DEPT.: SECRETARIAL

REF. No. : SEC/ST.EX.STT/46/2024-25
DATE : May 7, 2024

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/29/2024-25 dated April 25, 2024 and SEC/ST.EX.STT/43/2024-25 dated May 3, 2024, we wish to inform you that, the transcript of the conference call for Investors and Analysts held on Friday, May 3, 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_q4-fy23-24_earnings_call_transcript.pdf

This is for your information and appropriate dissemination.

Yours faithfully,

JIMMY MATHEW Digitally signed by JIMMY MATHEW Date: 2024.05.07 21:16:30 +05'30'

(JIMMY MATHEW)
COMPANY SECRETARY

Encl: as above

"South Indian Bank Limited

Q4 FY '24 Earnings Conference Call"

May 03, 2024

MANAGEMENT: **MR. P.R. SESHADRI - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SOUTH INDIAN BANK LIMITED**
MR. THOMAS JOSEPH. K. – EXECUTIVE VICE PRESIDENT AND CHIEF BUSINESS OFFICER – SOUTH INDIAN BANK LIMITED
MR. ANTO GEORGE. T. – CHIEF GENERAL MANAGER, HR AND OPERATIONS – SOUTH INDIAN BANK LIMITED
MR. SANCHAY SINHA – CHIEF GENERAL MANAGER AND COUNTRY HEAD, DISTRIBUTION AND BRANCH BANKING – SOUTH INDIAN BANK LIMITED
MR. VINOD FRANCIS – GENERAL MANAGER AND CHIEF FINANCIAL OFFICER – SOUTH INDIAN BANK LIMITED

MODERATOR: **MR. CHINTAN SHAH - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to South Indian Bank Limited Q4 FY'24 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participants' 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you, and over to you, sir.

Chintan Shah: Yes. Thank you, Neerav. Good evening, everyone, and welcome to the Q4 FY'24 Results Conference Call for South Indian Bank. We have with us from the management, Mr. P.R. Seshadri, Managing Director and CEO, along with the senior management team.

So, yes, without further delay, I would now like to hand over the floor to the management. Thank you, and over to you, sir.

P R Seshadri: Thank you very much, Chintan. Thank you, Neerav. Good evening to all of you, and thank you for joining us for The South Indian Bank Limited Q4 FY'24 Earnings Conference Call. I'm joined by my colleagues, Mr. Thomas Joseph K., EVP and Chief Business Officer; and Mr. Anto George T., CGM and HR -- CGM, HR and Operations; Mr. Sanchay Sinha, Chief General Manager and Head of Distribution and Branch Banking; and Vinod Francis, our GM and CFO, along with other senior colleagues of mine.

Let me start with the key highlights of financial performance for the financial year 2024. The bank declared its highest ever net profits for the year at INR1,070 crores, which is a growth of 38% compared to the INR775 crores in the previous year. This represents the highest net profit that we've ever registered, which is a matter of some pride for us.

Net interest margin for the quarter came in at 3.38% in Q4 2024, and for the full year, stood at 3.31%. It's the highest such number in 18 years. So we have to go back 18 years to hit 3.31%, again. The bank was able to show healthy growth in the average assets during the quarter. Average assets for the quarter grew 5%, which is, again, a sign of reasonable robustness on the business side.

The bank declared its highest return on assets at 91 basis points and the highest return on equity in the last 10 years at 12.13%. Net interest income for the quarter was INR875 crores as against INR819 crores during Q3 FY'24. Majority of this growth in net interest income came on our banking asset side, a small proportion, a small fraction, approximately INR10 crores or so, incremental revenue, came via increased interest income on our treasury book. So, therefore, a large proportion of the growth in net interest income is coming through the sustained growth in assets.

The bank successfully completed its rights issue during Q4 FY'24, taking the capital adequacy ratio of the bank to 19.91% and Tier 1 capital to 17.65%. Total business of the bank grew by 11% to INR1,82,346 crores. Total deposits also grew by 11% to cross the INR1 lakh crore mark. CASA balances increased 8% year-on-year to INR32,693 crores. Provision coverage ratio, excluding write-off, improved by 354 basis points year-on-year to reach 68.66%, almost 69%. And PCR, including write-off, the way RBI measures it, improved to 79.10%.

Overall gross NPA reduced by 64 basis points to 4.50%. Net NPA reduced by 40 basis points to 1.46%. Recovery and upgradation in NPA accounts for the quarter stood at INR424 crores against a slippage of INR284 crores for the quarter. We continue to grow our gold loan business, which now stands at INR15,513 crores with an average LTV of 74.92%, including loans that have been bought out and an average ticket size of approximately INR1.56 lakhs.

Gold loans grew at 12% year-on-year. Personal loan is another segment where we see good traction. Since the launch of preapproved personal loans in 2021, as on March 2024, our personnel book was approximately INR2,282 crores. Our corporate business continued to grow robustly, coming in at about INR32,000 crores at the end of this quarter. The total growth on the corporate side is approximately -- on a year-on-year basis, is approximately INR8,000 crores, which accounts for a substantial portion of our total growth as well.

Credit card is another area where there was significant growth during the year. We closed the total book, as at March '24 was approximately INR1,620 crores. Home loan and auto loans, areas where we are trying to increase our focus, was able to grow 26% quarter-on-quarter for HL disbursals and 23% quarter-on-quarter for auto loan disbursals. The home loan book, as of the end of March 2024, was approximately INR5,083 crores, which is 29% of our retail segment, and the auto loan book was INR1,599 crores, which is 9% of our retail segment.

