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C.O/Shares/LR-5/2023-24

February 07, 2024

National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor,
Plot No.C/1, G Block,
Bandra-Kurla Complex,
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Mumbai 400 051

BSE Ltd.,
DCS – CRD,
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street,
Mumbai 400 001

Scrip Code: CUB

Scrip Code: 532210

Dear Sir / Madam,

Sub: Transcripts of the Earnings Conference Call – Q3FY2024

Pursuant to Regulation 46 of SEBI (LODR) Regulations, 2015 (as amended), the Bank has hosted in its website the transcript of Earnings Conference Call – Q3 FY 2024, with regard to the Un-Audited Financial Results for Quarter and Nine months ended December 31, 2023, as approved by the Board of Directors of the Bank, on February 01, 2024. The weblink is given below.

https://www.cityunionbank.com/filemanager/Feb24/CUBQ3FY24CONCALLTRANSCRIPT.pdf

Kindly take the same on record.

Thanking you

Yours faithfully
for **CITY UNION BANK LIMITED**

Venkataramanan S
Company Secretary

CITY UNION BANK LTD. ★ Admin. Office. Kumbakonam

"City Union Bank Limited
3QFY24 Earnings Conference Call"
February 01, 2024

MANAGEMENT: **DR. N. KAMAKODI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CITY UNION BANK LIMITED**
MR. J. SADAGOPAN – CHIEF FINANCIAL OFFICER – CITY UNION BANK LIMITED

MODERATOR: **MR. PRABAL GANDHI – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to City Union Bank 3QFY24 Earnings Conference Call hosted by hosted by Ambit Capital Private 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 this 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. Prabal Gandhi from Ambit Capital. Thank you, and over to you, Mr. Gandhi.

Prabal Gandhi: Thank you, Yusuf. On behalf of Ambit Capital, I once again welcome you all for City Union Third Quarter Call. On the management side, we have Dr. N. Kamakodi, MD and CEO; and Mr. J. Sadagopan, CFO. Without further ado, I hand over the call to Dr. Kamakodi for his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

N. Kamakodi: Good evening, everyone. Hearty welcome to all of you for this conference call to discuss the unaudited financial results of City Union Bank for the third quarter ended 31st December 2023. Board approved the results today, and I assume you all have received the copies of the results and the presentation. During the past 3 con calls, we had shared with you all the following expectations for the financial year '23, '24.

- We are aiming at 12 to 15 percentage growth for financial year '24 and the growth skewed towards year-end.
- We are working hard to achieve double-digit advance growth.
- We are working to accelerate proper implementation of the digital lending process initiated with the help BCG and we have already rolled out first to face of the automated loan underwriting process. It may take a few quarters to show benefits in our bottom line.
- Despite headwinds in the margin, base figures and growth. We expect we should be closing financial year '24 with a decent PAT growth,

substantial reduction in NPA, improved coverage ratio and ROA close to our long-term average of 1.5%.

- Our recoveries more than the slippages, we expect the same to continue for remaining quarters, and our slippages will be back to the pre-COVID level.
- We will strengthen the leadership team to make organization future-ready with the digital, retail, et., so that they will become the growth engine for the future.

We are here, by and large, progressing on these lines, except on the growth, which is also we have just started seeing a positive trend.

With the implementation of the digital process, we have started seeing things turning positive in a phased manner. While most of our peers are achieving mid-teens growth in advances aided by growth in retail consumption lending, unsecured lending, personal lending, etcetera. As discussed earlier, we are not active in those areas.

Post pandemic, the growth was settling during mid-financial year '22. When we compare December '22 with December '21, we had a terminal advance growth of 12 percentage and daily average advanced growth for the month of December to December was 14 percentage. Post-COVID, our concentration remained on gold loans, and we had grown by 34 percentage in Gold loan segment in the same period. After regulatory observation on KCC agri loan in December 22, we had to degrow the KCC gold loan amounting to about INR4,000 crores, starting from January 2023 by completely stopping new KCC loan, which stood at INR229 crores as of 31st of December 2023 from INR4,000 crores as we discussed.

During the corresponding period, our non-agri gold loan grew by 28 percentage of INR1,200 crores. You may also remember about the divergence issue last year. Because of these disturbances, our daily average advance growth started reducing from 12 to 14 percentage in December '22 to 3 to 4 percentage till September '23. We also started introduction of the digital lending practices.

Not only we are seeing things settling. For the last 2 months from November, we are able to see INR400-odd crores monthly credit growth turning up, which should translate into restoring 12 to 14 percentage annualized growth going forward. We hope that introduction and settling of digital lending processes should also support this growth. All other factors have settled well.

