



“CSB Bank Limited
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2021 Earnings Conference Call of CSB Bank, 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 Limited. Thank you, and over to you, Sir!

Manish Karwa: Thanks, Steve, and good evening, everyone. On behalf of Axis Capital, I welcome you all to this Q3 FY2021 results conference call of CSB Bank. The CSB Bank management is represented by Mr. CVR Rajendran, Managing Director and CEO; Mr. Pralay Mondal, President, Retail SME operations and IT; Mr. B.K. Divakara, Chief Financial Officer; Mr P.V. Antony, General Manager Accounts and Mr. Ganesan, Head of Credit Monitoring and Recovery. Without much ado, I now hand over the floor to Mr. Rajendran for his opening comments, post which we will have the Q&A. Over to you, sir!

C VR Rajendran: Thank you, Manish.

Good Evening friends. It has been an eventful quarter for us in the backdrop of a VUCA world. It was the quarter when the full effect of withdrawal of regulatory forbearance with regard to asset classification benefits on moratorium availed accounts have been felt by the banks. Despite the headwinds, I am happy to note that we could post a profit of Rs 53 cr for Q3 taking the 9 months profit to Rs 176 cr, despite providing liberally for stressed assets.

Let me briefly dwell on the main highlights.

On the Asset Quality and Provisioning, our Gross NPA has reduced from 3.04% to 1.77% QoQ while Net NPA reduced from 1.30% to 0.68%. Quantum of Net NPA is now only Rs 90 cr and as a percentage to Net worth it is only 5%.

Provision Coverage Ratio has increased to 91% in Q3 from 84% in Q2.

Now on stressed assets; Standard Restructured Accounts increased from Rs 64 cr to Rs 81 cr. We have kept provisioning of 25% on the standard restructured book.

Accounts which would have been classified as NPA but for Supreme Court embargo, excluding restructured, totaled Rs 195 cr. We are maintaining 25% provision on these accounts. Out of Rs 195 cr, Rs 130 cr or 70% are gold loan accounts which we expect to recover without any hitches or glitches.

SMA accounts that is SMA0, SMA1 and SMA 2, excluding restructured accounts totaled Rs 335 cr. Here again we are maintaining provisioning of 25%.

Overall, we are holding a provision of Rs 154 cr for the stressed standard assets and this is a significant buffer against contingencies. In Q3 alone our incremental standard assets provisions have been Rs 89 cr.

Collection vs Demand for the month of December 2020 stood at 95%.

Coming to Revenue Growth, in the 9M period, NII has increased to Rs 666 cr from Rs 435 cr or by 53%. 9M NIM has improved to 4.60% from 3.71%.

QoQ Net Interest Income has grown steadily by Rs 22 Cr (Rs 229 cr to Rs 251 cr) or by 10%. Decrease in cost of deposits from 5.18% to 4.91% or by 27 bps and increase in loan book by 5% QoQ have been the main contributory factors. NIM has improved QoQ from 4.50% to 5.17%. I feel our NIM has peaked now and further improvements will be challenging especially since our aim is to build significant volumes in the coming quarters.

Encashing on the favourable rate movements, we have booked treasury profit of Rs 48 cr during the quarter as against Rs 32 cr in Q2. Now we are trading cautiously on treasury front and has cut exposures in trading book by Rs 1633 cr QoQ (from Rs 3633 cr to Rs 2000 cr). Borrowings also have been reduced by Rs 1231 cr as we have unwound the trading positions. The De-risking of treasury book is reflected in the improved Capital adequacy with RWA for market risk reducing from Rs 1705 cr in September to Rs 916 cr in Dec. Modified duration of our trading book has been reduced to 2.85 years from 4.09 years in September.

Non Interest Income Ex Treasury Profits has grown from Rs 65 crore to Rs 69 cr or by 6%.

Our Staff cost has increased by Rs 24 cr, from Rs 104 cr in Q2 to Rs 128 cr in Q3. AS 15 provisions have increased by Rs 18 cr due to increase in pension provisions on account of expected DA increase and this has contributed to the increase in staff cost, apart from increase in head count.

Head count has increased by 301 to 3,984 from 3683 during the quarter. Payroll cost per employee p.m has decrease from Rs 54,009 in Q2 to Rs 53,120 in Q3.

Year on year head count has increased by 760 with CTC employees increasing by 997 and IBA employees reducing by 237. CTC employees now account for 59% of the workforce.

Other opex has increased by Rs 8 crore to Rs 58 cr from Rs 50 cr mainly due to increase in depreciation, rent, AMC costs and two-wheeler servicer & dealer expenses.

