

## “Karur Vysya Bank Q1FY11 Results Conference call”

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**MODERATORS: MR. LAKSHMIKANTHAN  
MR. RAMACHANDRAN  
MR. KAITAV SHAH**

**Faisal:** Ladies and gentlemen, good evening and welcome to the Karur Vysya Q1 FY 2011 results conference call hosted by Anand Rathi Financial Services. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "\*" and "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kaitav Shah. Thank you and over to you Sir.

**Kaitav Shah:** Thank you Faisal, a warm welcome to all of you on behalf of Anand Rathi Financial Services. We have with us Mr. Lakshmikanthan, who is the Executive Director of Karur Vysya Bank and Mr. Ramachandran DGM Finance. Initially, they will make a brief presentation on the bank's first quarter results after which we can have a short question and answer session. Over to you Sir.

**Lakshmikanthan:** Thank you very much Kaitav and good evening everybody. I sincerely thank all of you for taking interest in KVB's results. I also would like to share with you that we came out with very strong results in Q1 and continue to demonstrate a very healthy core performance with a good margin resilience and strong NII and stable asset quality. I will now take you to our Q1 results at a glance. Our profitability, gross profit rose from 94 Crores to 130 Crores posting a rise of 38%, the net profit rose from 70.35 Crores to 84.48 Crores, a raise of around 20.09%. Regarding income and expenditure, the total income is up from 487.37 to 544.27 Crores, a year-on-year raise of around 12%. Interest income rose to 492.08 Crores from 406.90 Crores a year ago, a raise of around 21%. The interest received on advances rose to 371.60 Crores from 318.78 Crores, a raise of around 17%. The interest received on investment rose to 120.44 Crores from 82.85 Crores, a raise of around 46%. The income from commission, exchange and brokerage increased from 37.26 Crores to 41.91 Crores, a raise of again 5%, non-interest income stood at 8047 Crores, in fact it has come down from 52.19 Crores, a fall of 35.14% which is on account of negative growth in treasury profit. Interest expenditure rose to 321.46 Crores from 296.48 Crores, a raise of 8.42%. The net interest income rose to 170.63 Crores from 110.42 Crores a raise of around 54.52%. The establishment expenses stood at around 50 Crores. It has risen from 38.41 Crores a year ago, a raise of around 31%.

I will now come to business level performance. The size of the balance sheet has swelled to 23,086 Crores from the previous figure of 17,360 Crores registering a growth of around 33%. Aggregate business level improved from 26,325 Crores to 34,465 Crores recording a growth of 31%, an increase of 8140 Crores. Deposits recorded a year-on-year growth of 33%, from 15,253 Crores to 20,275 Crores, an increase of 5021 Crores. The gross advances recorded a year-on-year growth of around 28.16% from 11,073 Crores to 14,191 Crores, an increase of 3118 Crores. The average deposits grew by around 29.17% while average advances grew by 27.22%. The average growth rate are close to year-on-year growth rates indicating a well distributed growth throughout the quarter, the average CD ratio stood at 70%, the CASA ratio to total deposits increased from 22.83 to 24.21%. The CASA has increased from a level of 5.63% last year to a substantial level of 40.94% this year in that the SB grew by 43% on a year-on-year basis, current account grew by 39% and time deposits 31%, so therefore the CASA growth is higher than the