The recoveries in NPA are increasing over and above the slippages resulting in reduction in the gross NPA, net NPA and the provision requirements. Hence, we are able to see decent PAT growth because of reduced credit cost, even though there are headwinds in growth and operating profit for us.

Our PAT has grown by 16% in Q3 financial year '24 and stood at INR 253 crores compared to INR 218 crores in Q3 financial year '23. The ROA for Q3 financial year '24 was 1.49% compared to 1.34 % in Q3 financial year and 1.52% for 9 months financial year '24, which is our long-term average. The PAT for 9 months financial year '24 is INR 761 crores and we hope to cross 4-digit PAT figure for financial year '24 as said during our earlier con calls for the first time.

Our annualized slippage ratio for Q3 has come down to 1.70% in Q3 financial year '24 from the peak of 5.56% % annualized in Q4 financial year '20. It has also reduced from 2.06 % in Q2 financial year '24, showing sequential decrease and coming closer to pre-COVID level.

The slippage of our Q3 financial year '24 is INR187 crores while total recoveries made is INR289 crores, comprising of INR224 crores from live NPA accounts, and INR65 crores from the technically written off accounts. As I said in our last con call, live recovery has surpassed the live slippage in the current quarter as well. We expect this trend to continue in the coming quarters also. The gross NPA declined to 4.47% in Q3 financial year '24 as compared to 4.66% in Q2 financial year '24 and 4.91% in Q1 financial year '24 are showing sequential decrease.

The net NPA declined to INR941 crores as on 31st of December 2023 and is a 2.19% for Q3 financial year '24, compared to 2.67 % in Q3 financial year '23. The net NPA is also decreasing trend in the current financial year, that is 2.51 % in Q1 FY '24, 2.34% in Q2 FY '24 and 2.19% in Q3 financial year '24.

Our yield on advances for Q3 FY 24 stood at 9.62% compared to 9.16% in the corresponding quarter last year. If we factor one time interest reversal of around Rs.25 Cr for non performing FITL accounts, the yield would have been 9.85% for Q3 FY 24. Our NIM for the current quarter is at 3.50% and for 9M

FY 24 is at 3.63%. If we factor the above one-off item, our NIM would have been at 3.67% for Q3 FY 24 and 3.69% for 9M FY 24.

Our cost to income ratio for Q3 FY 24 is at 48.64% and the same is at 45.65% for 9M FY 24. As said in our earlier calls, the CIR will be at elevated levels due to the cost involved in the automation process and will come back to 40 - 45% range post completion of the same.

So far, we have opened the 20 branches in this financial year, taking our total number of branches to 772. By the financial year-end financial year 2024, we are planning to open our 800 branch.

The process of strengthening leadership team is in advanced stage. The first set of senior team members are joining in February. They will be contributing to strengthen our capabilities in digital lending, retail, data analytics etc. Before the next quarter results, most of them would have joined our bank.

To sum up, we should be achieving the 4-digit PAT for financial year '24 for the first time. Our NPA slippages have come down significantly and the live NPA recoveries have surpassed the live slippages. Hence, going forward, we are on the right track of getting back to pre-COVID level of NPAs. Our performance level is by and large as per our numbers shared, except of our growth. For the past 2 months, we are seeing positive growth as per our expectation. And we expect the same will get better and better.

The digital lending process is going as per the schedule, which will help in achieving the improved credit growth in the coming quarters. And ROAs are back to 1.5%, which used to be our long-term average. And our net interest margin is also stable.

Overall, with this opening remarks, I leave the forum for questions. Over to you all.

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: Hi, sir. Good evening. So my first question is on growth. So if I got it right from your opening remarks, you're saying that guidance for FY'24 has been maintained at 12% to 14%.

N. Kamakodi: No, I don't think we will be able to cross double digit. Hopefully, we should be getting closer to the double digit.

Mona Khetan: Okay. Got that. And secondly, you mentioned about this FITL impact, which hurt your yields in Q3. So could you just elaborate a bit what exactly has happened here? And how that has resulted in interest reversals?

N. Kamakodi: See, the FITL is the facility which was given to the loan when the restructuring was done during the COVID. This FITL is nothing but giving funded interest term loans as part of the restructuring package. And this INR25 crores reversal is from the interest income of those FITL given to those borrowers, and this is the portion of the interest for those restructured loans, which turned into NPA. So that 25 is the reversal from the interest income.

Mona Khetan: Got that, okay. Because of some restructured book turning into NPA. Got it, sir. Thank you. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Mohit Jain from Tara Capital Partners. Please go ahead.

