"CSB Bank Limited
Q2 FY2021 Earnings Conference Call"

October 19, 2020

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Moderator: Ladies and gentlemen, good day, and welcome to CSB Bank Q2 FY2021 Earnings 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. Manish Karwa from Axis Capital. Thank you, and over to you, Sir!

Manish Karwa: Thanks, Nirav. Good evening, everyone. On behalf of Axis Capital, I welcome all of you for the 2Q FY2021 results conference call of CSB Bank. Today, we have the management of the Bank, represented by Mr. C VR Rajendran, Managing Director and CEO; Mr. Pralay Mondal, President Retail, SME, Operations and IT; Mr. B.K. Divakara, CFO; Mr P V Antony, General Manager Accounts & Development and Mr. Ganesan, who is the Head of Credit Monitoring and Recovery. I would now request Mr. Rajendran to start the conference by giving some opening remarks, and then as usual, we will open up for question and answer. Over to you, Mr. Rajendran!

C VR Rajendran: Thank you. Good evening, friends.

Lot has changed in the world since we last met in mid-August 2020 after Q1 results. We are now in a more certain world with definite signs of economic recovery around us and assured monetary policy stability from RBI side. It was yet another great quarter for us – by far the best in bank's history. In this centenary year, we have crossed a century of PAT in 6 months' time as our PAT stands at Rs 122.5 crore. We have been firing from all cylinders – not just bottom line growth but also top line growth. While you would have gone through the investor presentation, I would like to emphasise the following key features of our performance

Earnings Growth QoQ- Our Net Interest Income has grown by Rs 44 Crore (Rs 185 cr to Rs 229 cr) or by 24% powered by loan book growth of 11%, improvement in cost of deposits by 30 bps (to 5.18%), improvement in cost of borrowings by 49 bps (to 3.75%) improvement in yield on advances by 20 bps (to 10.94%). QoQ Non Interest Income Ex Treasury Profits has grown from Rs 31 crore to Rs 65 crore or by 112% powered by growth in processing fee by Rs 9 Crore and booking of PSLC fee of Rs 9 Crore through sale of excess PSL lending of Rs 600crore. Net Interest Margin improved to 4.49% from 4.06% QoQ i.e. an improvement of 43 bps

When we consider Opex, our staff cost has increased by Rs 18 crore or by 21% QoQ from Rs 86 crore to Rs 104 crore. AS 15 provisions increased by Rs 18 crore of which Rs 15 crore was on account of pension cost. 32 employees had opted for VRS during the half year and this along with increase in annuity rates had caused the pension cost to increase. Normal retirements of pension optees during the half year was 71. Now only 673 employees are under Defined Benefit Pension scheme, which constitute just 18% of total work force. Other opex has also increased by 6 Crore that is 13%, to 50 Crore, due mainly to increase in depreciation, rent, facility management and 2-wheeler service and dealer expenses. Overall, total opex has grown by 18% quarter-on-quarter, while revenue has grown by 26%.

As far as operating profit is concerned, Bank has recorded an operating profit of Rs 302 Crs in H1 FY 21 whereas the operating profit for the last full year was at Rs 281 Crs. On a q-o-q basis also operating profit increased by 34% ie from Rs 129 cr to Rs 173 cr.

Our Cost Income Ratio has improved from 50.26% as on 30.06.2020 to 47.13% as on 30.09.2020 i.e.it has come down below 50% mark during the quarter, which signifies crossing of yet another milestone for the bank.

Net Profit has improved from Rs 54 crore in Q1FY21 to Rs 69 crore in Q2 FY 21 or 29% increase. Net Profit for the half year stood at Rs 122.5 crore as against Rs 44.3 crore in the corresponding period last year. Return on Assets improved from 1.03% in Q1 to 1.22% in Q2.

Our deposits have grown by 13% year-on-year and net advances by 11% year-on-year. CASA has grown by 17% year-on-year. Overall, balance sheet size has grown by 25% year-on-year.

Gold loans have grown by 1100 Crore up by 30% quarter-on-quarter, capitalizing on the tailwinds provided by RBI's relaxation on LTV norms. We still have an average LTV of 71%. Risk ratable value of the portfolio is only 184 Crore. It is a portion above 78% LTV worked out individually. Our yield on gold loans has improved from 12.22% in the last quarter to 12.53% during the current quarter, which indicates that the growth has been achieved without compromising on the yields.

