"CSB Bank
Q2 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to CSB Bank's Q2 FY2022 Investors Conference Call, hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal of Axis Capital Limited. Thank you, and over to you, Sir!

Praveen Agarwal: Thank you Vikram. Hello everyone and welcome to this earnings call. We have with us from CSB management team, Mr. C VR Rajendran, MD and CEO; Mr. Pralay Mondal; President, Retail SME, IT and Operations; Mr. B.K. Divakara, he is CFO; and Mr. Ganesan V, Head of Credit Monitoring and Recovery. Over to you Mr. Rajendran to take us through the highlights of the result, post which we will open the floor for Q&A. Over to you, Sir!

C VR Rajendran: Thank you. Good evening to you all. Rebound in economic activity gained traction during the second half of September quarter because of lower Covid infections, easing of lockdown restrictions and extensive vaccination drives. Hopefully the momentum will continue hereafter supported by increased demand during the upcoming festive season, sustained lower number of infections sequel to effective vaccination reach, increased capital spent by government, robust agriculture prospects etc. Inflation trajectory is expected to edge down during the current quarter. GDP growth is projected at 9.5% for FY 2021-22. RBI is continuing with the accommodative stance. We believe that the environment will be stable now but for the unexpected Covid related challenges and pickup in the economic activity will drive a decent credit growth. We look forward to cash in such opportunities in the best possible manner. Our concerted and continuous efforts on the portfolio stress management has yielded results and we could post a net profit of Rs 118.57 Crs in Q2 FY 22 as against Rs 61 Cr for the first quarter of FY 22 & Rs 68.90 Cr in Q2 FY 21. As a matter of prudence, we continued to follow the accelerated provisioning policy for SMA other than gold and NPA accounts. Let me take you through the main highlights:

NII: Net Interest Income grows by 21% YoY and 4% QoQ. QoQ yield on advances have gone up from 10.62% to 11.38% or by 76 bps due mainly to the effect of interest suspense on gold loans. In Q1, there was reversal of interest on gold NPA totaling to Rs 23 crore while in Q2 FY22, reversal is only Rs 2.21 crore. Resultantly gold loan yield has gone up from 11.46% in Q1FY22 to 13.08% in Q2FY22 or by 162 bps. Gold loan NPAs have decreased from Rs 353 crore in Q1FY22 to Rs 287 crore in Q2FY22. QoQ Cost of deposits came down from 4.48% to 4.30% or by 18 bps due mainly to repricing of term deposits at lower rates. YoY yield on advances increased by 44 bps while Cost of Deposits came down by 88 bps.

NIM: Improved yields and reduced costs have contributed NIM to be at 5.22% in Q2FY22 as against 5.04% in Q1FY22 and 4.49% in Q2FY21.

Treasury: Due to global and internal factors, G sec yields are moving upward and as a strategic response, we are not holding any major trading positions. Consequently, trading profit from treasury operations were low when compared to previous H1.

Other Income: Due to SR depreciation of Rs 19 crore netted from treasury profits as per new RBI format, there is a treasury loss of Rs 10 crore in Q2FY22. Non-treasury other income has gone up by Rs 20 crore QoQ and YoY due mainly to higher PSLC premium. Overall Net Operating income could be maintained at Q1FY22 level despite treasury losses due to increase in NII and non-treasury other income.

Opex: Staff cost increased by 15% YoY as number of staff increased from 3668 to 4879 or by 33%. Out of the 4879 employees, IBA category comes to 1443 (30%) and CTC 3436 (70%). QoQ there is an increase of Rs 22 crore contributed mainly by increase in AS 15 provisions (Rs 18 crore in Q1FY22 to Rs 38 crore in Q2FY22 – Rs 15 crore of increase due mainly to purchase of DA for pensioners). Non-Staff opex up by 38% YoY due to increase in rent, depreciation, repairs & maintenance and other charges. Number of branches have increased from 421 to 541 YoY and this is the main contributing factor for the increase. QoQ there is increase of 4% due to increase in repairs & maintenance, IT charges etc.

Operating Profit: Operating Profit is up by 26% YoY tracking growth in Net Operating income by 24%. QoQ there is a decrease of 15% due to treasury loss (SR depreciation impact). Operating profit for Q2FY22 but for the regulatory changes is Rs 181.2 Cr as against Rs 179.8 Cr for Q1FY22

Cost Income Ratio stood at 55.83% in Q2FY22 as against 56.41% in Q2FY21 and 48.45% in Q1FY22. But for the regulatory format changes, CIR for Q2 FY 22 would have been 51%. Total income is impacted by two ways because of the regulatory changes in accounting. The bad recovery which was part of other income is netted from provision for NPA from this quarter onwards. Similarly, provision for investments which was part of the provisions is getting netted from the profit on sale of investments. Both these changes impacted the Cost Income Ratio.

