"CSB Bank Limited
Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and men, good day and welcome to the CSB Bank Limited Q1 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Shukla from Axis Capital Limited. Thank you, and over to you, Mr Shukla!

Manish Shukla: Thank you. Good evening everyone. On behalf of Axis Capital, I welcome you all to this earnings call. From CSB Bank, we have with us Mr. Pralay Mondal, MD & CEO (Interim), Mr. B. K. Divakara, CFO and their senior management colleagues to help us understand the Q1 results better. I would request Mr. Mondal to make some initial remarks, after which we can open the floor for Q&A. Over to you Mr. Mondal.

Pralay Mondal: Thank you Manish. Good evening everybody and thank you for joining the call. Let me just briefly tell you our perspective on the global economy as well as what is happening in the macro; followed by how the bank has performed. Then our CFO Mr. Divakara will take you through the numbers and then we will open it up for the Q&A.

On the macro side, I think we all know that the world is going through a very difficult phase of inflation and tightening of monetary policies among elevated financial vulnerabilities. FOMC is expected to increase the FED rates again anywhere between 75 to 100 bps. The debate is now between 75 and 100 bps. There is no doubt about another hike, which can be followed by RBI hiking the domestic interest rates by 35 to 50 bps. The key question is, can the central banks have a soft landing and we will wait and watch how it works out. However, mostly it is expected that the front loading of rate hikes will help in a soft landing of the economy in terms of growth and inflation. Actually, on the Indian domestic side, things are looking lot better. Some of the high frequency indicators like GST collections, railway freight, electricity demand etc., are looking good. On a higher base, the inflation is also stabilizing a little bit. Of course, we know that rupee has touched 80. RBI yesterday also indicated that they would use all instruments possibly within 10% of their forex reserves to stabilize the rupee, targeting a range somewhere between Rs.79 and Rs.81. The monsoon has been good. We are seeing a pickup in manufacturing activities, commodity prices are stabilizing though the oil prices have gone back a little bit back to around 105 levels. Broadly, when we look at the global as well as the local macro, some amount of uncertainty will always remain and the CAD also, hopefully we should be able to continue within 3%. That is where we are today. The bank ecosystem is growing from the liability side at around 10% and on the asset side, it is growing around 13%. In CSB, you could see that we have grown our liability by 9% and assets by around 17%, so we are broadly in line with where the market is. Maybe assets, we have grown marginally higher, but on our small balance sheet little bit here and there does not matter. We have to look at a slightly longer-term perspective what we need to do. Specifically, on CSB, I am not going through the detailing of the numbers because you would have already looked at it, but broadly, our operating profit has improved by 9% on QoQ basis. Net profit has gone up on a Y-o-Y basis by 88% to Rs.114.50 Crores. We also have significant provisioning buffer close to Rs.200 Crores over and above the regulatory requirements, of which the COVID provisions itself is around Rs.107 Crores. Though I had indicated in the last quarter that NIM would be under pressure, we could still maintain it above 5% as we were able to hold the cost of funds. In fact, it has come down from 4.21% to 4.10% this quarter. That may not sustain for long because obviously cost of deposits are going up in the ecosystem. Average CASA growth has been 10% QoQ 15% YoY. This is a good story gradually evolving because the average CASA is something, which augers well for us. Net advance as I said before grew by 17%. Gold portfolio did very well with a 26% YoY growth and 8% QoQ. Our yield on advances has remained at a similar kind of a level of 10.62%. On the asset quality front, we have also done pretty well I must say. We did well on all indicators GNPA and NNPA. PCR is above 90% and if you take the COVID provision, it crosses 100%. Excess standard asset provisioning is higher than our NNPA and we are continuing with our accelerated NPA provisioning as I said before. On the CRAR, we are one of the best in the industry- 25.5%. We have lower proportion of risk-weighted assets compared to the industry primarily because of gold loans. Coming to share holder ratios, our book value per share has been elevated to Rs.151, EPS is at Rs 26.8 and ROE is close to 19%, which was 12.65% in Q1 FY 22. So on ROE side also, we have improved a lot. As I said before, we plan to open around 100 branches every year. We are trying to front load the opening this year and in the first quarter itself, more than 50 locations have already been approved. On the technology side, we are making significant progress whether it is corporate LOS, retail LOS, LMS etc. We are seeing lot of changes in the core system because if we have to add more products, which I promised last quarter, we first have to create the foundation and once we have all these things right, then scaling up the retail businesses will happen. Because that requires technology, leadership process, channels, partnerships etc. We will focus a lot on the partnerships for customer acquisition and we will ensure that our technology is up to the mark to scale these things up and that will take little time. Therefore, we will see gold loan continuing to lead the portfolio growth for us for the next 12 to 18 months and of course, it will continue to do well. However, when it comes to proportion, other products will start picking up. Launch of credit cards will happen very soon and gradually we will launch most of the other products. The last thing I would say before I hand over to Mr. Divakara is that everything, which we are working on a planned manner for the next two years, five years and eight years' kind of a scenario of going up to FY2030, is almost on track as per plan. We will not move away from investing into the franchise to build a full-service bank. We will continue to focus on leadership, technology, distribution, products and partnerships and more importantly we need to add lot more customers and you will see almost every year at least for the next few years we will be doubling our acquisition base of customers because our primary focus will shift to liability. As we grow, I think asset growth will happen. To support that asset growth, we need to build up granular and stable liability and that requires a lot of customer acquisition. This in turn will also help us in building our cross-sell on key retail asset businesses, SME etc and you will see that the core fee business, which are things like insurance, processing fee and asset-related fees, commission fees, LCBG fees, all of this core income, which I had said last time also, will continue to grow. We had a decent growth during this quarter and will continue to be our mainstay going ahead. Of course, we have some challenges like most banks have on the treasury side, but our challenge is much lesser compared to others. In addition, as Mr. Divakara takes his commentary, he will explain the PSLC income variances, where we took a tactical view of not selling our PSLC book in this quarter but buying as much as we could to take care of the full year PSLC requirement on the micro side. We are still sitting on our entire PSLC book, targeting to sell at the right levels and those revenues can be generated in the next two to three quarters. Therefore, with that I assure everybody that we are strongly committed to build our franchise and I hand over the conference to Mr. Divakara to take us through the numbers.

