"CSB Bank Limited Q4 FY2022 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the CSB Bank Q4 FY 2022 Investors Conference Call, hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "* "and then "0" on your touchstone telephone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you sir.

Praveen Agarwal: Thank you Faizan. Good evening everyone and welcome to this earnings call. We have with us Mr. Pralay Mondal, MD & CEO (Interim); and Mr. B.K. Divakara, CFO from the management team, and I would request Pralay to give his initial remarks post which we will open the floor for Q&A. Over to you, Sir!

Pralay Mondal: Thank you very much, and welcome everybody to this Annual Results Investor Call. We had a very good quarter and a year at CSB. I am not getting into too much numbers as Mr. Divakara; our CFO will take you through them. At the outset, I would like to say that we as a bank have fared well both from the perspective of net interest income and non-interest income, if you take the treasury income out which is the non-core kind of an item. We have strong ratios like, NII growth, NIM, RoA, RoE etc. Even on cost side, we have managed pretty well so far; but obviously, we have many plans in the next few years to go about our distribution, technology and invest majorly into the franchise because now we are looking at growth.

Also, if you look at our capital and key shareholder ratios, I think we have achieved most of the objectives, which we wanted to achieve. The only thing that we now need to do is to grow the balance sheet and scale the business and that is what we are focusing now.

We all know that globally things are little different and dicey now. As all of you are experts on this subject, I will not spend much time trying to tell you what is going on in the world. Whatever the macro environment, I think clearly the prime focus area for a bank like us has to be building liability franchise on a scalable and sustainable basis.

Globally the bond yields are on the rise. Ten year US yield is hovering around 3%. The condition in India is not different and there are still expectations that in the RBI policy scheduled for June 8, there could be another rate hike. With the CRR hike, the indications are very clear that excess liquidity will be sucked out; interest rates will rise, as ultimately the real interest rates, which are ruling negative currently for the households, have to make sense. In addition, we have to protect our rupee versus dollar ratios and things like that.

Therefore, to that extent I think there is a lot which is going on in the environment. However, the good news is that most of the high frequency indicators are looking good for us whether it is the GDP growth, increased demand & resultant credit growth, the budgetary announcements on Capex Spent etc.

So overall growth will come back into the system, and with consolidation happening in the banking system both in the private and the public sectors, there will be opportunities for banks like us. We will participate in many parts of the franchise or many parts of the opportunities whether it is retail, SME, mid-market or emerging enterprises. Whichever way we look at things, there are enough opportunities. We will look at fee income as an important area whether it is forex, third-party products etc. With liability, we have to grow the granular franchise. While we grew by 10% in CASA this FY, the good news is that on the average CASA, the growth is 22% and this means that we are getting uniform in our CASA balance.

Also we are growing our distribution by almost 20% year-on-year, and most important thing is going ahead; we can take some of these things when the questions comes; is that we are looking at significant investment into technology, significant investment into partnerships, and significantly growing the retail and SME franchise and building our franchise model in addition to what we are doing already well, which is the gold loans.

So our thinking is, as we call it our strategy SBS 2030, which is like a Sustain, Build and Scale model wherein we would focus

- To sustain what we have done well,
- To build the current, which is technology, digital, partnerships, leadership, product, processes, services. If we are a full service bank, we rather use the full service bank license and become a true blue full service bank across length and breadth of the country
- Then scale once we have tested our models right, because we also do not want to go overboard on cost and then go wrong somewhere. So everything will be on pilot basis and once we see that our return on each investment is coming back, then say in 12 to 18 months, hopefully by then our technology will be fully in place, then we scale it up and outperform the credit growth in the ecosystem. This is not a guidance, but this is what our ambition is, so that is the way and it should be balanced growth and not just single product or single franchise kind of growth. Therefore, that is broadly, what our thought process is, but we will talk more as we take questions at the end of the conference.

With that, thank you very much for your participation and I handover to our CFO, Mr. Divakara for taking you through the results. Thank you very much.

B.K. Divakara: Good evening friends. I will be making a brief presentation about the performance of the bank for the quarter and for the year ended March 31, 2022. Audited financial results for the quarter and for the year ended March 31, 2022 was taken on record by the Board of Directors at their meeting held today.