Net Profit: PAT is at an all-time record level of Rs 119 crore and is up by 95% QoQ and 72% YoY. Thanks mainly to recovery in gold loan NPAs, there is reversal of Rs 18 crore of NPA provision as against charge of Rs 97 crore in Q1FY22. This has contributed to bumper quarterly profits despite reduction in QoQ operating profits. Reduction in Gold loan NPAs had thus a benign effect on interest income and on NPA provisions and enabled bank posting record PAT.

RoA & RoE: Bank recorded an RoA of 1.53% for the half year ended 30.09.21 and 2.02% for the quarter ended 30.9.21. Return on equity stood at 17.84% for the half year and 22.96% for the quarter.

Asset Quality: Quarter to Quarter, Gross NPA reduced from Rs 686 crore to Rs 587 crore. Non Gold NPA reduced from Rs 333 crore to Rs 300 crore. Gross NPA percentage reduced from 4.88% to 4.11%. Net NPA reduced by Rs 74 crore from Rs 444 crore to Rs 370 crore while as a percentage to net advances from 3.21% to 2.63% thus falling below 3% mark. Gross NPA and Net NPA ratios excluding gold works out to 2.09% and 1.14% as on 30.09.2021. PCR improved to 73% from 70% from Q1 FY 22.

Borrower wise SMA which was at Rs 400 Crs as on 30.06.2021 could be brought down, with a reduction of Rs 131 Crs, to Rs 269 Crs as on 30.09.2021 which constitute only 1.88% of gross advances. During the quarter ended 30.09.21, bank restructured Rs 56 Crs of loan book. As on 30.09.2021 total restructured book stood at Rs 113.45 Crs which is 0.79% of gross advances.

Amount outstanding under GECL scheme is Rs 141 Crs as on 30.09.21 as against Rs 136 Crs as on 30.06.21

Collection efficiency continues to be above 90% and the same was at 93% in September 2021.

Capital Adequacy Ratio stood at 20.12% as on 30.09.2021 as against 21.63% as on 30.06.2021. Reduction is attributed to increase in non-gold advances, HTM non-SLR investments and deterioration in rating of a few corporate customers. CRAR as on 30.09.20 was 19.69%. Leverage ratio is at 8.03% as on 30.09.2021.

Topline Growth: YoY Deposits grew by 9% and CASA by 21%. Net Advances grew by 12% while gold loans by 10%. QoQ, Deposits and Advances grew by 2%. Gold loans decreased by 3% QoQ as the effect of lower LTV regime continued to weigh in on the portfolio. Also our prime focus was on recovery of NPAs and containing slippages. As the asset quality concerns in gold loans have ebbed now, going forward we expect to see good traction supported by festive season.

Liquidity: Liquidity position continues to be comfortable with an LCR of 170%, Total lendable surplus is close to Rs 1700 Crs.

Expanding the network: We have opened 36 new branches in this financial year and merged 6 unviable branches thus taking the total network to 542. We plan to open another 50 plus branches in the current quarter.

Once demand picks up, we will have enormous opportunities in our priority segments like gold loans, SME, MSME, Two Wheeler, MFI etc. Though there could be some stress in loan book, we would be in a position to manage it better as economic activity has revived to almost normalcy. We remain well capitalised and well leveraged to capitalize economic recovery to drive strong financial and operating results in the coming quarters.

Thank you, I will leave with this and I will prefer to take few questions from you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Harsh Shah from L&T Mutual Fund. Please go ahead.

Harsh Shah: Thank you. Sir, I just have a few questions, starting from restructuring. So what is the total restructuring book outstanding as on date?

C VR Rajendran: Rs 113 Crores.

Harsh Shah: How much provisioning are we carrying on that?

C VR Rajendran: 25%.

Harsh Shah: Over and above this, how much of buffer provisioning we have as on date?

C VR Rajendran: Buffer provisioning is Rs 318 Crores; over and above RBI requirement.

Harsh Shah: It is over and above the restructuring provisions?