time deposits growth. The gross investments improved to 4925 Crores to 6987 Crores, a raise of around 42%, the SLR investments improved from 4137 Crores to 6003 Crores, a raise of around 45.13%. Non-SLR investments including RIDF investment increased to 983 Crores from 789 Crores. Regarding the capital adequacy ratio, it stood at 14.52% under Basel II and under Basel I it stood at 12.70% as against a regulatory minimum of 9%. For previous June quarter it stood at 15.88% in Basel II and for Basel I it stood at 13.11%. Regarding the NPA level, the ratio of gross NPA level to gross advances fell from 1.76 to 1.67%, ratio of net NPA to net advances fell from 0.24% to 0.17%, the provision coverage ratio is at 87.53% which we have been maintaining throughout. The other ratios includes the cost of deposits which is down from 7.89% to 6.51%, yield on advances stood at 11.10% from 12.01%, the cost of funds are down from 7.83 to 6.48%, a decrease of 135 basis points. Yield on funds stood at 9.25%; it is down from 9.79% a decrease of 54 basis points. Yield on investments excluding RIDF up from 6.85% to 7.38%, spread increased from 1.96 to 2.77%, return on net worth improved from 19.81% to 19.83%, the return on average assets stood at 1.50%. Business per employee rose from 6.67 Crores to 8.08 Crores, profit per employee increased from 7.13 lakhs to 7.92 lakhs, net interest margin increased from 2.78 to 3.37%. The cost to income ratio has improved from 50.67% to 41.65% and we are having further licenses, this year we will opening another about 40 to 45 branches before December and also we will be applying to Reserve Bank of India after December and we are aiming to have another about 70-80 branches from Reserve Bank of India, we will be opening at least 10% of it before March and presently our branch network, is around 337 branches and with 40 more branches that we have on pipeline, we will be in a position to have around 377 to 380 branches before December and with further licenses that we are applying we will be opening more and more branches. Regarding our targets, we are in tune with what we have planned for the current year. It is in tune with our long-term goal of 1,25,000 Crores business by 2016 and also it is in tune with our projected figure of 50,000 Crores mark before December 2012. We are planning for all these things and with the achievements so far up to June we are in the correct projections, so we will be in a position to march forward and in the remaining quarter also we will continue to excel in our business figures and also we will share all our business performance with you. I am ready to take on any questions that you have.

**Faisal:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

**Amit Ganatra:** What is the treasury income for this quarter?

**Lakshmikanthan:** It is 1.30 Crores as against last year it was 34, as I mentioned the shortfall it is only in this particular segment.

**Amit Ganatra:** What is the amount of write off, which has been done and included in other expenses during this quarter?

**Lakshmikanthan:** For the current quarter, we have not done any write off. In Q1 of last year it was around 22 Crores.

**Amit Ganatra:** Where do you book the write off, is it in other expenses?

**Lakshmikanthan:** We are directly debiting to our P&L account. We debit to other expenses. The non-interest income will come down because of that.

**Amit Ganatra:** But this quarter there has been no write off?

**Lakshmikanthan:** No write off.

**Amit Ganatra:** So other expenses going up quarter-on-quarter from 35 Crores to 40 Crores. I am talking about of Q4, Q4 from first quarter of this year, it has gone up from 35 to 42 Crores, it is not on account of write offs, right?

**Lakshmikanthan:** 35 Crores to 42 Crores is not on account of write off but it has gone out of our wage expenses.

**Amit Ganatra:** No, I was talking about the other operating expenses.

**Lakshmikanthan:** I will give it Mr. Ramachandran. He will answer this.

**Ramachandran:** Yes, tell me Ramachandran here.

**Amit Ganatra:** No, basically the other operating expenses have gone up quarter-on-quarter from 35 to 42 Crores. I just wanted to know that it is not on account of write offs right?