Performance of the bank improved on several counts during the year. Performance improved under asset quality, earnings, liquidity, and capital funds position. If we can look at the asset quality of the bank today, net NPA level have come below 1% and it stands at 0.68%, If you can look at the earnings, it has increased manifold and liquidity wise our LCR now stands at 154% as against the requirement of 100% by RBI. Our capital funds position has improved substantially and Capital adequacy ratio now stands at 25.90%.

Now we are earning profits continuously for the last three consecutive years. As you may be aware, bank is following an accelerated loan provisioning policy and all the toxic assets have been provided at rates far higher than the regulatory prescriptions. During the heightened COVID threat, bank has provided Rs 106 Crores for future contingencies, but despite the easing of the situation, these provisions have not been touched and allowed to continue as a buffer. If this additional provision is reckoned for PCA purpose, our provision coverage ratio would have been almost 100%.

Cumulatively bank is holding additional provisions to the extent of around Rs 214 Crores over and above the regulatory requirement. Deferred tax assets created on account of accumulated losses have been completely wiped out. Our SR level has been substantially brought down through cash recoveries. All the expected impairment has been provided. All these measures have strengthened the balance sheet largely and we are moving towards building a strong growth.

Now let me take you through the main highlights of the published results.

Total deposits of the bank grew by 6% on year-on-year basis and CASA ratio stood at 33.66% as on March 31, 2022 as against 32.19% as on March 2021. Average CASA during the year grew by 22%.

Advances grew by 10% on year-on-year basis to touch a level of Rs 15,815 Crores. In Q4, alone the growth of advances has been at 8%. Average advances grew by 14% during the year. Gold loan portfolio has reemerged from the negativities growing at 7% quarter-on-quarter sequentially. Share of gold loans to total advances now reaches to almost 40%. It stands at 39.2% now.

Net interest income has crossed Rs 1000 Crores mark for the first time in the history of the bank. By posting a robust growth of 23%, the net interest income for FY 22 stood at

Rs.1153 Crores. NIM improved from 4.81% to 5.27% on year-on-year basis or by 46 bps. Average earning assets grew by 12% on year-on-year basis. Thus, net interest income growth has been powered by both volumes as well as spread improvement.

Cost of deposits during the year improved from 5.07% to 4.31% or by 76 basis points. Yield on advances improved from 10.97% to 11.21% or 24 bps. Yield on investments reduced from 6.81% to 5.93% or 88 bps. As a conscious strategy, bank had not replenished the HTM gap in the initial months of the quarter expecting yields to harden further and preferred investment in short duration paper, which had impacted the yield a bit.

On the non-interest income front, g-sec market has been unidirectional in financial year 2022 given the global scenario of increasing yield and a heightened inflation even before the uncertainties of a prolonged war emerged. This gave little room for treasury profit booking which was a key contributor to the kitty during last financial year. Benchmark 10-year yield increased from 6.18% to 6.84% or by 66 bps. Thus, while we could book Rs 102 crore of treasury profits in FY 21, when the yields were falling, the corresponding figure for FY 22 is only Rs 12 crore. Duration for AFS portfolio stands at 0.65. Non-interest income excluding treasury profit grew from Rs 201 Crores to Rs 235 Crores or by 17% powered by growth in commission income from Rs.50 Crores to 72 Crores or by 44%.

Total staff cost decreased year-on-year basis from Rs 496 Crores to Rs.482 Crores or by 3% on account on lower AS-15 provisions. Staff expenses excluding AS-15 provision increased from 259 Crores to Rs.322 Crores as total employees increased from 4180 to 4662. Other operating expenses have increased from Rs 233 Crores to Rs.305 Crores year-on-year basis or by 31%. Number of branches increased from 512 to 603 contributing hike in other operating expenses.

Operating profits grew from Rs 516 Crores to Rs.614 Crores or by 19% on the back of improved net interest income and reduced staff cost. Cost to income ratio improved from 56.2% in financial year 2022 from 58.6% in financial year 2021. Net profit has increased from Rs 218 Crores to Rs.459 Crores on year-on-year basis or by 110%. There has been Rs.10 Crores net reversal in NPA provisions in financial year 2022 powered by NPA recoveries in both gold and non-gold portfolio as against additional provision debit of Rs 107 Crores in financial year 2021. Despite this reversal provisioning coverage ratio has improved from 84.9% to 89.7%.