Bank has recorded an operating profit of Rs 484 Cr in 9M FY 21 whereas the operating profit for the last full year was at Rs 281 Cr. On a q-o-q basis operating profit increased from Rs 173 cr to Rs 182 cr due to increase in revenue.

Cost Income Ratio for 9M period has improved from 70% to 49%. But due to higher opex, CI Ratio for Q3 has increased to 50% from 47%.

Net Profit for 9M period stood at Rs 176 cr vis-à-vis Rs 72 cr in corresponding period previous year. For Q3, PAT has been Rs 53 cr as against Rs 69 cr in Q2. While we have reversed Rs 34 cr provision for depreciation of investments on account of favourable yield movements/exit, additional standard assets provision of Rs 89 cr has been created to strengthen the balance sheet, as already described.

Deposits have grown by 16% YoY and 2% QoQ. CASA deposits grew by 24% YoY and 5% QoQ. Term deposit growth during the quarter was muted as the bank was having surplus liquidity and as a conscious decision term deposit growth was not given attention. From Q4 onwards we will be focusing on term deposit growth as well, since liquidity is now no longer in excess.

CASA ratio has improved from 28.6% as on 31.12.19 to 30.4% as on 31.12.20.

Advances have grown by 22% YoY and 5% QoQ. Gold loans continued to be key driver of loan growth posting YoY growth of 60% and QoQ 14%.

Average LTV for gold loans stood at 75%. For the month of December 2020, the average LTV of loans disbursed stood at 82%.

Tonnage wise gold jewellery pledged increased from 15.2 tons to 16.3 tons QoQ.

Our SME vertical has posted growth of Rs 54 cr and we expect the growth to pick up steadily in the coming months. Premature closure of big corporate account has caused Corporate book to de grow by Rs 57 cr during the quarter.

Coming to our new asset verticals which are expected to be the major drivers of business in future, Agri & MFI has grown by Rs 134 cr during the quarter, Two wheeler by Rs 32 cr and the fledgling MSME vertical by Rs 24 cr. Thus these new segments have contributed to a loan growth of Rs 190 cr during the quarter. Other retail has been posting negative growth

and as we plan to re-launch our LAP product, we expect growth to return in this segment also in the coming quarters.

Our Capital Adequacy has improved from 19.7% to 21.02% due to reduction in market risk weighted assets. Leverage Ratio has increased to 7.7% from 7.5% since we have decreased our Balance Sheet size by Rs 578 crore or 3% Quarter to Quarter. BS size has decreased due to the decrease in borrowings by Rs 1231 cr QoQ as was already mentioned.

We have opened 37 new branches in the 9 months period taking the total network to 448. Of this, 27 were opened in Q3. We plan to open 64 branches in Q4 so that we end the financial year with 101 new branches. In January so far we have already opened 6 branches.

Now we are all ears for your questions.

Moderator: Thank you. We will now begin the question and answer question. The first question is from the line of Haresh Kapoor from IIFL Asset Management. Please go ahead.

Haresh Kapoor: Thank you for the opportunity. Sir, a couple of questions; One, just this VRS scheme; in your notes to accounts, you have kind of mentioned that the VRS scheme will have meaningful material impact on the results for the next quarter, Q4. Could you please explain that and what are the implications and what to understand from that?

C VR Rajendran: There are 223 employees in the clerical and substaff cadre, who lack the relevant skill set for the modern-day banking and this is the target segment for this VRS. So if the VRS is implemented and all the 223 takes it up, it could amount to around Rs 80 Crores of additional provision in the next quarter – around Rs 12 crore on account of Ex-gratia payment and rest on account of acceleration of retirement benefit payments, but in the subsequent years, we will be benefitted in the form of lower salary cost. Depending on the number of optees, the amount will vary. For each employee opting for VRS, we will be in a position to replace them with at least 3 employees.

Haresh Kapoor: Sir, and this 80 Crores is basically a onetime effect. Right? Sir and second, in terms of the gold loan portfolio, obviously, in terms of your loan book too, we are seeing growth coming from the gold loan side. The other portfolios still need to start kicking. You have done some hiring, obviously, but first, if you can give an update in terms of where you are in terms of starting growth for the other product lines? Second, if you can talk about the gold loan portfolio specifically, RBI had given that LTV leeway, which kind of runs out in March, in a couple of months. So how does that affect our portfolio and comments on the overall growth for the loan book side?

C VR Rajendran: LTV leeway had an impact only for the initial 2 months, probably August & September. Subsequently, it has slowed down. The daily average incremental growth in the gold book has come down from Rs 25 Crores to say Rs 10 Crores now. So, growth has slowed down, but even though 90% is permitted, we do not give 90%. At the disbursement level, it could be 82% at the maximum for the 1-year product, and LTV at the portfolio level is only 75%.

