



“South Indian Bank Limited  
Q2 FY '24 Earnings Conference Call”  
October 20, 2023



**MANAGEMENT:** **MR. P.R. SESHADRI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THE SOUTH INDIAN BANK LIMITED**  
**MR. THOMAS JOSEPH K. – EXECUTIVE VICE PRESIDENT AND CHIEF BUSINESS OFFICER – THE SOUTH INDIAN BANK LIMITED**  
**MR. ANTO GEORGE T. – CHIEF GENERAL MANAGER, HR AND OPERATIONS – THE SOUTH INDIAN BANK LIMITED**  
**MR. SANCHAY SINHA – CHIEF GENERAL MANAGER AND HEAD DISTRIBUTION – THE SOUTH INDIAN BANK LIMITED**  
**MS. CHITHRA H. – SENIOR GENERAL MANAGER AND CHIEF FINANCIAL OFFICER – THE SOUTH INDIAN BANK LIMITED**

**MODERATOR:** **MR. CHINTAN SHAH – ICICI SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to South Indian Bank Q2 FY '24 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chintan Shah. Thank you, and over to you, sir.

**Chintan Shah:** Yes. Thank you, Sagar. Good afternoon, everyone, and welcome to the [Q2] FY '24 Results Conference Call for South Indian Bank. We have with us from the management, Mr. P.R. Seshadri, Managing Director and CEO, along with the management team. So without further delay, I would now like to hand over the floor to the management. Thank you, and over to you, sir.

**P R Seshadri:** Thank you, Chintan. Good morning to all of you, and thank you for joining us for the South Indian Bank Limited Q2 FY '24 Earnings Call. We are joined by my colleagues, Mr. Thomas Joseph K., EVP and Chief Business Officer; Mr. Anto George T., CGM, HR and Operations; Mr. Sanchay Sinha, CGM and Head distribution; Ms. Chithra H., SGM and CFO; along with other Senior Executives.

Let me start with the key highlights of financial performance for the quarter ended September 2023. Total deposits grew by 10% to INR97,085 crores from INR88,477 crores. Gross advances grew by 10% to INR74,947 crores from INR67,963 crores.

Net profit for the quarter grew by 23% year-on-year from INR223 crores to INR275 crores. CASA amount increased by 2% year-on-year to INR31,100 crores versus INR30,548 crores. Net interest margin for the quarter improved by 10 basis points to 3.31%.

Provision coverage ratio, excluding write-offs, improved by 948 basis points on a year-on-year basis to reach 66.77%. Overall gross NPA reduced by 71 basis points from 5.67% to 4.96%. Net NPA reduced by 81 basis points from 2.51% to 1.70%.

Improvement in ROA occurred during the quarter to bring us to 0.97% as against 0.85% same time last year. ROE improved to 15.38% against 14.17%. Recovery and upgradation in NPA accounts increased from INR374 crores in the prior year to INR475 crores in this quarter.

CRAR improved on a year-on-year basis to 16.69%, of which Tier 1 is 14.22%. The total business of the bank increased by 10% and is currently standing at INR172,032 crores. Advances grew by 10%, as I mentioned earlier.

Total disbursement for the quarter was INR21,353 crores, of which INR15,697 crores was corporate, which is largely A-rated entities and above. Gold was INR2,792 crores. Our MSME segment was INR1,335 crores; and other retail, which includes housing loan, personal loans and other products, was INR1,529 crores.

We continue to grow out our gold loan business. Our disbursements year-to-date were INR5,675 crores with an average ticket size of roughly INR1.56 lakhs. The gold book has grown very significantly by 16% year-on-year. Personal loan is another segment where we see good traction. Since the launch of the preapproved personal loan targeting our own liability customers in December 2021, the PL book is roughly INR2,100 crores.

Credit card is another area of growth. This product was launched in FY '22. At the end of September 2023, we had issued about 332,000 credit cards with an average monthly spend per card at INR20,515. The total book as on September stood at INR1,164 crores. The liability portfolio continues to be strong for the institution. Our core deposits grew year-on-year to INR93,448 crores. NRI deposits continued to be an area of strength, and it now stands at INR28,785 crores.

It contributes to about 1/3 of our total deposits. Low-cost NRI deposits stand at INR9,116 crores. Our investment book was at INR27,296 crores with an HTM book of INR20,858 crores and AFS and HFT book of INR6,438 crores. The modified duration of the investment book continues to be conservative at about 2.79. The fresh slippage for the quarter stood at INR312 crores and is within the guidance provided by my predecessor. The overall restructured book stands at INR1,159 crores.

