# "CSB Bank Limited
# Q2 FY2023 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day, and welcome to the CSB Bank Q2 FY'23 Results Conference Call hosted by Axis Capital Limited. 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 zero 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. Thank you, and over to you, sir.

**Manish Shukla:** Thank you, Gati, and Good evening, everyone. On behalf of Axis Capital, I welcome you all to this call. From the management team, we have with us Mr. Pralay Mondal, MD and CEO; and Mr. B.K. Divakara, CFO; and other colleagues from the management team. I would request Mr. Mondal to make a few opening remarks and after that, we can open the floor for Q&A. With that, over to you, Mr. Mondal.

**Pralay Mondal:** Thank you, Manish, and thank you, everybody, for joining our Q2 earnings call for FY'23. I wish to start by wishing you and your families a very happy Diwali in advance. Coming to our results, I would be first covering briefly about what's happening around us and what kind of an environment we are in, both globally and in India. Then I will straight get into specifics of our results, and also give a little bit of a brief of what our medium-term and long-term vision is because more than a quarter result, I think, for our bank, the key story is about what we want to do in the medium and long term.

So on the global side, we all know that, post-COVID, we are going through, a very different kind of a challenge with global growth being anaemic with all kinds of issues there. The interest rates are just skyrocketing; Inflation is also skyrocketing, whether it is in U.S or in Europe. The U.S. 10-year yield crossed 4%. U.S. dollar indices are highly volatile. Indian rupee has also now crossed Rs 83, which is a concern. Increasing CAD is another challenge. Therefore, I think we are passing through a volatile uncertain kind of a situation globally. India is relatively a better place to be in and more stable, but we cannot be completely away from some of the global challenges.

FOMC is expected to increase the interest rates anywhere between 75 to 100 basis points further and they are constantly raising the bar in terms of where they can go. RBI also, to some extent, has to follow suit. Though inflation reports indicate that they have rather peaked, various MPC commentary is showing that things are sort of stabilizing on a higher base. I think growth is coming back, as we see that the credit growth of many banks during this quarter is somewhere around 18% to 19%. As RBI governor mentioned, going forward, monetary policy will remain watchful and stable while supporting growth. Having said that, India always had been impacted by the challenge of this oil prices and the prices are bit stable now. However, there are various OPEC announcements and we have to wait and watch how the oil price will move and how it affects us.

We had significant outflow from the country. In terms of FIIs, it came back. Again, this month, outflow has been slightly high. There is volatility and I think the banking ecosystem has done extremely well for us as a country. With more and more results coming up, I am seeing that broadly, this has been a good quarter for most of the companies. Hence, we remain very positive and hopeful that we are in a good place at this point of time. With this macro, I will just get into CSB's specifics. You have probably seen the numbers, but I will go through the key numbers, a little bit. We had a significant improvement in net profit growth- 31% year-on-year. There are certain factors, which kept our operating profit a little muted and CFO will explain it during the Q&A session

For the quarter-ended 30th September, net profit is 5% higher than last quarter and is at Rs 121 Crore. Provisioning buffer of around Rs 200 crore in place, which is over and above the regulatory requirements; accelerated provision of Rs 97 Cr, and the contingency provisions of about Rs 106 crore. We could maintain again, a NIM of above 5% on both YoY and Quarterly basis- 5.38% and 5.60% respectively. So last quarter we recorded one of the highest NIM. However, this is not sustainable as we scale up the volumes across retail other than Gold, SME and Corporate Loans. ROA improved from 1.53% in H1 '22 to 1.81% in H1'23, while sequentially, we improved from 1.75% to 1.87% QoQ. So broadly, we are in line with our rate indications of 1.5% to 1.8%.

Liability growth is gradually coming back. CASA growth was 16%. Overall deposit growth was a little more than 10%. Cost of deposits reduced from 4.39% in H1 FY'22 to 4.14% in FY'23. However gradually CoD will start picking up now in line with the market rates thus impacting NIM over a period. Net advance growth has been impressive. It is 24% Y-o-Y and 8% Q-o-Q. We will focus on quality growth while we keep up sharper focus on our credit quality. So year-on-year, 24%; and Q-o-Q, 8% says that we have been consistent in terms of what we are promising. We will continue to try and grow faster than the system. Gold portfolio registered a growth of 47% YoY and yield on advances was at 10.7%.

