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SOUTH INDIAN Bank
EXPERIENCE NEXT-GEN BANKING

National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051. SCRIP CODE: SOUTHBANK	BSE Ltd. Department of Corporate Services (Listing), First Floor, New Trading Wing, Rotunda Building, P J Towers, Dalal Street, Fort,Mumbai – 400 001. SCRIP CODE: 532218

Dear Madam/Sir(s),

Sub: Conference call for Investors/Analysts –Transcript of the Conference Call

Pursuant to Regulation 30,46 and all other applicable provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 and in continuation to our letters SEC/ST.EX.STT/99/2024-25 dated July 15, 2024 and SEC/ST.EX.STT/108/2024-25 dated July 19, 2024, we wish to inform you that, the transcript of the conference call for Investors and Analysts held on Friday, July 19, 2024 at 16:30 hrs (IST) is attached herewith and made available on the Bank's website at www.southindianbank.com under the following link,

https://www.southindianbank.com/userfiles/file/sib_q1-fy24-25_earnings_call_transcript.pdf

This is for your information and appropriate dissemination.

Yours faithfully,

JIMMY MATHEW
Digitally signed by JIMMY MATHEW
Date: 2024.07.24 21:28:57 +05'30'

(JIMMY MATHEW)
COMPANY SECRETARY

Encl.: as above

"South Indian Bank Limited

Q1 FY '25 Earnings Conference Call"

July 19, 2024

MANAGEMENT:	**MR. P.R. SESHADRI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SOUTH INDIAN BANK LIMITED** **MR. DOLPHY JOSE – EXECUTIVE DIRECTOR – SOUTH INDIAN BANK LIMITED** **MR. ANTO GEORGE – CHIEF GENERAL MANAGER, HR AND OPERATIONS – SOUTH INDIAN BANK LIMITED** **MR. SANCHAY SINHA – CHIEF GENERAL MANAGER AND HEAD DISTRIBUTION AND BRANCH BANKING – SOUTH INDIAN BANK LIMITED** **MR. VINOD FRANCIS – GENERAL MANAGER AND CHIEF FINANCIAL OFFICER – SOUTH INDIAN BANK LIMITED**
MODERATOR:	**MR. JAI MUNDHRA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Bank's Q1 FY '25 Results Conference Call hosted by ICICI 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 any 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. P.R. Seshadri, Managing Director and CEO. Thank you. Over to you, sir.

P.R. Seshadri: Thank you very much, ma'am. Greatly appreciate it. At the outset, let me thank all of you who have taken the trouble to join us in this Earnings Call for South Indian Bank for Q1 of FY '25. So thank you very much. I understand it's a very busy season when it comes to earnings being reported. And then we really do appreciate the fact that you've joined us.

I'm joined by my colleague, Mr. Dolphy Jose, who recently joined us as an Executive Director on the Board; Mr. Anto George, who is our Chief General Manager for HR and Operations; Mr. Sinha, who is our Chief General Manager and Head of Distribution and Branch Banking; and Mr. Vinod Francis, who's the General Manager and Chief Financial Officer of the institution, along with other senior executives.

Let me start with a few of the key highlights of the financial performance for the quarter that just ended. The bank declared a net profit of INR294 crores, which is a growth of approximately 45% compared to the prior year. Total deposits grew by 8% to INR103,532 crores from INR95,499 crores on a year-on-year basis. I'd like to highlight the fact that the current accounts and savings account balances grew very, very nicely during the quarter, which is a significant area of success for us for this particular quarter.

Gross advances grew by 11% to INR82,580 crores. Total business for the bank grew by 10% to INR186,112 crores. Net interest margin for the quarter was 3.26%. It is a tad lower than the prior quarter. However, I think we have been working very hard to ensure that the cost of funds are managed very tightly. And we do think that we have an action plan that can continue to address this issue as we go forward.

Return on assets was 1% and return on equity was 12.9% for the quarter. Net interest income was INR866 crores as against INR808 crores in the prior quarter, that is Q1 FY '24. Capital adequacy ratio, the bank continues to be very well capitalized. We ended with CRAR at 18.11%. And against Tier 1 common equity Tier 1 -- sorry, this is common equity plus the Tier 1 bonds that we hold, it comes in at 16.71%.

CASA, as I mentioned, grew 7% year-on-year to INR33,195 crores. There is almost a similar growth on a Q-on-Q basis sequentially. Provision coverage ratio improved by 390 basis points to reach 69.05%. This is excluding technical write-off. And if you were to include technical write-off, it improved to 79.22%.