ROA has increased from 0.99% to 1.90% on year-on-year basis and ROE from 12.5% to 21.2%. Book value per share increased from Rs.117 to Rs.144 or by 23% and EPS from Rs 12.6 to Rs 26.4 or by 111%.

As far as Asset quality is concerned, this was a prominent quarter in terms of NPA recovery where we could contain both gold as well as non-gold NPA's. Out of the gross NPA of Rs 289.51 Crores, Rs.28 Crores is gold loan NPA. Gross NPA decreased by Rs.104 Crores from 393.49 Crores as on March 31, 2021 to Rs.289.51 Crores as on March 31, 2022. The gross NPA percentage that was at 2.68% as on March 31, 2021 improved by 87 bps to 1.81% as on March 31, 2022. NPA in gold loans decreased from Rs.45.39 Crores to Rs.28.81 Crores on year-on-year basis. Net NPA percentage decreased from 1.17% in March 2021 to 0.68% in March 2022 or by 49 bps. In absolute term net NPA reduced by Rs.62 Crores to Rs.107.11 Crores.

Our leverage ratio stands at 9.12%. Liquidity Coverage ratio has improved to 154%. Capital adequacy ratio is at 25.90%, which is well above the regulatory requirement of 11.5% and previous years reading of 21.37%. As I said earlier, leverage ratio has improved to 9.12% which is up from 8.11% last year and well above the regulatory minimum of 3.5%.

Thus, bank has done well under all critical business and profitability parameters. While consolidating our performance we have strengthened our balance sheet to a larger extent. Adequate provisions have been made both for known and unknown losses.

Now we are happy to take your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir, congratulations firstly on a great performance for the whole year. My question is to Mr. Pralay. Sir, you mentioned that this year would be a little more about liabilities for everyone including yourself. What I wanted to check was that, see we give the lowest savings rate interest, I see it is right from 2%, to 3.5%. Our deposit rates are also maybe at par with the largest banks. If we have to grow our balance sheet this year by 20% to 25% how do we plan this whole liability strategy? If you can just give some more color on this that till now the liquidity was easy, so despite lower rates we were getting deposits, but what happens in the next two years.

Pralay Mondal: See I will answer it in two parts. One is if liquidity is not there, it is not easy to get deposits because everybody is competing and there are various instruments. However, we have a very high loyal base of customers in Kerala in our branches and we have seen that we have a 90% plus kind of renewal rates with our customers. I have analyzed the portfolio and I have seen that this happened through cycles irrespective of interest rate cycles. It means that there must be something good we are doing in terms of retaining the loyalty of these customers in all interest cycles. So obviously, we will not take things for granted and we

will continue to engage with these customers and continue to do the good work that is one part. Second part is that this time tested franchise will not help us in growing the balance sheet in the scale that we are targeting. Therefore, we have to build on top of that. Hence we are investing more into branches. Secondly we are investing into a sales structure in liability by which we will get more customers and when I say for us liability strategy, it is different to some other banks like HDFC, ICICI, Axis, etc., because they already have a large customer base. We have to build up a large customer base from scratch. Liability is just not about deposits. It is about a franchise and on that franchise as we now launch our retail assets, other payments and other products, fees, etc. we will be in a position to cross sell to the customers. So for that we need a very large acquisition strategy and a part of this has nothing much to do with rates because some of these will be current accounts, savings accounts, some of these will be small FDs, and things like that. Some of these will be solution oriented. We will start looking at corporate salary and those kind of businesses gradually in the smaller corporates etc. As we expand our markets into the north and west, west and north rather in that hierarchy, we will need this product channels to add more customers to the bank. This will help us in growing the customer franchise and the granular liability, which will remain with us. The third point is we are not looking at rates as the primary USP and we do not want rate shoppers coming to the bank at the end of the day. We want to build a very long-term franchise. So from that perspective, we will build solutions. We are planing to create teams, like TASC, which will focus on solution oriented business. On the SME side, we were already telling the SME team that your job is not just getting asset business, you have to be self-funded; say 20%, 30% to start with and then we will see how they do it. I think we will ensure that every part of the bank is looking at the whole customer. For example if you are having SME customer or somebody, you can get his personal accounts, you can get his family accounts, and you can get liabilities. This is the kind of focus, which we want to start. The third thing is that branches, especially the metro and urban branches, have to do more focused business. For them, a good liability customer is eventually good fee and asset customer as well. In the cycle if you have to continue to grow at a rate at which we want to grow and we definitely want to grow faster than the market and significantly faster than the market, if that is so, we definitely need to build a liability franchise. I understand your question that there is a cycle, which is picking up. At the end of the day, lot of these banks have big liability share and not everyone can throw rates on the liability side and lot of these large banks have grown liability franchise without throwing rates. So we do not have to throw rates. I have worked in many organizations where you can do without giving rates, but building a solution and we have people in our team who knows how to acquire customers. Another key strategy on customer franchise will be to build through digital and partnerships. We are going to invest significantly on technology, significantly on partnerships and significantly on solutions. Based on this architecture that will we will build, we will get lot more customers and when customers come they will come along with the liability as a float whether it is on the current

