“CSB Bank Limited
Q4 FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the CSB Bank Q4 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 the 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, Dorwin. Good evening, and a warm welcome to all those who have joined the call. The CSB Bank management is represented by Mr. Pralay Mondal, Managing Director and CEO; Mr. B.K. Divakara, Executive Director; and Mr. Satish Gundewar, Chief Financial Officer. We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their result call.

The management will first be making some opening remarks, after which we will throw the floor open for questions. I now invite management to make their opening remarks. Pralay, over to you.

Pralay Mondal: Thank you, Shivaji, and thank you, everybody, for joining our Q4 and annual result analyst call. To start with, on the global scenario; I think the world has geopolitical risk at this point of time, though it is stabilized right now. It is leading to fluctuations in commodity prices and strengthening of the U.S. dollar , which is further aided by the strong economic performance by U.S. and stagnant U.S. inflation.

We believe that the current situation may delay the rate cuts a little bit in U.S. and this may stay higher than anticipated. We do not believe that the current situation will force U.S. to change the rates further either way. When RBI looks at the rates, I think they will also have a close eye on what global scenario is and take calls on how the rate cuts will be in India as well.

On the domestic side, the system liquidity has moved back to deficit mode again for the last few days, after staying in a surplus mode for a fortnight. The liquidity deficit will continue and we do not expect it to stress deposit rates for this quarter.

The inflation has been easing slowly. The heatwave and the drought forecast for some parts of India may impact food prices in the short run. This impact will be transitory. The overnight rates will remain range bound between 6.5% and 6.75%, and 10 year Gsec is likely to range between 7% to 7.25% this quarter, though I think today - it was on the higher end of this range. The good news is, so far, the projections on monsoons is good, and that is good for the rural economy, as well as India as a whole from an inflation perspective.

On CSB specifics, overall performance on both top line and bottom line was stable on a quarterly and financial year basis. Highlights of our performances are - slightly improved profitability, Net profit of INR 567 crores as on 31/03/24, up by 4% from 31/03/23 on a Y-o-Y basis. For the quarter ended 31/03/23, the net profit is at INR 151.46 crores, which is almost flat compared to Q3 of the same year.

We have a provisioning buffer of around INR 171 crores over and above the regulatory requirements, including the contingent provision of around INR106 crores. We could maintain the NIM above 5% in a difficult market scenario for the quarter as well as for the FY and it is 5.04% and 5.09%, respectively. ROA, we have been close to 1.8%.

On the liabilities front, we focused quite a bit on deposits and had a growth of 21% as against the industry growth of around 14%. CASA ratio stands at 27.2% because we grew the term deposits faster. On the asset side, net advances grew by 18% Y-o-Y. Industry has grown at around 16% Y-o-Y. We took a conscious call to moderate our growth. We'll talk about it as we go through the Q&A.

Gold loan portfolio registered a growth of around 22% Y-o-Y. Yield on advances for Q4 FY '24 is at around 11.77% with an improvement of 60 bps from Q4 FY '23. FY '24 is 11.35%, Y-o-Y, which was 10.92% for FY '23, up by 43 bps. On the asset quality, metrics is stable in key indicators like GNPA, NNPA, PCR, etc. I'm sure we'll have some discussion on this in the Q&A session. We will detail out why our GNPA, NNPA and PCR deteriorated slightly, but still is one of the best in the ecosystem with 1.47% on GNPA, NNPA of around 0.51% and PCR of 86.44%, including technical write-off and 65% without technical write off.

Continuing with the accelerated NPA provisioning policy of providing higher than RBI requirements and holding the contingent provisions, which I just talked about, we are holding INR 170 crores plus there. We have a robust capital base with CRAR of 24.47%, low proportion of risk-weighted assets compared to the industry, primarily because of the gold loan portfolio. In terms of shareholder value creation, book value per share has crossed INR 200 mark and is at INR 209. Book value has grown exactly in line with our business growth of around 20% year-on-year. EPS for FY '24 is INR 32.67 and ROE stands at 17.37%.

On the distribution, we added a good network of branches & ATMs - we have an overall network of 779 branches and 731 ATMs. We added 76 branches during last FY. While we go ahead with our branch opening strategy, we will also invest into omnichannel banking. We have also experimented with about 20 branches where we have divided the branches into gold and other businesses, effectively creating 2 separate operations in the branches, and that experiment is working well for us so far. Based on the success, we will expand on that this year in a significant way. So those are the numbers.

I will take a little time on this concluding message because there are lot of things, which are happening in the bank, which are beyond numbers. In the last 2 to 3 years, we have worked meticulously in getting our building blocks in place, which will put us on the right track to reach our SBS 2030 vision of becoming a respectable midsized bank.