Mohit Jain: Yes, hi. Good evening, sir. I have a further question on the growth guidance that you're talking about. I think you said we will be somewhere in near to double digit. So that means that we have to effectively get a growth rate of 8% to 9% in this quarter, which seems very difficult and which seems very optimistic considering the fact that past three quarters, it has been a negative growth to a very low single-digit growth of 2% to 3%. So what makes us optimistic about achieving that 8%, 9% growth also? And how has been the progress in the month of January, so as to get in comfort on this number?

N. Kamakodi: See, if you see our fourth quarter growth in the past, we typically used to have about INR2,200 crores to INR2,400 crores. Say, for example, our highest was us in '21, '22 fourth quarter when we had INR2,768 crores. And we had earlier two years lower, but before that and all about INR2,428 crores and INR2,311 crores and things like that.

As you said, it may look optimistic only and I will not be in a position to assure everything. But what I can definitely tell you is that two, three things which are happening now, which has to support us. One is that whatever unwinding of KCC book on gold loan as discussed, it is by and large over. So we should be seeing some amount of growth back in the gold loan.

The first phase of automated lending for less than INR3 crores is by and large through which would also support. As we had discussed in the past, during the COVID we had multiple headwinds from our various quarters, we are setting one piece after the other back on track and we are able to do that without basically compromising on the overall ROA and PAT.

So our levers now currently which are favourable are the NPA slippages under recovery. With that, we are managing our profitability growth. At the same time, the challenges in the growth are getting addressed one after the other. We are trying our best to have everything together. We have to see that in that way only. And we are putting our best effort to achieve all these pieces together. And as of now, like we will see as it comes.

But we are able to see, particularly for the last two months, the average credit growth is coming back to about 1% per month, which should accelerate, because in these last two quarters, the complete unwinding of gold loan was not over.

So keeping all these things into account, we are working. We are trying to pass this period to ensure the profitability and the return metrics are properly maintained. At the same time, before we exhaust these levers, growth will also back and we should start seeing the NII growth and operating profit growth.

Mohit Jain: Sir, just one thing. Actually, in Q2 also, we had this guidance of a double digit, I think, 12% to 14%. And in between, there were some media article which said that the growth is going to come down to a very low single digit of 1% or 2%. But I think the company clarified that we are sticking back to the original guidance. And I think that clarification came somewhere in the mid of December. So if in December, it was being said that 12% to 14% is the original to which we are sticking…

N. Kamakodi: No, no, no…

Mohit Jain: And of these last two months, you are saying 1% is the growth rate in last two months it is happening. So how should we read the overall guidance, sir?

N. Kamakodi: See, the point which when I started, I said I compiled all the points which were given in the earlier con-calls. So first con-call, we had -- we expected 12 to 14 percentage, and then we had to moderate it to, let's say, double digit. And some of the things, whatever we expected, although they are directionally positive, we are yet to get to the full grip.

Now we are seeing some amount of positive steps, particularly from all directions, wherever we had a negative impact. And we are putting our best effort to take it forward. So till that -- before we achieve the growth, fortunately, our other levers are working even though we had headwinds in terms of the growth. Other levers, particularly the asset quality front is helping us.

That is why we are able to manage our PAT growth and moving forward. So the point is that till we get to the full grip on the growth, we have sufficient oil in the cylinders for the credit cost. That's why I say these are all the things we told we are giving our best effort. Let us see how things move forward.

Mohit Jain: Yes. What is the deposit growth that we are targeting for the year?

N. Kamakodi: We will have the deposit growth matching the credit growth. We are not going very aggressive in deposit growth. We are balancing them. We have our credit deposit ratio around 80 to 83 % and capital adequacy is above 20 %. The deposit growth will not hamper the advances growth anytime sooner. So we we'll start working out on the deposit growth once we are able to fix this.

Mohit Jain: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Franklin Moraes from Equentis Wealth Advisory. Please go ahead.

Franklin Moraes: Yes, sir. Thanks for taking my question. So could you please maybe elaborate on this Y-o-Y growth? I was not very clear because at the start, you mentioned 12% to 15%. So does that hold true?

N. Kamakodi: No. See, to start with, I recollected what and all we discussed during the earlier three conference calls. At the beginning, we expected the growth rate to be between 12 and 14 percentage, and we thought it should be at least double digit. And now perhaps we told, we are not giving you any expected number and all. So we are putting our best effort to get as close as possible to the double-digit growth.

The things which are positive for us is the gold loan degrowth of INR4,000 crores in KCC segment, which happened last year is almost over. And then the first stage of digital lending process has started. And we also have started seeing about INR400-odd-crores growth in the last couple of months. So the things have to progressively get better and better is what I have told for the future.