Haresh Kapoor: Sir, my question was around this 82% that you are talking about LTV. Will any of that have to unwind? Or how does that really work?

C VR Rajendran: RBI might come up with the guideline that from this day, banks cannot give more than 75% LTV. The existing loans, which are given at 82%, will continue to have that full tenure, and once they mature, they will not get the same amount, unless the price has gone up. If price is continuously going up, their eligibility is also going up. In case price remains steady, probably they have to repay the excess amount. Considering the average tenure of gold loans, they will get repaid/re-priced within the next 4 to 6 months period.

Haresh Kapoor: The other part on the overall growth, sir, on the loan book, how is that going to kick start?

C VR Rajendran: In Corporate book, because of the excess liquidity and consequent availability of easy money, we had significant prepayments in the portfolio. Most of the NBFCs were asking for very low rates for roll over which we could not accede to. SME portfolio has grown by 54 Crores for the last quarter. Now they are growing much faster. New proposal flow has increased and Mr Shyam Mani who has joined us as SME head, is driving the growth. We are confident of growing the SME portfolio as per our original projections. As far as other retail loans are concerned, Mr Neeraj has joined us. He has relaunched the LAP product now and slowly adding to the product portfolio. Probably from April onwards, we will see the impact of retail growth going forward.

Haresh Kapoor: Sir, last thing from my end is, basically, you spoke about the standard restructured exposure of 81 Crores, even the SMA number is around 360 Crores and you have provided for whatever might be the expected number. But if you can give a sense directionally now, how should we look at the provision line going into next quarter? And even the stress pool, if you could comment on that, anything which is not really counted in the number you have given out right now, and this could be part of negotiation or any other expectations on those stressed pool and provision side?

C VR Rajendran: There is nothing which is omitted from the provision. We have provided 25% for the restructured advances as against the 5% requirement. For substandard accounts, we are providing 25% as against the RBI requirement of 15%. Where we have to provide 25%, we were providing 40%, now we are providing 50%. We have recently amended the accounting policy to increase the provision for doubtful account on completion of one year in doubtful

category to 100%, So, as per our provisioning policy we should be in a position to write off the amount in 3 years from date of NPA. Because of this tightening done during the current quarter, we have taken an additional hit of Rs 36 Crores. In the proforma NPAs, around 80 Crores is from the other loans and around 130 Crores is from the gold loans. Out of 130 Crores, 40 Crores is already closed. However we have provided 25% provision on this 130 Crores also as a uniform policy. So, there is enough and more provision available. As far as SMA, as I said, it used to be above 600 Crores for the last December, which has come down to 300-odd Crores during the current quarter. So, there is improvement on the SMA, which includes the 1-day default also; SMA 0, SMA 1 and SMA 2 together, and we have provided 25% on all these accounts. So today, our excess provisioning is about 277 Crores, over and above what the RBI requirement is.

Haresh Kapoor:

The question was where does the credit cost settle going ahead?

C VR Rajendran:

Not because we identified more stress in the portfolio. I told you what the stress is, and compared to 600 plus Crores last year, we have only 300 plus Crores in SMA book today. Because of the uncertainty surrounding us, we thought we will take a cautious call and we have provided more. If there is no second round of COVID coming up, and if the businesses are back in the normal mode, then probably these provisions will get reversed in the next quarter or the first quarter of next FY.

Haresh Kapoor:

That is great, Sir. Sir, if you had to take a normal slippage this quarter, what would that annualized slippage number be?

C VR Rajendran:

That is what I said. 80 Crores for the non-gold and 130 Crores for gold. Together it is about 210 Crores.

Moderator:

Thank you. The next question is from the line of Nalin Shah from NVS. Please go ahead.

Nalin Shah:

At the outset, Sir, I would like to congratulate for the excellent numbers right from Q1 up to Q3 and for the 9 months, excellent numbers. Sir, there are 2 questions. One is that you have provided excess provisions, as you explained I just wanted to understand when will you take a final decision on write back of this provision? Or how do you do that? My second question is that your retail and SME team and the products are getting ready to be launched, I mean, in the last quarter. So hopefully, I think last quarter should see that, and particularly the next year should see the much greater, I would say that the business opportunities from those 2 businesses also. So, can you throw some light on the growth potential or growth projections for the next year also?

