 book at 0.12%. I again wish to read this because this is 1 of the hallmarks of how we have built our bank, built a new book of INR41,566 crores from October 2020 with better underwriting, reflecting in GNPA close to 0.09% and SMA-2 book at 0.12%.

With regard to status of sale of assets to ARCs, we carry a balance SR of INR1,413 crores and provision of INR1,247 crores, which is a net SR value outstanding INR165.98 crores. And for this year, for the full year, based on aging provision, we have only INR15 crores, which is getting matured this year.

Let me now take you through the performance of the bank for the quarter. Total deposits stood at INR91,651 crores. Gross advances stood at INR72,092 crores, CASA stood at INR30,227 crores. Bank declared a net profit of INR334 crores as against a profit of INR272 crores during the corresponding period of the previous year. Operating profit for the fourth quarter increased by 95% from INR288 crores in FY '22 to INR562 crores in FY '23.

NIM for the quarter improved to 3.67% against 2.8% on a quarter-on-quarter basis. This is, again, something which I wanted to emphasize. NIM for the quarter improved to 3.67% against 2.8% on quarter-on-quarter basis. Recovery and upgrades NPA accounts increased from INR451 crores in Q4 FY '22 to INR725 crores in Q4 FY '23. Significant improvement in ROA at 1.26%

as against 0.4% and ROE at 20.29% against 6.56% on Q-on-Q basis. This is, again, a significant improvement, which I want to register. ROA and ROE, which are significant profitability parameters, I'm very happy to share that our ROA for this quarter is at 1.26%. This was 0.4% last year for the same quarter. And ROE at 20.29% for this quarter against -- ROE at 20.29% against 6.56% on a Q-on-Q basis.

Let me now take you through other operational and financial performance of the bank -- the total business of the bank increased by 8% and stands at 163,743 crores as at March 31, 2023 Advances grew by 17% YoY to Rs. 72,092 crores backed by total disbursement of INR54,801 crores during the financial year ended March '23. The details of disbursements are as follows: corporate, INR31,344 crores, predominantly A and above-rated corporates; gold INR11,378 crores; business segment INR7,386 crores; other retail INR4,693 crores, which includes housing loan of INR875 crores, PL of INR1,377 crores and other retails of INR2,441 crores. The share of A and above-rated large corporates has improved from 89% as at March 31, 2022 to 96% as of March 31, 2023. We have nil slippages and SMA-2 in our new Corporate Book.

We continue to grow our gold loan business. Our disbursement year-on-year was at INR11,378 crores with an average LTV of 78.03% and a ticket size of about INR1.55 lakh. Gold loan grew by 28% year-on-year to INR13,808 crores. Personal loan is another segment where we see good traction since the launch of preapproved PL in December 21.

As of March '23, our PL book has crossed INR1,820 crores. Credit card is another growth area which we launched during FY '22. As at March '23, we had issued 2,05,723 credit cards with monthly average spend of INR23,480, the total book as of March '23 stood at INR796 crores. As far as SME is concerned, we are seeing good uptick in disbursement month on month towards the past few quarters. We are cautiously growing the segment with average monthly disbursement of more than INR615 crores for the financial year ended March '23 as against an average of INR250 crores for the corresponding period last year.

Coming to liability portfolio, our core deposits grew by 5% year-on-year to INR89,614 crores. Bulk deposits declined by 47% year-on-year to INR2,037 crores in line with our strategy. NRI deposits continue to be our strength and now stands at INR28,159 crores. It contributes 31% of our total deposits. Low-cost NRI deposits stands at INR9,155 crores. The bank saw a robust growth of 16% year-on-year in our NRI remittance business.

Our investment book was at INR26,014 crores, split into HTM of INR19,688 crores and AFS and HFT of INR6,326 crores. Last year, Q4, the M duration of the investment book was at 2.91, which we cautiously reduced to 2.48 as of March '23. The fresh slippages stood at INR343 crores for Q4 FY '23, which was within the overall guidance. The overall restructured book stands at INR1,516 crores as of 31st March as against INR2,417 crores during March '22, of which business segment is INR786 crores, personal segment is INR279 crores, corporate is INR398 crores, agri is INR53 crores. This is the breakup of this restructured book, which we are holding, which is INR1,516 crores as of March end 2023.

The bank holds standard asset provision, including standard restructured and FITL of INR534 crores. As for our guidance, we are able to bring down the GNPA closer to 5% and net NPA below 2% in FY '23. Net interest income for the quarter increased by 43% year-on-year to INR857 crores. Our core fee income increased by 10% year-on-year to INR158 crores. Treasury profit for the quarter was at INR30 crores, excluding the provision on investments. Overall, provisions decreased by 50% year-on-year to INR39 crores in Q4 FY '23. The restriction in provisions was mainly due to -- sorry, the reduction in provisions was mainly due to lower slippages and better recovery. We are hopeful that the momentum in disbursement and collections will continue in the coming quarters to achieve the desired targets.

So with this, we open the floor for questions. Thank you.

Moderator: Our first question comes from the line of Nilesh Jethani from BOI Mutual Funds.

Nilesh Jethani: So my first question was on the yield and the NIM side. So I wanted to understand from the near term as well as from a medium to long-term basis. When I see our book, corporate portion is increasing. Despite that, we are able to achieve higher NIMs, as well as yields also. In the corporate side also typically AAA and AA are gaining share. So, what is driving this incremental NIMs? I wanted to understand that? And from a long-term basis, as you had pointed out earlier in your con call, that you are not a person who would basically follow x percentage from corporate or x percentage from retail. Going forward, how to see these NIMs panning out if corporate share increases by a larger extent going forward?

Murali Ramakrishnan: I'm hearing a lot of cross talk. I don't know whether it is -- Sreesankar, can you take care of that. I think I'm not -- there's some cross-talk happening. Now to answer the question, basically, yes, you are right that typically large rate -- well-rated corporate demand a very fine pricing. There is no taking away of that. So therefore, if you look at the composition of the book, we, of course, have well -- I mean, our disbursements have come from all segments. I read out the breakup of the disbursements which we have done. So it's across all products, we have done a good disbursement.

Obviously, in the book growth, probably we may not be seeing growth in SME, primarily due to the rundowns which are also in excess of the disbursements we do. And also to the -- due to the fact that we do some forced exits, the coupons which we don't want to keep it in our book.

But with regard to NIM, it's a combination of the products which we are currently growing. If you look at the products which are growing, gold is growing well for us, PL is growing well for us, credit card is growing well for us. SME, we have done the highest of 107% of our targeted disbursements. And we have also in corporate, though we have on boarded well-rated corporates, there is a continuous effort from the team to improve the NIM, which we get out of the corporate segment.

As I have discussed in the past, the reason behind chasing good corporates is to ensure that we not only get credit income for the transactions which we do, but through the relationship, we do get lots of other related businesses like vendor financing, dealer financing, retail funding to the corporate employees, etcetera. So overall, when we look at the corporate exposure, we look at not just the credit income, but we look at the ROE coming from the entire corporate relationship and since these corporates are well-rated corporates, obviously, it helps us in very less capital provisioning allocated to do this, and therefore, ROE for this book is pretty good. That is on one side.

On the other side, if you look at -- retail book is growing, where particularly unsecured which is still today 3% of my book, I have a good runway to grow the book. Therefore, to give you guidance on NIM, our incremental NIM for the Q4 was 3.67%, whereas the bank NIM as of March end was 3.3% as against my guidance of 3.2%. Next year, our target is to reach 3.5% for the bank, which I'm sure we'll be able to reasonably manage given the fact that our incremental limit is well above 3.5% now.