Our moratorium book as on September 30, 2020, is around 2000 Crore, which constitutes 15% of the total loan book. We are holding COVID provisions of 60 Crore. We expect 60 Crore to 70 Crore of the exposure to be restructured after discussion with the clients.

Gross NPA has reduced from 3.51% in the last quarter to 3.04% during the current quarter. Net NPA has come down to 1.30% from 1.74% in the last quarter. PCR has improved to 84.24% from 81.73% as on June 30, 2020. If we consider 60 Crore of additional COVID provision also, PCR has reached 90%.

We have booked a treasury profit of 32 Crore during this quarter. From mid-August with the release of MPC minutes combined with global factors like increase in crude prices and increase in U.S. deals, bond market yields had hardened about 35 basis points in India. As on September 30, 2020, we have booked a mark-to-market depreciation of 38 Crore. Subsequently, the yields have improved following RBI governor's statement and the MTM losses are less than 10 Crore as of now.

As far as the capital adequacy is concerned, our CRAR has improved from 18.93% to 19.69% due to reduction in the market risk-weighted assets between June 30, 2020 and September 30, 2020, while credit risk weighted asset increase has trailed loan book growth as bulk of the growth is in gold loans. In line with RBI guidelines, we have not reckoned the net profit for the quarter or half year as part of capital funds.

Leverage ratio has come down to 7.52% from 8.17% since we have increased our balance sheet size by 1616 Crore or 8% quarter to quarter. We are comfortably above the RBI minimum stipulation of 3.5%.

Bank has continued to maintain liquidity coverage ratio of about 200%, while the excess SLR is around 6% of the NDTL.

I will stop at this level. Now we will open it up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the Aditya Kondawar from JST Investments. Please go ahead.

Aditya Kondawar: Congrats on a good set of numbers. I just wanted some flavor on the moratorium book, if you can? Thank you.

C VR Rajendran: Our moratorium book is only 15% -that is 2000 Crore is the book size. Subsequently, collection has improved over a period. Only 1.5% of my customers have not paid even a single installment as on 31.08.2020. It is a very low number. Even those customers have started paying now and this number has come down. After the moratorium is lifted, we are seeing the tendency that most of the customers have started paying the dues. Therefore, it is not much of a worry on the moratorium side. In fact, we have the data for August. The September data will take some more time. For the DA transactions, we have to get the data from NBFCs and then only we will be in a position to confirm it.

Aditya Kondawar: Understood, that is all, thank you.

Moderator: Thank you very much. Next question is from the line of Nalin Shah from NVS Brokerage Private Limited. Please go ahead.

Nalin Shah: At the outset, Sir, let me offer my heartiest congratulations on the Q2 and the H1 performance of the bank. It is a really a very credible performance. I must congratulate the whole team led by Mr. Rajendran. I have few observations that your cost-to-income ratio has come down to 47% or so. Going forward, what is the kind of target we are planning to have? Secondly, our retail banking has shown, I think, excellent performance when I see from the segment results. So can we expect that this kind of a retail banking performance will continue to grow in the times to come? That is one. On the other hand, on corporate book, there is some minus 15.82 crore as per the segment results. So can we see that also turning into the positive in the times to come? That is another question. It applies to NIM as well. 4.5% is what we have achieved. So can we expect that there is going to be further improvement on this side? So this is what I wanted to know.

C VR Rajendran: First thing is on the cost to income. Constantly it is going down. Our target is to keep it below 50%, which we have achieved during the current quarter. We will strive to take it below 40%, which in the industry many people have achieved. Anyway, a year afterwards, the fall will not be at the same level, there are limitations to cost cutting; but income has to improve consistently to bring it to 40%.