We launched a bunch of new products, which will hopefully enable us to increase our NIMs. These include affordable housing, commercial vehicle and equipment. And we relaunched the LAP product. For those of you on the call, loan against property is a product that is underrepresented in our balance sheet. Approximately INR1,800 crores of that asset category only exists on our balance sheet, and we think that, that is an area where we can get some growth with reasonable characteristics at higher spreads, which will contribute to the overall NIM of the organization going up. We will continue to maintain the momentum in disbursements and collections in the coming quarter so that we achieve our desired targets.

With this, I'd like to open the floor for questions. Thank you very much.

Moderator: Thank you very much. The first question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Congratulations on a good quarter. Sir, I wanted to check, first, if you can elaborate, you have provided some details on the strategy, but if you can also highlight 2 key things. One is that you are saying that you are improving branch productivity and you have launched sales value addition as a metric to sort of track the branch productivity. If you can elaborate a little bit more on that, how do you intend to do that? Does this changes a lot of things or this is going to be a gradual incremental thing? And how would it impact, let's say, the overall financials? That is question number one.

And secondly, on the -- if you can throw some light on the loan mix because even in this quarter, it looks like that corporate -- the growth has come from -- mainly from corporate versus what we are trying to do is to grow more on MSME side. So these 2 questions, sir.

P R Seshadri: Jai, both are very good questions. Let me answer the second portion of the question first. It is right that even in this quarter we were dependent on corporate to give us a reasonable chunk of our growth. I think the transformation of our organization wherein retail starts firing again is -- will take a little bit of time. And I think there needs to be a reasonable amount of patience because we need to get, a, the structures put in place that can originate these loans.

And b, we need to build salience with respect to these products with the customers as well. So both of these processes have started. We are seeing growth. As I said, home loans on a quarter-on-quarter basis, there was a 26% growth in disbursals. But having said that, it is on a low base. So as long as -- we now need to repeat it quarter-on-quarter, and we need to keep getting significant growth for it to start materially impacting our balance sheet. So that is going to take a little bit of time.

On the MSME side, again, we made a bunch of changes to our organization. We used to have -- earlier, we used to have a sales force that was responsible for on-boarding these customers, but not for managing them. And there was this -- for these larger ticket MSMEs, there was a confusion as to whether the branch was managing it or this relationship managers were managing them. So now we're moving to a structure where very clearly relationship managers will manage them, and branch will only provide service at the branch level.

And origination of these assets can happen either at the branch end or through these relationship managers. And from a tracking and reward point of view, we will reward both ends, the RMs as well as the branches. So these kind of transitions are taking place. And for all of this to settle down and start resulting in very significant increases in balance sheet is going to take a little bit of time. So it would be hard for us to display growth immediately. But having said that, we can see trend lines which are encouraging, and we think that as we go forward, it will start playing out the way we want it to play out.

With respect to sales value addition, it's very simple. What we have tried to do is for every branch -- every product the branch sells, we have tried to use our historical data to see what is the value that accrues to the bank as a consequence of that sale. So this is based on prior history. So if you open a particular type of account, what balances historically on average have you had, for how long have you had it and what is the expected P&L that drops into the bank is something that we've computed.

Using this, we have created goals for the branches in such a fashion that the expectation is the branch produces sales value addition, which is equivalent to 50% of its cost. The other 50% being actually met by servicing existing clients. Our hope is that if every branch of ours adds 50% by value -- by way of sales value addition, then our top line will start growing quite rapidly because right now, we are not doing it.

So even today, only approximately 1/3 of our branch cost was recovered during the quarter, which means that our existing portfolio had to support the other 2/3. So as that increases -- remember that all of this will drip through into our P&L. So the sales value addition that we compute is the net present value of the expected revenue streams that we see in the future. And so as sales value addition increases, automatically, the revenue streams will start building, and I think that will start playing through into our P&L. I mean at least that's the hope.

Jai Mundhra: No. So if I get it correct, what we are saying is that the sales -- the branch would endeavour to recover 50% of the branch cost through sales value addition, which is a normal sales value addition to the branch. And the rest will be covered by existing set of clients. Is this what you said because...

P R Seshadri: Yes, yes. So what we are saying is out of INR100 -- if there's INR100 branch cost, INR50 we want to cover by way of sales of new products. So the discounted value of future value that we see from these products sold is INR50. And the other INR50 is the cost of maintaining a portfolio. So we have to do -- we have a relationship with millions of customers, managing those relationships is also expensive. 50% of the cost is towards that. And the other 50% is being paid for by new customers. So if we can get to that level, we believe that we will be in a position to start growing revenue quite healthily because last quarter, we think was a better quarter than most.

When we built this metric, our expectation was roughly about 100 branches will meet it because that was the historical trend line. But last quarter, approximately 202 did meet it. So we have seen a significant uptick. One of the things that was very satisfying is that current account origination for the quarter increased fourfold for us in the last quarter. And the average balances, average quarterly balances increased by almost 70%.

So of accounts that were originated in one particular quarter, how did the average balances for those accounts track over multiple quarters? We looked at it, and we found that the average quarterly balances went up quite nicely. So some of this is on account of this measurement standard that we put in place. Some of it is extraneous factors, but we are reasonably -- we are enthused by the end results actually. We are quite happy with what has happened.

Jai Mundhra: And would this involve a lot of change in the branch KRA or the incentive structure to the field and the branch or this is -- that model has also been there...

Moderator: Sir, sorry to interrupt you, your audio is not coming clear.