But we expect that some amount of repricing will happen in the liability side, though we have done a little bit of repricing in Q4 which we started doing in Q3, and we have done a little more in Q4. So they are very tightly managing our ALCO, I mean -- asset and liability match and ensuring that we don't overprice our liabilities. At the same time, we are not losing any of our customers. And on the other asset side, we are continuously engaging to pass on the increase in cost. As you must have seen, there's almost 2.5% increase in the repo rate over the last 12 months.

And constant effort has been put in by every business team to pass on this increase in interest rates across the various customers. So, with this combination of managing our tight asset and liability and ensuring that the pricing is reasonably done across all segments and with the anticipated growth which we are hoping to do of 10% to 12% to 13% growth in asset, I'm sure that with a focus on quality continuing, we'll be able to meet up with the requirement on NIM. That's the -- anything else I have left out, please ask again.

Nilesh Jethani: A follow-up on this. As you said, the repricing liability has started. So I wanted to understand on the asset side as well as liability side, what portion is repriced on the newer rates and what percentage is yet to be repriced. Any color on that?

Murali Ramakrishnan: Yes. See, I'll give you a couple of data points, I think, which hopefully helps you to make out what we are doing. So our weighted average residual maturity of fixed deposit as of March end is 1.24 years, and weighted average original maturity was 2.17 years. So we are obviously continuously repricing the deposits that are coming for maturity. And we are also very, very clear that we don't want to across the board, increase the deposit rates. We are looking at where it makes sense for us to increase deposit rates. And weighted average cost of term deposits outstanding as of 31st March is 6.24%.

Nilesh Jethani: And what percentage would be repriced to this number, say, 1.2 years is weighted average duration? I believe we are already since September or maybe the rates have started a steep increase. So probably 6 months down the line. So 60% to 70% is repriced to newer rates? Is the understanding right?

Murali Ramakrishnan: You can't really put it as 60%, 70% because we started actually repricing probably from November onwards, November, December onwards. So I can probably in the investor presentation, we have shown, how our deposit rates have moved up. Maybe you can refer to that. But just to quickly touch upon that, I'll tell you.

See, we have been continuously degrowing our bulk deposits, which used to be at about INR10,874 crores which came down -- I mean, in '19, '20, that stands at INR2,037 crores as of 2023. And as far as the deposit rate is concerned, our cost of deposit as of Q4 of FY '22 was 4.54 last year fourth quarter. This year, first quarter, it was 4.35; second quarter, it was 4.23; third quarter, it was 4.27; and fourth quarter, it was 4.55.

So, if you look at the delta between Q3 to Q2, delta is 4 basis points and between Q4 to Q3, the delta is 28 basis points. So you can see that the overall increase is happening, probably from the month of -- as I said, from the month of October, November. So probably we can say that 64% of our deposits have been repriced.

Nilesh Jethani: And one last question from my side on the cost-to-income. So if you see the quarterly trends, the cost to income has been very volatile. So I wanted to understand from a steady-state basis, what are we aspiring to as far as the costs are concerned going forward in absolute terms? And where do you see this cost-to-income stabilizing probably from a one year down the line?

Murali Ramakrishnan: See, frankly, cost-to-income, you must have seen the volatility only because of the extraordinary INR312 crores of provisioning, which we had to do because of SRs in Q3. Otherwise, it's been a steady trend. See, we are currently at about 60%. Cost-to-income ratio for us is at 60%. It's a continuous effort. I think this probably will start improving once we our treasury also starts contributing a lot more than what it is doing today.

And with the fact that overall NIM is also going to go up and provisioning, hopefully will continue to stay the way it is, then you'll probably see this coming down. Aspirationally, we would want to be reaching 55% because currently, we are at 60%, probably would want to reach 55% at least by December quarter. And then we will aim to reach below 50% by next June quarter -- around that time.

Moderator: Our next question comes from the line of Prashant Kumar with Sunidhi Securities and Finance Limited.

Prashant Kumar: Sir, my question is on provisioning side. The banks saw a very low provision coverage is a write-off like 30% or even lower level. And from there a phenomenal improvement has been done to around 65% right now. So, I just wanted to know, sir, about buffer provisioning, which is not calculated in PCR, like floating provision, standard asset provision or provision against standards assets if it is readily available?

Murali Ramakrishnan: Sorry, your voice was not very -- too very clear, but your question is on -- PCR excluding writeoff has improved from to 65%. So your question is on how much provision are we holding on standard assets, etcetera? Is that the question?

Prashant Kumar: I just wanted to know our buffer provisioning, which is not included in like -- yes, on -- like provision on the standard asset -- or provision on standard asset or floating provision?

Murali Ramakrishnan: See frankly, we are in the process of improving our PCR. As I said, we wanted to reach a milestone of 70% excluding write-off provisioning coverage ratio. Therefore, to some extent, we have been providing in order to improve our overall ratio. So this time also, we have provided extra INR25 crores to improve our PCR to 65%. The plan is to take it to 70% in the coming year. And hopefully, we want aspirationally to reach 70% plus by the end of this year.

Moderator: Our next question comes from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Congratulations on a very good quarter. Sir, I have got 3 questions. One is I just wanted to understand what makes us so confident to improve our margins next year. Now I understand mathematically given that our incremental spreads and margins are higher compared to our own book spreads or margins. But I believe next year, the ask for liability growth will also inch up right, given the fact that our LDRs have significantly expanded in FY '23, which means that we will have to start focusing on deposit growth in a much focused way.

So how should we look at this whole equation about expanding margins and probably looking at deposit growth, which will be similar to our loan growth guidance of about 10%, 12%?

Murali Ramakrishnan: Yes. Let me first start by saying that we are -- the way we manage liquidity, -- the way we manage liability is basically based on 2 guidance ratios. One is our CD ratio, the other one is LCR. And we also want to be sure that we have enough liquidity to meet up with our growth requirement.

As I'm telling you, our advances growth, which we are planning to do for the coming year is around 12% kind of growth, 12% to 13% kind of growth. And we also -- you must have seen the proportion of our corporate book also carries to some extent a portion of our short-term loan, which is about currently, on an average, it's about 12% to 15%. So this is something which keep coming back because these are all done at 90 days and 30 days and 60 days kind of thing for a well-rated corporate. And we are continuously riding on to the increase in interest rates by whenever it comes for renewal again.

So that is something which will keep our liquidity in a good position. And I'm fairly sure that the NIM will go up due to the fact that our -- we still have other products which are firing now, like SME will be definitely turning around this year for growth. And we are also looking at home loan to grow this year. We are looking at personal loan to be grown this year. We are looking at credit card to be grown this year. We're also planning to launch some of the retail products like commercial vehicle, construction equipment, loan against shares. And we are also looking at -- we have started actually -- already started the auto loan for open market.

And all these businesses, when we can source these businesses digitally, and when we have a digital fulfillment, that is clearly scope for us to charge reasonable rates, which are not unfair to the customer and not unfair to the bank. So I believe that given the fact that our unsecured is still about 3% of our book and there is good space available, I think we will continuously grow all the businesses, depending on where the quality is coming from with a very tight focus on how we manage our liquidity, our ratios and our CD ratio.

It is -- I'm not saying it's going to be easy. But I feel that since the rates have started moving up, every quarter, this question has been asked, and we have been continuously communicating that we are managing it very, very closely, and it is in my radar, and we hold at least 2 to 3 ALCOs every month to have a very tight leash on this. We continue to do that. I think it will take efforts, but then it's worth taking that effort to ensure that our NIMs are reaching the level which we are committing. So we are currently at 3.3. We would -- we are looking at surpassing 3.5 for the coming year.