Overall gross NPA reduced by 63 basis points from 5.13% to 4.5%. But on a sequential basis, it remained static at 4.5%. And NPA reduced by 41 basis points to 1.44%. On a sequential basis, there was a 2 basis points reduction in net NPA.

Allow me now to take you through other operational and financial performance of the bank. The Gold Loan business continued to grow very strongly, now stands at INR16,317 crores, average LTV of 72.25% excluding buyout and an average ticket size of about INR1.62 lakhs. Gold Loan grew on a year-on-year basis by approximately 13%.

Home Loan and Auto Loans are other areas where we've had some reasonable success. On a year-on-year basis, Home Loans disbursals grew 96% and Auto Loans disbursals grew by 161%. Agri Loans disbursals grew by 108%. The Home Loan book for the quarter stood at INR5,138 crores. Auto Loans stood at INR1,741 crores.

With this, I'd like to throw the floor open for questions. I once again thank all of you for being here. My colleagues and I will try and answer your questions as well as we possibly can. So allow me to request the operator to sequence these questions. Thank you.

Moderator: Thank you very much. The first question is from the line of Himanshu Upadhyay from BugleRock PMS. Please go ahead.

Himanshu Upadhyay: One of the challenges for the bank historically was a high cost-to-income ratio in which we wanted to improve and we believe we need to focus on NIM expansion. So the target we set was 3% plus and which we have been, quarter-after-quarter, you're able to achieve. But still, our cost-to-income ratio remains pretty high. On the income side, what more can we do to improve our cost-to-income ratio? So some of your thoughts there will be helpful and strategy on that one?

P.R. Seshadri: Thank you very much. So what we are trying to do is to rebalance the portfolio. We currently have approximately 42% of our book in very high-quality corporate assets. Because these are very high-quality corporate assets that too on a very short duration type of structure, yields on those are quite low.

So the strategy that we have to improve NIM is basically to grow Housing Loan, Auto Loan, Mortgage Loan and so on and so forth. These are retail or MSME type of products that we need to grow. A moment ago, I mentioned that Home Loan and Auto Loan had grown well. Home Loan, for instance, disbursals for the last quarter were 96% over the prior year similar quarter. So Y-o-Y, we had grown 96% in disbursals.

Similarly, for Auto Loans, we had grown 161% for disbursals. So loan origination on that front has increased. These are higher-spread businesses which will, over a period of time, increase the NIM that we have. And for that to happen, the structure of the balance sheet has to alter. So similarly, with Agricultural Loans, our disbursals have grown by 108% year-on-year.

So these are very significant changes, but for it to actually flow through into our P&L will take some time because those balance sheets have to grow. Disbursals do not immediately translate into growth because there is also a repayment that comes in. So over a period of time, as these disbursal values increase, these balance sheets will grow. These have larger margins than the corporate book that we have.

So as that happens, automatically the NIM will shift upward. And that's what we are working to do. And unfortunately, that will take a little bit of time for us to achieve. We are trying to do it as quickly as possible by focusing all our attention on this business. But having said that, it is an endeavour that cannot be done overnight. It does take time for the structure of the balance sheet to be changed.

Himanshu Upadhyay: The follow-up on this is the Mortgage business or Home Loan business, what we are trying to build, what type of segment are we focusing on? Because in case of service-oriented, we don't see that high a margins generally. So what would be the end customer whom you are trying to focus on for your Mortgage business? And the 3.23%, do you think that we will need to take it further to, let's say, 3.75% type of percentage? And would that be the strategy for us?

P.R. Seshadri: So we, in the short run -- I mean, in the medium term, we want to get to about 3.5%. So from 3.26%, we want to get to consistently 3.5%. And thereafter, try and there's a lot of asset mix that need to be changed for us to get to 4%. But that will be as you know there has to be a glide path to this. So in the medium term, we're talking about, say, 6 quarters, hence, we are hoping that we'll get to about 3.5%, and then have a glide path upwards.

The asset category that you're talking about, housing loan is actually a big category. There are the super-prime customers who are working for super CAT A type of companies, for whom interest rate -- the spreads on our current cost of funds will be nearer to 300 basis points. But then there are others where the spreads would be closer to 400 basis points. And on the affordable housing end of the things, it will be closer to 600 basis points or so.

So we are operating across this category, and we are hoping that it will land us with something like 400, 450 basis points or so, which is a significant increase over the spreads that we are currently getting on our high-quality corporate asset book. So over time, this should nudge the NIM upwards, but it will take time as the balance sheets build up.