B. K. Divakara: Good evening, friends. I will be making a brief presentation about the performance of the bank for the quarter ended on June 30, 2022. Unaudited financial results of the bank for the quarter ended June 30, 2022, which is subjected to limited review by the statutory central auditors, was taken on record by the Board of Directors of the bank at its meeting held today.

Friends, June 2022 is yet another good quarter for the bank in terms of capital ratio. As you may be aware capital adequacy ratio is one of the best in the industry at 25.46%. Asset quality – Net NPA is at historical low at 0.60%. Liquidity position is comfortable; LCR is much above the RBI stipulation and stood at 147%**.** Earning is consistently growing and profitability track record is maintained. Our primary objective of building the balance sheet for the future continued in this quarter as well. The buffer provisioning built during peak COVID times remains untouched at Rs.107 Crores. Whatever fresh slippages have happened, it has been provided from out of our current year's profits. The bank continued with its policy of making accelerated provisions for NPAs much above the regulatory requirements. If we reckon these two additional provisions made, PCR will go even beyond 100%. Accumulated loss in the balance sheet is gradually coming down and expected to be wiped out completely during this year. Deferred tax asset created an account of accumulated losses has already been wiped out, and we continue to follow conservative accounting policies on security receipts(SRs) and SR level has substantially been brought down. All these measures have strengthened the balance sheet largely. Now let me take you through the main highlights of the published working results.

Net profit of the bank increased from Rs.61 Crores for the quarter ended June 30, 2021 to Rs.114.5 Crores during the quarter ended June 30, 2022 on the back of lower provisions. Provisions for NPAs has come down drastically during this quarter. In other words, net profit increased by 88% on year-on-year basis. As I said earlier, so it is on account of lower provisions that have been provided during this quarter. Last year during this period we had provided Rs.97 Crores as against which we had a reversal of Rs.1.20 Crores during this quarter. Sequentially, though it looks net profit has fallen from Rs.130.70 Crores in March 2022 to Rs.114.5 Crores in June 2022 it is on the back of a higher reversal of provisions during the last quarter.

