"CSB Bank Limited
Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 Earnings Conference Call of CSB Bank Ltd, 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 from Axis Capital Limited. Thank you, and over to you, Sir!

Praveen Agarwal: Thank you Steven. Good morning everyone and welcome to this earnings call. From the management team, we have Mr. C VR Rajendran, MD and CEO; Mr. Pralay Mondal; President of Retail SME, Technology and Operations; Mr. B.K. Divakara, CFO; and Mr. Ganesan V, Head Credit Monitoring and Recovery and we also have few other members of the management team, like Mr Antony and Mr Ragesh. So I would request Mr. Rajendran to share his initial remarks on the result and then we will take the Q&A. Over to you, Mr. Rajendran!

C VR Rajendran: A very good morning and since this is our first interaction in 2022, let me start by wishing you all a very happy new year. While the economies were gradually recovering from the Covid shocks, now we are witnessing a rapid surge in infections due to the Omicron variant. The fact that we have progressed well on vaccinations and the reports that the infections are less severe with lower need for hospitalization, gives us some respite. For the domestic economy, the prospects are bright as evidenced by the increasing demand, good agriculture production, uptick in bank credit etc. The regulator's decision in continuing with the accommodative stance will support in reviving and ensuring sustainable growth in the country. So let us be optimistic that this quarter will be one of action and results.

Though we started this financial year with some portfolio stress especially in gold loans, consequent to the reversal of high LTV regime, we have been consistently improving in the recovery front quarter on quarter and Q3 is of no exception. If you remember, in Q1 concall we had told that the worse will be over on NPA front by Q3 and we are happy to note that Gross NPA percentage is now lower than the percentage as on 31.03.2021.

Our considerate approach towards the problems of gold loan customers, giving them breathing time to repay the loans was beneficial to both the customers and the bank. Once the covid situation improved, the customer's earnings also improved enabling them to repay the loan and get back the jewellery which had a sentimental value attached to it. Though our gold loan NPA for Q1 was 6.45%, comprising of 22879 accounts amounting to Rs 353 Crs, we resorted to auction mode only for 387 accounts with an approximate value of Rs 9 Crs and private sale was conducted in 4215accounts involving a quantum of Rs 85 Crs. The total deficit amount is about Rs 9 Crs which has been fully provided for and recovery process is through. We expect that we have a chance of fair recovery from these accounts based on our past experience. On the other hand, the delayed auction/sale, benefitted the bank by way of recovery of interest income to the tune of Rs 11 Crs in the current quarter.

This quarter has also witnessed credit growth including in our mainstay business of gold loans. We could record a YoY growth of 11.42% in net advances and 22.14% in CASA book. Gold loans also have started to move up posting a QoQ growth of about 7%. Coming to profitability, Q 3 continued to be a robust quarter registering a growth of 179% on a YoY quarterly basis and 87% for the 9-month period ended 31.12.21 vis a vis the corresponding period last year. We could post a quarterly profit of Rs 148 Crs vis a vis Rs 53 Crs in Q3 FY 21 and Rs 119 Crs in Q2 FY 22. The net profit for the nine-month period ended 31.12.2021 is Rs 328 Crs vis a vis Rs 176 Crs for the corresponding period of last FY; thus surpassing the full FY profit for FY 21.

Let me now take you through the main highlights of the published results:

NII: Quarterly NII has crossed the Rs 300 crore mark for the first time in the bank's history – NII stood at Rs 303.34 crore and is up by 9% from Rs 278.38 crore in the previous quarter. This has been contributed by both spread and volume gains. Spread gain is manifested in NIM with an improvement of 24 bps ie, 5.46% from 5.22% while on volume front our average advances have grown by 5%. Yield on advances has improved from 11.38% to 11.59% or by 21 bps contributed mainly by recovery of interest on gold loan NPAs. Cost of deposits have been flat.

9M to 9M, NII has grown from Rs 666 crore to Rs 849 crore or by a robust 28% aided by improvement in average CD ratio from 72% to 75%, increase in yield on advances from 10.90% to 11.20% and decrease in cost of deposits from 5.18% to 4.34%.

Non Interest Income: G Sec market has been unidirectional given the global scenario of increasing yields and heightened inflation combined with domestic scenario of improved growth and reignited consumer price inflation. This gives little room for treasury profit booking which was a key contributor to the kitty last financial year. Thus while we could book Rs 118 crore of treasury profits in 9M of previous year, the corresponding figure for current 9M period is only Rs 13 crore. But we could compensate it from other non interest income streams to a great extent as the same surged from Rs 121 crore to Rs 170 crore or by 40% 9M to 9M.