C VR Rajendran: Overall, in the presentation we have given a break up

Harsh Shah: Second question is if we remove the new guidelines regarding set off of recovery, what would have been the amount of NPA provisions?

B.K. Divakara: Sir, even otherwise, there is a provision reversal to the tune of Rs 6.10 Crores for the quarter as the NPAs have been arrested during the quarter. After adjusting this recovery in written off accounts, it has come down to minus 18.2 Crs.

Harsh Shah: So this is as against your Q1 figure of Rs 97 Crores is my understanding. is it right?

C VR Rajendran: Yes, In Q1 FY 22, because of the large-scale slippages in gold loans, there was a hit of almost Rs 97 Crs as NPA Provisions.

Harsh Shah: Another question is on the gold loan recovery. So how has been your recovery process and what kind of incremental stress are we witnessing in this segment considering the fact that we also had a decent chunky slippage from this book in this quarter as well?

C VR Rajendran: Right from May onwards we are seeing that incremental slippages are coming down month-on-month. Overall NPA remains at around Rs 300 Crores even today and it is mainly because of our policy of not pursuing auction as a first solution. Many companies have gone for aggressive auction but we give all possible chances to borrowers to redeem the jewelry, auction is a last resort for us. We have also done some auctions and after auctioning, the loss recognized for this quarter is only Rs 88 lakhs. For first quarter it was Rs 1 Crores. Therefore, after conduct of auctions, amount to be recovered is Rs 1.88 Cr, which is fully provided for. Of course, recovery will happen over a period and we are confident that we will be in a position to recover remaining amount of Rs 300 Crores of NPA. A substantial portion will be recovered in Q3 and remaining in Q4.

Harsh Shah: Where do you see your GNPA as a percentage to total advances to reach by March 22?

C VR Rajendran: We target for a GNPA of below 2% and net NPA of below 1%. Even today if you exclude gold, it is almost at that level only –GNPA of 2.09% and NNPA of 1.14% as on date. If one more round of COVID is not coming, I think we will be in a position to achieve these targets.

Harsh Shah: Assuming there is no third wave etc., as you rightly said, do you think we will achieve this number this March itself?

C VR Rajendran: We are very close to these levels and we do not have any major accounts, which are showing signs of threat. As such other than gold NPA slippages will be less than the recovery and in case of gold portfolio, we will be in a position to bring it down substantially. So it should be possible.

Harsh Shah: Just one last question from my side. We have seen a very substantial growth in your agri and MFI book. The portfolio share that was not even 1% has gone up to almost 5% and as I guess that is also correlating with the fact that our risk weighted assets to total assets have gone from 40% to 45%. So can you just help us explain what is your rationale behind growing this book? What kind of growth opportunities are you seeing from this book?

C VR Rajendran: We never had a pure agriculture portfolio in the past. It was a very small portfolio. Most of our agriculture performance is based on agri-gold loans. Cautiously and consciously, we wanted to build a pure agri-portfolio. For operationalizing this, we brought in a person from another private sector bank 3 years back and formed a separate vertical. With the continuous focus on this business for the last 3 years, we have reached these numbers. Now traction is increasing because earlier, we were operating only in three markets viz Kerala, Tamil Nadu and Maharashtra. Now we have expanded to Andhra, Telangana, Karnataka also and selectively in other parts. So naturally, there will be much more traction in agriculture growth and considering the monsoon and our business model, slippages are very low

Harsh Shah: Thank you Sir and all the best.

Moderator: Thank you. We have next question from the line of Mona Khaitan from Dolat Capital. Please go ahead.

Mona Khaitan: Good evening. I notice that LTV on your goal loan book has actually increased sequentially from 77% to 79%. So why would that be the case because you are degrowing the book and anyways as per regulatory requirements I believe it is higher than that so and plus gold prices have not moved much.

C VR Rajendran: Downward movement in gold prices is a major reason

Mona Khaitan: So from a medium-term perspective where could we see this LTV stabilizing? Would it be closer to an 80% level?

C VR Rajendran: No. It should go to 70% level if gold prices improve. Incremental lending in the non-agriculture is happening only at 68%. So when non-agri portfolio grows this will move towards 70%.

Mona Khaitan: On the opex part, so your opex has increased, you cited some reasons around new branch additions and employee additions. So could we incrementally expect a similar sort of run rate on the opex side?