C VR Rajendran:

SME has started growing. As I told, number of fresh proposals has increased. Quite a few sanctions have been made. They are all in the pipeline. Only the retail is yet to pick up. In

this uncertain market, we do not want to jump into unsecured loans in a big way. That is why we started with the LAP today, and going forward, we will introduce the other products depending upon the market conditions. Agri and MFI, MSME and Two wheeler portfolios are growing; but these businesses contribute to the volume growth in a small scale only as they are all small ticket loans. They will contribute to the profitability, but they will grow over a period only. SME will contribute to the growth during the current year and we are seeing some pickup in demand coming from the corporates also. So, gold will continue to grow, but as a proportion, gold will go down over a period. As far as the provision reversal is concerned, we do not have a definite timeframe within which we will reverse the provision. It all depends upon how the situation evolves. There is no certainty coming about the COVID situation; if the repeat attacks are not there, and if everything is opened up, if the industry becomes normal, we will assess from our repayment track records and the slippages which are happening. So, if that is happening, then we will reverse it in that quarter, but gradually, we will reverse it over 2, 3 quarters.

Nalin Shah: Thank you.

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

Mona Khetan: Good evening. Thanks for taking up my question. On your SMA accounts, where you have mentioned you have 367 Crores. That includes the entire book or just accounts, 5 Crore and above accounts?

C VR Rajendran: Entire book other than gold loan.

Mona Khetan: Sorry, Sir, I did not get you.

C VR Rajendran: Entire book other than gold loan is included.

Mona Khetan: We have seen that your CD ratio is improving.

C VR Rajendran: Yes. CD ratio is improving quarter-on-quarter.

Mona Khetan: Right. So now it is at 80%, which is at par with industry, so what is the kind of CD ratio that you would be comfortable with? Is that peaking out? Or is there scope for further improvement in that?

C VR Rajendran: Today borrowing seems to be much cheaper than taking deposits in the market. So, if you go through the borrowing route, you can improve your CD ratio further and anyway, ideally, CD ratio should be around 85%, which we would like to maintain on an ongoing basis.

- Mona Khetan:** Okay, and on these standard asset provisions of 145 Crores that you have, contingency provisions, how much of this is also used up in your pro forma net NPAs?
- C VR Rajendran:** 210 Crs is our proforma NPA amount and we have provided 25% for these accounts.
- Mona Khetan:** Right. So those provisions, is that included in the 145 Crores?
- C VR Rajendran:** That is included there, 52 Crores is included there,
- Mona Khetan:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijith Vara:** Thanks for taking my question. First one I wanted to check, you had mentioned SMA 0, 1, 2 of 367 Crores, and there is also a number given in presentation, other standard stressed accounts of 381 Crore. I just want to clarify this SMA accounts are included in the 381 Crore number, right? I am referring to Slide 27, where you have mentioned.
- C VR Rajendran:** Yes. It is included.
- Abhijith Vara:** Second question, Sir, I wanted to ask, I know you do not have any unsecured loans, but in the standard stressed accounts of 380 Crores, is there any unsecured loans or most of it is secured only?
- C VR Rajendran:** 95% of it will be secured. Maybe some security deficiencies maybe there, instead of 100% security, some may have a partial security. Otherwise, all of them are secured loans only.
- Abhijith Vara:** Sir, what is the LGD expectation on this stressed account, 380 Crores, LGD expectation?
- C VR Rajendran:** We do not expect much losses. As I told you, last year SMA was 600 plus Crore, now it has come to 300-odd, so not much will slip in this, in my opinion, as the situation is improving. There are delays because of the cash flow problems, which the companies are facing today, but we are seeing that many of them have a delayed payment record. So, we do not think anything to happen if the situation improves, but if second lockdown comes, few of these accounts might get into NPA. There is a possibility.
- Abhijith Vara:** Moving on, my next question, Sir, is on the employee cost. Employee cost in Q3 has gone up to 127 Crores per quarter. It used to be about 80-90 Crores per quarter, and then it has inched up in Q2 and Q3.