On the asset quality side, things improved further. GNPA was at 1.65%; NNPA of 0.57%; PCR of 90.14%. If you take out the write offs, PCR will be marginally below 70%. Contingency provisions accounted in the books is higher than NNPA and we are continuing with accelerated NPA provisioning, as I said before. Coming to our robust capital base, there are very few banks, which have a CRAR of more than 25% and ROE of more than 18%. So this, of course, is possibly, to a great extent, because of our large proportion of the gold portfolio. This again, is not sustainable as we grow the mix of other businesses over a period. From the perspective of Shareholder value creation, book value per share has reached Rs 158; EPS of Rs 27.1, ROE of 18.49%, which I just mentioned before.

We continue to open our new branches. Last year we opened 100 branches. We are confident of opening 100 more branches this year, and we will continue to grow at least by 100 branches every year, if not more. Of the 100-targeted openings, 81 locations have been already approved and work is in progress. Significant investments are planned into the technology stack and the execution has started in a big way on technology, whether it is LOS, Core system migration processes, LMS etc.

These are the updates on the key numbers. Slightly on the mid-term to long-term what we are planning, I do not think the commentary is changing and I hope it does not change in the next 3 to 4 years. Because one thing what I have learned in banking is, be consistent and ensure that we deliver every quarter what we promise. As per our SBS strategy, Sustain, Build and Scale 2030 vision, we have a clear idea on where to reach and how to reach there in 2030. We want to have a sustained growth. In the next 3 years, we aspire to grow at a CAGR of 25%; post that, higher growth, hopefully because that time we should have all our technology stack, credit, processes, entire collections ecosystem, the payments ecosystem, which would help us in building our retail businesses and SME. Further, we are starting to invest into a little bit on transaction banking, both in terms of leadership, processes, technology etc

So by 2024, we should be ready with all that. Then the next two, three years, we will start building those businesses. Last 3 years of this decade, which is SBS 2030, we should have a hockey stick approach in terms of retail and SME growth. By that time, we will have everything ready, technology, distribution, leadership, processes. Then it is a multiplier effect because one leads to the other, as we all know what happens in the banking ecosystem.

So we are looking for that hockey stick growth somewhere between '27 and '30. I have always said our cost to income ratio will be within a range of 55% to 60% and I do not mind taking it closer to 60%, provided most of it is happening because of investments and not because of cost. Cost will be managed through productivity and investments through payback period. If we do the right "I", in the cost-to-income ie, right *Investments*, then we hope that by end of this decade, we should be able to bring the cost-to-income below 45%. That is the thought.

We will also ensure that the business mix is more balanced. So again, exit 2030 the highest portion of the book should be retail, say more than 30%. Then between Gold, SME and Wholesale, the rest will be shared equally or with little variation of say 1 or 2 or 3 percentage here and there. However, right now, the gold proportion is going up and it may go up to 45% before we start rationalizing. The other important thing is we will continue to focus on other income and non-interest income to total income ratio. There, our proportion is low and we want to take it up. This quarter, there's a specific reason why it is low- lack of PSL income, which is a special income and the treasury income, which is negative this quarter due to market adversities, SR, booking of some losses strategically etc. Our noninterest income ex treasury profits has grown by 48% sequentially. It will continue to grow because as we add more products, more transaction banking products, retail products, payment products, third party businesses, more customers start coming into the system. Customer acquisition is going to be one of our key focus areas and this will enhance our ability to grow the core non-interest income to the total income. Eventually, even if our NIM comes down, our ROA will sustain between 1.5% and 1.8%, primarily because of the fee income that will continue to grow. That is typically how the market operates. We cannot be an outlier. As we grow, we have to be part of the system. The other important focus, and this is my last statement before I open it up for questions and Mr Divakara's comments, if any, is growth can only happen if it is quality growth. I do not see a challenge at all in the asset growth. Therefore, we have to fund it and we have to have a significant focus on liability, which is customers only; CA, SA, FDs, RDs everything will follow. We will create focus structures on TASC, which is Trust Associations, Societies etc. We obviously do not want to depend too much on wholesale deposits, though we are giving targets to our SME and wholesale team to be self-funded to the best possible extent.

Quality liability and customer acquisition and franchise is key because tomorrow when we have the asset products ready, processes ready, we need a significant base to cross-sell this. In order to maintain the LCR to support a sustainable growth faster than the system, we need a sustainable liability franchise. Lot of our focus is going into building the approach towards liability, customer engagement, service etc. In conclusion, I will say that we are very bullish about how we want to grow. We will be consistent. Hopefully, there will be no surprises and shocks. When you look at the NPA slippages again, a word on the credit cost, it looks negative, negative credit cost is technically too good to be true. So obviously, we will have some credit cost eventually coming in as slippages as we grow. We will continue to have our gross and net NPA below 2% and below 1% over a period. This quarter has been testimony to the fact that we can hold on to a good performance on asset quality and make it even better.