Retail is driven mainly by the gold loan growth. 47% has grown only in the gold loan. But another bank, which is much larger, has grown by 54%. So there is much scope for improvement in the gold loan itself going forward and we will continue to lend. Gold loan is safer and we are tightening our systems, underwriting standards, inspection etc to ensure that the losses are kept to the minimum. Even otherwise, as we told you earlier, our losses are less when compared to the industry level. Anyway, further tightening is happening on the check and control measures. Mr. Pralay Mondal is on the line, and his team is joining one by one. Mr Neeraj Dhawan has joined from Yes Bank, and there are a few more recruitees at the leadership level who are likely to join by November end. They are analyzing the existing products and planning for a re-launch of the products with the new features and processes as necessary. Probably, this should happen from January onwards. The recruitment of the marketing heads is completed, and now the marketing offices are being recruited. I think the full team will be in the field by January beginning. On the retail front, growth in retail loans other than gold will happen in the last quarter. Other retail is an insignificant portfolio at this point of time. With Pralay's experience and track record, I am sure that we will be building a much stronger retail portfolio going forward. So the gold loans will continue to grow, but as a proportion, it may more or less stabilize as we see the growth happening in other retail portfolios. SME is one segment, which we have consciously kept away for some time because there is not much of clarity in the SME performance and many sectors were stressed even before Covid situation. Wherever there is clarity in a particular industry, say textiles, garments, poultry etc we have started lending. Other sectors, for the moment, we are holding back and waiting for better clarity to emerge. MSME is one business, which we have started of late and it is doing really well. Volumes will take time to pick up because it is small ticket lending, but numbers are increasing. Two-wheelers, we were doing about 1000 vehicles per month before Covid. After Covid lockdowns were lifted, vehicle demand has also gone up. As a result, we are doing almost 2000 vehicles per month mostly in Kerala and Tamil Nadu. Now we are expanding to Andhra, Telangana, Maharashtra, Gujarat and Karnataka. So you will see more growth in the 2-wheeler also, but these are all small ticket loans, where it will take time to ramp up, so all these things are happening. On the corporate portfolio, more than 50% lending is to NBFCs, which are rated very high with a repricing option every 6 months for many of them. Now they are raising the commercial papers at very low rates and we will not be in a position to lend at those levels. As a result, in corporate portfolio there is a degrowth to a certain extent, and the yields are coming down a bit. Corporate portfolio will continue to be there, but it is only a parking of funds for us until the SME and other retail credit growth picks up.

As far as the NIM is concerned, as I explained, our cost of deposits, cost of funds, both have come down drastically during the last quarter. On the other side, yield on advances have improved. You might have seen yield on advances improving every quarter. We will be in a position to sustain it. Net interest margin of 4.5% is a dream target. We will try hard to retain it. If at all it goes down by a few bps, we should be able to compensate by the volume growth. I hope I answered all your queries.

Nalin Shah: My last question is that COVID-19 has, I think, rattled many companies, including banks and NBFCs and at the same time, for large and, I mean, strong players, it has opened up a good opportunity for inorganic growth. Can you throw any light on, if you are considering any inorganic growth or opportunities on this sector now?

C VR Rajendran: No, nothing is in the pipeline as of now.

Nalin Shah: Thank you very much sir and once again congratulations for the excellent performance.

Moderator: Thank you very much. Next question is from the line of Arun Malhotra from CapGrow Capital Advisors. Please go ahead.

Arun Malhotra: I just wanted to congratulate the management on an excellent set of numbers. I had few questions. You have shown tremendous growth and improvement across all parameters. Are these sustainable going forward? You have shown it, especially in difficult circumstances. So how sustainable these numbers are, especially the NIM, the cost to income, this kind of ROE?

C VR Rajendran: It should be sustained-that is our desire. See, only thing is the volume growth, as I was explaining, building volumes may put pressure on the net interest margin and maintaining it at this level may be a challenge. If you grow the housing loans, for example. Housing loan is a very competitive market where the interest rates are low, but cross-selling opportunities are more. You may get affected to a certain extent because of the excess liquidity condition in the market, but we should be in a portion to compensate by way of volume growth. We are a very small team at this point of time. New leaders are joining from the new private sector banks, who have a record of growing the balance sheet much faster on a healthier turf. Once their strength is added to our strength today, definitely, we will be in a position to grow the balance sheet and maybe some 1 or 2 ratios may get affected when the balance sheet size grows, but that should be compensated by the volume growth translating to overall revenue growth. That is what we see.

Arun Malhotra: In terms of cost to income, we have already reached 47%. How much further cost or excesses are there in the system for us to further squeeze and reach somewhere around 40%, which you mentioned.

C VR Rajendran: **M**any banks have achieved 40%. If you look at my productivity, my productivity is still low. In our investor presentation, we have given the productivity numbers. If you look at the per branch business and per employee business, we are almost at half the level for the industry as a whole, which means I can double the business in my branches without increasing the fixed expenses on it. So if the existing units are able to double their business, certainly, cost to income ratio will go down further. Volume growth has to happen in these branches. Now it is basically only the CASA and the gold is what is happening in the branches. When the retail portfolio is expanding in size, certainly, branches will acquire the size which is equivalent to the average branch business of the industry and cost to income ratio will go down further. There is a possibility of going down below 40%. There is no need to worry.

