"CSB Bank Limited
Q3 FY2025 Earnings Conference Call"

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MANAGEMENT : **MR. PRALAY MONDAL**
MANAGING DIRECTOR & CEO - CSB BANK

MR. B.K. DIVAKARA
EXECUTIVE DIRECTOR - CSB BANK

MR. SATISH GUNDEWAR
CHIEF FINANCIAL OFFICER - CSB BANK

ANALYST : **MR. SHIVAJI THAPLIYAL**
YES SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to CSB Bank's Q3 FY25 Earnings Conference Call hosted by YES Securities.

As a reminder, all participants' lines will be in 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. Shivaji Thapliyal from YES Securities. Thank you, and over to you, sir.

Sivaji Thapliyal: Thank you, Sejal. Good evening and a warm welcome to all those who have joined the call.

The CSB Bank Management is represented by Mr. Pralay Mondal – Managing Director and CEO; Mr. B. K. Divakara – Executive Director and Mr. Satish Gundewar – Chief Financial Officer.

We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their result call. The management will first be making some opening remarks, after which we will throw the floor open for questions.

I will now invite the Management to make their "Opening Remarks". Pralay, over to you.

Pralay Mondal: Thank you, Shivaji, and good evening to everybody on this call.

This is regarding the Q3 performance of CSB Bank. Before that, let us see the economic scenario, especially because the world is a volatile place right now, especially in terms of financials. Just a quick summary of what we think is the global scenario. After the US election results, markets globally have reacted to a stronger dollar and probable sanction on US imports contributing to inflation. A concomitant sell off has happened in Indian equities by FPIs. The resultant depreciation of the INR, along with the RBI's efforts to contain volatility, has caused a rupee liquidity deficit. The RBI has already taken necessary steps to address this, including a 50 bps CRR cut in two phases earlier and the announcement of OMOs, longer-term VRRs, and INR swaps yesterday to inject durable liquidity into the system.

The RBI has revised its growth estimate in the last few weeks to 6.6%. While the MFI space shows signs of overheating, rural and government consumption are picking up. Cooling inflation, at 5.22% in December, gives the RBI and the Ministry of Finance room to take further steps to inject liquidity and boost economic growth.

Under the circumstances, the chances of the RBI cutting the repo rate are evenly balanced. With the new US President and the Dollar Index at an all-time high, we expect pressure on emerging market equities and currencies to continue for some more time. However, with the recent steps taken by the RBI and its intent to address liquidity issues, we expect liquidity to improve this quarter, along with continued softening of yields.

Coming to key highlights of CSB's specific performance for the quarter, on the profitability front, net profit of Rs 152 Cr for the quarter, marginally up YoY and improved by 10% QoQ. Operating profit of the bank is Rs 221 Crs with a growth of 13% and 10% on a YoY & QoQ basis respectively. Other income registered a 75% growth on a YoY basis and 10% on a sequential quarter basis. Other income constituted ~19% of the total income, which is a significant improvement from what the bank used to do two years back. Cost to income ratio marginally improved from Q2 FY 25 level and is at 62.90%. It was around 65% in the previous quarter. NIM could be sustained above 4% both on a quarterly and on YTD basis despite the tight liquidity conditions and higher interest rate cost looming large in the system. NIM for the quarter stood at 4.11%. RoA stood at 1.52%. Bank is holding the contingency provisions intact and is continuing with the accelerated loan provisioning policy. We can talk about it a little more during the Q&A session

On the liabilities, we know that market is going through difficult situation due to the tight liquidity conditions. We have a robust deposit growth of 22% YoY amidst a slow-paced industry growth of around 10%. CASA grew by 7% YoY and the CASA ratio stands at 24.07%. We complimented our funding with FCY borrowings and Refinance based on cost considerations, which helped us in maintaining LCR at comfortable levels. We ended the quarter with an LCR of over 130% as on 31.12.24 & 119% on an average basis, which is marginally higher than the previous quarter.

On the asset growth, Net advance growth of 26% YoY – Higher than 2x times over Industry growth of 12 % YoY. Gold portfolio registered a growth of 36% YoY and Other retail by 32% SME growth has been steady at 29%. On the corporate side, we have started to pick up very well and our core corporate book recorded a growth of over 30%. However, the overall WSB growth was at 5% mainly on account of the liquidation of DA portfolio and few exits we opted for as part of our coverage strategy/risk appetite. The increased disbursements that have started in the core corporate book will show up in the top line during next quarter and the coming financial year. Between gold, retail, SME and core corporate book, all segments are showing organic growth pretty well.

On the asset quality matrices, slippages have been contained effectively and recorded lower NPA ratios sequentially over September quarter. GNPA & NNPA ratios for the quarter was at 1.58% and 0.64% as against 1.68% and 0.69% for Q2 FY 25. PCR now stands at 60.12% without PWO, which is marginally higher than the previous quarter and we would like to take it to 70% plus eventually. Bank is holding a provisioning buffer of about Rs 181 Crs, over and above regulatory requirements. We continue to hold the provision of Rs 106 Crs, which we created during the Covid period and later moved it to contingency provision. A large chunk of that- Rs 34 Crs- was mapped to one large account, which we now exited, however we still hold the provision as against other accounts and that is the conservative approach that we take.

