"CSB Bank Limited
Q3 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of CSB Bank hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Shukla from Axis Capital Limited. Thank you, and over to you, sir.

Manish Shukla: Thank you, Ritika and welcome everyone for this call. We are pleased to host CSB Bank's Q3 FY '23 results call. From the management team, we have Mr. Pralay Mondal, MD and CEO; Mr. B.K. Divakara, CFO and their management colleagues. We have some opening remarks from Mr. Mondal and after that we will open the floor for Q&A. Mr. Mondal over to you, sir.

Pralay Mondal: Thank you Manish and thank you everybody for joining the analyst call today on our Q3 results for FY '23. I will give a slight preview of what's happening globally and then quickly moving to the CSB Bank results. So as we all know that the global economic order stands tested following the chaos resulting from monetary tightening in most parts of the world. Lower food and energy supplies, elevated prices, debt distress and so on and so forth.

International organizations including IMF, World Bank, OECD have downgraded their global growth projections. Relatively, of course, India is in a better place. Inflation trends are showing some moderations. We will know in February first week like what decision Fed will take and we also have the budgetary announcements in India and also the RBI decisions.

So most likely the whole world is expecting a hike somewhere between 25 to 50 bps and there is a high probability of a 25. In India, I think the rate cycle is coming to a reasonably stable situation and at this, there could be one more rate hike and then pause. But whichever way it goes, I think things are now stabilizing quite a bit.

On the domestic side, of course, there is a reasonable pickup in manufacturing and rural demand which was a little bit of a concern. It has started improving as is evident from the results of some of the FMCG companies last quarter. Banking has never been in a better place than where we are today. We have seen that most of the banks are coming out of their NPA challenges and I think in the next one or two years, the capex cycle will also start picking up.

We saw a double-digit growth after a while in the banking ecosystem. Even I think the January numbers right now, last fortnight, I think, was 6.5% in terms of credit growth, which means things are looking a lot better in this part of the world. Having said that, we are of course connected to the global order.

The liquidity is a little bit of a challenge, of course. It is quite volatile. Funding cost is going up for the banking ecosystem. Overnight rates are hovering between 6% to 6.5%. So, there are challenges as well when it comes to the funding. We see most of the banks are trying to manage their LCR and the CD ratio this quarter. Hopefully, things will stabilize with more government spending coming in and liquidity easing a little bit.

The GDP estimates are likely to grow by 7%, though last estimate was 6.8% and overall, I think the CPI is around 6.00%. But coming to the CSB specifics, I think Q3 FY '23 has been a good operating quarter on most parameters, operating parameters I'll say, net profit of INR 391 crores, up by 19% Y-o-Y. For the quarter ended, the net profit is at INR 155.95 crores, which is up by 29% versus Q2 FY '23 and that's quite a significant achievement in my view, Q-on-Q.

Non-interest income ex-treasury posted 65% increase in Q3 versus Q3 FY '22 and when we look at the noninterest income, excluding treasury and PSL income it is 58% and for the 9 months Y-o-Y, it is 40% growth. So, this is what I've been highlighting and we will deliberate this when we get into the Q&A session. I have been indicating that we are trying to get a core noninterest income growth in double digits, whereas we were at a very low single digit number before. Now, we have moved to the double-digit growth. I think this quarter; we are at 13%. Our aim will be to be in the 14%-15% range in the medium term as our overall franchise grows.

We have a provisioning buffer of about INR 200 crores over and above the regulatory requirements. This includes contingency provisioning, which we used to call COVID provisioning before, of INR 106 crores and another INR 90-odd crores based on prudential NPA provisioning, which we are doing over and above the regulatory provisioning.

NIM has been stable. Though I don't read too much into the NIM because as quarters go by, NIM will normalize over a period of time. So, as I've always said, we'll try to hold it somewhere around 5%. This quarter is 5.8%. Overall, it's around 5.52%, but we'll deliberate that subsequently while we get into the discussion mode.

ROA improved from 1.83% to 2.00% on a yearly basis and quarter-on-quarter from 1.87% to 2.37%. This shows how the core operating performance of the bank is improving. I think the good news on the liability front has been that we had a 19% Y-o-Y growth as against the industry growth of around 9% to 10% and that gives us a little bit of a comfort - of course on a low base, which we understand and hence, we have to continue to work on it.

CASA growth has not been that encouraging. It's around 8% growth, and hence CASA ratio has come down. Cost of deposits reduced from 4.34% to 4.19%. Again, we'll discuss on this because this is only a transient phase. Quarter-on-quarter cost of deposits has gone up, as you can see in the investor presentation.

On the asset growth, net advances grew by 26% or 24% whichever way you to take it, depending on if you are taking with write-off and without the write-off portfolio. So, 24% to 26% is our asset growth whereas industry has grown by 15% to 16%.

Gold portfolio grew at 51% YoY and 9% Q-on-Q. A lot of people think that gold portfolio is growing just because of price increase, but at least in our case, it has not been the case. We have very consciously not increased the rates much just to ensure that we get our LTV under better risk governance.

Our tonnage growth has been 49%, while our gold loan portfolio has grown by 51%, which probably is very unique in the industry and this has also helped us in bringing on the LTV overall I think to around 75-odd percentage.

Yield on advances, we are around 11.02% with an improvement of 21 basis points. This is where we need to focus on and we need to take it up because cost of deposits will continue to go up and if you have to retain our NIM, we have to take the yield slightly up.

On the asset quality metrices, it's a very good performance, I must say. Even when you look at industry standards, we are probably one of the best there right now. GNPA 1.45%, NNPA 0.42%, PCR with the write-off is 92%. Even if you take without that, it is 71%, which was around I think 66% last quarter. So, I think the key point here is, our PCR has improved while our GNPA and NNPA has come down significantly.

Contingent provisions, as I said before, accounted in the books is higher than the NNPA, which is very unique and we have continued our accelerated NPA provisioning, higher than the RBI requirements and continue to hold a contingency provision of the INR 106 crores, which I talked about.

