"CSB Bank Limited Q2 FY2025 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to CSB Bank's Q2 FY '25 Conference Call hosted by YES Securities.

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. Shivaji Thapliyal from YES securities. Thank you, and over to you, sir.

Shivaji Thapliyal: Thank you, Siddhant. 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 & 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 now invite the management to make their opening remarks. Pralay, over to you.

Pralay Mondal: Thank you, Shivaji, and good evening. I would like to specially thank everybody for taking the time to join our call today; despite so many results announcements today, including BFSI.

I will give a brief understanding of what is happening globally and in our domestic market and then quickly move onto our results. Globally, the economy is heading towards the year-end with unexpected tailwinds as slowing inflation clears the path for a soft landing. However, the impact of geopolitical hurdles that lie ahead is a key monitorable. Oil prices have also eased a bit despite the ongoing geopolitical tensions and U.S. 10-year yield has gone back to above 4%. Gold prices are touching new heights and is trading reasonably above $ 2,700 per troy ounce levels in dollar terms.

The biggest support for the dollar over the last few weeks has been a shift in the Federal Reserve policy expectations to a more moderate easing phase after a slew of solid US economic data started coming in. Markets are widely expecting Fed to further cut rates by 25 basis points in November.

On the domestic side, after the Fed rate cut of 50 bps in September, dovish outlook had permeated the financial markets in India as well. However, RBI maintained a status quo on the rates while changing the policy stance to neutral. Though retail inflation in India has been volatile and industrial output was marginally negative, growth outlook remains stable.

With such economic and geopolitical background, an immediate rate cycle easing by RBI is not expected and we have to wait and watch for any reduction by RBI in the next few meetings. The recent statement by RBI Governor probably leads to status quo for some more time. The surplus liquidity condition may prevail for a while.

Coming to CSB specifics, the highlights of performance of Q2 FY '25 were:

On the profitability, net profit of Rs 138 crores, up by 22% Q-on-Q and 4% Y-o-Y. Bank continued with accelerated NPA provisioning policy of making provisions over and above the RBI requirements and holding the contingency provisions intact.

NIM sustained at 4.3% for the quarter despite the cost of funds going up universally and the regulatory guidance on penal charges. ROA was 1.5%.

On the liability side, we improved the funding base significantly. Deposit grew by 25% Y-o-Y as against the industry growth of around 12%. CASA ratio stands up marginally above 24%.

Net advances grew by 20% Y-o-Y against the industry growth of approximately 14%. Gold portfolio registered a growth of 28% Y-o-Y. Yield on advances for Q2 FY '25 is at 11.21% with an improvement of 33 bps from Q2 FY '24.

On the asset quality matrices, it has remained reasonably flat quarter-on-quarter on most of the parameters. Slippages have been significantly lower compared to the last two quarters. GNPA has been 1.68%, NNPA at 0.69% and both the ratios are almost sustained at the June level. PCR now stands at 81.49% considering the PWO, and 59.45% without considering PWO.

Bank is holding a provisioning buffer of around INR 183 crores over and above regulatory requirements. This is a key point because there are ways and means by which we could have used the additional provisions to improve our PCR, but we decided that we will have a conservative policy on this and we continue to hold additional provisions in excess of RBI guidelines.

We have a robust capital base with a CRAR of 22.74% and Tier-1 ratio of 21.37%. Low proportion of risk-weighted assets has been sustained compared to the industry.

On the shareholder value creation, book value per share is at Rs 229. EPS for the quarter is Rs 31.65, and ROE - is close to 15% at 14.53%.

On the distribution, we have a network of 802 branches and 770 ATMs as on quarter end. We have added 23 new branches during the first half year. On a year-on-year basis, we have added more than 80 branches.

On the branch expansion side, we are on track in this fiscal. The same will be completed as planned in the second half because generally the second half is heavier in terms of branch expansion like it happened last year.

To conclude, the good thing about this quarter went by is that we are back on track as far as the guidance on the business growth is considered, which is growth of 30% to 50% higher than the system trends. Actually, we are significantly higher than that this quarter.

The strenuous efforts taken towards maintaining a balance in terms of various regulatory ratios like CD ratio, LCR, NSFR, etc., and keeping sufficient liquidity for advance growth has paid off. Borrowings are also resorted to as an additional window of fundraising based on cost considerations. We resorted to more borrowings, just to ensure that we have a long-term sustainable growth on the credit side because we cannot keep looking at the rear window and keep seeing that how much we need to grow. That way we cannot build a franchise. We will continue to have a lesser liquidity risk in the bank from the long-term growth perspective.

On the profitability side and asset quality numbers, ratios are looking stable. Though the liquidity conditions have improved a bit, the interest rate on deposits continues to be at elevated levels, and we believe that this will continue for a while at a systemic level. The attractive term deposit rates and inclination towards other investment opportunities like mutual funds, stock markets, etc., continue to put pressure on the cost of funds of the banks at a systemic level, and we are no exception. We are not able to fully pass on the same to the borrower given the competitive environment in the market. This, along with the regulatory guidance on penal interest, continues to impact the NIM this quarter as well. I personally feel that NIM has bottomed out for us, and we should start seeing better days, maybe Q4 onwards on the NIM as well. Except NIM, which is almost sustained at June '24 level, all other critical ratios like ROA, ROE, EPS, credit cost, book value per share, etc registered improvement in Q2. Growth of other income was also good to negate the quantum increase in Opex resulting in better operating performance.