- C VR Rajendran:** We have recruited more than 600 people for various positions and we are paying for them. The businesses are yet to pick up and second thing is for the pensioners, we have to buy DA in line with increase in CPI inflation.
- Abhijith Vara:** Sir, just one more question on the employee part. This VRS will be concluded in how many months Sir? What is the expectation?
- C VR Rajendran:** By March, we have to conclude. We are giving only 15 days time for them, and in the next 15 days, they can be relieved.
- Abhijith Vara:** Last question is on the gold loan portfolio. I think gold exposure was still 40% of total portfolio. Now you have to necessarily slow down, right, gold loan growth?
- C VR Rajendran:** We will not slow down the gold loan growth. We will increase the growth of the other products so that as a proportion, gold loan will go down. I think this is only about 6000 Crores. There is a big public sector bank, which has 70000 Crores of gold loans, so gold loan is a place to be in today. There is no need to tamper down the gold loan and our track record is good. Our audit inspection system is good. Our loss due to fraud and other misappropriations is only around 0.1%. So, we are managing it well, and even though in percentage it appears to be high, in the volume, it is very less, even compared to many local competitions. So, we will continue to grow gold if there is an opportunity, but the only thing is the proportion may come down as we start growing other portfolios also.
- Abhijith Vara:** Congratulations on improvement in cost of deposits, very commendable improvement, sequential and year-on-year also. So, any trajectory you will have in mind, Sir, where will this cost of deposits settle?
- C VR Rajendran:** Cost of deposits, we may not be in a position to maintain low forever because if the liquidity gets drained, naturally, the cost will go up. There is another 4000 Crores of deposits, which are getting re-priced during the next 6 to 8 months. Probably we will get the advantage in the next quarter, but it cannot be sustained beyond the fourth quarter, and deposit costs will go up as the liquidity comes down.
- Abhijith Vara:** Thank you. Very commendable performance on the cost of deposits. Congratulations. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Good evening. I hope you are safe in the pandemic and now the VRS thing that you are doing. Sir, I just missed the number, how many employees you said were deemed for the VRS?

C VR Rajendran: The eligible employees are 223.

Susmit Patodia: Sir, just taking from the question on gold loan. There is this RBI paper on NBFC and some size restriction may come through. I mean that is what the expectation is. If that happens, then it may further improve your gold lending opportunity. Is there a maximum ceiling that you will have, even if the opportunity is bigger?

C VR Rajendran: To be frank, the competition has also increased. I have not seen public sector banks in such a big way in the business in the past, and their rates are very low. Gold loan companies are also equally strong in the field. Their growth is also good. So, it is not easy to get the market share, but we will continue to work on improving our market share. So, I do not have any discomfort in the gold loan growth as such.

Susmit Patodia: No, but I am just trying to understand, will there be like, you will say not beyond 50, not beyond 55.

C VR Rajendran: Board had comfort up to 40% and we are at 40%, Actually we were expecting much growth on the other side, which has not happened yet, but it will definitely happen in a few months time and we don't expect the gold loan proportion to go up significantly from the current level.

Susmit Patodia: Sir, just one more question on the employee cost, you said 28 Crores is for pension provisioning. So, the net of that, the 100 Crore employee cost is the number that you will be comfortable with? Because that now includes all the top management hires that you have done, right?

C VR Rajendran: We are hiring a lot of new people. So, the employee costs will go up in mid term, maybe for the next 1 year or so. The contributions will come later. As a percentage, it will come down after a year or so.

Susmit Patodia: Got it, and Sir, in your presentation, in your strategic initiatives, you do not mention M&A. But there is always a lot of news articles about how you will be in the core center of M&A. So, I just wanted to hear your thoughts. Are you amenable to it? Or is there enough on the plate and even if you are amenable, what are the kinds of things that you will look?

C VR Rajendran: . We are not looking at it at this point.

- Susmit Patodia:** Sir, last question, somebody asked this question again. In your presentation, Sir, you have put a standard stressed account, right, which is put in at 381 Crores. Does this include the SMA 0, 1, 2 or this is separate?
- C VR Rajendran:** It includes SMA 0, SMA 1 & SMA 2, all stresses excluding gold SMA
- Moderator:** The next question is from the line of Ravi Singh from Motilal Oswal Asset Management. Please go ahead.
- Ravi Singh:** Sir, what is the loan book which is restructured under the RBI guidelines for COVID-impacted borrowers, in the quarter ending December?
- C VR Rajendran:** No corporate account was restructured during Q3. Small SME accounts and some personal loans are coming. About 13 Crores is the addition which we have made during the current quarter.
- Ravi Singh:** Sir, anything on the gold loan side? Any restructuring due to COVID impact?
- C VR Rajendran:** No. No Gold loan restructuring
- V Ganesan:** Personal loans, for example, the school teachers, they are getting variable salaries. They want some minor adjustment in the repayment program. That is what we are trying. No major rescheduling is taken.
- Ravi Singh:** Okay, and Sir, just to be clear, the additional provisions are part of your PCR calculation? Or are they additional to the PCR calculation?
- C VR Rajendran:** No, they are additional to the PCR. 91% does not include this additional provisioning, which we have made on the stressed assets. Of course, accelerated provisioning what we are doing on the NPAs, that is included in the PCR, but what we are making for the COVID and the proposed NPAs is not included in the PCR.
- Moderator:** Thank you. The next question is from the line of Srishankar from InCred. Please go ahead.
- Srishankar:** Good evening Mr. Rajendran. Congratulations for a good set of numbers and continuing the good job that you have been doing for quite a long. My couple of questions if I look at your performance, especially for the yield perspective, that has been consistent and you have been able to maintain the yield while the cost of funds is on the decline. Thereby, your NIMs have got an expansion. Do you think these NIMs have peaked out? Or you will be able to continue with these NIMs yet again? That is my first question.