C VR Rajendran: Now we have slowed down a bit on branch expansion. Another 40 to 50 branches will come into existence during the current quarter. Accordingly, employee expansion will not take place in the same pace as in H1. Most of the employees have joined only during the last quarter. Full impact might not have been felt in the last quarter and it will be there from current quarter onwards. Hence, it will be slightly higher than the current quarter.

Mona Khaitan: On the growth front what is your outlook for this fiscal and any color on the non-gold retail in terms of product launches and rolling out of digital products. So it will be pretty useful.

C VR Rajendran: We have already launched an MSME product and today we got approval from board for another three four products. All these products will be launched shortly. But expansion will take some time because these are all small value loans and volume wise it may not contribute substantially to the growth. But these products will start contributing from day one. Volume growth will happen only from SME /wholesale and gold loan segment. It depends on the economic activity revival. Our desire was to grow by minimum 25% in the beginning of the year; but it seems to be difficult at this point of time because we have not grown even by 2%. So probably, 10% to 15% could be the growth, which we can anticipate for the current year.

Mona Khaitan: Just lastly, MSME you have highlighted earlier as well that it is your focus area and you want to portray yourself as an SME bank from a long-term perspective. If I look at the growth in this segment, MSME as well as SME book, it is muted. So what is holding you back? For some of the larger banks, it has been one of the key drivers for their growth.

C VR Rajendran: Pricing of loans has become very unrealistic in this market. We are seeing that a B rated account in SME segment is taken over at 7.5% or 8% in the market. We charge around 10% for a BB or B account. So risk is not properly priced because of the excess liquidity available in the system. We do not get into a price war in the market. We go by our own pricing methodology. Of course, we do consider some concessions based on merit. Net to net the attritions are more than the incremental growth. That is one reason why we are not able to grow. I hope that a better sense will prevail over a longer period and once excess liquidity is sucked out, naturally, pricing will come to a realistic level and then this attrition can be arrested.

Mona Khaitan: Sure. Final one on the assignment loan you have seen a very sharp growth on a sequential basis so what exactly is this portfolio and I mean what is your outlook here?

C VR Rajendran: We have not done much of assignments during the last half year. The only assignment done was in gold loan of about 400 Crores, which we did at the end of the quarter. So naturally, there is nothing to worry. Previous assignments, which we have done, are showing signs of some weakness. NPAs have come up and were provided for. Hence, for the time being, we are not keen on doing other DA on a large scale.

Mona Khaitan: So these are portfolio buyouts. Thank you. That was pretty helpful.

Moderator: Thank you. We have a next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Good afternoon Sir. Sir a couple of questions from me one, in your opening remarks you mentioned that one of the reasons for the increase in RWA was deterioration in rating of a few corporate customers. So this deterioration is within that A and above bucket? Which segments would this exposure be in?

C VR Rajendran: One is in food processing and one is in infrastructure. Only two or three accounts will be there

Abhishek Murarka: Whether this deterioration is more due to company specific factors or just in those industries?

C VR Rajendran: It is more of a market related one

Abhishek Murarka: Sir the second question is related to SME. Just now, you mentioned that there is a lot of attrition and we know that pricing pressure is there, risk is not getting priced correctly. So in this segment despite your size and your reach in different areas, you are still not finding good pockets of growth. So does it mean that larger banks have penetrated to quite an extent or is it that you are just letting go of business because of pricing?

C VR Rajendran: In some cases, it is a conscious decision to let go because of the pricing. In few others, it is because of some segments where we are not comfortable taking additional exposure. During the last fortnight of the quarter, we have seen good growth and we have many proposals in the pipeline. Probably in the third quarter, you will see good growth in SME as well as wholesale segment.

Abhishek Murarka: Because the last couple of quarters volumes have not been built up here?

C VR Rajendran: We were also very doubtful about the recovery process and we have not been aggressive during the last two quarters.

Abhishek Murarka: Sir just this Agri and MFI; how much is direct agri and how much would be MFI out of the 680 Crores?

C VR Rajendran: Most of it is direct agri; almost Rs 500 Crs. MFI portfolio is much smaller.

Abhishek Murarka: And Sir finally just one question. On GL you said there is an agri component and a non-agri component also. In the non-agri component what is the outlook now in terms of pricing, in terms of tonnage increase or customer acquisition. How is it going incrementally and where do you see that in the next six months?