We had frontloaded the PSLC premium bookings in the first two quarters in this financial year, booking Rs 12.5 crore in Q1FY22 and 20.9 crore in Q2FY22. As there was no more such booking in Q3 FY 22, non interest income ex treasury profits has decreased from Rs 70 crore in Q2FY 22 to Rs 51 crore in Q3FY 22.

Staff Cost: Q2 to Q3 staff cost has increased from 119 crore to 122 crore. The increase has been contributed by increase in AS 15 provisions from Rs 38 crore to Rs 40 crore due to increase in DA to pensioners, while head count has decreased marginally from 4870 to 4845 with IBA scale employees decreasing from 1436 to 1391.

9M to 9M, staff cost has increased from Rs 318 crore to Rs 338 crore or by 6% while head count increased from 3970 to 4845 or by 22%. AS 15 provisions have decreased from Rs 116 crore to Rs 95 crore, 9M to 9M.

Other Opex: Other opex has increased from Rs 70 crore to Rs 86 crore sequentially. Due to shortfall in Micro Enterprise lending target, bank had purchased PSLC certificates paying Rs 12 crore which is the main contributor to the surge.

9M to 9M other opex has increased from Rs 152 crore to Rs 222 crore. The increase has been contributed by increase in Rent (by Rs 11 crore), Depreciation (Rs 8 crore) etc. Number of branches have increased from 448 to 559, 9M to 9M.

Operating Profit: Operating profits are almost flat on QoQ basis and is at Rs 148 Crs for Q3 FY22. PSLC premium had a total negative impact of Rs 33 crore on the operating profit with other income down by Rs 21 crore and other opex up by Rs 12 crore.

9M to 9M operating profits have increased from Rs 435 crore to Rs 472 crore or by 8% despite treasury profits down by Rs 105 crore due to robust growth in core income.

Cost Income Ratio has increased from 56% to 58.5% QoQ and 9M to 9M from 52% to 54%.

Net Profit: Net Profit has increased sequentially from Rs 119 crore to Rs 148 crore QoQ. There has been Rs 52 crore net reversal in NPA provisions in Q3FY22 powered by NPA recoveries on both gold and non-gold portfolio. Despite this reversal, Provisioning Coverage Ratio has improved from 73% to 83%. Thus, despite reduction in operating profits, a bumper recovery of stressed assets has enabled higher Net Profits.

9M to 9M net profits have increased from Rs 176 crore to Rs 328 crore or by 87%.

RoA has increased from 2.02% to 2.43% QoQ and RoE from 23% to 27%.

9M to 9M RoA has increased from 1.07% to 1.83% while RoE from 14% to 21%.

Asset Quality: This was a prominent quarter in terms of NPA recovery where we could contain both gold as well as non-gold NPAs. Out of the gross NPA of Rs 388.95 Crs, Rs 102 Crs is gold NPA with higher recoverability Gross NPA and Net NPA ratios have improved to 2.62% and 1.36% as on 31.12.21 from 4.11% and 2.63% respectively as on 30.09.21. Gross NPA and Net NPA ratios excluding gold works out to 1.87% and 0.85% as on 31.12.21.

Capital Adequacy: Capital Adequacy continues to be comfortable at 20.74% as on 31.12.2021 as against 20.12% as on 30.09.2021. If we were to reckon the 9 Months profits of Rs 328 crore as part of capital funds, the CRAR would be 24.5%. This shows that we have ample scope to grow the balance sheet and further improve Return on Equity without any further infusion of external capital.

Expanding the network: We have opened 53 new branches in this financial year and merged 6 unviable branches thus taking the total network to 559. Considering the present state of affairs and slightly longer than expected time taken by the new branches in attaining the breakeven business, we will not be as aggressive in the last FY in branch expansion. However, we have plans to open another 30-40 branches in the current quarter.

Impact of Extra Provisioning:

Since the outbreak of the pandemic, we had been following an accelerated provisioning policy for stressed assets i.e. NPAs and SMA accounts, other than Gold, including those having one-day default. The same was followed in the current quarter as well.

However, as many banks have started reversing the extra provisions, let me also give you a summary of our proforma results as per the RBI provisioning norms for enabling better comparison. If we had reversed the accelerated provisions amounting to Rs 235 Crs (consisting of Rs 131 crore of provision for NPA and Rs 104 crore of provision for standard assets) while drawing the balance sheet for 9 Month period, our Net profit would have been Rs 504 Crs; up by Rs 176 Crs from the declared profits. Our proforma vs (published) RoA & RoE are 2.81% (1.83%) and 30.59% (20.88%) respectively. Proforma EPS and book value per share would have been Rs 38.83 and Rs 146 as against the published values of Rs 25.27 and Rs 136. Proforma CRAR including 9M PAT works out to 26.43%. On Asset quality, without acceleration, the NNPA works out to be 2.24% and PCR is at 71.77%. Both the ratios are still better than the industry averages published in the RBI FSR report. The details will be summarized in the document to be published in the website.