account side or on the savings side, etc. as eventually you have an EMI to pay. That is the reason we have tied-up with for example in HDFC for home loans or for credit cards with somebody else. Even if we do not have these products at this stage, eventually we are building everything. We do not want a situation where our customers are going and shopping around for some products from somebody else. Liability is just not giving rates and getting deposits because they will not last and they will have a negative impact on our cost of funds. So that is broadly the strategy, it is an execution strategy and not of throwing rates.

Digant Haria: My second question is on the operating cost that we saw some operating leverage coming through this year? Now that you said that you are going to do many partnerships, build a lot of different capabilities around the bank. Do we still have this operating leverage, the level of operating leverage in the next one or two years, and if yes, if you can just quantify what is the dream cost to income or target that we have for our bank?

Pralay Mondal: See, one is ratios and numbers. I will give more strategic perspective on how to quantify that. Nobody knows numbers better than Mr. Divakara and Mr. Antony who are sitting here. Any ratio is a numerator and a denominator and sometimes you have to upfront certain investments to get the numerator. We will not shy away from investment. So any cost which we look at it, I want to divide it into cost and investments, and every investment will have a payback period, and then I look at cost separately. We will make investments to convert many operations to straight through processing. At branches, there will be more centralization. Actually as we are planning to take the documentation out of the branches. We will do straight through, process in the new products that we are launching. We have already launched some of them. In branches that are focusing on gold loans, it’s a heavily operating model with a brick and mortar structure and we will continue to do that in branches especially in the rural, semi urban markets and non-metro branches. At the same time, we would like to see that the front of the branch; how to ensure we leverage lot more for sales and service. As you know that when you build a customer franchise there is a front loaded cost out there and typically a customer in a larger metro branch breaks even in little more than a year’s time. Gold loan branch breaks even in 12-15 months. Once we have this continuous growth on customers, we will have a little bit of operating cost and we will get the opportunity to leverage by taking lot of straight through process into the ecosystem. Finally, once this productivity starts kicking in, which will take year and a half and by that time, our technology strategy will be in place. You will see the real operating leverage for us will start coming somewhere around 2025 onwards. Till then it is investment phase and till then I am not seeing too much of an improvement on the cost to income ratio frankly. But there if you look at it till then and you look at it as cost, you please see which of the costs are going into operations cost and which of the costs are into investments as I said

before, we will put lot of investments into partnerships, manpower, resources and technology.

Digant Haria: Perfect Sir. Thank you so much. I will come back in the queue for more questions.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: Just a followup on the previous question. You mentioned that the focus should be sort of on how much is going in the investment? How much of the cost is going in investment and operations. So currently, what would be the proportion and what would it be in 2024-2025?