C VR Rajendran: Pricing is not an issue in non-agri segment or in the agri segment also. It is only the per gram rate which decides growth. When loan to asset value increased, naturally a lot of traction happened during the last year. This time we are very conservative on the loan to asset value and other companies particularly gold loan companies have become aggressive. Few banks have also taken indirect route for growing the gold loan, which we are not very comfortable. So naturally competition is much more aggressive and taken a larger market share when compared to us. Some of them have gone to the direct marketing agencies, which are delivering gold loan at home and that is getting traction. Average ticket size is also big in those cases. We do not have any such tie ups in a big way. Even though we have signed up with one or two such agencies, there is not much of traction because they wanted exclusivity which we are not willing to give. As such we are not having those kind of alternative channels at this point of time and we are trying to develop a BC model in gold. Probably if that works in our favor, growth could be much higher.

Abhishek Murarka: This is a sort of work in progress. By when do you think this BC model is going to be implemented?

C VR Rajendran: This product will be ready for launching in the second half this quarter and that should give some traction. Even otherwise, when busy season comes, we have seen that naturally demand for gold load is going up.

Abhishek Murarka: Thank you so much. Best of luck for the coming quarter. Those are my questions.

Moderator: Thank you. We have next question from the line of Amaan Elahi from Investec India. Please go ahead. Sir we have lost the line of Mr. Amaan Elahi. We take the next question from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Good afternoon. A couple of questions from my end, I just saw the yield chart that you have given in your presentation. Is it possible to give us the yield of gold vs non-gold book separately?

C VR Rajendran: Yes, gold is 13.08% for Q2.

Saurabh Dhole: Sir when you look at the next two, three years I know you have been trying to diversify out of gold but what kind of mix do you foresee because right now about one third of book is gold. So how do you see this mix going forward?

C VR Rajendran: There is no intention to slow down on gold. We would like to be as aggressive as possible in gold. When SME, wholesale and the new retail segments grow, proportion of gold will go down. So until there is a pickup in other segments, gold will continue to be a predominant portion of the loan portfolio.

Saurabh Dhole: So you think the mix will not change materially in the next two three years?

C VR Rajendran: In the immediate future.

Saurabh Dhole: Any outlook on PCR because I think last year you were closer to around 60% and this has come down substantially to less than 40% now?

C VR Rajendran: This is because of gold. We are having 25% provision on gold NPA of almost 300 Crores. When recovery happens, it will improve. There is nothing to worry on that account.

Saurabh Dhole: Thank you so much.

Moderator: Thank you. We have next question from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir two questions primarily on gold. Sir first is, what was the total quantity of auctions that we did in Q1 and Q2 of this year and second Sir, you said that many banks are taking the agent route for gold loans and they are demanding exclusivity. If you can just give a little more color like in terms of how, are the economics of us doing it on our own much better than doing it with other agents?

C VR Rajendran: Many of us are doing on our own; but volume cannot be built up so easily. One private sector bank has built more than Rs 3000 Crores through one of these companies. They charge somewhere around 18% to the customer and bank may benefit by around 10.5%

to 11%. I do not know the exact arrangement. What I understand from market is that yield will be less and so is the operational expenses. Not a bad proposition; but whether you are willing to give so much of margin and exclusivity to them is what matters.

Digant Haria: Sir and then exclusivity would it mean that your branches cannot do own marketing in those areas?

C VR Rajendran: We are doing our own marketing and we cannot tie up with one more company providing a similar service.

Digant Haria: Sir just auction numbers for Q1 and Q2?

C VR Rajendran: The first quarter was about 47 Crores; second quarter I do not remember. I will furnish to you but the auction loss was about Rs 1 Crore in the first quarter and Rs 88 lakhs in the second quarter. This is fully provided for and will be recovered over a period.

Digant Haria: Yes, Sir, absolutely Sir. Thank you so much.

Moderator: Thank you Sir. We have next question from the line of Himanshu Taluja from Motilal Oswal Financial Services. Please go ahead.

Himanshu Taluja: Thank you. Sir just one question what is the total recovery that you have made in gold loan portfolio during the quarter?

C VR Rajendran: About 236 Crores.

Himanshu Taluja: Thank you.

Moderator: Thank you. We have next question from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: Hello Sir this is Parthiv from NVS Brokerage. I just wanted to get some idea on your cost to income which is basically right now has gone up a bit to almost 56%. What do you perceive going forward and if you can throw some light for the second half of the year as far as the topline and profitability is concerned?

