



“Karur Vysya Bank
Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Karur Vysya Bank Q1 FY2021 Earnings Conference Call hosted by Spark Capital Advisors (India) Private Limited. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors. Thank you and over to you Sir!

Abhinesh Vijayaraj: Thank you, Steven. Good morning to everyone on the call. On behalf of Spark Capital, I welcome you to the 1Q FY 2021 Earnings Call of Karur Vysya Bank.

We have with us today the management team of KVB, represented by the MD and CEO, Mr. Ramesh Babu; President and COO, Mr. Natarajan; General Manager and CFO; Mr. Sivarama Prasad; and Company Secretary, Mr. Srinivasa Rao. I now request Mr. Ramesh Babu to say a few words by way of introduction, post which Mr. Natarajan will take us through the highlights of the quarter going by. Over to you, Sir!

B Ramesh Babu: Thank you, Abhinesh. Ladies and gentlemen, good morning to all of you. Thank you for taking time in joining the call to discuss the Q1 FY 2021 financial performance of the bank. I am sure you have gone through the press release, giving the highlights of performance during Q1 and also the details of various aspects of business given in the investor presentation, which is also available on our website.

I have joined the KVB on July 29, 2020 at Mumbai. I am still at Mumbai, day before yesterday I joined and yesterday was the Board meeting and will be shortly moving to corporate office of Karur during the first week of August. So that way, I am yet to sit in the driver's seat.

Just to brief you on my background and experience. My career as a banker spans 40 years with significant experience in driving customer-centric business initiative. I have worked in southern parts of the country, including Tamil Nadu, for more than two decades, where KVB has strong presence. Like you, I always like KVB for their customer connect, which the customers reciprocate through their affinity and lasting relationship. The bank has a rich legacy of 105 years and is continuously profit-making entity since inception.

The bank has witnessed various economic developments and cycles, including the 2 world wars, many epidemics as well as globalization of our economy over the past few decades. The strength of the bank lies in its balance sheet, which KVB demonstrates with a high capital adequacy ratio of above 18%, PCR of around 73% and a CD ratio of 80%, liquidity coverage of over 300%, with NIM consistently above 3%, reflects the inherent strength of the bank to meet and overcome current challenges.

Bank has been at the forefront of adopting latest technology and coupled with a customer base of over 7 million, there is a huge opportunity to upsell and cross-sell business. I understand that the bank has undertaken digitalization of various processes, including onboarding of new clients, banking on-the-go so a few of you would have seen our true DLite mobile app, credit underwriting, et cetera. These and several new business initiatives and process changes are being implemented, which will support the growth, improve credit delivery and bring quality in underwriting standards.

Bank has also inducted professionals with expertise in their area of operation at highest management level to lead the bank towards its future goals. It is my endeavor to own up all these initiatives and to take these initiatives forward, apply my strategies, leverage the human resources by leading the team forward so as to bring value to all stakeholders with the guidance of our learned Board.

As I have spent only 2 days, it would be appropriate for me to spell out my future plans, strategies and action points during my next meeting with all of you. My colleagues on the management team who are there at Karur will take you through our performance highlights, and then we will be answering your queries. Thank you once again to all of you.

J. Natarajan:

Ladies and gentlemen, good morning to all of you. While mankind is trying to embrace the new normal environment, we at KVB learn to function and perform under these testing times. All our branches or most of the branches are functioning normally. Except a few branches because of the directions of the local administration, they were not able to perform for a temporary period. The business continuity measures, which I already briefed you during my last meeting, is very effective, and we learn to live in this environment.

As far as the transactions are concerned, we have already overshoot the pre-COVID number of transactions level that means the things are becoming normal in terms of the business community. I am very sorry and regret to mention, 150 employees of the bank are impacted by this virus in spite of so many precautionary conditions, and guidance's taken by the bank. Out of them, 35 KVBians, the employees have recovered and the members are under medical supervision. We pray for their speedy recovery. We also pray for the speedy recovery of the community as a whole across the globe.