Pralay Mondal: From my perspective, it is a difficult question to answer. Maybe Mr. Divakara can try, but I do not think we have looked at it this way. What are the investments? Investments in technology is broken into parts. One is operating cost and one is capex, which gets depreciated over a period of time. Second part of the investment is sales structure and acquisition and third part of the investment will be partnerships. These are the three investments, which will go in. As we were trying to sort of consolidate the balance sheet and ensure we deliver what we delivered this quarter and this year, we were a little focused on getting our act right in our bank and getting where we have reached which is well appreciated by everybody. From here on, the next phase will be growth phase and in that growth phase, these are the incremental investments, which are going to get into it. Where the cost will come down is from the operating leverage that will get from the customer franchise built at branches. If you add more products and more services to the branches and get the customer acquisition right, you automatically get operating leverage and it is very difficult to give a calculation where we have not done all this in our life cycle as a bank, as we did not have these products. Once we get those products, those products alone will not help if you do not get the right customers into the branches. So all of these in my experience come together at one stage which will take 12 to 18 months. So currently if you ask me mostly 40% of our businesses is gold loans, I think overall our operating cost to total assets will be around 3.3% or something like that. So those ratios are there, but the point I am making is that we have to invest now to build a growth oriented franchise and whatever investments has to be made, we will make them and they will have a payback period of anytime between 12 to 18 months.

Prasheel Shah: My next question is on the ROE. So we had seen excess of 20% in the last three quarters? It was mainly sort of driven by recoveries and the negative credit cost essentially. So going forward may be in 2023 and even in 2024 how would we sustain an ROE of this magnitude maybe not 20% but at least something like 15% or 16%?

B K Divakara: What I can say is considering the profitability projections what we have in mind and the business parameters what we have envisaged for the current year, we will strive to ensure that it is maintained around these levels.

Pralay Mondal: Also if I can add, if you get into a growth momentum, which should happen because there will be opportunity in the market, etc. See, if you look at it, our CRAR is very high now. As we start consuming more and more capital getting into the growth mode and obviously it will automatically, on one side it will give you slightly higher ROE. So I think what you are asking and what will happen here in terms of growth both will balance out and we should be able to deliver the ROE of above 15%.

Prasheel Shah: I will get back in the queue. Thank you.

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

Nirmal Bari: Congrats on the very good set of numbers. Thank you for giving me the opportunity. My first question is on the current market environment based on what the RBI has said in terms of reducing liquidity as well as increasing interest rates. Typically, in the last few calls what we have been discussing is that there has been excessive competition because of which we were sort of not able to grow in the SME, MSME side. So with the current environment now how are we placed to capture this growth opportunity? Second is if you could talk a bit in terms of technology what are we doing? We had a new head of technology CTO I guess a couple of quarters back and what are the steps have we taken in that? These are my two questions.

Pralay Mondal: So on the first question let me put it this way that what is happening in the ecosystem is good news for us. As we wanted to do prudent business and in a way it is good that we did not grow that much in a very low interest rate regime where the cost of funds and all these were so low. The real interest rate hike transmission that will go into the market maybe slightly higher than the real hike, which happens on the regulatory front. Therefore, these are linked to certain rates. We did prudent business based on whatever cost of funds we had and we do not have those cost of carry of those assets with us right now. That is advantage number one. Advantage number two is because when such liquidity is there in the market almost everybody goes and does businesses. I am not talking about only the large banks. There are many players including NBFCs. In the scenario as mentioned, it becomes very difficult to compete when we wanted to run a prudent balance sheet. I think the scenario will change now and I have seen this type of cycles twice before and there will be a rational pricing that will happen in the market. This is the time when we want to go to the market and grab a share of it on the SME and some of the other businesses. We see SME/MSME as a major opportunity for us in the next two to three years because retail will take time to