On a capital base, our CRAR is at 21.08% and Tier-1 ratio is 19.73% - this will improve when the profits are reckoned at the end of fourth quarter. We have low proportion of risk-weight assets compared to industry, which is marginally higher than 40%.

On the shareholder value creation side, book value per share is at Rs 236, EPS for the quarter is Rs 34.68 and ROE is at 15.28%. You can see that most of the guided parameters other than NIM, we have in a way achieved all the ratios/numbers this quarter.

On the distribution front, currently we have a network of 807 branches and 777 ATMs. We have added 34 new branches till 31.12.2024 and as part of the branch rationalization merged six branches during the year. The rest of the branch expansion as planned will happen this quarter.

In conclusion, I would like to say that we had a decent quarter both from a deposit and advance growth perspective- registering a growth of almost 2x times over the industry. Though the advance growth outpaced the deposit growth, the gap was effectively bridged through diversified funding sources such as FCY borrowings, Refinance etc. We are well placed in terms of the liquidity/capital ratios and have sufficient room for further growth.

Coming to profitability, while our NII growth is relatively flat, the operating profit grew reasonably well both on a YoY and sequential basis. Other income recorded a robust growth of 75% on a YoY basis and other income to total income share improved by 5% to 19%. Net profit recorded a growth of 10%

The proactive decisions taken in terms of slowing down the growth in unsecured loans, MFI etc is helping us with a minimal impact compared to industry on the Asset quality front. Our NPA ratios are lower on a sequential quarter basis.

We have been generally able to hold on to our guidance on growth, ratios and asset quality and this can be taken as an indication that our compounding execution story is playing out well as per the SBS 2030 vision.

In the current quarter, the credit growth will be largely dependent on how the liability growth evolves. For smaller players like us, where the deposit franchise is yet to be fully built and we are working on it, the deposit mobilization at reasonable costs will have to be over managed and we have clear action plans there.

On the tech transformation side, FY 26 will be a big year for us because post this, we will almost have nothing left in terms of transformation within the bank and will move from a very average tech capacity to a probably best-in-class tech capacity during the FY. A lot of work is happening on this front. Last time, our CIO, Rajesh, had given a briefing on this on the call. If you have any questions, we would be happy to answer on that front, but we are completely on track in terms of what we want to do.

Our CBS migration along with OGL, OFSAA and some of the other pieces, which we are putting together, will be expected to be completed in Q1 FY26 stabilized by Q2 FY26 and leveraged from Q3 FY26 onwards. This is a big development for us and we are all excited to look forward to that.

Our distribution strategy is working well. Once the products and processes stabilize post CBS migration, the distribution would look at leveraging more opportunities leading to granular growth, helping the bank to deliver consistently in line with the stakeholder expectations. As we talk, we have also started planning our retail assets franchise. This is the one franchise, which we deliberately did not pick up so far. A-because we saw the markets seeing some stress. B is because we are not fully ready in terms of liability acquisition, the entire eco systems and processes have to be in place. Now that we have visibility of the tech piece, tech transformation in the next 6 to 9 months, we have started our retail assets transformation journey now, which will be visible in the next one year, and we can talk about it as we go through the call.

With that, I hand over the call back to the coordinator. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: Thanks for the opportunity and congratulations on a good set of numbers. Couple of questions. Sir, on the yield side, so on a QoQ basis, if I see your yield has fallen by around 15 to 20 basis point and this is despite the growth being higher on the QoQ basis on the non-corporate segment on gold loan and your retail loans. Your gold loan yield is anyway much higher than your overall blended yield. Sir, what is causing this fall in yield on an overall basis, if you can explain?

Pralay Mondal: Thank you, Suraj, for your question. You are right that the growth in gold loan has been 36%, which is higher than the bank growth, which is 26%. At the same time, we grew on retail as well as in SME, reasonably close to either 30% or higher than 30%. I think the critical part is wholesale, if you take out the DA portfolio and take out the LCBD and the one or two accounts, which we exited, which were high-yielding, then they have grown by 30%. What it means is that we are now looking at low risk businesses and hence necessarily need not be very high yielding business- especially in a cycle like this where we want to be careful. If you look at the details of our assets book, degrowth has happened in 3-4 products, which are all high-yielding products viz, Two-wheeler, Personal loans, Agri, MFI etc. Unsecured portfolio, we have degrown big time. All these businesses are somewhere, anything between 12% to 16% kind of a yield or may be even higher. Given that perspective, we decided to de-risk our portfolio around a year back, and that is accelerating as we are going, leading to some of the high-yielding portfolios moving out. In wholesale, one account itself that moved out was more than Rs. 200 crores, which was yielding us anywhere close to 13%. It was not an NPA & we were earning well. However, as a de-risking strategy, we have moved that portfolio out. When you look at all this, the prudent call, which we are taking, be it retail, be it gold, be it SME, or even in SME, our yields have remained kind of a similar as it was before. We are playing in that range where 90%- 95% of our incremental portfolio is yielding between 8% to less than 12%, including gold where the yield is little less than 12%. That is a conscious strategy indicating that yield maximization or NIM maximization in an environment where there is enough risk in the system is not prudent. Based on our board guidance, we are looking at businesses, which are long-term franchise building and just not NIM accretive. That is the reason we have done this. However, yield has gone down slightly across all the products. More importantly, the NIM compression has also happened because of higher cost of funds and because of that penal interest impact where we lost around 25 basis points and that continues every quarter. While we are getting part of that as penal charges and accounted under other income but that is more or less the reason. In spite of the fact that things are not that positive in the environment, we have managed a 4.11% NIM at this point. I think we are quite happy with this risk-averse kind of strategy, which we have played out.

