"CSB Bank Limited
Q1 FY2024 Earnings Conference Call"

July 20, 2023, 05.30 PM IST

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

MR. B.K. DIVAKARA
HEAD - STRATEGY & CORPORATE LEGAL - 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 Q1 FY '24 Earnings 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 this conference call, please signal an operator by pressing star then zero 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, Neerav. Good afternoon 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, Head of Strategy and Corporate Legal, and Mr. Satish Gundewar, Chief Financial Officer.

We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their results 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, for hosting the call, and thank you, everybody, for joining. Very good evening and we just announced our results for Q1 FY '24. I am sure you have seen the results already.

So to begin with, I think, global economy has started improving slightly, though at a very slow pace. Declining trend is projected for the global GDP growth even now, where 2024 might witness some gradual uptick as inflation moderates and real incomes strengthen. Headline inflation is projected to decline due to tighter monetary policy taking effect, lower energy and food prices and reduced supply bottlenecks.

Global growth has slowed sharply and the risk of financial stresses in emerging markets and developing economies is intensifying among the elevated interest rates. Uncertainty over the evolution of Russia's war of aggression against the Ukraine and its global impact remains to be a concern. From the recent hawkish Fed announcements, market feels that there could be another chance of 25 basis points rate hike in the next meeting. However, certain headlines are changing because of which, the bond yields are going down. Even yesterday, there had been certain inflation-related trends noticed globally including by BOE (Bank of England). Therefore, I think, certain green shoots are emerging whereby the interest rate may not show the trend of going up continuously, but at least another 25 basis points increase in FED may be expected in the short term.

On the domestic side, India has been stable and resilient, as reflected in sustained growth in bank credit, low levels of non-performing assets, adequate capital and liquidity buffers. The narrow current account deficit, rising foreign exchange reserves, ongoing fiscal consolidation, and the robust financial system are setting the economy on a path of sustained growth. Headline inflation is gradually moderating due to the combined impact of monetary tightening, supply side measures and easing of global supply bottlenecks. The slowdown in monetary tightening by Central Bank had resulted in the declining of bond yields. However, taking cues from the hawkish FED announcements, 10-year benchmark, is showing an increasing trend, in a range between 7.07% to 7.13%. System liquidity is hovering around INR 2 trillion surplus. As per RBI statistics, the banking system deposits grew by around 13%, a little less than that, and advances grew by slightly above 16% on a Y-o-Y basis. I think that's broadly where we are now.

Now coming to the CSB specifics, the overall performance on both top line and bottom line was good on a Y-o-Y basis and highlights of our performance include improved profitability. Net profit of INR132 crores up by 15% from same time last year. Operating profit witnessed a growth of 17% on a YoY basis. We are having a provisioning buffer of around INR170 crores over and above regulatory requirements, which includes contingency provision as well.

We could maintain a NIM of above 5% for the quarter, i.e., 5.4%. ROA improved Y-o-Y from 1.75% to 1.79% for Q1. We improved the funding base with a deposit growth of 21% Y-o-Y, almost in line with what we did in the last quarter and as against the industry growth of around 13%. CASA had a growth of around 6% Y-o-Y and CASA ratio could be maintained above 30%. In my last call also I said, we would keep it in a range of 30% to 32% on a sustainable basis, as we continue to grow. FY '25 onwards, we will take it up much faster. On the CASA front, while it is a 6% Y-o-Y growth, average CASA growth is much faster than that for us, indicating that we are getting a sustainable CASA growth over a period of time.

On the Asset growth front, net advances grew by 31% Y-o-Y. Industry has grown by around 16%. Gold loan portfolio crossed INR10,000 crores mark and registered a growth of around 42% Y-o-Y. Yield on advances for Q1 FY '24 is 11.18%, with an improvement of 55 basis points over Q1 FY 23. Improved asset quality metrics is also there, faring well in all key parameters, viz GNPA 1.27%; NNPA 0.32%; PCR 93% and if you take out the written-off portfolio, then it is 75% around. Contingency provision accounted in the books is higher than NNPA and we are continuing with accelerated NPA provisioning which is higher than RBI requirements. We have fully provided the SR portfolio in line with RBI guidelines.

On the capital side, of course, we maintain a very high CRAR of 26% with a low proportion of risk-weighted assets compared to the industry. Coming to shareholder value creation, book value per share has reached INR184, which is a consistent growth. EPS on annualised basis for Q1 FY '24 is INR30.57 and ROE is at 17.5%.

We are planning to launch 100 new branches during FY '24 as well and 60% of those branches will be in North and West. Nowadays we are working majorly on technology enhancements. I am sure there will be many questions on this and I will elaborate at that point, including new core banking system during the Q&A session.

So in conclusion, on a Y-o-Y basis, we have done well; we will do better through the year on all key parameters. On a YTD basis, the quarter has been somewhat soft. On the deposit front, as I mentioned in the previous call, slightly high cost short-term deposits that we had mobilized to fund the loan book in Q4 were matured and rebuilding the book was done cautiously with due cost considerations. We have deliberately kept those deposits at a slightly shorter tenure because we knew that interest cycle eventually would flatten out. Hence, we will get the benefits of that maybe after a quarter or two as and when the interest rate cycle starts flattening or reducing. Few large value takeovers and prepayments affected our SME and wholesale book slightly. These are some of the accounts from the older book, but still we have shown a growth.

