



“CSB Bank Limited Q2 FY2026 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the CSB Bank's Q2 FY '26 Earnings Conference Call hosted by YES Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shivaji Thapliyal from YES Securities. Thank you, and over to you, sir.

Shivaji Thapliyal: Thank you, Bhoomika. Good afternoon, and a warm welcome to all those who have joined the call. The CSB Bank management is represented by Mr. Pralay Mondal, Managing Director and CEO; Mr. B.K. Divakara, Executive Director; and Mr. Satish Gundewar, Chief Financial Officer. We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their result call. The management will first be making some opening remarks, after which, we will throw the floor open for questions. I now invite the management to make their opening remarks. Pralay, over to you.

Pralay Mondal: Thank you, Shivaji, and good evening, everybody. Thank you for joining the call. Firstly, I will cover briefly about the economic scenario and then quickly move on to CSB specifics. We all know that the global trade negotiations across various countries have shown significant improvement in the recent past. It gives financial market some stability and hopes of returning to normalcy in a couple of months. FOMC has cut U.S. rates by 25 basis points. However, the commentary by the FED Chairman was more hawkish than expected, leading to USD appreciation and some correction in the gold prices. Global growth focus remains subdued.

Indian growth is expected to add approximately 20 bps over previous projections due to GST rate cuts and steps taken by the Central Bank. The inflation forecast has been revised downwards, however, the projections for the next year are around 4%. The deposit growth lagged the credit growth in the system in September '25, showing signs of credit pickup. The CD ratio for the banking system went above 80% after around 6 months. The continuous lag in deposit growth has impacted the banking sector NIM significantly.

We expect the banking system NIM to stabilize soon and we also expect the liquidity to remain easy once RBI takes decisions on cutting rates further this financial year.

Coming to CSB specifics on our quarterly financial results for Q2, I feel that we have registered an impressive all-around performance on a Y-o-Y as well as Q-o-Q basis, both in terms of top line and bottom line.

On the profitability side, net profit for Q2 FY '26 stood at INR160 crores up by 16% Y-o-Y and 35% Q-o-Q. Operating profit of the bank for Q2 FY '26 grew by 39% on a Y-o-Y basis and 27% on Q-o-Q basis and stood at INR279 crores.

NII up by 15% and 12% on a Y-o-Y and Q-o-Q basis, respectively. Other income registered a robust growth of 75% on a Y-o-Y basis and 43% on a Q-o-Q basis and constituted 24% of total

income for Q2 FY '26. Cost-to-income ratio was at 63.86% for Q2 FY '26, a tad lower than Q2 FY '25 and Q1 FY '26. NIM for the quarter improved to 3.81%, up by 27 bps over Q1 FY '26. ROA for the quarter ended September stood at 1.33%, up by 30 basis points over Q1 FY '26. Bank is holding the contingency provisions intact and is continuing with the accelerated loan provisioning policy, which will enable the bank to move quickly towards ECL.

On the liabilities front, we are improving the funding base. Deposit growth momentum continues to be faster than the industry and registered an increase of 25% Y-o-Y vis-a-vis a 10% for the industry. CASA growth was 9% Y-o-Y and the CASA ratio stands at 21.17%. We have sufficient liquidity buffers and are maintaining LCR at comfortable levels. Liquidity is quite efficiently managed. CD ratio stood at 88%, average LCR for the quarter is at 126% and NSFR ratio is at 116%.

On the asset side, total advances grew by 29% Y-o-Y, significantly higher than industry growth of 11.4% Y-o-Y. All the asset verticals continue to contribute to the portfolio growth. The necessary groundwork for diversification of loan portfolio has been initiated and will pave way for balanced growth in the days to come. Yields on advances witnessed an uptick of 22 bps over Q1 FY '26 and currently is at 10.95%.

On the asset quality metrics, GNPA and NNPA ratios for the quarter was at 1.81% and 0.52% as against 1.84% and 0.66%, respectively, for Q1 FY '26. PCR now stands at 84.14% with PWO and 71.62% without PWO, improving over Q1 ratios of 80.46% and 64.52% respectively. Bank is cumulatively holding a provisioning buffer of around INR 199 crores over and above the regulatory requirements.