Summary of Proforma Results:

	9 M FY 22			Industry Average**
	Declared	**Proforma***	**Impact**	
PROFITABILITY				
Net Profit (Rs Cr)	328	504	**176**	
RoA	1.83%	2.81%	**0.98%**	0.80%
RoE	20.88%	30.59%	**9.72%**	9.20%
EPS - Annualised (Rs)	25.27	38.83	**14**	
SHAREHOLDER VALUE				
Capital+Reserves Excluding Revaluation Reserve (Rs Cr)	2360	2536	**176**	
BVPS (Rs)	136.04	146.18	**10**	
CRAR (Including 9M PAT)	24.45%	26.43%	**1.99%**	
ASSET QUALITY				
Net NPA	1.36%	2.24%	**0.87%**	2.30%
PCR	82.95%	71.77%	**-11.18%**	68.10%
* Proforma is after reversing the extra provisions for a better comparison				
** Industry average is as on 30.09.2021 (Source: RBI FSR)				

Earnings Guidance:

Now let me give some guidance on the future earnings trajectory of the bank.

NIM: For the past 5 quarters we have been able to maintain NIM of above 5% and this is the new normal. Given that the current quarter NIM indeed was benefitted by recovery of gold loan interest by around Rs 11 crore and increase in standard gold loan portfolio by Rs 534 crore, it may be noted that even in Q1FY22 when we were hit hard by gold loan NPAs and interest reversal we could maintain a NIM of 5.04%. Let me elaborate on the future drivers of NIM:

Improvement in Treasury Yield : You would have noticed that our yield on investments has come down from 7.00% in Q3FY21 to 5.54% in Q3FY22 or by 146 bps. We have about Rs 2600 crore deployed in Treasury Bills yielding around 3.5% as on 31.12.2021. We have around Rs 1,000 crore of head room available in HTM that can be filled by long term paper and we plan to do it by shifting from T Bills in a phased manner as we are now seeing increase in long term rates day by day. As we will be looking at yields above 7%, there will be an incremental spread of around 3.5% by such shifting. Also, as we have seen credit growth picking up in Q3 and expect the same to sustain in Q4 also. We will be funding the incremental credit at an opportunity cost as low as 3.5%.

Improvement in Yield on Advances: We could increase yield on advances from 10.98% to 11.59% or by 61 bps Q3 to Q3, even in an interest rate falling environment. This to a large extent is due to the high proportion of gold loan in our total portfolio. Going forward, as liquidity dries up and risk pricing comes back to the front, we will be able to increase yields on our SME loan book also. Similarly, we have significant unavailed limits on corporate loans, Direct Assignment and PTC side and here also we expect some better pricing and availment in future. Even in gold loans, there is still scope to increase the yield as repricing will happen in the products where we are now getting only 7% if interest is serviced monthly.

Low Duration of Asset Book: Modified duration of our total asset book is around 1 year only and this makes us perfectly placed to face an upward slopping yield curve.

Decrease in Cost of Deposits: CASA ratio has improved to 35% this quarter and more importantly, we are able to maintain cost of savings deposits consistently at around 2.50% to 2.65% levels and this may not be the case for many banks who have attained growth in savings deposit portfolio at costs above 5%. There is scope for further reduction in cost of deposits from a different source: short term deposits. Right now short term deposits or deposits of original maturity less than 1 year constitute a mere 7% of our total term deposits while for many banks it is above 50%. We have now formed a separate team targeting institutional clients to boost up such deposits which will help improve our overall cost as such deposits will be coming at rates below 4%.

Cost Income Ratio: Cost income ratio has been one area which requires improvement as in 9MFY22. It is 54% as against 52% in 9MFY21. Reduction in treasury profits from Rs 118 crore to Rs 13 has contributed to the increase and we could make good the reduction to a great extent by growth in core income viz. NII and commission income. In the coming quarters we will be able to improve further on the core income as we are sitting on huge unutilized capacity. Our business per branch is only Rs 60 crore while for our peers it is in the range of Rs 150 to Rs 250 crore. Given our capital adequacy position we can easily double our balance sheet and still maintain comfortable CRAR without any external capital infusion. Also the 150 odd branches we have opened in the past two years do not have any legacy issue and most of them, especially those in Tamilnadu and AP Telangana are growing the business exponentially without adding to the costs.