Higher investments in people, technology, systems, etc as required for the scale-up are affecting the cost side slightly. I have said before, costs can be seen as cost and investments; and in our case investments in people, investments in infrastructure, distribution, technology, all those are going full blown. We will continue to invest into those with a payback period. Over a period, we will see the cost to income starting to have a glide path towards our 45% kind of a guidance by FY '30. Enhanced focus on streams like, commission, trade forex, processing fee, liability fee, the insurance commission etc are helping us on the income front. We will continue to work towards the achievement of the milestones set under SBS vision for the year and try to achieve the vision ahead of the target.

The management team is confident about this. I also want to add that we have almost filled up 80% to 85% of our senior management positions now across most businesses, verticals, and support functions. Therefore, we are having the potential to build the bank of the future. The build phase of the bank will be over by FY 25 and then the scale phase will start from FY '26 onwards. FY '27 to FY '30 will be the absolute growth take-off stage.

With this, I conclude my opening remarks and hand over the conference call back for further questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suraj Das from B&K Securities.

Suraj Das: Congratulations on a good set of numbers. I have a couple of questions. So first question is on the growth trajectory and NIM's outlook. If I see your growth this quarter, I mean, loan growth in absolute term is hardly INR450 crores, while deposits and investment are broadly flat Q-o-Q basis. In terms of growth, while the Y-o-Y growth percentage is great on absolute basis, the incremental business appears to be slightly sluggish. So my question is what are your views there? How do you see it going ahead? That is question one.

Question two is, if I see your LCR and CD ratio. LCR has come down closer to 100% and CD ratio is, high at around 86%. So it appears that there is hardly any excess liquidity left on the book. So on this backdrop, how do we see your deposit growth and loan growth in coming quarters and as well as in FY '24? Do you feel that you need to be more aggressive on the deposit front and then you need to increase the card rates on both SA and TD. I mean, what are your views there? Consequently, how do you see your earnings in coming quarters as well as for the full year '24?

One last question is on the data keeping side. In slide 9, according to me, in the prudential provisioning policy slide, NPA provision of INR 66 crores is there, which is over and above your, IRAC requirement. The question is, is this provision already accounted in net NPA calculation? I mean, has this INR66 crores being deducted from gross NPAs to arrive at net NPA figure? Yes, that is all from my side. Thank you, sir.

Pralay Mondal: Thanks, Suraj, for your questions. I will answer the first two, and I will request either Satish or Mr. Divakara to respond to the third question. Yes, on the growth side, year-on-year growth is robust, and we continued to grow like what we grew last quarter. Generally, first quarter had been soft for us and then it starts picking up. That is how historically it happened. But clearly, we are committed towards what I have said before that we will grow faster than the system by 30% to 50%.

Now the team is confident by saying that we will grow faster than the system by 50%, not 30% to 50% anymore. Therefore, my team is quite clear that we have to grow faster than the system by 50% at least, which means that if the system grows by 13% to 15%, we should be able to grow somewhere around 25%, and we are geared for that.

Coming to the second question on CD ratio and LCR. Yes, that has dropped a little bit for various technical reasons as well. CD ratio, of course, is a function of deposits. I already told before that we would remain in the range of 85% to 90%. So almost all the numbers if you take, including CASA, CD ratio, growth, and if you look at my commentary or transcript last time or last to last time, it has been pretty consistent, and the results are exactly in line with that.

CD ratio, we will keep it between 85% to 90%, because a bank which is growing by less than 10%, just two years back or 1.5 years back, is growing at 30% now. When you grow at 30%, obviously, overnight granular deposit mobilization, which will help everything, including LCR, CD ratio, cost of funds, not everything is easy. Therefore, we have to sacrifice somewhere. I think, we will hold ourselves to a CD ratio of about 85% to 90% this FY.

On the LCR, this will fluctuate a little bit here and there, but we are well above the regulatory norm, and we are confident that this is not going to be a challenge for us. If the question is on funding for our asset growth, I do not think there is any problem in the near future. NIM of 5.4% and the cost of deposits, etc, as you see, we are holding on to that. To that extent, I think we are having a stable growth trajectory.

Do we need higher interest rates for mobilizing deposits or CASA, answer is no. I don't believe in buying deposits or buying CASA. We will sweat the system to ensure that we get the right businesses. Having said that, we will focus on a lot more verticals, which include a TASC or Government Banking vertical. We will start implementing salary businesses. We are segmenting our quality of products and going gradually higher. We are adding 60% more branches in North and West, where the liability franchise is predominant and we are focusing on that. We have launched transaction banking. There are various initiatives, which will help us in building the CASA as well as the deposit franchise.

And lastly, we are adding 800 to 1,000 more people on the front end to get on the sales side to add more customers to the bank. So all of these will build a deposit base, which is sustainable and build a compounding growth story. We do not need higher rates to build the liability businesses. These are the answers to your first two questions. On the third question, Satish you would like to add?

Satish Gundewar: So your question was in terms of our provisioning policy, which is more aggressive than the RBI norms. So simple answer to that is that if the provision is made on an NPA account, then, of course, on the net NPA when we calculate, it will be reduced from that. If the RBI norms require us to provide, say, 25%, and I provide 50% on that. If it is an NPA account, then, of course, that provision will be counted for calculating the net NPA.

However, over, and above that also, we have spoken in our earlier calls also about the contingency provision. Now that contingency provision is held against some of the standard accounts, it is over and above the NPA provision. So I think that should answer your question.

Suraj Das: Yes, it does.

Moderator: Next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: My first question is on the cost of funds. So going forward, what sort of trajectory do you expect? We have seen another 15 bps rise in cost of funds. So could we sort of expect the same run rate on the rise in cost of funds? Or how do you see it?

