"South Indian Bank Limited's Vision 2024 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the South Indian Bank Limited Vision 2024 Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chetan Parmar, Head, IR at South Indian Bank Limited. Thank you. And over to you sir.

Chetan Parmar: Thank you. Good afternoon to all. A Very Warm Welcome to South Indian Bank Vision 2024 Conference Call. Myself, Chetan Parmar, Head of the Investor Relations for the bank. I hope everyone is doing good and keeping themselves safe during this pandemic.

The "Vision 2024 Presentation" is uploaded on stock exchange and company website. I hope everyone has had a chance to look at it.

I am joined by my colleagues Mr. Murali Ramakrishnan – M.D. and CEO; Mr. Thomas Joseph -- EVP, Operations; Mr. Sanchay Sinha – Head, Retail Banking, Mr. Soni A – Head, Digital Banking, as well as our CFO -- Ms. Chithra H.

We will request the participants to restrict their discussions to vision 2024 document.

I now hand over the conference to Mr. Murali Ramakrishnan – M.D. & CEO. Thank you. And over to you, sir.

Murali Ramakrishnan: Thank you, Chetan. Good afternoon, ladies and gentlemen. We hope that you and your family are safe and healthy. We have uploaded presentation on our website today in which we have attempted to articulate our strategy, which we endeavor to execute over the next three years. Over the last 10-years South Indian Bank has gone from strength-to-strength, growing by four to five times on parameters like Total Business, Advances, Deposits, NRI Deposits, and Operating Profits. We have done well in Retail Banking, Mobile Banking and Digital.

My colleagues in South Indian Bank are young and vibrant with an average age of 32 years, with more than 50% of them professionally qualified. We are also proud of the fact that 50% of our colleagues are women.

Having said this, I must also acknowledge that in the recent few years, the bank has faced some headwinds, especially on the asset quality front, driven by corporate slippages, and the bank financial performance. Slow growth in economy during FY'19-20 and the pandemic during the current year has also not helped asset quality.

Over the last few months, I have been spending time with various teams at South Indian Bank across business units, risk management, and operations to understand our current position and to outline the strategic focus of the organization going forward. I am glad to share with you our plan of action.

We've identified a "6C Strategy" for the next three years with a mission of **Profitability through Quality Credit Growth.**

Let me start with the first and most critical "C" Capital. We have shareholders' approval to raise Rs.1,250 crores through equity and debt. As updated in our Q2 2021 results call, the equity capital will be raised in multiple tranches. The first tranche will be to strengthen the balance sheet and the balance tranches will be for growth opportunities. The bank has appointed a merchant banker for advising on capital raising activity. The quantum and the route of the first tranche of capital raising are under discussion, but the intent is to raise the first tranche of capital by March 2021.

Building a strong CASA book is the second 'C' of our strategy. Focused approach on building low cost CASA book with the branch - regional office dedicating most of their bandwidth in building relationships. A Performance matrix-based scorecard on liabilities business will be brought in for branches. Apart from leveraging our NRI franchise in Kerala for NRIs based in Middle East countries, we will expand our horizon to target NRIs located in other parts of the world. Further, new retail asset products will help in augmenting the deposit base and third-party products penetration.

Reducing cost-to-income is a third "C" of our strategy. This can be achieved by either increasing income or reducing cost. We will be focusing on improving both aspects. On the income side, we will target increasing non-credit related income through cross-sell and upsell opportunities. Business intelligence unit will be strengthened with the required skill and tools to leverage on the above opportunities. On the cost side, we will optimize our existing branch network with a merger or relocation of branches. Additionally, explore synergy opportunities with our new subsidiary focused on outsourcing activities. Extensive use of our technology expertise to bring efficiencies and improve productivity.

Competency building is another critical "C" of our strategy. We are reorienting the organizational structure and building a bench of senior talent to deliver continued excellence. We will selectively scout for talent from outside and leverage existing pool of talent within South Indian Bank for newer and additional responsibilities. The average age of employees in our organization is about 32 years. With the right set of training and guidance, we believe to achieve the desired result with a young and vibrant workforce. We will use tools such as DNA anchors for talent identification, and revamped ESOP programs.

Customer Experience is the fifth "C." The bank will adopt a phygital approach at branches with the personalized services for legacy customers and complete digital avenues for next gen customers. Over the past few years, the Bank has streamlined customer journeys and process automation, leading to multiple awards. Simplicity, ease, personalization, transparency, and quick TAT are the few virtues where the bank will continue to strengthen service standards. We will provide a host of personalized and innovative in-house products and third-party products from industry leaders to suit the customer requirements.

Compliance is the foundation of our strategy. Compliance will be core across all domains of banking activities, right from sourcing through the entire lifecycle. The focus will be on adherence to the highest integrity standards. There will be zero tolerance for internal and external frauds.

Coming to our "Asset Strategy" we will continue to focus on lending to Retail, MSME, SME and Agri business with a calibrated approach for lending to Corporate. On the Retail side, our approach will be to build a granular portfolio with a mix of secured and unsecured products. We have drawn plans to launch new products in phases and to improve the efficiency of the existing ones. The first set of revamped and new products will be launched starting from first quarter of FY2021-22.

In the SME, MSME segment, we have created two sub-segments;

- Micro and Small Enterprises, with a turnover of up to 100 crores with average ticket size of about Rs.1 crore.
- Small and medium enterprises with a turnover of more than Rs.100 crores but up to Rs.250 crores with an average ticket size of Rs.8 to Rs.10 crores.

As far as Agri business is concerned, we are working on beefing up our micro and Agri lending, including gold loans through our strong distribution network and years of experience in these geographies.

In corporate lending, we will have a calibrated approach with a focus on building high-rated quality book with approach of building ecosystem through cross sell of treasury, retail and SME products. The average ticket size will be around Rs.25 crores, at the same time, we will continue to service our existing borrowers with a good track record.

My near-term priorities are as follows:

- Share the vision, strategy and goals with each employee through meetings.
- Beef up the management team, with the talents from inside and outside.
- Declutter the branches by bringing in a cluster level layer and also enabling them to focus on business and new customer acquisitions.
- Create a robust operations team, ably supported by a strong technology platform.
- Revamping credit policies with focus on quality.
- Improve underwriting through training, and models developed through experts.
- Build strong analytical tools for robust reviews of portfolio and tweaking of policies.

- Improve collections through infrastructure and analytics.
- Managing NPA through focused recoveries
- Driving efficiency through rationalization of branches and ATMs.

In the medium term, I will be focusing on

- training and competency building across layers through e-learning, classroom training and expert sessions
- Launch various asset products in planned and phased manner.
- Increase distribution network by identifying potential locations.
- Increase wallet share of our existing customers through data analytics, and customized product offerings.
- Build digitize lending for SME, MSME. Deepen NRI footprints in the Middle East and expand in other geographies.
- Rebuilding brand image.

Fair to customer and fair to bank is the philosophy to be followed across the bank.

We endeavor to reach our Vision 2024 with support from all stakeholders, which would enable us to create a responsible and a strong bank.

This is all from my side. Now we can open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish Patel from ICICI. Please go ahead.

Renish Patel: Yes, hi, sir. And thanks for the detailed presentation. Just a couple of questions from my side. So, one is on the margin trajectory, wherein we are saying we will try to reach a 3.5% by '24, from currently around 2.7%. So, sir, if you can just throw some light from where this incremental 120 or maybe 100 basis points we see? So, I am assuming a large part of it would be driven by the higher asset yield because any which ways cost of deposits we are at a lower end of a cycle. So, just your thoughts on how we will achieve this 3.5% would be a great help.