Arun Malhotra: In terms of income, can you highlight the fee income for this quarter? How much is the fee income?

C VR Rajendran: Fee income has grown very substantially. We had shown in separate slides. Our processing fees has increased by more than Rs 9 Crore from Q1FY21, and apart from that, we have PSLC sale fee income of another Rs 9 Crore, recovery of the written off accounts is around Rs 15 Crore, and treasury has also contributed Rs 32 Crore by way of profits. Of course, there is an equivalent amount of depreciation on the other side for the treasury. BG and the LC volumes have increased and it has contributed. It is a well-distributed income, if you look at it. So this will continue to grow. For this quarter, we have come to 17.2%, as a proportion of noninterest income to total income. Our effort is to take it to 20%.

Arun Malhotra: Sure, and have you started distributing investment and insurance products because you have tied up?

C VR Rajendran: We are doing really well on the bancassurance part. On the wealth management, we do not have other products as of now. We do not distribute even mutual funds at this point. Wealth management is one division which is yet to be formed. Probably the next financial year, we will be in a position to make some headway.

Arun Malhotra: Sure, and lastly, on the HR front, we are hiring key talent from the private sector. How are the performance incentives aligned?

C VR Rajendran: Today, we have only about 1600 people from the old setup, More than 2000 people are coming from the market only. Either they are direct recruits, or they are lateral recruits. They are all well settled. Culturally, we have become a new private sector bank to a large extent. Most of the branches function like a new private sector bank branch. So it is well accepted. Alignment is very good. These leaders are settling down easily into this culture. They will start contributing, no problem in that, and they have proved their skill sets in not one bank, they all worked in 2-3 banks before coming here. So I do not find any problem.

Arun Malhotra: What I meant was that are there any ESOPs for such new hires?

C VR Rajendran: Of course, the top management is entitled to ESOP. ESOP trust we have created, and we have allotted shares to the trust.

Arun Malhotra: Alright sir. Thank you and good luck for the coming quarters.

Moderator: Thank you very much. Next question is from the line of Haresh Kapoor from IIFL Asset Management. Please go ahead.

Haresh Kapoor: Sir, just a couple of questions. You first spoke a little bit about the morat book, it has kind of come down at 1.5% of borrowers not really paying. Could you just kind of give some color on this in terms of the quantum?

C VR Rajendran: So moratorium availed account as on September 30, 2020, is about Rs 2000 Crore. Of this, for around Rs 300 Crore, we have provided at 10%. On the remaining amount of around Rs

1700 crore, we have provided at 1.5%. We have also provided 25% on the assets which might have been classified as NPA, but for the Supreme Court decision of not declaring NPA. So that is only a small amount. It is less than 9 Crore, about 2.2 Crore is provided on that. So as on date, Rs 60 Crore of provision is made for the COVID-related accounts.

Haresh Kapoor: Okay, sir, and what is your expectations and estimate for the risk in this portfolio – chance of re-phasement etc?

C VR Rajendran: So we have talked to almost all major clients directly. Even though there are no requests for re-phasement at this point of time, Rs 67 Crore worth of accounts may come at a later stage. This may go upto Rs 75 crore. That is what we estimate, and similarly, the SMA 1 and 2 together is only around Rs 95 Crore. Some of these accounts may slip . This is what our expectation, but for both together, we have enough of provision, Rs 60 Crore.

Haresh Kapoor: So Rs 95 Crore, some part of this could slip and around Rs 75 Crore, if I got it right, you are kind of talking about covid restructure, is it right?

C VR Rajendran: Rs 95 Crore is SMA 1 and 2.

B.K. Divakara: Rs 95 Cr will be the upper limit for restructuring and slippage put together

C VR Rajendran: So not that Rs 95 Crore will slip. Out of Rs 95 Crore, some of the accounts may slip, that is what our anticipation is.

Haresh Kapoor: Yes. Sure, sir. Sir, second, if you can talk about margins, last call, again, you were around 4%, and you had indicated some of the steps that you are taking and spoke about maintaining it at that level, but there has been a pretty sharp improvement in the margins. You alluded to trying to maintain it, but what is your sense on this? How sustainable this is? And what is your expectation going ahead from a margin standpoint?