These building blocks would include creating the right culture, right leadership; kind of hands-on leadership defining the culture that will take us and our bank to the next decade and putting clear process and practices in place to ensure that these are not just mere words, but communicated and practiced starting from top management. We have experienced leadership in place in each function at top 3 to 4 levels, including regional leadership and they are leading through the examples.

Why I'm talking about some of these 4 or 5 points is that this is really what we are now living, breathing, eating every day because we believe that to build a long-term bank, quarterly numbers will come and go. However, these are the building blocks, which will create the bank for the future and we are clearly focused on SBS 2030. These are more important, at least to us as management at this point of time, than few basis points here and there on numbers.

The second part of the pillar is governance and compliance. We all know how important it is. Globally, this is becoming more and more important. We are focusing on the highest level of governance and compliance, including experienced and knowledgeable Board and implementing the compliance culture in letter and spirit. I myself look at each compliance part in the bank on a regular basis, and this is a key focus for me personally from the MD's office.

On risk management, we are working on solid risk governance, mind-set and defined structure with clear guardrails, be it credit, policies, cybersecurity, market risk, liquidity risk, operational risk, reputational risk, etc. One of the reasons you saw that our liability growth has been faster than credit growth, is from a liquidity risk management perspective because we think that these are important parameters, which creates a long-term sustainable organization.

I have been part of building a large organization in the past. I can say with reasonable conviction that these kind of things are more important, at least from my perspective. Hence, I tell my management, to sustainably build these kind of pillars, which will build the bank in the long run.

The fourth one is customer centricity and customer focus and we have clear focus there. We are actually working hard towards making this as a key differentiator in the long run. I personally feel that we are a long way from that and we have to do a lot more, but we will be there. We have a separate vertical under our Service and Process engineering head, Tapasya Vaid, who looks up to this. I myself chair the Service Governance Council meetings, where all CXOs meet periodically and discuss progress on identified areas of improvement, customer delivery and service. This is a subject very close to my heart and one of our top most priorities. I have built businesses in the past, primarily based on these kind of parameters.

Last but not the least, is technology. The most critical lever in the current phase is technology for us, as that is where we are putting our everything now. The bank won't have almost anything in technology that was running in the bank 4 years back, and everything will be new age and new implementations.

We are talking of a complete transformational journey on the tech side. There, our motto is incremental to transformational mindset. We don't want to incrementally improve instead, we want to transform the entire technology stack and this mind set is there among all senior management, participated through the entire leadership team and driven by our CIO - Rajesh; and our ITSC Chair - Mr. Sharad Saxena.

We are on track with the various project implementation time lines as of now. We are planning go live of Phase 1 in current FY on our core system migration. We are told by our implementation partner, that we are one of the first banks who are doing our Oracle – OGL- OFSA implementation together. We should be able to finish Phase I in this FY, which will lead to process streamlining as well. Many products and services, which we plan to launch, will be launched on the back of this.

On the distribution front, we are looking at opening of around 60 to 75 branches in the next FY, plus the project, which I just talked about initially. We, as senior management in this bank, want to think big and be accountable for the delivery on all of our priorities. That's why I mentioned these priorities. That's why I believe that we are ready to communicate this confidently to all our external stakeholders, just like I'm doing it right now. Unless you put it up front, you do not become accountable for this and this remains as mere English.

We envisage FY '25 to be the most challenging and exciting year in our 7-year SBS 2030 journey. We are ready as a team now and each member of the CSB family is geared up to meet this challenge and will engage more, involve more and strive to do better in the coming quarters.

We have four verticals on the business side: Wholesale banking, SME banking, Retail banking and Gold. Each vertical is now led by extremely senior and very capable leadership. Our wholesale banking vertical is led by Manish Modi - who is a well-known wholesale banker in the industry. He is building his entire team and hence, we will see many changes, which we will bring in, in wholesale banking now.

SME banking is led by Shyam Mani, who for the last 2 years has done well and now we are starting to see the fruits of that work, and we will see a lot more in the coming years. Retail banking, of course, by Narendra Dixit, a veteran across various organizations/ big banks, and he is building up on the retail side. Gold is a part of Narendra Dixit's vertical itself, which is integral to our branch banking today. With that, I stop here, and I would welcome questions, and I am sure there will be a lot today. Thank you very much.

Moderator: Thank you very much. We have the first question from the line of Sumit Rathi from Centrum PMS. Please go ahead.