The bank holds standard asset provisions, including standard restructured and FITL-related provisions of INR476 crores. Net interest income for the quarter increased by 14% to INR831 crores. Our core fee income increased 13% to INR170 crores.

Treasury profit for the quarter was about INR61 crores, excluding provisions that we had to make on SRs, which we can come to subsequently. Overall provisions decreased by 71% year-on-year to INR51 crores. The reduction in provisions is mainly due to lower slippages and better recoveries.

With this, we open the floor for questions, ladies and gentlemen.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Jai Mundhra. Please go ahead.

**Jai Mundhra:** Yes. Sir, while we wait the question queue, I would also request if you can also include in your opening remarks, your initial view on the institution now that you have almost completed three weeks, your initial thought process, how do you look at the strength and probable weakness of the bank, your initial view on product, processes, people and positioning of the bank? And then maybe that will help set the tone for the further discussion? Thank you.

**P R Seshadri:** Thanks, Jai. That is an overarching question, I think that touches on every aspect of the business. So let me try and answer that. I mean whilst I've been here from the 1st of October, I'm getting to know the business and getting to meet the people, getting to understand the financials and I've spent most of my time getting to get grips with how our balance sheet looks, how our people view the world and how we are positioned vis-a-vis competition, etc.

So a few comments leading from Jai's question. The first is that the portfolio is in decent shape. I think a great deal of work has already been done by Murali in the last 3 years to clean up what was historically -- historical problem part of the portfolio.

I think there's a great deal of work that's happened to improve the margin at the institution. So margins, which 3 or 4 or 5 years ago used to be sub-3% and now comfortably above 3%. There's been a lot of work that's been done in segregation of duties and ensuring that credit quality is maintained. All of that is visible.

But we continue to be predominantly dependent on the -- on three product sides on the asset front, which we'll come to in just a bit. But before I go there, I think the key strength of the institution remains a very strong franchise on the liability side, both domestic liabilities as well as the NR liability franchise.

I think it's perhaps a little underemphasized the quality of this franchise, our liability base continues to grow in spite of the fact that we are not priced at the margin as aggressively as some of our larger competitors, including the Kerala-based competitors. So that is indicative of the very strong relationship that we enjoy with our liability customers.

On the asset side, as I said, we have three current engines of growth. One is corporate; the second is the gold loan business, which I mentioned in my inaugural comments; and the third are the personal loans to credit card products that were launched relatively recently.

Given the reliance on corporate, and the fact that the corporate is mainly targeted to extremely highly rated institutions, the margin of the organization tends to be a little lower than some of our competitors in either in Kerala or outside of Kerala.

And as a direct consequence of that statement, and in continuation with what my predecessor was doing, our aim is to try and figure out how to get growth going, both on retail as well as on the MSME segment. Now MSME has been the historic bedrock of the company, and it's an area of significant strength among our current portfolio, which is roughly about INR16,000 crores-or-so is a reflection of the fact that we have a deeply embedded MSME business.

But in recent times, it's not been growing. So those are areas where we would like to focus on the consumer side. And this is a continuation of the strategy that we had adopted earlier as well. So I don't know, Jai, if that answers the rather expansive question from your side, but it's an attempt to provide an overview of what we are thinking at this point in time.

**Jai Mundhra:**

Sure, sir. Maybe we can keep -- I'm sure there would be a lot of questions on this. So maybe we can start the Q&A, and I'll come back.

**Moderator:**

The first question is from the line of Prabal from Ambit. Please go ahead.

**Prabal:**

Firstly, congratulations, Mr. Seshadri. It is really nice to hear you almost a year now, so congratulations on that front. Sir, I have a couple of strategic questions. Mr. Murali undertook lot of changes to bring in sales culture in the bank. So now what is your sense of the culture that is currently in the bank? And how you -- and how do you see that in the context of your peers

versus South Indian Bank in terms of the sales push or sales culture. And have you identified any areas which can enhance the sales proposition for us. That would be my first question?

**P R Seshadri:**

Okay. Thanks very much for that question. So from if I may paraphrase your question so that I don't answer the wrong question because you're not extremely clear. We are not able to hear you very well. What you were saying was you were asking what my views were on the culture of the organization vis-a-vis various aspects, including sales. Again, it's an expansive type of question. I find that the...

**Prabal:**

No, no. Just on sales, Mr. Murali took a lot of initiatives to bring in sales culture in the bank, which was missing 3 years back. So how do you read that now? And how would you like to accelerate the process?

**P R Seshadri:**

So let me -- it's a little early for me to answer that conclusively as to whether the sales culture in the bank requires a dramatic change or not. This is a traditional branch-based institution, which has serviced its customers through the branches. Murali, my predecessor, had created the whole network of nonbranch sales architectures that were aimed at acquiring customers on the MSME as well as on the retail side.