**Ramachandran:** It is not write off, normal expenditure only.

**Amit Ganatra:** Can you give the absolute amount of current and savings account?

**Lakshmikanthan:** SB is 2732, last year it was 1910, current and contingency, it is 2176 Crores from 1571 Crores.

**Amit Ganatra:** Do you have the numbers for your retail term deposits, how much would be retail term deposits?

**Lakshmikanthan:** By retail term deposits do you mean ones with less than 5 Crores?

**Amit Ganatra:** Yes, right.

**Lakshmikanthan:** Irrespective of any dates, it is around 22% to 23%; these are 5 Crores and above.

**Amit Ganatra:** What is the Tier 1 capital ratio?

**Lakshmikanthan:** Tier 1 capital ratio is 12.98%.

**Faisal:** The next question is from the line of Venkatesh Sanjeevi from ICICI Prudential. Please go ahead.

**Venkatesh Sanjeevi:** Sir, can you give us in Q4 FY '10, what was your NIM?

**Lakshmikanthan:** 3.37.

**Venkatesh Sanjeevi:** 3.37, and this has now moved to 2.78. Q1 you said it is 3.37 right.

**Lakshmikanthan:** Q1 was 2.78 last year, this year it is 3.37 and Q4 also it was 3.37.

**Venkatesh Sanjeevi:** So it has been flat.

**Lakshmikanthan:** Our NIM will be maintained around 3% and above.

**Venkatesh Sanjeevi:** For the year.

**Lakshmikanthan:** That is the basic principle that we work on.

**Venkatesh Sanjeevi:** What is sense for NIM for FY '11?

**Lakshmikanthan:** We always maintain NIM at more than 3%, last year also we have maintained around 3.37 in Q4. We have continued to maintain that and for the coming time also we will continue to be in that NIM by focusing more on CASA and we will be re-pricing our existing deposits. The cost of deposits has also come down to 6.5% from 7.89%, so therefore we will be in a position to maintain the same NIM.

**Venkatesh Sanjeevi:** What is the restructured accounts size?

**Lakshmikanthan:** Restructured accounts we are having around 563 Crores. It constitutes 4.11% of our advances.

**Venkatesh Sanjeevi:** Has there been any additions in this quarter or?

**Lakshmikanthan:** No additions, it is the same as what was maintained in Q4.

**Venkatesh Sanjeevi:** Is this total outstanding amount or is this the gross amount (indiscernible) 17.57?

**Lakshmikanthan:** No, it is total outstanding amount. It is facility wise.

**Venkatesh Sanjeevi:** How much has been the total application received in restructured accounts, the loans which have come for restructuring like the RBI special schemes in the last one year?

**Lakshmikanthan:** 560.

**Venkatesh Sanjeevi:** But you said this is the outstanding amount; some of them would have gone to NPA?

**Lakshmikanthan:** NPA has not gone to that extent during the quarter; it was 1 Crore 20 Lakhs.

**Venkatesh Sanjeevi:** How are the recoveries on this Sir?

- Lakshmikanthan:** It is as per the restructured terms. If at all out of 563 Crores, if I further classify into that maximum loans have been restructured only on the textile front which is around 303 Crores, so maximum of 54% constitutes only textiles. We know these particular parties very well and restructured accounts have been happening because of certain facilities they wanted to avail like the TUF schemes and we do not find any slippage in that particular textile front and suppose if at all I have to give you some it maybe another about 4% to 5% of possible slippage to NPA.
- Venkatesh Sanjeevi:** Sir, when do you see the restructured accounts fully getting paid off?
- Lakshmikanthan:** It will take another three to four years.
- Venkatesh Sanjeevi:** Because I thought most of the loans of yours is shorter duration because you lend to SME and trade. I thought it would be of shorter duration.
- Lakshmikanthan:** We have for all. We have got one account in pharma and 14 Crores with paper industry, and real estate, all these things are happening, but by and large it will not be more than about four to five years time, it will only be for three to four years time, that is all.
- Venkatesh Sanjeevi:** (indiscernible) 20.24
- Lakshmikanthan:** But it is possible. As I told you in textile segment where 303 are there, they have restructured only because of getting some benefits from the government, since we have taken almost all collaterals, we have taken everything to safeguard ourselves, so therefore the recovery should not be a problem, but the loans will be, because most of them are term loans, it will go up for a tenure of around 3 years to 5 years time.
- Venkatesh Sanjeevi:** These new branches which you will be opening during the year, which geography will they be in?
- Lakshmikanthan:** 50:50, 50% in South and 50% in North. We are presently having 337 branches and majority of our branches will be opened in the Northern belt. We are opening in another about month's time three branches; Gwalior and Bhopal, recently we have opened in Chandni Chowk.
- Faisal:** The next question is from the line of Jaiprakash Toshniwal from Taurus Mutual Fund. Please go ahead.
- Jaiprakash Toshniwal:** Good afternoon sir. Sir, I just wanted to know the gross addition in the NPS this quarter?
- Lakshmikanthan:** This quarter, gross additions are not at all there. Last year, we finished with 235 Crores, we are maintaining the same thing.
- Jaiprakash Toshniwal:** Sir in your restructured amount, steel is 62 Crores, which is particular from two accounts. How these two accounts are performing?