Credit Costs: Credit Costs have been negative continuously for the past two quarters while for 9MFY 22 it is only 0.26%. As to the sustainability, it may be noted that we have a provisioning policy whereby we provide for an NPA fully in a matter of 3 years even if secured. We could post significant recoveries in non gold NPAs as well though the environment was far from conducive. Going forward, given the secured nature of most of our NPAs in SMEs, we think credit cost of near zero level will be sustainable.

RoA and RoE: 9 Month RoA has been 1.83% and 9Month RoE 21%. Given the scope for further improvements in NIM and Cost to Income and the ability to contain credit costs, we think this will be sustainable.

Now over to you for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Good morning. Sir my question pertains to the processing fees. So sequentially despite the healthy growth seen, our processing fees has come down. So what exactly leads to this?

C VR Rajendran: As far as the processing fee is concerned, because of the excess liquidity conditions prevailing in the market, there is concession in everything. There is concession in the processing fee. There is concession in rate of interest charged. There is concession in the payment of charges and so on. The ability to collect the processing fee is very low when there is liquidity surge. Even for gold loans we are waiving the processing fee based on merits. We think this condition is getting addressed now and over a period, it will normalize. In our case, the 9 M non-interest income ex treasury profits is higher than the last nine months by 41%

Mona Khetan: Got it and you highlighted a couple of levers for margins going forward. So is it fair to say that your margin guidance or outlook from the 4.5% given earlier it will be higher at say closer to 4.9% to 5% or so?

C VR Rajendran: We will not make a statement like that but it may be again a strategic guideline. It cannot be a forward-looking statement.

Mona, we were fighting to reduce the excess liquidity in all possible manner carefully keeping an eye on the market interest rates. In the current markets, if you push too much for credit growth at all cost, the rates are very low and the risk is not getting priced properly. So our call was to go with the cases where we had pricing and risk comfort. As far as investments are concerned, in the rising interest rate scenario, we have positioned ourselves comfortably and will be in a position to reap the benefits. On the liability front, we cannot put a full stop to the retail deposit and we continue to accept the retail deposits at a very low rate. Our rates are as low as any other major market player. In the case of bulk deposits, we were very selective in taking bulk deposits even at card rate because there is no possibility of deploying. The share of bulk deposits to term deposits has come down from 17% to 12%. Without raising further resources from retail deposit market, we can take the credit deposit ratio as near to 100% as there are many refinances available at a cheaper rate. CDs can be raised at a much lower rate than the normal term deposits. We have top rated CD programme for 2000 Crores. Other money market instruments are also available to raise the money at a cheaper rate. We can go for foreign currency borrowing. So we have been continuously exploring all the possibilities and take the liability which are cheaper and as a result, liability cost has come down from over 7% to 4.30% levels now. We are confident it will go below 4%. So liquidity is not a problem at all unlike other banks where the asset book duration is very high. In our case my asset book duration is only one year and 35% of my book consist of the gold loans where average maturity is only four months. So naturally we are in an advantageous position to raise the short term deposit at a low rate without creating funding gaps. So by offering some extra spread on the prevailing market rates, We will be in a position to raise huge amount of corporate deposits in the short-term market. Having 200% liquidity ratio is not the right strategy. It does not give the return to the investor. What the regulatory requirement is only 100%. We are at 146%.

So what we were trying to explain is that we have so many levers available to us, which will effectively support to improve the NIM further.

Mona Khetan: Sure and what is the write back owing to the recoveries seen in this quarter in the interest income?

C VR Rajendran: The current quarter we are expecting a robust recovery both in gold loans as well as non-gold loan. In Gold loan NPAs further recoveries were made and level has come down to below Rs 90 Crores as on date. Gold loan NPAs will come down further. For NPA accounts other than gold, lot of OTS are given. Property possessions have been taken and we are in the process of selling them. So you can expect a better recovery in Q4 in both gold as well as other portfolios.

Mona Khetan: Sure. I was also referring to the interest write back seen due to the recoveries in Q3?

C VR Rajendran: Rs.11 Crores was the interest write back from the gold loan.

Mona Khetan: Got it. I will come back in the queue for any further questions. Thank you.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Thank you for taking my question and thanks for the detailed description that you gave about the various NIM levers that you have going forward. Sir my question is specifically on that that point. Right now you are between 100 and 150 basis points above what all the normal large private sector banks would be doing in terms of NIM so that is a significant cushion in itself and we have been saying in the previous few calls that there is very high competition from those banks and we do not compete at those price points? Why not cut down our expectations for NIM and may be even after considering the credit cost that may come in this 100 to 150 basis points of higher NIM cushion that we have can enable us to grow at a faster rate so what is our thought process on that?