C VR Rajendran: Cost to income ratio has gone up mainly because of the changes in the accounting practices as suggested by RBI. Some income is not recognized as income, some provisions, which we have moved from provision to affect operating profit. So our income itself got affected because of change in accounting, otherwise cost to income ratio might have been around 51% had we gone by the old method of accounting. It should come down, as we repeatedly say, to below 50%. Our desire is to bring it down to 40% over a period.

Parthiv Jhonsa: Okay and can you help us out with anything for the second half of the year?

C VR Rajendran: Come again please?

Parthiv Jhonsa: Sir for the second half of the year any ballpark or a benchmark figure you can get for revenue or profitability?

C VR Rajendran: No guidance as such. All depends upon the conditions in the market and we would like to do much better going forward.

Parthiv Jhonsa: Thank you so much and best of luck Sir and it was a fantastic quarter just went by and best of luck Sir.

Moderator: Thank you. We have next question from the line of Amaan Elahi from Investec India. Please go ahead.

Amaan Elahi: Sir just some more color on the DA provisioning that we have done this quarter so again now you highlighted that around 40% of the employees are under IBA package?

C VR Rajendran: 30% under IBA package.

Amaan Elahi: So what could be the impact so there is an article highlighting that IBA wage settlement that is somewhat due? So what kind of hit can we expect because of that wage settlement?

C VR Rajendran: Discussions with the employees are still continuing on productivity issues. We are not a party to the settlement as on date as no mandate was given.

Amaan Elahi: Got it and Sir some color on how many of these IBA employees are expected to retire over the next two to three years? I think they had given some numbers in our DRHP if you can just give us an update?

C VR Rajendran: That number might have undergone a change. Some of them might have opted for VRS and gone. Every year we see that about 100-150 people are moving out. This year I am told that the competition has recruited some of the people from our IBA cadre also and some other people are opting for VRS. Regular retirement could be about 30, 40 in a year for the next few years.

Amaan Elahi: Got it and Sir just last question so any impact we are expecting of the recent floods in Kerala and as the restructuring window is now shut; how do we expect to manage any impact that is going to come?

C VR Rajendran: We have not assessed anything material. We did not have any major impact. But naturally, some customers could have been affected as they might have lost their properties or other things which will be known over a period

Amaan Elahi: Thank you.

Moderator: Thank you. We have next question from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Sur just lending to rubber in Kerala- is it politically sensitive sector?

C VR Rajendran: Rubber cultivators supplies rubber to tyre manufacturers and they sign the invoice only when rubber reaches them. They give it to us as we have an agreement with the company. Then we discount the invoice and give money to the farmer immediately and we collect the money after 90 days from the tyre manufacturers. So there is no risk involved.

Susmit Patodia: We are not lending to standalone plantations outside of this.

C VR Rajendran: No. This is a tripartite agreement.

Susmit Patodia: Sir second question is on gold loan book. When do you think this NPA position will bottom out?

C VR Rajendran: See I have been here for the past five years. We never discussed gold loan NPA in any one of our meetings earlier. Gold loan NPA has become a reality mainly because of this higher loan to asset value, which we have permitted during the last year. Gold is the only asset people are having for pledging to get money and that is why RBI might have taken a call to increase the loan to asset value. Of course, it has given good traction and good business for us during the last year. Gold prices have not gone up since enabling people to sell or redeem their jewellery without much loss. We are closely monitoring the situation and recoveries are happening and will happen at a faster pace in the coming quarters.

Susmit Patodia: When will the book start growing again Sir?

C VR Rajendran: Book is growing. Book has started growing during the current quarter.

Susmit Patodia: Sir the next question is on this metric of business target from a medium to long-term perspective?

C VR Rajendran: So originally our intention is to grow minimum 25% in any year but current year was not very conducive and this gold NPAs have spoiled the party largely. Now we are seeing the growth coming back and if there is no further problem coming from COVID side I think growth will stabilize at around 10% to 15%. From the next FY onwards, we will be on track for 25% growth.

Susmit Patodia: Sir lastly on the rollout of retail products where are we in that journey?

C VR Rajendran: We already launched one product in MSME segment, which is getting a good reception and today board has uploaded another three four products in MSME and retail. This will also be launched over a period of next one or two months. Though these products will be available and sold aggressively; may not contribute substantially to the credit growth because these are all small value products. It will take time to get volume growth. Slowly it will be built up over a period. Real growth will come only from SME, wholesale banking and gold.

Susmit Patodia: Thank you so much Sir and all the best. Thank you.

Moderator: Thank you. We have next question from the line of Ravi Singh from Motilal Oswal AMC. Please go ahead.

