"CSB Bank Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the CSB BANK Limited Q4 FY2020 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" 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 Aman. Good evening everyone. We have with us on the call Mr. C.V.R. Rajendran, MD & CEO, Mr. B.K. Divakara – CFO and P.V. Antony, he is GM, Accounts. So, I would request Mr. Rajendran to take us through the key highlights of the results post that we will take Q&A. Over to you Mr. Rajendran!

C.V Rajendran: Thank you. Good Evening friends!! This is the first quarter after the listing, so the expectation would be to account for the performance vis a vis the promise. To understand the results, we must have an apple-to-apple comparison. Even though the disclosed profit is around 13 Crores, the real profit as per Indian accounting standard would have been Rs 194 Crores duly factoring the additional provisions made by the Bank as per the accelerated provisioning policy and the one-time tax hit that resulted from the option to move towards lower tax regime of 25% from Q4 of FY20. The details are given in the 3rd slide. Though we had timeline up to September 20 for exercising the option to switch over to lower tax rates, in line with the stand that we had taken during the IPO meetings, we decided to opt for the lower tax now. Had we deferred this option to September, we could have declared a net profit of Rs 100 Crores now. You can refer slide 4 wherein we have given the details of the accelerated provisions that we are providing against the RBI stipulated rates. Accordingly, we are holding an additional NPA provision of Rs 93 Crs as on 31.03.2020. Though RBI permits the write off of fraud related provisions over a period of four quarters, we account for it in the first quarter itself. The additional provisions thus provided amount to Rs 27 Crs. Similarly, in SR valuation, we have provided gross depreciation without netting the appreciation in respect of individual investments. Similarly, we have made Special COVID account provision @ 10% in Q4 FY 20 itself, whereas RBI permits the provisioning @ 5% each in two quarters viz Q4 FY 20 & Q 1 FY 21. Thus we were very conservative in our accounting policies. Here you should also note that we are an IFRS compliant Bank.

On the asset quality front, you can see that the net NPA has come down substantially from 2.27% as on 31.03.19 to 1.91% as on 31.03.2020. The gross NPA reduced to 3.54%. We have a robust provision coverage ratio of more than 80%. If you look at the net interest income, it has grown substantially by 35% year-on-year. While we were able to grow our interest income by 12%, we could arrest the increase in interest expenses to a meagre 1%, mainly by containing our cost of deposit at 5.9%. As a result, the net interest income has gone up by Rs 152 Crores recording almost 35% growth. The noninterest income has grown by 63% from Rs 135 Crores to Rs 221 Crores which was contributed mainly by the recovery in the written-off accounts, processing fees, bancassurance commission etc. Staff cost has come down by 14% when compared to the last year and total operational expenses reduced by 5%. If you look at the cost to income ratio, you can see that from a high of 123% in Q4 19, it came down to less than 57% in the last quarter. Operating profit of the bank has increased from Rs 13.4 Crores to Rs 280.6 Crores during the current year, with almost 2000% increase. As against the loss before tax of Rs 300 Crores during the last year, our profit before tax is Rs 134 Crores. Our capital adequacy ratio has gone up to 22.46% . M/s FIHM has completed the capital infusion process in FY 20 and we have received a small amount of fresh capital in the IPO process which completed in last December. Our liquidity ratio is very comfortable at above 200% levels and our leverage ratio is above 8%.

During the current year, we are planning to open 103 branches mainly in the southern and western part of India in locations with CASA, Gold, MSME and Agri focus. Our CASA ratio has improved from 27.84% last year to 29.17% in FY 20. In gold loans we have recorded a decent growth of 28% and they constitute 31% of our total portfolio. We were able to grow the portfolio in the COVID period also. We have introduced the home delivery gold loan scheme during the current COVID period, which has helped us to grow. Our new product Akshaya Gold is picking up very well and quite a lot of people are opting for it.

The risk of NPAs has been contained to a large extent. We have offered moratorium to all the borrowers across the board. 15 % of our customers by number and 28% by value opted for moratorium so far. The collection so far has been good and we do not anticipate much of problems going forward. We are optimistic that the collection of dues is possible, when the units start full-fledged functioning.