C VR Rajendran: I do not think NIM can be maintained at that level for long. Our commitment is to maintain it above 4%. When the corporate portfolio grows, when the SME portfolio grows, it grows at a much lesser rate. So, when the overall volume growth happens, necessarily, this will come down. Similarly, on the deposit side also, we were not on a growth mode. We were not taking term deposit at all. So, we were quoting lower than the market. We were not keen on getting deposits till now as we had excess liquidity. Now the excess liquidity has completely dried out. If you are to grow further, if you have to attract deposits, probably we may have to offer a little more. So certainly, NIM will come under pressure, may not come in a single quarter but gradually, it should come down. Our effort has been always to maintain above 4%.

Srishankar: Okay, and if I take a step further and look at it, you would be having at, what, 5.17% during the quarter. So above 4% is the target place, and that is what you are looking at. Now coming back to your corporate portfolio, you mentioned about one corporate probably repaying the loans and kind of a scenario that you are developed. You have been aggressive in letting go some of the clients or some of the accounts, where you think it is not what you want to deal with. With the new people coming on, when do you think that will start having an impact or an effect in your entire book going forward?

C VR Rajendran: So, this has been a major challenge for us. We always feel risk is not priced correctly when there is excess liquidity. Even during this quarter, I lost a major SME account with me, which was with us for the past 35 or 40 years. Leading private sector bank has come in and offered the rate, which is 2.5% less than my rate, with a BB account, I do not find any sense in retaining the account at that rate. So, this is not one case., but there are many such cases where the re-pricing request comes because competition is willing to take it over at a much lesser cost. So, we do not go for a price-based competition. I am flexible on the pricing, but I must understand what is the risk behind it . If the risk is not properly priced, I would not like to be in the business. That is how we lose SME clients. SME portfolio was about 4000 Crores when I started the business, now it has come down to about 2000 Crores only because all these kinds of accounts were weeded out by the exit policy and by the pricing policy. So still, we are getting a lot of proposals at our price, at our acceptable rates. It is how we would like to grow. Growth for the sake of growth will not happen.

Srishankar: So, what is the bank's estimate in terms of growing of your book over the next 12 to 18 months? What is that, and have you got any target or benchmark in terms of the industry growth plus 5% or whatever it is? Because we are one bank which is comfortable on the liquidity side, on the capital adequacy side, there are no issues with us.

C VR Rajendran: See, we must grow minimum 25% year-on-year. That is our target. It will happen from next year onwards. In the current year itself, we may do that. Considering our low base and the

skill set which have brought in, the growth should not be a challenge. The new team is also setting up the processes in place, systems in place, people in place before launching the businesses. That is the right way to do. If the market is not very conducive, we will wait for that environment change. Once we start growing, minimum 25% and it can be much above if the opportunities are there and if everything is in place. I expect a higher growth rate in the years to come.

Srishankar: Thank you very much. All the best to you.

Moderator: Thank you. The next question is from the line of Kamal Merwani from OAKS Asset Management. Please go ahead.

Kamal Merwani: Congratulations, Sir, on very good set of numbers and continued strong performance for the last 3 quarters. My question, you know, firstly is on the financial impact of the envisaged VRS scheme if you could just throw some light on that.

C VR Rajendran: We started the journey with about 2700 IBA employees. We got it down to say 1600. This is the last batch. The remaining employees are young, energetic and well educated and computer savvy. There will be considerable improvement in the productivity. Financial impact is not much and additionally, it is only about 80 Crores – bulk of which only acceleration of retirement benefit costs which any way we would have to incur on their usual superannuation date. And this amount is when all the targeted people opt out, which we do not expect. We will be in a position to take it upfront in the next quarter. We will have the comfort to take it.

Kamal Merwani: Okay. So, my next question is a little bit on the strategy side. There are a couple of famous gold loan NBFCs that tend to grow faster than the rest of the market including the banks, including CSB Bank as well. Considering the cost of funds and hence, the pricing of these loans is much lower than the NBFCs, what is the reason driving that banks tend to lag behind in terms of growth vis-à-vis the NBFC, excluding the operational issues that some of these NBFCs actually go home and disburse loans, which is very important in the social construct in Kerala and Tamil Nadu?