Ravi Singh: Sir my question is on the home loan book. Cost of deposit is down to 4.3%. So I think that is one product you should be having aspiration to scale up much rapidly because that can offset some of the volatility we tend to see in MSME and gold and those sort of businesses and one can build scale also over the longer-term?

C VR Rajendran: Cost of deposit coming down is a temporary effect, because of the excess liquidity, which is floating around. Now considering the inflation, there is a negative return for depositors, which cannot be sustained for a longer period. Deposit rates will go up and at that time if you start raising home loans, defaults will also increase. So this is not the right time to launch home loans. We do have home loan products. Our interest rates are slightly on the higher side and traction is less. On the other hand, we are signed up with HDFC Limited, for selling their home loans for the time being. It will help us to streamline our processes and train our people and work along with HDFC to gain enough experience. This will be useful for future when we reduce our cost of deposit substantially by increasing the casa proportion and are in a position to sell home loans aggressively. The standalone home loan is profitable only when cross selling is very effective. We do not have the entire range of products for cross selling. Once we increase the number of products offered to retail segment and we are good at cross selling, then only we must think of launching home loan on our own on a larger scale.

Ravi Singh: What is the interest rates for your own home loans other than that of HDFC Limited?

C VR Rajendran: It varies between 8% and 9% now.

Ravi Singh: What level of CASA ratio will you be comfortable with, when things stabilize?

C VR Rajendran: It is around 33% now. Maintaining this 33% on a growing book itself is a challenge. I will be comfortable when I reach around 38% to 40% CASA.

Ravi Singh: Thank you Sir.

Moderator: Thank you. We have next question from the line up Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Thanks for taking my question. My first question is on gross NPA outside of gold loans. If you can provide a breakup of what is contributing to those numbers and also on our coverage ratio…

C VR Rajendran: Gross NPA other than gold is 2.09% and net NPA is 1.14%. This is constituted mainly by two segments -SME where there are comparatively large NPAs and the retail portfolio constituted mainly by LAP and home loans. For example, we had given home loans to NRI customers. Due to this Covid related slow down, many of them have lost their jobs and returned. Now they do not have any resource to repay. We had challenges in the recovery processes. Because of the hindrance caused by Covid lock downs, courts were forced to shift from their regular sittings to online mode that too in a very limited way. SARFAESI actions were also indefinitely stalled by various high courts of the country following the dictum laid down by the Supreme Court. Now everything is back to normalcy and recovery processes are being speeded up. In DA portfolio also, we have seen good amount of NPAs. NPAs in two-wheelers have increased. See if we look at the number of accounts, though number of accounts have increased substantially, amount of NPA has come down indicating that large NPAs have been moved out and a number of small accounts from the retail segment replaces it. Currently the recovery possibilities are much higher and we will be in a position to reduce these numbers over a period of next two quarters.

Nirmal Bari: What would be the quantum of secured versus unsecured in this?

C VR Rajendran: Unsecured portfolio is very insignificant.

Nirmal Bari: At present, our coverage ratio in this is about 45% if I back calculate it.

C VR Rajendran: Our declared policy is that we would like to have provision coverage of more than 80% and we are trying hard to take this provision coverage ratio including write-offs to 80% by the end of the year.

Nirmal Bari: So in the next two quarters should we expect additional provisions on this front or we would be using the provision buffer?

C VR Rajendran: So if you look at our provisions, we have Rs 318 Crores of additional provisions over and above the RBI requirements. So there is no fun in increasing the provisions further beyond accelerated provisioning policy. Recovery of recent slippages will help us to contain it.

Nirmal Bari: Secondly on the branch expansion you said that you would be going slow for current year and we would be adding like 40, 50 branches in the next second half?

C VR Rajendran: Few geographies where we expanded have not given the traction which we expected. Most of the branches we opened in southern parts particularly Tamil Nadu, Andhra, and Telangana are doing well. Karnataka is slowly picking up whereas Maharashtra and North wherever we have opened branches, is not progressing as expected. Therefore, in those geographies we are not going ahead with the further branch opening. Now the branch opening is confined only to Tamil Nadu, Andhra, Telangana at this point of time where there is good traction probably because of our brand reach in these places. So those zones are permitted to go ahead with further expansion as planned. But North and Western expansion is put on hold until the existing branches breakeven.

Nirmal Bari: So that would be true going forward for next year as well right?