So during the beginning of the first quarter, we understood the environment, we have clearly given directions to the operating team, what are the strategies, what are the priorities under the new normal environment. Accordingly, we told our branches to concentrate certain specific areas and they have drawn some sort of action plans to them. For example, because of the good water facility available in the southern parts of the country, there is a good demand for jewel loans. And because of the other operation inconvenience, many banks are not able to deliver these jewel loan product efficiently. So we have told the branches to gear up to create proper security measures, you protect yourself and then go aggressively for the disbursement of the jewel loans.

And as per the central government guidelines, the Emergency Credit Line Guarantee Scheme also, we have approached most of the customers, and then we told the branches to activate bad debt. CASA sourcing through digital is one of the major successes for the bank. It was done efficiently and effectively by the operation team. And very, very important is we have told them to connect with the customers, whether it is as an officer, as an RM or a branch manager, as a divisional manager, including the senior management at the corporate office level, we used to make a point to talk at least to 3 or 4 customers in a day, the latter part of the day. So we have been continuously doing this exercise. And particularly sitting at the corporate office, we are able to connect with many of the corporate customers, and we try to understand the industry-specific challenges and also their wellness of their business. And we also very clearly told that wherever the non-moratorium account, so needs to be closely followed up. We told them to ensure that the slippages should be 0.

So these are basically the directions, which we have given, and we were very happy and we are very, very reassuring to understand that the fundamental ratios of the bank are strengthened. Probably you would have noticed and the investor's deck is already available with you. There are many, many good encouraging points are there, whether you call the CAR, the LCR, ROA, PCR, the slippages, NPAs and all the fundamental ratios are strengthened. We are sure that you will appreciate and you acknowledge this favorable point.

Coming to business. I will start with the resources, the deposit side. The CASA has grown, you would have noticed, 9% year-on-year and sequentially also 8%. And total deposits grown by 2% sequentially. And if you compare year-on-year, it was slightly negative. You know there is a specific circumstances provided during the last quarter of the last year. Because of that, the total deposit is the big room. And one of the very encouraging factors, again, is our CASA ratio has improved to 33%. And of course, there is a numerator, denominator effect we accept. And again, the ratio is moving towards our aspiration numbers, and we will continue to put our efforts and see that this ratio is continuously improving. You would have noticed last year, the ratio was only 31% and you would have noticed in the year 2017, it was only 27%.

With regard to the sourcing is concerned, I already mentioned we have very clearly indicated our operating team not to try to meet the customer in person, use all our digital systems. We have opened up a lot of new features in our DLite app, in our net banking and all our digital channels. So the sourcing is happening, but at the earlier level, sorry, still it is less than 50%, we are able to source the new accounts.

With regard to advances, the advances remain flat sequentially. And also it has de-grown when you compare year-on-year. But I am guessing to add here, the growth is not visible. That is what I was trying to mention. So probably you would have noticed in our last balance sheet as well as the last year numbers, we had the portfolio of IBPC Rs.1000 Crores, which we have repaid. So there is a fall of Rs.500000 Crores IBPC. And also in the earlier communication, we have told that we are completely shutting down our commodity business because of the inherent risk in that particular business. So we have reduced to Rs.500 Crores in our warehouse loan portfolio. And

also as per the strategic decision of the bank, consistently, we are reducing our corporate exposure. You would have noticed approximately Rs.1500 Crores of corporate advances have come down when compared to the last year. So all these things put together, the growth is not visible. But on the other side, if you see our jewel loan book, first time, it has grossed Rs.10000 Crores. And year-on-year, we have grown by 26%. In quantum terms, it was Rs.2055 Crores, we have grown. And even if you see sequentially, over March, we have grown Rs.769 Crores in a quarter. So the tempo is continuing now. This quarter also, we are able to see the encouraging numbers. I think on this difficult scenario, this being a secured advance, we are continuously driving the branches and divisional officers to ensure that we are growing in this area.