So with these remarks, I would like to hand over to Mr. Divakara if he has any comments. Otherwise, we can open it up for questions from all of you.

**B. K. Divakara:** We have covered everything, Pralay. I don't think anything needs to be supplemented. During the course of question-and-answer session, if required, I will add my comments

**Pralay Mondal:** Sure, thank you. So let us get into Q&A then.

**Moderator:** The first question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

**Mona Khetan:** Congratulations on a good set of numbers. So firstly, my question is on the PSLC market. So what exactly is going on? You mentioned in your comments about draining of opportunity. So what exactly is happening there that is lowering the PSLC income for us?

**Pralay Mondal:** We had booked PSLC income last year by now. But this year, we see that the pricing is not attractive right now to sell the PSLC, but we can buy to make up for the shortages that we have like micro and all.

We bought what we needed for the year, hopefully, and we have not sold anything because we think by Q3, Q4, we will get a better price. That is the income, which we expect to come and that is kind of a buffer, which we are holding at this point of time. I think, last year we booked about Rs 34 Crs under this head. The pool is ready and we are waiting for the right opportunity

**Mona Khetan:** But as I understand, in Q3 and Q4, the pricing anyway becomes less attractive. So is it fair to say that the full year profit from PSLC book could be lower than what we have been seeing?

**Pralay Mondal:** The cycles are different now. Not sure if everybody has done very well on PSL all on a sudden. We will come to know what the real story is in Q3/Q4 only. We believe that we should be able to get a better pricing in Q3 and Q4. It is a call, which we have taken.

**Mona Khetan:** Sure. Coming to the gold book, we have seen very strong growth, much higher than what we have seen in the other banks and even mainstream NBFCs. So what really is helping such growth trends? If you could give some sense on how much of these could be balance transfers from other entities, especially NBFCs, that would help.

**Pralay Mondal:** Our segment of customers is slightly different to the NBFC segment of customers. As I said before, bigger banks work in a different segment and with a different price or yield strategy, whereas our segments/yields are different. However, there will be always a 20% overlap and things like that. I know why you are asking this question, there is a lot of noise on this segment right now. Frankly speaking, two things are happening in our portfolio. Our tonnage is increasing because price has not really been very volatile. It has remained somewhat stable. The existing customers are getting new tonnage to the bank and we have added lot of new customers.

It is a function of execution what we have done well. This gives us the confidence that the branches are ready for Gold loans. Tomorrow, you will see that even in the case of liability, these branches will be able to execute better. I think we are able to get better productivity from our branch right now because of execution focus, monitoring, leadership, excitement and things like that. That is what is helping us. I think its business as usual for us. Our portfolio is small. I mean percentages do not say the things as they are. Therefore, when you really focus on it and do a little better, the growth automatically comes.

**Mona Khetan:** Follow-up question on gold side again, with growth trends getting better across segments, the general credit environment getting better, do you see the competitive environment in this space-getting better versus the last 2, 3 years?

**Pralay Mondal:** When you say better, what does it mean?

**Mona Khetan:** In the sense that pricing is less competitive.

**Pralay Mondal:** Yes. It is bound to happen because once the liquidity has dried up in the ecosystem and cost of fund is starting to go up, some of the NBFCs, some of the banks, etc, easy liquidity is not there anymore. Therefore, the right pricing for the right risk and operating cost will be put in place. So yes, I think that eventually, whether it is SME, whether it is gold, I think, even to some extent, in the mid-market where we operate on the wholesale side, we are seeing pricing rationality coming back.

**Mona Khetan:** Sure. just finally, on the SME book, again, despite a small base, and being a focus area for you, we are somewhat not seeing growth coming, so what is the outlook there? You just mentioned we are seeing growth from this quarter also, but what sort of growth trends could we build in? Or what sort of disbursements are we seeing in the last few quarters even if there are some run offs.

**Pralay Mondal:** Both our retail and SME portfolios have a large component of an old book and some of them naturally runs off, the Term loans and all

We have significantly enhanced our credit governance on the SME as well as on the wholesale side. We said that we want to do the risk based pricing. We want to ensure that we do businesses at certain ratings and things like that. We always had those policies, but we have implemented with a little more iron hand because we want a sustainable growth. To that extent, some of the businesses, which are running off, we are ok with it. The new businesses, which we are building is also of very good quality. Our ratings, risk based pricing, all of that is falling in place. We are putting a lot more science behind it, and hence, I think in the second half of the year, you will see growth in the SME portfolio.