Murali Ramakrishnan: Yes, good question. I would like to start by saying that, we are going to be focusing on retail, MSME, SME and agri as I mentioned in my initial address. So, what we have done is in our workings, we have looked at what could be the average yield which we will be targeting in each of these product lines. Just for the benefit of the audience, I have listed down the key products, which includes agri non-gold,, agri gold, retail gold, business loan, personal loan, LAP and housing loans, then we also look at corporate in a very selective way and various other retail products which we will be launching over a period of time. So, what I have assumed in working out our plan for increasing the NIM, we have put approximately at what rates we should be targeting each of these products. So just to give you a sense of the rates, which we would be targeting, in agri, it will be anywhere from 9.2% to 10%, for gold retail from 10% to 11.5%, which I am sure is still a very-very competitive rate considering that many of our competition is doing at 13% and 12.5%. Agri gold, we will be targeting anywhere between 9% to 10% which is the prevailing rate, business loan, we have projected a little conservative rate from 9.3% to 10.3% which I am sure we can charge a little more on the MSME side and we can probably leverage our SME book and probably charge decent rate on the lower end of SME Personal loan, which is always unsecured, we will be looking at lending to retail, self-employed segment and professionals. So average rate which I am targeting will be anywhere between 10% to 10.5%. LAP we will be targeting anywhere from 10% to 10.5%. Home loan which is the most competitive product anyway in the market today, our average ticket size probably will be anywhere between Rs. 20 lakhs to 30 lakhs kind of range. And since we are predominantly present in Kerala with reasonable presence in rest of south, ticket sizes may not be very large as otherwise what we would be seeing in places like Mumbai or Delhi. So, there we will be able to charge reasonably good rates of anywhere from 8% to 8.8%. Corporate, we will be very selective and doing it on a need basis. All other retail products, we will be anyway targeting in a range of let us say 10% on an average. So, the rates which I had mentioned, these rates are pretty much reasonable rates considering the present rate at which these products are lent in the market. Given that our focus is going to be on quality, we will be obviously working on an overall average IRR with wherever we need to dilute a little bit on the rate for acquiring very good customer. That's the broad range, which I'm looking at.

Renish Patel: Sir, I just missed the yield on the corporate book.

Murali Ramakrishnan: Corporate book as we are not communicating it as a strategy, what we are planning to hear is that existing corporate customers who have excellent track record with us, we will continue to service them and whoever we are acquiring by way of a new customer, it will be predominantly in the area of mid-market to lower end of the corporate. So we will be looking at anywhere from 9% to 9.5% kind of rate.

Renish Patel: Just a follow up on this. So, of course, we will be revamping, modify our underwriting for existing underwriting process, and, of course, so I am assuming since we will go for a better rated asset, our rejection rate sort of will go up. So, what sort of credit growth are you factoring when we say 13% ROE?

Murali Ramakrishnan: To answer your first part of the question, we continue to source the same segment as we have been doing all along. Yes, I agree with you that there could be a lot more rejection. But what we intend to do is, once we formulate policies, and once we formulate a strategy for each of these business lines, there will be a strong communication going to the teams, which are going to be involved in sourcing such customers. So there will be clear articulation of what would be our ideal target customer, and we will encourage our channel partners, if it is retail, and our own employees in case of MSME, SME, to target the kind of customers who we are wanting to target. So with sufficient training, we don't expect them to be sourcing the same way as they've been sourcing all along. We'll definitely try to influence the employees as well as our outsourcing agents to source the kind of profile which we would want to do. Therefore, I don't really believe that we will have too much of rejection. Of course, the change from existing behavior to the new behavior will take some time. So, in that respect, we have factored that our growth which we are targeting in the initial few months will be much lower than what we would probably look at on a steady state basis. For agri, gold, we are looking at a growth of anywhere from 12% to 20% and retail gold, we are showing good growth as of now, so we will be looking at 30% to 35% kind of growth. A product like housing loan, etc., we are factoring very low growth till year end and March ‘22, because we expect the revival from COVID is expected to happen from 1st of April. So, this year, fourth quarter might see some bit of growth, but real growth probably we will start seeing it only from first quarter of next year. So year ended ‘March 22, we have projected a fairly subdued growth for products like housing loan. Also, we should remember that these products actually have the maximum competition anyway in the marketplace. Whereas products like PL, etc., where we are very present in a very miniscule way, we are looking at doubling in the first two, three years, because the base is too small. That is the way we have projected our various businesses.

Renish Patel: So blended basis, it should be between 10% to 15% range?

Murali Ramakrishnan: Correct, maybe you can say year-ended March ‘22 will be between 10% to 15% kind of growth. Hopefully if things become better in 2023, we are targeting blended growth of about 20%. And that is supposed to prevail for years going forward. These are plans drawn considering the present situation, we will definitely take this as we go along.

Renish Patel: Got it. So just a last clarification. So maybe what I understand is that the catchment area for us will remain same, but the customer selection, the customer filtering will go for a revamp?

Murali Ramakrishnan: Not only that, even if you look at the presence of this bank in retail, as I'm talking to you is almost insignificant, the way we are factoring retail asset growth by really focusing on products like housing loan, PL, etc., there'll be a host of new customers who will be coming in and we are also looking at retail being a vertical structure like the way some of the large retail banks have built their portfolio from scratch, that is the same model which we are planning to pursue. Therefore, we believe that the catchment area will be far more for retail asset products where today we have very insignificant presence and today the sourcing also is happening through branches, which I am sure you will know that in a branch when so many products are getting targeted, obviously, there is very less time for a branch manager or anybody in the branch really go out and seek the kind of customers who we would want to target, whereas if it's a vertical structure like what we are planning to do in retail asset, with the kind of outsourcing team which would be sourcing for us, they can precisely target the kind of customers we would want to onboard. Whereas products which actually typically do well in the branch structure is gold, MSME and SME, where there is a very clear geography identified for the branches. Given the restructuring which we are doing in the liability structure, both in the branch as well as in

Regional Office and with a new cluster layer coming in between branch and region layer, there will be lot of time available for the branch manager to focus on building business. Today instead of spending 100% of his time in firefighting in the branch with the cleanup of the structure and decluttering of the processes, we believe that at least half his time would be spent in sourcing the kind of customers we would want to target.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: I just wanted to know our strategy on the asset quality. We have not mentioned anything on the asset quality front.

Murali Ramakrishnan: The way we are planning for quality of underwriting and quality of sourcing is basically flowing from the strategy statement, which I mentioned, where we're talking about profitability through quality credit growth, and I also mentioned about using analytics for better underwriting, etc., So, what we are planning to do is one of the key ingredients for building any strong retail asset book is to have a good credit model for underwriting especially in the retail, MSME and SME. Today we have a lot of data available for sourcing good quality customer. So, we are in the process of building or create models for the retail products which we are planning to launch. And with those credit models and with the kind of portfolio management tools like drawing up vintage curves and tracking the quality of sourcing with month-on-month book on x-axis with the delinquents on the Y-axis, we can actually target whatever is ideal vintage curve which we would want to chase. So, as we keep building the book, we will keep comparing the quality of the book which we are building as against the ideal loss, which we would want to have. So we can probably keep tweaking our policy as we go along. Our underwriting standards and quality of sourcing will get tweaked as we see how the book is getting built. And for each of the product lines, we will have a very clearly demarcated target delinquency and the target Net Credit Loss (NCL) which we would want to have in each of these products.

Mangesh Kulkarni: So in terms of any numbers you would like to give for the credit costs and all these things for FY'22 and next year as well for the bank as a whole?