C VR Rajendran: That is mainly because of the delivery, the turnaround time and the salesforce. We have these things now with us. We have the salesforce, which has come from gold loan companies. Many of the gold loan businesses in many branches are managed by gold loan officers who have come from gold loan companies. Salesforce has also come from the same group only. So, we are almost like NBFCs in the delivery. So that is why we are able to grow much faster than other banks. Of course, interest differential is high when compared to the public sector banks, but we are still cheaper when compared to the NBFCs. Once this message is reaching the people, not only the NBFCs, even the private money lenders

business, we will be in a position to take it up. There are new branches, which we have opened during the last 1 year, where within a year, they have done more than 20 Crores business. So those kinds of growth stories are also there. Its all about reaching out to the customers and aggressive marketing is not a culture in the old private sector banks. Slowly it is coming in along with the new people and also if the old people move out on VRS, that will also expedite the growth when compared to other banks and NBFCs.

Kamal Merwani: Any plans to hire brand ambassadors to promote this business? The popular NBFCs that I spoke about are hiring big ticket celebrities from movie industry, both Bollywood and from South.

C VR Rajendran: If you hire a brand ambassador of regional importance, we can hire only in Kerala. In all other states, we have only minimum number of branches. Anyhow, we are increasing the number of branches very fast. We are opening 100 branches during the current year. We will assess the performance of these branches and if it is good, we will go ahead. As per our plan within 4 years, we must have about 1000 branches. Once we have reasonable presence in the states where we are operating, then we can launch the product with a brand ambassador, probably the impact will be better. That is what we are seeing. Otherwise, as of now, our advertisement expense is very low.

Kamal Merwani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.

Mihir Ajmera: Thank you. I just had 2 questions. One is write-off portion of around 134 Crores. Could you just like give some detail on which segments?

C VR Rajendran: Write off of fully provided accounts is done without any impact on the P&L. Normally, we do it every year.

Mihir Ajmera: Secondly, just on the gold loan, obviously, is growing at a very good pace. So, are we seeing any signs of market share gains from NBFC?

C VR Rajendran: We are still a small player. Our size is very small. We are not after anybody's market share at this point in time.

Mihir Ajmera: Thank you.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

- Jai Mundhra:** Good evening. Thanks for the opportunity. Sir, first, one clarification, then I will come to the questions. First is around restructuring, you had mentioned that you have received around 13 Crores as a restructuring request, but of the stressed book, right, which is the pro forma GNPA plus other stressed account of around 590 Crores, do you suspect any restructuring cases from this? I mean just to understand what the potential restructuring could be.
- C VR Rajendran:** May be 2, 3 large accounts are there. The largest account is about 28 Crores, which is always paying with 2-installment delay. There is a consortium account with other banks also. If the consortium gives a rephasing, we may have to go for it. May be like that, there are 2, 3 accounts in consortium, which may opt for it. At this point of time, neither the consortium has agreed nor have borrowers approached us so far. So, if it comes, we will consider, there is no issue on it. If there are cash flow issues and if future viability is proved, we are for restructuring any account.
- Jai Mundhra:** But Sir, it is safe to assume that now, even if the corporate wants, it cannot be restructured right, under the RBI window?
- C VR Rajendran:** It is okay. See basically it can be done by the bank on its own.
- Jai Mundhra:** But in that case, you may have to downgrade the asset first, if you do outside the RBI window?
- C VR Rajendran:** We will take it
- Jai Mundhra:** So just to get it clear, right?
- C VR Rajendran:** We are open to the idea. If it is a deserving case, we will definitely do. See, for example, resorts and the educational institutions are suffering a lot today. Most of educational institutions, even though they are conducting online classes, they are not able to collect the full fees. The teachers are paid half the salary, So now teacher's accounts are rephased. The educational institutions account may have to be rephased going forward as the fees collection is not happening as expected. Similarly resorts; Kerala tourism is affected to a large extent. So the bus operators, the resorts, all these things may come for rephasing over a period, which we will consider, but our exposure is very negligible on all these areas.
- Jai Mundhra:** Sir, actually, if someone wants to look at the stress pool at this point of time, and I think you have given details mentioning that 1 is the pro forma number which is 210 Crores, and then you have also put together all standard stressed accounts which is 380 Crores, right? So, the potential restructuring should be from this pool only, let us say, by and large, and

then the SMA number that you had shared, 367 Crores, that is also part of this pool only, right?