Our NIM has improved substantially from 2.51% to 3.20% as on 31.03.20 and the same is consistently improving. Cost to income ratio as I said earlier has come down to 56.17% during the last quarter. You would agree that the last 15 days of any financial year is crucial for the entire banking industry. COVID 19 and the consequent lock down have impacted our promised recoveries. Many of the OTS settlements could not happen as the Registrar offices were closed. Despite this we have a decent Provision coverage ratio of above 80% and NIM of 3.26% for the current quarter. Spillover of the recoveries is happening in the first quarter and we are closely following up on the sanctions and promises. Already some amount is collected and we continue to pursue these cases for recovery during the current quarter. Our credit cost has come down substantially to 1.10% as on 31.03.2020.

I think I will stop at this level and take more questions from you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mr. Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: At the outset let me offer my heartiest congratulations to Mr. Rajendran and his team for the excellent show during the current year where I think you have surpassed probably the expectations of the investors. Now going forward, I want clarity on one or two points. You have shown a PBT of Rs 134 Crores and somewhere you have mentioned that but for the tax adjustment your net profit would have been 100 Crores. What I want to understand is whether there is an actual outflow of the tax in the last year?

C.V Rajendran: Yes. Your understanding is correct. When you measure it with the current tax rate, the profit could be close to 100 Crores. But, consequent to our decision to opt for the lower tax rates in Q4 FY20, we have to re-measure the deferred tax items and reverse the MAT credit, resulting in an additional impact of Rs 87 Crores. So the profit has come down to RS 13 Crs.

Nalin Shah: I agree. I just want to know whether there is any actual outflow of tax in the last year. If so, what is that amount?

C.V Rajendran: There is no actual outflow. It's just an accounting entry.

Nalin Shah: If it's only an accounting entry, as an analyst, should I consider a PAT of Rs 134 Cr also?

C.V Rajendran: No Nalin Bhai, the fact that there is no cash outflow by way of tax is the reality. It is the impact of the write off of DTA and MAT reversal

Nalin Shah: Fine, so that was my first question. Now moving to my second question. Sir you have performed very well on NIM which is at 3.26% and a Cost to Income Ratio of 56% in the last quarter. Can we take these are the sort of benchmarks that you are setting or you are expecting further improvement if the bank expands the business and open 103 branches more as confirmed in your statement. So what kind of NIM or Cost to Income Ratio targets you have for the bank. Can you please throw some light on that?

C.V Rajendran: We do not give a forward looking statement, but target for NIM is always above 4%,

Nalin Shah: NIM of more than 4% and Cost to Income Ratio Sir?

C.V Rajendran: Cost to Income Ratio has to be brought down to the industry level, which is less than 50%.

Nalin Shah: So this would be the target to pursue?

C.V Rajendran: Yes, you can see that from a high of 122% in Q4 19 we are coming down to 56% this quarter ie, within a very short period substantial improvement is seen. We will continue to work on this and we will be in a position to reach our 50% target at the earliest.

Nalin Shah: Would you like to give us some idea, I would say post lockdown rather, regarding the surge in the demand for the funds from the potential borrowers

C.V Rajendran: Fresh Credit demand is not much. However, we have introduced special COVID loans and we have started to receive proposals from the borrowers and we are clearing them now. On the retail front, we pursued collections wherever possible and were successful to a large extent in our efforts. One segment, where we are seeing a surge in demand is the two-wheeler loans. We were selling almost 1000 loans per month and that number seems to be coming back much sooner than what we expected. So is the case with financing of second hand vehicles. As I mentioned earlier, the demand for gold loans is also high

Nalin Shah: On the NPA front can you give us some figure in terms of the target for recovery during the year?

C.V Rajendran: We have a very high target this year. As I told last year itself we have sanctioned many OTS proposals involving substantial amount and these are almost concluded deals. Only thing is that the execution did not materialize at the last moment. So if all of them materializes during this period, I think the recovery could be much higher than the previous year. Last two years we are doing almost 100 Crores a year. But we do not know what could be the possible slippages during the current year. I am not seeing much of a problem as of now. However, the full impact of COVID is yet to be assessed, so it will take some time for us to give a reasonable number on that.