Murali Ramakrishnan: Bank as a whole I don't think I'll be able to discuss that now. For the new products which we are envisaging as part of strategy we have worked out what will be the likely NPA coming out of that and what is the yield we are looking at and the NCL which we are targeting. As far as the bank is concerned as I discussed in the Q2 analyst call, we are closely monitoring the recovery happening post lockdown situation and the behavior of the cases which were under moratorium. So just a few more days you will get to know everything about Q3 once we come out of the results of Q3. PCR is one of the issues which I'm sure all of you have been focusing on. We have drawn a plan to improve PCR from the current level, excluding write-off. With the way we are envisaging to build the book, we want to take it up from mid 40s kind of level as on Sep 2020 to 65%-plus kind of level by March '24.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: My question to our MD sir. As per your pedigree from where you have been an ex-ICICI banker, what are the key areas where improvement is needed to improve the image and build shareholders value for South Indian Bank? It is quite clear that going forward we are coming up with the share sale issue. And these projections are somewhat giving us that direction which will be pressing towards your forward investors, the investors would be joining. But what about the investors who have lost a lot of value over the years? What are the key changes in the system you are trying to build going forward so that shareholders value can be created?

Murali Ramakrishnan: I think the entire effort in drawing up a strategy plan is to basically look at the areas where the bank currently is not doing well, what we need to do to really improve the performance of the bank in all those areas. So, this is what we had identified as a strategy statement and also the building blocks which will help us to reach the strategy. The entire effort is basically to take up the performance of the bank from the current level to a significantly higher level, for which we have envisaged what kind of products to come up with, what kind of processes to follow, what kind of tools can we make use of, what kind of employees' competency we need to build in, what kind of philosophy with which we should engage with the customers. And all those are spelt out in the various Cs which I mentioned about. So what I believe is, while I completely acknowledge that the shareholders might have lost money, or they indeed have lost money, they are looking at probably the price at which they would have bought or the price at which they would have taken part in the rights issue in the past. But I think the best thing which I can do is to make the bank perform better in the days and years to come so that there is an inherent value seen by both the existing investors as well as the potential investors who will be coming into the bank, which I believe will be reflecting the true worth of the bank. Today, despite the book value per share being quite high at close to Rs.30, with the face value of only Re.1. It is clearly not enjoying the kind of discounting which you should be enjoying. Clearly, that probably has got to do with the way the bank probably has been perceived by the set of investors. So I think it's my endeavor to a) make the plans available and known to everybody and b) following that up with a performance which would probably backup or support the kind of plans which I'm sharing with. I think with consistent performance and with a good intent to really take the bank to the next level of performance. I believe it's just a question of time before new investors as well as the existing investors start seeing value in the stock. To make the bank really exploit the new opportunities, we certainly need capital to be raised which can come from institutional investors or from existing shareholders. Maybe we can envisage in what form and in how much quantity we would want to raise future capital needs of the bank, can be decided depending on how well the plans are panning out.

Saket Kapoor: Because when we look at these incumbents, not to mention people like Bandhan Bank and others and the way they have serviced at the pyramid to bring them up and the default at those levels remaining so low and we are servicing the corporates and those people defaulting every now and then, so sir, this definitely puts a question mark on the ability of the management to execute the business plans as per the banking norms. So sir, how should we investor believe that whatever you are trying to express today holds ground going forward three to four years down the line? My point of pessimism is clearly reflected for a bank having a market cap of 1,600 crores. So, even small, mid cap companies earning 30, 40 crores profit, are trading at higher market cap than the market cap of bank. So, the people are pessimist, and it would take drastic measures to improve the image going forward. Had not that been the case, the stock would not have been trading at levels which it has been trading consistently over a period of time destroying a lot of wealth for all categories of investors.

Murali Ramakrishnan: Let me just take your observation split into two parts. One is you mentioned about Bandhan Bank and their ability to service a lower end of customers which is typically microfinance customers and their delinquency being low there. You should remember that these banks which have got licenses, most of them were microfinance companies who have been given small bank license. So, by virtue of them servicing such customers in the past, particularly, they were very strong in certain geographies of the country. So, they obviously had the advantage of continue to service those customers with their banking requirement when they were given a license. So, it is true that as you go more and more granular, you are diversifying your risk, therefore, your potential to lose money to that extent will be less even if many customers default, because your average ticket size will be smaller. So, this is true for any small bank and this is true for even larger banks which have grown their retail book in a much larger way compared to their corporate book. Unfortunately, in SIB, if you look at the past, the way the bank has been targeting the customers, there has been a predominant focus on the corporate especially on the large corporate cases, by virtue of them taking really large exposures which led to high concentration risk on several cases with very high exposures. Obviously, when economy was not doing well, which is not necessarily to do with how the bank is run, it is true for all those banks which were focusing on large corporates, all of them were hit because of the general slowdown in the economy during the phase of 2012 to 2017 when many of the project lending as well as large corporate cases have gone into difficulty. And rightly so, this bank which has been focusing on showing good growth rate of advances by doing lot of large corporate cases at that point in time also suffered the same fate. So, what is the way out for a new incumbent like me? I need to correct this unfortunate situation of lending to large corporates at a level which is disproportionate to the size of the bank. Therefore, I am clearly saying that I will not focus on large corporate cases. I will restrict the ticket sizes not more than 25 crores as far as my corporate banking strategy is concerned. And I am trying to diversify the risk into retail. Therefore, my focus is to grow retail book in a big way. And there again, I am saying that I will not be relying on human judgment alone for taking credit decisions, we will definitely back it up with a strong credit models, and we will back it up with the training requirements for the employees so that we create a strong workforce, which understands these businesses and which knows what to underwrite and differentiate a good deal from bad deal. So this is how we are trying to correct the situation which has led to the present state of the bank. Coming to the question as to why should you believe me? I mean, obviously it's your choice to believe or not believe. I can only go by what you should see my credentials, what I have done in the past, and what I'm articulating now, and whether you are able to see coherent logic in what I'm saying and whether the facts which I am trying to back it up with do they make sense, can it all really lead to the end result which I am targeting and then you need to keep looking at how the bank is steered over the period of time and then make your own judgment. I only wish and hope that economy also helps me, and situations also help me to really implement some of these things which I'm articulating. Obviously, as we go along, we will try to keep tweaking our plans accordingly so that we don't miss the big picture which we're trying to achieve through combination of various activities.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Axis AMC. Please go ahead.

Deepak Agarwal: So wanted to understand, why this capital raise now, why not degrow the balance sheet, let some of these corporate advances which are lower yield products or any of the other products, let it run down, try to groom the profitability up. So, the way as outside investors we see is for Rs. 65,000 crores loan book and a market cap of Rs. 1,600 crores, it's next to impossible for you guys. So, why not release capital here? I understand on tier-1, we are on the lower side compared to the system. But instead of raising capital at such low valuations, why not reduce capital by letting or selling down some of these assets? Wait for the economy to improve at a point or at least your book, you are far more confident and then looking to grow because see frankly, growth means nothing as investors, even in regional banks, we have seen banks with much, much smaller sizes who are focused in regional geographies and not being pan India command much more market cap. So, your thoughts on this sir how are you thinking?