Franklin Moraes: Yes. And so how long will it take for you to come back to that 12% to 15% guidance?

N. Kamakodi: Probably, we will give you the exact number once we get the total grip in the fourth quarter when we meet during the next con-call.

Franklin Moraes: Okay. Sir, and also you had guided on lower NPAs by March '24. So does that hold true? And is there any visibility beyond that as well?

N. Kamakodi: Yes. As of now, as we told in the earlier con-calls, we get a benefit of about not less than about INR200 crores compared to the previous year in credit cost because of the lower slippages, vis-à-vis the recovery. We are able to see that point visible for a few more quarters at least.

Now as I told in the earlier con-call, we used to operate, about 6 to 8 % SMA2 of which about one-third -- about 2 % will become NPA. But now post this clean-up which happened, we are able to see the slippages have come back to less than 2 percentage and also the SMA2 numbers was in 2+ % perhaps lowest to whatever we have dealt in the past.

So these numbers are giving us confidence that both the lower slippages and the higher recoveries which are happening, we'll be able to protect our PAT growth and also lowering of our NPA as we move forward.

Franklin Moraes: Yes. So what I was trying to understand is this improvement, is it last only for one quarter, wherein we see better recoveries and upgrades? Or could there be more?

N. Kamakodi: Yes, at least for not less than three, four quarters.

Moderator: The next question is from the line of Rajkumar Vaidyanathan, Individual Investor.

Rajkumar Vaidyanathan: The first question is on the recent floods in Tamil Nadu state where your bank has a significant presence I just want to know what is the impact in the current quarter? Or do you expect any source from in the upcoming quarter?

N. Kamakodi: Very insignificant. In Thoothukudi floods, about three, four branches could not function for about two, three days and even water came in our couple of branches. Those sort of operational issues were there. Even in Chennai flood the extra couple of days of holidays were there, apart from that, there was not much of impact. We don't expect any significant impact because of floods so far.

Rajkumar Vaidyanathan: Okay. And sir, the second question is, the ten year recent bond yields have started softening today after the budget we see that the significant drop in bond yields -- so just want to know what would be the impact or how much uplift we will get in the upcoming quarters?

N. Kamakodi: You will have some profit booking activities since the yields have increased significantly. The drop which has been seen today is only maybe 10, 15 percentage of the increase in yield that has happened in the last year or so. So if this trend continues, we may have, but I'm not sure to what extent this trend will continue, number one. Number two, from first half April 2024, the rules of holding in HTM, the profit booking concepts are changing.

If the yield decrease in the next year, you can book a profit in the HTM up to 5%, if it crosses 5 % you have to disclose the mark-to-market. But under the new rule, you cannot make any sell beyond the 5%.

So the profit opportunity, whatever you are seeing as of now, I won't say it will be very significant to book it. But if this trend continues, the profit booking opportunities will be there in the fourth quarter, but it cannot continue for the next quarter.

Moderator: Next question is from the line of Arun Selvan, Independent Advisors Private.

Arun Selvan: Yes. Great. I just wanted to understand a little bit more about the changes that have been implemented to bring about digital lending. You were talking about the project that was advised by BCG. Could you just give us a little bit more colour on what kind of changes have been -- what kind of initiatives have been taken by the bank so far?

N. Kamakodi: As I told you, the first phase of the project is over. In that, all the facilities, which are less than INR3 crores, now the turnaround time for the customers could be as low as one day. Probably 70%, 80% of the things, the turnaround time for giving in-principle sanction can happen within, 48 hours or so.

Earlier, this entire process used to take weeks, if not months. So this is going to make the customers to receive our decision for facilities, which are less than INR3 crores, as good as instantly. Now we have started our project of enhancing this to Rs.5crores. The testing has already started.

Now what we are having is that we are both processing them manually and also through the system. So we will be going ahead with that for about one month, comparing the results of the both. And whatever tweaking that needs to be done on the parameters will be done in the due course. So, in the next one month or so if everything works well, we will be in a position to give the in-principle sanction for all the facilities less than INR5 crores

The decision -- if all the data input and the supporting documents given by the customers and uploaded, we will be able to give on the same day. And there may be 80, 90 % of the cases in the next 48 hours. So this is for the turnaround time and the customer experience

Many of the parameters, which will be influencing an account -- the probability of default is now captured and the system will give the decisions based on this API integration and the parametric testing and it will give a better measurement of probability of default.

It will give a decision whether the proposal can be accepted as it is or which needs a manual check-in or which should not be accepted at all - is expected to continuously reduce the probability of default of the portfolio, which will take like a few quarters for that to stabilize.