Jai Mundhra: Okay. So what I was checking is would this -- structure is already in place. Of course, this is in place, but does this require too much of a change in the incentive structure or the branch KRA or this would be steady state and a template has already been set up?

P R Seshadri: So the templates have been set up. We've been live now for -- we started on 1st of January, so we've completed 1 quarter. We are using this as a mechanism of incentivizing branch behaviour. So the first time we have a branch incentive structure. We hope to use this as a method of measuring branches as we go forward. But right now, we have 2 -- we have another HR-related measure of measuring branches, but the 2 are getting closer and closer together.

So -- because this whole thing about trying to figure out what the value addition is, is also a little complicated, and it is driven by behaviour of our branch folks. And as we get more and more data, we get better and better at it. So the idea is that we slowly over time move to a single method of measurement. And if this works, this will be the method of measurement going forward at the branch level.

Moderator: The next question is from the line of Kunal from DSP Asset Managers.

Kunal: This is Vivek. My question was on co-lending. Since you are focusing on picking up your retail part of the advances, would co-lending be a good way so that you can grow the retail part as well as get data, which is a very useful thing for you to embark on the next stage of growth?

P R Seshadri: Yes, it would be a very good thing. So we are in discussions with multiple counterparties as well as entities that can enable us to connect with multiple participants. So this is something that we are actively exploring. It's taking a little longer than we thought, but it is something that we are working on.

Kunal: excellent. Sir, just one last question. Is the growth in car book anyway linked to the fact that the corporate -- big corporate book is also growing because they tend to be very transaction banking heavy? And that's my last question.

P R Seshadri: There was some amount of -- out of the INR2,000-odd crores that we did grow, we -- a small portion, about 30% or 40% came from the corporates. About 60% of the growth -- we grew at more than 20% on an end-of-period balance basis. So about 60% of that growth is retail, noncorporate type of growth, which is another thing that we are quite happy about actually.

Moderator: Next question is from the line of Tejas Shah from Unique Stock Broking Limited.

Tejas Shah: Yes, I have a few questions. If you can throw some light on the latest CV tap that you've done with Ashok Leyland, I think, for vehicle finances for dealers. That is one. Secondly, if you can throw some light on the right issue versus QIP selection? And again, we are -- let us say, the bank is receiving around some INR1,200 crores odd rights. But again, we are paying dividend, and we are again forgoing some INR84 crores to INR100 crores. And plus, if you can throw some light on the provision coverage ratio, when are we planning to hike it up to 85% to 90%?

P R Seshadri: The rights issue versus QIP, the decision was on the basis of the fact that at the point in time we made this decision, we were trading significantly below book. And we thought that if we did a QIP, we will dilute holders who are currently holding our stock. And consequently, we went in for the rights. Anyway, that decision is -- has been made. Rights issue has happened. Our stock count has gone up on account of the 1:4 rights that we've done.

Last year, we paid dividends of 30%. This year, we are just -- we continued with it. Every 5% dividend increase or decrease impacts the total dividend payout by roughly INR13 crores. So we have paid approximately INR78 crores in total cumulative dividends during the year. Last year, we paid roughly about INR62 crores or thereabout. That's an INR18 crores increase and which the Board felt was appropriate given the support that we have got from our shareholders in the past. And it was not too large a number for us to quibble about.

With respect to the tie-up that we have with Ashok Leyland, we have multiple relationships with Ashok Leyland, so we do substantial quantums of business with Ashok Leyland. An area that we are looking with the act is the financing of their dealers. So dealer floor finance is an area that we've been working on. And we've had the appropriate sign-ups done with Ashok Leyland on that front.

Let me just ask Senthil, my colleague, who manages this to pipe in if I'm inadvertently saying something which is inappropriate.

Senthil, over to you, you want to add more context to this?

Tejas Shah: Yes, boss. I hope I'm audible and clear. Started this CE CV business about a year back or maybe 4, 5 months back, where we had come with a product line and suit for delivering to retail commercial vehicle and construction equipment customers. So in that context, as a backward or a forward integration, we thought that we will try and engage with big manufacturers and have a tie up with them and use the dealer route to try and fund the dealers and then do the retail finance to take out and close. So that is the larger thought process and philosophy behind engaging with manufacturers.

So Leyland happens to be one of them. There are also leading construction equipment manufacturers like JCB, whom we have signed off with to help the retail business through the dealer financing route. I think if that gives clarity, then I think that's the strategy part.

Tejas Shah: What are we looking at in terms of the top line and bottom line in case you can throw some light there? What are the expectation of the business coming out from this in terms of the growth?

P R Seshadri: On the CV CE side, I think the thought process is that if we are able to get to about INR1,000 crores to INR1,100 crores of business by the end of the year, then I think we will be happy. I think we just started. The thought process is to build it over INR1,000 crores and then over a period of time build the book.

Moderator: The next question is from the line of Ravindra, individual investor.

Ravindra: Congrats for the good quarter. So my first question is the growth rate, right? So given the balance sheet size, like loan book of some INR80,000 crores. So big banks, right, like HDFC bank, even though the balance sheet size is INR20 lakh crores or something more than that. So they are growing at 20%, and we are growing at sub-12%. So why is it difficult? With quality, why can't we grow at 20% or so? Yes, sir, that is my first question.