Those architectures continue. And our focus is to continue with the erstwhile strategy, till such time as I get a better understanding of the organization and we work out the changes that we need to do to continue the growth path that the organization wants to be on.

So at this stage, I would request that you give me a little bit more time for me to come back and tell you what I think about the culture of sales-related culture in the organization because I've spent most of my time at the headquarter level getting to meet people, understanding the balance sheet, understanding large-ticket customers and so on and so forth.

And I've not had too much time to meet people at the front end in the branches, meet people who are actually running our sales architecture and so on and so forth. So I'm not in a position to answer your question to the degree that you would like me to answer at this point.

**Prabal:**

Okay. Understood. Second, just a clarification. So on Page number 7, Slide number 7, there is a mention that in the first half of this year, we have done INR33,000 crores of disbursement in the corporate segment. Is that the right way to look at it?

**P R Seshadri:**

Yes, that's the right way to read it. Majority of our disbursements in the first half have been to corporates. The balance sheet, as you can see, hasn't grown very much. I mean, in the first half. There is a INR2,000 crores of assets that have been realigned from the MSME side on to the corporate side. So effective growth is roughly about INR5,000 crores or thereabouts, but there is INR32,000 crores of disbursement, which is indicative of the fact that these are fast amortizing or bullet repayment, short tenor, bullet repayment type of facilities done to very highly rated corporates.

**Prabal:**

But the context of the corporate loan book of INR30,000 crores, don't you think this number is on the higher side, INR32,000 crores disbursement in this first half?

**P R Seshadri:** So that's what I was trying to tell you. The -- this is the sigma of all new disbursals. So if you do a disbursal for 14 days or you do disbursal for 30 days and then redisburse after 30 days, it's counted twice. So as a consequence, while my corporate loan book ex the reallocation from our commercial book has grown, growth during the half year is only INR5,000 crores, but the disbursal is amounting to INR32,897 crores.

So I wouldn't put too much -- I mean, I wouldn't look at this and then say that we are disbursing too much. It's basically the short-term tenor nature of the exposures that we are taking as a risk mitigation strategy.

**Prabal:** Understood. Sir, what is your view on cost of funds and margin going ahead?

**P R Seshadri:** Sorry, could you repeat that, please?

**Prabal:** What's your outlook on cost of funds and margins going ahead -- net interest margin?

**P R Seshadri:** Cost of funds, inevitably, is dependent upon how the interest rate regime behaves as we go forward. Assuming the current upward bias remains. At the significant chunk of our liability book will get repriced upwards.

So we expect approximately one third of our term deposit book to get renewed over the next 6 months. And obviously, the quantum and the impact on our cost of funds, it will depend upon, a, external environment as to where the rates are at that point in time; and b, our own strategic decisions on how we reprice our own deposits. But there is a bias towards increasing of the cost of funds as is being reflected, I think, in every bank on the street.

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

**Rohan Mandora:** Congrats on the appointment as well as good set of numbers. Sir, I just want to understand, in the opening remarks, you alluded to NIM for the bank being among the lower side as compared to competition. So what would be your strategy vis-a-vis growth and profitability? And will we look to run down the corporate portfolios to have an uptick in NIMs. So what's your thought process on that? And also, is there any portfolio that's marked for rundown right now because of asset quality issues?

**P R Seshadri:** With respect to strategy, I think as of this moment, as I mentioned, we are continuing business as usual. I mean it's a little early for me to change strategy. The bias, I'll tell you where my biases are, the bias is to build a more granular higher-yielding book. So the bias is to try and grow commercial and the retail side. Because we think that we are underrepresented there, and that there is a significant opportunity for us to gain market share. And by doing so, we think that the spread that we currently enjoy can increase.

The spread that we have, which is reflected in the NIM is to a degree suppressed also by the fact that a fairly large chunk of these assets are very short tenor, highly rated corporate assets. So as we are in a position to acquire other asset classes, we will be able to substitute the highly rated, shorter duration exposure that we have with those exposures and consequently, NIM should rise.

So I think we are reasonably well positioned as long as we can get our sales engines working and we can get reasonable product propositions out through the door on those 2 product sets, we should be in a position to move towards NIMs that are closer to our sister private sector bank entities.

**Rohan Mandora:**

Sure, sir. And on any portfolios marked for rundown due to credit reason?

**P R Seshadri:**

We don't have an explicit portfolio that's marked for rundown. There are in the overall portfolio, there are portfolios that have higher current NPAs and delinquencies, but they're not specifically marked for rundown at this point in time.