The second point is under this emergency credit line as against the eligible amount of Rs.2760 Crores, we have disbursed Rs.775 Crores up to June. That also, it is taking a lot of time for the branches because they have to safeguard and do the documentations, everything they are doing like that. And all the new initiatives, the precious metal; our non-branch distribution, NEO; our transaction banking group, they restarted their disbursements, of course, with a very tighter underwriting norms. So we want to protect the balance sheet. We do not want to take any risk. So without mitigating the risk, we are trying to increase the sourcing.

And with regard to profitability, the silver line of the profitability yields probably you would have noticed is in the cost. We have been consistently reducing our cost of deposit. As of June 30, our cost of deposit has reduced to 5.37%. But if you see the June month alone, the cost is 5.05%. So that means the quarter starting from this quarter, second quarter, we have started with 5.05%. And there is definitely, this cost is going to go down further, taking into account 3 reductions we have made during the current financial year in the deposit rates over and above the 50 basis point reduction we made with the savings interest rate. We are also going to discuss in the coming ALCO under the guidance of our MD and CEO to check what are the other areas where we can reduce our cost.

With regard to yield on advances, there is a slightly (sic) [slight] fall. It was 9.32% as against 9.61%. Basically, we are growing mostly in the gold loan segment and this emergency credit loan. On the other side, if you are reducing the deposit automatically it has its own effect in the MCLR. And because of these monetary policy rates are coming down, our EBR rates also going down and base rate also. So because of that, there is a challenge to sustain or maintain this yield on advances. We are all working on it. Maybe once the July month-end numbers are out today, tomorrow, we are going to discuss in the presence of our MD to see that what are the actions we can initiate.

And yield on investments has reduced substantially, it is only 5.67%, but there are reasons for that. About Rs.7000 Crores worth of investments we have deployed in the short-term instruments to ensure that we are mitigating the market risk. That is why if you see the duration in the AFS, it is about 1. And NIM is at 3.36% levels as against 3.49%. There is a slight fall, but we are going to maintain the NIM level in spite of these challenges.

And one more positive side of the financial performance is the treasury income. Last year, also, there is a substantial treasury income we have earned. And this quarter also Rs.178 Crores we have earned by this treasury income as against Rs.67 Crores. This is purely basically on the strategic decision of churning our core investments. So this continues to happen in the coming quarters also. We want to ensure that all the opportunities are taken and without taking much risk on the market side.

There is a marginal increase in the staff expenses due to the AS-15 provisions. And here one more point we would like to add. So I think most of you are aware that we are part of the Indian Bank Association and we are part of the wage settlement. Sometimes back on last week, there was a MoU signed by the Indian Bank Association and unions and association. Accordingly, we have reworked our estimates; we have been paying and provisioning a 10% of the establishment expenditure as of March 31, 2017, to our employees. We have estimated additional Rs.22.75 Crores provision, which may require. But still, the final settlement details are not known. But as a prudent measure, we thought of providing the entire amount of Rs.22.75 Crores in this quarter.

So our operating expenses dropped by 7%. These are all small blessing in disguise because of the COVID, there are a lot of expenditure reduction is there. Our operating profit has kind of consistently increased. This time, it is Rs.474 Crores as against Rs.445 Crores, a 7% growth. Net profit is Rs.106 Crores. It is increased by 45%. It is very encouraging to see our net profit growing 3 digits after 9 or 10 quarters.

Coming to asset quality so I would like to spend some time on the moratorium because I know that you are all very keen to understand the numbers behind this and here, I think each bank has the format and policy of disclosing these numbers. So I would like to very clearly put forth the numbers before you.

So 41% of our loan book is under moratorium. If you remove the jewel loan, this is 37%. If you bifurcate, again, the term loan component works out to 48% and working capital works out to 47%. In case of term loan, 4 or 5 EMIs should have been paid by the borrower in the normal circumstances. What we are doing is, even 1 installment is not paid, and we keep the account under moratorium book. And again, 64% of our customers under term loan have paid at least 1 EMI. And this constitutes above 66% of our moratorium under term loan and 32% of our overall moratorium book. Even though the 1 installment is not paid, we consider it under the moratorium book. That is what we were trying to say.