Sumit Rathi: Sir, congratulations on a steady set of numbers. Though there were some surprises and as you alluded that we would be discussing that. I had questions regarding: one, the slippages, there is almost a 3x jump in our slippage ratio. Another thing that came slightly negative to me was advances growth Y-on-Y. As we have always kept the notion that we would be growing 1.5x the industry growth, if not more. And you alluded to some extent that you took a conscious call, so you shall give more idea about that, that would be very good to start with on the asset quality, including slippages and advances growth that we'd like to hear from you.

Pralay Mondal: Thank you, Sumit, for your question, very relevant set of questions. On the slippages, if you ask me, there is only one item there. Rest are all business as usual for us. One account, which is an INR70 crore kind of exposure slipped, though it was not expected, because of some technical reasons on their side. We are reasonably confident that through this year, we should be able to pull that back, because there is not too much of a problem there. If you take that account out - which led to around INR 17 to INR18 crores of provisioning; as we do 25% provisioning and another INR 2 crores interest reversal, with a total impact of almost INR20 crores, then pretty much everything else is business as usual. This specific account and INR20 crores will answer the other two questions, which you have not asked, on GNPA, NNPA and provision coverage ratio. If we calculate all of them, you will see it normalizes back to where we were before and where we'll be again very soon.

Coming to your second question on asset growth. I'll tell you why we were a little careful. We take the RBI inputs and guidance very carefully and post their guidance on lending to NBFCs or unsecured segments, we became cautious. I'm not saying there is any problem there. Since we have a small balance sheet, we need to look at these things a lot more closely and carefully compared to some of the larger banks who have a large cushion.

I am not saying that anybody who is growing fast in these businesses is doing anything wrong. For a bank like us, you saw that just a slippage of one INR70 crores account, which will repair itself very soon, can create so many questions. Accordingly, we are very careful in some of these things and we have stepped back in some of those businesses. That's number one.

Number 2 is that on the wholesale side, we have grown negatively this year, primarily because of two reasons. We have de-grown our DA book - the direct assignment book, which is not really a wholesale business. We consciously decided that given the cost of funds where it is today, and for the yields, what we get there and for any kind of a risk which can emanate from there, we would not grow that book at this point of time, unless things change. Secondly, LCBD is also a rate-oriented business and not a franchise business for us yet. At this level of cost of funds, we said that we would not do this business. Except these two, you will see that we have grown -- SME has grown 28%. Last quarter question was there as to why SME is not growing. Now SME has grown. Gold also, we took many pre-emptive actions in view of some regulatory concerns in the system. We did everything to ensure that we plug in any kind of operational issues, which can be there in a gold loan. Based on what we have seen in the system and regulatory expectations, we have proactively managed some of these things. Gold loan has grown by 22%, SME has grown by 28%, Retail has grown well. The only business which has not grown is wholesale and it was more of a commercial decision that we took.

Again, because these are not franchise business, this can be built any time. Right now, we are building a very strong wholesale banking team and we will look at real mid-market, emerging markets and even large corporates entry in some places, wherever we can. You will see a very clear turnaround on wholesale business in the next 2 years. So that's the primary reason where we didn't grow as much. Liability - you saw that we grew at 21% against a 14% industry, which is almost 50% faster than the system. On the asset side, it was a conscious call - as I mentioned in the opening remarks.

Sumit Rathi: Yes, sir. Very well understood, sir. Another one aspect which I wanted to check on was our opex to average assets have also shown a slight high trajectory this time. I know we are into building phase and there can be expenses here and there in order to build the kind of vision we have for FY '30, and we really respect that, and we are looking forward to that. Still, are these just one-offs or this kind of surprises on opex too and can come again in the future?

Pralay Mondal: Opex to average assets - I think the primary reason for that is the investment in technology at this point of time. There are two investments that we are making today. One is investment into technology, which is both opex as well as capex. Secondly we are building distribution. Along with that, we are creating various verticals and building the teams for future. Because we know that in the next 18 months, we will be fully ready with all our technology, If we do not start investing into the verticals today and start doing it sequentially, then we will not be able to achieve what we want to achieve by SBS 2030. That is why we are starting to invest into the verticals. We are doing bits and pieces of business everywhere so that the branches understand how to do cross-sell, what are the products, how do we do business, how do you have manufacturer relationships, key relationships, all of that stuff we're doing. On the transaction banking, we are building teams; wholesale banking, we're building teams; retail, we are creating a sales vertical, which will be in the customer acquisition and all of that.