Operating profits of the bank stood at Rs.154.7 Crores during this quarter. While operating profits have decreased on year-on-year basis from Rs.174.7 Crores to Rs.154.7 Crores, sequentially, it has increased by almost Rs.13 Crores over March 2022 level. Excluding treasury profits and PSLC premium operating profits in fact have increased by Rs.10.50 Crores on year-on-year basis.

Net interest income for the quarter stood at Rs.311 Crores clocking a year-on-year growth of 16%. Over March 2022 quarter, the growth of net interest income is 2%.

NIM has improved from 5.04% in June 2021 to 5.17% in June 2022 or by 13 bps. On volume side, average advances grew by 10%. On mix side, average CD ratio improved from 75.8% to 79.50%. Average yield on advances remained at 10.62% for both the quarters that is June 2021 and June 2022. Yield on investments reduced from 6.38% to 5.79% during this period. The impact of reduction in yields has been offset by reduction in cost of deposit from 4.48% in June 2021 to 4.10% in June 2022. From Q4 position of 5.42%, NIM has reduced by 25 bps, to 5.17% due to reduction in yield on advances from 11.19% to 10.62% or by 57 bps. It is sixth quarter in a row that NIM is in excess of 5%. Time lag of one quarter for resetting the interest rates has since been changed to T+1 effective from July 1, 2022. This will effectively take care of passing on the cost to the customers instantly. As against the treasury profit of Rs.19.50 Crores in Q1 of FY2022, treasury profit of Q1 of FY2023 stood at Rs.5.2 Crores impacted by upward trend in interest rates. Due to reduced PSLC premium in the market during June quarter, we have adopted a wait and watch policy and decided not to book any PSLC income this quarter as against Rs.12.50 Crores booked in Q1 of financial year 2022. Excluding treasury profits and PSLC premium, other income has increased by Rs.10 Crores on year-on-year basis, powered by growth in commission income by Rs.7 Crores. Sequentially, non-interest income excluding treasury profits has decreased by Rs.7 Crores. Annual savings bank account and debit card-related charges of

Rs.15 Crores is accounted only in Q4 and this has caused the decrease on a quarter-on-quarter basis.

Staff cost during the quarter has increased from Rs.97 Crores to Rs.122 Crores or by Rs.25 Crores. The payroll cost has gone up by Rs.14 Crores as the head count increased from 4508 as on June 30, 2021 to 4780 as on June 30, 2022. AS 15 provisions increased by Rs.11 Crores with increased provision for DA for pensioners in view of the CPI increase. Compared to Q4 of FY2022 staff cost is lower by Rs.21 Crores as Q4 of FY2022 included annual incentive of Rs.13 Crores and one-time ESOP costs. Other operating expenses has increased from Rs.67 Crores to Rs.89 Crores year-on-year. Between June 2021 and June 2022, number of branches has increased from 514 to 603 and this has caused increase in rent and other expenses. BC tie up costs increased by Rs.5 Crores. Further, we had bought PSLC for meeting the shortfall in micro enterprises targets causing a premium payout of Rs. 3.70 Crores.

Cost to income ratio has increased from 48% to 58% on year-on-year basis and decreased from 61% to 58% quarter-on-quarter. As we are on the expansion mode, cost will go up in the short run but eventually it would taper down over the year.

As far as Credit cost (NPA Provision) for the quarter is concerned, there has been a reversal of Rs.1.20 Crores as against additional provision of Rs.97.3 Crores in Q1 of FY2022. While there was additional provision requirement of Rs.16 Crores because of fresh slippages, migration of existing NPA accounts to higher provision category etc, the same has been offset by recoveries in technically written-off accounts of equal amount. For Q4 FY2022 reversal of NPA provisions stood at Rs.37.3 Crores.