Pralay Mondal: So on cost of funds, I think, gradually you are seeing flattening of rates. I think this is the last quarter where we will see anything on the cost of funds elevation. After that, it will start either flattening or tapering down. NIM will also follow that. From an NII perspective, maybe the current quarter also will continue to be a soft quarter. Third quarter onwards, we should start picking that up as well.

Mona Khetan: Sure. Got it. And secondly, on the fee lines, we've seen a strong growth on a year-on-year basis. So are there any one-offs out there or this kind of a traction could continue?

Pralay Mondal: Our bank cannot depend on a one-off. Secondly, I do not believe in one-off. Whatever you see will be sustainable franchise and a long-term growth story. What do you see this quarter; you will see better next quarter on fee income. We have been promising it for the last 1.5 years. I said that core fee income is my focus and now core fee income is becoming a sustainable story for the bank. We will continue to grow this part actually.

We are launching many other things on the fee side. From that perspective, we will see core fee income growth to sustain. This quarter, for example, we have not even created a PSLC income. While we have bought some PSLC on the micro side, we have not sold anything and we are sitting on a reasonably large book. All of that will also add to this income and I do not consider PSLC & Treasury as a core fee income. Core fee income will do even better than what you are seeing right now.

Mona Khetan: Got it. And when it comes to the employee expenses, so on a high base, we continue to see very strong growth. I understand you have plans to add employees in a big way this fiscal as well. So what sort of growth in employee expense could be envisaged?

Pralay Mondal: So let me clarify one thing that this was a little bit of an aberration. This one is a one-off. Because first quarter employee expense, the way we have managed so far goes up a little bit, and then gradually it tapers down. Number of employees, we will continue to grow. If you look at it, Q4 to Q1, our number of employees has gone down instead of going up, but that will significantly go up in the next three quarters. Our employee cost has gone up primarily because of the expenses like bonus and other things. We had some higher actuarial costs, this quarter.

If you net that off, then I think employee cost will be in line with our growth in employees. Actually, it will be lesser than our growth in employee because now we are expanding the base end of the employees rather than the top end of the employees, because that is 80%, 90% done. You will see employee expense going up, but not at the current rate, it will be probably at half the rate, which you saw this quarter.

Mona Khetan: Sure. Got it. I have two additional questions. Should I go ahead? Or should I come back in the queue?

Moderator: Ma'am, I request you to join the queue again. Next question is from the line of Shubhranshu Mishra from Phillip Capital. Due to no response, we move on to the next participant. Next question is from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: On the actuarial expenses, so how much would the actual amount of actuarial cost and what you see for pension liability?

Pralay Mondal: I do not think those things are in the public domain and really not very large to be talking off. As I said earlier, there has been some additional hit as well, but it is not a very large amount.

Pallavi Deshpande: Right, sir. And sir, especially on the cost of funds, I think would you have any details on the bulk deposit rate? What would be the share of that in the total of cost of funds?

Pralay Mondal: We do not pay high rates for bulk deposits. We do it based on a relationship basis. Do we have large deposits? Answer is yes; but they are mostly historical in nature. Incrementally, we are primarily focusing on sustainable long-term kind of deposits, and they can be slightly large, they can be granular. We are confident of the kind of deposit franchise we are building, which is not price dependent. It will be a good, sustainable and long-term one.

Pallavi Deshpande: All right, sir. Thank you so much.

Moderator: The next question is from the line of Sumit Rathi from Centrum PMS.

Sumit Rathi: My first question is what is our strategy, for example, over the next two to three years on the percentage of the retail loan as a percentage of AUM and SME as a percentage of AUM, like, over a period of two years, three years, sir?

Pralay Mondal: So let me give a slightly elaborate answer to this. As a part of our Sustain Build and Scale 2030 strategy, we will have 20% Gold, 30% Retail, 20% SME, 30% Wholesale and other businesses, which includes securitization. The way we have broken it up is; now to FY '25 first phase, FY

'25 to FY '27 second phase and FY '27 to FY '30 final phase and we have completely planned it out how we'll do in each block of this two years, three years etc.

So right now in the build phase until FY '25, we will continue to depend on building our revenue for investments. We have started those investments already and gold business will be the major income generator. Gold loan is continuing to do well for us. The losses are very low. Risk weights are low. We understand this business. Yields are very good, which I have shared with you.

From that perspective, we will continue to do something, which is doing well. Parallelly, we are building the entire retail assets and SME franchise. We have been showing negative growth as the old portfolio had a rundown. You could see that, the retail franchise and SME book have started showing growth. These are green shoots, what we are doing. Although there is a tremendous growth in retail in the ecosystem; we would wait out a little bit from a risk perspective and grow slowly and cautiously.

More importantly, in these two years, we are building everything, including leadership, processes, internal customers, the sales channel, which will be the liability franchise and the liability customers etc. I still believe that you do not go out and distribute retail loans based on our credit bureau score and things like that. You need to understand the income of the customer, his or her relationship with the bank. We want to build a proper franchise and it will take us minimum two years.

Coming to the products that we are focusing on retail, while we have some new business -- forget the old portfolio, which is already there. In the new portfolio, there is a small portfolio in 2-wheeler and personal loans. The real ones, which you want to focus on is home loans i.e., in-home loans. We want to do retail LAP as well as SME LAP. We want to do commercial vehicles, commercial equipment and auto loans. We are also looking at specific education loans targeted toward certain segments, where risks are lower. We are also looking at health care. So all these businesses we are building with LOS, LMS etc. We are also building up the leadership team for all these products. We have created a business leadership team, the credit, and the collections leadership team, and we are gradually starting to build the technology, the processes and distribution.