We are watching it very closely and not growing those portfolios, but not explicitly marked them as exit at this juncture. In my next call, it's a little early for me to make those comments. As I said, we are continuing with the strategy that Murali had, by and large, because it has been working all this while. And as I get a better understanding of the bank, we will give you greater visibility as to the changes in the strategy and the portfolios that we are inclined to actually work actively downwards, yes?

**Rohan Mandora:**

Sure. And sir, on the SME slippage run rate that we are seeing right now of INR200-odd crores, should that be taken in a normalized run rate or we can expect some improvement there, quarterly run rate of INR200-odd crores?

**P R Seshadri:**

Yes, we -- the slippages were approximately INR290-odd crores for the quarter. This is ex the credit card slippages which are not included here. That's because we -- it is covered by first loss deficiency guarantee. The slippage ratio should be in this ballpark. I mean from what we can see, net of -- we don't think that it should aggressively increase.

If anything, as some of the older stuff flows through, it should, over a period of time, start decreasing. But at this point in time, this 42 basis points that we have in the presentation seems to be a number that we are reasonably comfortable with and that will keep us in line with the INR1,500 crores kind of number that we have predicted at the beginning of the year.

**Rohan Mandora:**

Sure. And sir, lastly, this is slightly more expansive kind of a question. So as an external entity, when you were being evaluated by the bank for the position, what were your top 3 -- top 2 to 3 thoughts that you thought is the improvement area required for this bank?

**P R Seshadri:**

Let me answer it differently. I mean, I'll tell you why I decided to join the bank. The top drivers for saying that, hey, this is an area that -- this is a bank that makes sense, that is attractive. From my point of view, the liability franchise is an important franchise, and very often very difficult for you to grow, keeping cost reasonable because liability relationships take a long time to set up.

And if they are not to be entirely price-driven, they need to be anchored in human relationships. And only long-term institutions that have been around for a long time can actually build that. So I think South Indian banks, a key area of strength that is very often not talked about so much is the liability side. And if you were to go and compare the rates that this institution is offering

versus some of our larger peers from Kerala itself, you'll find that we are actually lower than them.

And in spite of that, the liability book is holding. And that's a great area of strength. My own view was that assets can be built. Assets are about understanding risk and building appropriate processes and systems, which should be doable over a period of time. But having the liability sides stitched up is very, very important in the long term for the bank. I hope that answers your question.

**Moderator:**

The next question is from the line of Sonaal from Bowhead. Please go ahead.

**Sonaal:**

Part of my question has been answered. But just what are your thoughts -- initial thoughts on the asset quality in case you've got a chance to look at that across various categories? And do you suspect that you would like to slow down the growth part, which Mr. Murali had taken? Or do you think based on whatever guidance he had given, you don't see a challenge in meeting that guidance? And do you think you need to recruit a lot of new people or it's a little too early for me to ask you that question?

**P R Seshadri:**

Well, thank you very much for that question. With respect to asset quality, I think if you were to look at our numbers, the SMA numbers, SMA-2 numbers are in the deck. I would much rather have an SMA-2 number which is sub-0.5%. Currently, we are close to 1% on the SMA-2 side. If SMA-2 is higher than the number that I would like, obviously, SMA-1 is also going to be higher than what we would like.

So on the portfolio side, I think there is some work that we need to do to improve the portfolio that we have on the book. But that's a mixture of originating new good -- better quality new assets, which is something that the entity has been doing for a while and also working through the historically delinquent accounts, which are either in SMA-1 or in SMA-2, which we intend to do a little bit more aggressively than we've done in the past, so that the SMA-1 and SMA-2 numbers can become smaller and the predictability of NPA increases. So as far as growth is concerned, as I said, we have 3 engines of growth. One is the corporate side, the second is gold and the third is the cards to PL program.

Our bias and my own personal bias is to be more granular. But in the short term, given the fact that these corporate assets are of high quality, we'll continue with the current method of acquiring assets and growing our balance sheet. And as time goes on and as our systems and processes adapt to being more focused towards this MSME segment as well as the retail segment, the balance sheet structure would shift.

**Sonaal:**

Sir, I have a follow-up on that. And one of the questions has been not answered on hiring of employees in the future, is it too early to ask you or do you think you'll be bringing quite a few people?

Secondly, when I was asking asset quality, my question was more near term. Mr. Murali had guided for almost a INR300 crores of net recoveries, which implies INR550 crores of recoveries in the next 6 months, if that guidance was to hold true. Do you think you're in a position to comment on that? Your asset quality, if I look at the combined of net slippages, delta in



restructure and delta in SMA-1 and 2 has declined 80 basis points Q-on-Q. So do you think what is leading to that as well here?