Suraj Das: Sure sir, thanks for the elaborate answer. In addition, sir, on the gold loan piece, in terms of reporting numbers, have you changed any classification? Because last time PPT versus this time PPT, I think in terms of numbers of the gold loan vertical and retail, I think there has been some reclassification in terms of numbers, both on AUM and disbursement numbers. So, I mean, has there been any reclassification? Then if you can explain that also.

Pralay Mondal: There has been no change compared to last quarter. Some changes we had made in the previous quarter because of regulatory and other reasons. We had moved a business of around Rs. 1,600 crores from Gold loan to loan against securities and we had disclosed that in the call and various conversations. There also the collateral security is fully backed by gold only.

Suraj Das: Okay, sure. Now I was actually looking at Slide #17, which is the disbursement number. I think last quarter in the Gold loan vertical you mentioned that Rs. 6,944 crores was the disbursement. But this quarter, I think Q2FY25 number has been reclassified to Rs. 5,752 crores. So, second quarter number I am saying.

Pralay Mondal: That could be on account of that LAS reclassification that we did last quarter. Probably in the disbursement, we might have changed it this time

Suraj Das: Sure. And sir, is that the reason that of this, number of accounts in the gold loan business also fallen from earlier reported number of around seven lakh to now 4.8 lakh? Is that the reason also?

Pralay Mondal: Quite possible. Reclassification of LAS could be the reason.

Suraj Das: And last two questions sir, one, just a clarification. This CRAR number does not include the interim PAT, right?

Satish Gundewar: For the first three quarters, it is a limited review by the statutory auditors. The annual statutory audit gets over at the end of the year and is signed off. Once the annual audit is completed after the fourth quarter, the profit number will be reckoned for the CRAR computation.

Suraj Das: Understood and the last clarification is in the contingency provision that you were talking about 100 odd crores is that included in the PCR or that is over and above PCR?

Pralay Mondal: Contingency provision is not considered in PCR. We could have easily moved that Rs 34 crores into normal provisions and could have taken the PCR benefit. We said that let us retain it and be risk averse. We will add more accounts to the list if necessary, in future. That is the way we have managed it.

Satish Gundewar: The contingency provision is against standard advances. It is not against NPA. Therefore, we cannot take it in PCR.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Capital Investment Advisory LLP. Please go ahead.

Sonal Minhas: Hi sir, this is Sonal Minhas. Good evening, sir. Hope all is good. I wanted to understand the behavior of customers in an increasing gold price scenario. So, typically, as these products, the gold product is low in tenure, what happens for loans which basically reach their termination in an increasing gold price scenario. Do typically customers prepay the loans and they take a new loan for a higher cover and how do you handle LTV for these kind of loans? Just trying to understand that as we speak.

Pralay Mondal: I think it is a great question. There are all kinds of behaviors. In a retail scenario, not everybody does so much of calculation and does things like that. Typically, what happens in a gold price rising scenario, some part of the LTV starts coming down, as we have been taking those loans when gold price was low. In one such scenario, our LTV had moved down from 74% to 70%. It proves that obviously not all customers does that because LTV is going down as gold price is going up. At the same time, there will be some customers who will open new account to take benefit of the LTV by closing the existing one. There are a few customers like that and we have no problem with that because once they are opening, we will get a processing fee again. They are willing to give that because they are getting a higher LTV. Even if you say no to it, they will go to the next branch and do it from another bank. We do not have a choice. We have to do this. There is a third category- where they sell the gold. They take it away. The reason is that they see the maximization and would like to capitalize that. When I see a sudden spike in gold price, I sometimes see that we lose some customers, or some takeout happens from the portfolio itself. All these things happen. Not necessarily when gold price goes up, business goes up immediately; it goes up after a while. Initially, sometimes it falls as well, which means that some customers exit. The fourth type of customers are those who are on the higher LTV band and we exit them making use of this opportunity. Suppose somebody is in an 85%, 90% bracket, we also exit them so that we can bring down our LTV. Like this, a combination of 4-5 things happen concurrently. It is a very dynamic scenario. In general, with gold price going up, LTV comes down.

Sonal Minhas: So, what would be your BT-out equivalent like in the current quarter or in general, when gold prices are up like what would the number be?