Umang Shah: Sir, the other question was on our other income. Even that has been fairly strong. Is there any element of cross-sell income into this? Or what is leading to this healthy growth?

Murali Ramakrishnan: Other income, of course, cross-sell is definitely one of the important components for us because we have -- as you know, that Banca now we are permitted to have more than 3 Banca partners also. So we are continuously increasing our insurance cross-sell income, especially in life, we have done very well. And we are also now we have started seeing good traction happening even in general insurance. This is on one side.

Second is, you know that we have a -- now the retail products have kicking up, we have a good scope to charge fee because some -- and SME also, we have started charging a processing fee, etcetera, which is with the disbursements going up in those products. Certainly, we can -- we also can look at some of the cross-sell opportunities available there.

And apart from all these, other income is that -- yes, the other income is the technology-related income. I mean, where we are talking about the ATM and other commissions which we get, which -- that also is 1 of the components. But we have given a detailed breakup in our investor presentation. You can probably have a look at them. So definitely insurance commission is one and sale of investments is one.

Credit card income, and that's again something which has been clubbed into noninterest income. But again, as you know, we have a very good tie-up with FPL who is our credit card co-branding partner. And there, we are seeing good traction happening. We have issued more than 2 lakh cards now, and it is only expected to grow further in the coming years. So since all these are recurring income and recurring nature of income, we believe that we'll be able to continue to sustain this.

One other component here is the amount recovered from written off accounts that we are combining under noninterest income. With the collection actually doing quite well, we have collected and upgraded INR1,800 crores this year. And we hope that for the coming year, this year also, we are setting up a similar target, though -- I'm giving a guidance of INR1,500 crores slippage for the full year. We expect the collections to continue to be doing well this year, too. So with all this, we believe that it's a sustainable income which appear in noninterest income.

Umang Shah: And sir, the last question from my end was on the ROA guidance. So clearly, we are kind of overshooting on our ROA guidance, right? So on a overall bank level, given that our fourth quarter exit ROA were about 1.26%, should we assume that in FY '24 itself we should be 1% plus ROA? Earlier, we had guided for touching that 1%-plus ROA number sometime in FY '25, but do you really think that it's possible to kind of exceed that in FY '24 itself?

Murali Ramakrishnan: Yes, that's the plan. In our original vision plan, we said that we will reach 1% ROA by FY '24 -- March '24. Our endeavor will be to reach that. And obviously, though we said that the entire goalpost, we have moved it by 1 year. But with respect to ROA and ROE, we would want to reach that milestone. Of course, it's going to take a lot of effort from our team, but we will definitely endeavor to each 1% ROA by March '24.

Moderator: Our next question comes from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: Sir, in this quarter, we have seen that there is some branch expansion as well as we have seen that there is a degrowth in the employee number. So are we restructuring the employee structuring? And how is this going on because some of the branch expansion is there and as well as employees decreasing? I'm not getting that point.

Murali Ramakrishnan: No, branch expansion, see, frankly, we have not gone about as a strategy to expand our branch network. What we are trying to do is we are doing some kind of reorganizing some of the branches which are probably very close to each other, especially in places like Kerala and Tamil Nadu, where we are predominantly present. There are branches which are very close to each of them and therefore, the customer segment can very well be met with -- the needs of the customer can be very well met with 1 branch.

So wherever we are doing such consolidation, the license gets released and that license we are using it for places where we are not represented today. So to that extent, we are seeing some 15 to 20 branches getting opened in unrepresented areas, like we have done in Ahmedabad, we have done it in Kolkata, we have done it in Chennai, we have done it in a few other places. Where we are not represented today, we are trying and opening branches so that it helps us to beef up our business. So this is on the branch opening.

So as a strategy, we haven't really embarked on spending out that we would want to open 100 branches or 200 branches in a year. That probably will start doing once we completely get our digital action in place and see how the traction is happening in digital. Once we get a good understanding of that, we will then see the need for having a brick-and-mortar office anywhere in the country, and that's probably when we'll spell out how much -- how many branches do we want to open.

With regard to employees, see our -- probably the number which are seeing as coming down, in my view, is also due to some of the part-time employees who are associated with the bank. We count them as employees, and after their part-time gets over, they move out of the roles. To that extent, this number can be a little volatile. But as a philosophy, we are continuously growing in all our businesses. We are continuously recruiting people. We are recruiting people at all levels, and we are also recruiting people at senior levels to fill up some of the skill sets which we need for the kind of business which we want to embark on. So this is broadly how I would want to answer this. As such, these numbers shouldn't really bother you because this is due to the fact that some of these part-time employees moving out of the roles.

Pujan Shah: And my second question would be on the more than INR100 crores book. So as we have seen that we have grown almost double in the INR100 crores order book, and we also know that we are building a AAA+ corporate book and above that. So all -- every franchisee would be -- will be competing with this stuff? So are we sacrificing some yield on that some for the short term because we are yielding their employees and all other upselling and cross-selling their employees with a better yield? So are we seeing any trajectory of sacrificing on yield on a short-term basis which can be kind of improvement on the upselling basis? So as it -- am I understanding the strategy as correct?

Murali Ramakrishnan: Your understanding is partially correct to the fact that what you are saying is actually factual that well rated corporates typically demand very fine rates. To that extent, probably people might be thinking that we are there compromising on rate. This, I don't think 1 should look at as a compromise. One should look as building the basic quality of a book should have AAAs and AAs. Therefore, this is a need for any institution to build a strong fundamental.

Therefore, I would probably continue to be focusing on building the fundamentals, which are well-rated corporates, should be forming part of our book. In fact, if you recall the history of the bank in -- way back in 2015 and before, we have had a concentration risk in terms of higher exposures to corporates. But some of them were on not probably very well-rated corporates. But now we are very consciously choosing the corporate who we want to deal with, and we are ensuring that we lend money to those corporates which are very well rated, and which have a track record of performing well even in adverse situations. That is number one.

Number two, when we are looking at corporates, we are obviously, as I said earlier in one of the answers that we are not just looking at the credit related income of the corporate. We are looking at what are the benefits we can get. And some of these relationships probably will start with the short-term exposure to corporates and some of them probably would be even outside of consortium because this is how corporates also sort of leverage or arbitrage their interest opportunities. Therefore, -- the moment you start engaging with the customer, the customer gets to understand you and you understand the customer.

That's when we'll be pitching in for being part of the consortium. And I'm happy to say that we have had some success in this area too, where we are now becoming part of the consortium. And another important thing is whenever such corporates want to raise money. Today, we do get an opportunity to bid for those deals, which probably wasn't there earlier because these corporates were not looking at South Indian Bank as 1 of their banking partners. So this is the aspect on how we are looking at the corporate as a whole.

But having said that, I must share with you that corporate NIMs, if I were to look at corporate banking NIM alone, this is 1 of the few businesses where we are actually seeing delta NIM going up much better than delta of other businesses. So let me reiterate what I'm saying. Yes, you are right that corporate NIMs will be generally low. So we were also at a low level when we are trying to get traction into these corporates. So it was at about 1.5% to 1.8% kind of NIM, which we're experiencing about 12 to 13 months back.

But very conscious effort has been made by the team in deepening their relationship with all these corporates and with the hardening of rates happening in the market, in every quarter end the delta increase is happening. The NIM in the corporate book is really praiseworthy because if you look at the delta, though other base could be high for a personal loan or base could be high for SME. But the delta which we can get from, compared to those, I think we have got a much better delta in corporate.

This is basically to say that our traction is -- our strategy is working quite well. We are not compromising on yield at all. We are getting into relationship with them, and we are using that relationship to better our NIMs across them. I mean, having said that, large corporate book as it stands today, it's at about 95% of them are A rated and above. As we probably see our competency getting built in our teams, we will start -- probably start looking at the BBB+ kind of corporates also going forward. And we have not really touched too much of mid-corporates, that's 1 area where we will start focusing.