The build phase progress is going to accelerate in the coming quarters with the planned implementation of CBS migration and resultant improvement and stabilization in the products, process, systems, etc. You will see one slide in the investor presentation on technology, which is basically giving clearly the rollout plans and the dates; because that is our biggest story - how we are rolling out the technology piece and how businesses, from the current business mix, will go to the 20:30:20:30 levels, which we keep talking about. This transformation will depend on the technology rollout. That is why we have deliberately put one slide on the technology rollout piece for the first time in our investor presentation. While these investments will have an impact on the cost in the near term, we have been able to sustain the CIR at around 65%. In the long run, we will bring it below 50% by 2030. Our endeavor would be to ensure results to accrue in the long-term in line with the payback period estimated for each of these initiatives. With the continued cooperation from all stakeholders, we will strive to deliver quarter-on-quarter in line with the expectations.

I stop here. This is broadly on how our quarter went. Look forward to your questions. Thank you very much. Over to you, Shivaji.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Just a bookkeeping question from my side. If I look at the retail book in the presentation, it is at Rs 5,332 Cr. But, in the last quarter, it was at Rs 3,541 cr. That is a delta of about Rs 1,700 crores. The disbursement number is at Rs 300 crores for the quarter. Am I reading something wrong? Just want to check that, sir.

Satish Gundewar: The retail book also includes the LAS portfolio that is Loan against Securities, where the secondary security is gold and this was part of the gold loan book earlier. From this quarter, we have included that as part of the retail book, and that is the reason that you are finding that difference.

Chinmay Nema: Could you share the breakup of the retail book between gold loan and the unsecured portion and what is the asset quality trend that you are seeing on the unsecured side, if you could share the break up?

Pralay Mondal: In our retail book, we have de-grown our three businesses over the last one year- Personal Loan, Two-wheeler, and Microfinance. Some of the stress, which you are seeing in the environment now, we saw it coming more than a year, back. We consistently degrew these businesses this year.

We have grown in CV/CE and LAS – which we have reclassified and where we have gold as a collateral security. We have grown in Healthcare Finance; little bit of Credit Card business based on a partnership model and then Inventory Funding. These are kind of pseudo- SME businesses that we have grown. Pure play retail we have definitely not ventured in troubled waters right now because as a new entrant, we did not want to take unnecessary risks. We have done businesses which we understand and which our franchise can do taking relatively lesser risk.

In spite of that fact, we slowed down few businesses, we have seen little bit of slippages on the MFI side and on the unsecured side. While for the system, it may not be picking out, for us it will be picking out sooner because we had started de-growing these businesses quite some time back.

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

Mona Khetan: Firstly, on the margin, so for H1, we have seen margins of about 4.3%. Do you still believe that we will be able to maintain the guidance for this year, which is 4.5% to 4.8%? And if at all, what will drive this improvement in H2?

Pralay Mondal: Hi, Mona. A relevant question. We knew that cost of deposits is going up in the ecosystem and this is not happening to us only, but with other banks as well. We have not been able to pass on this equally to the yields on the asset side of the business. In spite of that fact, we could have done 4.5%, which we had guided. However, the penal interest, which is impacting us by somewhere around 25 basis points, continued to impact us. If you add that, 4.3% plus another 25 bps, we would have been around 4.55%. I think that is going to permanently impact us to a great extent on the interest income part. Even if we are able to recover, that will come back with a lag on the fee side. Technically, NIM will have this impact.

Having said that, if we are able to recover some of our NPA portfolio over the period, which we will try and if we are able to reprice some of the books here and there, I think we can try to come closer to 4.5%. I think we have sort of bottomed out in NIM and I am not seeing too much of an upside from here as well.

I will say that guidance will be between 4.3% to 4.5%, primarily because about 25 basis points have been shaved off because of the penal interest guidance. It is not that the guidance was wrong, but the guidance has to be re-looked at in view of the regulatory reasons.

Mona Khetan: So not just for this fiscal, but even going forward, you feel that 4.3% to 4.5% will be a fairer assumption for margin.

Pralay Mondal: I will reserve my comment on that right now. I am hoping that from next financial year, we should be able to do better on the NPA compared to this year. We will try our best to recover NPAs which we have booked in the Q4 and Q1, and if recover some of that, we will probably be able to get some NIM back into the system. I think 4.5% to 4.8% looks to be difficult and it can happen only sometimes mid of next year onwards once the interest rate starts coming down faster than the yields going down.

We have one advantage, because for another 15 to 18 months, the gold loan continuing to be more than 40% of our book. Gold loan yields are not elastic either. Our EBLR-linked book is not very high. Hence, as and when the interest rate cycle reverses, probably banks like us will be able to retain larger NIM compared to banks, which are wholesale oriented portfolio where EBLR-linked or MCLR-linked businesses are higher.

In retail businesses, even if they are fixed loans, new businesses get booked at lower prices. In businesses like credit cards, gold loans etc, the elasticity is lower and to that extent, we hope that once the interest cost starts coming down, if at all sometime mid of next year, we should be able to get some benefit out of it in our NIM.