P R Seshadri: Now historically, this bank has grown at rates lower than this. So we've taken it up to 12%. You're right. I mean, our ambition is to grow at the market because, otherwise, we become relative to the market, we become smaller and smaller over time. But you need to grow with quality. And that implies that our systems, processes, technologies have to be appropriate for the product that we are offering. And that is a journey that we have engaged in. So we launched our first fully automated lending solution for MSME this quarter, which enables our branches to actually say yes or no to a customer in the span of approximately an hour. And like that, we need to now create multiple swim lanes through which different products can be put through.

And once those product sets are in place is when we will be able to grow much faster than we are currently doing. So our ambition is to fix our systems, processes and then grow as opposed to trying to grow without fixing it, which means that we will make mistakes in the process. So right now, we think that we'll continue to grow at this 12%, 13% range that we have demonstrated last year. And once the -- over the next 12 months or so, our systems and processes will be fixed, new systems will come into place. Post that, we should be able to step up our growth and come closer to the market norm. I trust that answers your question.

Ravindra: Yes, sir. So the next question is on the cost-to-income ratio. It is -- looks like it's trending up, maybe some 64% or something. And what is your aspirational range for that? And another thing is given that we are going into the higher-yielding assets, so how can we control the -- I mean are we going to control the NPA or we don't? So given the new book, right, the NPA is very negligible. Is it going to look like the same or is it going to increase the NPA numbers, if we go to the higher-yielding assets?

P R Seshadri: So thank you very much for that question. We are acutely aware of the fact that the cost-to-income ratio for us is higher than our peers. It's an area that we have fully seized of, and we are wanting to correct that over a period of time. There are no immediate fixes for this. We've looked at our expenses very clearly and very closely. We find that roughly 2/3 of our expenses are not controllable, i.e., they belong to areas where changes are difficult. Approximately 1/3 of it is controllable, where we have some elements of leeway to actually impact those expenses.

Under the circumstances, what we are doing is we are looking at our expenses very closely. We are monitoring every expense that we make very, very tightly. At the same time, we are hoping to grow our revenues quite considerably because we do believe that we have excess capacity in our organization, which needs to be leveraged. And as revenues grow, automatically revenue expense ratios will rise if the expenses do not grow at the same time.

Our ambition, we had actually disclosed in the last quarter. We said that we want to take off about 1,000 basis points from our revenue expense ratio. I do believe that, that is going to be a difficult task, and it will take multiple years. It's not going to happen overnight because of the nature of the expense that we have. But you make a very, very good point with respect to revenue expense ratio.

And if you would ask me what is the biggest challenge I face as an individual in this company, I would say that, that is the biggest challenge that we are facing at this point in time because it does reduce strategic choices that are available from a management perspective as to what we can do with our business.

With respect to your second question, which is basically, you're saying we are going to the higher-yield business

Moderator: Sir, sorry to interrupt you, we are losing your audio. Ladies and gentlemen, please stay connected while we rejoin the management back to the call. Participants, please stay connected while we rejoin the management back to the call.

Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Sir, please go ahead and continue.

P R Seshadri: Okay. I don't know where you lost me, but I thought I'd answer the first part of the question.

Moderator: Yes, sir, second part of the question. Yes.

P R Seshadri: Yes. Second part of the question with respect to credit costs, we don't...

Ravindra: No sir, higher-yielding assets, NPA.

P R Seshadri: Yes. We are moving into higher-yielding assets. And these are relative -- when I say higher-yielding assets, this is relative to the current asset book that we have. So as you know, we have 40% -- I'm sorry, corporate. And within that corporate, we have a large chunk of AAA corporates. So, therefore, our assets that -- on the corporate side, our yields are quite low. So relative to that, we want higher yields, which does not mean that we are taking higher risk necessarily. So we don't expect a very material change in the portfolio performance. It has performed quite well. In our deck, we now have given you ever 30-plus at 6 MOB, 1 graph, which you can look at. We expect that trend lines to stay where they are as we go forward.

Moderator: Next follow-up question is from the line of Tejas Shah from Unique Stock Broking Limited.

Tejas Shah: We missed the provision coverage ratio. What is the roadmap going ahead?

P R Seshadri: So we are currently at about 79.1%, the way RBI measures it. And we are at about 69% and change, the way you would measure it without the technical write-off. We -- so far, the provision coverage ratio has been built up by excess of recoveries over slippages. And we believe that, that trend line will continue. So over the next year or so, we expect another 300, 400 basis points improvement on this number. At some point in time, we will need to take a management call on whether we need to aggressively do technical write-offs, which can materially alter both the gross NPA as well as the net NPA and the provision coverage ratio. But given the fact that the majority of our assets are secured and given the fact that we have now reached approximately 70% PCR, we are not looking at very aggressive write-offs and provisioning at this juncture.

Tejas Shah: Cool. If you can also throw some light on the retail segment revenue and retail banking basically because the revenue and the incomes are, I think -- there is a degrowth in that in terms of the income. Basically, when I say your other retail banking, there, I think there is some drop in the income. So if you can throw some light, where are we losing money over there?

P R Seshadri: I'll turn this question over to Vinod, who is our CFO, to provide colour on this question.

Vinod Francis: It is basically with regard to the segment reporting you're referring to.

Tejas Shah: Correct.

Vinod Francis: So in the segment reporting, if you see that the allocation what we do is based on the asset size. So whenever the asset -- there is a change in the different segment, the expense getting allocated to those segments is also getting altered. So we cannot readily map the income what we earn from that particular asset -- particular segment to the real income what goes into the profit-loss account. This is for the segment reporting. The allocation is based on the asset size. Hope that clarifies you.