If you drill down further, in case of the working capital customers, 15% in terms of value are availing the limits lesser than 80% of their sanctioned limits because there is a room to debit the interest amount in their account. But because of the safety and because of the convenience, the traders and other community they want to avail this moratorium.

What we are doing is, the August 31, is we are going to complete the 6 months moratorium period. We have made elaborate arrangements and we have distributed the required data all the

branches. This August month is going to be hectic. Our branches that are going to talk their respective customers and then understand the requirement. Wherever the deferment is given, if the customer's having sufficient balance, we will take the mandate and debit their account wherever the customers want to convert into FITL that also will be done during the month of September. Even in the case of a term loan, again, the data is distributed across the branches, it is ready. We are going to tell the customers starting from May, September 1, whatever the mandate, by the way of NCLT has given, and we are going to present details.

So as per the Reserve Bank of India guideline, wherever that the SMA accounts. Otherwise, this account would have become NPA that constitutes around Rs.889 Crores. So as per the guidelines of the Reserve Bank of India, so we should have provided Rs.89 Crores under this. Whereas we have taken the conscious decision and provided Rs.120 Crores so far, both in March and the June quarter put together, we have provided Rs.120 Crores. That means we have provided Rs.31 Crores over and above the requirement.

With regard to asset quality, so we have been communicating to you, every quarter, we are strengthening in this area. Our asset quality is improving, even this presentation also you can see, including moratorium and non-moratorium, our SMA book that is SMA 30 DPD, 30-plus DPD, it is 1.32%. Our gross NPA is continuously coming down, it is 8.34% when compared to the earlier years and it was 9.17%, a year ago. Our net NPA has reduced to 3.44% from 4.94%, consistently moving down during the last five quarters. Due to aggressive provisions and also reduction in gross NPA during the last 4 quarters, our PCR has improved 73% as against 59% a year ago, I am sure you should appreciate. The market PCR now stands at 60%.

So with regard to capital adequacy ratio, probably you would have seen our capital adequacy ratio as of June 30, it was 18.14% as against 17.17% in March. This is basically on account of the reshuffling of portfolio. Because of that, there is a change in the risk-weighted assets. Under we have done a very detailed stress testing. Under the severe scenario, our capital adequacy ratio is expected to be well above the regulatory norm. So that is why we are of the view that at the current moment, we may not require any additional requirement. But having said that, we have to continuously review and during the end of the quarter and the next quarter, we are going to review and this position.

So our new leader has taken charge. You have already heard him. And during our 3 days' interactions, he is very much excited about the new initiatives taken by the bank, particularly the digital transformation and the operation centralization project and all the new business initiatives the bank has done during the past three or four years and it is we continue to work towards achieving our operational numbers, meeting all the challenges in the new normal environment under our new leader.

Lastly, we express our gratitude to our front-line KVBians facing our customers in this difficult environment. So that is what I would like to share regarding the financial performance of the Q1. But I am sure that you will appreciate the good points in our performance. We assure that we will

continue to do well in the coming quarter. Even in uncertainty condition, we will try to minimize if at all, if at all anything is there, we will try to minimize the damages because of these environmental challenges. Thank you.

Moderator: Thank you. The first question is from the line of Prashant Poddar from Abu Dhabi Investment Authorities. Please go ahead.

Prashant Poddar: Congratulations MD for the appointment.

B Ramesh Babu: Thank you.

Prashant Poddar: On the moratorium itself, if you can give us some more data points as to how have you reached out to customers and try to gain confidence in their ability to repay loans as and when moratorium gets over because these numbers are for the banking system quite high. So as the moratorium gets over, how many of them will be able to start repaying their first installment that is quite important, right? So if you can help us understand that bit as to have you done an analysis because you have largely SMA customers and corporate customers. The second question is related to the vintage of your portfolio. So if you could help us understand in any way the vintage of the SME portfolio that would be very helpful.