Murali Ramakrishnan: Basically, one thing we must remember is that the existing book carries certain kind of flavor of the quality of the portfolio. On the other side I would want to bring in here is that when you are trying to just let it run down, good cases will run down and bad cases will not run down, you will end up actually having a denominator also coming down and with a numerator of bad cases going up. It will only worsen the situation. I have done this before in previous organization also. When we were running retail book, with size of about Rs. 1,20,000 crores plus we had a problem in unsecured products. We had taken three years to correct the situation of taking out the bad cases and supplementing it with good cases so that over a three-year period, we can churn the entire portfolio and the portfolio will become good. This is no different from that. We cannot let something just stay idle and run it down and then expect things to become better, it won't. So, we need to supplement it with good quality additions to come in so that obviously you can't replace the entire corporate with that much of retail to start with, but your plan should be to ensure that you are able to not only replace it, build it over and above that over a period of time, till that the time you need to manage the ship which is currently in trouble. So slowly steering the ship in the right direction by ensuring that we keep moving, not idle, and at the same time, we need to do all the right actions so that we are able to manage the portfolio from not creating too much of damage to the bank, at the same time compensating it with the good quality portfolio. Therefore, the key here is how good are you able to increase your portfolio with good quality cases so that your delta loss rate is much smaller than what you're experiencing. So, in the initial period when corporate book is not fully replaced by retail book, to that extent your denominator will keep coming down, also compounded by the fact that COVID situation is definitely hurting the entire banking system. You will certainly see a little bit of surge in the NPA numbers. But over a period, as you keep building the retail book, you'll be able to bring it back to the trajectory which you want. So, I would tend to think that it's not a good idea to do nothing and then expect assets to get sold. Today, given that many courts are not working, ARCs are not able to recover, if you look at the NPA recovery which is happening, it's hardly anything in the entire eight to nine months of this year. So, it's not an easy situation for you to sell your portfolio at any price which you are thinking of selling. So, we need to manage it. And this has worked in many banks. That is why I know that this is something which given the right kind of efforts and right kind of planning definitely it can work.

Deepak Agarwal: My second question was on the regionals. So, one is, we are extremely heavy in Kerala and our understanding is generally Kerala is a liability market, not a credit market, because obviously, it's a lot of expats and there are very small industries, I would say. The second is we also have a pan India presence. So, what we have seen is as far as you remain regional and ex-Kerala is people typically believe, it could be right or wrong, that's a separate thing, that Kerala is not a market to be in credit, and we also want you to be smaller just because of being on the regional side, you don't have access to capital the way the larger banks have. So, your thoughts thereof will you bring down Kerala and will you consolidate to say only southern parts of India compared to being pan India?

Murali Ramakrishnan: I think the way the bank has been set up, bank which has been in existence for 90-plus years and clearly the bank has been set up with its origin trace to Kerala. So, clearly the vision of the promoters and the way the bank has been run subsequently for several decades is to take care of the business communities’ requirement in the Kerala region. That's the reason why out of the 20 regions which the bank today has, 10 regions are present in Kerala. So, yes, I agree that when we work for banks, which are not Kerala-based, when it's based in Delhi or in Mumbai or anywhere else, we always looked at the Kerala to be a market which is not a big market. So, even amongst the South, the states probably we would tend to think that Andhra or Tamil Nadu or Karnataka is a much bigger market compared to Kerala. So, now I have a choice of growing the Kerala market to capture its potential which is available there by virtue of our extensive network, where we enjoy very loyal customer base. And obviously, as you said rightly, we also enjoy good deposit base over there. So, having said that, Kerala, as a market also has a lot of semi-urban, rural kind of regions, where you have a lot of potential to do products which are suiting such industry segments. Therefore, we will obviously try to do business which makes sense for the location where the regions are present. We will definitely tap those businesses where it makes sense for us to use our distribution network in Kerala to build business on those areas. Having said that, we are fairly very well present in Tamil Nadu. We have a decent presence in AP and Karnataka. We can certainly look at those geographies for supplementing businesses both in SME and MSME. There is a huge potential for agri in states like Tamil Nadu where we have three big regions, which can tap a lot of agri-based businesses. But one thing which I must tell you is that since you're focusing on retail hence clearly the sourcing is going to be through outsourcing. So as long as we have a network of our channel partners and network of people to manage those channels, and we are able to process those requirements by using advanced tools, frankly, I am not restricted by Kerala alone for my retail market. When I'm looking at home loan, for example, there is nothing which stops me from hiring let's say a hub in Mumbai and having a credit hub in Mumbai for processing my proposal and having a credit guy sitting in my Bandra office to clear proposals, which can probably take care of the entire West requirement. So, I am not restricted in that sense by virtue of my limited presence in those geographies. The presence I have is good enough. Only thing is we used to manage those channel partners, the retail businesses which are run with outsourcing teams to source for you, there are things which you need to do quite well to ensure that those channels understand exactly what you want and those channels are really working for you so that you get to see the good leads, which are coming to them. Otherwise, you will always be in the periphery. And obviously, the rest of the deals will go to the large banks who might probably give them higher payout or whatever and then we probably might be getting the leftover ones, which may not be in the good interest of the bank. Therefore, we need to play it the way I am envisaging. We tap what is available, wherever we are present extensively, we will tap all those businesses with quality in mind. And whichever businesses which I'm planning to ramp up our launch, we will ensure that we put the right infrastructure to back it up with analytics, with collection and with credit, and with the kind of agents who will be sourcing for us, I believe we have the right ingredients for building a good portfolio in those locations.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

Gautami Desai: Sir, you said that you are open to raising capital, and it could be non-rights as well. So previously, I remember that management has made such attempts and then Mr. Mathew held it, I mean, he did not do it, I mean, he never spoke of non-rights issue and we're very grateful to him, because raising money at anything below the book value is extremely detrimental to the current shareholders and to send out a very wrong message to the shareholders as it has always been doing. And I think, what right now the bank is paying for is, this karmas of the past, which we don't want to repeat. You yourself said that you are not aiming for a high growth in the coming years. So I would strongly back the suggestion of previous analyst who said that, you must like kind of walk the talk, grow your profitability, show what changes that you are going to do is going to work, and then I'm sure the market will be ready to give you the price that you want. Otherwise, it will be extremely unfair to the existing shareholders if you do anything other than a non-rights issue.

Murali Ramakrishnan: I noted on your observation. We will do what is best for the organization definitely.

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

Rohan Mandora: I want to understand on the corporate side, like as you indicated in response to an earlier question that there are some concerns that are still there. So as we are targeting, say 2024 ROAs of close to 1%, when do you expect the stress in the portfolio to be over or maybe the profitability in that portfolio to normalize, while we look to upfront some of those recognitions in next two to three quarters or will it keep trickling down on one and a half to two years, some color on that would be helpful? You also talked about in your opening comments about some changes in the KRA for the employees. So, if you could discuss some further details, what are the specific changes that we have brought about across segments?

Murali Ramakrishnan: The first question is with respect to corporate portfolio. We have been actually reducing our corporate portfolio from as high as 48% of our book to currently about 25% of the book. So, we are clearly not targeting lumpy corporate deals. And even in terms of focus on corporate as I mentioned, it will be very selective focus of building corporate book. That is basically to take care of the incremental book not really giving us any kind of problem and to ensure that the existing book, whatever issues are there, they are managed and either they are made to run down or we do appropriate action to get rid of them. So we expect 25% of our books still in corporate, of which I am sure if you look at even Rs.100 crores plus kind of cases, we still have close to Rs. 5,000 crores kind of book So, while many of them are better rated corporate, there are corporate which are not that well rated, they are still in like what I had mentioned in my Q2 analyst call, there are some couple of cases which are BB also and which are on the verge of becoming NPA. That is the reason why we gave a guidance on how my NPA will pan out in next two quarters We expect that by virtue of thinning down our corporate book and by parallelly building the retail book over the period, we expect the problem arising out of corporate will not be in the same intensity which it used to be there because earlier when you are doing a lumpy case, and one of them becoming bad, it can be as high as 100 crores, 200 crores or 300 crores for the bank, which is a very large ticket size for the bank. Since we have been continuously reducing our exposure in terms of ticket size, as well as in terms of growing that book, I believe that this will pan out over the next 12 months to 18 months, we expect it to sort of slow down considerably and which may not really be impacting the volatility of the performance. By then hopefully, we'll also have a good base of retail etc., to backup this. And your second question was on KRA. As competency building is one of the things which I mentioned as one of the 6C's. And as I'm talking to you, we are obviously looking at restructuring our liability branch and distribution network. Once we declutter the operations there, clearly the role of each of the employees in the branch and the role of the branch manager, cluster head, regional head and others, will be revisited and we will be drawing KRAs which are appropriate for the roles which are envisaging them to do going forward. So, it is a WIP, we will be making those changes as we go along, and we expect it to be sort of put in place over let's say, nine to twelve months' time, because some of this will also need planning in terms of how you look at the human side of this performance and how you take care of the structure, which is existing there, and how do you bring in competencies, so that to the resources which are handling the specific job. It would require some bit of readjustment and restructuring of the teams also.