Himanshu Upadhyay: Okay. And the second question is, we have old book, which is running down. Can we assume that the net, which is around INR22,000 crores will be completely running down in next 2 years? And secondly, as the new book is getting built, currently, we are seeing very low net NPA and gross NPA.

But can you give some seasoning aspects to it, that the book, which was built 3 years back, what type of gross NPAs are there in that book? Because the base is continuously increasing for the newer book and a lot of new loans are getting signed there. So how should we build our -- or what is the bank business model, the new book is the base business for us 2 years hence?

P.R. Seshadri: So with respect to the gold portfolio, actually, it's been growing very nicely. So we have grown 13% year-on-year. So our balance sheet is now INR16,317 crores. There are certain sub-segments of the Gold business, which is running down. But on an aggregate it -- oh, it's not gold. You were just talking about old, is it?

Himanshu Upadhyay: Yes. It was old, that INR22,000 crores, book?

P.R. Seshadri: Okay. I stand corrected. I heard you as gold book. So with respect to the old book, this is a book which is winding down. So with any book that is winding down, you will see an increase in -- as the portfolio matures, whatever loans are going to go bad, go bad, and then they stay there. And as there is no addition to the denominator, with the increasing numerator, it leads to higher delinquency levels. So I'm not fully if you could repeat your question, perhaps, I can come back.

Himanshu Upadhyay: So my question was the new book, which is continuously getting built, and the base is increasing at a quite fast pace. So how should we model the NPA levels in that book? And also, if you can give some seasoning of that new book, let's say, the book which was built 3 years back, What type of NPAs are in that book, which were -- the new book which was built 3 years back? So some aging analysis and thoughts on that?

P.R. Seshadri: Oh, that? From the new book perspective, we are quite happy with the current performance. The book is roughly 3 years old. Currently, we have 37 basis points GNPA. We can go back and analyze which vintages these NPAs are coming from. We have very limited cases of items in the new book becoming an NPA on an infant mortality basis. I mean, these are aged loans that are going bad. So even if you were to look at cohorts and look at cohort by cohort, I think the outcomes that you will see will be good.

Having said that, I do not have the data to answer that question straight away. We can try and provide you with this kind of information in our next investor deck. When we do bring it out for the next quarter, we'll try and give you further information on how the new book is performing and how the impact -- if you were to strip away the impact of the new bookings into that, how the numbers will look. So we'll try and see whether we can do that.

Himanshu Upadhyay: And one last question. Can you give what is your aspiration for the bank and the top 3 focus areas for improvement in growth in next 2 years?

P.R. Seshadri: So we are working on two broad themes for the bank. One is to make our branches more efficient. So how do we allow our people in the branch -- because our branch is currently the only distribution channel that we have. How do we make the branches more efficient? How do we get them to be more receptive to our customers? And how do we get them to provide the highest quality of service to our customers, and consequently, we get more throughput from our branches? That is one key area of focus.

And for that, we are working on a set of system developments, which we hope will help us do that. So in our investor deck, we have a list of new systems that we intend to launch between now and February of next year. And we think that, that will substantially improve our capabilities to service our customers at the branch front end.

The other area of focus for us is to figure out how we can build digital assets, such that we transition from being a largely physical-based institution to one that is equally represented in the digital world. And thereafter, to use these digital assets as a method of acquiring fresh customers and servicing fresh customers.

So we've got two work streams that we are working on. One is on the branch side. We are trying to make the branches more efficient. There's a lot of detail in the deck on what we are doing there. On the digital front, we want to, a, create digital assets that can engage our customers. See, our customers, majority of them are from the Southern parts of the peninsula, and we think that we have a method of actively engaging with them appropriately.

And we want to use digital technology so that we can build relationships with third parties, which can be seamlessly integrated. So we have set up a team that is intent on doing that. We've had two new relationships on the relationships that we can use to acquire liabilities, which have gone live over the last quarter. Similarly, we want to build these kind of pipes by which we can acquire assets. So these are the two areas that we want to work on.

From an aspiration point of view, the bank aspires to be an institution that is safe, that builds a balance sheet that is very high quality, ensures that the assets in the balance sheet are ones that are -- are those that are appropriate for an institution of our size and where we manage our risk in a very, very tight manner so as to return to our shareholders, and others who are our constituents of this bank, reasonable returns as we go forward. So at this juncture, that is the strategy and two key areas that we are working on.

Moderator: The next question is from the line of Mr. Arvind Datta from Marigold Wealth.