Robust capital base is what we have been consistently maintaining. We have a CRAR of 20.99% and Tier 1 ratio of 19.19% with a low proportion of credit risk weighted assets compared to the industry, primarily due to the gold loans.

On Shareholder value creation side - Book value per share is improved and stood at INR 261. EPS for the quarter is INR 36.67 and ROE for the quarter is at 14.46%, which is again a significant improvement quarter-on-quarter. On the distribution side, we have a network of 838 branches and 810 ATMs as on 30/9/2025.

In conclusion, I would like to say that we are approaching our scale journey scheduled for FY '27, targeting to emerge as a respectable mid-sized bank by FY 2030. I had mentioned in my last call that our team's highest priority during the previous quarter was on stabilization of the systems and processes that followed our complex CBS migration in May. Now we have almost stabilized and in fact commenced the second phase of the tech transformation with renewed rigor which majorly covers OFSAA, OBTFPM, OBDX enhancements and various other projects we are starting - like CMS, Supply chain, Trade systems etc in addition to the fifty plus surround systems we have already integrated with the Flexcube system - which means that this is one of the major transitions and transformations we have seen in the industry over many years, coming from a legacy system to the most modern system with many surround systems around it. This will pave the way for our future growth.

The results for Q2 reflects a strong momentum, both in terms of business and profitability, signalling the right advancement towards our vision. Our top line, both deposits and advances showed a strong Y-o-Y growth of 25% and 29%, respectively. The improvement in profitability is visible with the 39% and 16% increase in operating profit and net profit, respectively, over Q2 FY '25, whereas over Q1 FY '26, the growth was 27% and 35%. While our NII grew by 15% on a Y-o-Y basis, the other income ratio registered a 75% increase, as mentioned before.

As we move forward, the development of a profitable customer franchise is essential for the success of our vision. We are actively working to align our teams, products and processes to support this strategic priority, which will be critical in driving growth. Our key focus now will be on rolling out the retail journey with the systems and processes in place, as it will enable us to achieve granularity in our portfolio and unlock valuable cross sell and upsell opportunities. As part of the preparedness, we have already implemented LOS for majority of the retail asset products. LMS is already in place. Automation/ Scorecards are in place for credit decisioning, wherever feasible. We are enhancing our BIU, which is business intelligence unit. Digitization of loan journey, product offerings like Loan against securities, end use based consumer loans, etc are work in progress. While we remain focused on our long-term strategic priorities, we are equally committed to achieving this year's targets and will continue to work diligently to deliver on those expectations.

Finally, I'll say that our 5 pillars on which we are building the Bank for the long term, starting with governance, compliance, customer orientation, technology and people or culture are firmly in place, and I'm very happy to report that these pillars are getting stronger and stronger, especially technology, compliance, culture and governance.

On the customer service side, we got two awards as the No.1 bank in terms of best customer complaint management. These are small achievements at this point of time because the size is small, but we think we will be able to sustain this based on the technology transformation and the culture which we are building in the bank.

With that, I will stop here and we will take questions. I am joined by our Executive Director, Mr. Divakara and our CFO, Satish. I have requested Satish to take data questions as he has better grip on numbers. Over to you, Shivaji.

Moderator: Thank you very much. The first question comes from the line of Akshat Agrawal from Smiths Institutional Research. Please go ahead.

Akshat Agrawal: Congrats on a strong set of numbers. My first question is on margins. What is driving this sharp uptick in yields on advances surging 22 bps sequentially? Is it all because of higher gold loan growth? Or were there higher yields in the segment?

The cost of deposits came down by 6 bps. What kind of deposit repricing is left for third quarter? In terms of NIM trajectory, how do you see it moving in next 2 quarters? Then will there be a continued expansion if there are no further cuts? Do we see exit NIM by Q4 to be above 4%? That was my first question, sir.

Satish Gundewar:

Akshat, this is Satish here. We have multiple questions bundled into one single question. I will try to address one by one. In terms of the advances yield, we have businesses divided into 4 segments - Gold being the largest one with 47% composition in our advances. We have not only seen that the portfolio has increased very strongly, at the same time, there has been improvement in our gold yields as well. That is one of the contributors.