Moderator: Thank you. The next question is from the line of Sohail Halai from Antique Stock Broking Limited. Please go ahead.

Sohail Halai: You've said that you have been working on new credit models. Just wanted to understand excluding corporate, so, corporate was a challenge, we all understand that, but excluding corporate, where were the gaps in terms of the current offerings in terms of SME, agri, retail in terms of underwriting as well as in terms of the pricing of the product and how you intend to fix that?

Murali Ramakrishnan: See, in terms of underwriting, clearly, the methodology which is currently followed is manual underwriting, both for retail as well as for SME and MSME., though the tools like bureau picking etc., is happening, but clearly the way underwritten is predominantly manual underwriting. We have a centralized credit outfits which carry out credit underwriting of cases team exclusively for retail, MSME and SME and a set of people who are doing corporate. While the fabric of that will remain, but we will obviously complement the human skills which is available with the tools which will help them to take much better decision. So that's where this grid models coming in, and even the platform on which we will be onboarding retail case will be coming in, and we'll also be using these platforms to have data coming in from all other external sources available, for example, GST data or even data from packages like probe-42, or save risk or any of those. We can make use of those tools which are available in the market today to strengthen the quality of underwriting which we do. And the underwriting obviously as we have done on a well written policy, even the policies will be tweaked depending on what we are targeting and what kind of offerings we would want to do. So there will be a whole lot of work, which will be done in the areas like policy underwriting, in building competency, in reviewing and portfolio management and in beefing up our collection. So today, it's there, but it requires a lot of strengthening. So that is on the structure side. As far as the rate is concerned, clearly, the need is to equip the team to really price the risk which we are taking. And we will also be focusing on improving the overall wallet share from the customer by doing upselling and cross-selling. So that's another area which is getting a lot of traction, especially in this year, we are seeing traction happening there. So with the right kind of partners who are offering best-in-class products, I'm sure the team will be equipped with the tools to sell good quality products to existing customers, as well as new customers who are coming into the fold of the bank. So there will be a consistent effort being made to sensitize the teams about pricing the risk as well as monitoring the performance of the team based on the average yield, which they will be getting for their portfolio. So there'll be a constant endeavor to keep giving them flexibility, at the same time making them really work hard on getting higher rates for the risk which they are taking. Today, probably there is a very less linkage between the risks to the pricing which the team was doing. We will sensitize the team. With more and more analytical tools available and with more and more credit models coming in, we will be able to also appreciate the scale in the continuum of risk, thereby you can appropriately price your product so that you are pricing your risk accordingly.

Sohail Halai: If I completely understand you're trying to bring about the transformation or basically in terms of tweaking the entire banking the way it works, not only the corporate, but you're launching new products as well as basically tweaking or sanitizing basically the existing products. In this basically how do you see the challenges in terms of employees? First, what would be your hiring plans? And in terms of acceptability in terms of the employees, in terms of transforming the way old age days that they used to work how would you actually bring that about and in how much time could we expect it?

Murali Ramakrishnan: Good question. First, in terms of looking at a talent for running these businesses, see, it's very clear that the bank has been in existence for a good number of years. And the bank has been having a workforce which is quite young. As I said in my opening remarks also, the average age of employee base is 32 years. And now I have visited quite a few branches and quite a few regions, I find that the branches have a lot of young engineers, chartered accountants, and for many of them, it's their first job or many of them they've been in the system for two to three years kind of experience. And when I articulate to them about what I intend to get, the kind of response I get, the kind of enthusiasm and energy level shown by employees is something which is seen to be believed. So definitely the impression which probably a few of us who were not part of the bank earlier used to carry, I would tend to think that probably we were not really understanding the composition of employees in these kinds of banks. Now that I'm inside, and I'm able to see the employees who are forming part of this bank, I am actually more than encouraged to say that team is indeed very young, bright kids, and they are really looking forward to getting guided in the right way. And given the right kind of experience and competency building and exposure, I believe that the team will be able to really shape up very well. I have got the experience of working with many of the young recruits from many of the campuses in my earlier job, where once you take the people and give them the right kind of guidance, I'm sure they are intelligent enough to grasp what we are trying to hit at and today by doing it, they quickly get the expertise which is required for doing their function. So I am going to do it in a couple of ways; one is really looking at the kind of training they need, both in the functional as well as in the soft skills. And I am already talking to individuals and agencies which can help us in carrying out a training schedule so that we are able to expose them to the kind of skill sets, which we would want them to acquire. And as I'm talking, we have already implemented the common set of DNAs which we would want each of the employees to exhibit, and I have done at least a three to four times communication to the entire bank on the need for adopting these DNAs. I'm going to be looking at these DNAs not only for assessing performance, but also for assessing the potential of each of the employees for giving complex and bigger jobs as we go along. And I find the response to be really very encouraging. So I would tend to believe that given the right kind of communication and taking the team along, I don't really expect too much of hurdle in them playing a key role in the transformation, which I'm planning to do. So with regard to the talent from outside, yes, now that I've had the fortune of looking at senior employees very closely, the branches, and the regional offices, wherever we believe that the talent today is not there, especially in some of the retail products by virtue of them, having done retail for a very short period of time, clearly we need talent in those areas. And therefore, I'll supplement those talents by identifying people from outside. In fact, we have already identified people for taking up those jobs and some of them are in the process of joining. These are the resources who have worked with me in the past and moved to many other organizations, and they have got an established track record of having done high quality work in the institutions they are working for. So we are in the process of beefing up our talent with a few talents from outside and parallelly we have looked at the talents available within the bank in the senior management level and we are working very closely with them. In fact, I am doing at least two to three reviews every week with all this senior team which is part of the distribution network today. So I am able to engage with them one-on-one through the various reviews and I could see potential in each of them. And people who are today having the right kind of skill sets both functionally and in terms of soft skills, we are looking at such people for taking up larger jobs in the new scheme of things. So it will be a lot of opportunity for existing talent available in the bank, and with a few slots being filled with experts who will be coming from outside, and obviously the need for ensuring that the team works seamlessly and there is a good cohesive work environment. I think that's one of the important jobs which I need to do as a M.D. of the bank to constantly communicate as to how I want the teams to work as a unit stitched well together for achieving the common objective set out for the bank.

Sohail Halai: Basically, in terms of talent, how are we planning to incentivize them in terms of monetarily, so is it basically that we have been looking at their compensation or the ESOP scheme, so is there any plan and has there been any discussion with you with the board on these aspects?

Murali Ramakrishnan: Yes, we will definitely use all those tools available for incentivizing people. And, the board is completely in support of those initiatives.