The entire planning for the retail assets is now at play, and this will show up FY '25 onwards. As the base is low, you are seeing a good growth in retail, but in absolute terms, it is not much. On the SME side, I think a lot of what has been done in the last one-year or two years, is starting to show up now and we will continue to see the growth in SME now onwards, because now we are going to be seriously playing that game on the SME side.

In wholesale, from FY '25 onwards, we will take slightly larger strides there as well. So because of all this, '25 to '27, we will start seeing tapering down of gold loan as a mix, not as a growth percentage. From FY '27 to 2030, you will see a significant growth on the retail and SME. Wholesale will also start picking up from there the way we are building the transaction banking and some of that. One needs a large balance sheet to build the wholesale business in a more realistic way. That is exactly the plan. If we do it right, the CASA franchise will automatically build. The fee franchise will get even better. If you get the transaction banking, if you get the CMS, then automatically TASC starts doing better, the SME does better. So through all of these, the entire-ecosystem banking, as we call it, we are building. This is the way we are building FY '25, FY '27 and FY '30.

Sumit Rathi: Wonderful, sir. That was a great detailed answer. So in continuation to this, like, for example, SME, we have seen like from last two quarters, started giving those green shoots, which you were looking for. So I just wanted to understand what kind of underwriting practices related changes we have brought, because as I understand, gold loan underwriting and SME underwriting and other retail asset underwriting requires different kind of skill sets. So what are we doing over there? Are we going to make anything centralize or decentralize or what kind of people are we adding in our credit team? If you can give some colour on that.

Pralay Mondal: First of all, there is very little credit risk in gold loans, it is more of an operational risk, because you have the metal with you. Only for the higher ticket sizes, CIBIL Score, and all is required. Here it is an execution risk.

On the retail side, of course, you need very different kind of credit underwriting, which is policy based, process-based, technology-based, score card based etc and more than underwriting, what is more important is the constant monitoring of the portfolio and constant correcting of that portfolio.

Coming to SME, there was a time in the bank many years back, where we had decentralized underwriting. We have moved away from that some time back. Now we are creating a very strong credit governance structure, because all my life I have been more of a credit guy than a business guy.

The way we are building is, under our CCO, we have created SME, Wholesale and Retail verticals. Under retail, there are various sub verticals depending on the products. Then we have created the entire debt management structure. Under debt managed structure, we are creating retail separately, SME separately and wholesale as well. Then we have a collection team and a strategy function because collection has a detailed strategy requirement there and MIS etc. So analytics is also falling under the Chief Credit Officer, who is looking after this.

In short, on retail, obviously, it will go on LOS and on the wholesale, it is more relationship-based and hence, you have to get into the full depth of the relationship and understand what kind of business we're doing, why we are doing this, and we focus on certain segments, certain verticals etc

However, one thing is common, there is nothing decentralized. The only thing decentralized is gold loan business because there is operational risk. Everything is centralized based on policy. I have worked in three, four banks before this, but let me tell you the amount of focus we have from Board and Credit Committee and the kind of governance; it is really good and I think, we are building up good credit, both on wholesale and SME.

On the credit front, I am confident that we are building a very good governance and culture. It is just not processes. We are getting great people. We have very good teams right now. Credit is an area, which we are very focused on. Its various parts can be seen as Credit, debt management, collections, analytics, systems, data and so on. That is how we are building credit.

Sumit Rathi: So what kind of number of people we have added so far in, say, credit team and our collection team so far, whatever we have added?

Pralay Mondal: I do not have exact numbers, but we are building up a large team. What we are doing is unlike business where you go bottom up and top down both, in credit you need to go top down first. This will help in creating the right team from the governance and processes perspective and we do not want to unnecessarily build a large cost structure on the ground until the business starts coming in. The framework, the management, the ability and the distribution, that is what we are building right now.

In terms of distribution, we are doing as and when, we have those requirements. On retail, it is not about just numbers, it is also about technology. We are investing significantly on the technology. I think the right answer to that is our structure is now in place. Now on the ground, it will be based on the requirement of the business.

Moderator: Sumit, sorry to interrupt you. I will request you to join the queue again for a follow-up question. Next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, I just wanted to understand, I think in one of the remarks you mentioned that till FY '25, the investment phase will continue, right, for the company?

Pralay Mondal: Yes, investment phase will continue. The major accelerator of investment phase will continue until FY '25 end. After that also, we will continue to invest into people, into technology, into geography, distribution, because I have said before also that by FY '30, you would like the branch distribution to go to 1,500 branches. This means that we are not going to stop by FY 27 or FY 30. However, right now, where we are to where we will be; the big heavy lifting will be done by FY '25.

Deepak Poddar: So I mean, on a steady state, what should be our aspirational ROA that we kind of would be looking at?

Pralay Mondal: We will be comfortable with an ROA between 1.5% to 1.8%. If we are lucky, in a few quarters, we may get 2% also.

Deepak Poddar: So between 1.5% to 2% is a range that we might be working with, right?

Pralay Mondal: We will not go below 1.5%, and it will be difficult to go above 2%; it is in that range, yes.

Moderator: Next question is from the line of Neel Mehta from Investec Capital.

Neel Mehta: Most of my questions are answered, but I just had one question as a follow-up on the LCR bit. Sir, you mentioned that there was a small technicality based on which our LCR has come down this quarter to say around 106%, 107%. Would you be able to elaborate, please, on what the technicality is?