C VR Rajendran: See, one part of the contribution has come from the borrowings. We have borrowed more than Rs 3000 Crore during this period. The underlying securities were giving more than 6% yield to us. We borrowed at an average of around 3.75% or so. So again, we have deployed some of the portions in the credit, some portion in the TLTRO investment i.e. Non SLR bonds where the yield was high. So naturally, the treasury operation to the extent of Rs 3000 Crore of borrowing and redeploying has been margin accretive and there was positive carry on the securities pledged for the borrowing as well. But you cannot continue with this strategy forever because the depreciation risk is high. In fact, we faced the depreciation risk in the last quarter. Now the things have improved after the credit policy. The depreciation has come down to less than Rs 10 Crore. Given the volatility in the G Sec market, we may not maintain the same kind of leverage going forward. We will unwind. We have started unwinding already. So that portion of contribution from the treasury by way of additional interest income and positive carry may not be available in the future, but when the underlying assets are sold and redeployed in credit, naturally, margins will be better. To a certain extent, it will be protected. There could be some impact on the interest income going forward, but there would not be any depreciation in future. So that should compensate each other, and we may be in a position to maintain the same kind of spread.

Haresh Kapoor: Sir, some other additional TLTRO line, which is now available, you believe that could also be helpful and for a quarter or 2, we could still get some better spreads just because of that?

C VR Rajendran: TLTRO is available, but Non SLR securities are not available on the rates that we bought. Bond yields have gone down very substantially today. It does not make sense to enter into the bonds at this point of time. The liquidity is excess, so naturally the price is driven down already. This was a one-time opportunity available at that time, which we captured.

Haresh Kapoor: Sure sir, and lastly, sir, from a deposit side, if you could just talk about NRI deposit as a percentage of deposit pool, and what traction you are kind of seeing there and how that is shifting now?

C VR Rajendran: NRI deposits are growing well. Our NRI deposit growth for the current quarter is 3.77%, whereas competition has grown around 2.54% and 2.13%. But when compared to the competition, our NRI deposit in absolute terms is very small. So I do not claim it is a great achievement and considering the potentiality of Kerala, what we have captured is very less. This is one area where we would like to have better growth. There is tremendous scope for improvement in the NRI deposit and this area will receive our attention going forward.

Haresh Kapoor: Sir, what is NRI as a percentage of your total deposits?

C VR Rajendran: About 24% will be the NRE deposits.

Haresh Kapoor: Sir, just to request going ahead, if you can just put this data on your PPT will be helpful.

C VR Rajendran: Yes. We will put it.

Moderator: Next participant is Pranav Gupta from Birla Sun Life. Please go ahead.

Pranav Gupta: Just a couple of questions. Sir, first a clarification in your PPT, when you say that moratorium as on 30th of September is about 15% of loans, I mean is these customers who have not paid in September or is these customers who you are still seeking to get repayments from? I wanted this clarifications because moratorium ended in August, right? So what does the 15% number signify?

C VR Rajendran: See, the 2000 Crore is the total loans where there is an availment of moratorium to some extent as on 30.09.2020. So even if you have not paid one installment also, it is that moratorium availed account. Up to August, we have the complete data including DA pools. Accordingly, 47% of the installments fallen due up to the date we have collected. That number has further improved in September.

Pranav Gupta: Okay. So even in August, 47% of these 2000 Crore worth of borrowers has paid installments in August as well, is that the right understanding?

C VR Rajendran: Some might have paid 1 installment, some might have paid 2, some might have paid 3, some might have paid 4, some might have paid 5 also, right? Overall average is 47% installments are collected.

Pranav Gupta: Okay. So they might not have paid in August itself, but they might have paid something during the moratorium period?

C VR Rajendran: 47%, almost half the amount is paid.

Pranav Gupta: Okay, okay. Sir, and some more color on the SME segment, specifically in terms of moratorium, if you can give as on August, whether more customers have paid fewer installments or what is the trend there in the SME portfolio specifically?

C VR Rajendran: SME portfolio, there are people who have not serviced the interest, which we have converted into the funded interest term loan. That is around Rs 35 Crore where they have the option to pay during the next 6 months. They will be in a position to pay, and similarly, we also provided this government-guaranteed COVID loan as well as our COVID loan, our own scheme, which comes to roughly about Rs 100 Crore of additional loans – they have been given to the people to meet the working capital requirements during this period.