We have fully provided for the SR portfolio based on the regulatory guidance/clarification, which came recently. So, now our entire SR portfolio has been provided for by taking a hit of around INR 12 crores in our P&L this quarter. So whatever recovery we get from our SR portfolio, going forward will be straight into the P&L.

We have a robust capital base, it has just grown further to 25.78%. So, we have to tell our business heads to grow the business. This has happened at a time when we have grown the asset book by 24% or 26%, whichever way we look at it and even then our CRAR has improved.

Our risk weights have gone down, more so in credit risk as gold loan mix has gone up. Overall, our risk weights are one of the lowest in the market; in the industry. If you see the shareholder value creation, our book value has grown in line with our profitability growth, somewhere around 23% to Rs 167. Annualized EPS is Rs 22.54 and ROE is 19.86% and both the ratios are impressive.

Coming to Investments of the future, we are continuing to add 100 branches per year. We'll continue to do that next year as well. Our Head of Retail is trying to see that if we can try and put those branches a little earlier in the year so that we get better business benefits out of these branches during the year itself. This year also we will open 100 branches.

On the technology side, it's the biggest investment that we are making –both on the leadership and technology side. I am personally involved along with our CIO on the technology strategy for the bank for the next 3 to 5 years and we are going to make significant investment into technology, whether it is core system, LOS, LMS, CRM, RAM - I mean, almost everything. We have completely changed the entire wraparound system of the technology because that's where the real growth of the bank is going to happen.

So in conclusion, what I want to say is we are absolutely on track, on what we had communicated to you in our last few calls on our SBS -- Sustain, Build and Scale 2030 strategy. We are currently in the build phase. Sustenance, we have demonstrated and we are doing well. On the liability franchise, we have started the build phase because that's the foundation when we build the future of the bank.

We have tied up with market leaders like CRISIL, OneCard, Yubi loans, etc. Say Yubi for SME, OneCard for the credit cards and CRISIL for various initiatives. We are also doing a lot of centralization of processes to ensure that we have better controls and management cost is better as is seen from the reduction in CTI this quarter. But we have always said that we would like to keep the CTI somewhere around 60% while we are investing into the future keeping sufficient room for investment. By the end of 2030, we'll bring it down in the range of 40% to 45%.

New verticals have already been launched. Personal loans, education loans, home loans, CV, auto loans then CE, HCF, Commercial Equipment's, Healthcare and so on. The respective policies, processes, systems, everything is in place. Credit cards have started off, as I said before. Retail growth – it is too early to see retail growth, but let me put it this way, retail engine has got restarted. We have got the leadership in place. Gradually, we're building these businesses.

On the transaction banking side, we have created a separate vertical. So we will look at CMS, supply chain etc. We are going to build some of the systems around that because ultimately, these are system-driven businesses. Wholesale Banking is working on the entire coverage strategy.

There are so many things happening in the bank right now, so many projects are running, it's just unbelievable. So we have just rolled out our project management tool called RAPID. We have internally branded it RAPID. I have said that no project will be there in the bank, which is not on the project management tool. So the stakeholders, through the dashboard, can see where it is, how it is progressing and things like that. Otherwise, we lose track. So overall, the progressive transformation journey undertaken in the bank is clear towards achieving the vision set for the bank in the medium to long term. While the improved results quarter-on-quarter is giving us the confidence that we are progressing in the right direction, it also reminds us of the responsibility of what we need to deliver in the coming quarters based on the commitments, which we made to the market. Me and my team are very conscious of that.

So in short, what I can say before I hand it over is we have almost in this quarter demonstrated everything which we said that we'll focus on. Growth, were growing by 9% last year. We are growing by 24% *(Incl. PWO)* or 26% *(Excl. PWO)* in advances, whichever is the right number we want to see.

Liability franchise has started delivering. Our NIM has sustained, our cost to income has sustained, our credit cost has continued to be negative. At the same time, I would say that it won't be negative forever, so we will provision for that. Though we are on a very high base last year, same quarter, Q3 on account of the significant recovery from gold loan NPAs and related provision reversals, we have grown by 5% Q-on-Q in this Q3. This has happened primarily because of various parameters, ratios, which I talked about but also due to growth in non-interest income. So let me give you one data. On noninterest income, 9-months basis, ex treasury, ex-PSLC income, we have grown by 40% for the 9 month period ended 31.12.22 and 58% for the quarter ended 31.12.22 vis a vis corresponding period of previous FY.

And what it means is that our core non interest fee, is now more sustainable and doesn't depend on cycles. PSLC is a cycle business because it depends on what is the premium that is available in the market. The treasury income is also interest rate cycle dependent. So in the treasury income we had a variance of INR 18 crores. In PSLC, we had a variance of 30 crores. Last year, we were at INR 33.4 crores and this year, we have about just INR 3.6 crores of PSLC income. Then suddenly the SR provision of another INR 12 crores. So all of this together, INR 60 crores is something, which appeared out of nowhere this year solely due to market related factors. So we had to find our own ways and means to manage this. One more area where we have done exceptionally well is on the recovery side. That's what helped us in either upgrading accounts or getting recovery from written off accounts.

So overall, I think while the headline numbers looks reasonably kind of moderate, but when you deep-dive into these numbers, which all of you on the call know much better than me, you will see a reasonably consistent operating performance and every operating parameter is improving by the quarter, which gives me a lot of confidence that we should be able to take the bank forward in line with what we have committed.

So I think I've spoken enough. So, with that, I stop here and hand it over to Mr. Divakara if you have to say something and then we'll open it for Q&A.

B. K. Divakara: You have covered it elaborately, Pralay. So, I don't think anything needs to be said from my side. But in question-and-answers session, if something needs to be supplemented, I will do that. Otherwise elaborately you have covered all the areas of our performance.

Pralay Mondal: Thank you. So, we can take the questions.

Moderator: The first question is from the line of Shubranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Just wanted to understand a bit on the gold loans. One is what proportion of our disbursement is coming from balance transfers from NBFCs and what is getting originated by our own branches organically?

Second is, sir, we've been seeing a tonnage growth as well as account growth, what proportion of the incremental as well as on the book are above 3 lakhs and what is 1 lakhs to 3 lakhs and what will be less than 1 lakhs, sir? Those are my two questions.