Mona Khetan: With the margins lower by 20 to 30 bps, how would the ROA guidance stand now, which is between 1.5% to 1.8%? Would that also be lower down by the same extent or some of it will be covered in other income and Opex?

Pralay Mondal: Our other income has been retained at around 18%-19% of our overall income. In spite of heavy cost investment that is going into technology, distribution and people, we have been able to increase our ROA this quarter to 1.5%. My feeling is that we should be able to do better than this and hence, the guidance that ROA will be in the range of 1.5% to 1.8% sustains because we will be able to build up other income, and we will be able to manage costs better. I think if in this quarter we could go to 1.5%, I think we should be able to do better than this. I am not making forward-looking guidance, but I am just going to push the system for that.

Mona Khetan: While you partly touched on this, I just wanted to check on the corporate slippages that we had last two quarters. What are the recovery prospects? Will it be possible to recover them this year or I mean, generally, what are the prospects as well?

Pralay Mondal: If you look at our slippages, trending on a quarter-to-quarter is looking better. The March slippages were Rs 122 crores, June quarter, the same was Rs 103 crores, and September it is Rs 64 Crs. From that perspective, I think the slippages are coming down, and some of the slippages, which were added in this quarter, are trending downwards like in case of retail loans, Agri MFI etc. There the books are shrinking and if books are shrinking, it means the portfolio, which is leading to slippages viz, unsecured MFI, Agri, those kind of businesses are shrinking. To that extent, I see slippages coming down. Some of the slippages also do not lead to necessary costs because of the kind of arrangements we have. Given that, it will be net ROA neutral.

Given all of this - from an NPA perspective, unless there is something, which is a surprise, which is not known to me today, we should be able to retain this level. Once we start reversing the migration provision for some of the slippages, which has happened, or recover them, we should be able to see a slight downward trend on NPA over the next one year.

Again, this is something, which we will really want to work and not as a forward-looking statement. I have always said that Gross NPA will be below 2%, Net NPA below 1%, and credit cost below 0.4%. We will be well below each of this parameter-that much I can say. This quarter, we have reached a credit cost of 15 basis points. This was at 22 basis points last quarter. I want to also tell you that unlike last year, we have made one small change, which is, we have added the standard provision for computing credit cost. I am just saying that we have been more conservative in reporting on our credit cost now. In spite of the 15 basis points, which is well below what we have been giving as guidance, on slippages, on NPA, on credit cost - we are looking good. I hope that we can recover some of that and then it will even look better.

Mona Khetan: Just one last question. It looks like we have had some reclassification in the book this quarter. If you can give like-to-like loan mix for Q1 as well as for reference between corporate, SME, gold and other retails, that will help.

Pralay Mondal: I will give you a detailed answer on this. The wholesale book has shown de-growth primarily because the DA portfolio is running off. A small portion - around Rs 400 crores is left. That will also run off in the next four months. LCBD businesses has come down. We are also exiting some of the large corporate accounts though they are not NPA accounts, on various other considerations. In fact, we have just exited one this quarter - a large account. In spite of all these things, the fact is wholesale book is somewhat flattish, and it is around 23% of our overall book, which I think was 26 or 27% last year. Now all that is done and you will see wholesale book starting to pick up from here because fresh credit disbursements are happening significantly in wholesale in the kind of businesses we want to do. Now we have built up a good team with a good coverage across the country and you will see that next year wholesale book will grow at a significant pace.

On the SME side, it has sustained the kind of growth, which we have been doing, and which we had committed last year and all cleaning up has been done already. They will continue to sustain. They are growing somewhere around 26%. I think they will sustain or do even better. On a conservative basis, I think SME book should be able to grow at around 25%.

Gold is growing on a YoY basis at around 28%. Last quarter itself, it has grown by 10%. If I extrapolate that, it is much higher than 28%, and I think we should be able to grow by around 25%-30% on the gold loan side.

On Retail, we are bit conservative. As you rightly said, there has been some reclassification. It is done for better alignment with the nature of that loan where gold is taken as collateral and is classified as LAS business and not kept under Gold business classification. However, effectively the collateral is gold only. The portfolio size is somewhere around Rs 1,600 crores.

I am giving full disclosure so that there is no confusion. This Rs 1,600 crores has moved out of gold loans. If we had not moved it out, the gold loan business would have been somewhere around 51% of the book. It is reclassified to be on the better side of the compliance. Rest is our MFI book, which is around 2%, Agri book is around 3% and 15% is retail. 15% of this retail includes this Rs 1,600 crores of loan against security. This is the full disclosure.

Mona Khetan: Just one thing. on this kind of disclosure, what is the sequential growth in each of the four portfolios if you can tell us between Q1 and Q2?

Pralay Mondal: Yes, I will tell you that. I will give QoQ and YoY both together. That will help you. Gold- QoQ, we have grown by 10% and Y-o-Y by 28%. Wholesale we have grown QoQ by 5% and YoY marginally degrew by1%. You can see that in wholesale, we are already reversing the trend. You will start seeing it better from next quarter onwards. SME, MSME, 5% growth on a QoQ basis and 26% YoY. Retail, 7% QoQ, 45% year-on-year, but there is a noise in this as I said before because here, we have the loan against security as gold. Agri, 4% QoQ, minus 5% YoY & MFI, minus 6% QoQ, minus 13% YoY.