C VR Rajendran: We are not against it, but in which direction we are growing is very important. Today, BB rated SME is getting taken over at 7.5%, but whether we will enter into a BB rated corporate at this rate? certainly not. In the SME segment we are seeing that our BB rated customers for whom we are charging 10% to 10.5% today are taken over by the leading private sector banks at 7.5%. we do not know; may be they look at the overall wallet size and cross selling possibilities and make it up somewhere else. But otherwise we think by taking over those loans at 7.5%, they were not taking into consideration, the risk involved in it. We do not compete with them. In the corporate segment, AA account comes to me at 6.5% where we were charging 9.5% at some point of time. We prefer the 6.5% AA corporate customer to the 7.5% BB customer. So we have grown the wholesale book. Quite a few accounts have been added with a good rating at a lower rate. Similarly, in the SME loans also we have considered price reduction when we feel that the customer is worth retaining. My disbursements in SME is high, but unfortunately the incremental growth is low because many of the accounts got taken over by other banks at very low rates. We do not think that pricing is right.

Nirmal Bari: If we talk about the accounts, which are outside of BB and you gave an example of AA account but is sufficient opportunity available there and are we aggressively looking to target that as we can like grow the BB and below accounts but above that are we getting aggressive on the pricing action?

C VR Rajendran: That is what we were mentioning. Disbursements are increasing. We keep taking that kind of accounts in the market. Normally it comes from the public sector banks because of the delay in decision making. We price them reasonably and take it, but under pricing is not a strategy for us. There are banks which adopt under pricing as a penetrating strategy. As a small bank, we would not like to do that. A reasonable pricing should be available to us, which covers the risk involved. We have such options. That is why gold loan proportion has reduced to 37% from 41% yoy and wholesale book has increased in the proportion.

Nirmal Bari: Thank you and the last question is on advances growth for the current year. So last year in Q4, there was a significant hike sequentially we grew by about 10% from Q3 to Q4? So now we have grown at a decent 11% rate year on year but then in terms of sequential it is more less flat? From Q4 of FY2021 it is more or less flat. So would it be fair to assume that we would end up the year at sub 10% growth rate or do we expect significant jump like last year in Q4?

C VR Rajendran: It appears difficult for this quarter. Last year's Q4 was extremely good. This year, gold loan has grown 7% on quarter-on-quarter basis. Non gold loan may not grow at the same level at which we have grown last year. As on date, we are not having the pipeline or the visibility for that kind of growth.

Nirmal Bari: On the gold loan recovery front you said that we had Rs.9 Crores of under recovery so this number was for Q3 or for the first nine months.

C VR Rajendran: Sorry come again.

Nirmal Bari: You said earlier in the commentary that we had Rs.9 Crores of under recovery in the gold loans part?

C VR Rajendran: It is a deficit which happens when you sell it in the market. It is Rs.9 Crores for the last nine months. If you remember we adopted the high LTV during the last one year and the rates have also fallen since then. So Rs.9 Crores is the deficit over a period and spread over a number of accounts. We are confident that major portion of it will be recovered. Normally once we report it as deficit, it is treated as unsecured advance and in our books it is fully provided for. As and when the recovery happens, it will go to reduce the provisions.

Nirmal Bari: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal & Broacha. Please go ahead.

Avinash Tanawade: Thank you for the opportunity Sir. I just have two questions. One, NPA addition that we have shown during this quarter what is the proportion of non-gold portfolio in that?

C VR Rajendran: Ganesan can you give me this number?

Ganesan: Gold loan portfolio slippage is about Rs.50 Crores and the general portfolio slippage is Rs.30 Crores.

Avinash Tanawade: Okay Sir and this quarter and last quarter we have a negative credit cost. So looking at your business what would be the normalized credit cost for us in the near to medium term?

C VR Rajendran: Our normalized credit cost is always less than 1% because of our aggressive provisioning policy and the change in the accounting system. RBI has stipulated earlier that all the written off loans recovery is accounted as other income. Last quarter, RBI came out with a circular stating that the recoveries from the written off accounts should be reduced from the provisions for the bad loans and should not be accounted as an income. We adopted the RBI guideline immediately, but most of the banks represented to the RBI to reinstate the earlier practice as the new guideline was impacting their BS and ratios. RBI has again issued a circular now wherein it is stated that you can go back to the original system of accounting; also keeping the option of accounting it as a reduction from the provision. We continued to account it as a provision reduction, because it makes more sense. So this will reduce the provision and so the credit cost. Now probably our credit cost could be negative for a few more quarters unless we change the accounting policy or the accelerated provisioning policy.

Avinash Tanawade: Our cost to income ratio can you discuss more on how do we see this ratio coming down and in the coming quarters what are the steps you are taking to improve our non-interest income?