Apart from that, our wholesale segment has done exceedingly well and the book has grown very strongly, and we have been able to marginally improve the yields also in the segment.

The next larger book is BLG i.e., Business Lending Group or the SME. There again, we have been able to maintain our yields. Basically, with the combination of these portfolios doing well in terms of the top line as well as the margins in terms of the gross yields, we have been able to improve our overall yield trajectory.

Secondly, in the overall portfolio, only around 38% of the portfolio is linked to some form of the benchmark, which is either MCLR or EBLR. Whenever the rate cut happens, the impact, especially on the gross yields is limited for our overall portfolio compared to other banks where this external benchmark linked portfolio is much higher. Almost 60% of our portfolio is largely fixed rate portfolio. Hence, we get insulated there. Coming to the cost of funds, within cost of funds, we have multiple sources of funding - deposits, refinance etc. We have also resorted to CD as well as FCY borrowing. Overall, our bulk deposit composition is a little larger compared to the industry. Across each of our funding sources, we have seen signs of reduction in our cost of funds. In fact, what we are seeing is that -- the interest rates on the bulk deposit have been falling, I would say sharply compared to the retail deposits. That has also benefitted us. In terms of the bulk deposits as well as the retail deposits, we have seen that incrementally what we are borrowing today - we have seen a fall in the cost of funds. Basically, that impact has been on both the sides in this quarter - we have been able to improve our yields and at the same time, we have seen an improvement in the cost of funds, and that has had an impact on our net interest margin.

Last quarter, we had made a comment that our NIMs have bottomed out and this has really played out properly. At the moment, we are at 3.81% of NIM. Going forward, probably we will be in this range of about 3.7% to 3.9% for the rest of the year, it may move from quarter-to-quarter. It will be very difficult to really pinpoint the full year NIM, however for the rest of the year, we feel that we will be in the similar range of 3.7% to 3.9%.

Pralay Mondal:

On the NIM, I just want to add that natural repricing is happening because of tenor . We had strategically moved from a high tenor to low tenor deposits over the last 18 months in the bank. Hence, our average tenor has reduced. It was a strategic call that we have taken as we knew that interest rates are going to fall eventually. That will help us.

We see that the fixed retail deposit rates are not coming down at this point of time anymore. Maybe it is a temporary phenomenon or permanent- that we will know based on the liquidity and other reasons, which are systemic in nature. Yields are falling on, especially on the

wholesale side. There has been a very highly competitive market. Probably that is bringing the growth also back into the system.

From here on, I think broadly the repricing that is going to happen on deposits and the MCLR has also started kicking in because now it is almost 6 -7 months since rate cut. Given that I think it will broadly be in the same range of 3.7% to closer to 4% or 3.90%. That range will be there. It has exactly played out the way we had told last quarter that our NIM will improve, but now we are saying it will stabilize at these kind of levels.

Akshat Agrawal:

Very well, sir. On fee income, it was very strong this quarter, doubling year-on-year and 80% Q-o-Q. Can we get some colour on key drivers? Is it sustainable? Treasury income was very weak, so do we see some recovery going forward?

Satish Gundewar:

In terms of the fee income, we have got multiple sources. If you track for the last several quarters, our fee income trajectory has been pretty strong. This quarter also, our disbursement track was very good and that has resulted into good processing fee income. One of the main sources of our fee income is processing fee income that has grown to almost 83% year on year.

Second is our insurance business, which is doing very strong, both in terms of the number of policies and the premium income. That has also grown very strongly. Other aspects of fee income - because we are now well establishing our wholesale banking business, transaction banking is a vertical which is also giving us a good fee income. Across various lines, we have seen that fee income has grown, and these are all granular kind of fee income, which we expect will sustain over a period of time.

Your next question was in terms of the treasury income. Treasury income is again a derivation of the yields in the market, and during this quarter we have seen some hardening of yields and that is why for most of the banks, you would not find much of a treasury income. We had booked some treasury income in the first quarter. In this quarter, there was not much of a treasury income. At the moment, it is difficult to comment in terms of the yield trajectory. But let us see how the yields move and basis that treasury income may come in the next quarter.

Pralay Mondal:

If I can just add, I think fundamentally treasury income, obviously is a function of yield. But even if there are further rate cuts in Q3 or Q4, I do not see too much of an MTM based treasury income in Q3 also. Maybe some will come in Q4 if we are lucky. But we are not fully depending on non-core income like treasury. Around 80% of our fees are granular in nature and hence, sustainable for the long term. With retail assets and other businesses going to take off from next year i.e., FY '27, sustainability of this fee income will only improve from FY '28 onwards,

The other thing I want to mention is fee income from businesses like gold loans. Because of the short tenor of the business - For example, if we have a book of INR16,000 crores rough and ready, our disbursement is upwards of INR10,000 crores and the fees is on disbursements.

Similarly, we had a strong disbursement quarter across all businesses, whether it is SME or Wholesale - that also helped us in getting the processing fees in a big way. Hence there are multiple avenues. There are streams like liability fee, TFX fee etc. which also has done well,

and it will continue to do well. Hence, from all of that perspective, I think whatever fee income we are seeing, it may not grow every quarter by 40% and all, but I think we will sustain and we can bake in around 19% to 20% of our overall income as fee income safely right now. That is the momentum we have picked up.

Akshat Agrawal:

Right, sir. If I could just squeeze in 1 more question. Opex growth was very high, driven by non-staff expense while cost-to-income ratio looks okay. Cost as a percentage of assets increased to 4%. With technology transformation now broadly complete with focus on stabilization and branches just increasing forward in the quarter. What is driving this elevated opex? How do we see for the rest of the year? In terms of the branch ramp-up, I mean, will we resume like 100 branches a year kind of thing for next year or for the second half?

Pralay Mondal:

I think we are somewhere around 23% opex growth for the half year on a year-on-year basis, which is pretty tough when you are growing the balance sheet by 27%. Let us not forget that we are investing into the bank at this point of time and full payback will start happening from FY '27 or FY '28 onwards. Hence the cost to income as per our previous guidance, will be between 60% to 65% for another year or so. After that, it will start coming down and FY '28 onwards, it will sharply start coming down.

Given that perspective, on the operating cost side - 22% sequential growth quarter on quarter is slightly high. Let us not forget that some of these technology costs are also opex costs. They are not all capex and a fair bit of it is opex, including the AMCs etc which has started kicking in. Typically, somewhere around 8% to 9% of our overall opex will always be technology related and CIR will improve once we start picking up the income by leveraging the systems. I think we will stabilize that.

On the branches, we will add around 50 to 60 branches at this point of time on an average every year because we are pretty much reaching the critical mark of 1,000 branches, which we wanted to reach and then take a stock of situation and then we will think from there.

Moderator:

The next question comes from the line of Mona Khetan from Dolat Capital.

Mona Khetan:

Firstly, on the fee side, I wanted to understand the contribution of processing fees to this overall fee. The reason I am trying to harp on this is because a 2.8% of assets, it is way higher than what we see in the industry, even for the large banks. Does it include any syndication income as well this quarter?

Pralay Mondal:

Mona, Pralay here. As I said before, around 80% is granular and sustainable. We may not be able to grow this much because I answered your question partially by saying that disbursement has been very high this quarter and processing fee is a function of disbursement. As the regulatory guidance on re-pledger/s has kicked in for the banks, we have taken a very conservative view and we have started degrowing that portfolio. Hence you will see that our retail advances has come down. One of the reasons I have already disclosed before that retail includes a fair bit of the repledge business, which we called as Loan Against Security. We are running down that portfolio based on our conservative view of the RBI policy interpretation and

we would like to bring down the portfolio as much as possible by next April. We are not renewing anymore, and it has already started running off. We have got a growth of 37% on gold loan in spite of the fact that a fair bit of runoff has started in LAS, where you do not get much fees. We are replacing it is by granular businesses where the fees are much higher. That is one.

Secondly, I think our TFX business has started doing extremely well and as on the wholesale side - we have started getting businesses contributing to TFX and some of the other granular fees. Treasury fee is not much. Hence primarily, it is granular fees and it is sustainable. On your specific question on syndication, we are working on some, but this quarter we have not done any syndication.