ROA has increased from 1.03% to 1.75%. Book value per share has increased from 144 as on March 31, 2022 to 150.7 as on June 30, 2022 or by 5% on a quarter on quarter basis. Year-on-year basis, it has grown by 26% from Rs.120. Gross NPA at Rs.293 Crores or 1.79% has remained more or less flat as on June 30, 2022 compared to March 31, 2022. Net NPA has come down below Rs.100 Crores mark to Rs.97 Crores as against Rs.107 Crores on March 31, 2022 and Rs.444 Crores as on June 30, 2021. PCR now stands at 90.5% percent up from 89.7% as on March 31, 2022 and 70.2% as on June 30, 2021. Capital adequacy ratio continues to be comfortable at 25.46% as on June 30, 2022 as against 21.63% as on June 30, 2021 and 25.90% as on March 31, 2022. Liquidity coverage ratio stands comfortable at 147%. Leverage ratio stands at 9.27%. M duration of AFS portfolio stands at 0.83%. Total advances grew by 9% year-on-year basis and CASA ratio stood at 35.14% as on June 30, 2022 as against 33.09% as on June 2021 and 33.66% in March 2022. Advances (net) grew by Rs.2324 Crores to Rs.16142 Crores on year-on-year basis registering a growth of 16.83%. Gold loans grew by an impressive 26.30% year-on-year basis and 8.17% on quarter-on-quarter basis. With this, share of gold loans to total advances now stands at 41.6%.

To conclude, I can say bank has done well under most of the parameters. We will build on this position further during the coming quarters. Now I will stop here. Thanks for hearing me patiently. We are happy to receive your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Mona Khetan from Dolat Capital Market Private Limited. Please go ahead.

Mona Khetan: Good evening. My first question is on the gold yields in the gold book, which have declined by about 120 bps Q-o-Q, so I understand that the gold NPA have normalized and to some extent lower recoveries will also impact the yield. I just wanted to understand this 120 bps decline, how much is out of recoveries and how much is owing to the lower portfolio yields

Pralay Mondal: Thanks Mona for your question. That breakup we will give you, but on a high level, what is happening is that because of the easy liquidity that was available last year, we had seen a little bit of a reduction on the gold yields across the industry and hence to remain competitive we had also done that. However, as the industry is normalizing, we have also taken the interest rate up and processing fee up on the gold loans. In the next one or two quarters, our overall cost of funds will start going up considering the interest rates trends. By that time, our main portfolio, which is gold loan having around 42% portfolio share, will start giving better yields again. So that is broadly at a high level where we are. Mr. Divakara would you like to answer the breakup part?

B. K. Divakara: Net interest recovery from NPA accounts was Rs.7 Crores during Q4 of last year and this year in Q1, the same is zero.

Pralay Mondal: So vis-à-vis last year we have not got any income this year because of NPA reversal. We had no major slippages and to that extent, primarily this is pure yield play. But as I said, we are already increased our yields and we should start seeing an uptick in yield in gold loan again.

Mona Khetan: Right so the 120 bps how much would be the impact of this Rs.7 Crores is what I wanted to understand?

Pralay Mondal: Maybe 30 to 40 bps will be around that

Mona Khetan: Got it. That was helpful, so another probably 80 bps or so are owing to this natural decline. In the SME book despite it being a key focus for you, we are not seeing growth coming by this quarter so what is really holding you back on the SME growth side.

Pralay Mondal: We have two parts to the SME book. There is an old book and we have a portion of term book in the SME. The old book is gradually running off and not necessarily, we are renewing many of them for various reasons. In addition, some of the term book also runs off. The utilization level was slightly lower in this quarter for a few SMEs as the input/commodity costs were lower etc. However, though our larger growth will come from gold loans, it will be followed probably by SME this year.

Mona Khetan: Sure, and on the retail book side in terms of the new products on the role of which you mentioned we are on track, but does that imply that by the end of this fiscal most of the retail products will be rolled out or where we are we on it?

Pralay Mondal: This year, product rollout will happen from a credit and product perspective. But to roll out the retail products in real sense, we need the technology backing like LOS, LMS etc in place and once you have the technology you need to give some time ie, minimum one year to 18 months to see the real pickup. We do not want to make mistakes here, because in retail if you roll out products without system, processes etc, then you can be challenged because retail is one business where everything should be in place before you press the accelerator. Therefore, we are not willing to press the accelerator now. However, after 2024, we clearly have retail, which is going to be the primary growth momentum and as a business mix, we expect by FY2028-29 the retail to be one of the largest component in our entire asset book.

Mona Khetan: Sure and last year we had many benefits from good recoveries on the credit cost front. We had good benefit from the gold recoveries, which resulted in negative credit costs for a large part. Now that this book has largely normalized, what sort of credit cost can we expect going forward?