C VR Rajendran: Non-interest income comes from both credit related and non-credit related sources. Bank guarantee commission, LC commission and the processing fees are related to the credit growth and these incomes will go up proportionate to the credit growth. We are very hopeful about it. In the case of non-credit related items, the transaction fees, other fees, etc. will continue to grow. When we started, non-interest income was less than 6% of total income. We touched 20% during the journey. Now we are at 11% and our target is to increase it to 20% again as a percentage of total income.

Avinash Tanawade: Thank you. That is from my side Sir.

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

Amaan Elahi: Thank you for taking my question. My first question in with respect to the gold loan portfolio. So last quarter you had indicated that we have not tied up with Fintech's as much as all the other banks have. So just wanted to check with you if we have seen some reduction in the repeat customer or rollover rates in our gold loan portfolio or are we being adversely impacted because we are not tying up in gold loans?

C VR Rajendran: We have a tie up with IIFL. Other than that no tie ups have happened during this period. Most of the BC companies are not willing to do it because they are getting funds at a cheaper rate. They are building their own book. We are having talks with few fintechs. Nothing has been crystallized so far and we have to wait for some more time.

Amaan Elahi: Sir one data keeping question what would be the size of our restructured book and can you share the breakup between COVID restructuring and MSME restructuring?

C VR Rajendran: Ganesan can you give me the number?

Ganesan: The total rescheduled book is Rs.125 Crores. Out of this, as per the resolution policy we have rescheduled Rs.71 Crores. We are keeping 25% provision for the entire amount of outstanding.

C VR Rajendran: We have not resorted to rescheduling in the retail book. We have not resorted to rescheduling in any case for postponing the problem. These are all the genuine accounts where there is a request from the client. It is a very small book and on that also we have 25% provision, nothing to worry. I was reading some credit agencies report where they say that when the restructuring period comes to an end, there will be a surge in the NPA for the banking industry. In our case nothing of that sort will happen but anyways we have provided much more than what is required as per regulations.

Amaan Elahi: Thanks for that. Sir lastly I would like to congratulate you on the tremendous job you have done since joining, but just wanted to understand the challenges for the new incumbent whoever is replacing you to handle this current standoff that we are having with the unions. I understand that the size of the employees in our overall employee pool is low but then every now and then we keep on hearing about strikes and banks function being impacted specifically in the state of Kerala. So just wanted some thoughts from you on how big a challenge do you see for whoever comes in your place?

C VR Rajendran: The unionized employees are no more a challenge in the bank and we had given the numbers. There are only about 1300 unionized employees out of which 35% are clerks, sub staff and sweepers. There are about 800 plus officers. Most of them are cooperating with the management. Out of the 5000 employees, not even about 500 employees are really unionized; in the sense to have that kind of a aggressive attitude. If you take 20% of our top branches, all the top branches are manned by efficient internal people or people who have come from the lateral recruitment. Even when there was a nationwide strike, barring few remote branches in Kerala, all the other branches were open. Even when there was a national level strike call, our branches were functioning like any other private bank and so strike has much lesser impact on us when compared to any other old private sector bank. Whatever strike happens, whether it is national level strike or industry level strike or a bank specific strike, almost all our branches are kept open and running business as usual. So that has no impact at all. Anyway we keep negotiating with the employees and again they have come to the negotiating table. Hopefully we may arrive at a settlement before I leave, but even if I leave without settling it, it is not an issue as there are internal people who can help the next successor. It is not an issue anymore.

Amaan Elahi: Thank you Sir and I wish you all the best for your endeavor.

Moderator: Thank you. The next question is from the line of Jehan Mada from Nirmal Bang. Please go ahead.

Jehan Mada: Good morning Sir. Sir it was just discussed in the call that gold slippages for Q3 were at Rs.50 Crores which works out to around 4% kind of slippage ratio so is this normal? I think it is on the higher side right so why are we seeing this slippage still on the higher side in a good environment also in Q3?

C VR Rajendran: Gold portfolio is over Rs 5800 Crs and the slippage is very low at about 1%. Slippages do happen. Not every loan is paid on due date. Once there is slippage, you take the required steps for recovery and then upgrade the accounts from NPA status. Today on a portfolio level, the loan to asset value is only 75%. By March end the loan to asset value for the portfolio will come down further. We are in a comfortable position. There could be some issues in few accounts and that is where the forceful recovery is happening. We are sure even that problem will be sorted out in the coming months. We never discussed NPA in gold loan in the entire five years except in the last one year. Last one year was a tough year. This could have been addressed in the Q1 itself, had we resorted to aggressive auctions. But we were considerate to the borrowers. Most of the customers belong to the lower end of the middle class. Once you sell the jewelry in the auction, they will never acquire it again. So when we give an auction notice; the customer's request us not to auction it by promising repayment. We ask such customers to pay at least a portion of the dues to show their interest in redeeming the jewelry. If that is coming, we will wait and watch. By selling in the auction we might have lost our brand value and customers will not come back to this bank again. By not resorting to that kind of aggressive recovery action, we have generated so much of goodwill in the market today and the customers talk about it very positively. This is reflecting in the business as well. This Q3 we have grown 7% on a quarter on quarter basis. We think that is the right and real efficiency that we could bring in.