Pralay Mondal: I do not have that number and sometimes we will not even know BT because it is not like a BT where people will come and take it out like that. They will just take the gold and go. Whether he is going to another bank or he is selling it, he is consuming it, we do not know. However, generally in both scenarios our renewals are similar. We have not done that kind of analysis of how much is BT-out, as it is very difficult to do that. It is a very physical business. We do not know which one is BT and which one is actual closure.

Sonal Minhas: Got it, sir. And any guidance on LTV as we speak? Because just as a precaution, the gold prices are increasing up and the outlook is weak. So, any guidance on LTV?

Pralay Mondal: Whether outlook is weak or not is debatable, because whenever I read various things, almost 70%, 80% of people say that gold prices still can go up internationally. We are not getting into prediction of gold prices. As the tenor of the loan is generally low, this LTV management through prices does not happen that much. I can say that we hover anywhere between 68% to 75%. As a part of our business is Agri portfolio, we can go up to 85% as per the internal policy. Given that, it goes closer to 75%. Generally, it remains between 70% to 75%.

Sonal Minhas: Understand that sir. I will come back in the queue. I have three more questions. Thank you.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Thank you for giving me the opportunity. My question was on LTV only, so what is our disbursement LTV, in retail gold and in agri gold loans?

Pralay Mondal: As per regulatory norms, LTV in Retail Gold Loans has to be below 75%. For Agri, there is no cap from a regulatory perspective. Generally, as per our internal guideline, we try to keep it within 85% and when we say LTV for retail, we include the interest as well. Hence, it is a conservative LTV calculation that we do. On an average, it is well below 70%, for retail. For Agri, it will be somewhere around 75% to 85%.

Shreepal Doshi: One more question here, within the gold lending portfolio, there has been a sharp decline in number of loan accounts. So, just wanted to understand what is the ticket size that we are focusing on in the retail and in agri loan? Is there a focus on ticket size or we are open to taking any sort of ticket size?

Pralay Mondal: If you look at the decline between Q3 FY24 and Q3 FY25, on a y year-on-year basis, it could be due to the reclassification of LAS portfolio from Gold to retail, though the loans have gold as collateral

Shreepal Doshi: All right, got it sir. This is helpful**.** Sir, just one last part. So, in gold, what would be the average ticket size for retail products and for the Agri gold loan?

Pralay Mondal: I think our gold loan ticket size is somewhere around Rs 2 lakhs.

Shreepal Doshi: Yes, got it. Just one last question. As a policy or as a strategy in the gold financing, do we try to maintain 75% LTV throughout the loan tenure or only at the time of disbursement we keep an upper cap of 75% and then we do not really track it during the tenure of the gold loan?

Pralay Mondal: Gold loan is a very complex business to run on a day-to-day basis. Let me first clarify on the ticket size, which you talked about previously. I suddenly remembered that now as per RBI regulation, agri gold loan cannot be below Rs. 2 lakhs as we cannot take security; previously this used to be Rs. 1.6 lakhs Accordingly, anything below Rs. 2 lakhs we are taking under general category as agri gold loan has to be necessarily above Rs 2 lakhs as per regulation. Coming to your question on LTV management, yes, while it is done at the time of initial disbursement but RBI regulation is that it has to be maintained throughout the tenor. Hence, we have to keep monitoring it and whenever it is going above 75% for retail gold loans, we have to go back to the customer and either take more gold or take more money to reduce the LTV. Having said that, that is why we keep some buffer in the system, so that we do not have to keep going for Rs. 100 up and Rs. 100 down. For Agri, this LTV stipulation is not there. We manage it accordingly

Shreepal Doshi: Yes, right. Just a follow up there. So, we would have a bullet repayment option for agri whereas for retail bullet it will be typically EMI structure, right?

Pralay Mondal: Bullet repayment has nothing to do with agri or non-agri. We can have bullet repayment on both because we are calculating the LTV accordingly. For our internal reasons we generally like to keep it within 85% for Agri Gold Loans because that is our own way of managing risk.

Shreepal Doshi: Got it. Thank you so much sir for answering all my questions and good luck for next quarter.

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

Mona Khetan: Hi sir, good evening and thanks for taking up my question. So, firstly, on the corporate book, now that I believe that the corporate book rejig is nearly done with, I was just looking for some color on the book, like where is our average ticket size on this book and what would be the average yield and also maybe how many exposures are above Rs. 100 crore at this point. And where would you like to maintain your average ticket size in the corporate book?

Pralay Mondal: The average yield varies between 9% to 9.5%. Rest of the questions, which you are asking, is very much detailed. We generally do not share that level of detail like how many customers are above Rs 100 Cr etc in the public domain. Given the perspective that our overall book itself is so small, it is not that too many customers will be above Rs 100 and 200 Crores. We do not have that data in the public domain, so we will not be not able to share it.

Mona Khetan: Sure. But some color on average ticket size will really help or the range of your ticket sizes?

Pralay Mondal: Our norms within the bank is that generally anything above Rs. 50 crores and above Rs 75 Crs for better rated companies goes to our Management Committee of the Board for approval. Most of our corporate loans goes to Management Committee. Then rest you can deduct.