Pralay Mondal: First of all, we do not want to have a slippage and then reverse it and feel happy about it. I think the best way to handle a business is that slippage itself is controlled and managed well. Even in this quarter, we had a marginal negative credit cost of about Rs 1.20 crores. It is very marginal or almost close to zero; but technically still it was negative. Therefore, the way I look at it is, if we do not have slippages, we will not have recovery also and we are okay with that kind of model. So actually, if you ask me, I am quite happy with that kind of a scenario.

Mona Khetan: Okay, so in general the credit environment remains extremely benign is what you see at this point?

Pralay Mondal: For the last few years, we have done pretty well on the credit side. It is just that the gold loan faced very technical kind of issues, like the reversal of LTV from 90% to 75% LTV and we had to go through this cycle. Now we are back to where it is normal, so I think we should not see too much of slippages and resultantly we should not see too much of recovery also. I think that is the way it will play out.

Mona Khetan: Got it and just two data-keeping questions. So what is the share of CTC based employees as on today and what is the floating and EBLR linked book in your case?

Pralay Mondal: We have around 4800 employees, out of that IBA will be around 1300 and 3500 will be CTC. We are planning to add close to 2000 people this financial year and all of them will be CTC, so this 3500 will probably go somewhere between 4500 to 5000 and IBA will be around 1250 something like that, so as a ratio this will constantly come down because we are expanding our base as well. What is the second question?

Mona Khetan: What is the share of floating rate book and of that how much is EBLR share?

Pralay Mondal: I think we have around 54% fixed rate loans.

B. K. Divakara: 54% is the fixed interest rate loan book, MCLR linked loans is 31%, and EBLR share is almost 7% to 8%.

Pralay Mondal: Typically, repo linked is mostly SME. The T Bill linked loans are mostly wholesale say mid-market and emerging corporates. Retail is mostly fixed. Some home loans are there which are floating. Therefore, the overall picture is somewhat like 54:46.

Mona Khetan: Sorry can you come again on the EBLR and TBILL part?

B. K. Divakara: TBIL part is 5%. Repo is about 8%. 42% of our advances comprises of gold loans, so here more or less it is fixed rate of interest that is why overall if you look at it, our fixed rate of loans is higher at 54%. The rest is 46% distributed amongst MCLR, Repo, T Bill Linked loans etc.

Mona Khetan: Got it. Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital Private Limited. Please go ahead.

Nirmal Bari: Thanks for the opportunity. My first question is during the commentary you said that over the next two years, you would be focusing on liability side in retail, so is this a change of strategy from earlier?

Pralay Mondal: I got your question. Let me respond to it. There is no change in strategy. There is no point in raising liability and not utilizing it right, so liability has always been based on a need. Now we are seeing a consistent growth over the next many years because we are building our retail. The gold loan growth is looking consistent. SME is also building up. Wholesale is also building up. Therefore, from that perspective, we are more assured of a consistent credit growth and in a rising interest rate scenario, we have to be more focused on a granular franchise. Otherwise, cost of borrowing can go up and when the growth comes back, we have to focus on granular and consistent liability. That is why we are saying that focus is on liability just because we are seeing the growth coming back to us right now.

Nirmal Bari: Okay, my second question was, during the previous call and post that in some interviews you talked about that we would be looking to grow at around 1.5 times the industry growth rate on the advances side. So within that obviously, for the current year and probably next year too, gold loan is expected to drive it. But outside of gold loan what kind of growth should we expect? Should we think of it as growth closer to the industry growth rate?