**P R Seshadri:**

Okay. Our recoveries for the quarter, including interest recoveries and recoveries from write-off, etcetera, were roughly about INR475 crores. My team seems to be reasonably confident that these numbers are, if anything, if not repeatable, they're at least in part, exceedable. So I think that the trend lines that you're seeing on the GNPA and net NPA numbers, at least on the basis of information that is available today should continue in the same manner and

The portfolio will improve. That's essentially because of the great deal of work that's been done on the corporate side. With respect to hiring of people, too early for me to comment. I think we do have both a large cadre of people who are internal to South Indian Bank and a fairly large number of people who have come from other institutions over a period of time.

And we have a talented set of people here. So what we need to do is understand where there are gaps and how best to fill them. So if you would permit me, I would rather hold the question for the present and come back to you with an answer in the next call that we have.

**Sonaal:**

And sir, in terms of the growth which you are looking at, would you like to slow down the growth in the immediate near future or do you think -- because the growth slowed down this quarter, so we're just wondering is 10% the new norm or we can go back to 12%, 15% kind of growth for the full year is concerned?

**P R Seshadri:**

I am not responsible -- while I'm presenting on these results, I joined the organization on the 1st of October. And since these results are on the 30th of September, we do not represent any action that I have taken so far. I see no reason to slow down the growth at this point in time. And the mixture that is coming through seems to be performing reasonably well.

So there is no crying need on the basis of the 15-odd days that I've been on the job effectively for us to change direction. So it's business as usual as far as we are concerned. We were hoping to end the year at INR82,000 crores or thereabouts. I see no reason why we wouldn't get there. And over a period of time, we will -- rearchitect in the direction that the organization anyway wanted to go. So I trust that answers your question.

**Moderator:**

The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

**Umang Shah:**

Sir, congratulations on your appointment and a good quarter. Sir, just one question, which I had now, thanks for articulating your thoughts clearly. We do understand that it's a little too early for you. But just want to understand one thing that from a momentum perspective, right, I mean, clearly, a lot of effort and work has gone through in terms of restructuring the balance sheet and the P&L and the outcomes that we are seeing today, maybe in terms of ROAs, ROEs, the provision coverage, probably we are looking at the numbers which are best in a decade for the bank, right?

So I just want to understand that, is it fair to assume that the momentum kind of continues? Clearly, a lot of changes will be made by you as well, which will take some time to show up in terms of results, but is it fair to assume that the momentum kind of continues in the interim while

the bank continues to invest and build over and above what is being currently delivered? Yes, I just wanted your thoughts on that.

**P R Seshadri:**

Thank you very much for that question. So I want to reiterate. I mean, it's business as usual as far as we are concerned. There is a strategy that was adopted by my predecessor. The strategy has clearly yielded results. So as you rightly mentioned, the numbers that you're seeing are the best in a quarter or best in a decade.

So if that is the case, there is no real reason for us to change anything in a tearing hurry, and we don't intend to do that. And the momentum that you are seeing in the business will continue. If anything, we'll work hard at improving momentum in the segments that we think we need to grow and where we are under-represented.

**Moderator:**

The next question is from the line of Sukriti Jiwarajka from Laburnum Capital. Please go ahead.

**Sukriti Jiwarajka:**

Sir, I just have one question. So I noticed you didn't mention mortgage in one of the growth segments that you spoke about. While it has been a declining book, this is one of the verticals that Mr. Murali spoke about as having revamped and just a couple of more months left for all the processes to get in place. I just wanted to understand your aspirations for the mortgage piece, specifically.

**P R Seshadri:**

So you're making a distinction between home loan and mortgage. Home loan is an area that Murali was trying to grow aggressively. Mortgage, perhaps a little less so, given our historical loss trends in the product. But our bias is to, at this point in time, continue, as I said, with Murali's strategy.

And we want to aggressively double down on the home loan proposition. On the LAP side, I think there are opportunities -- on the mortgage side, there are opportunities that we need to relook. We need to work on our own underwriting standards so that we can reenter that market and participate in that as we go forward. So that is an element of strategy that we need to discuss internally and agree upon. It is -- at this point in time, it has not been taken up by the Board and the agreement has not been sought.

**Sukriti Jiwarajka:**

Got it. Got it. So home loans is a big focus area, but mortgage, we will wait and see?

**P R Seshadri:**

That is true.

**Moderator:**

The next question is from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

**Bhavin Shah:**

Yes. First of all, really heartened to see the progress that the bank is making. I have just a couple of quick questions. One is that I see in the presentation your FY '25 targets which you've already met in first quarter FY '24 with respect to ROA, ROE and other targets.