Nalin Shah: You mentioned that the bank is looking forward to opening of 103 branches this year and somewhere I also read that there is a focus to be laid on the NRI deposits. So can we have some idea about what is the deposit target you are aiming to reach for the current year?

C.V Rajendran: Actually our deposits have grown by almost 450 Crores during this COVID period while many other banks have seen a drain in the deposits. We do not offer very attractive rates in the market and our rates are either at par or even lesser than our competitors. Despite this, our deposits have grown out of which 10% of the growth has come from the NRI segment. Now NRIs are coming back to their native places and this is causing a surge in the NRI deposits in the State. NRI deposits constitute 24% of the total deposits. You will be knowing that the Premier rating agency CRISIL has award its topnotch rating of A1+ for our CDs and short term deposits. Perception of the government departments towards our bank has been positively impacted by these ratings, high CRAR, robust PCR, improved NPA and other ratios. We are witnessing an unprecedented flow of government deposits and the institutional deposits now. It is not based on the higher rate that we offer but it is based on the strength of the bank and as such it will not push my cost. Our liability growth is really good and now credit growth has to happen to utilize this opportunity.

Nalin Shah: Correct. Excellent Sir. Once again congratulations and look forward to better results in the coming years. Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Sir first question is what is the percentage of moratorium and if you can also give a breakup between retail, agri, SME and corporate?

C.V Rajendran: We have offered moratorium to all the borrowers across the board. Moratorium has been availed by 15% customers in number and 28% by value. We are pursuing the collections to the extent possible and requesting the customers to pay at least small amounts regularly so that the repayment culture is maintained. This is happening and improving month on month. In the month of June, the activities have come back and Kerala is almost normal. Tamil Nadu except Chennai and in one or two other places, seems to be normal. These are the two markets where we have large stake and the other market is Mumbai where our exposure is on the wholesale segment not on retail. In line with the RBI instructions, we started persuading the clients to update their accounts as on February 29, 2020 so as to reap the benefit of moratorium and it has given very good results. Microloans had only 30% recovery in the first demand, which has improved to 50% in the second month. During the current month, the first collection cycle seems to be giving 60%, 65%, so I am confident that the recovery is coming back much faster in the smaller loans. So probably in the next two months we will be in a position to come back to the original status. At this point I am optimistic about the recovery and I do not anticipate much of the new accounts to slip. The only one segment where a reasonable assessment is yet to be made is SME and you have to wait and see how things move on. SME book constitute 20% of the total portfolio. Gold loans and Corporate segment enjoys respective portfolio share 31% & 30% as at the year end. In these sectors we do not anticipate any major shocks. It is the direct assignment segment, with a 5% share, is probably showing some kind of flatness because they have given moratorium to their borrowers in turn. Here we have to focus on maximizing the recoveries. So overall if you look at the portfolios, it seems to be doing well even at this point of time and the real position will be known only in September.

Abhijeet Vara: Thank you Sir. Thank you for your elaborate answer. Sir can you also help us understand, of course you did mention briefly, apart from the credit related activities, how is the momentum picking up in other sectors/ activities during the lockdown

C.V Rajendran: The volume of transactions happening in the branches has come back to the regular levels now. All our branches were generally open even during COVID period except for some six, seven branches in the red/containment zones, where complete lockdown was announced by the government authorities. We kept our offices open and we were doing all regular businesses other than booking proposals which requires assessment. The major activities included gold loan /micro loan disbursements, loans against FDS etc. The transaction volumes which had fallen to 20 to 25% of the regular volume during lock down period, quickly improved to 90% once the unlock phase was announced. So the activity level seems to have come back to the normalcy. The Kerala market from where 62% of my liabilities are sourced is almost normal and the positive cases are reported in small numbers when compared to what Maharashtra and Tamil Nadu is experiencing. So all the commercial activities are back and even the registration has started happening. So the OTS cases where we were persuading closure may start happening now. Of course Maharashtra is one market where we have some concerns because nothing is restarted even in major cities like Pune or Nasik. Gold loan demand is very high and the public sector banks have slashed the rates to the bottom and they are fighting in the market to grab the market share. The private sector banks are also there in the market. However, as a matter of policy we do not enter the price based competition and try to penetrate the market with better delivery, speed and service Our yield on advances is around 10.86% for the last quarter, which was 9.88% for the last quarter of last year. Average yield on gold loan is close to 12 % today and it is constantly improving. So I am quite confident that we will be in a position to maintain the yield as well as to contain the cost of deposits. We have taken more than 1600 Crores in long-term repo at low rates and we were able to deploy them at a very good rates in the market. The cost of funds is likely to come down during the current year because the TLTRO funds has come at a much lower price than our cost of funds. It will add to the profitability during the current year and the yield for the treasury will also go up very substantially. Treasury also has some good amount of profits because of the favourable yield movements and this will act as a cushion for the current year. We hope that we should be in a position to achieve what we anticipated for the current year also.