Pralay Mondal: Thanks Shubranshu for your questions. So on your first question, around 40% comes from balance transfer. Rest is new-to-bank because we have got a good distribution and the sales strategy on that. We have a brand also on the gold loan side of the business. On your second question was on tonnage growth. So what is the question on tonnage?

Shubranshu Mishra: Sir, tonnage or AUM we can split it that way. What percentage of the AUM is below 1 lakh? What is between 1 lakh to 3 lakh? What is more than 3 lakhs on the AUM as well on the disbursement?

Pralay Mondal: So I think I don't have that exact data in such a breakup, but I can give you some heads up on this. So our portfolio average ticket size is between 1 lakhs to 2 lakhs. Coming to disbursement or incremental, our tonnage grew by 49%, while our customer acquisition / customer addition grew by some 37% or 36%, which means that incrementally, our tonnage per customer is only going up. There is a third question also you had?

Shubranshu Mishra: It was around this only, sir, this split between - basically, one can infer that this tonnage as well as the account growth, almost 40% is coming from balance transfer from NBFC?

Pralay Mondal: That's right.

Shubranshu Mishra: Both?

Pralay Mondal: Or other banks, whichever way. Balance transfer is around 40%, and tonnage growth is faster than the customer acquisition, and our average ticket size is between 1 lakhs to 2 lakhs.

Moderator: The next question is from the line of Sonal Minhas from Prescient Investment Management.

Sonal Minhas: Sir, I had the first question on the CASA growth, which is a bit muted. Just wanted to understand from a bottoms up level as to what is the limitation for the bank to grow its CASA. Because the branch network is growing. Is it technology? Is it a product? If you could just explain -- that's my first question.

Pralay Mondal: So that's a very valid and relevant question. So you also know that building a CASA franchise is not an overnight job. We have to build up our proper franchise. Meanwhile, we cannot also wait for that franchise to grow our bank. So you can understand that. In one year itself, we have grown the bank from 9% to 24%, 26% from the asset side and 19% from the liability growth.

CASA cannot grow like that overnight. CASA needs -- as you rightly said, product, process, distribution, the right kind of customer segmentation, acquisition, sales. More importantly, surround products, which is why you need your retail assets -- because just opening a CASA account will not give us value. He has to run his EMI through that account. He has to have his payments through the account and all of that stuff.

So on our CA side, also, you need to have a transaction banking unit to have value created for those customers and these are very complex initiatives. The good news is that we have started most of these initiatives now in the bank. For example, we have started our sales structure. That's why we could grow our NTB accounts by almost 50% last year. Our quality of these accounts are much better than what we were doing before. Hence, the value of these new customers are also better.

Also, we have launched our retail asset products, credit card products and hence the payments that will go through, the EMIs that will go through, will help us. On the transaction banking side, we have created a separate vertical on that. We are also building that technology through which this throughput will come. CASA as you know, whether it's current or savings is a throughput business.

One can always buy CASA. So we are not saying that, that is something which we'll do or not do, but most banks, almost every bank does it. It has its own benefits in terms of LCR and many other things, so I'm not saying that's a bad strategy. But it's just that we have not reached there yet. So to that extent, because we are in a hurry to grow in our difficult liability environment. Because even established banks like HDFC, Axis, ICICI, Kotak, IndusInd, everybody is struggling on the liability growth, that's why the systemic growth is 9%, and you will appreciate that in spite of the fact we have grown by 19%.

But yes, CASA is a slightly high road and we have to do the building blocks to reach there. Many senior leaders, say self, our retail head here, all of us have built CASA businesses in various, at least three large banks before. So we know how to do it, and we will go step by step. There is no shortcut to that success.

Sonal Minhas: Sir, I really appreciate the long answer, but is it more the senior team leadership or the technology, basically, which you probably wanted to be switched?

Pralay Mondal: Yes, senior team leadership understands what needs to be done. Technology also, we are putting it there but technology, as you know, that it takes some time to build and also the products around it. I have myself or my Retail Head, we have handled the largest products in the market. But that does not mean that I can do it from today. You have to build those products. You have to launch those products, you have to prepare a franchise, you have to run the EMI through the savings account, etc. Parallelly, you have to get those customers also.

So when all of this together, we understand the complexity of the task. For example, last quarter, we grew CASA by 16%; our FD grew by 7% on a YoY basis, but still CASA ratio came down from Q1. That's the nature of the ratio. When you grow faster, even if your CASA growth is faster than FD growth, your CASA ratio will continue to come down. That's math.

Having said that, this quarter, I have no such excuse because even CASA itself has come down, but I will suppose that it has happened to most of the banks in the system. Because suddenly the gap between the SA and the CA and the 10 year G Sec is so high that money is moving. This happens in cycles. So we are no exception.

But yes, I'm not shying away from, rather I'm being very honest about it. We have to do a lot of work to build a CASA franchise, and no bank has done it in short time. No bank has done it.

Sonal Minhas: No, I agree. Sir, but is there a time line like, for example, you have time lines for everything, and that's really good to know on each of the calls. Is there a timeline where we can say that the CASA, product, the technology, having the system is basically fixed maybe one year from now or 18 months or two years from now. Hence, we are on a growth path from there on. Because that's a sustainability bid for the bank?

Pralay Mondal: I'll give you an answer for this. Clear answer. We will start seeing CASA growth for us within the next 12 months. Having said that, the real CASA franchise, it will take two to three years to build. Because what is a real CASA franchise. When you look at HDFC, Axis etc a real CASA franchise is when you have at least two or three relevant products with the customer and his EMI runs through that product.

When you have a customer segmentation starting from a high net worth to the middle of that pyramid structure. When you have a transaction banking where you do collections, you do CMS, you do everything part of supply chain and so on. For this I need technology, which we are building, we are changing our core system, by the way.

So core system takes anywhere between 15 to 18 months to fully get operational, if we're lucky. And the surround system in parallel we are building. So we have on our project management tool, we have put all these timelines as you rightly said.