build and we believe that the rates will be lot more rational now than what used to before. Coming to technology side, lot is happening. In fact I am personally involved significantly in our technology initiatives. We are dividing this into two parts. One is running the bank and one is building the bank. So on running the bank, as we grow our balance sheet and our customer expectations grows high by way of new products and new services, LOS, TAT and other such enablement etc. If you do not have this kind of pathway, you cannot run proper retail assets or the payments or things like that. Building the bank for future, obviously we have to, is what Rajesh is working on, he is the new CTO. So what he is working on is evaluating how our core system is and what are the options we have there. Next is about the surround system which we need to build and third is how the plug and play system which will work from the outer layer and how these three will get integrated along with the workflow system which we are taking on the LOS or LMS all of this we are investing right now. As we are talking, it is happening and we are investing significantly on the cyber security front because that is something that we need to be very clear if you want to build, a digital brand a lot more aggressively. So what we will do now is we will do a lot of plug and play kind of digital solutions which will be disposable models let us say. So next two years we will use it and throw it. By that time our future will be built, but we cannot wait for it because if somebody tells me, somebody will give a system after three years, I cannot wait for that so we will use. I will give you an example if you want. For example if you look at a lead management system or if you look at an easy connectivity with the partnership model, etc. So how do you do it and there we also have a feeling that from a regulatory perspective the thought process is changing little bit where they are also looking at cloud as an option, etc. We see lot of technology changes happening in the next three to four yours, cost of obsolescence is very high. So we are also evaluating all that and seeing that is it better to go full hog and invest into all the systems at this stage or leave some that we do best on our current volumes and then throw it and build it based on whether by that time the cloud model is prevalent and then your whole operation becomes very flexible and faster. So those are the various things which we are working on but we are primarily looking at running the bank and building the bank.

Nirmal Bari: Thank you.

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

Mona Khetan: Hi! Good evening. Sir, my first question is if I look at the numbers from a sequential basis quarter-on-quarter your NII growth was flattish versus loan or interest earning assets growing at 7% to 8% and yet margins were largely stable Q-on-Q. So what has helped NIM despite the flattish NII growth?

B K Divakara: If you can look at this Q4 result with that of Q3, it has come down marginally. It is mainly because of two reasons. The first one is due to the migration of NPAs that has happened mostly in Q4 as compared to Q3 and maximum recoveries have been effected in Q3 especially with regard to gold loans. Now most of the gold loan NPAs have been recovered, so from a peak level of above Rs 300 Crs, today it has come down to 28 Crores- so it has come down almost one tenth of what it was in June 2021. So September itself we have been able to recover, but between September and December we have recovered maximum and corresponding interest reversals have also happened. That is why interest income was more in Q3 as compared to Q4, but now most of these NPAs have been recovered. So to that extent the interest income has come down in Q4 as compared to Q3.

Mona Khaitan: Now that gold portfolio has largely stabilized with GNPAs at 0.5% to 0.6% or there about. Would you expect a steady state margin to settle at for CSB Bank?

B K Divakara: SME portfolio is giving us an average yield in excess of 10%. Similarly gold loans it continues to give a yield of 12% plus and corporate advances is giving a yield of around 8.5% to 9%. These are all stable sources of income with fixed earnings. That is why our net interest margin, if you can look at it, it has improved to 5.27% as compared to 4.81% during March 2021. So margins have improved mainly because of all these factors. Yield on advances has improved. Cost of deposits has been brought down.

Pralay Mondal: To give you a little forward looking answer, let me give you a qualitative aspect to it. So let us look at cost of deposits, cost of funds whichever way you look at it and let us look at yield separately. So cost of deposits obviously will go up that is no rocket science in it. At the same time, we have both our MCLR linked book as well as repo rate linked book. While the repo rate pricing will immediately get implemented as per the policy, MCLR book will have an impact depending on the duration. But at the same time we have to look ahead and say we cannot look at short-term and target short term deposit business for the next three months or six months. You have to look at a slightly longer tenure because this kind of interest rate is going to be here for real for the next two to three years if the country does well. So given the perceptive we have to raise deposits and hence our cost of funds will go up, But at the same time we still have some long-term deposits, which is there in the system and they will get renewed either at the current elevated rate or at a slightly higher rate if it was booked in the near short-term say in the last one or two years. So overall cost of deposits is bound to go up little bit. At the same time, we will be able to pass on some of that depending on how the competition is playing on that side. So to that extent I think for the margin there will be not too much of a difference and that could be the story almost for all the banks. For us it could be a little different because we will also change the mix of the business little bit. Our gold loan mix, I see continuing to do what it is today because we had a much-muted growth last year and this year we want to take the growth up and that will help us in our yields to some extent. At the same time, we will look at even better quality