**Moderator:** Ma'am, are you done with your questions?

**Mona Khetan:** Yes. I was just asking, it should be in line with the rest of the book, the second half growth in SME?

**Pralay Mondal:** Yes. I think SME should be having the growth in line with our bank growth, second half.

**Moderator:** The next question is from the line of Pruthul Shah from Anupati Advisors. Please go ahead.

**Pruthul Shah:** My question is with respect to the overall industry growth. Like if we see large banks or small banks, all are giving decent advances growth. But now that the interest cycle is going up, what is your understanding on credit growth going forward? And normally, how much time it takes to impact the economy, like what is the lag in impacting the credit growth because of this interest up cycle?

**Pralay Mondal:** I am not sure if I understood the question fully but let me try. So credit growth is a function of various things, including the customer confidence, the salary growth etc. If you see some of the numbers on the savings on the consumer side, it has actually come down a little bit. The debt to GDP has actually gone up. So if you look at some of these numbers, people are having the confidence somewhere, and there's a little bit of a pent-up demand as well because of COVID and some of the other stuff. There has been a muted demand, on both retail and SME in the last couple of years. Wholesale growth has been almost muted and still investments have not come back in full bang. Capex did not come back and things like that. Project finance etc are starting a little bit here and there.

Generally, the feel is that growth is picking up almost everywhere. I mean private investments should start coming in. The Capex cycle should start picking up. I think, generally, the view is that credit growth upwards of 15% should be there as India has always done credit growth more than the nominal GDP. Today, if you have a credit growth above the nominal GDP, you have to be somewhere around 15%. Given that perspective, I think we see a minimum of 15% credit growth going ahead. And yes, interest rate cycles, sometimes what happens is the other way around that if interest cycle starts going up, it impacts the credit growth because sometimes the ability to repay, ability to consume etc is little less in the customers because there's lesser money in the customer hands to pay EMIs and things like that.

Moreover, with liquidity, which is not abundant right now, banks also have to be careful in terms of how they build the liability balance sheet and how they fund the credit growth. It is going to be interesting to see how it works. However, good part about all this is that there is a rationalization of pricing, and the classical banking practices are coming back between NBFCs, banks etc. In between, we could witness a scenario where the interest rates were so low that sometimes it was below savings rate also.

I think the classical banking is coming back. Hence, I think a normal credit growth is expected. I am quite confident that unless there is a significant global headwind, which is possible because we are not completely shielded from that, we should be able to see a reasonable credit growth in our industry. We, as a bank, are not such a large part of the ecosystem; our growth is so much more dependent on what we execute. Therefore, our credit growth may or may not be so much dependent on what is happening in the ecosystem. Ours is more of execution, products, processes, building scale, building distribution etc. Therefore, we are more confident of the kind of credit growth, which we will bring in.

**Pruthul Shah:** Okay. Got it. And my next question is with respect to the increase in NIM. So Y-o-Y we see that our advances has grown up by 24% and absolute NIM is up by 17% despite NIM percentage increasing from 5.22% to 5.6% in this quarter. So can you explain why this difference is there? Like advances are up 24% and NIM is up by 17%?

**Pralay Mondal:** Yes. Let me try this, but this is a more technical question. Our CD ratio has gone up to 87% and this is a story of the industry. Our investment book has rationalized a lot more. Hence, on an overall basis, the NIM looks better at this point of time. Mr. Divakara, you want to respond to this?

**B. K. Divakara:** Yes. It will not grow in proportion to the growth in advances. Beyond a point, we may not be able to increase the pricing. It has to be at a certain level. From 5.17% to 5.60%, so it is in line with what we had expected. I don't think it will grow in proportion to the growth in advances.

**Pralay Mondal:** The mix between investments and advances are changing. That is one of the reasons and the CD ratio.

**Moderator:** The next question is from the line of Anuja from Elara Capital. Please go ahead.

**Anuja:** Congratulations on good set of numbers. I just have one question. Now, CD ratio is almost 87%. What is the comfortable level of this? can you give some guidance on deposit growth? I understand that we are trying to build quality deposit franchise. However, is there any quantitative guidance for this?