So all this would only help us to build the overall profitability coming out of the corporate business. And I am happy to say that the quality of this book is impeccably clean. We don't even have any account of SMA-2 or in NPA in the newly built corporate book.

Pujan Shah: Okay. So any time line when we start for BBB or that type of corporate because...

Murali Ramakrishnan: There is no time line. We are already sourcing. It is that we would look for a benchmark of quality. If it meets up with our quality, we onboard them. If we don't -- if it doesn't, we are not going to be sweating to go and chase BBB and wanting to show some BBB composition. But if it's good, we'll definitely lend them.

Pujan Shah: And sir, 1 last question. We are heading a data science team. So who is heading that team? And how has this been evolving? How many people have been engaged into this team?

Ramakrishnan: Yes. I don't think I want to name a person who is heading it, but just to suffice to say that the person who is heading it has got more than 20-plus years of experience in data science -- data analytics. And this is a fairly large team in the sense that large for a bank of this size. And we are engaged in liability analytics, asset analytics, collection analytics. And in fact, we are also -- in some areas, we are also engaging with some of the outsourcing partners who have expertise in certain areas, and we are making use of them also by way of short-term assignment.

So this is -- this business -- this division is adding a lot of value because using this, we are actually getting a lot more insights about the way we are improving the quality of our liability customers. We want to increase the quality of our asset customers. What kind of -- some of the predictive analytics which we are doing to figure out who are the customers who are going to keep funds with us, who are the customers who are planning to take out funds. Who are they likely -- what is the next likely product for such customers?

How collection can be enhanced -- collection efficiency can be enhanced by two predictive analytics on who would require a physical follow-up, who would requires just a telephonic follow-up. I mean all these are insights which we are continuously getting from this team doing extensive analytics. I think we'll continue to -- we are still, I would say, 40% of that, I would want this division to be.

We have started now using a lot of -- developing a lot of vintage curves to do the reviews of various portfolio. As it becomes a full-fledged division, I'm sure all our reviews and all our strategies for growing business will be born out from the insights which we'll get from the data analytics team.

Moderator: Our next question comes from the line of Shrijan Sinha from Future Generali Life Insurance.

Shrijan Sinha: Yes, sir, I have three quick questions. One is on the tax rate. This quarter, and in fact, this year itself, tax rate has been on the higher side for most of the quarter. What explains that?

Ramakrishnan: See, we are continuing to -- we have not gone in for the lower corporate tax. So -- as I see, the effective tax rate for us for this year was 30%, if we include MAT credit it is 16%. See, basically, we still have some of our old MAT credits available and we are continuously making -- I mean, wherever we need to proceed on an appeal to recover those, we are continuing to take the tapers. And you must have seen some of the quarters where we have got some positives coming out of that. So our endeavor is to exhaust that before we switch over to the alternate tax regime.

Srijan Sinha: And FY '24, we expect our effective tax rate to be closer to…

Murali Ramakrishnan: Maybe FY '25. Maybe. Not in this year.

Srijan Sinha: Okay. Sir, my second question is on other income. Was there any 1 lumpy account in -- I mean, in terms of recoveries from the written of account in the other income? And how would the quantum be?

Murali Ramakrishnan: See, lumpy accounts, meaning, see, if you're talking about amount written-off since recovered, which is what probably you are referring to lumpy. See, we must remember that when -- you must remember that we still carry a GNPA of close to INR3,400 crores, INR3,500 crores plus kind of GNPA. Our GNPA is still at about 5.2%. So there are accounts, big accounts which are still lying there and where there are constant efforts being put in and so you know that it's all based on how soon the legal processes happen. So while we are not counting on any of them to certify in our estimation of our profitability or profits or any of those. However, if it happens, yes, we -- it's a good sign for us, good thing for us because that would be an additional thing, which probably would come as a surprise to the -- our stakeholders. So in some quarters, you get the benefit; some quarters, you may not get the benefit. So we are not really counting on them to really project our profitability

Srijan Sinha: No. So my question was more with respect to Q4. Have we seen any large recoveries taking place in the...

Murali Ramakrishnan: Yes. We had recovery from Syntex. That was 1 of the large accounts.

Srijan Sinha: And how big would that be?

Murali Ramakrishnan: We got -- we had recovered about INR140 -- INR128 crores or something like that.

Srijan Sinha: Okay. Fair enough. Sir, my third question is on your capital adequacy. Given the fact that you have declared a dividend this year, is that a signal that you're not likely to hit the markets in FY '24 and you are adequately capitalized?

Murali Ramakrishnan: No. Let me put it this way. 17.25%, yes, we are very happy about the capital adequacy being 17.25% and Tier 1 at about 14% plus. But having said that, as you know, capital is something which we need to be constantly looking at, even the opportunity which can come in the market. Though we are articulating that we would want to grow our asset book by 12%, but if there is an opportunity coming which you want to tap, probably we would go for growing much more than what we are telling.

In which case, we might need to look for capital raising opportunity also. But having said that, are we in a dire need to raise capital immediately? The answer is no. But will we be looking at raising capital very carefully? The answer is yes.

In the quarter, we'll definitely look at -- based on the internal accruals which get generated in the quarter, we will -- our capital infusion committee, it's a committee of the Board will convene and we will discuss about how we are looking at the quarters going forward? And what kind of things which we are looking at in terms of our capital adequacy movement. And then we will decide on quantum route and what kind of issue we want to have.

Having said that, there are a couple of things which I also want to -- probably which I covered in my earlier call also. There are some Tier 2 bonds, etcetera, which we still carry. And whenever we feel that there is a requirement to pay them off, that again something which we would be contemplating as we move forward. And in which case, probably we might need to -- because today the dependence on Tier 2 definitely has come down. Our Tier 1 is still at a sufficient 14%-plus in an overall capital adequacy of 17.25%. So as the dependence on Tier 2 comes down, we will also probably want to pay back whichever can be paid back by the bank. That call also we'll take as we go along.

Srijan Sinha: Okay. And sir, finally, where are we in terms of your succession planning? How soon arewe likely to hear the name of your successor?

Murali Ramakrishnan: Sorry, I didn't understand.

Srijan Sinha: I mean where are we in terms of your succession planning?

Murali Ramakrishnan: I would like my Chairman to answer this question because he is also with me.

Salim Gangadharan: The Board has appointed a search committee immediately after hearing from Murali's intention not to continue beyond September 2023. The search committee has already looked at the profile of few candidates, and we are in the process of narrowing down to a few and moving to the next direction. So once we finalize the successor, what we are planning is to move to Reserve Bank of India, 4 months in -- 4 months ahead of the incumbent vacancy for their approval. That is a regulatory requirement.

We are also concurrently trying to have the RBI approval earlier and having the new MD and CEO to be concurrently running with Mr. Murali a few -- 1 or 2 months, so that the new incumbent will have a greater understanding of the bank, the financials, the policies, the people, and the processes and the technology, everything. So that the takeover of the new incumbent on 1st of October 2023 will be seamless. That is what we did with Mr. Murali Ramakrishnan as well in the past.

Srijan Sinha: Okay. So most likely, we are going to see an internal candidate or an external candidate?

Salim Gangadharan: We are not specific to internal or external. We want the best man to be on the helm of the bank asMD and CEO.

Moderator: Our next question comes from the line of Sheel Shah from Sameeksha Capital. Please go ahead.

Sheel Shah: On the team side, are we expecting any exit or additions at top management?