portfolio on the SME side. We want to participate in the real SME business and hence if you have to sacrifice some yields on the SME or wholesale we will do that because growth is our key focus area now. Hence on the margins, I think if we want to build the quality of the book even better for the long run and with the increase in cost of funds, whether we will be able to hold back that NIM where we are today; we are not sure. However, we will not sacrifice growth to hold the NIM of 5.2% or 5.3% or whatever it is. So growth is paramount and of course quality growth is most important. We do not want the growth, which is toxic growth. For ensuring quality growth, if a little bit of a NIM sacrifice is required we will look at it as and when it comes. But growth will be there, quality of deposit franchise will grow, and we will gradually change the mix of the business, but this year there will be no change in the gold loan mix and hence that will hold the yield to a great extent.

Mona Khaitan: But then could it continue to be the over 5% that we have seen in the last couple of quarters at least or could it moderate below 5%.

Pralay Mondal: At least for the next two quarters I do not see a risk beyond that we have to figure it out.

Mona Khaitan: And any timelines on the rollout of retail products and color on the products will help.

Pralay Mondal: On the retail products actually if you ask me all retail products can be rolled out together once we have the a) customer franchise b) the technology to roll it out. Therefore, we are working with our technology partners on LOS, LMS etc Now, this is the risk of retail businesses, if you do it branch centric or if you do it without technology, etc. it is either a very niche strategy or it will come back to bite you. So we are working very hard on the technology framework. Policies, processes all are ready, so maybe we are little late into this and you will get an impression that we have been talking about it. But there is lot of work going on, on the technology side and once it happens then things will happen very fast and retail as you know cannot be build in one day, we have to build up the liability franchise in parallel in terms of customer base. So all of it will happen together parallelly. We will do through partnerships; We will do co-lending as a business. We will look at securitization. We have done securitization primarily on the portfolios like microfinance, Two wheeler gold etc, But this year, I have been discussing with the team that we will do securitization of few other portfolios because I think businesses like CV and some of these things will come back. If the infrastructure push is there as envisaged in the budget, there will be a lot of investments from the government. I think Construction Equipment's and Commercial vehicles, healthcare, all these businesses will start picking up now. In case of some of these businesses, we will participate by ourselves or through securitization through partners or through online or through co-lending, we will figure that out. But whichever way we do it we will gradually build up a long-term retail highway for us.

Mona Khaitan: And it is possible that these may not come up within FY2023 and get extended to FY2024.

Pralay Mondal: There is no problem at all, We need not rush into it because my experience in retail is that if you rush you make mistakes. But that does not mean that we are not working on any of this, we will do what it prudent for us, and we do not need all this for growth this year. We have our clear strategy on how we will grow our portfolio and whatever we have planned for our growth we will do that irrespective of retail contribution in a big way or not.

Mona Khaitan: And on the recovery from written off accounts I understand it is adjusted against provisions in your case is that a fair assumption.

B K Divakara: This year we have done maximum recovery under written off accounts and that is why the credit cost is negative. So it has been netted off from the provisions to be made in fact we have made a reversal of 10 Crores during the current year. So I think the recovery has been done so bad debts recovered are Rs 79 Crs whereas the provisions to be made for NPAs are only Rs 69 Crores. So we have made a net reversal of about Rs 10 Crores during the current year.

Mona Khaitan: Just finally on the investment in technology that you spoke about if I look at your opex to assets which is a more stable indicator rather than the cost of income it was at 3.2% for FY2022. So could one assume a similar kind of ratio going forward or could it rise given your technological investment plan.

Pralay Mondal: It may marginally go up, But these are investments, these are not costs for me as I said before because we will not shy away from investing into technology and that is very clear. Whenever we look at things, we do not look at quarter-to-quarter anymore and we want to look at the next three years, five years or ten years. So to that extent these investments are nothing and a lot of technology costs will make capex first so it does not hit you in the same year in a big way. I do not see too much of opex coming there. Only depreciation will come so to that extent it gets distributed over a period of time, but yes we will invest a lot more in technology this year and next two years at least.