Moderator: Thank you. Our next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: Sir, I am looking at your GNPA movement table and two things around this. I wanted to request you that if from a disclosure perspective, if going further you can actually classify these additions by the four sectors that you are primarily working in, which is gold, corporate, SME, and retail, so that we get a sense of incrementally where these additional slippages are coming from. That is one.

The second one is linked to this, that if we consider last quarter, this quarter, you could throw some color on where largely these additions are coming from, from the segment that you talked about, from the retail and gold segments, that would be great. That will just help us on understand the business gross NPA movement.

Pralay Mondal: To answer your question – Normally we are not giving this level of information in public domain. However, to give you a color and flavor, because this is a call, which is open to all, we had a little bit of extra slippage - one account each in Q4 and Q1 for the same customer group in wholesale, but after that, it has been consistent.

Slippages in Gold loans does not happen much. Even if it turns SMA, but eventually it would be recovered and so, there is no slippage. In wholesale business, nothing much has happened in SMA during Q2. There has been a little bit of slippage, in the retail and agri and MFI portfolios, but that is going to be on a declining trend for us now onwards. Given the arrangements, we have on the portfolios like MFI and all, though the accounts slips, but it does not lead to actual losses … Given this perspective, I am not so worried on slippages of this kind. Yes, some of the retail loans and agri, what slips will lead to loss, but that is sort of stabilizing. It will stabilize from next quarter onwards. To that extent, I am confident of my slippage number and the GNPA and NNPA and credit cost number from now onwards. I feel that this is where we will be unless there is some big ticket, which hits us, which as of today we do not know. It can happen always, one case here, one case there, and on a small balance sheet we have, one case can create some noise. However, right now, we are not aware of anything.

Sonal Minhas: Sir, the second question is a little bit longer term two, three years out kind of a question, which is linked to your CASA because you understand better than us the dynamics of deposit franchise. There is an incremental level of technicality in your business compared to large banks, which do CASA. Just wanted to understand like, what does it take on the ground for CSB to mobilize that? Is that a part of the agenda? Where are the constraints? Just trying to understand the subjective part of it, as you see yourself growing and becoming like a new age bank growing for the next two, three years?

Pralay Mondal: Thanks for the question. I try to respond to this in almost all the calls, and this is the biggest part of the strategy of the bank. If you look at it, our growth in SA has been around 9%, our growth in term deposits is well above 30%. Nine percent is not bad, but it is not good enough when it comes to looking at overall deposit growth of 25% and hence the CASA ratio comes down.

None of this is franchise business, if you ask me. Franchise business will start sometime later and after this call, I would like our Technology Head - CTO to come and spend five minutes on explaining what we are doing in technology because now we are definitive about what we are doing and how it will help the bank because we are creating a new bank. What we are doing right now is managing the bank as it is.

Come FY '27, may be by mid of '26 we will be a completely new bank. That's the time what you are asking will go to play out and most of the people who are in the bank right now or who have joined the bank in the last one or two years, they have all been part of building large franchise in very large organizations like HDFC, YES, Axis, ICICI etc. We know what it takes to build that franchise. The reason I am saying that our retail, which is today 20%, but not really 20% because of loan against security, which is gold collateral, backed loan, if you take that out, it is not even 20% that has to go to 30%.

Effectively, this 15% has to go to 30%, and that can happen when you build a CASA franchise. Retail assets cannot be built without a CASA franchise because you need customers, and that is something which will happen FY '26-'27 onwards where significant focus on customer acquisition will be there, and that's where we know that the larger franchise has to be built pan India.

That is why we are creating distribution, and many of those branches are not still fully productive because we do not have the systems, which is required to be making them productive in building the CASA franchise, but we have to put all investments together so that all of this has to culminate into results from FY '27 onwards.

We are putting all of those investments today in people, technology, leadership, products, and distribution. Once the CASA franchise starts picking up from FY '26-'27 onwards and then retail assets will start picking up, then payment products will start picking up, granular fees will start picking up, and then the real retail franchise will start building up. That is the plan

We are just waiting for this. I would like Rajesh Choudhary, who is our Head of Technology, to give a briefing on what we are doing on the technology side and what we need to. We are keeping the entire readiness for the rest of the bank to leverage the technology to build that retail franchise and the CASA franchise.

I will give you the roadmap. The reason that the retail franchise and retail businesses will pick up from 15% to 30% will be a little back-ended from FY '27 onwards. Wholesale is a relationship business. We of course need technology there. We of course need transaction banking there. We need a lot of products, fees, and everything. Still it is a relationship business. Next year onwards, you will see the wholesale side will start picking up faster because even without full play technology, they can build these businesses.

SME businesses even without full play technology are already picking up. Retail we are keeping for the last. Not only because we are not fully ready on the technology, but we also want the picking of the right cycle to happen in retail. That can only happen when the overall growth in the system comes down below 10% on retail. That is the time we will enter the market in a big way, and that will happen in terms of liability, customer acquisition, retail assets and all of that because we don't want to go out and build businesses through DSAs and purchasing asset businesses and all that. That is not the way we will build it.

Gold business will chug along the way it is growing, around 10%-20% growth, but as a mix it will come down because rest of the businesses will grow much faster. The picking of retail assets businesses will happen in the end of the decade, last 2-3 years. Wholesale will start picking up from next year. SME and gold will chug along. That is the way the entire franchise is going to be built.