Abhijeet Vara: Just one last question before I get back into queue. The additional provisioning, which you explained at the beginning; this 125 Crores; it is over and above what is included in the PCR right?

C.V Rajendran: No, PCR is subject to all these things. To achieve that PCR only we have done these additional provisioning.

Abhijeet Vara: These frauds related provisions and accelerated provisions- whether everything is included?

C.V Rajendran: Everything is included. 80% PCR includes everything.

Abhijeet Vara: On the provisions itself we have seen most of the other private sector banks take some sort of a cushion. Of course for you, you have lot of gold loan portfolio, which should not see such kind of risk, but do you have plans to build any such cushion in H1 if there are not much slippages because of asset standstill clauses on RBI?

C.V Rajendran: See, we have done some rough estimation for COVID related provision, Last year, for the rephased loans, we have gone for a higher provision of 25% as against the requirement of 5%. During the current year, rephasement is done in about 12 accounts, which we thought we will be in a position to recoup very fast. Hence we have not provided any additional amount, we have provided only 5% as required. But we can build a cushion. We have enough of cushions as I explained when I have almost 200 Crores profit what we are showing today is only 13 Crores profit. So if at all more profits are available to us there are two, three items to be written-off further. For example, our SR valuation is about 90 Crores. The market valuation given by the companies is 97 Crores where as we valued at 90 Crores today. Probably some more provisions can be made for the SR and similarly DTA is there for almost 150 Crores or something like that left out. We can look at writing off some more portion in case we get more profit. That is the idea that will clean the balance sheet in the next one or two years. Today we are an IFRS compliant company, you are aware of it right. When Ind AS is introduced many banks are expecting more write-off requirements. In fact, Ind AS as and when it is introduced, I have surplus money in that because IFRS is more stringent and, we have already achieved that. So anyway we would like to build the cushions for bad times. Maybe we will increase the fluctuation reserve for the investments also going forward that is one idea. So floating provision we have not made but we have made specific provision. We will also build a floating provision over a period. Thanks.

Abhijeet Vara: Sure Sir I will get back to queue. Thank you.

Moderator: Thank you. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Just two questions from my side, this 15% by number and 28% by value, if you could just tell us from what date and under the second moratorium option that was given if you can just give some color on that?

C.V Rajendran: Yes, as I said moratorium was given to everyone across the board. But many of the people came back and asked us to present their cheques for collection. In the first attempt we could realise 65% of the cheques and 15% passed in the representation. But that ratio came down slowly in the second month, third month, but probably in the month of June the activities have come back to the normal state. In June it would be much better. If we exclude the gold loan and DA, collections are almost 77%. What we felt is that 23% is what we are not able to recover. Gold, we need not bother, that comes anyway. If we exclude only the gold and

DA is also taken into consideration we have recovered 58%, which remains about 42% has opted for moratorium. So I do not think this number to increase because we follow up with each borrower and encourage them to pay if there is sufficient income and most of them are willing to do so because lot of paper reports are stating that this will be an additional burden on you to accumulate this amount. So, lot many people are well educated about it and I am saying more people are willing to pay even though there is a moratorium. So, June should be a better month. Probably we will meet after a month to discuss the June results I will let you know what is the June number also.