**Lakshmikanthan:** It is as per the restructured plan; the things are getting serviced, we do not foresee any problem in that.

**Jaiprakash Toshniwal:** Sir can I have your net worth and balance sheet number, total assets as on date?

**Lakshmikanthan:** 1705, in last year, it was 1439. This time it is 1704.

**Jaiprakash Toshniwal:** Total assets for the current quarter?

**Lakshmikanthan:** It is 23,086.

**Jaiprakash Toshniwal:** Sir my last question on other income, how are you planning to ramp up the other income and what is the strategy going ahead?

**Lakshmikanthan:** We have also been having some traditional model like our core non-interest income methodology, commission, exchange, DD and everything, and other than that we are also now looking into the various new areas, for example we have got permission from Reserve Bank of India to do bullion business. That will add to us. It was not there earlier, so that is an opportunity for us to generate a newer income for generating noninterest income. We are also planning to have our cash management service, which otherwise also we have been doing in a small way, but we are going to give a thrust to it, may be another about Q4 or something like these, so these are all the plans that we are having.

**Jaiprakash Toshniwal:** So when are you launching this bullion business?

**Lakshmikanthan:** See already we have got permission. We are entering into some module and we are studying as to when to make it. Things are in progress now. We already had one or two rounds of discussion, so it should be there, may be in Q2 or Q3 it should happen.

**Faisal:** The next question is from the line of Neha Kothari from KC Securities. Please go ahead.

**Neha Kothari:** Sir, I just wanted to know how much is the number of employees?

**Lakshmikanthan:** 4200.

**Neha Kothari:** Are you are planning to recruit?

**Lakshmikanthan:** Yes, we just planned for the current year. Our plan is to recruit 600 employees and we have also started recruiting. The interviews and other things are in progress. Since, we are opening more number of branches we will be recruiting more and more people, specialized people are also included in that.

**Neha Kothari:** Cost to income target for the current fiscal?

**Lakshmikanthan:** We are trying to maintain around 35 to 38.

- Neha Kothari:** Can I get the risk weighted asset figures?
- Lakshmikanthan:** It is 13,065 Crores.
- Neha Kothari:** What is your advance of credit as well as deposit growth target for the current fiscal?
- Lakshmikanthan:** The target for the total business is to the extent of 42,052. The March target for deposits, it is 24,500, a growth rate of 27.12% and advances 17,552, a growth rate of 28.35%.
- Faisal:** The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.
- Amit Ganatra:** Yes, what is the Available For Sale percentage for investment book?
- Lakshmikanthan:** It is around 25%.
- Amit Ganatra:** What is the duration of the days?
- Lakshmikanthan:** 5.31.
- Amit Ganatra:** Could you provide your breakup of your advances in terms of retail, SME, and agriculture?
- Lakshmikanthan:** The advances as of June 30, 2010, agriculture constitutes around 12.5%, 1773 Crores outstanding and percentage is 12.5%, MSME is 2417, 17%. Other priority is 572 Crores constituting around 4.03%. The total priority sector comes to 4763 Crores constituting 34%.
- Amit Ganatra:** How much would be retail?
- Lakshmikanthan:** Do you mean to say housing loan and other things?
- Lakshmikanthan:** We are having around 1200 Crores only. Our total figure is 1200 Crores. Our retail advances in personal segments we are around 10% to 9% to total advances.
- Amit Ganatra:** What would be rest of your portfolio?
- Lakshmikanthan:** My rest of the portfolio, I will give you in a nutshell. Above 5 Crores, our percentage of total, we are having around 7258 Crores out of our 14,010 above 5 Crores advances is 7258 and below 5 Crores if you call it as retail 6752 Crores.
- Amit Ganatra:** You call it retail, but this will trade across...
- Lakshmikanthan:** Trading and everything also will be included in that, but out of which the retail, which we are having like auto loans, housing loans or whatever it is, is 1200 Crores.