Overall, number one, it is going to reduce the turnaround time and make the customer experience much better. Number two, it will be, making the measurement of probability of default better and the decision-making in a much better manner. Third thing is that this will open up a lot of surplus capacity in both sales and credit processing which will increase our capacity to meet more customers to source more.

And, to make our credit processing centers to take a better decisions and more quality work. So the customer experience part is immediate, it could be felt to the customers immediately. So we have already started giving it for less than INR3 crores. So in the next few weeks, it will be increasing to INR5 crores, and then, it will be increased up to INR7.5 crores, which is given as the threshold of the retail by the regulator.

So this is basically the correction of the entire thing, which is basically all the checking that had to be done manually even our internal parameter, external parameters, those things get now automated.

Arun Selvan: Okay. That's great to hear. I was actually trying to understand whether this would impact -- this should have some sort of an impact on the core quality of the underwriting team, would it aid the team or would it have no difference? Is there -- I meant to understand this the automation also includes a component, which affects the quality of the underwriting. Does that remain the same? Does it…

N. Kamakodi: No, no. Absolutely, you have multiple impacts One, as I said, the quality of turnaround time for the customer. Number two, the quality of decision-making will be much better because the actual probability of default under the health of the proposal, the points which cannot be seen by the naked eye in the manual processes are now easily added to the automation because of a lot of API integrations and things like that. So the quality of decision-making will improve.

The slippages will drastically come down as we move forward, which has already been visible from some of the banks which have gone into this path. So you are going to have a better TAT and you are also going to have your system getting more capacity to process more proposal and source more proposal to get the better growth with the same amount of capacity and also reduced slippages because of the better measurement of risk using the automated advanced tools.

Arun Selvan: Okay. That was very helpful, sir. My last question here is regarding the kind of segments in which you're planning on using these digital process. I know you've said as of now, it's below INR3 crores. But is there any specific segments that you're specifically using right now?

N. Kamakodi: The immediate requirement is for our MSME loans, that was the first product to go online for less than INR3 crores, then non-MSME loans for less than INR3 crores, then MSME and non-MSME for less than INR5 crores, then to INR7 crores, INR7.5 crores. Then we also need to build up strength for secured retail products like loan against the properties, housing loans and maybe over a period of time for the unsecured portion also.

As we have told in the last con call, over the next five years, we may have some amount of unsecured portfolio for which things have to start in a small way where you need the automation. As of now, on the immediate future, you don't have got any major changes in the overall composition. So, we are introducing these digital lending processes for all the exposures less than INR7.5 crores, in those segments which are breadwinners currently.

Arun Selvan: That's very helpful sir. Thank you very much. I'll get back into the queue if I have any further questions.

Moderator: Next question is from the line of Karthik from Pinpoint Asset Management.

Karthik: Sir, just wanted to get a sense on how is the underlying demand for credit in your core segment with the MSMEs, because you had mentioned in Q2 that finally, after several quarters, we are starting to see underlying credit demand improving. And clearly, the fact that loan growth has been sluggish in this quarter means that you are still getting your system ready in order to dispose.

So just wanted to get a sense on how much of this sluggish loan growth is a function of your readiness and how much of it is on account of sluggish credit demand?

N. Kamakodi: See the things are getting better and better. One item where we are seeing significant request from the MSME borrowers, is the introduction of Solar. We used to have many requests for a windmill in the past.

Now for renewable energy, solar, it is going very high. If you look whether there is a capacity expansion – lot of requests are coming for the capacity expansion in the usual MSME front, it has improved. But I will not say that it has reached the peak level or something extraordinary. So it was very dull, but now we have started seeing things improving on that direction also.

One of the things that is not working so well now is the textile export sector, which used to be a significant portion of maybe 15%, 20% of the overall capacity here. There is a sluggishness over there. Hence, that particular sector is also now made available to the domestic and you had the cotton prices moving up and down, some sort of moderate level of incremental growth. There is also some amount of reduction in the cash credit utilization.

Nevertheless, overall, activity level are not gloomy. They are improving in Phased demand. The proposals, which have started coming under, during the COVID, we had literally shut us from onboarding of the new customers on credit. But the things started getting back to the pre-COVID level, and it is showing improvement.

At the same time, we had our own issues, which we have discussed at length. So all the issues are settling down. So we feel there has to be a firm upward tick as we move forward.

Karthik: Sir, leave aside the next quarter, because I think not one of the few banks that has the luxury of a comfortable LDR and your deposit growth is exceeding loan growth. So if you were to look out, say, the next 12 or 18 months, that this entire BCG implementation will be up and running and the operating environment for some of the MSME that you are alluding to will improve.