Having said that, none of you will have the patience for me to play out these time lines. This will happen three years down the line, two years down the line. But meanwhile, I have to also ensure that next one year we get our CASA growth and we know how to get it, we are going to execute that, and you'll see the CASA growth within the next one year.

Sonal Minhas: I have a second question, if I may ask, if I'm allowed to. Yes, Sir, similar question on SME, I wanted to see the SME book and it's been kind of flattish, not making any critical remark or whatever, but just wanted to see and understand, is the market actually somewhere not of high quality because of which basically you have tapered down the growth of that segment. You're not happy with the quality of approvals which are coming in SME. Just want to understand from market perspective and then drill it down to your company.

Pralay Mondal: So I'll give a very honest answer here. We have an old book in SME and that is also running off. So while we are disbursing reasonable amount per quarter, but we're also running off some part of the old book and it is not making me very unhappy also. Because when I want to look at those book on a risk adjusted basis, I may not like to have that book with me at this point of time. So I'm okay with running it off.

So in the process, I'm strengthening the quality of the SME book. I'm adding more business on our fresh disbursement and fresh customer addition, but still, my growth is not coming. That is one part of the answer.

Second part of the answer is that we have limited liability, and I have other businesses which are coming at good yields, which is giving me almost zero risk. I have to deliver other ratios and other returns in the short term. I know this is not a very long-term good strategic view. But in the short term, I also have to deliver.

So where would I deploy that when I have limited liability. So given that, because I have to also raise money for investments into technology and distribution and other CASA, which you talked about. For that, I have to very tactically deploy that. As long as I'm able to deploy at a much more RoA, you will appreciate my RoA is 2.37% this quarter. And that RoA is required for my investments. So when they're getting business at a particular yield, I'm refusing those businesses.

In spite of the fact that HDFC, Axis, ICICI, they are happily doing those businesses and not a bad business to be, but on the risk-adjusted basis and on the NIM, I have to deliver. I am saying that I will rather deploy the liability somewhere else than low yielding businesses. That's why, to some extent, our SME and wholesale growth is little tight at this point of time.

But I also understand the value of franchise. So we are building those franchise as well as in parallel. So I also believe that in the market, gradually the risk-adjusted returns are starting to show now. But till now the risk-adjusted returns on SME was not good enough. I mean, at least it didn't suit our appetite. So to that extent, we are a little careful in the SME part of the business given that the risk-adjusted returns we're getting.

Having said that, the other banks will do those lower risk adjusted return cases and then they will do a lot of cross-sell of other products and other relationships to generate income. We don't have those cross sell products as yet but building other fees and liability and other businesses, CMS, supply chain, so many other things like vendor financing on the wholesale side. So since we are launching these products gradually since we don't have those on a RAROC basis, we don't have those income as yet. For us, taking those decisions purely based on NIM or our spreads is not as easy as it is for some of those other banks. So we are competing in a difficult market. So that's why we are saying that we will be prudent in the way we build these businesses.

But in the long term, let me tell you, our long term is very clear. 30% retail; 20%, gold; and rest, half and half between SME and wholesale, maybe SME is around 20%, 21%, and wholesale will be around 30%. So that is not going anywhere.

Moderator: The next question is from the line of Pruthul Shah from Anubhuti Advisors.

Pruthul Shah: Congrats on good set of numbers. My question is with respect to the growth in advances. So Y-o-Y, we have seen that advances have grown by 26%. However, gold loan book has grown by 51%. So basically, other than gold, the book has only grown by 10%.

So just wanted to know that why this is not increasing in tandem to the overall loan book. So you already spoke about SME, but if you can give a highlight on the corporate loan and retail loan, that what's your outlook on that?

Pralay Mondal: Absolutely great question. So let me start with retail. In a way, I covered it in my first question, I think that we are building the retail franchise on the back of technology, products and processes. Retail assets build-out takes at least 12 to 18 months. But good news is that we have started our journey and we are starting to build. This includes retail, agri. It includes micro-finance, it includes the entire retail-assets business, CV, CE, home loans, HCF, all of it -- together with credit cards.

So good news is that now we have started each of this, but to see visibility of this on the balance sheet, you will need to give us at least a year. So that's on the retail side. But retail, we are firmly on play to gradually build these products. It will gradually show up.

SME has already been answered, so I don't want to duplicate the answer. On the wholesale side of the business, what we have done is we have two major parts of the portfolio. One is the DA portfolio, and one is the normal wholesale business, which is primarily mid-market, emerging corporates, and we have our little bit of NBFC portfolio also.

So from that perspective, I think there again, we have to build our products. We are increasing our coverage strategy. Wholesale is around 30% of our overall portfolio including the DA. Infact today only with our head of wholesale, I was just discussing before, that how to increase our coverage, etc.

Please understand that our quality of the portfolio incrementally we don't do below BBB. Most of our NBFCs are A and above. So given that perspective, I think we are very conscious of the risk-adjusted return. That's why we are very carefully building it up.

Wholesale franchise does not take that kind of a time what a retail franchise will take or SME franchise will take. I mean, retail will take longer. SME will take medium and wholesale will take shortest. There, we want to really press the pedal there and grow.

But yes, still we need to create those transaction banking and also with the size of the balance sheet, which we have our wholesale team will not get an entry into many of the places where they want to. That's why they're choosing the right segments and also we are very conscious of pricing we do.

So that's where we will remain at this kind of a level for the time being. We will start seeing some changes in terms of business needs, it will not change too much from here. I mean gold loan will be probably below 50%. SME will be around 12% to 15% in the next six months and wholesale will be remaining, including DA somewhere around 30%.

Pruthul Shah: So just can you guide a number to it that other than gold loan, this SME, retail and corporate loans, what is the growth in loan book that we're expecting going forward in this book?

Pralay Mondal: So I understand your question. So from here on, if I take growth on SME, wholesale and retail ex gold how much will we grow. Here, we should be able to grow somewhere around 15%. Beyond that, practically, I don't want to do it. Because I have to continue to deliver the NIM till our technology is in play because I have to make a lot of investment there. So my constraint is liability.