There are two primary areas where we are investing- one is investment into new verticals and people with a vision of building a larger bank; and, the other is significantly into technology because if you are saying that you're rebooting the bank and changing everything in technology, you can understand that there is so much investment going in there. Having said that, what I can tell with reasonable confidence based on my calculations until FY 2030 is that from FY '26 onwards, you will start seeing tapering down of this. By FY 2030, our cost to income will be well below 50%.

Today, it will hover around, I've told in my last call also, last to last call also, that we'll be around 65%, sometimes 2% higher and sometimes 2% lower. But clearly, FY '26 onwards, you will see sharp tapering of this, and we will be well below 50% by FY 2030. So that's the way -- and that's the answer to your question.

Sumit Rathi: Great, sir. But one last thing, sir, on advances growth since from last 2 quarters, we are taking a conscious call of not becoming a victim of rate challenges and reducing NIM. Going forward, should we expect a similar kind of, say, for next 2 quarters? Or are we going to address it and we'll get back the advances in shorter term. I understand the medium to long-term, we are there. But in shorter terms, are we going to address the advances challenge by somehow and getting back to our growth rate of 1.5x the industry?

Pralay Mondal: I have always said that we'll grow 30% to 50% faster than the industry. At an 18% growth, we are closer to, probably 20% faster than the industry. But yes, I've said before that we will not compromise growth for margins. You will see this year that we are not emotionally attached to a 5% margin. We will be lower than that. We'll be somewhere between 4.5% to 5%. We will get our growth back.

But one of the reasons we are not growing is not because of margins necessarily at that high cost of funds we are also trying to focus on our average LCR - which was 117% in Q4. Average LCR of 117 would mean that many days; we could be at 126 or 128 also. So managing our average LCR of 117 and managing a CD ratio of 82% in this kind of dynamic and slightly uncertain environment, was a bigger trigger for us than just margins.

But I will never shy away from building business even at lower yields if it's a franchise business. DA business and LCBD business is not a franchise business at our life cycle of a bank. However, if tomorrow Manish Modi comes and tells me that I want to enter this franchise group at this rate - that is where I am having a very low margin, I will be happily taking that because that is a franchise business. Or if somebody tells me that I want to do this on the retail side and there the margins are low, let's say home loans or something else, I'll happily grab that because that's the franchise business.

We are here to build a bank. We are not here to build and run a niche bank. We are here to build a medium sector bank by 2030 and then try and look at even beyond that. But at this stage, growth will come back provided the ecosystem is helping us getting that growth in a very balanced manner between liquidity, margins and risk.

Moderator: We have the next question from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Congratulations on good set of numbers. Firstly, on the deposit side, I just wanted to check how much of repricing is with you and where do you expect the cost of funds to be?

Pralay Mondal: I think it is almost 80% is done, because generally deposits are of 1 year or lesser average tenures in most banks, including us. Given that and since the deposit repricing has been happening for a year or more; we are almost done. A small quantum is left, which will be repriced maybe in another quarter or so. Our cost of funds is well below 6%.

We are one of the few banks, despite being a small size bank and the entire liquidity challenge; we have managed our cost of funds reasonably well. But yes, the cost of funds has gone up -- cost of deposits has gone up, which has impacted the NIM a little bit, but I think that's an industry phenomenon.

Mona Khetan: Got it. And secondly, you expect basically that next quarter or so ideally how cost of funds could be?

Pralay Mondal: It is difficult to say. I don't think more than 10 - 12 basis points here and there will be left anymore. So we're almost reaching the peak in my view, unless some major global geopolitical issues comes up.

Previously we were thinking that there will be a sudden interest rates cycle reversal and things will change overnight. You see how it is today; the 10-year G-Sec is 7.23%. Globally also, say in US, it has now moved to almost 4.6%.

I think it is not changing very much. I am not seeing too much of a change happening in the next 2 to 3 quarters. So we'll be pretty much where we are for the time being, and that's what I'm baking into my plans right now. But it will be difficult to retain 5% NIM given that we want to grow again. But overall, I think we'll be somewhere close to between 4.5% to 5%, maybe closer to 5%.

Mona Khetan: Got it. Secondly, on the yields aspect. So this quarter, we saw a lot of growth also coming from SME where I assume the yields are lower. And yet, when we look at the reported yield on advances, they have increased by about 25 bps from Q3 to Q4. So what is helping the yields, if you could give some color?

Pralay Mondal: On the SME, I told it last quarter also when this question came up. You can see that the SME growth has now started showing up in the system.

On the yields in SME, our yield is somewhere around 10.7%, but if you take the MSME yield, it is slightly higher. Broadly, wholesale works in the range of 9% to 9.5%; SME works in the range of 10.5% to 11%; and gold works in the range of 12%

Rest are very small segments, like microfinance and agri and all that, where yield is in the range of 12 to 15%. Retail is also again around 10% to 11%. This is the range where we are in and this has been consistent all across. Maybe, it has gone up by some basis points here and there.