Murali Ramakrishnan: No. We have not had any exits in top management even in the past. So we don't expect any exits. All our senior executives today are banking veterans with more than 20 years' plus experience.

Sheel Shah: I missed, but what was credit cost guidance for FY '24.

Murali Ramakrishnan: Credit cost for FY '24. We are -- we expect it around two to my slippage is going to be around INR1,500 crores for the full year, and I'm expecting my credit cost to be somewhere around 2%.

Moderator: Next question comes from the line of Pallavi Deshpande with Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Just wanted to understand what would be the size of the written-off book because we're having these recoveries? So what's the total size of the written-off book?

Murali Ramakrishnan: The size of the written off book, I think we may not have the ready data with us. We'll probably get back to you on that. Currently, we don't have. We will get back to you.

Pallavi Deshpande: And sir, you mentioned earlier about on the digital plan, right? So once you have that whole architecture in place, you can be more aggressive on the loans. So when do we expect to have this digital piece falls fully in place?

Murali Ramakrishnan: Yes. See, let me first rephrase your question. We don't want to be aggressive in anything. We want to be sensible. Even if you are doing digital, we'll be doing a sensible business because never do we want to compromise on quality. That is one. Second, actually, it's not that we are going to start by announcing a particular date. Actually, the -- if you look at the infrastructure needed for a digital business, first it's a platform. We already have a retail platform, which is now commissioned now.

Now we have started actually onboarding home loan LAP cases and PL using the platform. So now this has been rolled out in four zones now, four regions now. Probably, we will then now scale it up to the entire country. And with that, what we expect to see is the turnaround time will become faster. And we also feel that to be -- because of our lead sourcing also linked to the platform, we will be able to source digital -- we can probably source digitally across the country for any of these products. So that's the way -- that's the infrastructure which is needed for that, which is well in place now.

As far as SME is concerned, we've already gone in for a platform, and that platform is likely to be commissioned by first quarter end or maybe early second quarter. And the advantage is that for both for home loan, personal loan, as well as for SME, our BRE is already available. Our credit model is already available. So it's just a question of hooking the credit model into the platform, and we can seamlessly do the transaction. So -- so SME, we will start completely digital -- doing digital fulfillment maybe starting from second quarter onwards once it gets commissioned. Obviously, once it gets commissioned, we'll probably roll out in few regions to start with. -- understand how it's behaving, and then we'll roll it out for the country. So this is how we have plans towards digital.

So when I talked about brick-and-mortar, that's when I said about digital that we would want to probably onboard some of these products to see how the traction is happening. And we also want to increase the products suite which we can do through the digital, especially Nucleus, we can start doing our LAS business also through digital. We'll also want to do auto finance business, for which we need a credit model to be built in place. We have just initiated that. Once that comes into place, we will probably start offering even auto through digital platform.

Pallavi Deshpande: So this doesn't have anything to do with fintechs, right? Any partnerships with fintech also -- this would be our own sourcing.

Murali Ramakrishnan: These platforms we have bought it for our own thing. It's not a tie-up with anybody as of now. But of course, you have fintechs for -- like credit card relationship is a fintech. -- where the entire fulfillment happens digitally, and it is happening digitally because we have a tie-up with the FPL.

Moderator: Our next question comes from the line of Jai with ICICI Securities. Please go ahead.

Jai: Sir, I was just referring to your guidance on credit cost. So I was just wondering that how does this tie-up with your ambition of 1% ROA. This year, we have credit cost in absolute terms, provisions at around INR400 crores. And next year, you are saying that 2% kind of a credit cost is possible. Then how would you achieve the 1% ROA ambition?

Murali Ramakrishnan: See, I'll tell you, this year, if you look at my provisioning cost, it's about INR627 crores for this full year. Okay? And this is purely on loan loss provisioning. Then we have some provisioning write-back from the restructured and FITL book. And then there is a -- so added -- both added together, we are at INR503 crores. Then there is a provision for SR, which we did last time as a one-off provisioning, which we did, which was INR312 crores. Overall, SR -- towards SR we provide for INR374 crores. So cumulatively, we have provided it for FY 2023, INR877 crores. So this INR877 crores on advances of INR72,092 works out to credit cost of 1.22% for FY '22-'23.

If you look at similar breakup for this year, our endeavor is to -- as again INR877 crores, which I talked about, I would probably try to restrict it to INR650 crores. That's my plan. Probably I'll have positive surprise there, but probably the outer limit, I would want to keep it at INR650 crores. So when we are trying to grow the book to INR83,500 crores, this is the stated asset growth which we want to have, probably we are looking at the credit cost of 0.75% kind of level for the coming year. This is based on the provisioning.

So ROA, the way I go about this, we will -- we have seen our incremental ROA for the Q4 was well above 1. And with the fact that new products, which we are going to add -- which we are going to be sort of growing, not new products, sorry, the business which we will be growing, we are going to see decent growth coming in all these products which are generally high-yielding products. Like if you look at PL, we can grow, we have room for growth. We have credit card, there is clear room for growth. And we are talking about a couple of credit card allied products which we can offer in credit card itself. Then we are looking at growing gold. We are looking at ramping up our auto loan and home loan.

Obviously, we were going very slow on mortgages. Now -- with a little bit of comfort now, we can start looking at growing our mortgage business. See, all these businesses, I'm sure you know that NIMs in this business are upwards of 7% to 8%. These are the NIMS available. Deliberately, we were not really growing them much in the past because I wanted to get the credit equation right. I wanted to improve our PCR. I wanted to bring down the net NPA.

Now it's a bit of room available, we can certainly grow these businesses, again, without forgetting quality as an underlying parameter. So there's a little bit of maybe a bit of correction in my number. Credit cost, I said 2%. Basically, it will be probably anywhere between 1% to 1.25%. 1.25%, you can take it as a number.

Jai: Right. So credit cost is unchanged and then margin should hopefully rise. And, sir, on your -- the margin rise is predicated on your higher growth in the higher-yielding portfolio which you will launch or you will accelerate the run rate? But these products are also high touch cost-intensive, right, credit card, PL and we will also have to put in some investment as you ramp up these businesses. So in your opex growth, how do you see the opex growth on -- for FY '24?

Murali Ramakrishnan: The credit card, as you know, we have a partnership with a co-branding partner. Therefore, today, they involve -- our relationship, our agreement with them is basically on two counts: one is policy which we prescribe and second one is the funds which we provide to them. So with respect to every other investment, they've already done those investments, and we have already started issuing cards, and we are currently at about 2 lakh plus cards. Even with a very conservative estimate, we expect the next year, even if it is as good as this year, we would expect the cards to be another 1.5 lakh cards to be issued in the coming year.

So there, if you look at it, based on the agreement which we have with them, we expect the ROA coming out of this product to be easily in terms of -- easily in the tune of 3% kind of ROA. For all of the products, we, frankly -- already, we have a digital -- complete digital fulfillment in PL. And we've already gone in for a platform for retail. We've already gone in for a platform for SME. So in any of these products which we are wanting to do, we already have invested. So therefore, in my view, the delta which should come for ramping up the growth of these businesses will have to come from the manpower costs, probably which we may have to a bit increase because some of these businesses require lot of outsourcing to be done.

So DST cost, DMA cost will be there. Some of them will involethe payout, which we might have to do to the dealership for the builders arrangement. Those could be the marginal cost, which can come. But anyway, all this will be factored in our pricing.

So I don't really believe that we need to really go and set up something to really ramp-up these businesses. We are already having the basic -- I mean, fairly good infrastructure in place. It's just a question of accelerating that.

Jai: No. But sir, I was asking, if we have seen this, as you said, that you will need to have sourcing, higher sourcing costs for DSA and all these things. So what I wanted to know is, what could be the opex growth that we are building in because it could be a very opex-intensive business, at least these are new businesses.

Murali Ramakrishnan: See, we'll have to take it as it comes. Let me -- the way we go about any of these businesses, basically, we draw a business plan. We clearly draw out the expenses. We clearly draw out the -- every line item. And also, we look at ROE coming out of that. And so all these businesses, each of the business serve a certain purpose. So we will -- I mean, like the way we are -- the advantage is that when we are corrected, many of these businesses, which had lots of corrections to be done when we can get them right, I'm sure when we are launching, we can get those equations right. And this business is not something which we are going to be doing for the first time. We understand this business very well, and we'll put in place whatever is needed to be done.

So I don't think we need to unduly worry about phenomenal increase in ops cost. If it's there, we'll have to take correction and we'll have to suitably tweak our strategy to ensure that, because these businesses serve a certain purpose. When you are looking at growing our personal loan, there are a lot of new-to-bank customers who might come in, there is a cross-sell opportunity. When you're looking at credit card, there are allied credit card products, which we can offer, PLCC and those kind of products which we can offer. And, again, we can use these new-to-bank customers for cross-selling other products.

So there are multiple benefits coming out of these business -- growing these businesses. So we will definitely look at all those benefits also when we are factoring the ROE coming out of this business and ops cost, which will be incurred for these businesses.

Jai: Sure, sir. And there was -- so there was an observation from last year annual report FY '22 that for the FY '22, we had not granted any ESOPs to the management, risk taker and control function staff, at which we need to value on the fair value. So I wanted to check, sir, for FY '23, what is the status? Have we given ESOPs to, let's say, the senior management because? There was no ESOPs to FY '22. So I just wanted to check what is the status for FY '23?

Murali Ramakrishnan: Yes. It's a good question. So what we have decided this year is that the variable which we'll be paying for -- which we have paid actually for all the employees, for those employees who had a certain band of salaries and above, we have given them 90% of the variable pay in the form of cash and 10% of the variable pay we are giving in the form of ESOPs. This is what we have done. And so this year, probably we will see a change in the way we come out -- give our annual -- what we'll be writing in our annual report because there is a plan to issue ESOPs to the entire workforce, probably barring those who are sub-staff and those kind of employees.

Jai: Right. And last, data keeping question, sir...

Murali Ramakrishnan: And also, who are currently drawing very low salary levels, I mean, relatively at low salary levels, for them, it doesn't make sense to give them ESOPs. That probably we'll be giving them as -- we have already given them as the cash, whatever is the incentive.

Jai: Right. And last data keeping question, sir. If you have the recovery and write-off number for fourth quarter separately, yes. And maybe for full year.

Murali Ramakrishnan: Recovery -- from write-off, I mean...

Jai: No. So in the movement of NPA, how much has been the write-off for fourth quarter and full year?

Murali Ramakrishnan: Give me a minute. See, for Q4, we had a slippage of INR343 crores, which is something I'm sure you would have noted it down. And our GNPA recovery in fourth quarter is INR451 crores. This just to give you for the previous quarters, it was INR234 crores in Q1, recovery, I'm talking about, INR234 crores in Q1; INR291 crores in Q2; INR319 crores in Q3 and INR451 crores in Q4...

Jai: This does not include the recovery from TW, right?

Murali Ramakrishnan: Write-off, just to give you write off numbers, INR68 crores in Q1, INR22 crores in Q2, INR25 crores in Q3 and INR43 crores in Q4. So we started the year with a GNPA of INR3,648 crores, which became INR3,799 crores at the end of Q1, which dropped to INR3,856 crores end of Q2, then -- sorry, increased, and then it was INR3,844 crores, almost at the same level in Q3. We are currently closing at INR3,708 crores. This INR3,708 crores is 5.14% of my book. This, we want to bring it down to 4.5% by next year.

Jai: Okay. And any guidance on the net NPA, sir? I mean we are slightly...

Murali Ramakrishnan: Yes. Net NPA, we are currently at 1.86%. We want to bring it below 1.5%.

Jai: So sir, it looks like that we are estimating that the recovery will further -- will keep outpacing the slippages for '24 as well, right? Because -- you are saying that net NPA will also decline by 100 basis points without -- with the same commensurate credit cost.

Murali Ramakrishnan: Correct. Yes, that's what we are hoping, yes.

Jai: Thank you sir, and all the best.

Murali Ramakrishnan: Thank you.

Moderator: Thank you. Our next question comes from the line of Rakesh Kumar with B&K Securities. Please go ahead.

Rakesh Kumar: Yes, hi. Thank you. sir. My first question is basically on the risk weight density like there has been quite a lot of fall that we have seen on a consistent basis. So like apart from the rise in the PCR and change in loan composition in favor of gold loan book, what else is helping risk weight density number to come down?

Murali Ramakrishnan: See, I would say that risk weight density has come predominantly because we have chosen quality as the underlying factor across all businesses. So when you are actually churning your portfolio with the high-quality assets, clearly, your risk weight density will be coming down. So this was -- in 2017, '18, I have the figures for the last six years, 2017, '18 was 58.15%. Now that has come down to 42.92%.

So, this has happened because of -- clearly because of the churning of the portfolio with a better quality of the portfolio across all segments. See, I'm sure you must have noted down that in our INR40,000 crores of new book addition, we talk about GNPA of only 0.09% and even SMA-2 of only 0.12%. So clearly, the quality of the book is fairly good, and hopefully that will sustain. And therefore, with a very limited capital increase of only INR240 crores, which we did in March '21 quarter, we are able to bring down the overall risk density to 42.92%.

Rakesh Kumar: But this number is certainly best in the industry or among the best in the industry. So on the contrary, like we have increased our PL and credit card composition in the last one year. And then we have seen increase in the credit yield also by around 130 bps from June '22 to March '23. So basically, there has been a reduction in the risk weight density and we are increasing some bit increase in the gold loan book also and the PL credit card book also. So just wanted to understand that rise in the yield, credit yield, has it come -- how much has it come from the interest rate cycle and from the majors what we have taken in terms of changing the credit composition and rise in the PCR. So if you can bifurcate the impact of these things on the credit yield. So just to understand that when the interest rate plateau. So where the yield can go to?

Murali Ramakrishnan: See, first, let me start by saying that when the bank was clearly going through a rate reduction cycle, you must have seen the bank getting hit with a very low NIM. So when the interest rates are rising, your ability to pass on the rates to your customers clearly depends on -- it's not that it's going to be automatic. It's going to be dependent on a lot of hard work to be done by engaging with the customer to pass on the increased interest rates. So to that extent, we have done that across all product segments.

And you are right that with your composition, with your growth coming, let's say, from credit card or PL, etcetera, where generally the cost -- I mean the riskiness of the business is on the higher side. But if you look at the quantum of the growth, which will be coming from these businesses, still they are very low compared to the kind of growth which you would be seeing probably in other bulky products like corporate or SME.

So to that extent, like, for example, in the PL, which we started almost from a fairly low base, we are now after almost 2 years of, 2.5 years of running it, we are currently at about INR1,800 crores. But INR1,800 crores of book addition, you might see that happening in a corporate book within two months, up and down. Both can happen. So when the approach is that as you keep building your sustainable retail businesses, again, factoring quality into account, you will continue to ensure that you are pricing it correctly. Your riskiness is taken care and your NIMs are on the raise, and you're able to obviously make us so the customer base for cross-sell and other purposes. Corporate and products like home loan serve us in bringing a lot of stability to the overall asset base and that helps you to probably manage some of the ratios, which are obviously dependent on the overall book.

So if you were to ask me whether the -- I mean, if you need to break-up your yield into how much is coming from rate increase, I can tell you that rate increase doesn't automatically guarantee that your NIM will increase. It all depends on how well you deal with the customer. So there are banks which should have passed on 1% increase. There are banks which have done 2% increase in yield. There are banks which may not have done even 0.5% increase in their overall yield. So it depends also on the composition of the book which you have. There are banks which are focusing on, let's say, micro finance or consumer durable kind of product where 2%, 3% here and then doesn't make a difference at all.

That's the reason why you are finding them going and raising liabilities at 7.9%, 8% in the market because their ability to pass on such rates are quite easy when they are dealing with customers who are willing to pay 23%, 25%, 26%. Whereas our product composition, our product suite is even today our directed towards good quality customers. Therefore, we are probably playing more in the private segment. That there, you need to be carefully choosing your interest rate increase also, and you need to suitably alter your product mix so that you know why you are building certain products, and how does it help in your portfolio mix.

Rakesh Kumar: Got it, sir. Sir, just last question. If you can help us understand what is happening in the industry overall pan-India basis. And for the -- for our bank in terms of low-cost NRI deposit and total NRI deposits. So I know that there is a difficult time, industry numbers are not showing growth, but just to understand what you feel about it?

Murali Ramakrishnan: Yes. See, you are right, when NRI business, if you were to look at, there are three components in NRI business: one is we are talking about the deposits, the other one is low cost deposits, , which is basically CASA, where you open your NRI accounts with us, there -- NRO accounts keeping balances. And third one is the remittance business. So as far as we are -- what we are actually witnessing is that given the overall increase in the repo rate announced by regulators, we saw the deposit rates across the board getting increased.

And there are banks which have also increased their NRI deposit rates fairly aggressively. To that extent, we have seen that many of the NRI customers who are also holding a fairly large chunks of money have shifted from bank A to bank B by looking at the interest rates which are offered by the banks which are currently giving a higher rates.

Whereas banks like us, I mean, these banks probably which are increasing interest rates, also probably have a good foreign currency portfolio in their portfolio. For example, some of them have got branches, some of them have got rep offices across the world, and therefore, there is enough scope for them to do ECB funding or do foreign currency funding. And given the fact that our offshore branch is growing very well in the country, some of these banks who have got branches over there, they are able to park those businesses where they can do foreign currency lending. And to that extent, they have the leverage to charge high rates. I mean, charge -- give high rates for deposits.

Whereas for bank like ours, which has got only a rep office in Dubai and where we are actually using this foreign currency funding, basically to look at very limited opportunities, which our customers might ask in foreign currency lending, basically, to arbitrage the rate opportunity, rate advantage as they might get, or else we need to use them for our rupee lending, in which case, it's dependent on our swap costs and other things. So we constantly, so what we are seeing as a trend is many of them are moving their money from CASA into deposits. This is one trend which we saw.

And the other thing which we saw is a lot of remittances, though remittances overall have gone up, thanks to the depreciation in rupee, the conversion today for any earner in foreign currency will give you more rupee on hand. We have find that remittances have grown considerably. And we have also seen good increase in our own remittance growth. But earlier, this remittance money, which used to come -- used to stay in the account for a longer period. Therefore, our CASA, it was helping us to have a very low-cost CASA. But now we are finding that the alternate avenues available for the money, even, for example, in rupee, deposit rates in India or the market opportunities, capital market opportunities, etcetera, these monies are getting diverted into those fixed.

So as a trend of what we are seeing: one, remittance is increasing and we are also seeing that increase for us; two, money moving from deposits into -- sorry, money is moving from a low-interest rate providers to high-interest rate providers. And money is moving from CASA into other investment opportunities. So as far as we are concerned, we are actually doing a slight tweak in our strategy. Earlier, we were looking at a lot of -- for want of a better word, I would say, low-quality customers. We were looking at focusing on numbers in the past. So we had lots of low-quality customers who are keeping fairly low balances with us, etcetera.

Now as a conscious strategy, we are now switching our profile of NRI customers also into people who can hold -- who are well net worth NRI customers. To that extent, probably we might start seeing our customer overall amount maintained by the customer in their accounts as far as the deposits they keep holding with us. Probably we'll start seeing some traction happening there. And we have also started seeing that our remittance businesses, which is a good business for us, we have now started having more tie-ups with many of the exchange houses in Middle East.

And we -- in our NRI customer base today, we have 80% of our customers are in Middle East and 20% are in the rest of the world and that ratio continues to hold. And we are continuing to see that with more-and-more tie up happening, not only in Middle East, but also in other countries in Gulf as well as in other parts of the world, like we have tied up with some relationship in Canada, somebody in the UK.

We have started having tie ups with those entities also, which hopefully will get us more remittance coming to. So the overall NRI business, it's continuing to be a very key contributor to us both in terms of our deposit as well as in our low-cost CASA. And it's also giving now fee income, and it's also giving good remittance now. So with all that, we believe that it's continued to play a very important role in our overall liability strategy.

Rakesh Kumar: So just 1 small thing, sir, clarification. So higher deposit rate or higher interest rate overall in the other countries from where we source the remittances, is that also the reason which is an obstacle for the remittances here in India?

Murali Ramakrishnan: No. See, there are two, three different types of NRIs. One is NRIs who have gone there just to do work and their family is back in India. These customers typically will keep sending money back because their family needs money in India and their kids must be studying in India. So these are the people who will be banking on remittance, and they will always be looking at rupee depreciation and want to take advantage of the low -- I mean, higher rupee which they get for a every foreign currency they earn. This is one set of customers.

Second set the customers are people who are high net worth individuals who are either running business or working for a large -- big corporates in the Middle East or any other place. Their earnings would be substantial. They will probably look for opportunities to deploy their funds in making more money. So they'll be constantly looking at how well the capital market is doing in India or elsewhere.

So today, given the opportunity, given the development, they can pretty much invest anywhere. So these are the people who will probably deploy some amount for Indian capital market while they deploy substantial funds for wherever they can earn more money. So with the interest rate generally hardening in all other countries with inflation being the highest ever in those countries, there are obviously opportunities for such people to deploy more-and-more money in markets where they can earn higher returns.

The third set of people are people, who have no linkages to India at all, though they are PIOs and Indians, but they may not have any linkage to India. Such customers, probably -- large banks will be tapping them because this tax can still raise money in foreign currency and they hold foreign country deposits in their branches. Therefore, such customers will opt those banks which are internationally well present. I used to work for ICICI and we had -- ICICI used to have substantial NRI deposit base in these countries. And the bank can also deploy these funds because in many of the geographies, they are permitted to do dollar funding, so they can raise money in dollar and deploy money in dollar.

Whereas SIB, we don't do any lending outside of India because we have only a rep office there. So our raising foreign currency is primarily for the purpose of swapping them into rupee and we can provide reasonably competitive cost to some of the high-end corporates who probably wants to make use of this swap cost to reduce their overall cost of borrowing.

Rakesh Kumar: Understood, sir. Many many thanks, sir for the elaborate response. Thank you.

Murali Ramakrishnan: Thank you.

Moderator: Thank you. Our next question comes from the line of Arjun Bhatia from Bowhead Investment Advisors. Please go ahead.

Arjun Bhatia: Thank you, sir for this opportunity. I had a couple of questions. Firstly, a re-clarification for everyone's benefit. We mentioned about marginal decline in NPA in 2024 and SMA of your new book is very low. At the same time, you are pointing out to 1.2% credit cost or in an absolute terms of about INR1,000 crores credit cost. Since we have shared three different numbers on the call and these numbers prima facie looks very high to me based on whatever you said. Can you please reconfirm your team what is this number for everyone's benefit?