So if I have 20% growth in liability and if I have a 25% growth in assets hypothetically, I'm not giving any forward-looking number, with a CD ratio of 81%, I would still like SME, wholesale and retail excl. gold to be around 15%, and rest coming from gold purely because it's a tactical play for the next one, 1.5 years.

But again, in the long term, I told you that will remain. 20% gold; 30% retail; 20% SME and rest wholesale.

Moderator: The next question is from the line of Prerit Choudhary from Green Portfolio.

Prerit Choudhary: So I have a couple of questions. First one is our employee costs have been growing at a faster rate and for last 3, 4 quarters, our business per employee has been falling. So, when can we expect this to bottom out for the business?

Pralay Mondal: So do we have all your questions, let me answer this question first. So there are two ways of looking at it. If you look at our overall cost to income, that is within control. I mean, I've said 55 to 60% where we are currently. When I have given that kind of outlook, I've considered that our employee costs will continue to go up. Business per employee is something where you have to understand that we are adding a lot more frontline stuff in terms of acquisitions, sales. Somebody asked a question on how will build your retail assets, how will you build retail liability, how will you add more accounts, how you will build CASA, that can only happen when you expand huge sales force out there, but they come at a very reasonable cost. So, they are not very costly resources.

So, business per employee will always be a little bit of a challenge because we don't outsource too much of our employee outside. A lot of other banks including all my previous organizations, especially assets and other businesses, many things are outsourced, the frontline sales staff, DSA, all of that. So, we are not doing too much of all that.

So given that perspective, my business per employee, I'm not giving our outlook where it will improve significantly from here because the number of employees will go up, average employee cost will go down because the front-end sales staff is going up big time. So that is on that front.

My cost income will remain between 55% to 60%, closer to 60%, that's not because of employee cost, that will be because of technology cost. I'm telling you next year, we'll see huge investment is going to go into technology in terms of both capex and opex. So that was the first question.

Prerit Choudhary: Yes. Next question is for the company recently issued a new credit card with OneCard. So, if you can give a number how many cards were issued in the recent quarter?

Pralay Mondal: So we have just started. So it's not a number which is too much of importance at this point of time. And also, what happens is you must understand as a franchise, we have limited credit qualified customers whom we will offer all these products. So, we have to add new customers in the coming quarters.

So, this product is also in a way not to build great credit card business, but to get new good quality credit qualified customers to the bank who can also build CASA, which I have already told before in my previous calls.

So given that perspective, I think we have just added around 2,000, cards now. Maybe next quarter, we'll add another 10,000 or so. But more importantly, I want to see this as one of the other products. Because we don't have too many products at this point of time. This is one more product, and it's a very premium product. If you see this product and see the value and digitally-enabled product. We think that this is one more way to knock the door of the customer to open a relationship with us. Our strategy is not cross-sell of credit cards to CASA, our strategy is cross-sell of CASA to credit card customers because we need to build up a better quality CASA franchise, which will take a little time. So credit card is a very important business for us from that perspective.

Prerit Choudhary: Understood. I had one last question. It's more related to the recent news and related to the Adani, so do we have any exposure to the Adani group in our corporate loan book?

Pralay Mondal: I was jokingly saying before this call started, that this question is going to the other banks and it will not come to us. Because we don't even have the balance sheet to give loans to Adani. I mean we can have a 50 crores CP like that, etc. but that is nothing. But otherwise, we don't have any exposure.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Sir, firstly, on the SME side, if you could share the disbursement made by the bank over the last 3 quarters, the quantum of disbursement that will help.

Pralay Mondal: So I think we are disbursing incremental disbursement, pureplay disbursement is somewhere around INR 350 crores to INR 450 crores. I don't exactly remember the number, somewhere in that level. But we have lost more than that in terms of either we have run them off or utilization has gone down in certain places because of rates and things like that. So broadly around INR 350 crores, INR 450 crores of disbursements we have done.

Mona Khetan: Okay. And we have seen some BTs as well?

Pralay Mondal: BT -- In SME you know a lot of BT happens in SME, so BT will be a part of this, yes.

Mona Khetan: When it comes to your advances made, what would be the share of EBLR and MCLR loans in the full?

Pralay Mondal: Mostly our wholesale is on MCLR and SME is EBLR. But this is becoming less relevant anymore because interest rates are peaking right now. So the benefits of these are gradually going to fade away and the impact of cost of funds will start kicking in. So that's why I said in the beginning itself, that 5.8, don't read this too seriously on the NIM.

Mona Khetan: Right. So wholesale and SME would together would be say about 30%, if I have to exclude the direct assignment and stuff?

Pralay Mondal: Gold is around 45%. Wholesale is around 30%. SMEs around 12%. SME and Corporate excluding DA/LCBD etc constitute around 35%

Mona Khetan: Okay. And gold would be entirely fixed?

Pralay Mondal: Gold is mostly fixed. Because these are short term, gold loan is short term it doesn't matter.

Mona Khetan: On the deposit side, we have seen a very strong sequential growth at 8%. So, if you could just give some color of where the sequential growth is coming from? Is it largely led by wholesale deposits, certificate of deposits, etc or a larger share is by retail deposits?

Pralay Mondal: On CD, I must say that we are lesser than where we started the year with. CD book is somewhere between INR 300 and INR 400 crores. When we started the year, it was higher than that. So, I don't think CD actually has come down, not gone up. I'm not saying it will not go up again, but it is not that material and among most of the banks, our component of CD in deposits as a percentage is also one of the lowest.

Mona Khetan: So the interbank deposits?

Pralay Mondal: Interbank is very negligible say less than 5% of the total deposits. On wholesale, there are 2 definitions/ One refers to mostly short term deposits placed by corporates and the other one is what RBI classification says are wholesale rather bulk deposits. Like most of the banks, we also have, on an incremental basis, last quarter, almost 50% of our business by RBI definition is wholesale. But you have to see what is our LCR. We ended the LCR at 124%. How many banks have really done at that kind of percentage. So that cannot be a purely wholesale, but a kind of retail eligible for LCR.