Moderator: Thank you. The next question is from the line of Anurag Jain from Bharat Ventures. Please go ahead.

Anurag Jain: I think you almost answered my question which I was supposed to ask. The concern being if you look at South Indian Bank, the cost to income ratio is too high; it is 53%. And with the other banks, the employee productivity is very high which adds simply to the pre-operating profit margin and the profitability, so business per employee is 18 crores and business per branch is Rs.168 crores. So I mean, the scaling, acquiring new talent and the product portfolio mix, which is a new product service you guys are offering, how comfortable you are that this will take its own course in a sweet way in next say a couple of quarters or a year’s time?

Murali Ramakrishnan: You are right, the observation, which you made about cost-income being on the higher side is something which you identified as one of the pieces to be worked upon. And there are a few initiatives already been taken both in addressing the cost aspect as well as in increasing the income aspect. So, obviously, it has to be tackled by working at both ends apart from of course, increasing the productivity and efficiency of people so that we get the best value out of them. So, we have drawn plans in terms of identifying unproductive branches, unproductive ATMs which are not today really contributing, but on the other hand, they are actually draining resources, on intensified basis. We are looking at rationalizing some of them, and as I am talking to you, we are also looking at non-profit making ATMs, whether it's making sense to continue, given there is more and more investment to be made based on the regulator's guidelines. So it's imperative that we are looking at the entire thing with a different perspective so that we just don't put good money after bad money. We need to ensure that they are sort of rationalized and at the same time, we need to be looking at customer convenience also. Therefore, we are looking on the cost side by rationalizing some of these and are practically revisiting all our costs with the existing vendors, with the possibility of getting more value out of them for the same cost or reducing the cost. While we do that, the only way to increase income is to basically doing the right pricing for the products which we are offering and differentially pricing for customers based on the riskiness and also increasing the product suite. Apart from that, I think no bank can achieve the desired ROE just by credit alone. So, you need to look at how to supplement credit income through cross-sell and upsell of various other products for the same customer so that you are able to get overall wallet share which will give you good value for money from each customer. So, I think each of these will be attempted and will be pushed to the entire team. There is a conscious effort being made them to rationalize the same, otherwise, these ratios look adversely high. Our endeavor is to correct it by doing these initiatives. And over a period, we believe that we will be able to work at it and we will target to bring it down to a desired level in the next three to four years.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Yes, most of the questions have been answered, just wanted to understand two things. On the loan mix, I think you are saying that we will be focusing more on retail, MSME and agri. But if I look at your close peer, the bank which operates out of Kerala, I think strategically they have moved outside of retail, MSME, agri to an extent because maybe they have already got 9%, 10% market share in Kerala, but as someone also was highlighting Kerala has been perceived as more of a liability market versus credit market. So, I mean, the question is do you see enough scope for you to do retail, MSME in Kerala or this is probably the entire southern region that you will be focusing on? And at the same time once you hit Rs.1 lakh crore loan book, what should be the corporate share from current let us say 25%?

Murali Ramakrishnan: So, when I'm saying that I'm going to be focusing on building retail, it's definitely not necessarily Kerala alone. Obviously, it's going to be making use of our entire network of branches and locations where we are present. So obviously, we will be leveraging the existing infrastructure which is there, but nothing stops us from looking at expanding to new areas wherever we feel that we will be able to source the kind of quality customers we would want to target. With regard to the other Kerala bank to focusing on non-retail, I think each bank in whatever stage they are in, I am sure the strategies could be quite different for each of the bank. So given the present situation in the bank and given the fact that the bank has to be cheered for realizing its true potential and for managing this transition phase quite well, I think we need to adopt this as a strategy is what I believe. That's the reason why I have drawn up plans on this, because we need to remember one thing that by not focusing on retail, SME, MSME, and if we continue to focus on corporate, there is a potential likelihood of doing the same mistake again, because for you to show a growth over a period of time, you might probably be tempted to do large value deals, which might increase concentration risk. And anyway, market has its own cycle. So, in a good phase, you might be able to grow your book and show good CAGR growth. But when the market turns topsy-turvy, it's when all the NPA formation starts happening. Therefore, it makes sense for us to diversify the risk into other areas of lending. That's the reason why we believe that retail, MSME SME concentration will help us to diversify the risk and it's a hard work, but then, if you do it consistently over a period, you can create a solid performing book as you will not have too much of a volatility in terms of a big loan account going out of your books due to account turning out to be bad, which can probably swing your performance parameters for a quarter. All that to a large extent will be curtailed if you diversify your risk. And with respect to composition, as I said earlier, we will continue to be servicing existing large corporate customers who are performing well with us and selectively new customers going forward with average ticket size of Rs.25 crores. So, in terms of building the other book, that will lead to definitely the corporates contribution in the overall scheme of things to come down. And also, we should remember that corporate will have its own rundown also because we may not want to take more than certain exposure with certain corporate. So, clearly they will be looking for going to other banks. To that extent, you will also have a run down or exit or we might also have a forced exit in some cases which we believe can help us save some provisioning, So, with all that, we are looking at degrowing corporate book maybe till about March 23, it will be degrowing even with the addition of new cases coming in with the rundown of existing book and after that, we probably be looking at lower single digit kind of growth in the corporate book. Whereas all other books we are planning to grow in stronger double-digit growths.

Jai Mundhra: And the second and last question on organizational structure, I think we have given a slide as to the new organizational structure. If you can highlight what are the changes here?

Murali Ramakrishnan: As per regulations, Chief risk officer, chief financial officer and chief compliance officer is supposed to be reporting to MD & CEO. For example, head, vigilance and audit, it cannot be reporting to anybody other than MD & CEO. So, some of these by design obviously made to report to me and that is how the structure has been arrived at. What is new here is clearly Head Business, Head Credit, even this was there, earlier it used to be called operations where some of even control functions like HR were also forming part of so-called operations. So there are some nomenclature related clarification also. But the one which I put now as part of my presentation we look at it with a clean structure where we are saying, Head Business will be looking at sales function of all business lines, Head Credit will be looking at obviously credit function of all business lines, and they won't carry any targets with respect to volume but however they will carry targets with respect to delinquency and credit loss. Treasury anyways an independent function which will be directly reporting to me. Vigilance and audit, it is a pretty strong pillar which we need to have to ensure that processes are adhered to and internal frauds are mitigated, and even the adherence and processes, compliance, etc., are followed in both spirit and words. So therefore, you need a head reporting to me directly. Chief Technology officer a technology team under which even digital banking will be coming in. So he reports to me as technology being one of the biggest drivers for our plans. CFO will obviously be reporting to me. And Head Operations by virtue of clean structure where we don't want any vested interest, they can't be reporting to sales or credit or any of those functions, that will be reporting to me. Collections, currently, I put it under Head Operations & Collections. Maybe depending on how we are sourcing it, collections probably can be made to report to credit also.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

Pritesh Bumb: Just wanted to check on the fee side. We haven't mentioned anything on the fee front. I think you mentioned to increase the income to reduce the cost to income as a number. But what are your views on the fee side? We are predominant in our retail orientation. So how do you see the fees?

Murali Ramakrishnan: There are products within retail which are amenable for collecting fees and again MSME & SME products are also amenable for collecting fees. And even in the earlier banks where I used to work, we used to even collect marginal fees whenever we do renewal. So, we'll be looking at comprehensively the margin on the interest as well as fees collectively contributing adding to the ROE. Currently because of lesser focus on pricing the product adequately well, the ROE of the bank has been suffering and as you know it was as low as 2% to 3%. So, clearly we need to see how we can beef up that. That has to come from working on NII as well as the fee for the various products which we are offering where there is a possibility for us to collect fees. So, the mandate given to the teams which are handling the relationships, they will be exploring both on the yield side as well as on the fee side, whatever is a potential available where they will try to tap that and we will work at the overall yield which I read out in the earlier one of the replies, we will try to arrive at those kind of yields collectively for the entire portfolio. And wherever it's possible to collect fees, depending on the nature of the product, we will definitely push the team for collecting fees. So fee income to asset which is one of the ratios which typically is looked at, we are envisaging that to be anywhere between 0.4% to 0.6%.