Mona Khaitan: Sure thank you that was useful and all the best.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: Actually I wanted to continue on what I was talking about earlier. See what I am trying to say is this year we had an ROA of 1.9% in FY2022. This was aided by the negative credit cost for most part of the year. So a steady state credit cost for us would be around 1%. So if it is 1% from next year onwards how do we plan on maintaining an ROA of 2% for FY2023 and especially because you just said that Opex to average assets will be going above 3.2%.

Pralay Mondal: Banking business is not a monoline business and there are many tools to leverage. So one of the tools we will leverage on a higher scale is non-interest income. So this year the worse has happened on the treasury side because of the interest rate cycle. This is true for the Industry and luckily for us Mr. Divakara can explain how good and safe our portfolio is even in our rising interest rate cycle as well. So given that perspective and in spite the fact that our treasury income was very low compared to what it was the previous year, we could still manage our non interest income at a reasonable level because of core non-interest income rate growth which are third-party business, Forex businesses, which are liability fees and commission oriented businesses. Therefore, these things will multiply as we grow the balance sheet and if your focus is on growth. So I think some amount of non-interest income will start growing while there will be some pressure on the NIM in the second half of the year. I am sure for all the banks and not only for us, slippages should be under control. I think the worse is over as we could manage the problems like reversal of the LTV regime, Covid issues etc by great focus and execution. So this year we can have a growth in portfolio, Tonnage etc So certain positive aspects are there. Also growth will come, not everything is in ratios it is also growth that would we get back and then in absolute terms we will start doing well. So overall and for a moment if I say that if we grow better and even if my ROA comes down by 3 basis points, 4 basis points, 5 basis points how does it matter? We are growing a franchise, which is a much better long-term compounding growth story and that is the way we look at it. I do not want to be so myopic in terms of saying that if we have 1.9% or something we have to remain at 1.9% itself; it can be higher, it can be lower, we will figure that out.

B K Divakara: But even otherwise we were expecting this interest rate hike to happen. Keeping this in mind, so almost 1200 Crores of our funds has been invested in short term assets in treasury. So the investments which is at present giving a yield of around 3.5% will be redeployed in G sec or so with an average yield of almost 7.40%-8%. If this materializes, it will have a positive impact of about 4%. The entire visibility is there is to grow. So almost this repricing of Rs 1200 Crores and filling the HTM headroom of almost Rs 350 to 400 Crores without depreciation impact, we have a benefit there, if the rate of interest is likely to go further. So to the extent we are protected, so we have invested in short-term assets essentially treasury bills that gets invested in some other alternate opportunities wherein we will be getting a higher rate of interest that is more or less will give us the required income to sustain this level of 1.90% to 2%.

Prasheel Shah: And I agree the balance sheet is doing really well in terms of asset quality and the quality is solid I agree with you. So on the growth part are you willing to put a number to do it how much do you think you will be growing in next two to three years.

Pralay Mondal: I think I mentioned that if the system growth at an x percentage, we will grow faster than that, how much faster maybe in the next two, three quarters we will tell you more

confidently, but we will definitely grow faster than the system and if you ask me the question over the next three years I can tell you that we will grow faster than the system by close to 1.5 times.

Prasheel Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen; this was the last question for today. I would now like to have the conference over to the management for closing comments.

Pralay Mondal: Thank you, and thank you everybody for participating. We are very excited with the prospect of having a better growth in this FY. I do not want to look at it as a next one year in isolation and we want to look at the growth rate for long term; say three years, five years, and ten years kind of a horizon, when we look at any strategic decisions and there are many strategic decisions we are taking in the bank today. We are building the bank for the future, we are building a growth mindset and we are building the product services to be a full service bank in the real sense as I said in the beginning. So we do not want to look at quarter-to-quarter at least we want to look at year-to-year as we build the franchise. So thank you for being on the call and we look forward to your support and I am sure that will not disappoint you. Thank you very much.

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

Note: Certain statements in this release relating to a future period (including inter alia concerning our future business plans or growth prospects) are forward-looking statements and such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. These risks and uncertainties include, but are not limited to statutory and regulatory changes, economic & political conditions, increase in nonperforming loans, interest rate movements, impact of the Covid-19 pandemic etc Any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of the date of this release. CSB Bank undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof.