"CSB Bank Limited
Q2 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to CSB Bank Q2 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, Enzo. 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, Head, Strategy and Corporate Legal, and Mr. Satish Gundewar, Chief Financial Officer.

We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their result call. The management will first be making some opening remarks, after which we will throw the floor open for questions.

I now invite the management to make their opening remarks. Pralay, over to you.

Pralay Mondal: Thank you, Shivaji and thank you, everybody, for joining the CSB Q2 earnings call. I would like to also wish everybody a very happy Navaratri and Durga Pooja. There is some sound/music in the background as part of the festivities. Please bear with us for this disturbance.

Coming to our today's call, First, I'll start with a little bit of a macro on the global and domestic scenarios and then I will quickly move to CSB specifics. I will keep it short, so that we can spend more time on the call in terms of Q&A.

On the global side, while the inflation has shown signs of some moderation, the economic data continues to remain strong, leading to the prospects of current rate cycle staying higher for longer. With escalation in geopolitical risks, oil remains in 90s per barrel. With elevated interest rates and higher commodity prices, global growth is forecasted to get slower from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024.

On the domestic side, in contrast to the global trends, the economic activities exhibit resilience on the back of strong domestic demand. With the start of busy festival season, the demand for currency is likely to remain strong. RBI has projected the growth at 6.5% for the year and kept their commitment to bring inflation to 4%.

Added to that, on the backdrop of the volatility of the global factors like rates, currencies and commodities; the liquidity in the system is likely to remain in deficit. The currency in circulation, is expected to be slightly higher. In view of that, we expect the liquidity challenges as well as elevated deposit rates for a while.

Coming to CSB specifics, overall performance on both top line and bottom line was good on a Y-o-Y basis. Highlights of the performances are improved profitability, with net profit of INR 265 crores for H1 FY '24, up by 13% from H1 FY '23. Q2 FY '24 PAT is at INR133 crores, 10% increase over Q2 FY '23. Operating profit witnessed a growth of 14% on a half yearly Y-o-Y basis. Q2 FY '24 is up by 11% over Q2 FY '23.

We have a provisioning buffer of more than INR170 crores over and above the regulatory requirements. Despite the margins are under pressure for most of the banks in a highly volatile market, we could maintain a NIM of 5.12% for the half year ended 30/09/23. For Q2, it is a tad lower at 4.84%. However, I am confident that our NIM has bottomed out in this quarter and as per our plan, we should be able to report a NIM higher than 5% on a full-year basis.

On a sequential basis, while cost of deposits increased from 5% to 5.22%, yield on advances declined from 11.18% to 10.88%; we are, though, confident that we should be able to arrest this decline in the coming quarters. Healthy ROA of 1.76% for H1 FY '24 and 1.73% for Q2 FY '24 annualized. On the liability side, we are improving the funding base. We have recorded a deposit growth of 21% Y-o-Y as against the industry growth of around 13% and CASA growth of 4% Y-o-Y.

On the asset side, we have a net advance growth of 27% Y-o-Y, where as industry has grown by around 15% Y-o-Y, if we don't consider the HDFC merger. Gold loan portfolio registered a growth of 32% Y-o-Y. Portfolio build-up has happened across all the sectors. Now we have more balanced growth trends across all the franchise, be it retail, gold, SME and wholesale; which will sustain now and actually grow. Yields on advances for H1 FY '24 is at 11.04%, with an improvement of 34 basis points from H1 FY '23.

On the asset quality matrices, we have some good news with stable ratios -GNPA of 1.27%, NNPA of 0.33%, PCR of 75% without write-off and 92% with technical write offs. We have a prudential provisioning policy in excess of RBI requirements. SR portfolio is fully provided, which we communicated before.

On the capital base, we have a CRAR of 23.96%, almost 24% and a low proportion of risk-weighted assets compared to the industry. On the shareholder value creation, our intent is to maximize the wealth of shareholders, fructified with attractive EPS, book value per share, ROA and ROE. Book value per share has reached INR191, which has shown consistent growth quarter-on-quarter. Our EPS & ROE is INR 30.51 and 17.08% respectively as on 30.09.2023 on a half yearly basis.

In conclusion, I would like to reaffirm that our endeavour has always been to deliver consistently and create a compounding growth story. The quarter gone by is no exception. We have done well in both top line and bottom line parameters. On the top line, while the advances and the deposits grew by 15% and 13% Y-o-Y in the industry, our growth is higher by more than 50% at 27% and 21%, respectively. This is exactly in tandem with what I told in my previous call also that our endeavor is to grow 50% faster than the system.

Gold loan portfolio grew by more than 30% Y-o-Y. Due to systemic liquidity challenges, deposit growth has come at a slightly elevated cost. CASA growth has remained muted, which is true for the industry as well. As communicated earlier, our cost-to-income has remained elevated due to significant investments we are making. As this investment starts paying back in terms of operating leverage, our cost-to-income ratio will start tapering from FY '25 and should go down below 50% by FY '30.

On the other front, we are taking rapid strides in strengthening the building blocks that will help us in leveraging our full-service banking license and build a 360-degree pan-India franchise across wholesale, SME, retail and gold loan business.

Our primary focus is to build a solid liability franchise by acquiring quality customers and onboarding them with all banking products and services. We are significantly investing in leadership, people, distribution products while transforming the technology stack to provide our valued customers our good service and the 360-degree banking facility.

In short, I would like to say that while every quarter, we will deliver the numbers what we are delivering, but the bigger picture for us is our SBS 2030 Vision and how we are sustainably and consistently moving towards that vision step-by-step and so far, we are completely on track in line with the milestones that we have set for ourselves.

With that, I stop here, and we can start the Q&A session. Thank you very much.

Moderator: Thank you so much, sir. We will now begin the question-and-answer session. The first question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Sir, my first question is around the yield on advances, which sequentially declined 30 bps. So is it to do with the rise in gold NPA and the related interest reversal?

Pralay Mondal: Mona, you have asked the right question that yield has come down a little bit, and that is primarily because of gold loans. In the last quarter, you would know that the gold prices have started dropping. To manage the risks, we took some measures like product alignment, LTV management, exit strategy of some customers with higher LTVs etc. This helped us in managing customers who were enjoying LTVs, higher than our comfort level. Given that perspective, our overall portfolio looks very good now in terms of risk parameters.

After that, because of the Israel war and things like that, gold prices have gone up again. This further added to our comfort and we are adding more business now. But again, we are very careful because of the uncertainties in higher gold prices, given that global US yield is almost at 5%, dollar index is where it is now and our bond yields are also higher. Given all these perspectives, we are not willing to take that kind of a bet, saying that let's go all out and book this business at this kind of a price. We have been very cautious and conscious on this business. So that's a combination of two, three factors why you are seeing what you're seeing. But I think it's a risk averse kind of a mindset, which made us do this because I always say that risk comes first and after that, profitability and yields.

Having said that, I must say that this is a one-time kind of a situation. We have bottomed out on NIM and our overall half yearly NIM is around 5.12%. We had committed before that our NIM will be above 5% for the year and we should be able to hold on to that commitment.

Mona Khetan: Sure. So while you're saying that you let some of the higher-LTV portfolio go and also high-yielding portfolio go, if I look at your reported LTVs and weighted average yields of the portfolio on the presentation, both of these have increased. The LTV is at 81% for the book, and the weighted average yields are at 11.7%. So what explains that?

Pralay Mondal: Yield on gold loan has come down by around 20 /30 basis points for us. I'll tell you the numbers. It was 11.78% last quarter and around 11% this quarter. On a half yearly basis it is 11.40%. This will again go up immediately this quarter. On the LTV, as you rightly said, if you do a little more detailed calculation and see that what our yield was and what our mix was and then kind of compare it with gold prices, which dropped, you will see that we have got rid of a lot of higher LTV book from the bank.

Mona Khetan: So basically, this 11.7% number is incorrect on slide 12 of your presentation?

Satish Gundewar: No. Mona, that is a half yearly carrying yield number. We are talking about the actual Q2 FY '24 number, which is 11%. On a half yearly average basis, our yield was pretty healthy.

Pralay Mondal: Whatever has changed has changed in Q2. Because you know that the gold price has dropped in second half of Q2. When you look at H1, it might be that number is correct. But when you look at quarter-on-quarter, which I have in front of me, it has come down by about 70 basis points. This will again go up this quarter. That is why I am not so worried on the NIM and gold loan yields because this was a tactical decision we took, which has been taken care of.

B. K. Divakara: This 11.70% of yield, what has been stated in the investor presentation, is the carrying yield. So that is why it has been stated at 11.70% and it is reckoned against the outstanding balance.

Mona Khetan: Sure. Got that. Okay. My second question then is around the margins. While you said that you'll be able to maintain that 5% or so for the full year. So in that case, we expect essentially that the margin should rise here on?

Pralay Mondal: I mentioned that we have bottomed out on our margins. Obviously, cost of funds is sort of flattening, but we still don't know if there is some more increase panning out there. We believe that in spite of our yield going up now on the retail, on the SME, on the wholesale side, things are starting to improve. You will see that our increase in yields will be higher than the increase in cost of funds. And hence, our NIM will be higher than what it is today.

Eventually, we will be able to manage our NIM in line with what we had guided, which is above 5% for the whole year.

Mona Khetan: Got it. And just one final question. On the non-interest income, there is this INR60 crores of other income. What does that pertain to? And yes, and just again on this part, if I look at the other income ex of treasury, it's almost 1.9% of your assets, which is close to what some of the large banks are making. So is it fair to assume that other income growth will slow down incrementally?

Pralay Mondal: If you remember, Mona, what I said before that one of the critical focus areas for the bank will be to have a sustainable fee business focus in the bank. Few years back, we used to be below 5% ex-treasury and ex-PSLC. And you must have noticed that this quarter also, like last quarter, we didn't take any PSLC income.

Given this perspective, you can assume that whatever fee businesses we are showing, is our franchise fee income streams and hence, sustainable and will continue to grow. The ratio may be now around 17%, 18%, it may come down or go up a little bit here and there.

But broadly, our fee income will continue to sustain in line with the balance sheet growth right now because a lot of these are resulting from a pickup in processing fees, insurance-related businesses, TFX etc. We have put a lot of effort around it, it is starting to show results now and it will sustain. There is no one-off in this at all. In fact, one-offs have not come, PSLC has not come.

Mona Khetan: Got it. And just kindly, what is the INR60 crores in the non-interest income, the other income part?

Pralay Mondal: It could be including some of the insurance income, liability income, credit cards income etc. You know that we have started enhancing our book on the credit card side, which we do through the partnerships, and we are earning fee income there. It is a combination of a host of granular sustainable compounding growth kind of income.

Moderator: The next question is from the line of Pallavi Deshpande: from Sameeksha Capital.

Pallavi Deshpande: Just wanted to understand on the deposit growth that it was quite healthy, but just the LCR has declined. And so do we see a situation where this limits our loan growth, going ahead, the LCR regulation of 100%?

Pralay Mondal: Pallavi, thanks for your question. Deposit growth is, right now, in a systemic challenge and we have grown at 21% on a very small balance sheet vis-à-vis overall growth of 12% to 13% in the system. But this growth has to be managed by 4, 5 ratios in consideration viz, NSFR, LCR, CD ratio, CASA ratio and Cost of Funds.

There are five balls in the air constantly when we look at our deposit growth. Funds of the bank also has a certain amount of increase coming from CDs, a certain amount of refinance, certain amount of deposits and a slight increase on the CASA. It's a combination of all these four.

Coming to your question, will LCR become a limiting factor, the answer is no because we know structurally, there are three or four things which leads to the LCR issue and we are monitoring it. In fact, I myself monitor LCR. Satish also does it on a daily basis. So I don't see that becoming a limiting factor.

But if systemic liquidity remains extremely tight, we are also very clear that we don't want to increase our cost of funds beyond a point. I said before that, I will not sacrifice growth for NIM. But at the same time, we also can't have a situation where we'll buy liability business; that we will never do.

Will give you an example where you can validate that. Our SA rates still are below 3%; which shows that we are not in the business of buying liability. We will continue to grow and on a smaller balance sheet, we can do that.

As we create our overall franchise, there will be automatic growth on the liability side. To that extent, when our CD ratio is almost 87.5%, we also have to have our deposit growth which is closer to the asset growth, and we'll sustain that. Hence you are right; deposit growth will decide our asset growth as well.

Pallavi Deshpande: Sir, just taking that one step forward, the loan growth, we will be maintaining the CD ratio here now, if that's what you're saying then?

Pralay Mondal: We will try to keep CD ratio within 90%. We have been able to do that so far and we hope that we'll be able to maintain that.

Moderator: The next question is from the line of Vikas Kasturi from Focus Capital.

Vikas Kasturi: First of all, congratulations on a fantastic half year. Sir, my question is more to do with the industry, if you could just help paint the picture for me. So we hear that even some of the large banks like HDFC Bank is adding a lot of branches and trying to get more of the retail business and so is another bank like IDFC bank and so on.

So in such a situation, could you just tell us, sir, what is the kind of competition that you're seeing in the segment that you are operating, like SME, wholesale and even retail? So how is the competition? Are we targeting a different set of customers than these other banks? Could you just help paint the picture for me, sir?

Pralay Mondal: Thank you very much for the question. I think the larger banks like HDFC - we are not competing with such large banks . But there is always a sweet spot for everybody if they know how to execute the strategy. That's how all big banks have become big. They were not big day one. People have become big over a period of time. Every bank has started like this and then gradually started playing in the mainstream.

For us, the first principle which is our Board guidance as well as our management philosophy is that we are in the business of taking risk, but we are in the business of bringing the money back of the risk we take. If we have any doubt anywhere that we'll not be able to get the money back, we don't do that business. Basically, net-net, what it means is we are extremely risk averse to a point, number one. Anywhere we see a risk, we don't do that business, as simple as that.

But our balance sheet size is relatively small. So our opportunities are also small. But within that balance sheet size, a percentage growth, there is enough scope. Considering the kind of distribution, the kind of opportunities which are there in India, HDFC or SBI Kotak or Axis cannot reach everywhere, all the time. There is always a scope, and we have to be at the right place at the right time. And hence, we have to find our sweet spots, that's what we are doing.

Third point is branch distribution, yes, there is branch distribution, which I always said is going to be key for banking in India. Finally, I think there's a realization that between digital and physical, both are very important. Digital augments physical distribution. That's why I fundamentally believe that branch distribution is required, especially as you go into deeper geography.

In the main markets, even for wealth management, and such other businesses, presuming you are asking an industry question, banks need distribution. We are not into wealth management ourselves, but I have done that business before. You need that kind of a presence in metro markets. As we go into deeper geography, the Bharat banking, whichever way you call it, micro finance or Agri kind of businesses, you'll need your distribution.

We are not doing niche banking in terms of products and we will do everything. But we will be finding our sweet spots where we think that we can give the right service to the right customer and the customer segment, which is probably not getting the kind of attention which they deserve in larger banks vis-à-vis what we can give. The number of walk-ins that happens in our branches is much lesser than in some of the other banks, which you're talking about. And hence, the personal attention we can give is probably much better. We may not have all the services today the way they can give, but some of the customers need personal attention, which we can give better. We are trying to find out which are the things which we can do much better.

SME, for example, which are the industries, which are the kind of locations, what kind of solutions we can provide, which some of the larger banks may not have the time or the bandwidth because they're doing much larger businesses. But what we don't do is we don't take any risk, and we are also elevating the quality of the portfolio on both the asset and liability side. So average balances are going up in our bank.

On the acquisition side, the quality of acquisition is improving and clearly, our growth in value is faster than the growth in number of accounts. Some of those parameters start showing up. We have built businesses like this in various banks before, so we know what to do and so far, we are on track.

Vikas Kasturi: Thank you for that explanation. Sir, I just have a specific question. Could you just give me some example of the segment or the niches where you can operate, but a larger bank would not find it profitable to operate?

Pralay Mondal: Most of our management team here have worked in larger banks and a fairly large portfolio they have handled. So we know that it's not a question of segment. It's a question of which customer gets what attention in which kind of a bank because when you have much larger set of customers to address, some of the customers may not get that attention which they will get in our kind of a bank because our branch managers, our relationship managers and our customer service officers are a little more focused.

I will answer it in a very different way. But when you look at our customer pyramid, our customer pyramid is different to a customer pyramid of bank A, different to a bank B, different to a bank C. By FY '25, our customer pyramid will be very different to what it will be at FY '27 than our customer pyramid will be in FY '30. Defining this pyramid is very important because if I pick up a customer, who is at the higher end of the pyramid of HDFC Bank, he may not stay with me. We are finding those sweet spots, which are premium for me but at the mid kind of a segment for any of these banks. That is good enough for me to start with because then if I can do life cycle banking with these customers, as we grow and build our kind of other products and services, which we are doing, then it will help us.

I said before that our new core banking, we are just starting to implement any time next month onwards. LMS, LOS, Corporate net banking; we have done. I am just talking about the entire tech stack which you're building around the kind of products and services, transaction banking, SME, supply chain, CMS etc.

These things which we are doing, which eventually attract the right set of customers to us. Ultimately, I'll say that service, attention to detail, the attention to customers and being closer to customers is something which we can do, which maybe for this segment of customers, the bigger banks don't have the bandwidth to do. That's what we have chosen as our sweet spot.

Vikas Kasturi: Got it, sir. And if I may ask one more question. Sir, so as you're opening, let's say, 100 branches every year and you're going into geographies where they may not be familiar with the CSB Bank, do you have to raise the deposit rate to attract customers? I know you said that you will not buy liabilities. But my question is to attract customers in new geographies, do you have to raise rates, to keep market value or something?

Pralay Mondal: In comparison with various organizations I've worked in, say Wipro, HDFC Bank etc, pricing is not our strategy though Yes Bank was slightly different because we created a brand there with 7% on the savings, not that it was my strategy. I never believe in pricing as a way to attract a customer because then, that's not the way to build a franchise; because if I give 5%, somebody else will give 6%, somebody else will give 7%, they will go away. I don't believe in pricing as a strategy.

At the same time, we have to be competitive in the market. We have to be at par with whom we are competing with. If you look at our rate chart, we do not believe, either on the asset side or on the liability side, to play the pricing game out there.

Because in a sales situation, what happens is the sales guys gravitate naturally towards the lowest or highest kind of price, depending on whether you're talking about assets or liabilities. Once you open it up to the sales channel, then there is no control. So I do not believe in pricing as a strategy.

We'll always believe in execution, service, products, delivery etc and these kind of things are going to create our brand over a period of time. I don't think or like to have pricing as a tool to build a brand for the bank

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

Prabal: My first question is sequentially, we saw growth being driven by gold loans. What then explains 12% sequential growth in risk weighted assets?

Pralay Mondal: Can you just be a little louder? Risk-weighted assets growth, you're saying, is it?

Prabal: Yes. I'm saying that credit risk-weighted assets grew by 12% sequentially, whereas the loan growth is being driven by gold loan, primarily. So why there is a sharp increase in all of this?

Pralay Mondal: If you look at it, while the mix has broadly remained the same, gold loan has remained around 47%, the mix has gone down slightly on the wholesale side, has gone up slightly on the retail side -- on the mix side, and SME has almost remained the same.

What it means is and if you look at the growth, for the first time, as I said before, all the 4 segments have grown. I think wholesale has grown by 17%. SME has grown by, I think, 22%, if I remember it correctly. Retail has probably grown by 38-40%, and the gold loan has grown by 32%.

To that extent, for the first time, some other businesses are growing faster than the gold loans. It's just that their quantum is lower, their base is low. That's why still, gold loan mix has not changed. As and when this quantum starts getting bigger and the momentum starts picking up say by FY 25, you will see the gold loan mix starting to go down.

Given this scenario, and given that some of the risk weights on the SME and on the retail side is slightly higher, some basis points change could have happened on the overall risk weights. Satish, do you want to add to that?

Satish Gundewar: Prabal, if you see, our capital usage is very limited because my RWA to my assets is always in the range of 43%, 45%. So year-on-year, my balance sheet has grown and accordingly increase in RWA and capital consumption

Prabal: My question is more on a sequential basis. What I'm saying is that gold loan has RWA of 0%. And since the growth was primarily driven by gold loans, so why was there an increase in RWA on sequential basis?

Pralay Mondal: Growth was not primarily driven by gold loans actually. Our retail growth was faster than gold loans. Wholesale and SME segment growth was also higher.

This is actually the first quarter where gold loan didn't drive the growth on its own. Gold loan growth was very close to the bank's total advance growth.

Prabal: Okay.

Pralay Mondal: Sequentially, gold loan grew by 5%. SME grew by 8%, Retail grew by 6%. If you look at it, gold loan growth was actually lower than two or three other segment growth sequentially. That's what the point I made in the first question that we took a conscious call of not growing the gold loan as we did previously and we actually exited a lot of our gold loan, which are slightly on the higher LTV side.

Prabal: Okay. My second question is just a clarification. So you said that we have INR170 crores of contingent provisions.

Pralay Mondal: INR170 crores of provisions. I'll explain that. Before that, one more point I wanted to say; we could build a credit card portfolio of INR171 crores and this also would have eaten up some amount of risk weights out there because some of these are unsecured credit.

On this INR170 crores, INR106 crores is COVID provisions as we used to call it before. Now we have called it additional provision. This is in excess of the regulatory provisions. We have given the break up in the presentation.

I'll tell you the breakup now. NPA provision, as against the regulatory provisions, we have an excess provision of INR67 crores. Others is INR106 crores, which used to be the COVID provision before. Total is at INR173 crores. Net of tax of INR43 crores, it comes to around INR130 crores. This is the point you are talking about.

Prabal: Okay. And the INR107 crores COVID provision, these are not earmarked against any specific assets?

Pralay Mondal: COVID is gone. Now internally, we have created a policy that these are earmarked against certain accounts and as and when those accounts are gone, then we can use this for something else. It is very easy to immediately take it into the P&L, but we somehow believe that we need to keep slightly higher provisions as a conservative process.

That's why though the COVID related risk was gone, we didn't want to take it back into our P&L. We just wanted to keep this provision in the system and as per our statutory auditors approval, we have taken it as other provisions.

Prabal: Understood. The next question was on the reconciliation of cost of term deposits. So the reported cost of term deposit is 6.5%. But if we see bank's website, then offering rate on 1-year and 2-year term deposit is just 5.5%. So why is there such a disconnect?

Pralay Mondal: I didn't fully get your question, but I think I've got a flavor of what you're saying because there's some disturbance in your voice. I'll tell you what is happening on term deposits.

Most of the term deposits, which are now coming for 1-year or 1 year plus kind of a tenor, nothing is coming below 7.5%, and some are around 8 to 8.1%. That's where term deposit costs are headed to and repricing also gets impacted based on various things.

Based on that, what you are seeing is cost of term deposits has gone up to, 6.43% in Q2. It was 6.21% in Q1, 5.93% in Q4, 5.24% in Q3 and Q2, it was 5.18%. Overall, there is roughly, 125 basis points increase in term deposits cost. This aspect, you can divide it into two parts: One is repricing, and one is incremental term deposit costs.

We are growing term deposits by almost 30% and this growth is coming at a cost, which is at least 200 basis points higher than what used to be there in Q2 FY 23 ie, from 5% to 5.5% it has gone up to 7.5% to 8%. So there is a 200 to 250 increase. For the whole industry, incremental term deposit cost compared to 1 year back is at least 200 bps more. Given that this is not our exclusive story, this is the industry story as well. As we are operating in the ecosystem, naturally we are mirroring what is happening in the system.

Prabal: Okay. So would it be fair to assume that the cost of term deposit would be, for us, at maybe 7% or 7.25%. So there is funding available at another 60 to 70 basis points more?

Pralay Mondal: My belief is that typically, this is our franchise I'm talking about. We have seen our renewals. We have like every other bank does, introduced special buckets and things like that to ensure that renewals are not getting impacted. Our renewal rate is very high and such funds are coming at reasonable rates. It is higher because even that rate charts are also higher, they renew at the same tenors, and they are granular.

To that extent, a lot of these deposits will renew at higher but not at this kind of high rates. This also depends on where G-Sec yield goes, liquidity situation goes etc and in case we see that by the end of this year, hopefully, the 10-year G-Sec is closer to 7% to 7.25%, somewhere in between, then I don't see how this will significantly go up.

I think we are almost there by and large, maybe another 10, 15, 20 basis points. Otherwise, we are almost there in terms of term deposit cost, is my view. Also, the yield curve is flattening, I mean, shorter term rates are going up more than longer term, which creates volatility. But if managed well, on a smaller balance sheet cost of deposits can be managed better provided eventually longer term bond yields starts going down in the next two quarters. That does not take the deposit costs up. What it does is create volatility in the deposits.

But if eventually, we think that the G-Sec is going to flatten, to start tapering down after this financial year, then that will not matter in terms of the deposit pricing. Given all this logic, I think unless the global situation changes and overall U.S. G-Sec, as you said, goes from 5% to 6% or something like that, I don't see this going up too much. 7% is out of question.

Prabal: Okay. Can I ask one more question?

Pralay Mondal: Yes, yes.

Prabal: Okay. Sir, on LTV at 81%, and if I compare this to other regional banks who are operating at 65% to 67% LTV, so I understand that we are focusing on gold, so we are taking slightly higher. But compared to the other regional banks, this is significantly higher than what they are operating. Any thoughts there?

Pralay Mondal: You're talking about gold loans?

Prabal: Yes, gold loans, gold loans LTV.

Pralay Mondal: I don't know who is operating at 60% or 65%. I know most of them are 70% and above and some are even higher than us. I track it.

Having said that, it is a function of the share of agri portfolio and non-agri portfolio in your book. As per regulation, non-agri portfolio has to be below 75%, and we are well below 75% out there. On agri also, we have kept a limit of 85% and we will not go beyond 85% in terms of LTV.

While you are seeing an elevated 81% LTV which used to be 78% for me only one or two month back. At this point of time we took the call that we don't want to go beyond this and hence let's get some of this portfolio out of the system. If I calculate my LTV now, it will be much lower because the gold prices have gone up. It's a sensitivity analysis one has to do.

Given all this, it's a function of how we are doing the business, what is the Agri portfolio etc. Agri portfolio contributes to PSLC income and gives a better earning. There is a lot more rigor in that because you cannot just classify agri without getting the right documentation, without gauging the scale of finance, without getting our unit cost, without getting the crop cycle etc

There is a lot of operating cost in doing this business, it's not easy. Just because we want to do more agri business, that does not mean it just happens like that. As we have been in this business for a while, we understand all this. I think we are able to manage this much better. This is a very clear strategy for us, and it gives us also benefits in terms of PSLC and other income.

Moderator: The next question is from the line of Mr. Shivaji Thapliyal from YES Securities. Over to you sir.

Shivaji Thapliyal: Yes. So I have one broad question, and perhaps there are essentially four related sub questions in that. So firstly, I wanted to understand the perspective, asset quality evolution. Right now, the bank is gold loan focused, so credit costs are obviously extremely low. I mean it's next to nothing.

But just wanted to firstly understand the slippages in this particular quarter, what was the segmental contribution? I mean, which segments they emerged from? That's number one. And what is the slippage guidance for the future? And what is the credit cost guidance for the future, basically? So that's one.

And also secondly, in terms of growth, we are piloting a lot of retail segments. So where are we on that? And what will be the growth guidance as a consequence for FY '24 and '25?

Thirdly, if you could comment on the yield of the businesses and fourthly, on the opex evolution as well?

Pralay Mondal: Great set of questions. Let me try and answer one-by-one, and I'd request Satish to add whatever things he wants to add.

On the slippages, mostly it is on the gold loan side. Other than that, it's broadly in line with where it has been in the previous quarters. Gold loan slippages eventually does not lead to the credit loss, based on our historic experience, because you have the metal with you and you recover.

To that extent, our past experience is that it doesn't bother us too much. But broadly the gold loan slippage was slightly higher than last quarter.

The second question is on overall NPA and how do you see the credit cost. I agree that we have a negative 15 basis points credit cost this quarter also. I keep wondering how long will we be on negative because this is not real. In my previous commentary, I had said that we will be between 10 to 20 basis points on the higher side this year. From the next year onwards, we are making it a 40 to 50 basis points credit cost estimate when we are at a full franchise level.

I think that's what we have baked into our P&L and in our projections until FY 2030. So long term, our thinking is that our gross NPA will be below two percent, net will be below one percent, and credit cost will be between 40 to 50 bps. That is what our FY 2030 guidance is and we hold on to that. But I am not complaining that we are 1.27% in gross and 0.33% in net npa and minus 0.15% in net credit cost. But this is too good to be true. It will mirror the business mix eventually.

Coming to your question on segmental growth and opex cost and things like that, I'll take the opex cost first because that's very important.

For us, I look at cost as cost and investment as two different items, but Satish will take both the same because they both comes as hit to the bottom line from a cost perspective. But the difference is cost is something which is instantly gone, and investment is something which will give us long-term returns.

A large part of our cost-to-income escalation is primarily happening because of 3, 4 lines: One is technology. The largest investment is happening in technology. As I said before, in our bank, we'll have nothing what we had 3 years back in technology, and we are taking the latest and the best technology in everything which we're doing. Technology will give us operating leverage and that will help us in reducing our cost-to-income over a period of time.

Second part is leadership, people, distribution, and processes. There also our attempt is to get the best in the market to ensure the scaling of business in line with our vision. These are investments what we are making and eventually, it will pay off as the portfolio starts growing.

Third, of course, are natural costs, like the HR cost and other opex which will happen. The third angle on the people side is that we need customers. We don't have enough customers to build sustainable long-term liability franchise. Ultimately, a bank is more about liability than assets. So there, we are investing significantly in terms of acquisition machinery.

Along with that, of course, we are also building things like contact centers, outbound contact centers, VRM channels and things like that. That is something which we are thinking like a bigger bank. We are small now, but we are aspiring to be a bigger bank and investing into this.

Coming to products, as I said before, we are not looking at becoming a niche organisation. I am very clear on this. We will be a larger bank and on wholesale, we wont be focusing on large corporates immediately, but we will be in the mid-market to emerging corporates because that's where we can play. In SME, we will be focusing on large tickets as well.

Gold loan will continue to sustain because this is a good business to be in, but it cannot really scale as much it is scaling at a 25,000, 30,000 Cr balance sheet. When you make it 250,000 Cr balance sheet, then gold loan cannot be obviously at that kind of a scale, right, because it's not possible. It's not a scalable business like wholesale, SME and retail. These 3 segments will scale and gold will continue to sustain along the way and do its own contribution.

The fourth point, which you didn't ask, but I want to upfront it on a strategic basis. While we are saying that we'll open 100 branches every year, but I'm thinking slightly different. I mean a lot of our branches are just doing only gold loans because of historic reasons. Actually, we can make two branches of the same branch just by making one part gold and one part other businesses. With more centralisation of operations, this can be executed smoothly. Just adding some right people and adding some businesses in existing branches; I can leverage my branches to almost 2x. So that itself will also bring down my operating cost and cost-to-income. I am starting to think strategically on those lines now and execute it once our technology stack and product suite is fully ready.

None of this will happen overnight. None of this is happening next quarter. But all this will happen FY '25 onwards. The blueprint is in play, just waiting for the technology to deliver. That's broadly the three, four responses to your questions, Shivaji.

Shivaji Thapliyal: Yes. But just some incremental numbers. I mean what would be, a, the growth guidance for FY '24 and possibly, FY '25? And what will be the cost to assets? Secondly, in '24, '25, -- '24 as well as '25? And I think you already talked about credit cost. Yes, I think these two numbers …

Pralay Mondal: Yes, I'll give you some perspective. On growth, I have already said and I have been saying consistently, banking is about consistency. I have been consistently saying that we will continue to grow 50% faster than the system on asset side, of course, if we are able to build the liability franchise right. But if our liability franchise cannot support that, maybe we will grow by 45% or 40% faster than the system.

But I think we'll sustain at least for the next two years, easily, 40% to 50% faster growth than the system. So that's number one. What is the other question? On the opex-to-assets, right? Opex-to-assets is around 4 %. How much is it right now?

Satish Gundewar: 4.12%.

Pralay Mondal: 4.12% for this quarter. It is high because of various reasons, including gold loan. This portfolio has a lot of good things, but it also has high opex. In wholesale which is the lowest opex business, I think we can leverage much more, which we will do. Opex-to-assets will come down once our SME and wholesale business starts growing and that is also going to help our cost-to-income. So it's a fine balance between how do you want to do. I'm not in a hurry right now from our opex-to-assets ratio because gold loan is giving me the highest return.

I must add that opex-to-assets will come down once I have other franchise, which allows you to cross-sell multiple products to the same customer and start creating the semblance of our business. We will take another two years, three years to get into wealth business. But once we're able to do that, that's the time you will see that opex-to-asset starts coming down because here, people will be a lot more productive in the branches with relationship manager and all that.

For this to happen, we need the technology and the products first. Maybe it will happen by FY '25 onwards. That's why I said before that my cost-to-income will start showing a glide path towards 50% and below only from FY '25 onwards. It's a very well-planned and well kind of articulated structure which we have created for the next seven years. And so far, we are on track on each of these.

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

Mona Khetan: Just to follow-up, so can I have the interest reversal from the interest income in Q2 and the previous quarter as well versus Q1?

Pralay Mondal: Don't think we put it in public domain.

Mona Khetan: Okay. So just digging a little bit more into the yield and LTV to the gold portfolio that we discussed earlier, so while you're saying that the yields in LTV quoted in the PPT are that of H1 and not Q2 particularly, still, if I compare it with the last quarter, yields have increased from, say, 11.64% to 11.7%. So if this quarter, yields have fallen so substantially, the average yield for H1 should have been ideally declined. Now why is this increasing? And similarly with LTV as well.

Pralay Mondal: I didn't understand. I said that Q1 to Q2, yield has declined, right?

Mona Khetan: Correct. But the PPT says, it has increased.

Pralay Mondal: Wherever we didn't want to keep the higher LTV high-yielding gold loans, we exited. We didn't want to do all that last quarter. Since I was worried that if gold price falls further, then we will get into a 90% kind of bracket. We did the alignment this quarter. I couldn't guess that the gold prices will not fall any more, I couldn't know that there will be geopolitical crisis. So we did that.

Mona Khetan: Sure. But what I'm trying to understand is why are the data in the Q1 versus Q2 PPT not reconciling with what you're saying because the yields are actually increasing. So is it fair to say that there's something incorrect with the data we have in the latest PPT?

Pralay Mondal: Where are you seeing this data, Mona? I'm seeing in front of me, the yield of gold loan has dropped

Mona Khetan: It's on slide 12. I'm on slide 12.

Mona Khetan: So I'm seeing yields of 11.7% on gold loan and LTV of 81%.

Satish Gundewar: That a carrying yield, Mona. There's a difference between a portfolio yield and a carrying yield.

Mona Khetan: Okay.

Satish Gundewar: Portfolio yield is what is realized in your P&L already, whereas carrying yield is what is the portfolio that I'm holding today and what is the carrying yield for that. So that is more of a futuristic insight. Portfolio yield is what is actually baked in the numbers.

Mona Khetan: So when you say carrying yield, does it mean incremental yield that you're offering currently on average?

Satish Gundewar: Carrying yield says that suppose I have given a loan today, say, on 30th of September, okay? That wouldn't have given me any returns in my P&L because it's just a one day. It is the aggregation of all the loans which are there in my book and the yield that is mapped against each of these loans. That is the process of carrying yield.

Mona Khetan: Okay. So the yield you're quoting here in the PPT is not a reflection of the weighted average yields in your portfolio?

Satish Gundewar: That is a carrying yield. There's a difference.

Pralay Mondal: Portfolio yield is 11% for Q2

Satish Gundewar: Portfolio yield, we already told that in Q2, our gold loan yield was 11%, and Q1 was about 11.78%.

Mona Khetan: Okay. And can you share the LTV likewise?

Satish Gundewar: LTV, I think, it is 81%**Pralay Mondal:** Currently, it will be lower. But may be at quarter end, it was around 80%.

Mona Khetan: Yes. So again, I mean, since you have given away probably higher LTV portfolio, the LTV should ideally decline, right? But from Q1 to Q2, it's increasing from 77% to 81%.

Pralay Mondal: No, maybe it's not an LTV issue. I am not looking at just LTV, I am looking at the portfolio which we don't want to carry. Since you are asking that question, let me tell you.

LTV say could be in the range of 75 to100%. My intent would be to exit the account where I have discomfort. That may not bring down your LTV. I may not have a problem with 80% LTV, but I may have a problem with a 95% LTV.

Mona Khetan: Right. So if 95% you're doing away with, then your average portfolio LTV will ideally come down, right?

Pralay Mondal: Something else could have come at 80% because these are short-term businesses. We can share that number with you. Mona, what has happened is that the gold loan asset portfolio is also increasing. While I am getting rid of, say, a high LTV kind of portfolio, I'm also underwriting new.

Constantly something is going on and something is coming in. So what business would have come in, that could have some loans at 80%.

Mona Khetan: Sure, got that. But just a request on the yield side, if you could share the average portfolio LTV, that would be useful.

Secondly, I just wanted to double check on the segmental loan book that you share across SME, gold, corporate and retail. So while you mentioned, yes, just a reconciliation. So while you mentioned that SME has grown by 8% Q-on-Q, the number when I compare it with last quarter, it has actually de-grown. So is there some sort of reconciliation in numbers or something or where am I going wrong?

Pralay Mondal: SME has grown year-on-year by 22%. That's what I said.

Mona Khetan: Correct.

Pralay Mondal: It is around, what, 11% of the whole portfolio, right? 11% or 12%, something like that.

Mona Khetan: So I remember you having said that sequentially, SME book has grown. Last quarter, it was at INR 2527 Cr as per your PPT. And this quarter, it's at INR 2377 Cr. So according to me, it has de-grown, is that a fair understanding?

Pralay Mondal: Which page you are talking about?

B. K. Divakara: Whatever you have seen in the investor presentation of last quarter, that is inclusive of prudential write-off amount. This time we have modified the data and we have shown the figures net off prudential write-off. That is why it is looking higher last quarter and lower this quarter. Actually, it is the net off PWO, this quarter.

Mona Khetan: Okay. So can I have the SME number, just the SME number for last quarter likewise what we have this quarter?

Satish Gundewar: INR 2205 Cr which is a sequential growth of 8%.

Mona Khetan: So it's grown from INR 2205 Cr to INR 2377 Cr

Satish Gundewar: Yes.

Moderator: The next question is from the line of Vikas Kasturi from Focus Capital.

Vikas Kasturi: In the annual report, I read that CSB Bank would start offering cash management services to its retail customers. So could you just throw some light on what would this do for the bank? For example, when I say retail, I mean, the retail, the small SME. So does it mean that those customers would tend to bank more with our bank? And what is the cost that we will incur in this business by offering the service?

Pralay Mondal: All banks do it. The way we're doing it is we are taking a software which will help us in getting new customers as well as offering cash management services. It will help us in two ways. It will help in getting more current account customers to the bank and effectively creating floats and then the opportunity to do SME business out there.

And the reverse is also right that when we get and talk to SME customers they will work more with the bank through all these solutions on the CMS and things like that say schools, trusts and all this. We are considering this as a part of our solution-oriented approach.

We have a CMS team which is working on this and this will help us to leverage trusts, associations-TASC basically and SME customers to build solutions, which will create float, which will also, on a sustainable business, can help us getting not only current account but also savings account for some of these institutions as well, like schools and things like that, where you give the solutions.

Those are the kind of things we have done in previous organizations also. We are going to implement here as well and our team is already on the job.

Vikas Kasturi: Right, sir. And the logistics part.

Moderator: I'm really sorry to interrupt you, sir, but due to time constraints, you would have to ask your question later. Is that fine?

Vikas Kasturi: Yes. This is just one follow-up question, and I'll be done with it. So, Pralay sir, my question was the logistics part is something that the bank would do itself? Or is that going to be outsourced, sir?

Pralay Mondal: Logistics when we are talking about people who will be handling the cash?

Vikas Kasturi: Yes. Movement of cash, who will be taking care of that?

Pralay Mondal: That will be outsourced. But the point is that, that is a different kind of a cash management. That is a part of the cash management process, but we are talking about cash management solutions also.

One is managing cash or handling cash. The second part is cash management solutions, which is more from a solution perspective, which is mostly digital and other things. If you are talking about pure handling of cash, obviously, that will be outsourced.

Moderator: The last question that we have is from the line of Jai Mundra from ICICI Securities.

Jai Mundra: I have one question only. So on your LTV, just wanted to check if you have any cap when you originate a loan or when you start lending relations upon gold loan? Is there any cap on the LTV? And does this differ in retail and non-retail gold loan?

Pralay Mondal: Yes. First one is our regulatory cap, which is 75% for non-agri gold loan. Obviously, we follow that norm. Non-agri gold loan will always be 75% or below. For agri, we have sort of kept a cap, unless specifically approved by somebody as per delegation metrics, as around 85%.

Coming to institutional, I don't know what you mean, but we do have some businesses where there are aggregators who also will have some accounts with us; but that business is gradually declining in the bank right now.

Jai Mundra: Okay. Understood. Sir, and just on that, so if a customer, let's say, there is a 75% LTV, in your retail offering, does all the products are like 12 months bullet product, or you also have three months, six months which are...

Pralay Mondal: We have all kinds of tenors say 12months, six months, four months and so on. Three months can be cost extensive to do as they'll keep coming back for renewals and all that.

On the LTV, as you said, 75% and 85%, but what typically happens is depending on the gold loan prices going up and down, effective LTV at any point of time for a person who came at 75 also can go up or down slightly. That's a question of conversation with the customer to how to regularize that. Those things keeps happening, depending on the gold loan prices.

Jai Mundra: Right. So sir, for a 12 months retail gold loan product, what would be the LTV that we would start with, right? Because if you add the interest of 10%, 11%...

Pralay Mondal: We consider interest when we talk about LTV.

Jai Mundra: Okay. This is not on the loan given, that is including the interest?

Pralay Mondal: Yes, including the interest applied. LTV calculation is always including the interest.

Jai Mundra: The customer will be getting 10% lower?

Pralay Mondal: He will get 10% lesser.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Pralay Mondal for the closing comments. Over to you, sir.

Pralay Mondal: Thank you very much. I think we had a very good interaction and interesting set of questions. And it was good that some of this question also challenged us because we had to go back to the numbers again-and-again and give back the answers. Hopefully, we could satisfy you with our responses.

Thank you very much for your patient hearing. Thank you.

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