Pranav Gupta: FITL conversion is 35 Crore.

C VR Rajendran: Yes

Pranav Gupta: Okay. Sir, and just one last question from my end. You said that you have started lending again in the SME space in particular sectors and you mentioned textile. What are the trends you are seeing in that sector, sir, in terms of whether the sales for them are returning to normalcy or whether this is just a blip because of the credit guarantee scheme money that this sector has received? Are underlying business fundamentals improving or is this just because there has been more liquidity, which has been made available to them?

C VR Rajendran: Spinning mill owners are saying that they are getting huge orders. So the stock which had piled up because the Bhiwandi market and the Ichalkaranji market were not opened up, it started depleting because other markets are absorbing. I am told that now Ichalkaranji and Bhiwandi has also opened up. So spinning mills, which is a major exposure for us are doing well. The garment segment, particularly from Tiruppur, Erode, Salem and other areas, they are also getting many orders today. I think that segment is also doing well. Cotton prices have gone down, but now what is sown area and how much is the yield, we have to wait to understand the impact on the cotton price. If cotton price remains at the present level or goes down further, spinning mills' profitability will increase substantially. The only thing is whitefly and other attacks should not happen to reduce the yield on cotton. As of now, demand has come back and the price is reasonable at this point, both raw material price as well as the yarn price is reasonable. So most of them are happy and have started servicing as per the revised terms. Only 1 or 2 have come for an additional loan. Many people have not availed even the COVID loans.

Pranav Gupta: Understood. Thank you so much sir.

Moderator: Thank you very much. Next participant is Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Congratulations on the very good set of numbers. So first question is, you have shared your provisioning ratios in the PPT, but I also wanted to check if there is any target for PCR you have in mind which you want to achieve? PCR is constantly going up. What is the ideal level, considering the LTV of portfolio or comfort levels of the management? Can you share something on this?

C VR Rajendran: As for an ideal level, it is 100%. 84% we have achieved, and we have an accelerated provisioning policy. So we continued with the same policy so far. If you take into consideration the general provision for Covid related stress which we have made, which is almost 6% now, so our provision coverage ratio in the real term is 90% today. So we will continue to provide more and if possible, we will try to attain 100% over a period.

Abhijith Vara: Right. So how do we see the credit cost in the near term, sir? It is well appreciated that your restructured book is unlikely to go up substantially, but how do we understand credit cost impact in the near term, let us say, next 2, 3 quarters? Will you continue to have higher provisioning, as you said, you want to take the PCR much higher so you continue to have much higher credit cost or you want to achieve it over a period of time, let us say, 2 years, 3 years?

C VR Rajendran: Credit cost, at this point, I am not expecting any negative surprises. I am not foreseeing any bigger accounts slipping. The credit cost should be maintained below 1% is our target always. I think we will be in a position to maintain it.

Abhijith Vara: Sure, sir, and second question is the fee income growth. You did mention that other income, the noninterest income; you want to take it up higher. What is driving the fee income growth? Some drivers if you can share. Also, what are the plans to take it up from 17% at 20% you are sharing? Any concrete thoughts on this?

C VR Rajendran: If you look at it, every segment of fee income has increased. Processing fees has increased. Bank guarantee commission has increased. LC commissions have increased, except the forward exchange, which we used to do, that has come down because exports have come down. All other areas including the safe deposit locker charges have increased. The transaction fees have increased. Bancassurance commission has increased. So income from every segment has increased. So we are firing from all cylinders, and new revenue streams will also come in, like wealth management we will start. And when loan growth, when it is happening, naturally, the PF will also increase. 20% should not be a problem. If you look at our track record, we started at 6% one year back. Now, it has come to 17%. On a sustainable basis, the fee income should reach 20% is our target. At this point, we believe that it is possible.

Abhijith Vara: Sure. Also, sir, you did mention on the SME portion, right? We are looking at collectively growing the loan book. Any other segments also you are looking to grow apart from gold. Gold has almost grown 47% now. I think target is 40%, right? So what other areas are opening up for you, 2-wheelers you also mentioned, but what could drive the balance sheet barring the loan growth?