**Amit Ganatra:** In response to a previous question about gross addition to NPA, you mentioned that the NPAs are flat from 235 to 237 Crores.

**Lakshmikanthan:** My advances have increased.

**Amit Ganatra:** Right, but still there would be some movement of NPA right, because...

**Lakshmikanthan:** It was only as I told you the movement of NPA has increased, some NPA have come and deletions have also taken place.

**Amit Ganatra:** So the intention was to understand what was the increase in NPA?

**Lakshmikanthan:** Around 10 to 12 Crores during the quarter and also equal amount of recovery has also taken place, so it has become very flat.

**Faisal:** The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

**Ashish Sharma:** Congratulations on a good set of numbers Sir. I just wanted to get a sense of, are we looking at any inorganic growth, are we looking at any acquisition opportunities in South?

**Lakshmikanthan:** See, we would like to grow our balance sheet. We are concentrating organically, but the opportunities are coming far inorganic growth we will be open to it and we will be having an eye on that kind of things, we will not lose an opportunity. We have got very strong financial fundamentals. We are capable having that kind of approach, so we would look for some opportunities, it is not that we are not averse to do that, we are very vigilant and we have been eyeing also on that.

**Ashish Sharma:** If we are discussing inorganic opportunity it means that you would like to acquire a bank, if an opportunity comes to merge with certain bank will that also be explored?

**Lakshmikanthan:** Why we should merge with other banks?

**Ashish Sharma:** Given a different perspective?

**Lakshmikanthan:** The question does not arise here. We have been planning for our own growth organically inside for which we have got definite plans and also we have got a definite infrastructure to do that. We need not merge only a weak person should person with strong person since we are very strong financially we need not merge. Some other branch can merge with us, if you can suggest.

**Ashish Sharma:** Sir, you had mentioned a capital adequacy ratio of 14.52 as on June, but does this include in Q1 FY 2011 profit?

**Lakshmikanthan:** It is included.

- Ashish Sharma:** Because as per our new RBI clarification most of the banks are reporting without including the Q1 profit.
- Lakshmikanthan:** No, it is not happening, the ratio, which I said, includes the Q1 profit.
- Ashish Sharma:** What is the capital adequacy for tier 1?
- Lakshmikanthan:** Tier 1 is 12.98.
- Ashish Sharma:** Our capital requirement, are we sufficiently funded for 2012 growth also or we might need to raise some equity.
- Lakshmikanthan:** Not immediately, we have not planned for it in the sense we have been adding every year around 300 to 400 Crores of our profit back into the capital, so that takes care our growth asset portfolio, but for our increased growth we have to plan for QIP, but that may not happen As of now.
- Ashish Sharma:** We are not looking at a QIP in 2011, it would happen in 2012 only.
- Lakshmikanthan:** Yes, it may not happen in 2011.
- Ashish Sharma:** Okay and somebody earlier asked about the non-interest income outlook, outlook on how would be the growth in non-interest income sir, we had then closer to 247 Crores non-interest income for the full year in 2010 sir, now that would include certain trading gains. Excluding that trading gain, do you expect the growth in non-interest income would be closer to the advance growth?
- Lakshmikanthan:** One is if you are seeing the non-interest income consists of two parts. One is treasury income and other than the treasury income. If you have seen the treasury income that is flexibility according to the market conditions and everything for which nobody will have control. What we are doing is other than the treasury income we have been doing a consistent progress and growth in our general area, which means we are strong in core business No. 1 and this core business of increase in non-interest income as I said to you, the traditional way of doing the things are also there, but we also have a plan to go for some other schemes, like gold banking and everything, which will add to us our growth in non-interest income to a higher level.
- Ashish Sharma:** I just wanted to get a sense of the core fee income growth target for 2011 sir. If I exclude the trading income for 2010, excluding that core fee income was 191 Crores on that 191 Crore base are we expecting a growth inline with the advances growth of 27% to 28%.
- Lakshmikanthan:** Not that much, we are expecting 19% to 20% growth.
- Faisal:** The next question is from the line of Naga Deepika from Capital Market. Please go ahead.
- Naga Deepika:** Hello, thanks a lot sir. It was just in similar line with my previous colleague's question. I just want the breakup of other income.