Pralay Mondal: The way it will work out is, on a CAGR for three years we will be around one and a half times of the industry growth rate. Obviously, we cannot catch up to that level unless we are at least at the industry level this year, so we will definitely be better than industry level this year that is one. Coming to composition, I think next 12 months at least the primary growth will come from gold loan. But most of the other negative carry, which we had in retail or SME and even some part of wholesale, etc., all that will go away and almost every business will now contribute positive. We have an old retail and SME book where runoff happens. To cover that up, we have to build retail as well as the SME book and because a fair part of our wholesale book is term loans that runs off, so we have to fill up there also. We are doing two three things. One is we are trying to gradually increase our ratio of working capital in our business, which ensures that runoffs are lesser going ahead. Next, retail will start picking up. Meanwhile the filler will happen through SME and wholesale to some extent and within the SME and wholesale more will happen through SME. In agri and microfinance book, microfinance is important because that helps us in managing our micro and some of the other PSLC requirements. In Q1, all the banks have suffered on the microfinance because of the regulation change, but now I think things are settling down, so we should be able to see growth from agri and microfinance portfolio. We will see neutralization of negative growth on the retail. We will definitely see positive growth and good growth in SME along with some growth in wholesale. Gold will grow much faster than last year. Probably, it will grow even faster than what we saw in this quarter. So overall in the next 12 months, at least I see gold going to almost 45% of our portfolio and then gradually tapering down when some of these other products and businesses start picking up.

Nirmal Bari: Okay but can we think of this quarter as the bottom in terms of non-gold book?

Pralay Mondal: Yes, I think pretty much it is

Nirmal Bari: I had one bookkeeping question on the same lines. In the presentation, you gave a split between gold and other segments, so that number adds up to Rs.17066 Crs while the balance sheet figure for advances is Rs.16142 Crs, so what is the difference there?

B. K. Divakara: That is technical write off. In balance sheet, what we have shown is advances net of technical write off and provisions.

Nirmal Bari: Yes, I will get back in the queue for further questions. Thanks.

Moderator: Thank you. The next question is from line of Pruthu Shah from Anubhuti Advisors LLP. Please go ahead.

Pruthu Shah: Good evening. My question is with respect to the advance's growth, so on Q-o-Q basis the advances have grown by 2%, and so is it possible that we can grow it in this fiscal at 20%?

Pralay Mondal: That possibility always remains. That will be our attempt, but depends on how the overall ecosystem plays out. I mean that is definitely possible if you execute it well.

Pruthu Shah: Okay and majorly the contribution will be from which segments?

Pralay Mondal: I told you the major contribution will come from gold followed by SME, wholesale then agri, microfinance and then the negative carry on the retail will be taken care of. Therefore, we will start seeing neutral to positive growth on retail.

Pruthu Shah: Okay. My next question is with respect to the number of branches, so in March we had 603 branches and as on date we are having 604 branches. So there is addition of only one branch. So when we are targeting a year, there is no momentum in increasing the branches in Q1. So are you seeing very high increase in the number of branches in Q2 or Q3? Where the addition would be happening in number of branches?

Pralay Mondal: Last year, many branches were operationalised in the last quarter. This year we are trying to see that most of the new branch opening will happen in Q2 and Q3. As we are talking, in 50 plus branches, already work is on. So most of them will be gradually rolled out in this quarter itself and then in Q3, we should be able to see rolling out of almost 70% to 80% of the branches. We will be left with limited branches in the Q4. We have consciously taken a call to get some productivity in the branch rollouts this year compared to last year. Therefore, that is where it will be. On an average, we should have 50 branches in the whole year if you take a man-days kind of a thing.

Pruthu Shah: Okay. By the end of this year March 2023, would that be a net increase of 100 branches?

Pralay Mondal: 100%.

Pruthu Shah: Okay, got it and my next question is with respect to CASA ratio. As of now, we are having a CASA ratio of 35%. So do we see this ratio going to 40% to 45% in this year or maybe next year March 2024 on a longer-term basis?

Pralay Mondal: I hope it was so easy to take CASA ratios by 10% in one year. Large banks struggle even to take it up by a few basis points here and there. It will not happen as you said. In fact, it is a good question so let me respond to it little differently. The previous question was whether we can grow by 20%. Suppose we grow by 20%, can CASA ratio go up by that much quantity? The answer is no because CASA is a gradual movement right. CASA will come over a period. It is like drop-drop kind of a thing that will come. But if our asset book grows, then we need FDs to cover the fund gap on the liability side. Therefore, CASA ratio will be little volatile for us until we settle down to a steady growth on the asset side and we settle down to a lot of customer acquisition on the liability side. I will say that it is a combination of asset growth corresponding with liability growth and then CASA ratio. We have to see all three ratios together. On a standalone basis, CASA will continue to grow the way you are going. For example, you saw average CASA grew by 10% quarter on quarter. Year-on-year casa grew by 15%. I can assure you that we will grow faster than that, but if the balance sheet grows much faster than that then CASA ratio may be stable at the same level so it is a question of the headline growth of the balance sheet.