So I think shouldn't you set some more ambitious targets? Otherwise -- and because it doesn't make sense, the fact that your older book is running down and the newer book is much more -- has much higher operating metrics. And why would you have the same targets -- same numbers in FY '25?

And second is how do you sustain the cultural shift in the organization that has happened in the last few years, which has resulted in this phenomenal performance, what is to be done to sustain it?

**P R Seshadri:**

So with respect to your first question, I agree, we'll have to recast those targets, now that we've achieved them. And hopefully, we will continue to consistently achieve them. We will have to relook at our numbers and our ambition as we go forward and recast them. So I would urge your indulgence so that I can do this in the quarter that comes next and perhaps the next meeting, we'll come back to you with a number as to where we want to go.

With respect to the cultural shift, as I said, all the practices that were being followed in the past and all the systems and processes that had been put in place continue. There has been no change as of this moment. If anything, the control environment that we currently have will be strengthened by using technology and by ensuring that the control elements are placed in such a manner that we get outcomes that we want while being business friendly at the same time.

So that's the kind of change that we would like to make, but not -- the change that we are intending to do is not a philosophical change, but more an operational change that makes it easier for us to achieve what we want to achieve. So I think given that, it should be reasonably simple for us to continue with the cultural shift that has been initiated over the last 3 years, and that will be our endeavor to ensure that, that does not slip back.

**Moderator:**

The next question is from the line of Darshil from Crown Capital. Darshil your line is unmuted, please go ahead.

**Darshil:**

Sir I just wanted to know in terms of our ROAs and everything we mentioned in the presentation, but what would you feel would be maybe a longer-term target? What would be an ideal profitability that you are targeting, maybe not 1 year down the line, maybe next 2, 3 years, where do you see the outlook that you feel that a bank our size should be doing?

**P R Seshadri:**

So as I was mentioning earlier, I mean, it's a little early for me to actually make a comment on this. But let me try and give you some directional information. So we are in an institution with a stable liability base and our liability cost, which is comparable to some of our larger institutions. If anything, our landed cost of liability is actually lower than some of our larger institutions, institutions operating in the same geography.

Given that, we have a clear liability advantage. On the asset side, we are currently operating on very high quality, concentrating on very high-quality corporate assets with a shorter duration, which means that the net landed interest that I earn tends to be lower than if you were to participate on the SME/retail space.

So therefore, in the long term, there's only one place for the net interest margin to go. As we shift from this and have a more balanced book, net interest margin only has to expand and that is how fast it will expand and to where it will go, depends on how well we can make this transition from being dependent on the three product legs that I mentioned earlier to a more balanced place where MSME grows and as well as other retail grows, it depends on that.

But having said that, we've hit 1% here. But if NIMs were to grow for us and come to the early fours, then I don't think there is very much incremental expense that we need to look at. We are fully staffed to do all of this. And much of it will flow through into the bottom line.

So I think -- all I can say is directionally, that's the way it looks to me at this point in time. If credit holds and we can make this transformation, there is a very significant increase in the return on assets that should be possible.

**Darshil:**

And sir, what would we envisage the timeline for this as? Like maybe from what I'm coming off is like you just started this journey, so maybe a 2-year, 3-year journey that you see. What would the timeline be to increase the state -- like increase, as you said, maybe early 4% or something like any -- we don't need a firm thing, but just maybe more qualitative side or how would you - - what would you put as your own internal target for your own self?

**P R Seshadri:**

No, I am hesitant to answer that question. I would say that we try and present a more articulated plan in the next call that we take. Till then I'd like to reserve my comments and give you these numbers as we meet the next time around.

**Moderator:**

So the next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

**Pallavi Deshpande:**

I just wanted to understand on the cost of deposit side, what's the increase you expect in the second half from here on?

**P R Seshadri:**

I think that's a very good question. Our cost of deposits are roughly about 5% today. So I think that compares quite well with our competitors. But we have roughly 1/3 of our time deposit book coming up for repricing over the next 6 months.

So by March of 2024, 1/3 of our book will get repriced and the rates that we offer at that point in time will be driven by the market. And the current bias is on an increasing side, i.e., the view is that pricing that we offer today will probably be lower than the pricing we expect to offer 3 months hence or 4 months hence, because that seems to be the interest rate trend that we are in.

So we do expect a fairly substantial increase in cost of funds on account of repricing of the existing time deposit book. But this is something that we manage quite aggressively and -- as you can see, we've managed quite effectively so far.