Mona Khetan: Got it. Secondly, on the fee side, so again this quarter we have seen very strong growth as you highlighted. So, I just want to understand how much of it is retail granular fees and is there some component of corporate fee as well in this thing and where would this ratio remain on the fee side? And could this sort of growth trend continue on the fee side for first half this year. Thank you.

Pralay Mondal: You have seen that our fee growth has continued and has been consistent. On the growth, we grew by over 75%. Around 19% to 20% of our overall income is coming through fees. The core fee, which is granular and scalable, is around 15% of that. Another 4%, it depends on things like PSLC commission, some one-off here and there, etc. Hence, 4% is one time, it is not even one time, every quarter we will get it, but it's not a business linked kind of a fees, it is not granular kind of a fees. Therefore, on that I can tell you that 15% is very clearly granular fees, which will have a compounding growth story. Broad heads are processing fee, commission on bancassurance, some credit card related fees etc. These are the broad larger lines, which are there. TFX is also there. There is no chunky corporate fee as such out there. Mostly it is granular and mostly scalable which we will see in fourth quarter also. Our fee business will be good.

Mona Khetan: Sir, this entire Rs. 200 crore, there is no corporate component but there is only 4% of the fee that is probably one time.

Pralay Mondal: PSLC commission is one of those incomes, which is the largest income in that 4%. PSLC income can come every quarter also. However, PSLC is not a business fee. That is why I do not consider it as core fee.

Mona Khetan: Got it. And just finally, on the gold loan book, so any impact on the growth that you're anticipating in view of alignment with RBI norms in the same quarter?

Pralay Mondal: I had responded to the same question last time and I am repeating it. We had done so much of work on our gold loan portfolio in the last 1 or 2 years that we could have implemented that 30th September circular in the next seven days itself. Because we were almost ready on all the points which were communicated there. Only one part of that is a continuous process, which is how many audits you are doing, what are the operational efficiencies you are creating, what controls you are building on a day-to-day basis etc. Other than that, we are ready with almost everything. As on 31st December, as per the timelines stipulated in the circular, we have also communicated to RBI about our compliance to all the points. Hence, it has not impacted us last quarter, I do not think that the circular will impact us this quarter or in future. We are quite comfortable in adhering to it.

Mona Khetan: Sure. And what would be the risk weight on Agri gold loans versus retail gold loans? Is there any difference?

Pralay Mondal: Actually, there is hardly any risk weight on gold loan business and it will not be material

Mona Khetan: What are the risk weights against gold loans, just to refresh?

Satish Gundewar: Mona, the RWA consumption on the gold is minimal, because we get a set off on the value of the gold after doing a haircut. Now, in the overall portfolio also, we always maintain an LTV of 75%. After we do a haircut, that value is compared to the outstanding and only whatever is remaining as balance that is risk weighted. After doing haircut also, generally there is no exposure, which is in excess of the collateral that we are holding. At the overall portfolio level also, the RWAs are very low, so the capital consumption is minimal in gold loan.

Mona Khetan: Okay. And then I look at the slide 16, there is a sharp decline in number of gold loan account, even as the gold book has grown from 5.2 lakhs to 4.9 lakhs.

Pralay Mondal: I answered it before, I do not know, you might have joined a little late. Let me quickly answer this. The reason is, if you remember last quarter, we had showed that roughly Rs. 1,600 crores of portfolio moved from gold loan business to LAS, Loan against Security, for some regulatory compliance reasons. We do not classify them under gold loan; neither have we taken benefits of gold loan under that. For that reason, those accounts also moved from gold loan to retail. That is the difference. That happened last quarter.

Mona Khetan: Yes, sir. I get that. So, that number was about 7 lakhs. The earlier reported gold loan account, which has come down in the new reporting to 5 lakhs. So, even adjusted for that, the number of gold accounts were actually fallen year-on-year. So, how do I read this? It's based on the new reporting, both these numbers, the year ago as well as this quarter number?

Satish Gundewar: Last quarter, this slide on the gold loan included LAS portfolio whereas now we have re categorized the LAS portfolio included in this slide

Mona Khetan: Sir, I totally get that. I am referring to today's, this quarter's presentation, where you have given last year's number, which is at 5.2 lakh number of accounts and this quarter, which is Q3, it has fallen to 4.9 lakh account. So, I am assuming both these are referred to new reporting adjusted for the last quarter. If I look at Q3FY24 presentation, this number was above seven lakh accounts. So, it has anyways come down based on your new reporting because you have also reclassified the loan book.

Pralay Mondal: Let us do one thing. Let us clarify this offline, as we are not able to understand the exact thing. There could be other reasons. Let us figure it out. She is saying if you have corrected the number that would have been corrected from both periods. Let us find out what is the reason. Mona. I will check this out.

Mona Khetan: Sure. Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Shivaji Thapliyal from YES Securities. Please go ahead.