M B Mahesh: The second question has two parts to it. Kerala has seen a little over a month in terms of return of operations. Are you seeing a similar trend when some of the other states have opened up as well. That is one. Secondly is there a lack of demand from the customers' end?

C.V Rajendran: For the MSME vertical, we have recruited a new team about 200 people and about 100 people have joined us. So that is one new division, which we have started and they have started disbursing loans only from April end

M B Mahesh: MSME means microloans right?

C.V Rajendran: Yes, MSME means microloans but not as per the revised MSME definition. It is above the MFI loans, which are sourced through the BC model. Here we are able to assess the people easily because those who survived this COVID will be in a position to do much better in the days to come. Normally the demand comes from grocery stores, bakeries, your milk vendors who survived this situation as they are dealing with the essentials. For MSME, these are the people that we had focused, but to our surprise there are some other segments, which have started doing well once the opening took place. The two-wheeler demand is one thing, which we never expected to come back so quickly. More and more people are preferring to buy new two-wheelers because they do not want to use the public transport today. We are also seeing sudden surge in the demand for the used cars also. As of now, we do not have a division to lend for used cars even though we have a product for it. We are trying to bring focus into this area. Also the demand for consumer durables is also coming back but it is mainly from a different segment altogether. Now home office has become a compulsory one, so you need air-conditioners, additional furnishing etc, so these kind of demands are coming,

M B Mahesh: Are you just speaking about Kerala or are you talking about every player?

C.V Rajendran: I believe that Kerala demand has come back almost like normal. Every business seems to be doing really well except the restaurants and hotels. Our main business is tourism; but the resorts have not yet opened and hotels are functional only to the extent of providing home delivery. Anyway our exposure to resorts is less, but hotels we have some exposure and we have to see how it will perform in the days to come. Many business units seem to be functioning as normal. There is a good demand coming from the contractors for additional funding now and many infrastructure projects are pushed by various governments today. Only problem seems to be getting back to the labor for the contractors because all the labor has migrated to their native states. Otherwise contracts are being awarded by all the state governments today. So these are all the segments where we are seeing demand now.

M B Mahesh: That is it. Thanks a lot. Very good.

Moderator: Thank you. The next question is from the line of Manav Vijay from Manav Financials. Please go ahead.

Manav Vijay: Sir I just have one very small question on gold loan. Now in the last couple of months many banks and NBFCs are announcing the results and everybody has just been talking about gold loan where the growth is there. You are also no exception. Now gold loan in fact as a segment is not so huge that it can attract so much of competition without any cut on interest rates. So I just want to understand one thing from you. Do you feel that with so many banks with surplus liquidity coming towards the gold loans, whether the prevalent interest rates as of now closer to 20%, 21% can come down over next maybe in one year or so?

C.V Rajendran: See the gold prices have gone up very substantially. If I look at my tonnage, tonnage has increased only by 6%, whereas my gold loan outstanding has increased by 28%. Today the banks are reluctant to lend personal loans and business loans which are the most popular loans in the market. Most of the banks are not willing to give the unsecured loans today. We adopt a blue ocean strategy in the gold loan. We do not target the low middleclass, which is the normal segment for the gold loan, there is a segment called middle middleclass, which is having gold, but which is shy of pledging the gold. Right now we are attacking this segment. We have introduced a product called Akshaya Gold where you can surrender your gold to the banks for custody. I will give you an acknowledgement giving the gram weight, net weight and the valuation., and fix a limit in your SB account itself. As and when you need money you can draw the amount in the SB account. You can issue a cheque and a loan to that extent is created. If you have surplus cash tomorrow, you can remit the amount back to the account and get interest benefit. This product is becoming popular now and we had an ad campaign also for a month, so this is picking up. The ticket size is increasing in this case. We have a good sales force taken from the gold loan companies. Even though the public sector banks have announced the gold loan scheme with somewhat lower rates, the delivery model remains the same. Get a token, sit in the queue and wait for half a day to get the loan. But we are able to match the delivery standards of gold loan companies today, Gold loan within 5 to 10 minutes is possible and during the COVID period we delivered the gold loan at the homes of the customer. When they called our people, irrespective of the amount and without any extra charges, they visited the customer place, valued the jewellery and released the gold loan on the spot and brought the gold back to the office. It helped us to earn a lot of goodwill in the market. It is not only the price but the packaging and delivery, which is more important and we focus there. When all the 4% gold loan mines are growing at 3%, the 24% gold loan companies are growing at 40%. So price is not the only factor and the packaging & delivery, your marketing and branding also matters. We have started spending quite a bit on the marketing side and we have good sales force today. The quick turnaround time which we are able to achieve ensures that there is a growth in Gold loans. Consistently we have grown between 24% to 28% for the past four years. We started with Rs 1700 Crores portfolio in 2016 and today it is close to Rs 3800 Crores. We are able to grow during this COVID period as well and we will continue to grow. We have a niche market where we play, which is not much price sensitive but focus is on the deliveries that we are able to match. As on date 31% of the portfolio is gold loan and our target is to make it more than 35% on a growing balance sheet, which we are confident of achieving during the current year.