C VR Rajendran: Particularly on retail segment, all nondiscretionary spending areas are potential areas where we could really improve. So those businesses which survive during this COVID period are the right businesses to lend. That is the call which we have taken and what we are doing. Of course, the SME, as I said, in the larger accounts, we go by industry wise- the industries those are reviving. For example, poultry has come back with a vengeance now. Egg prices are Rs 6 per egg, right? Even in the inflation, you look at it, it is only the protein inflation. So naturally, poultry seems to be a good area. Dairy suffered a lot because of the migrant population moving out and their stocks piled up. Now the dairy has come back. So dairy, poultry, all agri processing are doing really well. I think it will be a good area to go. Construction is also coming back, not the real estate but the contractors. Government funding is the best thing which has to happen to revive the economy, which the government is doing; smart city projects, prefunded projects, and these are all the areas where we have started supporting the contractors in a big way. Anyway, we keep analyzing all the industries. Wherever there is an opportunity, we will take it up.

Abhijith Vara: Will you also get into unsecured loans, Sir? Let us say business loans or retail loans, any idea there?

C VR Rajendran: Yes, yes, we are getting into it. Product evaluation and other things are going on. Once we settle down with it we will go on a larger scale. Already, we have some unsecured loan portfolio, but that is only confined to selected corporates and their employees. So now we will introduce a general product. Pralay is working on it. Pralay, would you like to elaborate on that?

Pralay Mondal: Yes sir. I think, see, the way we are looking at it is we already have a very strong franchise on the gold loan side, and we will continue to strengthen that franchise. At the same time, to scale up the balance sheet, we have to do various other things, and the first thing starts with how we build a customer franchise and customer franchise means how do we get more customers? Through whichever route they come does not matter, whether it is liability or assets or gold loans or whichever products, but at the end of the day, how do we get the full relationship value of the customer is something we will focus on. The second thing is you can only create a strong franchise when you have full suite of products. Now truth is that given the kind of rates which are there in the markets in some of the products like home loans and some of the other businesses, we may or may not scale those businesses up very quickly, but we need to have these products on our product suite with a well defined process, etc., because to create a larger customer franchise, we need to be one stop banking at the end of the day. Whether it is wealth product, whether it is retail asset product, whether it be some of the other products through alliances which we will build, including prepaid Forex credit we have to have a full suite of products to customers at the end of the day. The third part is, unless we have 2 or 3 products per customer, we cannot build a large profitable customer franchise and scale up the business. As the last part I would like to talk about the branch network- we have to leverage our branches a lot more, and that can only happen when we have a very strong customer acquisition strategy with our full product suite and proper customer segmentation, and hence, what portion of the customers we get, whether we can get full value of the customers, primary banking and a higher share of wallet is something which we will focus on. Most important, of course, is as we do all this, how do we manage and retain our cost management because revenue has to grow along with cost. Some of these businesses need very strong policy, risk management, underwriting and controls, and me and Neeraj, we are working on that because unless we put those processes and controls in place, suddenly scaling up is not a good idea, and the good part is we will be launching these products or, it is not launching, relaunching because some of these products are already there in the bank, very soon. We are putting the right policies and control mechanisms. We will, in a way, modernise them and relaunch them, and the good thing is that we will catch the right cycle because we will take another, whatever, 3, 6, 9 months, depending on which products we are talking about, and as we gain scale in these businesses, what will happen is that it will be the right time. We will know exactly what is the impact of the COVID in the next 3, 6, 9 months, and then we will catch the cycle when we know the story is behind us, good, bad, ugly, however it is, not about us but about the overall ecosystem, and hence, the businesses which we will build will catch the right cycle. So that is the thought process overall. Under Mr. Rajendran's guidance, we will ensure that we take the right steps with culturally the way the bank has been because it is not a question of doing what other banks are doing right, we have to do what is right for our bank and our customers, and as we grow, we have to ensure that we are creating the higher customer penetration into the franchise and boosting customer acquisition. So that is broadly the retail strategy at this stage. Too early for me to comment on anything more, but maybe in the next analyst call, I will be able to give you more details and color on the whole thing. Thank you, sir.

Abhijith Vara: Thank you. Appreciate your response. Sir, 2 more questions, sir. On agri and MFI loans, Rs 234 Crore, even that has grown quite strong. Can you please elaborate what is happening there? How does it look in the near term?