- Lakshmikanthan:** Commission and exchange and brokerage is 41.91 Crores and also profit and sale of investment, it is 1.34 Crores and profit on exchange transaction, it is 3.85 Crores and miscellaneous is around 5 Crores.
- Naga Deepika:** Okay. What was these figures corresponding previous year?
- Naga Deepika:** What was the figure over the corresponding previous year?
- Lakshmikanthan:** Commission brokerage was around 37.26 Crores and sale of investments it was 34 Crores and that has come down to 1.4 that is where, that particular thing has come, and profit on exchange transaction was 4.78 and miscellaneous was 4.18.
- Naga Deepika:** My next question is pertaining to the base rate (audio disturbance) below the base rate as of now?
- Lakshmikanthan:** Our base rate is 8.5%.
- Naga Deepika:** It was one of the highest in the industry?
- Lakshmikanthan:** May be that we are slightly high or whatever it is but it will not impact us much because we have got our own segment to grow, we have got our own people to make it. My base rate and other things it may not be impacting anything on my growth in advances portfolio. Base rate is also subject to modification from time-to-time, today we have fixed a base rate and if you have seen my CASA growth has been very consistent throughout and we are growing higher in CASA than the others, my CASA deposits also will come down throughout so therefore there are enough chances for us to adjust my base rate from time-to-time as permitted by RBI but presently as of today even whatever rate that we are giving it may not impact my growth in advances.
- Naga Deepika:** Currently how much amount of the loans will be below base rate?
- Lakshmikanthan:** See, we have a portfolio, all base rates and other things, which includes sector, personal loans, loans against deposits and everything but all other things excluding all other things the below base rate is around 200-300 Crores but the impact will be only on 50-60 Crores that is all. On some risk portfolio (ph) may be that where it may have some impact bill discounting but rest of the things we are not giving anything below a particular rate.
- Naga Deepika:** But bill discounting will help if the base rate will be higher right?
- Lakshmikanthan:** No, people are going for 90 days or short-term period so they look for concession in the rate of interest because bill discounting means LC and other things people are discounting for our own customers or whatever it is, so it will not impact much on that. We do not have much of a portfolio, which will impact our base rate.
- Naga Deepika:** What would be the discount rate against the base rate, what would be the spread in bill discounting?

**Lakshmikanthan:** We go between 7.5% to 8%, normally we do between 7.5 % to 8%, maximum is at 8%, now it has increased to 50 basis points, so people will not mind because what people look at is base rate is one thing, base rate is only a reference rate, we are not going to change our existing interest rates on many customers, so the existing portfolio will continue as it is, only the base rate is getting changed, below base rate the impact and other things will be very less and, , what people look at is even if you are having around 25-50 basis points more or less people look at the convenience of getting money at the time when they require rather than all the things, so that kind of a comfort we are giving that is why even customers for longer periods they continue with us.

**Naga Deepika:** What would be your target growth in CASA deposits?

**Lakshmikanthan:** Presently we are 24%, last year same time if you have seen we were 22% and we have increased in March to 23% and now presently it is 24%. As per our plan we should be around 30% by 2012 and at least 25% and above before 2011, we are on the correct tract to increase our CASA and 24% now presently we are having at 24.12 presently, we will go on increasing the CASA base and it should be above 25% by 2011 March and we will be comfortable at 30% by 2012.

**Faisal:** Thank you. The next question is from the line of Ganesh Ram Jayaraman from Spark Capital, please go ahead.

**Ganesh Ram Jayaraman:** What is the quantum of CDs you currently have and how has it changed?

**Lakshmikanthan:** We have our portfolio of around 1200 Crores, it has come down, last year we were having around 1700-1800, our portfolio is around 1500-1600 Crores.

**Ganesh Ram Jayaraman:** That is CDs, which other banks are subscribing?

**Lakshmikanthan:** Yes.

**Ganesh Ram Jayaraman:** What is the tax rate for the quarter, once again it is volatile, it is going up and down but it did not move much this quarter on HTM book also, why the tax rate has moved from 13% to 33%?

**Ramachandran:** You are comparing fourth quarter and first quarter, right?

**Ganesh Ram Jayaraman:** Yes.

**Ramachandran:** Fourth quarter we got this special reserve we had created, 30 Crores for that 10-11 Crores is the tax benefit that is the biggest change but remaining we got the tax benefit for our salary provision and everything at the last quarter only we got that benefit, so that is why it has not changed.

**Ganesh Ram Jayaraman:** So is 33% tax rate going to be your norm going forward or it will once again change with bond deals?

**Ramachandran:** We are making some tax planning and everything, 25%-28% is our normal rate.

**Ganesh Ram Jayaraman:** So this quarter any specific reason why it was 33% or is it more a function of bond deals?

**Ramachandran:** It is not a bond deal, actual working comes to 33% and it is not comparable with last year, they are going on changing.

**Faisal:** Thank you. The next question is from the line of Hardik Doshi from Voyager Investments, please go ahead.

**Hardik Doshi:** What is your ALM mismatch for less than one-year duration?

**Lakshmikanthan:** It was 3%.

**Hardik Doshi:** Last conference call you had mentioned it as about 25% as of Q4?

**Lakshmikanthan:** Yes, you are correct.

**Hardik Doshi:** We have kept our AFS duration pretty high at 5.31 and our ALM is now pretty much rectified, you said it is only 3% mismatch but if there is an increase in interest rate then the government bond will go up and there is a risk of significant MTM losses on our AFS book at least?

**Ramachandran:** This is the right time that we brought some good quantity of securities, which is earning more interest rates at 8% and I do not think the government will borrow beyond 8%, so we are expecting the interest rates will fall then we can adjust our modify duration.

**Hardik Doshi:** So you are basically waiting for the interest rates to go down?

**Ramachandran:** People are expecting, right? Second quarter and third quarter we are expecting.

**Hardik Doshi:** In terms of our NIM you mentioned that you kept it pretty high at 3.37 and you want to keep it above 3%. I just want to understand like are we looking for a more gradual decline towards 3% or what is the thinking behind?

**Ramachandran:** Our concept is above 3%, it may not come down whenever it comes down we can adjust our pricing, we want to maintain above this level.

**Faisal:** Thank you. The next question is from the line of Shekhar Kedia from Barclays Wealth, please go ahead.

**Shekhar Kedia:** Sir, just wanted to understand from what sector you are expecting advances growth?

**Lakshmikanthan:** We have SME sector, we feel that there is a growth and already we have shown improvement only in SME sector and we have our own segment like midsize corporates.