Mona Khetan: Okay. And sorry, can you come again on the corporate yield, wholesale book yield?

Pralay Mondal: Between 9% to 9.5%.

Mona Khetan: Okay. Got it. Just one last thing. So there have been media reports suggesting probable mergers with IDBI Bank if the Fairfax bid for IDBI Bank goes through. So if you can just share your comments, if any around -- how this will play out and how do you see it?

Pralay Mondal: Media reports, I can't comment on, because I think it's a flavor today. Last 2 days, it was in a different flavor. Before that, that was another flavor. So they will report what they think right. But from my perspective, purely from CSB perspective, I have absolutely no information about anything.

Fairfax, being an investor, they can look at any opportunity at any time. But I don't think that there is anything which I am aware of on this. In one of the town halls in Chennai, somebody asked me this question, one of my employees - I have a simple answer that if I knew anything like this is happening, then I would have taken Finacle as a software and not Oracle as a software - Because IDBI is on Finacle and we have taken Oracle.

So I think that settles the question -- we are building the bank purely based on organic growth, and that's what we have been told to do and we are investing into the bank in the same manner. Beyond that, I have absolutely no idea.

Moderator: The next question is from the line of Prabal from AMBIT Capital.

Prabal: Am I audible, sir?

Pralay Mondal: Yes, Prabal. Thank you for coming on the call.

Prabal: Sir, my first question is on your deposit strategy. We have seen around 30 to 35 branches being added during the quarter, but sharp rise in the ATMs that you have added, around 200 new ATMs. So just, trying to understand your thought process behind this?

Pralay Mondal: Our bank, in the past, was not having ATMs in all the branches, as we used to run gold as a primary product, many of the gold-focused branches did not have ATM. I just explained in one of the previous questions how we are converting many of our gold-focused branches also into universal branches as those locations are potential locations, and we never leveraged them for the other businesses.

Now we are adding ATMs and many other things in those branches to ensure that they become full-service branches and not just gold loan branches. That is why you are seeing increase in the number of ATMs in addition to, of course new branches.

If the question is, are we adding too many offsite ATMs? The answer is no unless there is a strategic location or strategic decision. In certain branches where we are seeing more than 200 to 300 transactions in ATM, there we are putting our second ATM also. However, primarily, we are transforming most of our branches to full-service branches and these ATM additions are happening.

Prabal: Sir, second question will be on gold. This quarter, of course, there was increase in gold price and that would have led to even growth. But our LTV has not changed much. So how to think about LTV going forward because it is still relatively high at 74%?

Pralay Mondal: Our tonnage growth was around 8% and our overall growth was around 22% in gold. I think our LTV was around 80% in H1, which has now come down to 74%.

Almost 79% of our gold loan business is Agri gold loan. If you put all these numbers together, I think the math will work out.

Prabal: And going forward, how should we think about LTV, any range that you want to stick to?

Pralay Mondal: LTV has to be seen in two parts. We will keep Agri loan LTV to be below 85% and non-Agri loan LTV to be below 75% because that is the regulatory norm.

Given that, our gold business is heavier on Agri in terms of portfolio, our LTV looks higher at around 75%. In addition, interest application adds up to the LTV. You can see that if our LTV is 74% at this point of time, with an Agri share of close to 80%, the non-Agri portfolio LTV will be lower.

We always factor in a sensitivity analysis in a scenario of 10% drop in gold prices, and then see in terms of risk where we stand, and we are comfortable there. We know that gold prices are almost at all-time high at this point of time. We will keep the LTV below 80%.

Prabal: Now the retail and MSME portfolios have started growing 25% and above. Should we start expecting that eventually gold will start seeing reduction in share and SME and retail will make up for that? Has the time come now?

Pralay Mondal: Yes, absolutely, that is what we envisioned under SBS 2030, where gold will be 20%, retail will be 30%. SME will be 20%, and wholesale will be 30%. The only segment, which will be a little back-ended, will be retail, as the real heavy lifting will happen between FY '27 to FY '30.

Rest of the things, SME is now already happening and wholesale will happen in the next 2 years, and this will help us in the overall growth as a bank in a faster pace. Today, we do not have levers. With larger balance sheet, we will actually grow faster because we will have more levers and hence, during FY '27 to FY '30, we will grow much faster than what we are growing today just because of additional levers.