What kind of credit growth do you think in this new system or the new city union that they are trying to build the legacy that you're trying to leave behind, what kind of loan growth do you think this will support. Would you like to throw a number or?

N. Kamakodi: See, this is one thing which we had been discussing for, multiple years. If you ask me clearly -- we used to operate at about 15, 16 % return on equity, which came down to 10 % during the first year of COVID and improved steadily and currently, it is about a 13 odd %.

My focus will be, in the next 4 to 8 quarters, to reach growth rate of around 16 % to 17 % so that you increase your return on equity around that level. So our plough back profit should be in a position to take care of our growth, so that there is a sustainable growth rate is achieved and things are getting improved step-by-step, which we have demonstrated over a period of almost two decades.

Coming to the deposits, we don't have any bottlenecks in deposits and bottlenecks in advances that used to happen alternately. And it's a cyclic thing. I don't think the systemic deposit rate is a lot. If you ask the previous generation of -- I mean, my seniors, they used to say about 25 years back how much difficulty they had in mobilizing deposits.

Nobody used to bother advance growth rate and the entire focus of the organization and each and every employee. People will be talking only about the deposit growth. This is something which will be happening on and off. It is now getting widely accepted that the average credit growth of the system will be between, around 15 % of so.

Our effort will be to slightly exceed that and have profitability metrics and return on equity and the deposit growth rate. Matching that so that there will be a sustainable level of progress as we have done in the past, pre-COVID.

Moderator: Next question is from the line of Rajat Jain, an Individual Investor. Please go ahead.

Rajat Jain: Actually, most of my questions have been answered. But just a couple of things. You said this cost to income has currently impacted due to this expense on account of BCG and digitization. So how long do we see that continuing for the next couple of quarters or so?

N. Kamakodi: Yes, maximum.

Rajat Jain: Okay. And sir, since you spoke at length, spoke earlier about the implementation of the digital lending, INR3 crores in the first stage, Phase 2 to 5 and then going to INR7.5 crores. So sir, if I look at in terms of number of loans, I mean, if I -- the number of loans which are up to INR7.5 crores, which I presume would be a very large part of your loan book, right?

N. Kamakodi: **L**ess than INR7.5 crores, roughly, will work out about 60 % to 70 % of our total loan book. But the numbers will change -- you will be having a significant number of proposals less than INR50 lakhs, INR55 lakhs and things like that. You will not be able to average it out by INR7.5 crores or INR5 crores and only this much number of proposals. That doesn't work that way.

Rajat Jain: Okay. So my point is that once you automate this process, I mean you really create a lot of capacity, which would otherwise have been deployed and credit appraisal and site visits and so on and so forth, right, which would now be fully parameterized and automated?

N. Kamakodi: Yes. Previously, that was what I was telling.

Rajat Jain: But even with this new system, you will still have the site visit process and so on? Or will it fully go to the automated mode now?

N. Kamakodi: See, we had a parallel run of less than INR3 crores, both technical and also the manual -- once we get a satisfactory thing, we are moving on to a decision making through that. Parallelly, you will be having about maybe 15 % to 20 % sampling that is continuously monitored to ensure that the system is not leaving any factor.

So on an ongoing basis, if you look into INR5 crores to INR7 crores, the degradation will be helping us with this decision. But I won't say that the entire outcome will be purely based on the 100 % automated. So it will be a combination of both -- it will reduce the manual decision making to a greater extent to whenever the proposal is more than INR5 crores and less than INR7.5 crores.

It will add a lot of value as we move forward in terms of, capacity creation and things like that and capacity to process more proposals and things like that.

Rajat Jain: Just one last question. You said because can't create credit card and the gold loans came down from INR4,000-odd crores, December '22 to about INR250-odd crores this year. So if you take -- if you adjust for that, the growth in advances actually would have been -- what would the growth in advances have been had you on adjusted for those that decrement?

N. Kamakodi: Maybe for an example at least 50 % of that if it had come for other products, at least another 5 percentage extra growth should have come for the calendar year '23.

Moderator: Next question is from the line of Kunaal from Emkay Global. Please go ahead.

Kunaal: Sir, you had mentioned that there was a one-off item, which if you exclude that, your NIMs would have been 3.7% for Q3 FY '24. Can you please repeat that what was the one-off thing?

N. Kamakodi: See, basically, whenever you give restructuring facility -- during the COVID restructuring facility, there is something called as funded interest term loans, which is un serviced interested during the standstill class was there and the repayment were not happening. They were all given as funded interest term loans.