C VR Rajendran: We have brought a team from outside who are used to this agri lending in a different way, apart from the conventional KCC. That team has started working well. In Tamil Nadu, Kerala and Maharashtra, we have the team now. They are doing really well. Ticket sizes are small, but still volumes have grown close to Rs 250 Crore so far, which is very impressive, and the quality of the portfolio is also good. They are identifying many new areas now. So these 3 markets are providing enough opportunities, but we will also get into the other markets. Now Karnataka, Andhra, Telangana is also in the pipeline. New branches are getting opened. As we explained last time, 100 branches we are permitted to open, subsequently a few more branches we are permitted, out of which almost 20 branches are opened, and another 30 branches are in the pipeline. The furnishing and other work is going on, but we are confident in the centenary year, we will be in a position to open 100 branches, and many of the branches which we opened during the last year were able to break even during the first year of operation itself. That gives us a lot of encouragement that this model will work. So the new branches normally focus only on CASA, Gold, MSME and Agri because their locations are selected mostly like that. 70% of the branches are in semi-urban and rural areas. Agriculture is doing extremely well. The monsoon is good, and the ancillary sectors like poultry, food processing and the dairy are also doing well.

Abhijith Vara: What will be the total exposure to food processing? What is the total exposure as a percentage?

C VR Rajendran: Total agri exposure should be around 21% or so.

Abhijith Vara: Okay, and the yields here are comparable to the reported yields, sir?

C VR Rajendran: Yes. Yes.

Abhijith Vara: Okay. They are not too much lower?

C VR Rajendran: No. No. We do not compromise much on the yield.

Abhijith Vara: Right. One last question, sir. The cost of TD, right? Do you see the cost of TD coming down further? Or do you think you will have to maintain this level to attract more deposits?

C VR Rajendran: Deposits are flowing in. So much of liquidity is there in the market. Recently, we have entered the CD also at the market-related rate. So it will also become one more strategy for raising resources which will bring down our overall cost of deposits as CD rates are now below my card rates. So we will grow liability cost effectively. Growing liabilities have never been a problem for us.

Abhijith Vara: Thank you sir. Thank you for all your responses. Thank you.

Moderator: Thank you very much. Next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, for the month of September, what was the collection efficiency, either the moratorium figure is actually not giving a very clear picture.

Moderator: Sir, your voice is not coming so clear, coming very muffled.

C VR Rajendran: I am able to hear him; he is asking about the collection efficiency.

Jehan Bhadha: Yes. So among that was due for September month, how much have you collected from the due amount?

C VR Rajendran: See, as I said, for the DA portfolio, I am not able to get the data yet. It will take time. For my own portfolio, it was noted to be somewhere around 80% to 85% of the term loan demand for September month.

Jehan Bhadha: So it is indirectly the same, the 15% moratorium, so it comes to the same. So collection efficiency should be above 85%?

C VR Rajendran: True. True.

Jehan Bhadha: And on the advances side, if we take a three, four-year view what kind of advances growth that we should look at?

C VR Rajendran: We are targeting at least 25% growth on the advances side, which should be possible by March.

Jehan Bhadha: Sir, last question on now our gold loan yields have touched 12.5%, is there further scope to increase this marginally

C VR Rajendran: Sorry, I am not getting your question.

Jehan Bhadha: Our gold loans have now touched 12.5%. So can it increase further?

C VR Rajendran: Our lending rate is around 13.5%, and if the old loans getting closed are repriced, probably the yield can improve further, but of course, scope is limited. Blended yield can be around this level, a little improvement can be there over and above this unless we raise the pricing, which we are not proposing at this point of time.

Jehan Bhadha: At the time of IPO, we were talking about increasing gold yield. So that most of that has been achieved. So from these levels, there is limited scope, right?

C VR Rajendran: There will be some improvement, as I said. When the repricing happens, we may move towards 13%.

Jehan Bhadha: Thank you Sir.

Moderator: Thank you very much. Ladies and gentlemen, we will take the last question from the line of Aditya Kondawar from JST Investment Consulting. Please go ahead.

Aditya Kondawar: Sorry, I had two disconnect briefly in between. So obviously, excuse me, if this is a repeat question, but I just wanted to know the loss given default and how much slippage do you expect from it?

C VR Rajendran: I am not having the LGD number readily. You have to go only with the provision numbers.

Aditya Kondawar: Thank you.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Manish Karwa for closing remarks.

Manish Karwa: Thank you all for participating in this call. I must also thank the management for giving us a chance to host this call. Thank you all.

C VR Rajendran: Thank you.

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