Arvind Datta: For Mr. Seshadri, I've seen there's a marked improvement in the productivity metrics, be it business per employee or business per branch that you've delivered, and it's been growing pretty good. So I wanted to know what is driving this efficiency? What kind of strategy changes you've made in the branch teams or any scorecard you introduced for people to be measured upon? And second question is, what is your aspirational number for the ROE and ROA for the next 2 years?

P.R. Seshadri: Thank you very much for the question. So let me answer the first question -- the second question first. From an ROE point of view, I think -- in the current scenario, I think our ROE will remain at this 100-basis point level. In the short to medium term -- sorry, ROA will remain at 100 basis points in the short to medium term. Because for a structural shift in ROA to happen, the biggest change that needs to happen is that NIMs have to grow. And there, revenues have to start coming up very strongly. And that will happen once the balance sheet structure starts changing.

So right now, we have a preponderance of lower-yielding, high-quality assets which, even though the balance sheet does grow, revenues need not grow commensurately. So our strategy is to grow higher-yield assets in a controlled manner so that the NIM of the institution, over time, changes. But that's not going to happen very quickly.

The business per employee has increased, a, because CASA balances have been growing and deposit balances have been growing as well as our loan book has been growing. Now the strategy that we are following there is that we've put in place a system called SIB MAX. This is a method of measuring our branches for their throughput.

So in the old days, the way we used to measure a branch was we used to look at what all they sold. They could have sold 10 accounts -- 10 current accounts of a particular type, 20 current accounts of another type, 10 savings accounts of one type, 100 savings account of another type.

Now these are all disparate products, and it is very hard to figure out what the actual value addition from a sales point of view was.

So from -- for the last 2 quarters, we've been measuring sales value addition, which is basically we are trying to figure out -- we have created a program called SIB MAX that awards points for any product that is sold, and the points are correlated to the net present value of the -- that is created by the sale of that product, historical net present value that is created. And at the branch level, we have set goals for the branch to how many points are required. And any -- and if they achieve more than those points, there is an incentive program as well.

Most importantly, what this does is it allows us to compare performance across branches because it normalizes different products that are sold into one measurement metric, which is points. And therefore, branch A versus branch B can be compared even though the two may be different, and we know how much value addition there is from branch A versus branch B.

And I think that is one area where we are trying very hard to work on and push productivity from our branches. To a degree, it is working. And for the first time, we have a mechanism of tracking this, measuring this and getting people to be aware of the level of value addition at the branch, which, historically, was not otherwise possible. I hope that answers your question.

Arvind Datta: Yes.

Moderator: The next question is from Mr. Rohan Mandora from Equirus Securities.

Rohan Mandora: So I just want to understand, in the other income, the others line item about INR208 crores, what's the spread there?

P.R. Seshadri: So allow me to turn this question over to our Chief Financial Officer, Mr. Vinod, to give you the answer.

Vinod Francis: Rohan, this is mainly related to some recoveries, what we had from the written off accounts that amounts to around INR60 crores. And we have another PSLC sale income that is also amounts to INR60 crores. And another we have the recovery from the FLDG part, INR27 crores. These are the major items that becomes part of that other income thing and the rest are the regular items that comes quarter to quarter.

Rohan Mandora: Sure. And sir, what will the total written off pool right now? from which we can expect future recovery?

Vinod Francis: Sir, the recovery that -- out of that INR60 crores, the major recovery happens from the SR. So SR, we have the balance figure of around INR41 crores remaining to be provided. And the written off accounts, total amounts to, to INR1,820 crores.

Rohan Mandora: Sure, sir. And sir, secondly, on the AFS reserve, what is the total AFS reserve that we hold at the end of the quarter?

Vinod Francis: One second. Just allow me. It's around INR2.18 crores.

Rohan Mandora: INR2.18 crores. Sure. Second question, just want to mention the investment fluctuation reserve that we used to create earlier, that thing has moved to general reserve. But incrementally, will we continue to create investment fluctuation reserve or maintain investment fluctuation reserve? How does that piece work incrementally?

Vinod Francis: Sir, investment fluctuation reserve, we are keeping as it is only. Investment reserve, what we have, moved to the, general reserve. So the investment fluctuation reserve, that will be continuing.

Rohan Mandora: Sorry, sir. If you could just repeat that, investment fluctuation will continue as it is?

Vinod Francis: That will be continuing as it is. Investment reserve has moved to the general reserve.

Rohan Mandora: Got it. And so the INR2.18 crores that you're saying is the total AFS reserve or net of all the movements that have happened?

Vinod Francis: Correct.