- Mona Khetan:** If I could understand, out of this INR 343 Crs, what is the component of processing fee?
- Pralay Mondal:** We do not give detailed breakup on this.
- Mona Khetan:** But sir, because there is such a material part of your ROA, if you could start giving some clarity as part of the presentation on your fee bit as well. I think that will clear a lot of doubts as to where this is coming from.
- Pralay Mondal:** I said this is granular. Like a lot of people had doubts that last quarter when I said that our NIM has bottomed out, but we have proved it. So, trust us, it is granular.
- Mona Khetan:** Sure. But I mean, this kind of number, we do not see in the industry, even for the stand-alone gold finances, we barely see any material fee line. So, it is a little hard to digest. Secondly, on the ECL transition, just some quick thoughts from you. Also, if you could share the SMA 0/1/2, if possible, that is useful.
- Satish Gundewar:** Mona, Satish here. On the bank policy on NPA, the provisioning policy that we follow for nonperforming assets is much more accelerated compared to the RBI guidelines. Over and above that, we also carry some contingency provision, which we have specified in our earlier calls. We carry a substantial amount of additional provision compared to what the current norm suggests. We have been also submitting our proforma financials, which are based on IndAS norms to RBI.
- The draft ECL guidelines also talk about various minimum base level provision, especially on the SMA book and all that. At the same time, we have some excess provisions. Largely, our assessment is that one will set off against the other and there would not be any material impact to start with when the ECL guidelines come into play. Even now, these are draft guidelines, and the banks have submitted their suggestions to the regulator and the final guidelines are yet to come in. At this stage, it will be too premature to really quantify in terms of what is the final impact that is going to come. But our initial assessment suggests that the impact is not going to be material for our bank.
- Pralay Mondal:** Mona, if I can just add that SMA book, whether stage 1, stage 2 - whatever you call it, you must understand that we have a large gold portfolio in that. If you go theoretically and put exact numbers to the SMA book, primarily based on gold loans, which will not give the real picture.

Even if you take the real picture theoretically what it is, it has no material impact as it is easily covered by our contingency/accelerated provision.

Having said that, obviously, once this rule kicks in, we will not have large SMA book in gold because if you can collect on 80th day, we can collect on 30th day also. From that perspective, depending on what the priority of the bank is based on regulation, we will do it. We are still not seeing any major impact on ECL based on our internal calculations here. But let the guidelines get formally firmed up and then it will be a better time to discuss that.

Mona Khetan: Sure. We had 3 SME slippages last quarter. Is it fair to understand that two of them have already been recovered and just some colour on that?

Pralay Mondal: I had said last time that one of the major slippages which we had last time was more technical in nature and within the first 10 or 15 days of the quarter, we had recovered a large amount from those accounts and to that extent, we are seeing that our NPA numbers and related ratios are a little better. We were comfortable and confident, and I do not know whether I told you in the last analyst meet or not, that we will be able to recover, which happened. Conversations are going on for the pending ones and we are pretty positive about it.

Mona Khetan: Got it. Finally, on the PCR, there was a sharp rise. Is it more driven by higher provisioning requirement for unsecured loans or unsecured delinquency or how do we read the rise in PCR?

Satish Gundewar: In the overall portfolio, unsecured retail portfolio share is less than 3%. We have a small portfolio to say - MFI, personal loan, education loan – which are very insignificant portfolio. It is not on account of that. But as a bank, we have taken a call to accelerate our provision on some of these accounts. Hence it was a management decision to accelerate this provision, and that is the reason the PCR has improved.

Moderator: The next question comes from the line of Vansh Solanki from RSPN Ventures.

Vansh Solanki: My question is on net worth - you announced having the INR160 crores of profit, but my net worth increased by approx. INR50, INR60 crores only. So is there any one-off or revaluation reserve or something like that, why my net worth has not increased.

Satish Gundewar: If you remember, last year, RBI implemented this new investment guidelines. Earlier, in the AFS portfolio - any MTM used to directly go to the P&L. Now in that AFS portfolio - any MTM goes to AFS reserve and AFS reserve forms part of the Tier 1 capital. Any kind of MTM pluses and minus go and sit into the AFS reserve. This quarter, the yields have gone up. That is the reason while the profit has grown sharply, the impact gets muted at the capital level due to the MTM, which goes into the AFS reserves. That is all temporary because ultimately, it is not a realized gain or loss. This will flow into the P&L only when the realization happens. This will keep happening based on the yield movements of the AFS portfolio.