Tejas Shah: Yes. But then again, year-on-year, if we are seeing, we are seeing -- I mean 50% odd, from INR41 crores it's going down to 212. So what there's a massive -- we're not making money over there or what exactly? Or is it shifted to some other area of the banking, which is getting recognized?

Vinod Francis: It's not that we are not making money over there. We are making money over there. That is -- as I told, the allocation that comes into the segment that flows the calculation is made based on the asset size. For example, if the treasury, the asset size is reducing, it will get the expense that is getting allocated to there get reduced. And proportionately, the segment where there are higher assets will have higher allocation of expenses. So that's why a particular segment may have a lower revenue -- showing a lower revenue. It's not that the actual revenue from that segment is lower. That is totally different from the revenue that flows into the P&L. That's my point.

Moderator: Next question is from the line of Milan Shah, individual NRI investor.

Milan Shah: So it was -- my question was a follow-up on the earlier question on the segment results. So this is something that is not clear to us. So while everybody is congratulating on a good quarter, if you look at the segment information, the profit during this quarter is INR392 crores versus INR522 crores last time. So leaving aside the issue about allocations, there's a drop of almost INR120 crores in the profit, and this is in spite of a INR100 crores treasury income, which we know is not generally repeatable. So I'm struggling to understand how this is a good quarter. We are showing a loss on the corporate side of INR44 crores, it seems.

Vinod Francis: Sir, mainly, when we see the corporate, we -- our main growth comes from the corporate segment. And here, the corporate means the segment is above INR7 crores, what we classify as segment for the corporate sector. So the growth -- majority of the growth happens in corporate sector. The higher allocation will -- probably goes to the corporate sector. So the -- where the asset size of the other segment, for example, the treasury has slightly degrown their asset size and also with the other segments coming down.

And the corporate segment going up the asset base, definitely, the allocation of expense and other interest expense will go higher to the wholesale and banking and corporate sector. So that's the reason the -- even though the revenue has increased, the loss is almost on the same line because the expense allocation has increased in the corporate sector.

Milan Shah: No, I think, see, it's not making much sense to be honest because see, we are -- let's leave aside the segment, how do you -- at the overall level at the quarter level. See, your total expenses are what they are. Let's forget the inter-segment allocations, but your profit overall for the quarter is INR392 crores versus INR522 crores of last time. So how does the allocation impact that?

Vinod Francis: Sir, maybe we have the detailed reply, maybe we can connect together after this call, sir. We'll give a detailed reply based on the detail.

Milan Shah: Yes, I think so, yes, because it has nothing to do with the allocation. How do we explain a drop in absolute terms of almost 20% in the quarter versus last quarter? That's what we need to understand.

Vinod Francis: It's not the revenue which the drop has happened. It's on the profit. So definitely, we'll have a connect together after this call, and we'll give the details, sir.

Moderator: Next question is from the line of Chintan Shah.

Chintan Shah: So, sir, 2, 3 questions from my end. Firstly, sir, if you could help us with the breakup of other income?

P R Seshadri: Vinod, do you want to take that, other income breakup?

Vinod Francis: Sir, you want the item-wise breakup or the broad breakup? If we give the broad breakup that...

Chintan Shah: Apart from that, yes, like a revaluation of investments, ForEx income that way, sir.

Vinod Francis: Yes. Our core fee income is at INR191 crores if you compare with the Q4. Compared to the Q3, it was INR179 crores. And the treasury and ForEx in Q3, it was INR158 crores. And in Q4, it is INR80 crores. So the major dip happened in the treasury is mainly because in Q3, we had the benefit of a lot of IPOs and other market favourable conditions, which helped to gain higher incomes in Q3.

So in Q4, the income is slightly down on the treasury side. And in others also, we have a slight dip from INR115 crores to INR75 crores from Q3 to Q4. That dip mainly happened mainly because of the lower recovery from the fully written-off accounts, which we had higher in the Q3, and also, the FLDG also, that income booking from FLDG, which we don't have in Q4, but we had in Q3. So these 2 factors -- 2, 3 factors have contributed for the dip in the other income compared to Q3.

Chintan Shah: So sir, if you could quantify that amount of recovery from written-off in Q3 versus Q4?

Vinod Francis: One second. Sir, in Q3, it was INR30 crores. And in Q4, it is INR7 crores.

Chintan Shah: Okay. Okay. Sure. And sir, if I may get the number of write-off for the quarter?

Vinod Francis: The write-off, we have not done as such prudential write-off, we have not done. Only the write-off that comes in the P&L is the settlement that happens as part of recovery.

P R Seshadri: And the amount is roughly INR20 crores.

Vinod Francis: And the amount is roughly INR20 crores.

Chintan Shah: Okay. And sir, one thing on the margin. So if you look at the margins, they were up by around 19 bps Q-o-Q. This is despite the yields being up only around 6 bps Q-o-Q. So largely the margin seems to be driven by the investment yield. So basically, yes, there is a kind of a divergence in the COF and COD in this quarter also. COF has gone up slower than the COD. So any specific reason for that? And similar on the yield side as well, the advance yield is lower, 6 bps, while our yield on assets is much higher. Similarly, a reason on that side as well. Yes.

Vinod Francis: So if you see the cost of deposit, that has slightly increased when compared with the Q-o-Q basis because we have a lot of repricing happened in Q3 and Q4. So the impact has come in Q4. So that has slightly squeezed on that margin side. But, however, our yield on advance is on increasing trend, and that will continue -- that we are expecting to continue.