Pralay Mondal: It is not very complex technicality. This is because of the tactical play, of accepting short-term deposits in Q3/ Q4 of last FY based on our interest rate view that eventually it will taper down and then fall in FY 24. We had taken a call saying that we will not lock in for a very long-term kind of deposits because then we have to pay a very high interest on that for a longer period even when interest rate cycle reverses. So some of these deposits were not that LCR friendly.

Secondly, if your CASA as a percentage is coming down a little bit, it will also affect the LCR. On the CASA ratio, we will remain in the 30 to 32 percent range. Even this quarter, some of the big tickets, which we had taken earlier, are also running off. I am ok that they are running off, because we are able to replace it with proper deposits now with longer tenure and with better rates. Q1, and to some extent in Q2, will have this impact. However, from Q3 onwards, we will be back where we were.

Neel Mehta: Got it, sir. That helps.

Moderator: The next question is from the line of Sonal Minhas from Prescient Investment Management.

Sonal Minhas: Hi, Sir. This is Sonal Minhas from Prescient Capital. I have three questions. First one is regarding the SME loan book. Just wanted to understand, I think, it has been like a few quarters now been seeing the growth and build up, it is kind of muted. I wanted to understand the concentration of this book, which is largely Kerala and TN. In addition, to understand the quality of the inbound proposals that you are receiving, is that something, which is of concern. Just to get a sense of this business growth over time.

Pralay Mondal: Thanks, Sonal, for your question. In the last FY, until Q3, we did not pick up SME business is because we thought that the pricing of the risk in the market was not to our appetite. From Q4 onwards, we saw that the pricing to the risk was becoming more rational, and that is the time when we started picking up the business. We have picked up growth this quarter as well. In Q4 and Q1, we have done reasonably well on SME. Growth is not only going to sustain but going to go up from now onwards.

Second question, in terms of concentration. If you divide the old book and new book separately, the new book is national across North, West and South. There is no specific geography concentration. In fact, we are expanding significantly in West and North as well on the SME side, and just not South. We are also leveraging the branch-banking channel in a big way. We have picked up 20 specific SME focussed branches where we are running lot of SME related activities. We are also launching a new current account product variant, where the current account team and the SME team will work together.

Our Transaction Banking Head reports to the SME Head right now. They are building up solutions on TFX and other businesses, CMS, etc, which will help us in building the SME business. The new acquisition channel, which we have created for liability acquisition that would also have a current account team. They are also working with SME from a lead distribution perspective. We believe in going out and getting customers based on what we want, and through referral businesses and things like that. That is the second thing on the geography.

The third point is credit concentration -- credit focus. I have answered that before. We are very focused on credit, and we do not do bad credit. Because of that, sometimes we have to sacrifice business and we will. We are rejecting more cases than we are approving at this stage in SME, and our approval rate is well below 50% right now in SME. That is the kind of credit results, which I am happy with.

Sonal Minhas: No, which is good to know, sir, because I think when we do talk to some of your peers in the same market, we hear not such tighter approval process for SME loan book. This is heartening to know. This is good. This answers my first question.

I have a follow-on, which is on your fintech partnerships; what part of your retail loans is being sourced through these partners? What is the quality of that book? How are you managing that? Just trying to understand that.

Pralay Mondal: We are currently incrementally sourcing almost nothing through the fintech partners at this point of time.

Sonal Minhas: Okay.

Pralay Mondal: We are also waiting for full clarity on how the regulators are looking at it, like the FLDG - of course, now there is a better clarity on that. Our API stack is just ready right now. I am very clear that, the building of the retail business cannot be based on unsecured businesses. However, we have a good partnership on the cards side, because we do not have investment planned in cards in the next few years. We are building the other tech stack and we can't build credit card stack right now. So that business is doing well, that partnership is doing well, which is with One Card.

However, are we getting to the state of readiness to do that? The answer is yes, from a technology perspective. Because at some point of time, the clarity will be there, and then we will join hands.

Sonal Minhas: And sir, out of the INR122-odd crores of other income that we are generating in a quarter, how much -- is that largely -- and I'm not going to ask a question of how much, but is that largely being driven by One Card like because they are steering quite fast as what we had in the market? Just trying to get a sense of...

Pralay Mondal: No. I have run a very large card business in HDFC bank. I understand where your point is, because our cards portfolio is very small, so we cannot generate that kind of fees. Our fees primarily, will be insurance, liability fee, PF, LCBG Commission, TFX income, Card Fees etc.

It is a combination of many things and just not one thing. What we have done is, as we are adding a lot more customers to the bank now, our ability to generate lot more fees is higher-- because this, customer quality is better than what we had before in the bank. That is helping us. I am confident that we will be able to continue to grow this fee business on a sustainable basis, and we are investing on that. There are good partnerships, which we have on the insurance side that is also helping. So overall, it is a very good place to be in on the fee business.

Sonal Minhas: I understand that, sir, that explains. Sir, this is the last question on CASA. Do we expect the CASA -- because, I think it is flattening out slightly in the negative territory. So just wanted to understand, do we expect the CASA to grow once your tech stack is up and running. Is that the key trigger point, and we should wait for that?

Pralay Mondal: You know this, how does CASA grow? CASA can only grow when one is able to utilize the money. That is how the float happens- whether it is current account for the businesspeople or it is for household CASA. Only when you are able to cross-sell, we are able to create utilities around it. Then only we will be able to get a reasonable ATS and reasonable value per account. Otherwise, it will not grow.