Pruthu Shah: Okay got it. That was helpful thank you.

Moderator: Thank you. The next question is from the line of Alok Shah from Monarch Networth Capital Limited. Please go ahead.

Alok Shah: Thank you for the opportunity and congrats on a good set of numbers. I have two questions primarily. One is when I look at your corporate exposure, the top three sectors are textile, construction, infra, and NBFCs. While we understand the health of NBFCs as we hear some other NBFC players, what is your experience of the corporates in these three sectors the textile, construction and infra and maybe if you could add there further between the state-owned construction activities and central government-owned construction activity?

B. K. Divakara: We have not seen any stress in our wholesale book so far and if you can look at it, we have substantially increased our exposure to these sectors. Few SME accounts are also falling under this category. Largely, we have not seen any threat in any of these accounts. Our portfolio is robust and it may not cause us any concern as of now.

Pralay Mondal: The other side of your question is how you see the growth in balance sheet from which segments, etc. On the wholesale side, almost 40% of our corporate book is NBFC and I see that as interest rates goes up, that book will continue to do well right. They will be dependent on bank credits and things like that because for them the other funding avenues will dry up, so banks will be at an advantage on our NBFC funding. Having said that, we do not want to take it up beyond where we are so we are looking at other segments as well. We are looking at Transportation, HAM projects that are national highway projects and NHAI and we understand the textile business extremely well. It is almost like the way we understand gold loan business; we understand textiles as well. We know that the commodity prices have come down, the cotton taxes came down, and that is why now the utilizations have come down. In fact, we had worries when the prices are going up because at the end, quality of the credit is more important than the growth in the business. Also we are looking at a very clear segmental approach in terms of healthcare and what we are doing on the wholesale side is we are building up our coverage strategy and we are building lot more coverage in Western and Northern parts of the country. In the Southern part, wherever we are already strong we are going to leverage that. Our securitization book is doing well between all of these. I think the wholesale book is very small so to that extent it should not be a problem to get businesses from the segments where you are talking about. What we are looking at is increasing our coverage little bit more and creating a little more distribution across the segments.

Alok Shah: Okay this helps. I had another question, which was more on the gold loan side. Could you kind of help us understand the client profile because if I look at and just doing math around the AUM and the number of clients, so it is typically on the higher side. So what is the client profile? Is it an SME client who comes for a gold loan- a bit of some understanding there?

Pralay Mondal: Our client profile is not so much of SME and that will be very small. Most of it will be retail in nature. There will be few SME customers who have taken gold loan products. Our segmentation, if you ask me, it will be between where the NBFCs are and between the large private banks are. Somewhere in between is our sweet spot and as our operational efficiency and capabilities are well and customers are satisfied with us. For example, as Mr. Rajendran used to tell this repeatedly that auction is not an option provided we know the customer well. We went through such a phase last year and proved that. We did not do too much of auctions and still we managed to recover most of the money because this gold is very dear to these retail customers. The customer loyalty is very high and through reference, we get more business. So in short, what it means is stable product, stable & loyal customer franchise, growing customer base on retail references and the quality of the book is good and our segmentation is between the top end private sector banks and the NBFCs.

Alok Shah: If I could just add two more questions to this, one is the gold is it more to the repeat customers? I mean there is an addition of new customers as well. But we have seen that with lot of other banks and NBFCs, there is an element of repeat customers on the board on side and the second is so whatever you talked about what is the average ticket size of gold loan customers, is it like Rs.1 lakh to Rs.2 lakh or on the higher side?

Pralay Mondal: First question first, which is repeat customers obviously you cannot grow a gold loan book of 26% by just doing repeat customers. We get enough new add-on customers and if you look at it, our tonnage growth has been around 20% and our business growth is around 23%. What it means is that we are getting lot of new gold pledged to the bank and most of it will come from new customers. To that extent, we have a sales machinery, which is going, and getting new customers. Additionally, branches do reference selling through our own loyal customers, which I have mentioned. The second question about ticket size I exactly do not have the number but I think it is around 1.1 lakh or 1.2 lakh.