So funded interest term loans, at the end now whenever they turn NPAs, that interest portion of about INR25 crores had been reversed from the interest income now. I mean in earlier cases, normally, what will happen is that if an NPA, if an account becomes NPA, you will be making provision after the operating profit.

But since this FITL portion is the unserviced interest portion, normally, if an account becomes NPA, you always have the interest recognition on an accrual basis. So if 90 days norms are applied and is an account becomes NPA, the unpaid interest will get reversed. Here in that FITL portion when, account becomes NPA, this entire FITL portion is unserviced interest and it has to reversed from the interest income which is around INR25 crores. If you add that to Interest income, as I said, the net interest margin would have been higher.

Moderator: Next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Thank you for the opportunity. First question on the grown guidance. So if we look for FY'25, so like you mentioned, we are seeing a growth of 1%, now around 1% a month. So FY'21, can we assume a growth rate in double with like around 12% or 15% odd. Is that a reasonable assumption FY'25?

N. Kamakodi: See, it appears as of now, like that. Similarly, it appeared like that in some of the earlier occasions, but some amount of deviations happened. So let me commit the firm number as we get closer and have at least a couple of months or a couple of more quarters of firm performance and then let's just take it.

So whatever I'm going to assume is that now I'm having sufficient oil in the cylinders to fire for the profitability and return, growth from an asset quality and credit cost upfront. I will stabilize this with this -- and we are putting our best efforts to maximize our growth rate and the situations are favourable on all these things.

After we demonstrate for at least 1, 2 quarters, I will commit to you a firm number. But as of now, it appears that all the factors are favourable for going towards that 1% plus every month, which total to 13% to 14% pa. We should be in a position to accelerate further once the other materials are also settling, which we are putting our best efforts and hard effort to get that in that direction.

Chintan Shah: Sure. So just to add on that, if we assume like 15% loan growth for '25, so correspondingly, we would also need a similar kind of deposit growth, right, to meet the demand, room growth demand. So -- and currently, for this year, our deposit growth is roughly around flat on a YTD basis.

And despite that, the cost of deposits they have seen a massive spike. So how do we make sure we'll be able to raise even deposits of around 15% of Y-o-Y growth and the cost of deposits how would that be impacted then would that also see a spike continuing? Or will that be stable? Any thoughts on that?

N. Kamakodi: We had seen multiple cycles when you have the deposit growth and advanced growth, they don't match each other, that's why I was giving about how it happened based on our earlier experience.

What I can definitely tell you is that, the deposit growth should not be an impediment for the advances growth as we move forward is what I'm trying to say. I don't know whether you might have observed, we have about 87% to 88% of our deposits either from the CASA or from the pure retail deposits as per the definition of the RBI.

So we don't feel that we will be having the deposit growth as an impediment for the credit growth which we have to work out and take it forward. And we are managing the deposit growth so that there is no negative carry. And by and large, the things are matching and managing, we should be able to have that, which we don't expect that to be an impediment.

Chintan Shah: I just want -- I was just trying to understand that. So assuming that we have a decent growth in FY'25, so then our margins should not be a dimmer in any case, by way of yield on advances or by way of cost of deposits if there is a spike in our cost of deposits or the decline in the yields. And again, the margins will be under pressure. So that should -- is that case? Or can that be a case or not?

N. Kamakodi: The issue is that like it will not be as material as you are expecting now. We have managed this movement of cost of deposits and our yield on advances in such a way that we are able to have a smoother thing. Ultimately, the ROA profile will not get affected. I mean, it will be moving in the band.

For example, we said we will be moving in a plus or minus 10% demand. And if you remove this one half portion, we are very well within that. As we have declared always, the margins will expand during an increasing interest rate scenario, and there will be a smaller contraction during the decreasing interest rate scenario till your term deposits are repriced.

So some amount of minor aberration will be there. You might have seen that in the last 50 quarters of our bank, net interest margin had been in a small band, which you might have seen, maybe above 4% for about 3, 4 quarters, which was an aberration. Apart from the current level of whatever you are seeing -- we don't see any major impact because of this.

Chintan Shah: And just one last question from my end. Just a data keeping question. Sir, what would be the total provision on the restructured portfolio, which we have of around INR1,000 crores?

N. Kamakodi: It should be about 10% at an average INR100 crores.

Chintan Shah: And sir, we have made some contingent provisions during the quarter. So what would be that regarding any specific or in general practice you are following?

N. Kamakodi: It's a general thing. Depending upon the situation at that point of time, we take a call.

Chintan Shah: Okay. And sir, COD actually, the cost of deposits during the quarter has been a steep high. So there are no one-offs to that, right? It's just normal 16 months COD?