P R Seshadri: So basically, our net interest income grew from INR819 crores to INR875 crores. The increase -- about INR10 crores increase comes from increased income on the treasury side. The treasury book shrank a little, approximately INR2,000 crores end of period. So the average numbers I don't have with me, but it shrank, but gave us a little bit higher income.

The rest of the growth came because we had substantially higher average assets for the quarter than we did in the prior quarter. So our average assets had grown 5%. And as a consequence, the total net interest income that is flowin through had increased quite considerably. So if there are other technical details about the movement of these rates, et cetera, then I will request Vinod to touch base with you separately and walk you through the numbers.

Chintan Shah: Okay. Sure, sir. And one more thing. Sir, on the -- recently newly launched products, namely Affordable Housing, CV or CE and a revamped LAP, which we have done in this quarter. So some more nuances on the business in terms of yields, ticket size and sourcing, whether we are doing it internally or via a DSA model.

And secondly, would these be higher-yielding products, but adjusted for the initial OpEx cost, which will be front-ending? Would they be ROE accretive over a period? I mean, how would -- when will it show up in the ROA? And what could be the size of this book after 2 years -- say 2 years from now on?

P R Seshadri: So all of these products, I mean, for it to be material to us, have to be at least 4-figure crores. Affordable housing used to be a core product for the bank once upon a time. We moved into prime housing 3 or 4 years ago and vacated that niche. So we are going back to an area where we have done business with in the past.

Too early for us to tell you what the yields are, et cetera. But our aim -- ambition is to get at least INR1,000 crores in each one of these product categories if not more. So mortgage LAP, for instance, we want to do a couple of thousand crores during the year. So we can -- we've not specified goals for ourselves, but that is what we would intend to do and what we have sort of cemented in our mind as to what we want to do.

Chintan Shah: Okay, sir. Sure. So probably -- but it will show in a year only by the end of this year or probably by next year first half we could see some impact -- positive impact on the ROA. Would that be a fair assessment or it will take some more time?

P R Seshadri: It will -- only when it becomes material, will it start showing, yes, that's a fair assessment. So let us say, affordable housing, we wanted to do INR2,000 crores during the year, by the time we get -- since the balance sheet size is already INR80,000 crores, for it to materially impact our

NIM, et cetera, you need to have a certain critical mass. So that is going to take, if not 9 months, a year.

Moderator: The next question is from the line of Palak Shah from Elara Capital PLC.

Palak Shah: I just had a few questions on the guidance front. If you could guide about what kind of growth or margins in ROE you are looking from next year perspective, from FY'25?

P R Seshadri: Ma'am, we would -- we want to grow at the rate at which we grew this year, which is about 12% on assets -- 12%, 13%, so either 12% or early teens on the asset side, and deposit side of a similar number because this is the time when we are transitioning from our older models of business to a new model of business, which requires a great deal of investment in time and energy on our part to change our processes, et cetera.

We've hit about 3.38% NIM this quarter. In the medium term, we want to get to about 3.5%, so we are doing everything in our power to increase NIMs. And majority of this is going to happen by restructuring the balance sheet by getting higher yield books to grow whereas the low -- constraining the lower-yield books. And the constraints on the lower yield book will start once our higher yield engines start operating. So as of this moment, our higher-yield businesses are not kicking in volumes at the level we want. Therefore, we are not constraining the lower-yield business, which is basically corporate. But 18 months out, we would like to see approximately 350 basis points NIM and increase that thereafter. Yes.

Palak Shah: Okay. And ROA?

P R Seshadri: ROA will stay where it is, ma'am. As you can see, it's -- we are at roughly about 100 basis points now. We don't see any immediate trigger for it to increase. ROA increase will come once some of our expense-related challenges are met with by increase in revenues. So currently, the driver is such that we will stay at about 1 in the near future. And once our revenues start growing quite considerably, that's when ROA numbers will start increasing. But in the near term, it will remain where it is.

Moderator: The next question is from the line of Chinmay from Prescient Capital.

Chinmay: Just a bookkeeping question from my side. Could you share the average LTV on the gold loan portfolio for the entire year, FY'24?

P R Seshadri: It's 74 and touch Chinmay.

Chinmay: Got it, sir. And what would you say would be the steady-state number that you'd be looking at? Because I think a couple of quarters back, it was somewhere around 83%, if I remember correctly, so...

P R Seshadri: Including buyout, it's at 74.92%, so about 75%. And excluding buyout, which is basically our own portfolio, is at 70.73%. So the long-term trends are that it will continue to drop is my view because majority of our growth is coming from our own sources.

Chinmay: Understood, sir. And what is the average yield on this portfolio for the year?

P R Seshadri: Can I get Vinod to answer that separately to you? I mean I don't have the data with me at this juncture.

Chinmay: Sure, sir.

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

Prabal: Sir, my first question is on the yield...

Moderator: Prabal, sorry to interrupt you, we're actually losing your audio. Can you speak through the handset, please?

Prabal: Sir, so my question was on yield. We have seen a sequential increase in the loan yields while we are also simultaneously increasing our share of corporate book. So what explains this dichotomy?

P R Seshadri: Very good question. It is a reasonably aggressive pricing action in the sense that demanding and getting a reasonable price with the corporates. We had some leeway with -- on our -- the finance company books, the NBFC exposure that we had post the change in risk weights. We did go back and try and renegotiate wherever it is possible so that we got an incremental yield to cover for the incremental risk weights that RBI had prescribed for us. So that enabled us to take our corporate yield a little bit higher than where it was in the past.