And we are hoping that even with that repricing, our total landed cost continues to be competitive. I don't want to give you a number at this stage because there are a lot of imponderables which we need to work through as to where the rates will be in the market at that point in time and so on and so forth.

But currently, the view is that there will be a reasonable growth. And we are seeing it quarter-on-quarter, it's grown from 4.85% to 5%, and that trend line is perhaps not going to change very much. So you can extrapolate from these numbers to where you think it would go.

**Pallavi Deshpande:** All right, sir. So it's been better than the PL writing the increase -- the quarter-on-quarter increase, so just I was concerned are we going to see a -- do you have a lumpiness coming up in the third and fourth quarter in terms of the repricing?

**P R Seshadri:** Actually, since only 1/3 of it is repriced. Yes, I'm not able to answer this question because I don't have the number as to how much got repriced in the first 6 months. I was always forward-looking the question I was asking my team was, how much is repricing in the next 6 months? I never asked them how much we repriced in the first 6 months? So I don't know whether there is lumpiness or not. Maybe we can answer this question subsequently because we don't have the data just now.

**Pallavi Deshpande:** Right. And sir, secondly on FLDGs, there was something in the first quarter that you couldn't include that income because we were waiting for some RBI approval. So has that income been included in this quarterly number?

**Moderator:** Sorry to interrupt Ms. Deshpande. May we request you to return to the question queue as there are several other participants waiting for their turn.

**P R Seshadri:** Yes, I'll answer that question since she asked it. Yes, the first loss deficiency guarantee related monies have been applied to the account and pay -- and accounted appropriately.

**Moderator:** The next question is from the line of Namit Arora from Indgrowth Capital. Please go ahead.

**Namit Arora:** Congratulations, Mr. Seshadri and wishing you and your team all the very best. Sir, my question was around strategy. The bank has nearly a century old legacy and a very large customer base of about 73 lakhs, et cetera. So from your standpoint, given your enormous experience across institutions, any initial thoughts in terms of positioning the bank and how you would like to leverage some of the historical strengths from a competitive positioning standpoint going forward?

**P R Seshadri:** Thank you very much for the question. I mean initial thoughts are -- as I said, I think, very clearly, the liability side is a strength. And I think going forward, that's going to be an area which is going to be deeply contested.

And we want to strengthen the liability franchise even more so that we turn that into some kind of a fortress for ourselves and have a low-cost liability base that is dependable and that is growing. So then we want to focus on the liability side in an era of expected liability shortage. On the other side, on the asset side, there's been a lot of work that my predecessor has done.

For the present, we are continuing with the asset-side strategies laid down by Murali and all the other attendant changes that he had made to the organization. I will come back in the next call with a clearer view of where we are going.

As I mentioned, my own personal bias is to have a granular portfolio, which implies that we would like to grow MSME and the retail a little bit more than where we are currently. I trust that answers your question. I do apologize because I'm not able to give a fuller answer at this point in time given that I've been here for a very, very short period of time.

And any strategic decisions that you make has to be made in the context of the organization that you work for and in the context of the strengths and weaknesses of that entity and in the context of the environment and the opportunities that it provides.

So in my case, while I'm aware of the environment and the opportunities, I do not have a full handle on the organization and the strengths and weaknesses that the organization actually has for us to make a determination on what strategic elements should be followed at this point in time.

**Namit Arora:** Thank you very much, sir. Very helpful and completely understandable and look forward to connecting with you in the next call and all the very best.

**P R Seshadri:** Thank you very much.

**Moderator:** The next question is from the line of Sonaal from Bowhead. Please go ahead.

**Sonaal:** So sir, you did mention about not being exactly clear about how much of repricing has happened and how much more to go. But when you speak with your senior team, which have been in the bank since Mr. Murali was there, so what is the sense you're getting on the direction of NIMs for next 6 months or 1 year? Are we near the bottom or much more way to go down or broadly, we are there based on your understanding of the bank from your colleagues?

**P R Seshadri:** Okay. So here, there are several drivers of the NIM. One is cost of funds, obviously, right? So as I said, 1/3 of our time deposit book is going to get repriced in the next 2 quarters. So that's a negative in a sense that as the time deposit reprices upwards, my NIM will drop.

But the positive is on the asset side, a very large chunk of the assets are very, very short duration, right? So as there was somebody who asked me questions about the INR32,000 crores of disbursements we've done on the corporate, whereas the corporate book has only grown INR5,000 crores.

That's reflective of the fact that the -- if you were to assume it's the same asset that has been disbursed multiple times. You are looking at a 30-day duration in effect of the asset, which -- so the advantage that we have is that as our liability book reprices, we have, at least, in theory, the prospect of repricing the asset, right?