Sonal Minhas: Sir, I have a follow-up question on CA and SA, just splitting with this into, as you were talking wholesale doesn't require technology, splitting CA and SA, do you also require heavy lifting on technology for CA or because you are fairly ingrained in the south market, in the macro markets you have been? That's one. And of course, same is for SA because you have been in Kerala for more than 100 years. I thought that the deposit side is more a trust-based business than a technology business. So, correct my understanding, if I am wrong on that, just on the liability side actually.

Pralay Mondal: Either you can buy business by giving higher rates in SA or you can build business by making SA as a float based on various activities he is doing with you. The first is not the best way to do this business. The second is something, which we will attempt. That is why you will see our savings account rates are not very high. Effective rates are also not very high, somewhere around 3% net-net rates across the portfolio.

Given that our thinking is, the second model is what we will build, and it's just not trust based. It is usage based. It is float based. EMI based and all. You have to have usage of that account. For that we have to launch salary accounts, we have to launch various payment products, we have to launch various asset products, we have to get those EMI through this, we need to grow the transactions through it.

In a way, CA is no different because you need technology because you need CMS, you need supply chain, you need transaction banking, you need the rationale for usage of those accounts by a customer and you have to have those kind of franchise and those kind of customer penetration will happen through wholesale and SME.

Of course, we will have a retail kind of a CA also in branches, but unless you are able to give a better service, unless you are able to give a better turnaround, unless you are able to give better transaction banking kind of products, be retail, SME, or wholesale, it is not sustainable.

That is the way that CASA businesses are always built and will be built. We will not play the price game ever in CASA. CA you cannot play the price game, but SA we will not play the price game. Because CASA is just not a liability. CASA is a franchise, which helps us in building the assets business. Otherwise, you have to go out and buy businesses through DSAs, which we will not do.

Customer acquisition is going to be the biggest play in this bank starting FY '26-'27 onwards. The start will happen in FY '26 and FY '27 onwards it will take off in terms of customer acquisition, and then on boarding those customers, retaining those customers. For that, we need the right solution, right products, the right systems, right turnaround time etc.

That is something, which you are probably asking the question on the CASA franchise, and CA is no different to SA. It is just a different kind of segment, which you need to focus on. That is what the strategy is. We do not want to take a shortcut route to any of this right now. That is why we are saying that we will do businesses what we understand, what we can do, and hence wholesale will start picking up next year. SME has already picked up. Gold, we understand better and it will continue to do well and retail will pick up only when you have the CASA franchise momentum picking up.

Sonal Minhas: If I may ask a short question, the last one, who is your credit card partner. If you can mention your partner as well?

Pralay Mondal: We started doing it with both One Card and Jupiter. Right now, we are servicing the portfolio, which we have done with One Card. We are not adding any more cards with One Card right now, and with Jupiter, we are continuing to add more cards, but it is not a huge portfolio. Let me tell you credit card, micro-finance and personal loan, all products together is somewhere around Rs 1,000 crores. It is a small business for us, and we are not growing any of these businesses that much.

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

Shivaji Thapliyal: I just had some basic questions around guidance, because I think basic numbers are always helpful to learn about. We have already got sense of the margin. But what would be the overall loan growth guidance, number one, for FY '25 and possible for FY '26? And you know, these are all sort of near-to-medium term guidance that I am seeking. Firstly on loan growth.

Secondly, credit cost obviously is evolving and some of the loan books are not seasoned. Just wanted to understand where the number do you think will end up for FY '25, and if possible, you can get a sense of FY '26.

Thirdly, on cost-to-income number that is evolving as we speak. This year and next, your sense on these three aspects, loan growth, credit cost and cost-to-income ratio.

Pralay Mondal: Shivaji, thanks for your questions. Let me first start with what ballpark strategic vision, which we have in the bank. I will just repeat it and then answer your question. The strategic vision or what we are aiming by 2030 - GNPA 2% and NNPA 1%, credit cost 40 basis points, cost-to-income below 50%. SME, wholesale, gold, and retail I have already said 30% retail, 30% wholesale, 20% gold and 20% SME. NIM, I have always said that medium-term will be between 4.5% to 4.8% and longer-term will be in the range of 4% to 4.3%. I have said that because when we gave this guidance, we did not know the impact of the penal interest. Because of the impact of the penal interest, we have to wait and watch how this plays out, and hence it could be coming down between 4.3% to 4.5 or 4.6% because of this reason. We have to see how this plays out now. Similarly, in the long run, it should be remaining between 4 to 4.3% or around, and the reason for that is the business mix will change because as we move our wholesale from 23% today to 30%, obviously your NIM will start coming down on that, so will be the cost-to-income ratio.

A healthy good portfolio for our kind of franchise by 2030 will be one where, NIM will be 4 to 4.3%, cost-to-income below 50%, ROA and ROE levels sustained , ROE between 15% to 17%, ROA between 1.5 to 1.8%. Some of the components within the ROA tree can make a change based on the business mix that will change.