C VR Rajendran: True. We will test the market and only if we are able to reach the breakeven level within 18 months, we will be in a position to open further branches. Otherwise we will slow down.

Nirmal Bari: Thank you.

Moderator: Thank you. We have next question from the line of Himanshu Taluja from Motilal Oswal Financial Services. Please go ahead.

Himanshu Taluja: Thanks for the opportunity again. Sir just one question- as we are seeing higher recoveries in the gold loan portfolio and because of the recent RBI accounting changes, we have seen the provision reversals of Rs 18.2 Crores in this quarter. As we are going to see recovery in the gold loan portfolio to remain higher over next few quarters as well, can we see the similar negative range in the provisioning over next two quarters?

C VR Rajendran: Naturally, we could have written back another Rs 20 Crores of provision which we have made in the earlier period for COVID. We made a 25% provision on all SMA accounts other than gold, including one-day default. As SMA level has come down, we could have written back another Rs 20 Crores. But as a cautious measure we kept it as it is. If the third wave is not there and COVID fears are removed, all the COVID provisions will be reversed automatically. Accelerated provisioning policy will continue on the NPAs whereas COVID provisioning which we have made on SMA will be slowly unlocked if the COVID fear is removed.

Himanshu Taluja: Sure. Thank you.

Moderator: Thank you. We have next question from the line of Arvind Dutta, an Investor. Please go ahead.

Arvind Dutta: Good afternoon to you. My question is to Mr. Pralay Mondal. On the retail products that you have launched in the last three to four months, one obviously is distribution of home loans by HDFC that you have been selling. Could you update on what has been the progress on the two-wheeler loans, the amount of business you have done with HDFC and is there an arrangement that you will buyback these loans after certain period of time?

Pralay Mondal: First on the two-wheeler loans, we had started that business about 2 years back and it is progressing well. Of course it was not only us but entire industry went through a little bit of a challenge because of COVID and other related issues. But the good part is that process has fallen in place and whether it is NACH mandate processes, technology- all of that is smoothly working and we are showing improvement on the portfolio. We are now planning to launch the vertical in other locations as well. So this should gradually grow but as you know that two-wheeler will not really give a big scale to our business; it will be one of the products. On your question on home loans, yes we have tied up with HDFC Limited. Right now the whole objective of this arrangement is not to necessarily build a portfolio but to train our branches to get acquainted with the product because as and when we launch the higher end products for preferred customers, we should be in a state of readiness to sell that product. So we are activating our branches. This will also ensure that our customers do not go to other players to take their loans because then you lose your EMI and because of that you lose your savings balance. We have a limited set of high-end customers and if you lose them then we lose the quality franchise also. So it is also a defensive mechanism. The other thing is; yes, we can buy back some of the portfolio which we originate for them. There are two arrangements with them - one is giving them a lead and second is to originate the loan for them. In these two arrangements the first one; we do not have an option to buy and in the second one, we have an option to buy the portfolio. But we are not thinking of that because buying back at that price may or may not work for us at this point of time. So we have actually done this to train our branches, there are many other products which we are launching. First we have to put LOS system in place and after that we will launch other products like personal loan etc. We have been doing a lot of retail products through the branches. We do small businesses there based on customer needs on offline basis but now we will launch most of the products on both technology or process platforms. So that is the way we are looking at it. Mr. Rajendran was mentioning earlier in the call that we have taken approvals for three, four products primarily on Agri and SME segments which will be having straight through processes. So those are the initial ones, we are trying to scale up the businesses like LAP in the next one year. In parallel we will look at products like a regular education loan, CV and some of those as the economy starts picking up. So that is the overall plan. But first we have to create the infrastructure for that both technology, digital platforms etc. We are working on that.

Arvind Dutta: Thanks for the answer and best wishes for the future.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference back to the management for closing comments. Over to you Sir!

C VR Rajendran: Thank you. We are back and rock as far as the profitability is concerned and unless some untoward incidences happen because of COVID, we should be in a position to sustain it and able to reach the projections which we have for the current year. Even though the volume growth has not been very substantial, profitability is maintained as per our original projection by way of efficient operations and increase in the yield and reduction in the cost of deposit. Cost of deposit reduction may not be sustained. It has to be substituted by the volume growth to sustain this profitability. We are fully aware of it and that is what we are working on. We are working for volume growth in gold loan, retail loans, SME and wholesale banking. I am confident that the second half will be led by volume growth and reduction in the NPA numbers substantially. Thank you all for your participation.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.