So, deposit franchise has to be seen in 2, 3 parts. What is the overall cost of funds of the bank. What is the tenor of the deposit. What is the LCR of the bank and what is the CD of the bank, So CDs, we are one of the lowest, and I told you it is between INR 300 crores to INR 400 crores. Now it has come down actually, some of that has run off as we're talking. Our LCR is 124%. Our cost of deposits is around 4.20% and that will give you the answer where we are.

Mona Khetan: When it comes to your loan-to-deposit ratio, what would be a comfortable level to you? Where could it peak rather?

Pralay Mondal: In the current scenario, I will say that I am willing to go up to 90%. But I was quite pleasantly surprised to see we're coming down this quarter at 81% from our 83% odd percent last quarter. But that may not be the trend. I think in the current regime with liquidity where it is, 85% is what is proposed right now.

Mona Khetan: Just lastly, we are seeing very low slippages, good recoveries in your case especially this fiscal close to 1% and the slippages is what we're seeing through. What is your guidance on slippages from a normalized perspective as we go ahead in FY '24, '25. Where could be the normalized slippages for CSB Bank?

Pralay Mondal: We are a very conservative bank. Our management is also very conservative. So that's why we are not taking some of the growth on SME and wholesale because the risk adjustment returns are not in line with what our conservative thought processes is.

Gold loan anyway, the NPA and the slippages are very low. Slippages can happen, but we recover that. So gold loan is not a real issue. Some of our old portfolio on the retail, which was slipping that is now gradually going to become negligible over a period of time. We are also getting upgrades and recovery from some of the old SME portfolio and the retail portfolio as well say from home loans, LAP etc. So given this perspective, I cannot give a guidance on this. We have a negative credit cost today. Very few people have negative credit cost. We have traveled the whole year with that kind of negative credit cost. I hope that we can continue that for this quarter as well. Hopefully, we will.

But next year, obviously, will not be a negative credit cost. But in terms of slippages, I think we will continue to be good. Because except for 1 or 2 accounts, we don't have too much of a chunky business, nor we have too much of a stress in our portfolio. Anyway, we are holding a contingency provision. So we are constantly working with our auditors.

So we have a contingency provision of INR 106 crores in any way. So to that extent, you cannot adjust that, but you can have a formula for that over a period of next 3, 4 years. So to that extent, I don't see a major challenge in terms of slippages or NPA or credit quality. But we may not have our negative credit cost. That is unreal.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: I just wanted to understand again a bit more on the deposit growth. What would be the outlook going ahead? Again, as you mentioned, you have to balance between the savings and term deposits. So we can expect more term deposit growth. Would that be the strategy for the next one year?

Pralay Mondal: Yes. At the end of the day, when you have an 81% CD ratio vis a vis our comfort level of 85%, and we do not want to breach the 90% mark, it will obviously mean that if we want to grow at the same level for asset, we need to grow on the deposit side by at least 20%.

Now some part of that will do happen from term deposits because CASA takes its own time. Having said that, in this quarter you will see a quarter on quarter growth on CASA as well. We have put our strategy together, thoughts together, and we will build CASA. We have launched some products on both the savings and current account side. You will see some growth on the CASA for sure. I know that in our entire good operating quarter, the only black mark that we have is on the CASA growth and we do not want it in the next quarter.

But frankly, TD growth, we have to sustain because when you are growing the balance sheet from 9% last year to 25% this year. I mean so far, I'm not making a forward looking statement. In one quarter, drastic change obviously cannot happen. So we need to have some dependence on term deposits as well because CASA will not give you overnight growth.

But we'll try and see that our CASA does not fall below 30% because that's a psychologically not a good level to be at. My challenge here is mathematically, even if we grow CASA faster than TD, it will continue to fall below 30% till CASA ratio goes above 35%, 38% or above 40% mathematically. So we have to solve that math also, so we'll see how to do.

Pallavi Deshpande: Like you said, sir, we'll monitor the LCR which has been of -- despite the black mark, that's been a blue mark, I would say. So secondly, on the PSLC, do we see that coming back in fourth quarter or is that this time it is a complete washout of PSLC?

Pralay Mondal: Let me put it this way, I am not factoring that income in my projections. If something comes, that is bonus and my theory is like this. This is a kind of a conjecture you can say. This year credit growth picked up to say 16% or 17% in the ecosystem while the ANBC base that belonged to the previous FY was lower. Accordingly, there was not much of a stress on PSL and premiums are lower as everybody would have probably achieved their PSL targets.

Next year, the reverse may happen. ANBC base will be higher and growth may actually taper up a little bit next year. Moreover, even if growth happens, it will happen, not necessarily in PSL-oriented businesses. Like your wholesale starts picking up or some parts of SMEs, picks up, they might not contribute straight to the PSL business. So given that perspective, it's not all lost cause. All this portfolio will remain with us next year. So we'll be able to get, hopefully, some PSLC income back next year. But this year, last quarter, things like how many people will be short and by how much etc will not have much significance, because if they had to buy, they would have bought it by now. Why should someone wait for the last quarter? However, we are monitoring it daily, especially in the month-end, quarter end we will monitor it more closely. In the last quarter, comparatively good rates were available say for two or three days and we picked it up and we got Rs 3.6 crores. Just 3 days window we got and we used it like an opportunity.

We will watch that and we will do whatever we can because it will otherwise zeroize at the end of the year. I am not so hopeful here.

Pallavi Deshpande: And sir, lastly on the recovery side, like we've seen, I think, the other income portion, has shown a good growth. So, can we expect similar kind of recoveries next year on that bit?

Pralay Mondal: I can only talk about next quarter. It is very difficult to predict for next year. But our machinery is on and our team is fully geared up for a good fourth quarter. Next year numbers we can discuss may be in the next call.

Moderator: Next question from the line of Sonal Minhas from Prescient Investment Management.

Sonal Minhas: I just wanted to understand the corporate loan book. In the corporate loan book, are you the lead banker or this is part of a consortium that is how we try and build basically a corporate loan book?

Pralay Mondal: Generally, we don't do consortium lending as much, because there is no point in participating in a consortium when you don't have a say. If you see, almost 35% to 40% of our portfolio is NBFC in the corporate book and the rest is mostly distributed lending and mostly one-on-one kind of a lending. We do multiple banking but not consortium.