Shivaji Thapliyal: Yes, thank you. My question is again on the gold loan market as such. So, this RBI advisory that we had seen as of September end, I just wanted to understand what is the early feedback in terms of is there any market share shift going on, maybe from NBFCs to the regional banks because this RBI advisory is kind of targeted or maybe it is affecting NBFCs more because they are the ones which have not so far properly followed, fallen in line in terms of the processes or what is your reading of the gold loan market as such?

Pralay Mondal: Thanks, Shivaji. Before answering, let me just try to address Mona's question once because I think I got the response. What could have happened is, you are right, that there has been drop. The reason could be that RBI circular I think covered that accounts less than Rs 2 lakhs cannot be considered as agri gold loan anymore because you cannot hold collateral against that. Accordingly, we might have exited accounts; but it did not impact the book. What typically happens is such small ticket may not impact your overall portfolio, or some of those customers could have brought in larger value to come under this new guideline. Because of that, some numbers would have exited because we could not have classified them under Agri gold loan anymore. If we did not give it as Agri gold loan, they would have exited us because he will not get the LTV what he wants. Given that perspective, there could have been some exits. That is what I am guessing, but we will do a more detailed analysis of this question. This looks to be the most obvious reason because we did exit many accounts from a below Rs 2 lakh collateral perspective. This happened this quarter, so it could be that number.

Now coming to your question, Shivaji, we do our business, so we do not necessarily try to capture market share based on some regulatory reasons or some arbitrage here or somewhere else. We just follow execution, and our market share is not that big that if there is an impact like that in the market, we will get a lot of business. Frankly speaking, the answer is I do not know. What we know is our business has not been impacted because we were ready with most of the measures, which were taken as indicated in our various supervisory reviews, audits, inspections etc. From that perspective, we are comfortable that these measures, which have been prescribed as of 30th, September has not impacted us overall as a business, which we will show in the fourth quarter. Yes, for example, what Mona was asking about the dip in number of accounts that could have been exited because they are small ticket accounts, which were classified as Agri. That would not have impacted the portfolio and on the portfolio size, we have grown. Like that, some small little impacts will be there, but otherwise broadly I do not think positive or negative, we do not look at it, and we just focus on execution. In the process what business comes, comes. We do not try to find that gap in the market and try to address that, those are too much strategic thinking, we just focus on execution.

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

Parag Shah: Thank you for the opportunity. So, my question was on the tech side. I understand that the tech transformation is going to take something like 2-3 years. But in this phase, how will the cost to income look like? So, while this transformation happens, OPEX has been already incurred, or will it be incurred over the next 2-3 years linearly. So, how will the cost to income look like for the next 2-3 years while this transformation is taking place?

Pralay Mondal: Yes, great question. Typically, what happens from this transformation is; whatever can be taken as CAPEX is taken as CAPEX. Not everything can be CAPEX. Typically our tech spend has been somewhere around 8% to 9% of our overall OPEX. We believe that some of these CAPEX when they move to OPEX, along with that comes AMC also, which comes as an additional OPEX. When you do that calculation, we look at the TCO ownership and we look at it how it impacts our cost to income over the next five years, because CAPEX generally we do it for five years. Given that perspective, we have seen that it will remain in that range of anything between 8% to 10% of our overall OPEX, because once it moves from CAPEX to OPEX, AMC comes, and it all adds up. Finally, we have to keep our tech investments planned in between 8% to 10%. We are somewhere around 9% right now.

Parag Shah: Got it. And this will remain in the 8% to 10% range till FY27, I presume?

Pralay Mondal: Probably forever. We do not know.

Parag Shah: And next question was on the retail side. So, you said that you have de-grown or then conservative in the unsecured part. So, which side of the segment you are looking to grow? Like is it LAP or affordable housing or are you looking to grow in the unsecured as and when the scenario changes?

Pralay Mondal: See, the way we are doing right now is, we are not growing that much in retail except for few strategic businesses like in CV/CE on strategic segments where you don't get that kind of a yield but we want to be playing in that space. Hence, CV/CE is growing. LAP is growing because that is a segment, which will continue to grow forever, and it is like a SME business. Wherever we have visibility of the end-use, end-customer, collateral, everything, we do those businesses more aggressively. We try to do business through the in-house channel. We do not believe too much into DSA businesses, though there are some DSAs doing businesses in LAP, but we will gradually decrease it over a period. However, the roadmap in the long run is not product-centric. Roadmap on the long term is that we will have all businesses and all products, and based on the liability franchise and the customer acquisition we build it in and around the branches. Customer deepening will happen to get a decent wallet share. That is the way we want to build our retail assets business. We do not need retail assets business to show or to build at 25%-30% growth. Our liability franchise will not grow if you do not give them payments products, if you do not build wealth businesses, if you do not build retail asset businesses. That is why the entire bouquet of products has to be there. That is the way to go. Growth will come from LAP, CV, CE as we grow, auto inventory funding, because we want to have a visibility of the end use and the end collateral. Only when we know the customer well, will we do businesses little more like auto, then personal loans and all of this. That is the long-term plan of the bank. Even if we do this right, because the acquisition will be so huge, FY27 onwards, that cross sell there itself will build our retail assets portfolio, which is not on the productive asset side, but on consumption asset side. That will go to the existing customers based on the new acquisition we do. That is a clear roadmap and clear strategy laid out. We are starting to build our strategy on credit collections, products, processes, technology, everything on the retail asset side and that story has just started now. It will take a year for us, and we will take off once the entire tech transformation happens, when the customer acquisition side of the story starts picking up and then the retail assets will grow.