Manav Vijay: Sir thank you for this, actually my question was related to the industry and not specific to your bank. My point is very simple Sir. We have a secured product where the LTVs are not more than 70% and the probability of a crash in prices is very low unless some black swan event happens whereas the interest rates charged on the product is almost equivalent to an MFI customer. Now when nothing else is moving in terms of the credit demand and gold loan as a segment is doing well, every bank is targeting that segment. So do you believe that the current interest rates will come down over the next 12 months or so Sir?

C.V Rajendran: Let me clarify once again. I adopt a blue ocean strategy in gold loans. If you are adopting the red ocean strategy, the market remains the same and you try to increase your market share by cutting the prices. Out of the total tonnage of gold available in the country only a small portion is mortgaged and monetized. That is why I mentioned that only the low middleclass is monetizing, even the middle middle class like you and I do not pledge the gold often. Now in this situation those people who lost their jobs or got married recently may have handsome quantity of gold with them which is not monetized yet. We encourage them to monetize by removing the shyness around taking a gold loan. People are ready to swipe a card and pay 28% on it and brand it as a stylish product. But you do not want to take a gold loan because pledging gold is not acceptable. We have provided an environment in such a way that you are not made to wait and complete the formalities by maintaining the required privacy and secrecy. This will encourage more and more people to come in, so it is monetization of the gold. You encourage the market and market can be 10 times of what it is today. It is the scope and that is what we are attempting now.

Manav Vijay: Sure, thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Girish Jain from KJMC Capital. Please go ahead.

Girish Jain: If you look at the figures, the profitability has gone down in the fourth quarter compared to the third quarter, so was there a loss in the fourth quarter?

C.V Rajendran: Though we had time till September to decide on opting the lower tax regime, we decided to opt for it in the fourth quarter. As explained in the beginning, we have taken a hit of Rs 82 Crs in Q 4 FY 20 by way of DTA/ MAT reversal and this resulted in a loss in fourth quarter

Girish Jain: The DTA was not provided in the third quarter?

C.V Rajendran: DTA provision was there. The decision on tax rates came during the fourth quarter resulting in re-measurement of DTA and MAT reversal. Many banks like Axis, ICICI and State Bank have done it in the earlier quarters and we opted for it in the fourth quarter.

Girish Jain: On slide #16 where key ratios are shown, the return on assets in the fourth quarter has actually gone down from 0.6% in the third quarter to 0.54% in the fourth quarter even after adjusting for the tax effect. Could you throw some light on this please?

C.V Rajendran: The fourth quarter income is slightly less than the third quarter. The fourth quarter growth was affected by the COVID in the last 15 days which had an impact on the income front. Provision for the security receipts to the extent of Rs 30 Crores was made during the last quarter and the NPA provisions also increased in the last quarter.

Girish Jain: During the IPO investor road shows we were talking about the reduction in the staff cost and the number of heads going forward, if you can throw any light on that?

C.V Rajendran: It has substantially come down. If you look at the staff cost as a percentage of income, it came down drastically and in fact my cost to income ratio has come down to 56% in the last quarter and on an annualized basis also it is around 66%. We had about 2800 employees on IBA at the time when we started and today IBA people have come down to 1700,

Girish Jain: So you would have provided for their VRS also?