Rohan Mandora: Okay, sure. And on the agri slippages, there was an uptick this quarter. How are we seeing the traction incrementally?

P.R. Seshadri: Allow me to answer that question. On the agri front, we continue to work on the collection front to ensure that we moderate this. The agri portfolio across institutions, I think is an area of focus to ensure that we maintain portfolio quality. We think that a reasonable chunk of the pain that we've had is behind us. There is still some pain to be had, but we are working hard on ensuring that we manage to flow through as we go forward.

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

Prabal: So my first question was on yields. So if you can explain why yield on advances went down? And why was there a sharp jump on yield on investments?

P.R. Seshadri: So yield on advances going down is because of the interest reversals, correct me if I'm wrong. This, basically, occurred on account of the increased agri slippage. And as you know, agri business, the accruals can go on for 2 years before the reversal of -- nonaccrual reversal of interest takes place. And since we had higher agri slippage this quarter, that ended up reducing the yield on advance considerably. That is the key culprit for this.

Prabal: Okay. Can you quantify how much was the reversal because of this?

P.R. Seshadri: So the reversal on account of this is roughly INR15 crores, as I'm being told here.

Prabal: And any impact of reversal of penal charges across other products?

P.R. Seshadri: The impact on penal charges will come more from this quarter onwards than from the prior quarter because of the nature of how this got rolled out. So deadline for new accounts is from now. And we think that, over time, this will start building up, the impact. There will be an impact.

We are trying to figure out how to minimize it, but it will flow through from this quarter onwards and not from the prior quarter.

Prabal: Okay. So would it be fair to say that yield on advances, say, for next few quarters could be under pressure for us? Or it could see a limited ?

P.R. Seshadri: Sorry, can you please repeat that? We couldn't hear you.

Prabal: I was saying that would it be fair to say that when these penal charges get reversed, our yield on advances could be under pressure for a few more quarters?

P.R. Seshadri: So basically, that is an area of concern, yes. The fact that the method of charging penal charges will we change this quarter is something that we are aware of. And the reason why I'm saying that the impact will flow through from this quarter is that the RBI circular says that for the older accounts, it goes live from this quarter. The newer accounts, it went live from the prior quarter. So because older accounts are the preponderant share of our total advances, that's why this quarter is where you will get an impact.

Now we believe there's a reasonable share of that revenue. Yes, we will be able to get back a reasonable share by a series of measures that we are in the process of taking. We don't think there is going to be a very substantial impact. Let me turn this over to Vinod who can perhaps give you a little bit more colour on current penal charges and where we see this penal charge going as we go forward.

Vinod Francis: Sorry, am I audible?

Moderator: Excuse me. There is sound disturbance in the line.

Moderator: Sir, there's a background disturbance from sir Vinod's line.

P.R. Seshadri: Can you put him on mute, please. Vinod?

Vinod Francis: Okay. Yes. So with regard to the penal charges, of course, there will be some pressure on the income side going forward because that is the intent of the true spirit of RBI Circular. But however what we are expecting is that, going forward, we should be able to recover by the pricing. Adjusting the pricing also, we should be able to adjust that loss in the interest income. So we are not expecting much impact on the same in the coming quarters. .

Prabal: And sir, may we -- when we are discussing about this pricing, so it seems that your disbursement rate and repayment rate has increased this quarter. So have we reduced duration of loans or anything there that needs to be looked into?

P.R. Seshadri: So the disbursement amount that you see are largely driven by corporate disbursements. And these are short-term loans that corporates borrow from periods from 7 days onwards. And given the fact that corporate India has now reasonable liquidity, and given the fact that we were coming out of the busy season and et cetera, et cetera, we had significantly larger churn. So the duration of our portfolio on the corporate side has always been short.

The duration on the retail and the wholesale -- I'm sorry, retail and commercial is significantly longer. So the quantum of disbursal that you see is driven by corporate disbursals. And maybe we should try and give them a breakup of corporate versus other disbursals as we go forward. We'll try and include those data points so that gives you a better idea of what those disbursals stand for.

Prabal: And sir, on yield on investments, if you can explain what led to the sharp increase in this?

P.R. Seshadri: Yield on investments has gone up.

Vinod Francis: I think the reason for increase.

P.R. Seshadri: The reason for increase is very simple. If you see that the total book, we have allowed it to shrink, which is where the lower-yield instruments matured, It came in. We stayed in other asset categories and did not build the investment book. So we're waiting for the appropriate time for us to build the investment book. Wherever we get opportunity to invest at an appropriate rate, we did, and thereby managed to get the yield on investments to go up. So there's been very active management on the treasury part, as is very visible from the size of the investment book. So this has been actively managed to ensure that the total yield to us is reasonable.