And plus just overall trying to be a little bit more careful with respect to how we price ourselves, on the corporate side enabled us to take total corporate yields up. I have with me my colleague, Biji, who is our Corporate Bank head. So maybe she can throw a little bit more light on this, and then, we can come back to me.

Biji S. S.: So basically, what we have done is that, of course, in terms of the large corporates with AAA one's and all, the pricing is a bit finer, but we try to balance it through converting wherever possible through the FCDL where the incomes are on FCDL means the forex loans where the yield is on a higher side. Then making a mix of the supply chain finance. Earlier one gentleman was asking about a tie up with ALL. So similar tie-ups with many OEMs we have done. So those dealer finance cases, which are coming in, then a mix of other vendor finance cases, which are coming in. So through all these activities, we try to balance the whole portfolio. In certain cases, it will be finer price, whether the corporate is a higher rated one. But in the other cases, it is able to manage the whole portfolio in a manner that the whole yield is improving. I hope I have answered the question.

Prabal: Yes, ma'am. Sir, my second question, again, on the corporate side. So we are seeing also the share of rest of India increasing in the corporate side. So I understand that you have a reasonably bigger brand in the southern and the Kerala markets. But what is our right to win in the rest of India in the corporate side? And how are you negotiating our pricing with the customers outside of these regions?

Biji S. S.: See, what I understand is, whether the percentage of Kerala is lower -- can you please come again on that area?

P R Seshadri: So basically he is asking why should people bank with us and why should we win in this region. I think the answer is very clearly that we have high-quality RMs and we are very tenacious and dogged, and we've been chasing this business for a long time. So we have a large book in Bombay, and we have a large book in Delhi, which is what -- rest of India business. So we offer every product that other people do. Only thing we do is we offer it with perhaps a little bit more personalized care than many other banks can manage. And consequently, our corporate customers think that it is appropriate for them to deal with us. Add anything you may wish, Biji.

Biji S. S.: Yes. So basically, we work with 60 -- around 60 RMs, and there are certain region heads as well. So from the center level, we take a prewashed data of all the major corporates whom we want to approach. It's a kind of a wish list where we will check the basic data. And then we will approach them with a tailored product wherever we can support them in terms of the term loans or in terms of the supply chain part, which I was explaining earlier or in terms of short-term assets because wherever there is any opportunity through the short-term, we enter through that. And then we move into the normal working capital level. So this -- people will be approaching the corporates with a curated product, which will be somewhat matching their requirements in their present level. So the homework which is being done in that area actually is helping us to crack the deals.

Prabal: All right. And this is entirely sole? Or there is some element of multiple banking arrangements as well?

Biji S. S.: There are both. Even if it is sole banking or kind of multiple banking or consortium, wherever it is, we keep on going ahead with our own analysis, our own risk appetite and everything. We don't depend upon the analysis done by some other bank. It's based on our risk appetite and our risk capabilities alone.

Prabal: Got it. Great. And sir, my last question is on the retail side. So currently, the book is not growing, but as we plan to scale this book, the focused geographies will be Southern Kerala geographies or we also intend to push into the other markets?

Biji S. S.: Sir, should I take it?

P R Seshadri: Yes, go ahead.

Biji S. S.: Yes. So we are strong in certain areas in Kerala as well, but the major cities and the major metros and all, actually, our base is low where we have a lot of opportunities to grow. So in terms of the secured retail, if you would consider the housing loans and the vehicle loans with a tie-up that is happening with the OEMs and the dealer side actually is helping us to scale up in terms of the auto part.

And coming to the housing segment with all the tie-up with -- which we are doing with the builders, wherever we have corporate relationships already tied up and everything, that is also helping us to penetrate to the builders. So these areas is helping us to keep us moving in all the major metros and the cities. And at the same time, the branches in the certain area is also focusing on. So it's the 2-channel, you can say, through the DSA, DST, builders and dealers and everything the whole growth is happening. At the same time, the branches are also working with their own clients and all the new additions that is happening.

Prabal: Got it. And when should we expect the retail book to start picking up?

Biji S. S.: Of course, it has already started growing, and auto has grown more than 30% in last year, and housing is also moving up. And we have Seshadri, sir, who was explaining, the growth has started happening in that area. The log-ins are improving, and our presence is also improving in all the major cities.

Prabal: All right. And the entire process of turnaround time and everything, that is in place, so the only push is required now.

Biji S. S.: Yes. And -- slight changes are required in the process part as all, which we are working upon straight through processes. Wherever possible, we are trying to make it also happen.

Moderator: Next question is from the line of Jai Mundhra.

Jai Mundhra: 2 questions. One is we had -- in the last month in the last to last month, we had said that we have to sort of stop credit card because of the regulation on co-branded products...

Moderator: Sorry, we are losing your audio. Can you speak through the handset, please?

Jai Mundhra: Yes. Sir, I wanted to check an update on credit card tie-up that we had because after RBI observation for whatever reasons, we had to discontinue that. So, a, if you could highlight what was the issue? And how far are we in the current setup to -- I mean, how far -- what is the progress on that front? And I'll ask the second question later.

P R Seshadri: So, Jai, with respect to the credit card, as of this moment, we are not issuing any incremental cards. We are continuing to manage the cards that we had at the time when the RBI request for us to stop issuing new cards came into force. The balance sheet continues to be buoyant. And, therefore, from a revenue perspective, we don't see any immediate risk.