Your question on near term ie, for the next two years, I think next two years nothing much will change because none of these mixes are making so much of a change right now. Given that, I think our NIM will be somewhere closer to 4.5%. Once the interest rate starts coming down, the deposit interest rates - as I explained before- and the non-elasticity on our asset side, we may not have to pass on everything given our book and our fee businesses will keep going up. I think we will do even better than today on the fee businesses. I will not be surprised if we go to 19% to 20% of our overall income as fee, and that is what we are targeting.

On the NPA ratios, I said that we would not touch 2%, 1% and 0.4% for gross NPA, net NPA and credit costs respectively. We are now around 15 to 16 basis points on the credit cost. I think we will contain the credit costs below 20 basis points for a while now, and GNPA and NNPA, we are picking out. That is where I think we should remain in the next two years.

On longer-term guidance, once your retail starts picking up and all that, credit cost will also start going up little bit, but it will give other businesses because in retail businesses what happens is for the same customer, you get lot more businesses, and hence the ROA between 1.5 to 1.8% is really sustainable. That is the way we are planning our overall strategic ratios.

What I will do, Shivaji, if there are no further questions, I would request our CTO Mr. Rajesh Choudhary to speak, because we have put one slide on the investor presentation on technology transformation at CSB Bank. Very quickly, if we can just spare few minutes, Rajesh will explain what we are doing on the technology side because this is the biggest story going ahead, what we are trying to build in the bank. Can I hand it over to Rajesh to give a brief on the technology side?

Shivaji Thapliyal: Sure.

Pralay Mondal: Over to you, Rajesh.

Rajesh Choudhary: Thank you for that. Good evening, everybody. This is Rajesh Choudhary. I am CTO for the bank. In March 2022, we put the IT strategy to the Board and since then we have been executing that strategy. What we are trying to do is, we are replacing almost all the systems in the bank and the slide, which we have put across, and there are four different dimensions over there.

One of the dimension on the top left talks about the entire technology infrastructure what we are changing in the bank. As part of that, we have built four data centers, two in Mumbai and two in Chennai. All the data centers are ready and operational. We have also set up private cloud for the bank, which is also ready for use now. All the bank branches across the country are running on high resilient bandwidth, which means that if something goes down, there is a resilient bandwidth, and the business will keep on happening. As part of the transformation program on infrastructure, we are replacing all the hardware for all the servers in all our data centers with the modern cutting-edge technology, which very few banks in the country have. We have also set up a modern technology command center in our new Turbhe office in Navi Mumbai, which is monitoring the entire bank, the entire technology estate of the bank. That is our tech transformation from the infra perspective.

Now coming to Core Systems, which is the big story, which our MD also spoke about, we have invested in one of the most modern new core banking system from Oracle, which is called Flexcube. We started implementing this from January, this calendar year. We are currently halfway, and sometime in Q1 FY '26, this system will go live. Along with this system, we are also setting up new payment systems, a new digital channel system, which means new mobile banking, new Internet banking, all of this. We have a very old database in the bank, which is almost like 17-years-old and similar to the core banking that we have, and that has significant limitations in doing business today. We are replacing that with a modern database from Oracle that will also help us in going ahead significantly.

Along with this, a new trade finance system, we are setting up a new finance management system from Oracle, which is called Oracle General Ledger, which will also go live by Q1 FY '26, and the new risk management system called OFSAA, that will also go live in the first quarter of FY '26.

We spoke about the infrastructure. Then we spoke about the core system. However, there are many systems, which are surrounding the core systems, and we are replacing almost all of those. Some of those have already gone live. We are setting up lending systems for all the various products, so gold, two-wheeler, LAP, these systems are live and remaining are under implementation. Our lending system for corporate and SME is already live. We have many systems for various support functions. Our new HR system has already gone live. New compliance system is live. We have set up a digital customer onboarding system, which helps our customers to have better experience while joining the bank for any of the services. We have set up a new digital call center in the bank, which is ensuring that our customers are being serviced in a better way.

We have set up a sophisticated Service Now platform in the bank. This is one of the leading enterprise in the world, and we were told we are the first bank in the country to implement finance FSO module from Service Now, which gives us immense agility to launch new capabilities, new system on this platform. This platform has gone live, and we are setting up one by one multiple systems over here.

There is another capability, which is the API Ecosystem. API ecosystem combined with Enterprise Service Bus, this gives us enhanced capability to work with our fintech partners or any other partners and partnership strategy is one of the key part of the SBS 2030 as our MD spoke about. API Ecosystem and Enterprise Service Bus will ensure that we are able to integrate our partners in a seamless and efficient way. All our systems will also talk to core systems in an effective and efficient way through these integrations.

Then, of course, while all of these business systems are in place, infrastructure has been transformed; cybersecurity is sitting at the center of all of this. We have invested significantly in various areas of cybersecurity. We have our new security operation centers already installed and implemented from where we are monitoring the entire bank, and checking if there are any threats coming from the external world, various systems on the perimeter level, on the internal level. We are checking the dark web if there are anything from the bank-related information sitting there. We have intense focus on cybersecurity systems to modernize the bank.

This is the summary, which is a high-level view on the technology transformation in the various areas that we are doing right now.

Pralay Mondal: This is in a summary what Rajesh covered, but actually, we can have a full day on what we are doing on technology, because I really believe the bank has to build on the back of a strong technology for better efficiency, cost and scaling the bank in a faster turnaround term with a better service. With that, Shivaji, if there are any further questions, we would be happy to answer.