Prabal: Okay. And sir, just last question. On the business loans, the slippage run rate seems to be around INR150 crores, INR160 crores on a balance sheet size of INR15,000 crores. Is that a normalized run rate? Or how do you see that number?

P.R. Seshadri: So on the business loan front, the NPA accretion for the quarter was about INR172 crores, which, if you were to normalize, it's on a balance sheet size of -- it used to be approximately INR16,000-or-so crores. So this run rate does look a little higher than where we would like this to be. Largely, it is coming from the historic portfolio. And it's also a sign that the portfolio, by itself, is aging in the sense that the new book here is actually quite is not growing as fast as we would like it.

And consequently, we have since the denominator is not growing, the percentage numbers look a little wonky. This is an area of focus, and we are hoping that we can get growth back. We want to focus in areas where delinquencies and loss rates are low. So we've had discussions with the credit bureaus, et cetera. We've identified locations where portfolio performance happens to be good. And those are the areas we want to focus on so that we can grow this book and, over time, bring the loss levels to acceptable parameters.

In addition, what we have done is we've started building scorecards so that the small end of the business loans can be automated as much as possible, and thereby, credit quality can be managed a little bit better and we get more consistency on the credit quality side. So I trust that answers your question.

Prabal: Sir, when you say this was a historical portfolio, meaning how long? Because, I guess, when Murali Sir was there in 2020, he also started implementing all these scorecards. So it's been 4 years or so. I mean, how do read into these numbers?

P.R. Seshadri: No, good question. Good question. The INR600 crores on a portfolio of about INR15,000 crores has a 4% roughly slippage rate. It is, in our estimation, double of what we can afford and for the portfolio then to stay profitable. The loss rates are continuing to come from historical book. These are not assets that have been onboarded from 2020 onwards. These are historical assets that were on our books, which are now not performing the way they are supposed to perform. An asset that is onboarded, it is hard for us to get out of that asset. It's a little easier to get out of assets on the corporate side because there are other takers.

But on the consumer side, on the business -- small business side, given the small ticket size that you very often have with these loans, it is a little harder to do because of the fact that monitoring of very small loans is done on a portfolio basis and not on an individual basis. And when you're looking at portfolio statistics, you sometimes miss out these individual cases that are going bad. And for you to exit loans, you have to do it before they become bad. So there are issues here. The good news is the newer vintages are performing better. The old vintages are not. We are hoping that this will -- the flow-through into NPA of the older vintages, that are of poorer quality, will peter off at some point in time, and the losses will stanch. But there is some distance to go on that. So it will take us a little bit of time before that happens.

Moderator: The next question is from the line of Rakesh Kumar from B&K Securities.

Rakesh Kumar: Question is very similar, sir, here. So what I was looking at that for this quarter, the total slippage number is around INR340 crores -- INR341 crores. And if I look at March quarter presentation, we had a total old book of INR23,800 crores, out of which 41% -- 45% is basically A-plus written. So basically, 55% of the book, where the slippage might be coming from, and also in this presentation, like corporate slippages is zero.

So basically, INR341 crores is slipping from 55% of INR23,800 crores. As you also said that new book gross NPA number is somewhere close to 37 bps or something like -- you commented just now. Sir, just wanted to understand, is it the right understanding, is the slippages coming from the old book? It rather seems to be very high.

P.R. Seshadri: Okay. Let me just restate what you just said. Our total NPA for the quarter, slippage was INR341 crores, none of it was from corporate. Corporate is 40% of our balance sheet, 42%. So for the purpose of this argument, we'll say 40%, right? So 60% is the rest. 60% comprises roughly INR50,000 crores. From that, our slippage is INR341 crores. So INR341 crores x 4 is about INR1,400 crores on INR50,000 crores. So that is running at a significantly higher run rate as you point out.

Now total slippage on the new book, live to date, gross NPA is INR223 crores. This is live to date. I don't have numbers for slippage this quarter on the new book. We will try and provide that to you as we go forward. But as you can see, the slippage, INR341 crores, is significantly higher than the live-to-date slippage on the new book. So the new book slippage has to be perforce at a significantly smaller number.

Do you have the deck for the last quarter? It will have the last quarter number, yes. So we can -- we just pull it out from the website, and we'll be able to give you the difference. Okay. The slippage on the new book is INR87 crores in this quarter out of INR341 crores. So the old book slippage is INR254. INR87 crores on INR60,000 crores is still a reasonable number. I mean, you have less than 0.5% or near about 0.5% on an annualized basis.