Pritesh Bumb: So actually, the fees also include third-party distribution, FX fees, you are strong in NRI proportion basically and remittances. So anything on that side? I think you gave overall number but 0.65 also looks a little distant as assets also set to grow, right?

Murali Ramakrishnan: As I said, the traction on third-party has started happening. We seem to have done reasonably well in this year and we will continue to keep that as focus. And I also mentioned about whenever we are tapping any corporate or any SME, MSME the income is not going to just come from credit income, we will obviously be looking at cross-sell, upsell, CASA and various other things which we can do with the customer. So, it's part of the plan to tie up with the third-party products, who are market leaders and with many of them we are currently also working. And we have started actually seeing good traction happening in those products this year. So we will continue to lay emphasis on them. So that's the way I'm looking at bringing in the focus and making the team actually do the tough job of doing those deliberately talking about it and getting the deal and tapping the opportunity for doing any cross sell with every customer.

Pritesh Bumb: Second question was on NIM side. I think you articulated well on the yield side, that means you'll have to lower the cost of funds and predominantly CASA has to improve and 35% CASA ratio. So where this CASA will come from is my question because currently the industry CASA growth is coming from either salaried, you have to be strong in salaried segment either rate play or either FX side cross sell to CASA as well. So, how do you think you will grow on the CASA side to lower your cost of funds and improve the NIM because yields will be at a range of 8.5%, 9%?

Murali Ramakrishnan: Correct. We need to constantly work on ensuring that the customers who we deal with continue to keep rooting their turnovers through us wherever we are part of the consortium, especially in the SME, MSME, corporate kind of cases, whatever is the contribution in the overall working capital requirement of the customer, we need to demand and get the kind of routing which has to happen through our account. So that will be done consciously. Second, we will be looking at opening more and more new savings accounts and the current accounts. And in fact, we are constantly coming up with the technology enabled products and this is where our technology team actually has been doing fairly well in bringing up a lot of ease with which a customer onboarding can happen. And also we are increasingly acquiring customers who are quite savvy to technology products. As I'm talking, more than 85%, 90% of our transactions happen through digital channels. There is constant drive to increase our new customer base and deepening the existing customer by engaging with them more and more, not only for identifying new business opportunities, but also to ensure that we get the desired share of CASA through them. So, when I joined in July and from then onwards, we have been actually constantly driving CASA and we have almost increased it by close to 1.5% to 2% in the last four months. And we have set a modest target of trying to reach 30% by March is what we are aiming to do. And our endeavor is to work very closely, both in acquiring new customers as well as deepening the existing customer base. As retail is going to be a key driver in building our asset book, we will have more and more new customers coming into the bank. And with technology enabled products, we believe that we can convince them to make use of our account as the primary account which would help them also to keep larger funds in the savings account and current account, which we'll be offering to them. So, it has to be a combination of product offering, customer acquisition, deepening the customer engagement and ensuring that clearly laid out targets are provided to the team so that team becomes efficient in engaging with the customer to really set the expectations right so that we are looked at as a primary bank for the relationships.

Pritesh Bumb: A follow up on that you articulated some unsecured loans like personal or LAP, do you think that the pricing is okay because the credit costs of these will be higher and you are targeting 1% ROA maybe at some point be difficult again?

Murali Ramakrishnan: If I put too high rate there, I think the follow up question will be how can you sell it at 12% and expect the delinquencies to be low. So we need to play between the rate and the quality, right. So, the need of the hour is to ensure that I don't add incrementally any more NPAs or to lessen the NPAs, which will get added to the book. I need to be therefore conscious of the quality of the customers who I am tapping. Personal loan can be offered to salaried as well as self-employed, even under salaried, there could be different segment of customers, again, professionals will be a segment. These people are generally low on delinquency, but the rate also will be on the lower side. So, we need to play between the riskiness and the potential for earning quality income. So, I would rather focus on giving the benefit of slightly lower rate and tapping a good customer so that we can keep the customer for a longer period and through analytics we can come up with the next best product to sell depending on the life cycle they are in. So we can probably increase the stickiness of the customer with us. If I really need to increase my overall yield, I could go for a two-wheeler loan or I could go for used CV, used auto, where I know I can definitely charge much higher rates. But whether that would meet with the strategy, which I'm trying to drive where I need to really be focusing on quality book getting built, I will definitely look at those products, when I'm ready to take such risks in the bank. So currently I need to balance it out between yield and quality.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I come back to the same thing, why dilute at this market cap. There is a shortfall of capital obviously. But Rs.1,250 crores mean 50% dilution, and you have 65,000 crores advances book. If you manage to increase the yield by 1% over the next 12-months, then you get 650 crores plus you're already having operating profit of Rs. 1,500 crores. So, it doesn't make sense. Maybe you can look at zero growth or reduce a book size by 10% or so. So your thoughts on this?

Murali Ramakrishnan: See, first of all, I don't want any of you to presume that we will definitely be diluting. As I am talking to you, we still haven't decided whether we will go through a QIP route or rights issue or whatever.

Tushar Sarda: Even rights issue is dilution of our money, no. We have already lost money. We need to put in more money.

Murali Ramakrishnan: No, I am just saying that I don't want you to have a presumption that whatever route which we are trying to do. See, there is a way to look at it. While I completely understand the pain of the existing investors, please don't take me wrong, but I am looking at the way how do we enable the institution to perform better so that they don't end up actually continuously be paid. So if there is a possibility for them to experience, maybe better prospects, by virtue of working in the bank with a reasonable set of strategies and sensible way of growing the bank, and if that gets recognized in the market, it's a question of time before the stock reflects the true value of the bank. Therefore, as a new incumbent, I have a choice of continuously thinking that existing investors have been paid, therefore, let me just play the role of status quo and maybe allow the book to run down, or do something tangible while managing this how do I tangibly put in actions which will help the bank to really look at something which can possibly happen better for the bank. That is the way I look at it.

Tushar Sarda: See, we understand what you're saying, But there are already examples of Catholic Syrian Bank and IDFC First Bank where the yields went up by over 100 basis points in 12 months. So what we want you to do is you come in as new management, you're changing processes, demonstrate that you will increase the yield not even by 100 basis points, by 50 basis points, increase the NIM from 2.7% to 3.4%, the stock price goes up, then maybe you can do dilution, till that time you just manage, bank has managed without capital, for almost three years, they have been trying to dilute. What we are saying is for next 6, 9, 12 months, you show that what you can do with the bank, let the market recognize your abilities and till when banks can be turned around. Once that is done, then you can of course go ahead and raise capital.

Murali Ramakrishnan: I have no disconnect with what you're saying. But you need to look at that the way it's managed, I'm not saying it's been managed badly, but your PCR and capital adequacy is not comfortable at all.

Tushar Sarda: Yes, I agree with you. So therefore, PCR when is comfortable, reduce the advances, right, let us not grow.

Murali Ramakrishnan: While you as an investor might be looking at this way, regulators don't look at it that way, regulators keep coming back to us saying why your PCR is low, keep providing more, your PCR at mid-40s is unacceptable is what they are saying. You should remember that there are a lot of other stakeholders also for an institution, right? We need to play as per the requirements of each of the stakeholders.