C.V Rajendran: Once the IBA people are leaving, we settle their PF, gratuity and leave salary accounts. We have bought an annuity on the day for them to pay for the pension.

Girish Jain: Thank you and congratulations for the results I will come back in the queue.

Moderator: Thank you. The next question is from the line of Mukesh Gutpa as an Individual Investor. Please go ahead.

Mukesh Gupta: I got my answer. Thank you.

Moderator: Thank you. The next question is from the line of Rohit Arora as an Individual Investor. Please go ahead.

Rohit Arora: Sir I wanted some guidance on the cost cutting efforts that you have done. What I believe is that employee expenses have gone down and just wanted to understand how you have achieved it and also regarding the strategies for reduction in other Opex. What are the measures which we are taking to move the cost to income ratio to below 50%?

C.V Rajendran: So operating expenses have come down by 5% during the last year. Our cost of deposit will go down because more than 10000 Crores of deposits in the interest range of around 6 to 7% will get repriced to less than 6% during the current year. Our CASA deposit has improved from 27.84% to 29.17% and our target is to grow by 200 basis points every year. We are hopeful that during the current year also we can accelerate and the cost of deposits will go down. LTRO availment at low rates will reduce the overall cost of funds and this in turn, should enable us to increase our NIM much faster. NPAs when it goes down your earning assets also increases. What I am talking about is on a static balance sheet itself we will be in a position to improve the profitability by expanding the NIM and this will be supported by the noninterest income growth which is consistently showing an upward trend. Last year the growth is contributed not only by the recovery of the bad debts but also by levying the processing fees and other service charges. I am sure that noninterest income will continue to grow as contractors accounts are coming in a big way. Now the bank guarantee and LC demand is also increasing and that should also contribute for the increased noninterest income growth. I am sure going forward the net interest margin will expand, cost of deposit will come down hopefully and we will be in a position to maintain our yield on advances because we always keep price at a better level as we do not consider pricing as a strategy to get business. One more area at which some of the private banks have started attempting is the rent reduction. Today real estate prices are so unstable and because of the merger many bank branch premises are getting vacated. As a result, they are getting so many offers from this landlords offering the premises at much lower rates. We have given a notice to all our landlords requesting them to reduce the rent by 30%. Some of them have responded, some of them are asking for a lesser reduction and some of them are not agreeable. In few cases where they are not all agreeable and where there is an exit clause provision we may shift the branches to a much better premises probably at a much lesser rent. This being the case, we will be able to go for the branch expansion at much lower costs. Even shifting the branches with high rentals will also give us some reduction in cost. We are relooking at each of the expense item. For example, in case of concurrent audit, we are having more than 100 auditors doing the concurrent audit during the last year, today we have signed up with one of the big four where the cost of that concurrent audit will be less than half of what we are spending last year. So today we are consolidating all these things and trying to find out where cost saving is possible. Cost cutting will continue and I think the staff cost is one such element as the old people are retiring much faster and new joinees are coming at a much lower level and it will also reduce our cost.

Rohit Arora: Thanks a lot for the answer. Another question which I had was regarding the breakup of the slippages in the fourth quarter, So I believe the slippages have gone up from 53 Crores to 83 Crores due to corporate slippage of around 29 Crores. So what was the other breakup of around 54 Crores?

C.V Rajendran: There are three major corporates, which are slipped during the full year. Two are NBFCs. For One NBFC, OTS has already been approved and they are not able to pay the money because of certain administrative problem. I think we will collect the money during the first or second quarter once the problems gets sorted out. We don't anticipate any additional provisioning in this case. However other NBFCs are yet to settle down, we are yet to fix the problem. But there are some collections happening there also. Whatever collections they are making; proportionate amount of recovery we are expecting in the current year. Third one is a gym for which we have given a loan and some diversion of the funds is involved in it. So we have declared it as fraud during the last year and that is why we have provided the full amount of 29 Crore. Actually Rs 37 Crores was sanctioned to this borrower and as we doubted something we stopped further disbursements and went for inspection. Some funds were diverted with the connivance of the supplier and many cases are also going on and they are coming for a settlement. I am not sure about recovery during the current year. These are the three cases which have happened, which is unexpected actually, otherwise the regular slippages are only in the SME account, but overall if you look at it, the slippages are way below the recovery which we are making. That is what we promised in micro loans also. For a few more years to come the fresh slippages will be much lesser than recovery and this tendency will be maintained during the current year also. Last year provision is only 50% of the previous year provision.