Moderator: Sure. Thank you, sir. Our next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Yes, sir, I just have two follow-up questions. Firstly, if I could get the mix of loans between EBLR and MCLR and fixed rate.

Pralay Mondal: We have floating rate loans around 38.2%, 61.8% is fixed rate. Out of that 38.2%, EBLR is 10%, MCLR is around 24% and 4% is other floating rates.

Mona Khetan: 24% MCLR.

Pralay Mondal: MCLR is 24.41% and EBLR is 10.22%. Base rate, T Bill, SOFR, all these are around 3.84%. All these totals up to 38.20%, and balance which is 61.80% is fixed rate. I would like to also say, Mona, that it looks like a fixed rate, but you know, gold loans are generally kind of shorter tenure products. Hence, you have to take it with a pinch of salt.

Having said that, gold loan prices even when interest rate goes up, it does not go up, interest goes down it does not go down that much. To that extent, it remains fixed only - even if it is a shorter tenure product, so that is why you can call it fixed rate only.

Mona Khetan: Secondly, while you mentioned that the penal interest impact is still there on the margins, but when it comes to incremental gold loan, are we able to reprice it at a higher rate or?

Pralay Mondal: Mona, what happens typically is - this is customer psychology. It is a competition and will work if everybody says that okay, it is impacting me by 25 basis points and hence we will raise our rate by 25 basis points, but market does not operate like that. If the whole market does it, we will also do it, but ultimately, we are in a competitive market. I think it is a permanent damage to the NIM of around 25 basis points for banks with our kind of a business mix. We will figure out a way to manage the ROA by improving our fee businesses, but increasing NIM by increasing the interest rates, I do not think the whole market will operate like that.

Mona Khetan: What is driving such strong fee lines in your case? It is now almost 1.8% of assets, which is like on higher end of what we see in industry and very comparable to large private banks. So, what is driving this fee income?

Pralay Mondal: At least somewhere, we should be in the best in class. When I joined the bank, you remember, Mona, where our core fee used to be around 5%. We have now taken it up to 17%-18%. I think we can go up to 19%-20%. You can give some credit to the leadership team which we have built who understand these businesses well and still some more to come because once the retail asset business starts picking up, you will see more fees.

Good wholesale business run by large banks, and we have all worked in large banks, can be up to 1.8% to 2% comes on the fee side. We actually did a syndication last quarter. You may or may not believe this, but this is the kind of expertise we are building in the system on the wholesale side. Some of these fees, whether its transaction banking fees, syndication fees, processing fees, insurance fees- all this has been doing well.

There are four such large companies - ETLI, HDFC Life, ICICI Pru and now Max, there is a reason that they are tying up with us or they are chasing us because we are doing well. They are seeing the kind of a process, which we are following to do all these. Believe it or not, we have only few complaints, which we resolved in insurance, after doing so much of business within turnaround time. The pendency is minimal right now. That is the level of our persistency ratio - which is one of the best in the system.

Given all these things, we know how to run these businesses. We know how to run various businesses, but until Rajesh delivers all the systems, we are not able to do it. At least these things, we are leveraging somebody else's systems to do it. To do some of these businesses, we do not need our systems, like when you do insurance businesses. At least where we can do well, we are doing well right now. Take the core fee business. Core fee business for us is around 14% of the total income. I see it sustaining, if not growing, going ahead.

Mona Khetan: Just one final question. When it comes to the corporate book, you mentioned that there is some rebooting going on, based on what led to slippages in the past quarter. Could we have some more of these slippages in the ensuing quarters, or do you believe that this is done with?

Pralay Mondal: Mona, I wish I could say that, you know, nobody can do a crystal ball gazing, but whatever we can do, we are doing. We can always have a surprise item, but I think we are doing whatever best we can. That is the reason I said that last two quarters, we have been exiting relationships, which are perfectly regular businesses and are not NPA. They are not even SMA.

We just exited a large relationship and which is not NPA or even SMA, because we think that that is not the line of businesses we want to follow. We are completely changing our wholesale franchise in a different way.

Having said that, we have a legacy book where something will fall, we do not know. That is why we are granulizing. Any large businesses in wholesale, which you have done in legacy, we are gradually reducing that and hence the shock, if at all, if there is anywhere, which we do not know of, is going to be very low.

I would like to add one more point that we have Rs 183 crores of provisioning buffer beyond the regulatory mandated provisions. Out of that, Rs 106 crores we had taken under COVID provision. Now there is no COVID, so we have put it under contingency. What we did is wherever we thought of stress in accounts, which does not necessarily mean that they are NPA accounts, or they are SMA accounts- anywhere we didn't feel good about it, we keep the provision against those accounts. Out of that, one big account is gone, but we are trying to put some more accounts into that to retain that.

We are taking a conservative provisioning policy. Otherwise, we could have written back a large amount and improved our PCR. We are not taking that route. We are doing it in such a way that we will add some more so that if there is an accident somewhere, which we do not know yet, we have already provisioned that. That is the way.

We are following a strong and a conservative provisioning policy. Beyond that, if something happens, we have to see. But truthfully, we do not know anything, which can just hit us near time. If we know, we will exit that relationship.

Moderator: Our next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I have two questions. The first one is related to your PCR. I wanted to understand like what is the steady-state PCR that you target or where is the direction there that you want to head to? Because given your chart, given how we see this, PCR including write-offs has been coming down. If you could just explain that a little bit, that will just help to understand that.