Parag Shah: Got it, that was helpful. And sorry for repeating the question, but again on the cost to income side, so you said that you will continue to incur around 8% to 10% OPEX. So, how will the cost to income trajectory go below 50? It's not clear to me. Can you just explain that?

Pralay Mondal: I will explain. I think if you have to run an efficient bank and if you have to actually bring down your cost to income, you have to incur 8% to 10% of your technology cost because you have to automate everything. Because people, productivity, all of that will happen only when we are making the person productive through on the go, mobility on his hand, better customer service. Why should the customer come to us and ask for more products? Why will he build more balances? He has three other options in his hand, in his wallet. It will only happen provided I am able to give a better service. I am able to cross sell better. I am able to on the go, understand what the customer needs. I am able to do better analytics. I am having a better turnaround time. All of that stuff will require that kind of investments. Actually, investment to technology prudently will help us in having a multiplier effect on productivity, which will reduce the cost to income. What it effectively means, business per employee will go up, productivity per employee will go up. We will have happier customers and profitability will be much higher. That is the way we want to build that franchise. This is a classical method that larger banks and more successful banks have done. We are not doing anything so special. We are just following the best practices in India as well as globally. I think 8% to 10% technology spends prudently is a great strategy by reducing operational costs. If you have more products per customer, whether it is the wholesale side or on the retail side or on the SME side, automatically your operating expense comes down because cost of servicing and cost of manpower comes down. That is the way we also want to build the franchise.

Parag Shah: Got it. And just to put this another way, so are there any one-time expense which you have taken this year or are going to take next year?

Pralay Mondal: Most of our heavy lifting is sort of done now. Now, you will see primarily the trickling down effect through the CAPEX to OPEX route only. There is no one-time expense. All our leadership is in place right now. We do not have any more leadership to be hired in the bank right now at a senior level. Most of the heavy lifting has been done. Now they have to deliver.

Parag Shah: Okay, thank you. Those were all my questions. Thank you.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening sir, I just wanted to better understand your medium term sort of an ROA. So, the way I look at it is that right now you are very heavily focused into gold loans and there you are incurring minimal credit cost. So, your credit cost is like 0.1% for 9M or something like that. So, now as you grow and you increase your mix into other products, where as of now your yield is lower, so your yield is probably going to come down overall because your gold loans are at a higher yield. Your cost to income is sticky and looks like it will remain at the same level. And your credit cost is also probably going to increase as you grow into other products. So, what are the levers you are seeing to increase this ROA if at all you have the aspiration of increasing or do we feel that this can be maintained also?

Pralay Mondal: I will try to explain this. I think our ROA, what I have told is somewhere around 1.5% to 1.8% range. I think given the overall environmental challenge right now, we will stick to somewhere around 1.5 to 1.6% at this point of time. It will start going up from FY28 onwards again. I will tell you how. When gold loan is slated to be around 20% of the portfolio eventually by 2030, which is around 45% right now. The reason it will happen is along with gold loan, which is low on loss, high on yield, and operating cost is also very high, thus leading to higher Opex.

One of the reasons our business per employee, which is Rs 8 lac, is one of the lowest in the industry is also because of this gold loan business. Gold loan related opex is also apportioned to the branch cost. The fact is that in wholesale business, our Group Head in Wholesale Manish tells me that he can do 2% ROA business. It is possible that every business, when I was doing my retail assets business many years back, I used to do RoA business which was much higher than 2%. The reason the way it happens is that one customer has to have multiple products. In wholesale, for example, you will get an account or get into a relationship at maybe 8% or even lesser. But then you build the entire ecosystem banking there, cross-sell and other products, other businesses, collection accounts, so many other things, and then supply chain, i.e., you'll get more business. In the process, over that account level, you will get ROA. Similarly, in a corporate salary business, which we do not do here now, but we will launch that once we are ready. Corporate salary business, you do not make money through liability, by the way. You make money through cross-sell on fees, on assets, cards, and all of this. The banking business is not about a single product business. Unfortunately, we have become a product company because we are 50% gold or 45% gold loan. Eventually we have to travel the journey and the whole reason of investing in this kind of technology and leadership and distribution and customer acquisition, all of this, is to move from a kind of a single product to a multi-product system. Because then you have a bouquet of products to customers and the whole idea is to get better cross-sell, better penetration per customer, whether it is wholesale, SME or retail, and then get the ROA up. Let me tell you, by the end of FY28-29, once technology has gone live and is chugging along very well, that is the time we will launch Wealth Business. Wealth Business will make a lot of money provided you start addressing the medium to top end of the pyramid. There is a lot of money to be made there as well. Most of the retail banks, 20% of the customers contribute to 80% or 100% of the profit of those banks. We are non-existent out there. We will build those portfolios also by FY29 onwards. We will start building that. There are many levers to create an ROA tree. We have done it in the past in other banks. It is not that we have not done it. We know how to do it. It is difficult to have a visibility right now because we are seeing CSB as a single product bank, which will not be the case after FY 27- 28.