Vansh Solanki: Yes. the other question is on my TD and incremental cost of borrowing - what is our highest rate of TD as of now?

- Satish Gundewar:** On term deposit – somewhere around 7% is our highest rate. That is all in public domain.
- Vansh Solanki:** Yes. We have also decreased the borrowing by INR1,000 crores from INR5,000 to INR4,000 approx. Is it just strategically in nature or we have got so much term deposits in our bank so that we repay the borrowing, which is at higher cost? Is that the reason for that?
- Satish Gundewar:** No such specific reason. Ultimately, it is the ALM management based on what is the demand, and we do not want to take deposits or borrowings and keep it in, say, government securities and things like that. But overall, in the borrowings, there are 2 components - One is our refinance borrowing, and other FCY borrowings. Some of the refinance and other borrowings has matured during the quarter, and that is reason that the overall borrowings probably has seen a fall. But overall, from an ALM perspective, we manage that effectively in terms of whether we want to go in for borrowing or for deposits.
- Vansh Solanki:** Okay. Just on the credit cost part that we are taking so much additional provisions continuously from last 1, 2 quarters at least. So, what the management is looking at as full year credit cost from quarter 3 and 4 onwards, are we deciding not to take additional provision or our provisions will continue in line of 0.5%, 0.6% credit cost?
- Pralay Mondal:** Let me take this. Our PCR without write off has always been in the 70% plus range historically. That is where our comfort zone is - 70% to 75% which is what I have guided in past also. Because of these one or two specific slippages which happened last year, the PCR went down to 64% - 65% in that range, which was not comfortable to us. We looked at an opportunity to raise the PCR back to around 70% to 75%, which is our comfort zone. Once we have reached there - like CD ratio where our comfort zone is 85% to 90% - we have reached around our comfort zone. I think we would like to sustain in this zone at this point of time.
- On the credit cost, GNPA has come down by 3 basis points. NNPA has come down quarter-on-quarter from 0.66% to 0.52% and credit cost has remained similar quarter-on-quarter, 53 basis points. We are trying hard to get some recoveries done and bring it down below 50 basis points, but it will probably remain in that range- say between 40 to 50 bps. That is where our attempt is at this point of time.
- Vansh Solanki:** Okay. So GNPA/NNPA has reduced and also our PCR is approx. 72% as of now. Can you just say from quarter 3 and 4 onwards, the credit cost will not be higher as much as the quarter 1 and 2 in the second half.
- Pralay Mondal:** It will not reach there because some of the unsecured loans/ MFI and some accounts of the other portfolio have slipped. Though that portion of our portfolio is small, because we have started reducing this portfolio size sometime back - but nevertheless, they continue. From that perspective, I think this year, anything around 40 to 50 bps is where we position ourselves.
- Moderator:** The next question comes from the line of Shivaji Thapliyal from YES Securities.
- Shivaji Thapliyal:** I have two questions. I would like to sort of get a sense of how the bank is going to look like on a steady-state basis from an asset quality and from a growth perspective? I mean firstly, on

growth, we have a small base and we are growing faster than the system. So how far out into the future are we going to grow at relatively faster pace? What kind of CAGR can we really expect from a maybe 3-year standpoint? That is one question.

Secondly, I think we have obviously grown quite healthily on the gold loan front and may be we are still piloting on retail and other areas. But nevertheless, where can the steady state sort of slippage ratio be settled at for the business model we are trying to build? What will be the steady state credit cost for that business model? Those are my two questions.

Pralay Mondal:

Thanks, Shivaji, for your questions. Firstly, on the growth front, it will be primarily driven how well, we can build our liability franchise because growing on the asset side is not challenging for us at this point of time because we already have a strong lever in gold and gold growth is not going anywhere.

The wholesale, specially the real wholesale, which is the corporate banking - Mid market or Commercial banking is growing at a hectic pace because the base is small there. This year, the growth on the wholesale side, which is around 33% on a year-on-year basis actually happened in spite of the fact that our entire DA portfolio has come down to around INR40 crores right now, which will eventually will not be there at the end of the year, which was more than INR1,000 crores at some point of time.