C VR Rajendran: 367 Crores includes one day default also. About more than 200 Crores is only from SMA 0, okay, which will be regularized. With some delay, they are all remitting. So, I do not think that major accounts will slip in this category. As I told you last December, this number was more than 600 Crores. It has come down to 300-odd Crores during the current quarter. There is a substantial improvement year-on-year, but as the situation is bad, we want to be cautious, nothing more. There is no indication in the account that this is likely to become NPA in the near future.

Jai Mundhra: Right. So maybe outside of this 200 Crores, the rest you would have taken in standard stressed accounts. Is that what you mean, Sir? I mean, when you have given the 380 Crores number? This will probably be not SMA 0, but SMA 1, 2?

C VR Rajendran: No, it is SMA 0 also. This includes SMA 0, SMA 1 and SMA 2 other than gold. More than 50% is only SMA 0.

Jai Mundhra: That helps, and second, Sir, if you can talk about the FITL quantum in the 2000-odd Crores SME book that we have and the ECLGS money that we would have disbursed or sanctioned?

C VR Rajendran: Sanction wise, around 150 Crores, we have sanctioned, but availment is about 100 Crores now, and FITL is 12 Crores I think? Very negligible number. Maybe 10 Crores, 12 Crores, nothing more than that.

C VR Rajendran: 35 Crores is what we have done to start with in September, but all of them are to be repaid before March and most of them are paying as per the schedule.

Jai Mundhra: All right. Sure, and Sir, just on SLR portfolio, now is this the right reading that the yields are 10%, 11%?

C VR Rajendran: Non SLR portfolio

Jai Mundhra: Non-SLR. Sorry, Sir.

C VR Rajendran: Non-SLR is right, true.

Jai Mundhra: So, what explains this, such high yield, Sir?

C VR Rajendran: See, one leading private bank was available at 19% on the Franklin Templeton Day and other bank bonds were available at 11% plus. We bought it on the day. So, the yields are very high.

Jai Mundhra: Okay. Great, and the last question, Sir, probably on the retail side, retail asset strategy, and so, we are launching new products, and I think we have also, in your commentary, you have suggested that probably you are going ahead with secured product first, starting with LAP, but if you can give some 2, 3 years kind of a roadmap as to where, I mean, how the strategy would work out in terms of the origination? I mean the sourcing, the branch, I mean, the state wise, where would it be? And probably the size, I mean what could be this number maybe 2, 3, 4 years down the line?

C VR Rajendran: Whole team in Bombay is waiting for this question, okay? So, I will let Pralay answer this.

Pralay Mondal: Thank you for your question. I think you are talking about the retail growth and the retail perspective for the next 2, 3 years. So, when we look at retail, it is just not assets or liability. We have to look at the customer franchise growth, and along that, both liabilities, fees and assets all will come. So, the way we would put the strategy together is that we will put a very strong acquisition engine around the branch distribution to acquire more customers. In parallel, as Mr. Rajendran just said, we will, in addition to the SME LAP, etc., which we will do immediately, some of the other products, channels, distribution, manufacturer tie-ups and also even for credit cards, we will have tie-ups at this stage until we launch our own product, and on the wealth side of the business, we will also work both for mutual funds and insurance, anyhow we have tie-ups. So, all of this, when you have full suite products to the customers, then you will get larger share of the wallet of the customers. So as of now, immediately, we are doing very well on gold loans. We will grow the SME and the LAP and some of these other businesses. Agri, MSME, 2-wheelers, etc., that is growing in terms of numbers, but when you look at the larger asset growth, that will only happen when you have the home loans and the vehicle loans and those other businesses. But those are franchise business, and those franchise business will only happen when you have the right customer set and when you have the right distribution and channel partners. So that is the plan. We are putting those processes. We need to create the right technology processes, straight through process, engineering and everything like that and operations, etc. So those are the kind of building blocks we will create in the next 1 year, and after that, those businesses will start scaling up. So that is broadly the plan. I cannot comment exactly on our numbers, but obviously, the value and the volume will come primarily through SME, LAP and those kinds of products and the rest will get build over the next 1 or 2 years.

Jai Mundhra: That helps. Thank you so much.



CSB Bank Limited
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Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

C VR Rajendran: Thank you for making this. It is an extraordinary difficult year for all of us but managed to do reasonably well. We are very conservative in our policy; Most of the provisions made are slightly overcautious provisions. I am sure over a period when there is more clarity on the asset quality and the economic performance, we will be in a position to reverse a substantial portion of it and we will strive hard to live up to your expectation quarter after quarter. I hope that we have fulfilled the promises so far, whatever we have made. We will continue to do so in the future. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of CSB Bank, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.