With respect to the points that RBI wanted addressed, given that RBI's letter is not in the public domain, I'm constrained to not give you all the details. Safe to say that RBI wanted us to make a few changes, which we are working on. Currently, it is work in progress. We think that we know what needs to be done. Once -- we are also in dialogue with the Reserve Bank of India to understand whether our interpretation of their requirements is appropriate or not.

And once we get the concurrence from them that this is what they intend for us to do, we will ensure the implementation happens in quick order. And our current wishlist, and I'm not saying that it will happen in that form, but our current wishlist is that we should be in a position to have crossed all the T's and dotted all the I's and restart next quarter subject to RBI approval. So that is the timeline that we're working on. Obviously, this is subject to RBI approval.

Jai Mundhra: Correct. So is it safe to say that -- I mean, all our credit card issuance are with the partner, right? We don't originate too much on our own.

P R Seshadri: No, we have zero card issuances on our own. It's all done through this single co-brand partner. So as of this moment, there are no incremental credit cards being originated.

Jai Mundhra: Sure. Sir, my question is a bit of a follow-up on the -- someone had earlier asked, on the ROE tree, right? So this quarter -- this year as a whole, this was a good year in the sense that there was a good treasury income, which may or may not sustain. Asset quality has been good. Probably it will sustain. But if from here -- I mean, you said that the endeavour will be to increase margins by a few basis points. But -- I mean, what could be the other lever?

Because it looks like treasury may not see similar gains and OpEx -- hence that OpEx because of wage bipartite, et cetera, et cetera. Has that been -- is that already over -- OpEx as a percentage of assets, should that decline? Or should that improve? And -- or how should one look at the ROE tree? Sir, margins are more or less stable to rising. But because there is a treasury drag, how should one look at, let's say, fee income and OpEx line item?

P R Seshadri: Good question, Jai. I wish I could answer that. I would need a crystal ball, which I don't have. But let us assume, let us start with the basics. Our biggest challenge is -- as you rightly mentioned, is on the expense side. We will do our utmost to ensure that the expense numbers remain where they are and not deteriorate any further. And we will eke out a few extra basis points on the spread side so that our revenues increase. So from the expense side, we're going to manage it very tightly. We don't think that we should have a very substantial increase. There will be some ongoing increase on account of inflation-related adjustments, but not of the same order of magnitude that we current -- have we seen in the past.

We will get -- we will do our damn best to change our product mix in such a fashion that we get some uptick on the spread side. And then finally, the wildcard is going to be what happens -- actually, there are 2 wildcards, what happens on our recovery side and what happens on the treasury side. Treasury side for the near term, we don't see much visibility of profit potential because the fixed income side, given that rates are back up to 720 and thereabout, there is limited P&L that can come on the fixed income side.

There is still some money to be made on the FX and equity side, which we are continuing to milk, but not of the same order of magnitude that we saw in Q3 of '24. So given all of this -- finally, on the recovery side, which has been helping us from a P&L standpoint very dramatically over the last few years, we think that we still have another 6 to 9 months of runway where recoveries will remain reasonably buoyant. And consequently, we have that time horizon to actually change the asset mix.

So in the near term, as I had mentioned earlier, our ROAs will not rise from where they are at this point. But we have levers in our hands that will help us smart -- to keep it where it is and give us time to build the alternate revenue streams and increase our NIMs in such a fashion that ROA growth is possible in the long run. I don't know if I've answered your question or not.

Jai Mundhra: No, no, that answers.

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

Pallavi Deshpande: I just wanted to understand on the current account, you've mentioned a 3-fold rise in the balances for the new customers. So I just wanted to understand what's driving that.

P R Seshadri: Partly driven by the new sales value-added tool that we created, which made it possible for us to measure one branch against another. So in the past, when you were looking at branch measurements, you had a branch profitability report and you had a branch sales report. And the brand sales report used to have multiple things in it, current account -- different types of current accounts, NR accounts, savings account, different types of savings account, some asset products, vault products, wealth management products, everything. And it becomes very difficult to compare one branch with another.

The sales value-added metric enables us to compare one product to another. So last quarter, we sensed an opportunity in the market on the current account side. And we incented our people from -- to go after current accounts. And as a consequence, we did open 20,000 current accounts last quarter, which is significantly more. Normally, in a month, we do roughly -- in a quarter, we do significantly less, so it was a huge increase for us. And it also increased the total amount of POS machines that we had in force. So all of that put together impacted the growth in CASA balances positively.

Pallavi Deshpande: That's a great performance there on that side. Second -- my second question was on the NBFC. So what would be the share of lending to NBFCs right now of the total book?

P R Seshadri: No, no. Our total NBFC exposure, ma'am, can we tell you offline? I mean we'll just -- we will come back to you offline, ma'am.

Pallavi Deshpande: All right.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. I now hand the conference over to the management for closing comments.

P R Seshadri: So I wanted to thank all of you for being here. I think we've had a decent quarter. I mean, we've started making progress on growing our net interest margin. We've started the process of transitioning from an institution that was dependent largely on one line of business to having multiple lines of business that contribute to it. Our journey of simplifying our processes and our journey of building world-class technology that supports our sales engines has begun. Our first fully automated product has gone live, and we are hoping that it will perform well.

We have an agenda of installing 6 or 7 similar products before the year is out, which, in turn, will change the way we do business and the change -- and the way we interact with our customers. So I think we are feeling reasonably good about the quarter that has just ended. We understand that the topline numbers do not show our achievements very favourably, but I think the underlying trends are reasonably good. And we are looking forward to improving our performance as we go forward. So thank you very much, everybody, for being on this call. We really appreciate it.

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