Jehan Mada: Right Sir you feel this is a temporary phase because like as you said this is 1% of Rs.5900 Crores ;but I annualize it, it becomes 4%?

C VR Rajendran: That is what we were indicating, On an ongoing basis every day 3000 to 4000 accounts are maturing and few accounts are not paid. Recovery action starts from there. Within the same month or the next month, most of the accounts are closed. The 90-day time is sufficient to recover. Even if there is a delay, you earn interest on the dues and the customer is willing to pay it. So gold NPAs have very high recoverability and are being comfortably managed.

Jehan Mada: Got it and Sir on the non-gold side also now the slippages are at a very low level since the last couple of quarters. Still the loan growth is not accelerating. Any particular reason or any timeline if you can give by when we expect non-gold loan growth?

C VR Rajendran: Loan growth is not very impressive for the industry as a whole. If you compare our growth, it is much better than the industry level; but we do not want to compare as we are a small player with a small base. We should grow much faster. That is our ambition. we have our own limitations on making exposures in wholesale banking. We do not take more than Rs.100 Crores at the entry level. Rs.100 Crores is too small for many of the corporates in this country. So getting a share in the wholesale banking is always a challenge for a small bank like ours. For the SME accounts, the risk is not getting priced properly and unless we get a proper pricing, we do not push the SME advances. As per the financial stability report, most of the growth has happened only in the housing loan and the personal loan. We are not aggressive in the housing loan market because the margins are low. Recently we have reintroduced our housing loan product and also started tie up with HDFC to sell their housing loans with a view to filling our product bouquet. On the other hand, in case of unsecured personal loans, we are ready with our product. Our retail team has launched the product, but we have not sold it aggressively because we thought the timing is not right yet. You should not be aggressive in the market like this where there are so many fatalities and that is the call which management has taken. Once the Omicron wave subsides, probably we can go for aggressive credit expansion.

Jehan Mada: Sir last question are we open to a possibility of any acquisition or merger with any bank in the industry?

C VR Rajendran: Sir that is a possibility which we will keep on exploring. We are waiting for the PSU privatization, somehow it is getting delayed. If that is not happening probably we will look at other candidates also in the market.

Jehan Mada: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Parthiv Jhonsa from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: Good morning Sir. Thank you for the opportunity for me to participate today. Sir before I ask any question I would like to congratulate the team at CSB who has done exceptional job over the last few years and the same is actually visible in all your quarterly numbers, which are better than the previous one actually. Sir I would just restrict myself to two quick questions. The first is on our cost to income which stands at 58.5% right now; however, some time ago you had guided for a cost to income ratio of below 50%. Just wanted to check by when can this be achieved? The second question is with January 2022 almost about to end in this week and only two months are left for the FY closing, usually we have seen that Q4 is the best quarter in the industry. Can you guide us on how will we close the number in terms of topline and the profitability for this current year?

C VR Rajendran: Actually as far as the profitability is concerned, Q4 would be a better quarter. Recoveries will aid in a big way. The cost of funds will go down further and yield on advances will go up further in a year's time. As far as the cost to income is concerned, we have opened almost 111 branches during the last one year by incurring Infra, IT and HR investments. The breakeven point level has not happened. We have given one year as a breakeven for most of the branches. The average age of these branches is only nine months as on date, and they already contributed about Rs.1200 Crores by way of additional business, which is a very big number. But yes it is not even and up to their fullest capacity. It will take one more term for these branches to reach breakeven level. Then the branch will start contributing. Similarly, we have recruited more than 3000 people through lateral recruitment and they have not reached the fullest potential; so we are settling down. There are a lot of attritions and so naturally the productivity of the people has not come to the desired level. The business per branch is remaining at around Rs.60 Crores to Rs.65 Crores where as for the competition, it is between Rs.150 Crores to Rs.200 Crores. So our branches can double or triple the business with the same overheads and staff cost. In one quarter we had gone down below 50% also, but consistently this may not happen in a hurry. Once the volume growth happens; we are very confident of reaching 40%.