Alok Shah: Sure. This helps thank you.

Moderator: Thank you. The next question is from the line of Shrish Vaze from Moneylife Advisory Services. Please go ahead.

Shrish Vaze: My question is on gold yield. As you had mentioned that the delta between NBFC and our yield is quite high so wanted to understand the reason for this and secondly how are we looking at the competitions from other larger banks who are also kind of looking at gold loans as a key growth driver going forward.

Pralay Mondal: The first question you said is NBFC is a higher yield and ours is not so high. Do I have it right?

Shrish Vaze: Yes Sir. I wanted to know the reason for this.

Pralay Mondal: The reason is, banks are a regulated entity and governed by RBI regulations and we are not only in the business of gold loan. We have to do many other businesses and we have to be absolutely 100% clear on compliance and processes, on governance and everything whichever business we do. So to that extent, a lot of ring fencing we have to do in terms of processes and governance. That is why we cannot always do all the businesses where chances can be taken if you do not have a bank license. We cannot take those chances. We are not in those small ticket sizes where some of the NBFC playing which is actually the moneylender community. We are not playing in that segment. Coming to your other question whether it is SBI or PNB or ICICI or some of these other banks they are also getting into gold loan, the business is large enough for everybody to have their own share of pie. For us the kind of focus, the kind of loyalty base, which you have, the kind of markets we focus, this business is okay. Other banks will also do it and at the end of the day at their balance sheet even, a lakh Crore is nothing. For us even Rs.7000 Crores is 42%. Therefore, the focus which we give to these customers and this business is very different compared to some of these huge balance sheet large banks. I actually launched gold loan in HDFC in 2005 and I was actually running it in Axis as well. The focus that we see in this bank branch by branch cannot be there in those banks because that is a very small portion of their overall balance sheet. Therefore, our focus, knowledge, understanding, operations and processes are very different and so that does not worry me at all. We should be able to do well in our gold loan and we will continue to do well. Having said that we will diversify and we cannot be a single-product bank so we will have all products eventually across the retail bouquet of products.

Shrish Vaze: My second question is regarding the demand for gold loans outside of our key geographies of Tamil Nadu and Kerala, gold loan is a very popular product in these geographies how are we seeing the demand outside of these geographies as we expand our branch network?

Pralay Mondal: If you see, our gold loan portfolio in Tamil Nadu is as big as Kerala and if not more. I have to just check the numbers, but it is broadly similar kind of range and we are just kind of getting our distribution right in Tamil Nadu at this point of time. Therefore, in the whole of South, I think there is enough opportunity in gold. We are growing our gold loan book faster outside Kerala, for example in Tamil Nadu and APT in the first place when you look at overall South. Looking at West and North, we will have gold loan branches. We will have gold loan products but those are the markets where we will look at liability, look at assets, look at other businesses, etc., and hence primary growth will come from South. But in other locations also gold loan is picking up and we will continue to do that. That is why I am saying that as we expand our geography and distribution, the other products will also pick up and we will continue to do our gold loan growth. Mr. Divakara is giving me the number as we are talking. What I told is broadly is correct that Kerala is 38%, Tamil Nadu is 36%, Maharashtra is around 15% and rest is equally distributed. However, if you look at the time machine, you will see that Tamil Nadu has grown much faster than Kerala in gold loans- it has almost caught up with 36% and there is hardly any difference. So if you execute it right, actually Tamil Nadu is a very high potential state for gold loans as well and we are expanding there big time.

Shrish Vaze: Thank you. I will get back into the queue.

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

Pralay Mondal: Thank you Manish and thank you everybody for attending our Q1 FY2023 investor call and we would be happy to take any further questions. You can always get in touch with us for any further questions whatever you want to understand. In short, what I can say is that whatever journey which we have started, we will embark on this journey and you will see every year the franchise mix is changing. We are looking at growth. We are looking at a lot more profitable customers and we are looking at leveraging our full-service banking franchise and the banking license what you have on a pan India basis. Our primary focus will be on growth and quality of the portfolio. While our endeavor will be to manage the costs along the way, we will not shy away from investments and will not shy away from special investments into distribution, into customer acquisition and into technology and that is the most important thing. Thank you very much for attending our quarterly investor meeting and look forward to see you again next quarter.

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