Pralay Mondal: Our targeted PCR (excluding write off) is above 70% - in the 70-75% range. We will get there sometime next financial year. We were there, but there is that one account which previously slipped, which is a legacy account, which led to this problem. Either we will recover, or we will write off. We will go back to somewhere close to 70%.

We had a choice, as I just explained before, from a contingency provision because one of the accounts we have just exited. We could have written back some of the provision we have taken against this, but we will add some more accounts and would retain it as contingency because if you move from contingency to incremental provision, we can increase our PCR easily.

However, from a bank or from a Board perspective, we have said no. We will not use those routes to raise PCR. We will raise the PCR only by either recovering or by additional provisioning, which is not under the contingency provisioning.

Our model is around 70%, without PWO or 70 to 73%, somewhere around that. We will take little time because we hope to recover some of this. If we cannot, we will do a provisioning or accelerated provisioning and move on. That is the way we will plan it.

Sonal Minhas: The second question is regarding the LTV for the gold loan. I see this is coming down over time, but just asking you, subjectively, from an operational perspective of risk assessment. Let's say, credit customer, what the gold is given as a collateral, basically, are we there in terms of systems and processes and technology for gold loan or there are still some hoops to cross for us to say that our systems are at par or better than, let's say, the other large gold loan players in the market? Just trying to understand the significance of this business.

Pralay Mondal: Thanks for that question. Let me put it this way. Given that gold loan is anywhere between 44 to 50% of our bank, depending on whether you take the LAS business or not, but effectively it is like a gold loan business, it will only be prudent to ensure that we have the best systems and processes. Unbelievable amount of work has been done in the last two years in gold loan business from being average gold loan player to probably we think we are one of the best compliant gold loan business player right now.

That is the reason I said in the beginning of the call/media, that we have put so many things in place in the gold loan business that when this RBI circular came, we found we tick most of the boxes proactively. That's the kind of work which has happened in this bank on the gold loan side.

Being a touch and feel physical distribution-oriented business, you can never say that we are 100% there. We can only find it through proper audit process and proper review mechanism, which we are expanding, and we are expanding our scope of audit everywhere lot more.

Let me put it this way. From an intent perspective, we are 100% there. From a process perspective, we are 100% there. From an execution perspective, maybe we are 70%-80% there. Rest 20%, it can never be 100%. We are trying to see how we can inch it a little bit more over a period of time.

Having said that, on your question on LTV, let me say that actually we are close to 70% on LTV right now. It varies every day. I see a different number, 70, 71, 72%. We also do a sensitivity analysis constantly, what if kind of a scenario on the gold loan price and that data I see every day. Of course, the retail, risk teams etc monitors this data. Meticulous monitoring is done for this and the LCR data.

Given that, our tonnage increased by around 10% and our growth was around 28%. Hence, you can understand that we focus on tonnage because that is the real growth and gap between 10% and 28% is because of the value of the gold.

Now, one can argue that given what is happening globally next one year, there are no risks. Next one-and-a-half years, there are no risks, but who knows what is going to happen. Given that perspective, I think we continue to do sensitivity analysis, we will take action as, and when we require; proactively in case we see there is a risk on the gold price because we have to be sensitive to that. It is happening because of the environment. It can happen the other way around at some stage when the gold price starts falling. Hopefully, by the time that phase comes, we will be ready with our other businesses by FY '26-'27. To that extent, we are at a sweet spot at this point of time.

Sonal Minhas: Sir, On the gold loan business reconciliation side, at the branch level, let's say, if the loans are being given against the right collateral, or let's say, hypothetically, we are saying that the value is actually not what the loan amount basically is commensurate with the value of the gold that is given to you or deposited with you, what are the systems basically to check that? What is the periodicity of those systems if you can broadly highlight? I don't want to take too much of your time, but broadly just want to understand that.

Pralay Mondal: Let me put it this way. I understand your question fully & what you are asking. That is exactly what we have worked in the last two years. It starts with intent. It starts with compliance. It starts with what we want to do. Then next part is what is being done on the ground. If we take timely action on anybody who is not following the process right, if we have a strong audit periodicity in every branch, if we have a science of identifying where more fraud prone things happen, and if we take tough action the way we need to do it, then you have a much better control.

Let me put it this way, I think we have strong controls on our gold loan business at this point of time. Obviously, the kind of pedigree, which our management has, intent will never be an issue. The kind of board we have, the kind of promoters we have, from an intent perspective, we are 150% there. From a process, policy, taking action, controls, audit perspective etc, we are 100% there.

Still can I commit that there will be zero fraud or there will be scale of finance, something going wrong in some branch here and there in a distributed setup that can always happen. However, our view is that we catch that and we take action, which deter such happenings, and the deterrent is the biggest thing, which deters from doing wrong things. But if management looks the other way when something is happening, then there is a problem. Our bank doesn't believe in that. Hence, that is the best way to handle this business and we are doing it that way.

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

Pralay Mondal: Thank you, Shivaji, and thank you, everybody, for asking relevant and good set of questions, I must say. We are very excited the way the bank is turned around in this quarter, and we are committed to hopefully show even better performance next quarter. Thank you very much and have a good evening.

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