Our DA and LCBD portfolio has come down significantly. Our FIPS book which is the NBFCs and all, and which used to be a large part of our book, we have not grown this year so far-may be we will start growing again. We are realigning the entire corporate banking book in a different way. Hence, growth in corporate banking will be higher than what you are seeing right now because of these noises, which are there in the system.

On the SME side, we have been a little cautious in the last one or two quarters because of various ecosystem related issues, deals etc which have talked about with the exports coming under some kind of pressure. Hence, we are watching that space. Growth is anyway coming but we have been a little cautious on that side. Once we have clarity on the deals and the exports and some of the SME markets, we will get back because we have the levers to press that growth again.

On the retail side, we are having the systems now. Hence from next year onwards, we will start building the retail, both on the liability and the asset franchise and the customer acquisition. The real part of the retail banking will start next year, because on the systems that we had, we could not have built those kind of businesses. Now we have it and now we can build it. From an overall perspective, growth of around 25% to 30% is a no-brainer for us from an asset perspective; but it will be constrained by the liquidity and the other situations in the ecosystem. We have to balance between LCR, NIM, growth, etc. That will be the constraint.

If you are able to build up a good deposit franchise, we will be able to grow easily between 25% to 30% for sustainable future. Though future is uncertain, at least till 2030, we will be able to grow because with larger base, the growth levers will become bigger accelerators for our wholesale, retail and SME. That is on the growth front.

The second question was on credit cost. ON Credit cost, we have given a long-term guidance between 40 to 50 basis points. Sometimes it will be higher, sometimes it will be lower, but broadly, we will be in that range. Now since Wholesale/SME book also being a material part of the portfolio, an account can swing a small balance sheet. But generally, on a yearly basis, we should remain between 40 to 50 basis points, and that has been my long-term guidance.

Moderator: The next question comes from the line of Yash Dantewadia from Dante Equity.

Yash Dantewadia: Congratulations on a great set of numbers. What I would like to know is have you -- I am sorry, I missed the first 10 minutes of the call. Have you given a trajectory for the cost to income for the next financial year?

Pralay Mondal: I think we have always given that we will be between 60% to 65% in that range. From FY '27 onwards it will start coming down sharply.

Yash Dantewadia: Right. With the cost of funds, how is that going to move, especially if you are factoring in one more rate cut?

Pralay Mondal: Two things will happen there. One is the long-term borrowing book will start eventually coming down on the repricing. Deposit cost is also a function of liquidity and if there is enough liquidity in the system then because we are a little more wholesale funded, we will get more benefits in the short term. But that is not our strategy. Our strategy is to build a retail franchise. But in the short term, it is benefitting us. Having said that, I think the cost of funds trajectory will now go down because of the repricing of the deposits. Fresh retail deposit rates are not coming down. I discussed this in the beginning of the call.

The yield drop will follow the rate cut on the EBLR. The dip on the MCLR portfolio will happen irrespective of the rate cut because it is still going through the 100 basis point rate cut transmission and it is halfway through. If there is one more rate cut, then EBLR portfolio gets impacted immediately. But the good thing is that our fixed rate business is around 60%. EBLR and MCLR linked portfolio is around 39% - 40%. To that extent, our impact will be slightly lesser. On the balance, I think between cost of funds and yield reduction, it will be sort of moving in parallel line to a great extent.

Yash Dantewadia: All right. I think most of our loan growth is obviously coming from gold loan currently, right? Gold prices have done very well in the last 2 years. So that has obviously been a driver for us to disburse more amount of money. You said gold loan growth is not going anywhere. I heard that particular statement. Let us say gold prices do not move and stay consolidate around here. Are we still expecting the momentum to continue? And if not, where is the next leg of growth going to come for CSB Bank other than gold loan, where else are we focusing and putting our energy towards?

Pralay Mondal: If you look at gold price, it has only gone up in the last 1 or 2 years. But if you look at sustainability of our gold growth over the last 3, 4 years, take aside the FY '22 because of the LTV impact from 90% to 75%. Our sustainability of the gold growth has been uniform.