That will be in that state of readiness by FY '25 onwards. The granular real CASA will start happening from FY '25 onwards. Right now, the CASA growth we see is because of the new product launches, new acquisition strategy and improvement in the quality of acquisition. We have reduced our blue accounts, which are the lowest level accounts, and we are increasing our silver and gold variants -- I mean next level of accounts. We have also added premium accounts.

We are experimenting with all this. Once our systems are ready by say 15 months from now, many of these things will be connected. The right time for the granular CASA will be FY '25, until then we will have to manage with a 30% to 33% kind of CASA ratio.

Sonal Minhas: Understand. We are reasonably sure of the triggers from 15 months from now. There are not too many moving parts from here and there, in terms of execution.

Pralay Mondal: Yes. FY '25. You tell me one thing, which I have committed, and we have not delivered in the last 18 months

Sonal Minhas: I have been tracking CSB for almost 10 years now. From a private side to the public side, so I understand the business, but this is for the longer term growth of bank, that's why I wanted to understand this.

Pralay Mondal: FY '25 onwards, we will be in the next phase. The build phase will be over for us by then.

Sonal Minhas: Sure, sir. Look forward to being in touch.

Moderator: Thank you. Next question is from the line of Rakesh Kumar from B&K Securities.

Rakesh Kumar: Sir, just to add some clarity on, notes to accounts (item no 12) with respect to labour code. So if you can help us understand what could be the likely impact, if any?

Satish Gundewar: It is a standard note on labour code and comes generally if you see in many of the banks. Since it is not yet implemented, the final contours are not known. And we really don't know when it will become applicable. So it is very difficult to comment on that.

Pralay Mondal: Okay.

Rakesh Kumar: But sir, what was the purpose of, like you know, we have put that in the notes of accounts, also like have we done any calculation on this

Satish Gundewar: Currently, there is no clarity in terms of when it will become applicable. So we haven't done any such work in terms of what will be the impact of that because still it is in the draft format and final contours not known yet. Whenever the government will make it applicable, of course, there'll be time for implementation. At that point in time, it will be clear.

Rakesh Kumar: Got it.

Pralay Mondal: I want to add, although, the question is not that. Let me tell you, in the last 18 months, we did not have any strikes in the bank; we did not have any labour unrest. Today, our productivity in terms of the way the businesses are happening on a day-to-day basis, is good. We do not have any such issues. We used to get many questions on this before, but let me tell you, everybody is working together in growing the bank today, and it is a very good environment to be in.

Rakesh Kumar: Got it.

Moderator: Thank you. Next question is from the line of Aravind R from Sundaram Alternate Assets. Aravind may I request you to speak louder, please?

Aravind R: Yes. I just wanted to understand like a few things to take, in a very basic understanding. SME loans, like are they predominantly LAP -- are they predominantly secured -- that is one thing I wanted to understand. In addition, what kind of LTVs and yields we have in the SME loans and what kind of ticket size it ranges.

Similarly, in retail loans, I can see like 32% Agri, 16% MFI. So I was trying to understand, are Agri loans also like again secured loans.

Pralay Mondal: So first question first, which is SME, LAP secured, unsecured. We do not do anything unsecured in SME. LAP is a separate business. We do not mix the LAP business with SME. LAP, we track separately. Coming to LTV, on LAP, I think it is 60-65%, and SME mostly it is cash flow-based lending and retail is mostly scorecard related.

Ticket size, the way we divide is two parts. Branches are lead generators and the respective verticals attend to such leads. Such businesses will be mostly retail and MSMEs. INR50 lakh to INR 25 crore accounts are managed by the SME team where the turnover will be upto INR 250 Crs . WSB team mostly handles proposals above INR 25 Crs/turnover of above INR 250 Cr. The SME ATS is around INR 2 Crore & if we take the last quarter or so, the average ATS sanctioned could be Rs 7 to 8 Crs

Coming to Agri/MFI, yes, that's a part of the retail business. It is doing well. MFI business is done through BC partners at this point of time. Agri mostly it is KCC and agri ancillary businesses.

We have technically launched tractor loans, farm mechanisation and all that, but we will progress gradually here. MFI is doing pretty well for us. 58% of our branches are in semi-urban and rural areas. We leverage these branches for our Agri businesses as well.

Agri business is mostly secured. MFI businesses are unsecured. These are typically JLG kind of loans.

Aravind R: Just one more thing, like you did mention about the retail loans and SME loans like as a proportion of the total loans to be at a certain range by FY '30. Can you just repeat it?

Pralay Mondal: So by -- it is very easy to remember. That is why I have done it like that. By 2030, it is 20% gold; 30% retail; 20% SME; 30% wholesale, securitization, and all other businesses together. Therefore, 2030 is 20, 30, 20, 30; 20 gold, 30 retail, 20 SME, 30 wholesale and others.

Moderator: Thank you. The next question is from the line of Asha Rawal from Subhkam Ventures.

Asha Rawal: Yes. Sir, my question pertains to the things as you had mentioned. Next quarter also, we can see some deterioration in the CASA in terms of the short-term maturity. What would be our LCR? I mean, how you see LCR ratio then. That is 107 now.

Pralay Mondal: CASA ratio will be between 30% to 33%; that is our target range. Going forward we will do better than this quarter. LCR also hopefully will be better than this quarter. I would like to keep my hurdle rate at 110%, so this is 3% below hurdle rate. Both CASA and LCR ratios will start improving from Q3 onwards

Asha Rawal: Okay. sir, what is the target for the credit cost? It has gone up for the quarter.