N. Kamakodi: It is a normal thing. And almost to that proportion, the yield has also increased. If you take out this one-off thing, the similar amount of margin would have hold up.

Moderator: Thank you. Chintan, sorry to interrupt you, request to come back for a follow-up question. Thank you. The next question is from the line of Neel Mehta from Investor Capital. Please go ahead.

Neel Mehta: Thanks for the opportunity. So post the divergence report by the RBI last year, -- have there been any subsequent comments in general on the bank systems or the way of business models being done in the course of the RBI annual audit?

N. Kamakodi: Whatever divergence we had was for the audit for the date 31st of March 2022, which is over. Further, we had 31st of March 2023, there was no disclosure needed, which we said along with our second quarter results. And there was an observation on recognition of events happening post balance sheet date, which we disclosed during the first quarter result for the 30th of June. All those issues are now behind us and no more thing is pending on that, and things have come back to the normalcy.

Neel Mehta: So we are seeing the RBI commenting increasingly on the business models of bank -- and considering our bank is geographically concentrated. And in terms of product concentration also, we probably have volume growth product that accounts for most of our book. Have you received any feedback from the regulator to sort of diversify our business, not just in terms of geography outside of Tamil Nadu, but also in terms of the product mix, which is currently heavily skewed towards MSME and trade loans?

N. Kamakodi: We have not heard anything like what you are saying so far. But it is an ongoing exercise. Every year, all these things are looked into. And we receive feedback and we take required post correction on an ongoing basis. Single largest exposure, how we are looking to all these things are scrutinized and commented always. And for which we have to continuously work to ensure that everything is proper and taken care in a proper fashion.

Neel Mehta: So no specific directions from the RBI basically?

N. Kamakodi: No.

Neel Mehta: On this one. Got it. Thank you. Those were my two questions. Thank you.

Moderator: Thank you. Next question is from the line of Punit from Macquarie Research. Please go ahead.

Punit: Sir, just one data keeping on the digital transformation front the thing we are working with BCG. I think, I mentioned it because it is done or it is going to start next month?

N. Kamakodi: This is work in process. First, the phase of proposals less than INR3 crores is already online fully. Things have started for INR3 crores to INR5 crores. Once that settles in, the INR5 crores to INR7.5 crores will start on stages.

Punit: So when do we expect the entire phases to complete?

N. Kamakodi: It will go up to June.

Punit: Okay. Got it. So on the KCC book, that is the Agri Gold Loan book it's around 13% of book, you mentioned that you have stopped like there would not be unwinding, so I think the unwinding should have stopped a couple of quarters ago, right because we had mentioned that all our documents and classification is clear now and there is no issue from the regulator. So am I getting this understanding wrong or if you could elaborate on that, but why we have been declining the book?

N. Kamakodi: No, no. We have not restarted that product. Because the interest subvention has to come from the government of India. So the points came during the discussion, which we had to do an audit. We have to submit to that, and there was some discrepancy about INR30 crores, INR40 crores in overall income was there.

So we observed all these things, and we did not restart that process. Once we get the comfort that we will be able to comply fully and all our processes are proper so that there will not be any issue in the future. We will be restarting that. So during that process, we had to unwind that entire portfolio.

Punit: Lastly, on the margin front, you said that the margins if the restructured book has not been reversed, the FITL reversal that you have undertaken of INR25 crores, it would have been around 3.63%, right?

N. Kamakodi: Yes. That's what we thought.

Punit: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Sagar from Anand Rathi. Please go ahead.

Sagar: Just one thing from my side, if you could give the SMA number, sir?

N. Kamakodi: SMA 2 is about 2.38%.

Sagar: Okay. And the SMA 1?

N. Kamakodi: SMA 1 is 1.98%.

Sagar: Okay. Thank you, sir. That's it from me.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.

N. Kamakodi: Yes. Thank you all for attending, and things have started coming back on track. So we are able to march towards probably a 4-digit profitability figure for the current year, perhaps for the first time in our history.

So all the issues, whatever that came in our way, post COVID and financial year '22, '23 have been, one-by-one is getting back on track. And we lost a point whatever is for the growth, which we are trying to address and put our best efforts.

We are able to see things coming, turning positive step by step. And whatever remaining will also be getting solved over a period of time. If at all, you have any further question, as usual, you can get in touch with Mr. Raghuraman who takes care of our investor relationship or any person you have a contact and you are already being in touch with.

So with this few words, I thank all of you and also thank Ambit for arranging this conference. We hope all the issues are by and large over and we should see things getting better and better as we move forward and good days are ahead of us. Thank you all for the opportunity.

Moderator: Thank you very much. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.