What I see in the ecosystem is, ecosystem has run by 120%, we have still grown by, say, 36%, 37%. When ecosystem is growing much lesser, we are still growing at that rate. We do a very planned kind of an activity and we have brought down our LTV based on the sensitivity analysis. We are not chasing the growth on gold loan based on where the markets are. Our tonnage growth on a year-on-year basis is 4%. But I have this theory that tonnage growth will come back once gold prices starts going down because ultimately, the customer will need that much money for his cash flow or for his working capital or whatever. A lot of gold loan businesses has started happening on the SME side and working capital side and just not for consumption purpose. Hence the flavour of the gold loan business is changing. I think we are playing to that to a great extent because if you see our number of accounts have come down, but our overall business has gone up significantly, especially in gold loan.

Yash Dantewadia:

That is a sign that a huge portion like the tonnage growth that you pointed out. And you also pointed out that the number of accounts have not grown in line with the disbursements. Do you think that is a sign that our loan growth is coming from gold prices, hence, people are borrowing more?

Pralay Mondal:

Probably, I could not explain it properly. Please hear me again. I am saying that the tonnage has grown but customers have not grown. What it means is tonnage per customer is also growing at a time when prices are going significantly higher.

My theory here is like this, that a customer needs INR100, he will give lesser tonnage i.e., lesser grams of gold he has to give. But if you need to INR100 when prices comes down, customer will give more gold. That is the segment we operate. That is why we are growing at a similar kind of rate at which we were growing before, but the market has grown multiple fold. We have not chased that growth.

Coming to your impact on growth, the answer is No. On the overall even if price comes down as our LTV is very good - we are not taking any risk on the LTV. Hence, even in a difficult situation, where industry which is growing at a fast pace, in case there is a risk, we will be actually having a risk free kind of a portfolio, and hence, we can continue to grow.

That is one. Secondly, we are not dependent only on gold loan business. Our wholesale is growing, which I just explained, our SME is growing, our retail will start growing from next year. Hence asset growth is least of my worries at this point of time.

Yash Dantewadia:

But sir, in retail, what are we going to focus?

Pralay Mondal:

Retail – primarily we will focus on vehicles, CV, CE, LAP, LAS and those kind of businesses. Our Agri portfolio has stabilized. Now we will start building our Agri portfolio again, which is KCC/tractors, those kind of businesses. We are still not comfortable that much with the unsecured business and unsecured we will do primarily in-house with our existing customers, which we will start building. That is where the plan is. Basically, productive assets in retail where we have our end use understanding.

Yash Dantewadia:

It is right. Where do you see our gold loan by 2030 as a total percentage of our AUM?

- Pralay Mondal:** Yes. There, I have changed my view slightly on this one. Previously, I used to say it is around 20%, but a new segment is coming up in gold business, which we want to address, which is the SME segment. That is why when I say ticket size is going up not by value, but by the requirement of the customer. It need not be for personal consumption alone. There could be a specific end use, for which people are taking money through gold loans with higher ticket sizes, viz INR 5 lakh and INR10 lakh things like that. That is a segment which is evolving right now. Given that, I would say that, that is almost like SME business with a loan against collateral. That is a segment which is coming up which we are especially going to focus on now because I think that is a very good segment. The yields may be slightly lower, but that is a good business to be in. I think we should be somewhere upwards of 25%, but below 30% is what our plans are in gold loan by 2030, especially because I think this 5%-7% growth incremental mix will happen from this particular SME kind of a segment who will use gold as a collateral.
- Moderator:** Ladies and gentlemen, we will take that as the last question for today's call. I would now like to hand the conference over to the management for closing comments.
- Pralay Mondal:** Thank you for your participation, and thank you for a great set of questions. I believe that we had a very good quarter. But I am more excited with the kind of technology transformation journey we took for completely rebooting the bank again. The kind of work which has happened on the technology side is kind of giving us a lot of satisfaction and happiness. We hope that we can build the bank in a very different trajectory, including franchise businesses, Retail, SME, Wholesale and of course Gold, which remains as a key product for us. Thank you very much for participating and look forward to seeing you again in next quarter. Thank you. Have a good evening.
- Moderator:** On behalf of YES Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.