Sonal Minhas: Sir, at a corporate level, maybe just trying to understand, is there a distinct reason the corporate or a new corporate would come to CSB? Is that because of the geographical reach or is that because of the interest rate or, are you in a particular geography, you still, let's say, maybe giving a discount over a larger bank in the same geography? I just wanted to understand the dynamics of this business when you take up a new client. Is it price? Is it your relationship? Just trying to get to that.

Pralay Mondal: So you know corporate banking is mostly about relationship business. So on the financial market side, on the NBFC side; we have been operating for some time. People know that we understand that part of the business and that is why obviously, we have our ecosystem and we have some amount of expertise on that business, so which we are leveraging on.

Coming to other parts, what is happening is that people when they join us, and we are expanding our coverage group, etc, primarily, it happens based on the relationships we have and the products and services in the geography. Of course, we are stronger in certain parts historically. But we are now expanding significantly in the West and North. We have got very good leadership in West and North. As we are talking, we are expanding and building our leadership in the Upper South part, which is AP and Karnataka.

While our strength was always there in Tamil Nadu and Kerala, but now we are getting stronger in AP, Karnataka, Maharashtra and North and we have strong leadership in each of these locations.

We have clear vertical segments where we enter. We have clear guidance from our Board and credit committee in terms of segments, where we can get the right kind of risk-adjusted returns and we are focusing on those segments.

It's a relationship business and the coverage business. So all of this put together, ultimately, we have not a very large book. So to that extent, this strategy works for us right now.

In the long run, we have to build up our strategy based on solution products, transaction banking and supply chain vendor finance etc between SME and wholesale and that we are working in parallel.

Sonal Minhas: Sir, my second question is may be beyond the results. I just wanted to get a sense of the Promoter Group basically, and them trying to bid for IDBI. I'm sure this is not a relevant question, but can I ask like this question or this is beyond the results discussion call?

Pralay Mondal: We are a democratic country. You can ask any questions, but I cannot answer because I don't know. That's the truth. I mean, what Fairfax is doing and what is their plan, they will do. I mean, I have been told to organically build this bank and I am clearly focused on that.

Moderator: The next question is from the line of Jyoti Khatri from Arihant Capital.

Jyoti Khatri: Yes, sir. Thanks for taking my question. Just wanted to understand on the opex side. You said that you will be investing in technology and people over the next one or two years. So, any number to put out there like how much opex and capex cost that you have in your mind?

Pralay Mondal: Let us break up opex into three parts, one is technology, one is distribution, one is people. These are the primarily three and the rest are relatively smaller amounts. So, when it comes to technology, technology, is again, divided into two parts, capex and opex. I have told our CIO Mr Rajesh to run as fast as possible. Whatever he can run, we will fund it. I'll ensure that our business teams are tasked to get those revenue to the bank.

Now it is up to him how much he can do. I have given him a whole laundry list of what needs to be done. Starting from core banking to LOS, we have already implemented few, we're working on four, five products and we have some more to go. On the LMS, we have finalized, on corporate LOS, we are doing it, on corporate net banking, we're doing it, on mobile banking and net banking, we're revamping it. For them this itself is a huge task.

I don't want to open it up into that detailed discussion but let me put it this way. I have told that this is one investment that is of top priority as my payback period will be faster. In parallel, we are also making other investments in terms of distribution. Because of technology, I'm expanding the distribution, and I'm not able to leverage that; that's not very prudent. So, to that extent, technology is as much as he can do. On the manpower, we have got a productivity chart given to my retail head, to my SME head, to my wholesale head. I have told them that we will not stop anything, as long as you manage this productivity and you can hire. But if you don't manage that productivity, you cannot hire.

When it comes to distribution, I have said that we will have around 100 branches per year. As our technology costs start tapering down, we will go beyond 100, because I fundamentally believe that branch is also a way to build distribution till you have at least 2,000 branches in this country. So, to that extent, we will start expanding, but I cannot take both the distribution cost and the technology costs together. Technology cost will start tapering in the next three, four years. Then we will pick up the distribution much larger than 100 per year. So, that's broadly what it is. How much, I do not know. I cannot give that number as it depends on our execution bandwidth. However, broadly, back of the envelope, I think we should be, I do not mind in investing into almost 70%, 80% of our yearly profit also into these three opex items, distribution people and technology.

Jyoti Khatri: So, I mean from cost-to-income perspective, if you will see...

Pralay Mondal: I want to qualify this. When I said this, I'm not saying per year, I'm saying on a project basis. For example, next 3 to 4 years kind of an investment I'm talking about.

Jyoti Khatri: So from cost-to-income perspective we will see - it should remain about 60% level?

Pralay Mondal: Yes. I have always said that we will not go below 55% immediately. In the short term, we will try and not go above 60% but we'll be closer towards 60%. By FY '30, we will be between 40% to 45%.

Jyoti Khatri: And another thing was, how crucial will be building up the retail liability, assume that it doesn't go through as per your plan, it could derail your entire strategy of building up retail franchise, is that so? Because I think currently, everyone is facing challenges in building of retail deposits. So that is one important crucial part in that entire retail franchising.

Pralay Mondal: If we can't build that, we don't have a story either to tell or to build it. Therefore, I will start from a belief that we can do it. We have the ability to do it. Most of my management team has done it time and again in the past in various large organizations. So there is no way I will even think that we cannot do it. In most of the investor calls, what I have said in the past, we have delivered, right? I mean, look at this today's call, we have almost delivered everything we have said. So I don't even want to get into a discussion - if it does not happen, that question doesn't arise in our mind. But yes, it's a tough journey ahead, and we know how to do the building block. That's why we are not taking a shortcut to success. We are saying we'll build a franchise. We'll go step by step. We'll build the distribution. We'll build the leadership team. We'll build the technology, we'll build those products. That's why I'm not committing anything, which is unachievable. I have done it three times in my past experience. I know step-by-step how to do things. Hence, we are not committing anything which we cannot do.

Jyoti Khatri: Okay. Sir, just last thing on the margins and the credit cost any outlook for the next fiscal?