Once we do that, it is not that gold growth will come down – It may come down a little bit, but not necessarily to a significant extent. However, as other businesses start picking up, they will automatically take the business mix of gold down. This is a part of our clear, structured, strategic kind of a road map, which we have designed for ourselves.

Prabal: Sir, I have two more questions -- small questions. Can I ask?

Pralay Mondal: Sure.

Prabal: Sir, on the yield side, we have seen a good jump this quarter. Going ahead, what are the levers that can help us improve yield thereon?

Pralay Mondal: You will not see too much of improvement in yield. If the business mix changes and gradually gold starts coming down even by 1%, 2%, 3% here and there in the overall business mix and gets replaced by wholesale and SME and to some extent by retail, weighted average yield will not go up; if at all, it may have some compression.

However, we will not do business, which does not make sense for us, unless it is a franchise business. We are willing to build franchise business at any cost, as it has a long-term impact. We will not do tactical business just for the sake of balance sheet growth. It will work that way. On the overall, yield; we will be happy to hold it where it is today, primarily because business mix will change.

Prabal: Right. And the last question will be on other income. We saw a sharp jump during the quarter, any one-offs there?

Pralay Mondal: No one-off at all. We are happy with the growth on the other income. It is not because of the number but because this exactly played out as I told 2 years back, 1-year back, 6 months back. When I took over, our core non-interest income to total income was low and there was a gap there.

There used to be income on the treasury and PSLC side. For us, PSLC income has been somewhat okay. Previous year was much muted. To that extent, we focused on core fee income business, and this business in my experience is not only sustainable, but it also keeps growing as new businesses comes. We are not even heavy into payment business. We are not even heavy into retail assets business. Wholesale transaction business is starting to come. Even then, our non-interest income to total income is reaching around 17% now, which is in line with some of the best players in the market. My vision was to take it to 13%, 14% and it is 17%.

What is good about this is that it is sustainable. What I am committing here is you will see a sustained growth in this noninterest income. We are not up fronting any income; we are not doing any of those things. We always do the right practice. This is core income, which will continue to sustain over the next years to come.

Moderator: The next question is from the line of Saptarshee Chatterjee from Grow Asset Management.

Saptarshee Chatterjee: Sorry sir, harping on this again on the slippage part, the account that has got -- so you have talked about there is some technicality and therefore it has got slipped. I did not understand fully. Can you please elaborate on this too, what had actually happened? And this is from which industry, which credit rating, some details on this, please?

Pralay Mondal: So that level of details I may not be able to share. Nevertheless, let me put it this way, that even 6 weeks back or 8 weeks back, we did not know that this slippage would happen, Otherwise, I would have given some kind of disclosure, as I do not believe in giving surprises to the market.

There is no way I knew anything about it last quarter when we talked about it. This will give you a perspective that this is a sudden event, where remedial action is not difficult. We believe that remedial actions should happen in 1 or 2 quarters' time. I can tell with almost 99% confidence that in FY '25, when you look at it, we will not even discuss this account.

This is of not much relevance to me in the longer term of things as this happens one quarter here, one quarter there. This is not taking my sleep away because remedial action is being taken and reversal will happen sometime in this year. When it will happen, I cannot say precisely, but it will happen because this is not one of those issues, which will drag on for quarter after quarter and year after year. We are confident about it.

Saptarshee Chatterjee: Got it, sir. In addition, generally, when we see the larger peers, they are maintaining around 1% plus kind of contingent provision. Any thoughts on building contingent provision or you are comfortable at this level?

Pralay Mondal: We have around INR171 crores of excess provision over and above the regulatory provisions including INR105 crores of contingent provision. I think, is a reasonably good number for us, especially because our provisioning policy is conservative at this point of time. Again, you have to see it from a business mix. Other banks could have different kind of business mix. When we are into a different business mix, we may change some of our philosophies. But when 40% of the book is gold loans where there is effectively no risk other than some small operational risk and we have not seen any kind of a major issue in other segments, having more than INR170 crores of excess provision does not make any sense for us at this point of time. We have a stable PCR as well.

Now this quarter it has come down for technical reason and it will go back to 75% range. Therefore, I think we are quite comfortable with INR171 crores of additional provisions with a vision of having our 75% PCR kind of range.

Saptarshee Chatterjee: Understood, sir. And two data keeping questions. One is, you have talked about the yield across segments. Can you also give some idea on the yields on the retail part, like you have given microfinance, but the other parts like supply chain or CV CE book, what are the yields on which you are working? Second is, what is the -- our non-gold branches where we have other products available along with gold, the number of branches?