Sarvesh Gupta: And for building all these new lines of products and businesses, generally, again, for every business, it becomes a multi-year journey where you start with more than 100% cost to income, and it will take some while for it to become profitable. So, will that not impact your profitability, as you want to develop into Omni product and multi-channel sort of bank?

Pralay Mondal: I am glad you asked this question, because this is exactly the mindset of a product company. You can look at a product company or you can look at a franchise. When you look at a franchise, I am not looking at product profitability; I am looking at a customer. My model is; I will give the customer what he wants. I will not go to a DSA and tell him to build an auto loan business for me. I will not go to a dealership and say, build an auto loan business for me, or go to a DSA and build a personal loans business. That may never be profitable as far my experience goes and in a cycle, you will lose that business. The way we will do it is that all products will be there. There will be a single channel, which will deliver to the customer. There will be other support teams, whether it is an asset team or cards team or a fees team, which will help. Customer will be at the branch level. The monitoring will be for customer-level profitability and not at a product-level. Unfortunately, many places I have seen that people work in silos and in silos; these products take time to breakeven. But the day we work with customer franchise, through branches and internal channels, that is the day you do not incur those costs, which you otherwise incur. Our model will be like this. Everybody else will support the front end who is meeting the customer or servicing the customer. If you take that model, then that is a shift from product-centric mindset to customer-centric mindset. I have built this model in past in other banks, and this is how it works. I have no doubt that our growth will be faster from FY27-28 onwards because liability acquisition and other cross-sell will accelerate. Liability also is not a different business. Liability happen because other things are happening and hence liability is an outcome. That is how we have to build the franchise. I am talking about retail because I know that more. WSB and SME team also will work like this. The more we leverage, the more we penetrate the customer, the more money we make. Even if one product does not make money that does not matter, overall impact will be seen. We will build a franchise model. Today, unfortunately, we are a product bank. That is the reason why even a 1.5% to 1.8% ROA is also looking difficult.

Sarvesh Gupta: Understood. Finally, on your margins, so now, if I look at last 12 months, obviously, now there are constraints on the CD ratio and hence you had to take a lot of bulk deposits, which has probably hurt your NIM. Instead of growing at such a rapid pace to achieve the same result thereby taking more risk and incurring higher operational cost, would it be better to grow at a slower pace without taking bulk deposits because the end result in terms of absolute profitability would probably remain the same.

Pralay Mondal: I am glad that you asked this question. It gives me an opportunity to explain our strategy again. Our strategy here is not to maximize short-term profits or NIMs. Three years down the line, four years down the line, what people will see is the franchise that we have built. If there is an opportunity to do a business, if there is an opportunity to penetrate a corporate account, if that is penetrated to build a market where I can acquire customers, we will take that. If there is an opportunity to get into SME segment where I want to be, should I stop doing that just because I do not have a liability franchise today? We have to fund such businesses, which are a long-term franchise strategically. However, do we want to show business by going to a DSA and doing a personal loan business or some other business just to show a top line? The answer is no. Because for engaging them, I agree with your view that if I do that, I will end up in higher costs. We are prioritising liquidity and safety. After all of this, we have still achieved a NIM of 4.11%, which is not so bad. In my previous stint in one of the larger banks, NIM used to be in the range of 3.9% to 4.2% all my life. Look at our LCR- it is above 130% on the quarter end and 119% on average. Our CD ratio, where many large banks are struggling, is 86%, which is not so bad when we are sitting on a borrowing, which is 12% of our portfolio. Just think how much liquidity we are sitting on. We do not want a liquidity risk and I do not want a situation where if Manish and Shyam tomorrow tells me that I want to do this business, it has to be supported from a liability perspective. I have to support them because they are building a franchise, we are building a franchise. Once we build that, eventually we will make profits out of that based on the relationships, which we are building. Our strategy is a little different. We are not in the NIM maximization game. We are not in shoring up top line at this point of time. We are building a long-term franchise which we will kind of leverage from FY29 or FY 30 onwards. Our thinking and strategy is slightly larger than our current execution optically. We do not want to play a niche strategy, which I have told many times. This is not our niche strategy saying that we will maximize NIM, we will remain small and we will do this. That can also be a strategy, but that is not what we intend to do.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I would now like to hand the conference over to the management for closing comments.

Pralay Mondal: Thank you. First of all, to YES Securities, Shivaji and team for hosting us. We had fabulous set of questions and some questions made me think for a while before I finally gave the answer. I think we have been able to satisfactorily give a response to most of the questions. Thank you again for asking very good set of questions and look forward to see you at the end of Q4 again. Thank you,

Moderator: Thank you. On behalf of YES Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.