So the NIM compression for us, given the very short duration that we have on our asset is likely to be less than some of our competitors. But again, this is -- the outcome will depend upon market circumstances. It will depend upon how aggressively our competitors bid for assets at that point in time, et cetera, et cetera. But structurally, we are reasonably well placed to handle NIM compression going forward.

**Moderator:** The next question is from the line of Sheel Shah from Sameeksha Capital. Please go ahead.

**Sheel Shah:** Sir, I just wanted to know is there any one-off in our operating expense? And what's our guidance for cost to income for the full year?

**P R Seshadri:** So I'll just turn this over to our CFO, Madam Chithra, who can give you a more nuanced answer.

**Chithra H.:** See, operating expenses, of course, as you know, where you are comparing is it on a Y-o-Y basis or?

**Sheel Shah:** Quarter-on-quarter basis. I mean Q1 we had a jump because of staff cost, but even Q2, it's high?

**Chithra H.:** Q1 to Q2 not much it has happened. If it is -- maybe card expenses have gone up, but then income also has gone up on the revenue side. So there is no much one-off. Of course, the certain items like RTGS expenses and all those things are now billed on a 6 monthly basis. So those things have not come in the first quarter, which is coming in the second quarter. So it's not a one-off. The only thing is that some frequency has changed.

**Sheel Shah:** Okay. Sir, and I mean, are you expecting the same amount in Q3, Q4?

**Chithra H.:** Q3 -- that is what, there is no one-off in the current quarter. I mean if you are talking about next quarter there may not be any one off. .

**Moderator:** The next question is from the line of Mr. Jai Mundhra. Please go ahead.

**Jai Mundhra:** Probably the last question. Sir, just a few things. So given your reputation of a risk manager, maybe if you can answer at this point of time, are the risk and business, are they clearly bifurcated to the extent you would have liked? And is there any -- of course, the risk management is an ongoing thing, but how -- I mean, if you had a chance to look at the risk mechanism at the bank.

**P R Seshadri:** Thanks, Jai, for the question. Risk management is a difficult thing. And in an institution such as ours, we'd like to be resilient and which means that we should be in a position to take shocks that come from the external environment.

And those shocks are not modelable, i.e., you can't predict that the shock is going to come. But you need to be able to take those shocks and move forward. And clearly, this organization has been resilient because it's been around for 94 years. So without being resilient, it probably wouldn't have been around now.

To be resilient, you need to ensure that event risk is managed appropriately, which means that any event that happens doesn't impact you to such a degree that it causes deep wound to the organization. And to manage event risk, you need to manage to have a more granular type of book at various asset classes.

And hopefully, if possible non-correlated asset classes as well. Now it's very hard for a bank to have non-correlated asset classes. But having said that, different asset classes, hopefully, will behave differently as we go forward.

In the current book that we have, we do have a large corporate portfolio, which tends to have larger ticket sizes and is less granular than what I would personally like. But that has behaved well over the last 2 or 3 years. And therefore, there is no reason for us to believe that it wouldn't behave as we go forward.

But as I said, personally, in order to increase resilience, I would like to build a balanced book which is granular in nature of different asset classes that are as less correlated as possible. I don't know if that answers your question, Jai.

**Jai Mundhra:**

Yes, yes. No, it does partly. And sir, secondly, you said that commercial is one where bank is underrepresented, right? So do you think you need to do some a lot more revamp in the process, channel, maybe templatize lending or maybe branch KRA, employee KRA, et cetera? Or you think it is -- it will just need change of focus there?

**P R Seshadri:**

I think a little bit of everything will be required. It's a little early for me to have a view, Jai, on exactly what needs to be done. When I say that we are underrepresented on MSME, I'm saying that we used to have a larger book in the past, which has shrunk now.

And obviously, it's an area where the spreads are better and volatility, while it can be high, but it's at least granular in nature and you have collateral security to help you tie it through tough times. So it's an area where we'd like to grow. What we need to do is something that I will come back to you in the next call.

It would not be right for me to make a comment at this stage which may be inaccurate. So in the interest of being fully accurate and with full transparency, best that I answer this in the next meeting.

**Moderator:**

Ladies and gentlemen, due to time constraints, that was the last question. I now hand over the call to the management for closing comments.

**P R Seshadri:**

Thank you very much, Chintan. Thank you all for taking time to attend this call and for listening to us very patiently over the one hour and 10 minutes that we've been on this call. Many of the questions that you asked were very, very penetrative and interesting, and they gave us a lot of ideas as to what we need to look at as we go forward. So thank you once again for being on the call. Thank you once again for taking time to spend time with us. Thank you.

**Moderator:**

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