So which I think is -- and this has a vintage now. It's not a new book that came yesterday. It has been there for 4 years now. That looks okay. Now INR250 crores of slippage of INR22,000 crores is a little bit of a challenge because it is 5%. But as you know, this is a book that is winding down. And the bad loans, loans that were to go bad, have gone bad.

The question is, how many more will go bad an answer that is a question for which we have very limited answers. But what we will try to do is try and give you a breakup of all of this so that it becomes a little clearer for you as to where the slippage is coming from.

Rakesh Kumar: Got it. So the thing is that I was doing a similar calculation, what you explained just now, that if you annualize this INR341 crores minus INR87 crores for this quarter, or if we try to see what is the annualized slippage rate, and obviously, this -- because, as you said, that INR87 crores is from the new book. So that number, I have reduced.

So I'm looking at INR341 crores minus INR87 crores. into 4 divided by INR23,800 crores, and of that, only 55%. Because 45%, the corporate book is not giving any slippage to us. So then this number is like mind boggling, actually. So I'm thinking that then this INR23,800 crores number, which was there on March, it will take a couple of quarters to run down actually. And this kind of slippage, it will continue that way.

P.R. Seshadri: So let me clarify. Apparently, either I have misspoken or there's an understanding error. So INR87 crores came from a portfolio of INR60,000 crores. That is the new book, right? There, the slippage rate is 0.5% or a little over 0.5% annualized, which is acceptable for a 4-year vintage book. So if I were to remove INR87 crores from INR341 crores, I get roughly INR254 crores. INR254 crores on INR23,813 crores, that is about INR1,000 crores, INR1,200 crores -- no, INR1,000 crores. So that will be roughly 4% and touch So that is -- yes, go ahead.

Rakesh Kumar: Sorry to intervene, sir, Actually, we should not take this denominator as INR23,800 crores because the 45%, which is A plus, is not giving us any slippage. Corporate slippage is 0.

P.R. Seshadri: So the corporate book, see, the old book contains the corporate book of the past as well, and it contains the new corporate. Majority of the corporate book will feature as new corporate, is my estimation. The old book perhaps contains more of the MSME and retail and agriculture and gold and so on and so on. Or maybe not gold because gold is short duration. So it will be MSME, agri and retail and some mortgage loans, loan against property and so on and so forth. I don't think the high-quality corporate is part of the old book.

Now that's a good question. We can peel the onion and show you what the numbers are. We don't have the data here right now. But in the next presentation that we make to you, we'll peel the onion and show you where the NPA is coming. Very clearly, the old book continues to build at a level which we don't like. We are doing our level best to do this.

I must make one point very clear. Q1 of every year, we see seasonally high NPA slippage, essentially because in the first, in the month of April, we have a change of approximately 30% or 40% of our branch managers. They change at that point in time. It takes some time to settle down. And some of our collections, especially for MSME, is branch manager-driven. So if you were to look at the last 8 quarters or 12 quarters, we always find the first quarter has the highest slippage. This will normalize as we go forward, at least, that is what we expect. So looking at this in isolation may not be appropriate is the point that I want to make.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: Sir, so just to reconfirm. I have one or two clarification and then one question. So what we said is that yield on advances have gone down, but yield on assets have improved because there is a higher delta on yield on investment. That is the right understanding, right?

P.R. Seshadri: Vinod?

Vinod Francis: Sir, correct. There is yield on advances has gone down, and we have the yield on investments have gone up.

Jai Mundhra: Okay. And if you -- sir, if you have given any update on the affordable housing and the 1 or 2 new products that we had introduced recently or that we would like to introduce. Of course, we had thought on last quarter, we had said that we will want these products to be approximately INR1,000 crores each. But is there any update on that as to how that is shaping up?

P.R. Seshadri: With respect to affordable housing, our progress is relatively slow at this point in time, Jai. We've launched the product. Unfortunately, we don't have a dedicated loan origination system through which it can be fed. So everything is manual. And being manual, it takes time for us to turn loans around. So as of now, we do not have a significant -- we have not made very significant progress, but we are hoping that a new system to address this can come in place by February of next year. So it's going to take some time because we have a bunch of other things that we are working on.

With respect to Home Loans, standard Home Loans, we are making very good progress. So disbursal, growth is in triple digits or close to triple digits. Housing Loans, Q1 of this year was 96% more than Q1 of last year. Auto Loans disbursals were161% greater than Q1 of last year.