Pralay Mondal: Margins I have said before, I am repeating because you will see in most of the calls, my numbers do not change much. I will be happy with a NIM of around 5%. In terms of credit cost, we cannot have a negative credit cost but on a 3-year basis, we will be below 40 basis points. Next year, obviously, we'll not reach 40 basis points. It will be lower than that, but it will not be negative also.

Moderator: The next question is from the line of Dharmavenkatesan K B, an Individual Investor.

Dharmavenkatesan K B: My question is more on the MSME book. So have you explored any co-lending opportunities with the fintechs or all of them mostly originating from the bank? So can you give some color on that?

Pralay Mondal: Yes. What is happening is we were doing some business on the fintech side, but because of the new digital lending advisory or guidance, which has come from RBI, we have gone back to the drawing board again, and we are seeing how this will work out. So we are talking to a few partners, and we are working on it. On the other co-lending, which is a little larger, technology development is required. We are also working on that. So yes, that is very much in the thought process and that is a large part of our strategy. However, we will take a little time to create the framework for that strategy. But if you ask me this question 2 years from now, I can show you how much business we have done in this.

Dharmavenkatesan K B: Okay, sir. And how many branches you have opened in this quarter, in this particular quarter?

Pralay Mondal: In this quarter, around 40 branches.

Dharmavenkatesan K B: My final question is it's more of a generic question. Sir, suppose if we are building up for the future, we are implementing in technologies and other aspects. We are building a CASA franchise. Do we need any management bandwidth in Tier 2, Tier 3 levels? Or what are the other things you need on your management bandwidth to achieve the level of growth that we are aiming i.e. maybe 5 years or 10 years from now?

Pralay Mondal: Sir, our issue is not the Tier 2, Tier 3. We are very well placed there. That's why you see that we are the net seller in PSLC all the time. We have to work on is how do we build a franchise for the metro and urban markets. That's why we need multiple products, multiple premium businesses. I can say premium, but at least mid of the pyramid to going towards top of the pyramid. So our challenge is very different from the other banks who are trying to grow from metro and urban to deeper geography.

So we are coming from deeper geography to metro and urban. So basically, it's a full franchise which we have to build because in these metro markets and urban markets, if you have to be present profitably, you have to have a full service franchise, and that's what we are working on. So our challenge is exactly the opposite.

Dharmavenkatesan K B: My question didn't get through properly. My question was on a management level. Like on our management bandwidth of Tier 2, Tier 3 employees, like do we need to -- how much bandwidth we need for the growth that we are anticipating 5 years from now? Are we well capitalized on the management side it is what I was trying to ask.

Pralay Mondal: So let me try and answer that. Tier 2, Tier 3 markets are very good on gold loan, agri, MFI, MSME etc and we are very good in some of these businesses. Rest of the businesses we do understand liability, assets, retail assets etc. as they grow deeper as we create credit structures. Also, digital is becoming a major part even in deeper geography. So not necessarily, you have to have so many people in those locations to run the businesses. Except for gold loan, gold loan is a very physical business and which you understand. So most of these branches in the Tier 2, Tier 3, Tier 4 kind of towns, gold loan itself gives us a very quick turnaround in terms of profits. But they don't make big money. The smaller branches don't make big money.

So to make big money, you have to have larger presence and higher end of the pyramid in metro and urban markets because all large banks have top 20% customers contributing to more than 100% of the profit and 80% of the revenue. That is one pie, which we have to build-- we are not present in those market in that segment as yet. We are building that and that will take 3, 4 years to build. Management bandwidth, we have enough presence in the deeper geography, that is not a problem.

Dharmavenkatesan K B: Okay, sir. Just one more final thing. What is the top 10 or top 20 deposits and advances concentration? Top 20 or top 50?

Pralay Mondal: Top 20 deposit concentration , I don't know whether we give that number or not. Mr. Divakara, Do we give that number, then can you share?

B. K. Divakara: 13%

Dharmavenkatesan K B: On the advance side or on the deposit side sir that is?

B. K. Divakara: Deposit side.

Pralay Mondal: Top 20 depositors around 12-13%. We are trying to bring that down further. I forgot that number, I have seen that. So we're going to bring that down -- that number over a period of time.

Dharmavenkatesan K B: Similar number on the advances?

Pralay Mondal: Almost 45% of our business in gold loan, which are all less than 2 lakhs ATS.

Dharmavenkatesan K B: So we do not have any major exposure to one particular person or a company.

Pralay Mondal: We may have 2 or 3, but they are less than INR 300 crores.

Moderator: The next question is from the line of Anuja Dighe from Elara.

Anuja Dighe: I just have one data keeping question. I think we have realigned our loan mix this quarter. So may I get similar kind of numbers for SME, Corporate and retail for last quarter?

Pralay Mondal: I think it is there in the investor presentation if you look up, but if I remember currently, our gold loan was around 44%, but you can check it in the net. Our SME was around 12%, other retail ex gold was 14%.

Anuja Dighe: Okay.

Pralay Mondal: Around 30% was on the wholesale, I think.

Anuja Dighe: And second, another small question. If I'm not mistaken, you mentioned that according to RBI definition the wholesale deposit base is around 50% of the book. Is it right?

Pralay Mondal: Let me first clarify what I said wholesale, by RBI definition is a deposit of INR 2 Crs and above. It can come from any individual also.

What I am saying by RBI definition, any deposit of INR Rs 2 Cr and above has to be classified as a wholesale deposit, and not necessarily, the deposit has come from a corporate. So incrementally we had a larger share last quarter as we focused a little bit on around INR 2 crores to INR 5 crores of deposits because we needed to grow the deposit last quarter. It is only incremental for last quarter, not our overall portfolio. Our overall portfolio is pretty much very granular, more granular than most of the banks even now.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Pralay Mondal: Thank you very much. Thank you, Manish, and Axis Capital for organizing this call and thankful to all the investors and analysts for being such active and asking enthusiastic questions. I hope I could respond to most of the questions. I would like to say that I'm happy that we could almost deliver on all the parameters on a consistent basis. Whatever we have committed, we'll work very hard to ensure that we don't disappoint you. Thank you very much. Have a good evening.

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