Pralay Mondal: We had a negative credit cost throughout last year and its only 7bps this quarter. I had told this in my previous calls that our long-term thinking is our GNPA will be below 2%, NNPAs will be below 1%, and credit cost will be contained within 40 to 50 basis points. We are well within that range.

GNPA has reduced significantly compared to same time last year. So is NNPA 32 basis points. Slippages are well under control, and credit cost has marginally gone up. Credit cost has one component, which is upgrades and recovery. During this quarter, upgrades and recovery were slower than what we did in fourth quarter. All these are very small numbers to talk about at this point of time. I had always told that we can never remain in negative credit cost zone forever. So sometimes, we have to cross that. We crossed that this time. We will see how it goes next quarter.

Moderator: Thank you. Next follow-up question is from the line of Sumit Rathi from Centrum PMS.

Sumit Rathi: So most of the questions are answered. I just wanted to check, like you have planned out till FY '30, every thinking -- in a very crystal clear manner. What would be the impact on our credit costs? Like how would it move? If you can give some clarity on that, like FY '25 and then beyond that? Because our asset mix will change, our credit costs accordingly would come -- go up. So how do you see credit cost panning out for this -- in these three stages?

Pralay Mondal: Very good question. Typically, what is happening right now gold loan is somewhere between 45% to 50% of the portfolio, the credit cost is almost negligible. Then we have credit costs coming from our older portfolio, which is also reducing balance. I mean, I am trying to explain how they counter each other. So one is positive, one is negative.

Now, third is we will launch new businesses on the retail side. Obviously, nobody can do retail business at zero credit cost. Credit costs will start going up. Having said that, at least for the next five years, once it starts picking up from FY '25 onwards, the way it will play out is, typically, it does not show up in the first two years because of the nature of the beast on the retail side, then it starts showing up. But because we will continue to grow the retail very well for the next few years, we have to look both at lag credit cost as well as coincidental credit cost, both we have to monitor separately. However, what you see is coincidental credit cost.

Now coincidental credit cost is going to continue to be slightly at a slower pace because the portfolio will continue to grow on the retail side because going from where today to 30% on our balance sheet, which is growing at 30%, will be significant. To that extent, at least internally, I have to look at both lagged delinquency as well as coincidental delinquency.

The next part is SME. Now SME will have its cycles. So however good we do, if somebody can tell me that GDP will continue to grow at 6.5%, 7%, 7.5% and will actually become a INR7 trillion economy by 2030, then I can assure you that our SME credit cost will be very low. But if there is a cycle in between, we cannot escape that cycle also. That is again the nature of the SME business.

On the wholesale side, I think we will contain the credit cost reasonably well. We do not see -- but again, there could be a bulky thing -- it can be one account here or one account there that can come in. So overall, we have calculated all of that. That is why I am telling you confidently that this year; we will be probably single digit on the credit cost. Gradually, we will move towards the 40 basis points credit cost by FY '30, which is very good, the best banks are in that range. Credit cost will have this kind of a trajectory that will move on from FY '25 to FY '30. So I hope, I could answer you. Otherwise, this needs a longer conversation.

Sumit Rathi: No, that was very good, sir. Thanks for patiently answering all the questions.

Moderator: Thank you. Next question is from the line of Narendra from Robo Capital.

Narendra: Most of my questions have been answered. So I just wanted some clarity over your opex costs. I mean you said that it would be around 45% by 2030. So what could be the trajectory? I mean, at what point of time will we see a decline in the opex cost?

Pralay Mondal: The way the opex works is that there are four, five elements in opex. One is, the technology, which is the largest for us. Second is distribution. Third is, manpower, which is linked to distribution, it is not necessarily linked to distribution when you launch so many products and functions and verticals and geography etc. Non-distributional manpower cost will also be there. These are the three main heads on the opex side, technology, distribution, and manpower

When you look at the breakeven of each of these, manpower cost breaks even typically in six months' time. The branch -- or distribution breaks even for us, faster before, because we are doing small branches with only gold loans. Once we do proper branches in larger markets, there we breakeven between two years to 2.5 years.

Then the technology breakeven between capex and opex, it may take three years or so on a rolling basis. When you do all this calculation and put it in Excel and do a rollout plan and because we will continue to grow the manpower by, let's say, anything between 30% to 40% at least for the next two years, three years, and then probably by around 25% to 30% or maybe more beyond that, so we have to make that investment to grow the franchise.

I have done this waterfall and we have already told in my last call how much -- what kind of investments we are making in technology. Then you break it into capex and opex and typically, the capex will be for us around 35% and now in our P&L, 60%, 65% will be opex on the P&L. On the investment side, capex will be almost 70%, 80% and opex will be probably, 20%, 25%. So when you take all this, it brings us to around 43%, 45% by FY '30 in terms of cost-to-income.

Cost-to-income is a ratio and you have to have many income assumptions out there. I have divided cost into two parts, cost, and investment. Investments are distribution, which is operating leverage on the branches. People -- operating leverage of the people which takes three months to six months and technology, which gives you that kind of a breakeven.

With all the calculation, we have a phase-wise year-on-year CTI, which will take us to around 45% by FY '30.

Narendra: Yes, I was saying thanks for the patient answer. Just one more thing. Given all your assumptions, is it safe to assume that our NII will increase by about 20%, 22% in FY '24 over the last year?

Pralay Mondal: Our NII increase was around 17% this quarter. Next quarter will not be better than this. Q3 onwards we'll start doing better. So exit '24, obviously, I can't crystal gaze and give that kind of a number, but we'll be probably better than where we are by the end of the year.

Q2, we may have a softer quarter on NII, but we'll make it up with fee income. Our ROA/ ROE will remain strong and will sustain.