So those are growing nicely, albeit on a small base. Agri also, we had significant success. Because there, again, we had a bunch of new products, which were agri-based products, which we think are of better credit quality. There, again, we've got 108% growth in disbursals when compared to the prior year.

So we are making progress. Some of these new products are taking a little longer. We launched a product called GST Power in April on the 30th of April this year, which is during this quarter. This, we think, is an industry-leading product. We've got, I think, approximately 1,000 applications, if I'm not wrong. And that is doing well.

In addition to this, the supply chain business that we've been working on also grew 36% year-on-year. So there has been substantial progress in many of these products. The effect of all of this will take time because the balance sheet size is large, and the starting position of many of these products is small. So effect of compounding will only come over time, as you know, Jai.

Jai Mundhra: Right, right. Okay. And sir, so on slippages, right, so I take your point that first quarter is seasonally weak, and the new book continues to do very well. But how should one look at the slippages? Is this, let us say, a new normal, like 353 -- I mean, 350 levels. Is that -- barring seasonal variation, how should one look at the full year slippages number?

P.R. Seshadri: Full year slippage, we think, will be INR1,200 crores or thereabouts. I mean that is where we think we should be. I mean from the current information that is available and visibility that we have, we say INR1,200 crores. So, which basically goes to show that INR341 crores is a little bit of an outlier. So we think that we should be under the INR1,200 crores number.

Jai Mundhra: And this will include everything from restructuring also, right? I mean there is no double counting?

P.R. Seshadri: Yes, everything together.

Jai Mundhra: Right, right. So in a way, so this is a seasonal thing. More or less, it looks like a seasonal uptick. Okay. So that is good. And lastly, on opex, sir. So other banks' commentary suggest that we are increasing opex, right, across banks cohort. But here, what we are trying to do is to cut or to contain opex on both staff and nonstaff. So I wanted to understand, sir, are we sort of underinvesting? Or you think there are some easy revenues, wherein you can cut costs and still not impact the usual business growth etc.

P.R. Seshadri: So Jai, your business strategy is dependent upon where you are, your own current situation. So had our situation been that our cost-to-income ratio was 45% or 47%, our approach to business would have been different. And we would have said, "Okay, we are going to invest. We're going to put up new distribution channels. We're going to do a whole bunch of things so that we can grow business," which is front-loading our expenses and revenues will come later.

In our case, we are running well past 60% as cost to income. And consequently, our strategy also has to be moderated. So what we are doing is we are trying to invest in places where we can get disproportionate returns and manage expenses very, very tightly.

So our year-on-year expense growth is 15%. It is only quarter-on-quarter sequential where we are flat. So there has been a very significant growth in expense over the last few years. So what we're trying to do is juice out those expenses. We're not saying we're not going to invest.

Our strategy on the distribution side is still evolving. We will have to change our distribution. We cannot remain dependent only on the branch. And perhaps the approach that we had, saying that we will build non-traditional distribution using digital channels, may not be enough. So we may need to have other distribution channels, which will increase cost for us. But we'll have to do it judiciously and with time. So we are not cutting those off, but our focus remains on managing costs very tightly given our particular situation right now.

Jai Mundhra: Right. And sir, this 15% opex growth, is it like good enough estimate for full year as well?

P.R. Seshadri: I said 15 year growth. It is 15% growth on a year-on-year basis is what we have disclosed for this quarter. Last quarter expense and this quarter expense are roughly the same. There is not much movement, right? We will have some amount of expense growth from here as we go into future quarters, that is driven by inflation on all the products that we consume.

So I think there would be in our case, we are trying to maintain that to monitor that and control it tightly. As you can see, our headcount is decreasing, which is the largest chunk of our costs. So doing all of this, we think that our total expense base growth for the year should not be more than 10%, at least, that is the aim. And we want to grow revenues more than that, so that we widen PPoP. That's the whole plan that we have.

Moderator: I would now like to hand the conference over to. Mr. P.R. Seshadri for closing remarks.

P.R. Seshadri: Let me take this opportunity to thank you all for being here with us today. We did have a reasonably good quarter. I think we are making progress on many of the strategic elements that we've set out to do. We also welcomed a new addition to the Board, Mr. Dolphy Jose as an Executive Director. I think he brings a wealth of talent to our company, and we are very excited to work with him as we make this transformation journey for ourselves. So allow me to thank you all for being here and thank ICICI Securities for hosting this conversation. Thank you very much.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and now you may disconnect your lines.