Parthiv Jhonsa: Thank you so much. That helps a lot. Thank you and best of luck.

Moderator: Thank you. The next question is a followup from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Thanks for taking up questions again. Just two clarifications so on the gold segment your yields have continued to rise even this quarter despite the competitive environment in this segment so what is helping the rise in yields in this segment?

C VR Rajendran: There is a customer for every price point in the gold loan. The public sector banks are giving at 4%. There is a customer base for that. There are private banks, which are lending at 10%. They are also growing the customer base for it. There are private banks, which are lending between 12% and 15% and they have their own clientele base. There are NBFCs, which are lending between 24% and 36%, and they also have a clientele base for it. How do we package the product, the average ticket size of the loan and the convenient turnaround time in the targeted market segment are the major factors that is defining the price. When you have a quicker turnaround time and efficiency, more customers walk into the bank. We have improved our turnaround time a lot. Of course, our ticket size is around Rs 1.3 lakhs per loan, whereas for the gold loan companies it is Rs.50000. So naturally more retail marketing is to be done so as to get more share from the gold loan companies. We have built up an experienced sales team. With their help, we are sure that we will build up a retail portfolio which is yielding decently. Similarly, we are trying to go on a blue ocean strategy to reach out to customers who are not the gold loan customers so far. We are trying to reach out the middle, middle class people who are not borrowing on their gold. Now a day, getting a personal loan has become really difficult. And the gold loan option is anyways cheaper than the personal or even credit card loan options. If you are able to convert that segment, your average ticket size can move to Rs.3 lakhs certainly at a little lesser rate, but cost of operations will also be lesser. These are all online customers. We are taking both the efforts depending upon in which direction the growth comes either yield can go up or volume can go up. That is the possibility.

Dolat Capital: Sure and your average ticket size currently is about Rs.1.3 lakh?

C VR Rajendran: About Rs.1.3 lakh per customer.

Dolat Capital: Sir just finally what would be your SMA book today?

C VR Rajendran: SMA has come down drastically. As a result, we could have written back Rs.27 Crores of provisions. On SMA (other than gold) also we are providing 25% even for one-day default accounts. Our SMA book was about Rs.400 Crores earlier. It has come down to less than Rs.300 Crores now; roughly about Rs.250 Crores. As a result, there is a huge excess provision in the SMA which we have not reversed. In fact, today SMA accounts are carrying almost equal provisioning as the NPA accounts in the bank. This is only a temporary provisioning, which we have created for meeting the COVID situation and once the COVID is over and we are confident that COVID is not a problem anymore we will be in a position to reverse it. About Rs.105 Crores is sitting in the SMA provisions as against Rs.250 Crores of SMA book

Dolat Capital: Sure thank you. That is helpful and all the best Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments. Over to your Sir!

C VR Rajendran: Thank you for especially making it in the early morning. Last time when we explained about the gold loan NPAs, the market had taken it very seriously. We were confident of displaying the desired results. We were on the borrower side than on the investor side as far as the gold loan NPA was concerned. That has given us a good yield and we were able to recover most of the loss and the book has also started growing. So this is no more an issue. By March end, the entire gold loan NPA will be completely recovered and we will not discuss gold loan NPAs in any of the future quarterly results. As far as the SME book is concerned, it has started growing and our wholesale banking book, as we always explained is only parking of our funds for a temporary period. It has a repricing option and call option at the end of six months, call and put option on both side. So when the rates go up, we will be in a position to reprice the loans or if the customer is not willing, he will in a position to repay the loan also. So liquidity is not a problem for our bank. It is only the asset growth which continues to be a challenge for us. So when the asset book grows, we are confident that we will be in a position to increase the margin. For every Rs.1000 Crores of our asset book growth, about Rs.40 Crores to Rs.45 Crores will be the additional contribution to the profits That is our calculation. So the bank will grow. Hereafter the volume has to grow. We are optimistic that the adversities in the market have moved out. We will certainly become aggressive in the retail lending market and SME market which should help improve the loan book. When we talk about accelerated provisioning, additional provisioning for COVID etc. we haven't quantified it. This time we have provided it as a pro-forma data. Had we not provided these extra provisions, had we built our accounts like any other bank as per the RBI regulation alone, what could be the profit for the bank and we have detailed it in the call and it will be uploaded in the website today. But for the accelerated provision, the 9M profit for the bank would have been Rs.504 Crores with still better EPS, RoA and RoE ratios. The proforma figures are very impressive. Thank you once again. If there are any further questions you can call anyone of us and we will be happy to help you out.

Moderator: Thank you. Ladies and gentlemen, on Axis Capital that concludes this conference. We thank you all for joining us. You may now disconnect your lines.