**Pralay Mondal:** So guidance is very simple. If you have to grow faster, so the answer lies in the question that if, we are at the CD ratio of 87% and if you want to grow faster than the industry on the credit growth, we have no choice but to build a deposit franchise better than what we have done in the last few quarters. I mean we do not have a choice, and hence, we are fully focused on that. When you say a deposit franchise, it is growing liability because we also have to be cognizant of the LCR, which has to be between 100% to 120% or somewhere there. Therefore, given that perspective, granular deposit growth, NRI focus generally, NRI deposits for the ecosystem has come down a little bit for various reasons, which you all know. However, we expect the trend to reverse at some point of time in the short term, and that will give us some growth.

In addition, there is no substitute to execution in deposit or liability franchise- adding more customers, building TASC franchise, looking at government businesses and things like that. Of course, LCR, we will continue to focus. So from that perspective, I think it's all about execution. On the comfort level, we do not have a choice. We have to build the liability. Now coming to comfort, I think the overall system CD ratio must have gone up significantly this quarter. I mean it is automatic because if there is a credit growth of 18%, 19% and if liquidity is where it is today, CD ratio has to be much higher, especially here on the private sector banks, which are growing faster. So given that perspective, 87% is reasonably comfortable, in my view, on a relative basis. However, anything above 90%, we need to be monitoring it a little more carefully. As a bank, we will not depend on CDs much to fund our growth. However, if we have to dip into that occasionally, we will do it, but that is not the strategy. We will build up a very clear granular liability franchise.

We have people with us who have built granular liability franchise in some of the largest banks and who know how to build it. Our Head Retail Banking was actually in the liability sales franchise in HDFC Bank many years back. We have seen that time also, it is all about execution. So let me put it this way. We are clearly focused on building granular liability franchise because doing assets is easy. The core strength of a bank is the liability franchise and we all understand that. Therefore, we will build that.

**Anuja:** Understood Sir, and if time permits, I would like to add one more question. At the moment, NIM is 5.6%, which is not sustainable as you mentioned in your commentary. We used to give guidance of 4.5% to 5% for NIM. Do we stick to same guidance? Or are we revising it upwards?

**Pralay Mondal:** It is a difficult question; I will tell you why. I mean, just because I have given a guidance and if I have ability to do more, why should I say, no, okay? But to be very frank, when I said 4.5% to 5%, I was talking about our slightly longer-term plan; because if you have to have a sustainable growth on the mix, say by 2030 or by 2027 while we'll be there, automatically the NIMs will come down. Typically, the way it works, you would know that, even if NIMs comes down, your ROA won't go down because ROA will be based on customer level profitability. For example, if you do not have a home loan with a customer, if you do not have a payment product with a customer, your liability franchise will also not go up. It is a cycle, right? You have to follow the money through liability and assets and EMIs and payments and ecosystem, etc.

Once we have all the products and processes and it's still 3, 4 years away, the guidance will be say 4.5% to 5%. Then we will get customer-level profitability, ROA by that time, we should be having our non-interest income to total income ratio in the rage of 10% to 15% etc. Our customer level profitability has to go up significantly. Cross-sell ratio has to go up at a customer level, which is very low now. NIM is not the only way to create ROA. But when you are running a niche franchise, that's the only way. In the long run, when we have a 4.5% to 5% NIM, there will be many other income streams that will come along in transaction banking, wholesale and so on and so forth. In the medium term, I think if you look at the next 12 months or so, I think we should be able to maintain between 5% and 5.5%. I don't think that NIM is the only judgment of a franchise. Sometimes 4.5% to 5% is better than 5% to 5.5% depending on how we look at the overall franchise.

**Moderator:** The next question is from the line of Pruthul Shah from Anupati Advisors. Please go ahead.

**Pruthul Shah:** Yes. Sir, in last call, you guided that for the full year, we are going to open 100 more branches and if we see in current 6 months, there are five branches, which have been opened. So is that guidance remaining the same for the full year?

**Pralay Mondal:** Yes, yes. We should be able to open around 100 branches this year as well. It typically happens in the last 2 quarters and more of it happens in the last quarter. It works that way for us. We will be able to do somewhere close to 90 to 100 branches this year also. We have to give you more granularity on that. We have already identified 80 locations where work is on.

**Moderator:** Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for the closing comments. Over to you, sir.

**Pralay Mondal:** Thank you. Thank you, Manish, and Axis Capital for organizing this call. I once again wish to thank everybody for joining us on this Q2 FY'23 call of CSB, and wish everybody a very, very happy Diwali, a long weekend ahead. I'm sure a lot of you are taking Tuesday also as a holiday. So have a wonderful 5-day long weekend. Thank you very much, and have a very good festive season.

**B. K. Divakara:** Thank you.

**Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

**Pralay Mondal:** Thank you very much.