Murali Ramakrishnan: No, I didn't say INR1,000 crores as my credit cost. I said...

Arjun Bhatia: 1.2% on

Murali Ramakrishnan: INR750 crores is what I said. INR750 crores. Just to reiterate, I talked about -- I gave you the breakup of what it was in -- for this year. And I also said what we are anticipating in the coming year.

Arjun Bhatia: Understood. So INR750 crores is the final number. Sir, now I have a separate question. This was for everyone's benefit. My two questions are, do you expect any segment to grow much faster out of agri, retail, SME or corporate, broadly more or less they will be in line And in terms of total growth, can this 12% guidance you're giving also be 15%?

Murali Ramakrishnan: See, one is supposed to grow book across all segments basically to balance out your portfolio. But obviously, growth in all these businesses will have to come depending on the opportunity which we get. If you are finding that opportunities in SME is going to be better or corporate is going to be better. Clearly, we'll be -- so our criteria is basically quality. If it's there, definitely, we will acquire more-and-more customers for growth. In our planned growth of, let's say, 12%, 13% for the coming year, frankly, the mix of how we will grow this though we have a target meant for each of these businesses, but we'll keep realigning our plan depending on how we see our overall growth in each of these business lines are happening and how it is impacting our overall NIM and profitability. So that's how I would put it.

Clearly, the focus will be to grow retail more because we want to increase our base of portfolio, which will be stabilizing. And also we want to ensure that -- our corporate -- I mean corporate or SME is something which we will continue to have traction, not only for earning credit income, but also for other cross-sell opportunities can come. So that's the broad reply we want to give.

Arjun Bhatia: Sir, the second question is that in terms of capital raise plans, is my understanding correct based on whatever you said in last hour, that there's no plan to immediately raise capital, let's say, in the next three months before Q1 results and not at this price. So there's no urgency to raise capital in the next three months, and at such current low price. And you didn't answer my previous question. Can this 12% also inch up to 15%. So is it a range, or you think 12% will be a fairly aggressive target and 15% will be too tough a ask?

Murali Ramakrishnan: No see, let me tell you the philosophy. If I say 20% and if I do 15%, you guys will be very unhappy. If I say 12% and if I do 15%, we'll be very happy, right? This is the general philosophy.

So I'm saying, obviously, all of us want to grow much more than what we are wanting to say. But at the same time, I don't want either the team to come under pressure that they compromise on quality. At the same time, I don't want them to be laid back and say, okay, it's only 12%, so let me do what I need to do. So how we manage internally our teams, clearly will decide on how much we are committing.

Basically, suffice to say that GDP growth, if it's going to be 6%, nobody today also knows how much GDP growth is going to be. It’s anywhere from 7%, we started with then 6.5%, now we are talking about 6%. So the idea is to grow at least 2x the GDP growth is what I have in mind. This is how I have seen in my long career that if you are chasing a growth which is 2x your GDP growth, you can reasonably be balanced in your approach to sourcing good quality deals in whatever business you do. So I am giving a guidance of lower double digits primarily to ensure that our underlying fundamental block is quality. We don't want that to be compromised at all.

So I don't want any of you to factor 15% and 20% and keep working out these numbers because if I were to chase those numbers, probably banks like us probably might end up not doing -- not having good quality book with us. So we would rather chase good quality deals over growth. At the same time, growth is needed for us to sustain the profitability. Therefore, I'm committing that it's -- it will be lowered to double-digit growth. Therefore, 12% is something which reasonably one can take as a growth expectation.

Arjun Bhatia: The second question was on the capital raise, which...

Murali Ramakrishnan: Capital raise, as I said earlier, they would need to factor three, four things when we are planning to raise capital. One is, of course, the need for liquidity, the need for -- given the growth plans which we have and the things which I talked about in terms of Tier 2 commitments, which today -- our dependence on Tier 2 is anyway coming down. Therefore, we need to see how we can factor them in our plans to pay them off. That's another factor which will come in.

Third, of course, is the factor which people normally talk about in terms of dilution. Whether by issuing equity, will we be diluting too much? This was one of the concerns which was raised even when I was raising my first set of equity where it was needed very badly by the bank. So we raised INR240 crores equity at that point in time. That time also there were questions around dilution. But clearly, the bank's requirement was far more than the dilution which we talked about. But now obviously, we need to factor dilution also into account.

Fourth thing is how well the market is conducive for raising capital and what is the route and how receptive the investors would be, whether you want to go for equity issue or I mean, rights issue or -- that also we will decide based on how well the market is -- market traction is happening. So as we go along, we'll take these decisions after we look at how much of the internal accruals is accruing to the bank's capital.

Arjun Bhatia: Sir, my question was, is anything planned in next two, three months, in the immediate, very near term at current rates...

Murali Ramakrishnan: If it was planned, I would have definitely articulated to you now.

Arjun Bhatia: Understood, sir. Thank you so much.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Salim Gangadharan Chairman, for closing comments.

Salim Gangadharan: Yes. First of all, good afternoon to all of you. And I was really impressed by the insightful and deeper questioning -- questions raised by all of you, and it has given tremendous insight to me personally. And from our Board's perspective, I'll speak about because the entire numbers were rolled out by Mr. Murali Ramakrishnan, MD and CEO, and he clarified on many of the points. So I'm not touching up on the financials of the bank.

So what is demonstrated from the outcome of our transformation process and the business strategy over the last 2.5 years is clearly demonstrated in the numbers. What the Board wanted is what Board including the MD and CEO was aspiring for a significant strengthening of the financials and a transformation process. So the numbers have clearly demonstrated that the objectives and the strategy of the Board and the senior management and the bank has been accomplished. That is the first observation.

Now the question comes is what is our future strategy? So the Board is convinced that the present strategy is paying off well and which has shown clearly demonstrable qualitative parameters and improvements in the financial as well as the growth numbers. So we wanted to pursue the same strategy going forward even after change of the same MD's position. So there is no change at all. In fact, I wanted to add you one point. When we had the search committee evaluating the new candidates, one of the -- we have constructed a capacity grid.

One of the key parameter we are using to assess the capacity and the quality of the person to come in is, one of the parameter I'll read out, that the candidate should have convinced that the transformation journey over the past 2.5 years is the right path towards sustaining growth and profitability. So this is a very significant factor.

We are assessing the quality of the person to come in. So there will not be any change in the strategy or the systems and process we are pursuing, we continue to pursue because it has paid off well. So the search committee is deep into the process. We have already evaluated several number of candidates, and we are now moving to the second round of the evaluation. And once it is finalized, so we will be moving to the Reserve Bank of India well on time, that is the fourth year.

So this is what I thought I'll share with you. And capital raise, we are closely watching the scenario and -- as MD has clarified to you, that 17.25% capital as of March '23 is sufficient enough in the short run. But given the dynamics of risk profile of the assets we are booking it over the months, we are closely watching the risk matrix. And if necessary, we will be going to the market with capital. So there is an open mind on capital raise. So thank you once again for joining this call and in raising very, very insightful and deep questions to the MD and CEO.

Yes, then one more issue, I wanted to clarify, make it abundantly clear to all of you. Mr. Murali Ramakrishnan has personally opted not to extend his term beyond September 23, out of his personal reasons and the Board is very much -- would have been very much happy to give you another term without any discussions. But he has decided to leave on his own accord and on personal grounds. So Board was extremely happy with the good work, Mr. Murali has done for the past 2.5 years, that clearly helped the Board and the bank in achieving a quick turnaround, the matter of -- a turnaround of 2.5 years is a significant achievement for the bank. And we really appreciate his efforts for this. He and his team put to the quick positive turnaround of this organization. Thank you very much once again.

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