**Shekhar Kedia:** How much would be corporates?

- Lakshmikanthan:** What we say is less than 25 Crores, we call it midsize and we are also having lookout for our trading and other things, our targeted segment, which we have been getting it, so trading and wholesale, both wholesale traders and distributors are also in our target list.
- Shekhar Kedia:** We disburse loans to wholesale traders and SMEs, RMBs, with very high-risk loans also the bank is able to maintain...
- Lakshmikanthan:** There are two things. Whenever we go for trading and other things our policy is that we are taking collateral that is number one.
- Shekhar Kedia:** What is the extent of the collateral?
- Lakshmikanthan:** Many times it even goes up to 100%, even 70%-80% other than the receivables, stock and other things that also we are getting it, so more or less our advances will be covered collaterally and regarding SME also the same thing is applicable, less than 1 Crore we have entered into the government guarantee scheme.
- Shekhar Kedia:** Sir, could you throw more light on the scheme?
- Lakshmikanthan:** See, the government has come out with a scheme without taking any collateral security. The banks are advancing up to 1 Crore, there is a corporation called government guarantee on SME segments up to 1 Crore by remitting some premium. The bank can absorb the premium or it can be passed on to the customer.
- Shekhar Kedia:** Okay, so this is a form of subsidizing that particular loan?
- Lakshmikanthan:** Not subsidizing, instead of collateral security you can also give loan up to 1 Crore for which government guarantee is there.
- Shekhar Kedia:** You said the CASA would grow to about 25% by March 2011...
- Lakshmikanthan:** Even more than that already we are 24.12%.
- Shekhar Kedia:** This will mainly be a function of you opening more branches in the northern region or this will be like...
- Lakshmikanthan:** Not only that even we have opened around 60-70 branches in the last two years, those branches have already started settling down and they are contributing to the bank and also for future growth 40-50 branches are going to be there. So therefore it is a mix of all, it is by acquisition of a new clientele. Last year if you have seen we have added about 2 to 3 Lakhs of clients in SB alone and very recently we have done IPL cricket type 20 days only we have done one campaign for current accounts where we have got more than 7000 accounts opened and good amount of acceleration to the extent of 40-50 Crores has happened, so like this we will be going on adding our clientele to have more CASA accounts and thereby give value additions by services and everything, they enjoy with the result that more balances are happening in that particular front.

**Shekhar Kedia:** On the non-interest income front you are mentioning that we have received RBI approval for gold and we are also starting cash management services, what are the other forms, are we not aggressive on cross selling of insurance products?

**Lakshmikanthan:** Already we are in bank insurance module they come under core and nontraditional segment so our insurance and other things we are not starting on our own, but we have got tie-up under bank assurance module so that is already there, there performance shows higher level of growth so therefore that is also a focused trend but I am talking of new areas where you have got already certain areas, where you can have new areas is only on that. Recently if you have seen we have also introduced a new service in the form of gift card, we are going to popularize it, in the festive season we are planning around 1 Lakh cards during the year so that will generate certain fee income plus float.

**Shekhar Kedia:** What is the likely fee income that we get there?

**Lakshmikanthan:** We are working out on that, first of all we make our product acceptable, see fee income cannot be generated only on account of sale of cards or whatever it is. Fee income generates by way of the float fund, which is also generating some kind of an income, so if you are taking into account even including float and other things we expect around 3-4 Crores of profit.

**Shekhar Kedia:** What about your sense on yield on advances, like last year it was pretty high at around levels of let us say 11.5%-12% and this quarter we have seen...

**Lakshmikanthan:** Yield on advances depends upon the market condition, we need not look at the segment only on yield on advances or CASA deposits or whatever it is, one can go up and come down according to the market reality, all of a sudden if you are seeing pressure is there the interest rate goes up but what ultimately we would like you look at is maintaining of NIM always above 3 plus, so that is where ultimately it will happen because all other things are market related, suppose market increases we will have to increase, if the market decreases we have to decrease. If you see the yield on advances has come down compared to last year, CASA deposits also equally have come down.

**Shekhar Kedia:** Last year the bank was able to surpass a profit of 300 Crores...

**Lakshmikanthan:** We went up to 336.

**Shekhar Kedia:** My question is mainly in regard to what are the likely drivers of profit like when you are talking of a good profit growth in this year, what are the new target areas for the bank?

**Lakshmikanthan:** Interest income mainly and also non-interest income, my treasury profit comes and goes, by reduction of CASA deposits, and also other expenditure where the cost can be cut and other things we will do it.

**Shekhar Kedia:** Other expenditure what is the main chunk there like what are the large expenses in other expenditure?

**Lakshmikanthan:** We have made certain say for example outsourcing, we renegotiate with our AMC providers to come down for the current year and also even in certain cases where we have negotiated rented premises or whatever it is, we are negotiating them to reduce even the rent, even to that extent.

**Faisal:** Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to Mr. Kaitav Shah. Thank you and over to you.

**Kaitav Shah:** Thank you sir for taking time out to address this call and thanks to your management team also. I would also like to thank all the participants for attending this conference call.

**Lakshmikanthan:** Thank you.

**Faisal:** On behalf of Anand Rathi Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.