Rohit Arora: Are we doing something on improving the credit rating standards as well in terms of underwriting because what I am seeing is you have done 200 Crores write-off couple of quarters ago and now there are no write-offs, but there is addition in the gross NPA that are happening in the last two quarters?

C.V Rajendran: If you look at it, you will see that whatever we are taking into account now is the legacy NPA. These are all the sanctions made between 2012 and 2014 and since we have conducted inspection and found out the problems and declared some of them as fraud, a few such accounts require full provision and we might have made the prudential provision or the full provisioning and that is all over now. We have conducted a stock inspection on all accounts of Rs 25 lakhs and above during the last year and wherever we found problems we have declared them as a NPA and provided for it. So I do not expect any major account to slip going forward unless the circumstances exist. Out of these three accounts, which slipped one is AAA and two are AA rated, so it happens. So otherwise the credit standards are good and if you look at the risk weighted assets, in spite of the balance sheet growing, they have not grown much. This shows that the underwriting standards are very strong. Of the last three year sanctions there is only one high ticket loan, which has gone bad, otherwise all of them are small retail accounts. So certainly the incremental slippages of the incremental loans is extremely low.

Rohit Arora: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Sir is there any inorganic opportunities in CSB. Currently will you be able to share something?

C.V Rajendran: There are lot of opportunities in the market, but nothing on the platform of CSB as of now, but we are open to the idea. I remember Mr Prem Watsa had declared long back that we will fund CSB for buying a bank or buying an NBFC. So we always keep our eyes and ears open and look for opportunities. If valuations are attractive probably we will move at the right time. Now the government is also willing to sell public sector banks as they have indicated and we also expressed interest in that, but these are all preliminary or theoretical discussions at this point of time. Nothing has progressed in a big way, but we are open to the idea of the inorganic growth.

Abhijeet Vara: Sir my second question is any light that you can throw on the digital expense

C.V Rajendran: We have brought 60% of the transactions on the alternate delivery channel. It is growing very fast. Of course when compared to the industry standards, which are rated 75 to 80%, we are way below that. We took the COVID period as an opportunity to push the digital channels and the young managers who have recently joined are showing the much needed interest in the digital switching. Our mobile banking platform is very good and user friendly and our target is to achieve 80% of alternate delivery channel transactions within the next two years and we are moving fast towards this direction. It is quite a bit in the technology and the younger population, who have joined us will make it faster.

Abhijeet Vara: Sure Sir. Thank you. Those were my questions. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

C.V Rajendran: Thank you friends, thank you for making it today. In fact, the industry was going down and our prices have reasonably improved. I was happy to see that. Whatever we anticipated at the time of IPO, we delivered almost on the same lines. So our expectation at the time was about 100 Crores of profit and we also indicated this write-off we could take that. It is exactly what has happened and we have maintained the same tougher accounting standard, which we have followed last year for accelerated provisioning. As such we have built enough cushion to counter any eventuality including this COVID situation. It gives me great comfort that the current year growth has been reasonably good and the slippages are very low. In our case only 15% of the borrowers have opted for moratorium so far and activities are coming back in the markets where we are operating in a big way. Gold loan growth is another area, which is giving support to the bank. I do not expect the balance sheet to expand as per our expectation for the current year, we will be a little more cautious during the current year in lending as well as taking liabilities. So growth in the balance sheet may not be very substantial, but still we are confident that we will be in a position to meet the numbers on the bottomline by maintaining efficiency that we promised and improving on the cost, yield as well as on the noninterest income. Probably in another 30, 35 days we will meet again with the June results, which will reveal that we are on the right path. Thank you. Thank you Axis for arranging this meeting. Thank you Praveen.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited. That concludes today's call. Thank you all for joining us and you may now disconnect your lines.