Pralay Mondal: Very transparently, I am telling that our wholesale yield is between 9% to 9.5%. It is not that we will not do business below 9%, but average is in that range. Our retail yield is somewhere around 10-10.50% SME is in the range of 10.5% to 11% and gold is somewhere around 12% and microfinance and Agri is somewhere around 12% to 15%. What is the second question?

Saptarshee Chatterjee: The number of branches where we have other products along with gold?

Pralay Mondal: We do not want to have any branch, which is only doing gold business. You have to have branches with tellers, with cash, with everything. But I assume your question is retail assets, fees, everything.

All branches do most of these things, but SME is concentrated in few clusters / locations -- the real SME/ the larger SME is focused in one hundred branches, and MSME is focused in two hundred branches. Fees, we do almost everywhere. On the Retail assets, we are gradually building because we do not want to go all over the place now. We are going slowly. Liability products like savings; current accounts etc are there everywhere.

There are some branches, which are little more gold focused, and they are mostly in three locations, Kerala to some extent, Tamil Nadu to some extent and Andhra Pradesh and Telangana to some extent.

Saptarshee Chatterjee: Can I have just one small follow-up on this -- on the retail yields?

Pralay Mondal: Yes, yes.

Saptarshee Chatterjee: In the retail, when you said that it is between 10%, 10.5%, like can you give some order of which are at higher yield, and which are lower yield within retail?

Pralay Mondal: It is difficult to say, as I do not have that exact number with me. However, having run large retail businesses in my life, I can tell you, which range the industry is at. We cannot be outside the industry. I can give an indication of the industry trends. CV CE business will book loans in the range of 9% to 10%. Auto business will be somewhere around 8.5% to 9%. Then home loans will be somewhere around 9%. Then inventory funding will be around 9.5% to 10%. Then some used vehicle businesses, where yield will be slightly higher, maybe 12%, and 13%. LAP businesses will be somewhere around 9.5% to 10.5%.

I do not think we are anywhere too different compared to what these markets are because we do not operate in a different market. We do not have a yield maximization strategy; instead, we have a risk minimization strategy. We will be generally in this range only in most of the businesses.

Moderator: We have the next question from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Just wanted to understand on the gold loan business. Are we getting any benefit from the recent problems for a leading NBFC, and do you see higher growth next year on that account?

Pralay Mondal: Thank you for your question. First of all, I do not feel good if there are any issues anywhere in the banking ecosystem or financial ecosystem because there is a learning for all of us from the regulatory measures. The market is too big. We are not even a large enough player. Our business mix in gold can be large, but with an INR11, 000 crores book, we are small.

We are focused internally in terms of what we can do and what we should do. I do not even think we are in the same segment of customers compared to the NBFC, which you are talking about because our yields are around 12%. I would believe that any NBFC would be charging between 16% to 20%. However, philosophically, I am not in a thought that somebody else is losing business and I will take it. We will have our own way of doing business.

Pallavi Deshpande: Is there any target for next year in terms of growth for this business?

Pralay Mondal: For gold business?

Pallavi Deshpande: Yes.

Pralay Mondal: Yes. As I said before, that as a bank, we will grow around 30% to 50% faster than the system. Within that, I would say that probably gold would grow similar or maybe a little lesser. If the system grows, let us say, next year by around 13% as estimated by few credit rating agencies, we will grow at roughly 19%. If we grow at 19%, then probably gold will grow somewhere between 15% to 20%.

Moderator: The next question is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: Sir, my first question is on wholesale banking. We have added people, we have hired Manish Modi. And you mentioned that as of now till this quarter, it was not a franchise business. I wanted to understand, what could be the pace for this business to become a franchise business? And of course, the wholesale market is a large market, considering our size, our cost of fund advantage, our distribution, and maybe the corporate connect, how would you segment the entire wholesale market?

What could be the near-term segments, which you would prefer to play in, maybe by ticket size, maybe by certain industry or maybe any colour to understand the thought process on this business becoming franchise business?

Pralay Mondal: That is a great question; let me take a little time in answering this question. First of all, if you look at the kind of leadership we have got into the bank today, be it on the SME side, be it on the retail/gold or now be it on the wholesale side. These are all people who have seen businesses, which are say 20, 30, 40, 50, 100 times bigger than we are. This means that they understand the entire market in their respective areas of operation, whether it is SME, wholesale, or retail.

However, the challenge is that one could have handled the largest credit card business, but we do not even do credit card business ourselves directly. The question is where we stand as a bank. When Manish has come in, he has to first see where we stand and what are the steps to build. We are not in a hurry. Let me put it this way. Retail assets, I could have built just like that by appointing DSAs and getting businesses. Those are easy things to do, and I know DSAs, I know the market. We said, no, we would not do this.