Tushar Sarda: No, if I look at number, Rs.1,650 crores, there will be some addition because of this COVID, and you have 1,500 crores operating profit every year, you provide entire Rs.1,500 crores, we are not saying no to that, right. But just show us that the NIM has gone up from 2.8% to 3.4%. What happens is instead of Rs.30 stock trading at Rs.9, it will start trading at maybe Rs.20, 22 right, and then you do the dilution. We are very happy that your coming, replace the older management and older management with all the shortcoming, he has managed to reduce the corporate book quite substantially right. And now, corporate book is only 25% of your total. It's question of managing for six, nine months, demonstrating that you mean business showing us some increase in yield and then…

Murali Ramakrishnan: 2.6% becoming 3.3% in nine to 12 months, you should remember that average you're talking about the book as a whole. That won't happen, right.

Tushar Sarda: I understand but that has been demonstrated by Catholic Syrian and IDFC First.

Murali Ramakrishnan: If you're assuming that we are dying to raise capital, because that's a thing to do, no. We would want to do that because that's a need of the hour looking at the stakeholder's expectations. One of the stakeholders is definitely investors, definitely we should be cognizant of the pain which they've gone through. But having said that, I think it's in everybody's interest to make the institution stronger.

Tushar Sarda: So nobody's denying need for capital. The question is at what price, right?

Murali Ramakrishnan: At least to my understanding, there is no direct correlation of what the fundamentals and stock prices. Sometimes it reflects, sometimes it may not reflect.

Tushar Sarda: No-no, it is also a question of confidence in the management.

Murali Ramakrishnan: Therefore, I am saying, then you are actually playing with a much riskier situation. See, it's very easy to sit from outside and mention something. But when you are holding the job of running an institution, we need to be really, really patient, because the other stakeholders who are also equally watchful of what you're doing.

Tushar Sarda: Yes, but you have a very large pool of operating profit, right? This is the only bank which is trading below its operating profit. Even PSU banks trade at two, three times their operating profit, you're trading below operating profits. You please consider that. See, as a CEO, I understand your anxiety to make bank stronger. But valuation also has to be taken into account, right. Even a bank like Bank of Baroda and Central Bank say that three times their operating profit, two times their operating profit, we are trading at less than one time. That's where we're coming from as investors.

Murali Ramakrishnan: I completely agree with you. I have no disconnect. Please don't take me wrong. I am fully with you.

Tushar Sarda: We also don't have any disconnect. You are new. So obviously you have to manage the situation, right. So the suggestions that we are making is in good faith.

Murali Ramakrishnan: I clearly noted down this suggestion. I also want you to co-hold other view like while I'm co-holding your view, I also want you to co-hold other view that there are other stakeholders who are also anxious about the institution. That is a limited point I am making.

Tushar Sarda: See, what RBI does is when you don't have capital, they put you under corrective action, right? You say voluntarily I will not allow my balance sheet to grow for six months. Let me demonstrate to my investor that I have managed to turn around the bank, increase my NIM by 20, I'm saying not 50, even 10, 20, 30 basis points till investor get used to you and investors start believing that the things are not very bad with the bank and some competent person can turn it around. Stock prices are reflecting the reality, right. You know, small bank…

Murali Ramakrishnan: We cannot be discussing for too long. Just to take on your point, so, your turnaround are restricted to only NIM increase, I am saying if NIM increase plus many other things which you need to set out is what I'm saying. I am not saying no to NIM increase. I am the first person to say that NIM has to go up.

Tushar Sarda: Because we are again the lowest NIM. Even PSU banks have higher NIM, right?

Murali Ramakrishnan: I completely agree with you. You are saying you don't grow the bank, you just increase the NIM, demonstrate to market that you are capable of changing the NIM, therefore you can transform the bank and then the market will start trusting you and therefore the stock price will go up, then if at all you want to raise you raise at that time, I completely take your logic…

Tushar Sarda: Absolutely sir. Even a bank like Karnataka Bank, which is very similar to us in terms of asset quality and other things, their NIM is about 3.5%.

Murali Ramakrishnan: I am agreeing that the NIM is low and I am agreeing that I'm going to work on improving this and I've already started taking action on those. So I have no disconnect with what you're saying.

Tushar Sarda: If you have noted our suggestion, then I've nothing else to add

Murali Ramakrishnan: I am fully with you saying NIM is low for the bank, this NIM should be improved, there is no disconnect. Other banks, which are similar sized banks are having better NIMs. I agree to that. And I am increasing the NIM is what the new information I'm giving you, I'm increasing the rate of each product as I'm talking to I'm trying to increase gold loan rate, I'm trying to increase agri rate, I'm trying to increase the retail rate and corporate rate and everywhere we are trying to get better yields. But these changes for it to reflect in actual NIM going up will take some time. Now, the choice of waiting for that to change and expect that you are not hit adversely with the deterioration in your portfolio or any of those, then you are running a risk of capital adequacy going further down and your PCR coming further down, which is not in the best interest of the regulators. While I understand your concern as an investor, but I'm sure you also know how the situation in the banking scenario today is and now our regulators are clearly looking at some of these as important things to watch out for. Therefore, we need to really play and satisfy every stakeholder who are looking at the interest of the bank, right.

Tushar Sarda: So now let's come back to regulator since you mentioned regulator. What will regulator do if our PCR is low? They will say that you will be put under corrective action, right, you can't increase your balance sheet, you can't lend and all that. You put a voluntary restriction on the balance sheet for next six months, nine months, that's what investors have been suggesting that, look, instead of growing, look at reducing the size of rebalancing the portfolio, even if you don't want

Murali Ramakrishnan: We are cognizant of what other Banks are doing. So we are learning lessons from them also. You don't take me wrong. See, it's very easy for you to say just don't do anything, just keep quiet, just increase the NIM. The other stakeholders are not to going to take that lightly. And we have employee base of 8,000 people working in the bank and the employees are stakeholders, investors are stakeholders, board is a stakeholder, regulators are stakeholders, there are other institutional investors who are also both in India and outside of India, which put in money. As I am talking to you, I'm engaging with lot of existing investors and potential new investors, I'm talking to all of them. And I'm taking feedback from all of them. So whatever you're saying, sorry to say that it's not new to me. I'm actually listening to what is the best by taking all those counter views, we need to do what is best for the bank.

Tushar Sarda: We are also investing for 35 years, I've been in market for 35 years, we see different industries, different companies, right, there is a valuation, that is the most important parameter, for you it is one of the parameters, right? We've given you our feedback, our inputs. Now, we leave it to you. Whatever decision you take; we will live with it. Thanks for your time.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as a last question, I would now like to hand the conference over to the management for closing comments.

Murali Ramakrishnan: Thank you so much. And I thank all the participants who took the time off and to take part in this discussion. I really value all the questions and the suggestions which came up during my discussion. And I once again wish to reiterate that we really make note of your suggestions and believe that they are indeed valuable. And me and my team are working hard to ensure that we factor those in our plans and we factor those in charting the way for the bank. And I am quite confident that I will come back time and again with you to share with the progress which we are making on the plans which I have spelt out and we will definitely be richer with your inputs as we go along in our journey to do the things which we spelt out we would do. And I really look forward to continued support from all of you. And I will be more than happy to be as much transparent as possible and as much willing to share exactly what my thought process is in each of those. So sometimes it might also mean that I am questioning but it is basically to engage constructively so that professionally both of us become richer in our conversation. I really look forward to such a meaningful engagement going forward also. I once again, thank all the participants for taking your time off and participating in this call. Thanks so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of South Indian Bank Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.