Narendra: All the best.

Moderator: Thank you. Next question is from the line of Shrish Vaze from Money life Advisory.

Shrish Vaze: Most of my questions have been answered. My question pertains largely around something that was mentioned in the Fairfax's annual letter. So they had mentioned that the bank owns 38 residential and commercial properties, including land banks, which we had acquired several years ago and some also from – in lieu of security. Just wanted to understand the geographical distribution of this and the market value? What are our plans to monetize these properties?

Pralay Mondal: I will answer that. The way it works is these are typically the NBA assets, which by regulation, you can hold up to 12 years maximum. Within that, you have to monetize, we do not have a choice. Ours is a 100-year-old bank and you must understand that many of these are probably acquired, as there were no takers for the property in a sale. We are following RBI guidelines here and in certain cases, this goes into litigation and all that. So it is almost like a recovery procedures, but we have taken a position of all this.

We have not acquired any NBA property in the recent past. On geography concentration, I would assume that larger concentration would be in the South.

Shrish Vaze: Got it, sir. I am assuming that we do not expect a very large sort of income accretion from the monetization of these assets

Pralay Mondal: That is not even considered in. We have not looked at it from a P&L perspective.

B. K. Divakara: No, we do not have any own real estate assets as such for sale. Few non-banking assets are there in our portfolio, amount-wise it is actually negligible. We do not have any plans to sell any of our own properties as on date.

Shrish Vaze: Okay. Got it, sir. That was all from my side.

Moderator: Thank you. Next question is from the line of Nalin Shah from NVS Brokerage.

Nalin Shah: Most of our questions have been answered. Just two quick questions. Sir, this promoter shareholding, I believe from some RBI guideline, it has to come down. So if you could just tell us by what percentage, and by which year?

And the second question is that, with such excellent performance and profitable numbers, when can we expect bank to be under dividend list?

Pralay Mondal: On the Fairfax Holding. So technical answer is that if you go by regulation, within 15 years, it will have to be brought down in a phased manner. How it will be brought down and what is the trajectory is a conversation between Fairfax and RBI. We are not a decision-maker on that.

RBI may come back to us once Fairfax concludes their discussion and they will keep us informed. We cannot comment on this point now. I have heard from very senior people in Fairfax that they would like to hold it as long as they can. On their own, they might not dilute anything unless they are advised to dilute.

On your second question on dividend, I mean, as an equity investor, would you like dividends? Especially when our ROE is so good, other shareholder indicators are good and we are planning to grow the bank so well. Having said that, now the reason we were not giving dividends is that we had accumulated losses. Now as these losses have been wiped off, we can look at it

Now rest is a question of what Board guides and that we have to look at it. However, dividend is not always the best way to kind of a – get return on a high growing and high aspirational bank.

Moderator: Thank you. Next question is from the line of Vaibhav from Honesty and Integrity.

Vaibhav: Yes. So I have a couple of data points, so if you can help. For gold loan business, if you can help me – if you can give me average gold loan ticket size, and average gold loan per branch and opex to average assets for the gold loan part of the business, not the total part of the business?

Pralay Mondal: This data is not in public domain. But typically, what I can tell you is that the gold loan ticket size for us will be within INR1 lakh to INR2 lakhs in that range on an average and gold per branch will be around Rs 15 Cr, but rest of the numbers are not in public domain. So it will be difficult to share.

Vaibhav: So would it be correct to say that gold loan will have higher opex than the other part of the operation, generally, given our ticket size. Would it be the correct?

Pralay Mondal: That is a correct interpretation, but in our business model, A) most of those branches have already broken even. B), we are invested into those already. Therefore, when you are invested on that, we are getting from a marginal cost perspective and marginal benefit on marginal return perspective and it is good for us. From that perspective, you have to sit today and take a strategic call. Theoretically, we can say that gold loan, this is the opex, and this is IRR. It is somewhere between 11% to 12%, which is very good with very minimal loss and with very little risk weights. I think we have given that data in the presentation. We are actually working on a marginal cost, with only the people there and hence it is a good business to do. If you do only this business as it is so good, then we only become a gold loan bank. So the reason that we are expanding in North and West and building all those businesses because from a gold loan customer -- beyond gold loan, you can't do much with him. I mean, gold loan fee comes, but other fee businesses, cross sell of other businesses cannot happen. From that perspective, we have to diversify and we have to build those businesses. This is a very niche business and has to be seen it that way. As we are invested into it, we are sweating the system. That is exactly what it means in terms of marginal cost efficiency.

Vaibhav: Got it. And in terms of, like the scalability of this business, maybe because we might already be targeting areas, geographical areas where we can really scale up gold loan per branch, this is really fast into a reasonable amount. Maybe as of now, it's profitable to the extent it is. But if you go deep and kind of target lower-yielding areas, would the profitability will get affected for the gold loan?

Pralay Mondal: That is why at the places where it is low yielding, where your cost of premises is higher, cost of manpower is also higher and in those areas, you should not be doing gold loan business. In a primary location in Delhi and Bombay, why should we do only gold loan business? For doing other businesses, we need the right products in segment. That is why we have to create that segmentation of the pyramid, which we are creating, and we are starting to build some of those branches now. We may have gold loan as another product, but the main focus of those branches will not be gold loans.

Vaibhav: Got it. That is it from my side, sir.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Pralay Mondal: Thank you very much and thanks everybody for asking very interesting questions. I hope I could answer them. Again, we will come back after a quarter to meet all of you. Thank you very much for participating and have a good evening. Thank you very much.

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