Manish also has to build the building blocks right to build the franchise business. Coming to our preferred segments, with the existing size of our balance sheet, we cannot even participate in most of the larger tickets or larger consortiums or larger kind of partnerships. Having said that, Manish is building a good team across the country. Each of them have worked in institutions that have lend to largest companies in the country also.

Those connects has to be maintained, and in some form through supply chain etc, we can build some businesses. We are working on it. Without taking names, I can tell you that after he has joined, I have gone and met 3 to 4 largest business houses in the country, and I know that we cannot do business with them all, with our size. However, we are meeting them and trying to see that how we can associate with them, because each of these large companies or largest conglomerates also have small units with them, which are a part of their group. We are trying to see if we can work with some of these smaller companies, which have guarantee of this larger company. That is one segment, which is attractive to us. They will not come with great rates, but still, we need an entry. So that is one.

We will clearly operate in the mid-market in most of the geographies and in segments, which will work well for us. We will work in emerging corporates. The way he has divided his team is, under him, Vatsal looks after the corporate banking, Avinash looks after the emerging corporates, and Runa looks after the FIG business.

We never had these segments in our wholesale business. Under each of them, they are now building regional heads and things like that, which is like good, experienced people who are going to handle this business. We are driving the classical way of building a wholesale franchise. Parallelly, we are also having, transaction banking team head Aman Singla who is working both with Shyam Mani, the SME head as well as Manish, the wholesale banking head. He is building products like CMS, supply chain etc.

We are going to have TFX systems. We are building products out there. We are building the blocks for a proper high-end SME business and mid-market wholesale business. That is the second part.

In the NBFC segment, we are always strong. As some of these manufacturing or other parts of the businesses starts growing in parallel to the pickup in capex, maybe 1 year from now, we have to get ready for some of those businesses. So naturally, as a proportion, as other wholesale business goes up, NBFC business proportion will go down.

Government business is something else, which they are focusing on, but that is primarily for liability. Because they also will have a target for liability and fees, and you know that in the wholesale side, fees is important. We would like to have at least a 1.5%, 1.6%, 1.8% fees in the wholesale business.

We are taking this kind of approach. In short, what I can tell you is that we have a good treasury team, TFX and other businesses. We have Alok, who is a good treasurer. The treasury team, the transaction banking team, the wholesale teams are working together in building a wholesale franchise. It does not take that kind of a time that retail business usually takes. Still, it will take a year to start full-blown wholesale business because you need technology and other things as well to come together. Given the pedigree they come with, they should be able to build the business along the way. They will not have to wait for everything to come to build the business. We are hopeful that both SME and wholesale will do well for us this year.

Jai Mundhra: Understood, sir. That is an elaborate answer and very insightful. The other questions were partly asked, and you have given your thoughts. But if I understand it correctly, sir, I mean, the credit environment has been very good in the last few quarters, and we had a large INR70 crores kind of slippages. And if I were to see out of INR6,000 crores corporate portfolio, this maybe one of your top twenty to top thirty accounts,

I do not know, but because it has turned very suddenly as you said, without too much of a warning. But I mean, does this worry you in terms of risk management or what is the comment that you can offer there because it looks like it is not a run-off kind of slippages?

Pralay Mondal: It is a surprise slippage, and it was not in our radar because it was not supposed to slip. Beyond that, I cannot say anything. That is the reason why we are also quite confident that we should be able to cure this. Having said that, on your original question, if I have to put top ten things which can keep me awake at night, these slippages does not fall in the top ten in the bank. I have ten other bigger worries than a slippage right now.

Having said that, what we have also done is that we have taken potentially top twenty stressed accounts in the bank, and we have earmarked the outstanding contingency provision of INR106 crores against these accounts. This was done after talking to our statutory auditors and Audit Committee. We do not need to use it at this point of time, and this was the most conservative approach we took.

This account by the way was not even a part of this twenty list. That is why I am saying that this was a surprise one. If it was not a surprise, even with a slightest indication of it, I would have given an early warning to the market. I am confident that we will be able to cure this. I do not have any concerns on this, and I do not worry too much about stray slippages on the corporate side of the business.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Pralay Mondal: Thank you very much. Thank you, Shivaji for organizing this call. We had a great set of questions. I want to reiterate that we are building the bank for the long run. SBS 2030 is our vision. I have not seen as much excitement in the bank as we are seeing today. I am hopeful that we are on the right track. Hopefully, from FY '27 onwards, the real colour of the bank will emerge, which would be very positive.

Thank you very much and have a good evening.