J. Natarajan: And with regard to the moratorium book. So originally, when we have announced and Reserve Bank of India announced this moratorium, based on our customer inputs, the ratio was at 50% to 52%. And subsequently, when we went to the customers and then briefed them what exactly it meant and how it is going to impact. So immediately, many of the customers have withdrawn the option, and that is why that ratio has come down to 41%. So here also what we are planning to do is now already, I mentioned it in my speech. So in the month of August, we have created a very clear database to all the branches. For example, if it is a working capital account, there is an interest deferment we need to debit or it has to be converted into FITL. So this database, it covers very clearly what are the summations, the credit summations of that particular account, what is the limit, what is the outstanding? All the details we are giving to the customer, excuse me, to our branches. In turn, we have specifically advised our branches because commercial advances, our branches are managing these accounts. And the branch manager and all the credit officers in the branch were advised to talk to the customer, understand their business requirement and also what are the interest we will be charging on these interests, we are highlighting it. And then we are going to mention in the same utility, whether this customer is in need of FITL or not.

If the FITL is not required, automatically, we are going to debit the account on the August 31. If that particular customer requires the FITL, so there again, option is given. They want every monthly payment or some 3 months payment; like that different options are given. So these are the things they are going to capture it. So there, there is a very clear distinction between the non-customer operating accounts normally, where there is a good amount of credit transactions are coming. And there are certain customers where there are no operations. So that is going to be a challenge. So for such specific customers, we have specifically told them to understand whether

the business is closed or what exactly the problem. So once the problems are recorded in the month of August, we are going to analyze. So what is the problem? How we can give a solution for this problem. So that something, some sort of action is taken.

But having said all these things, I was mentioning that all the branches, the feedback, the connecting to the customer is happening during the past 3 months' period. In fact, myself, I have interacted for more than 37 accounts on a daily basis mostly on the corporate accounts, my colleagues at the corporate office they are also talking to the customer, and we had a meeting at the end of the call. And then we are sharing the information. But as far as my knowledge goes, particularly in the southern parts of the country, we never come across any business is closed down. And I am talking about the high-value tickets. So people for example, if it is an export-oriented unit is, the orders are delayed or put on hold. These orders are not canceled but whereas the borrowers have the inherent capacity capability to withstand the delay of six or nine months period. So wherever these type of cases, the customer will not fail, but there will be a delay of six months or nine months to come back to the normal position. There, we need to understand the vintage of the customer as rightly indicated and to check that how we can support these customers. So this exercise, we have already done and based on the feedback from the operating team and the branch managers, we do not expect any big surprises will be there. But again, it has to be tested, unless otherwise, we see the real numbers, I cannot make any comment. But we are prepared. We are preparing for the worst. That is what I would like to talk about this first one, Prashant.

And with regard to the vintage, see, continuously, we have been communicating to all the investors. It was, for example, the 30-plus ratio; it was more than 3% if you see 1 or 2 years back. So today, that ratio has come down to 1.30%. Today, the awareness has come. In the branch, earlier, we never talk of free SMA at all. Only account becoming NPA, we try to talk to the customer. Today, the awareness has come; the branches and people are properly incentivized. If anything, any movement is happening from SMA-01 to SMA-1, where they will get some penalty, negative marks are there. And similarly, if it is a reverse movement happens, we are incentivizing them. So that type of awareness has come, and people are today very aware, and they are talking to the customer. Customers also today, they also understand that if they are maintaining a good score, they will get good interest rate because today, all the interest rate, everything is linked with the risk and score of the customer. So in that way, we have had a lot of improvements and these are all 3 years' work we have done. In this, the testing time, it is very handy and helpful for us to understand the portfolio and build proper mitigation efforts.

T. Sivarama Prasad: Prashant-ji. Prasad here. On the same moratorium, President has already mentioned, that even if 1 installment is not paid, we continue to keep it under moratorium and track. So we have various levels of repayment that is coming. There are people who have paid 3 installments, there are people paid 2 installments, there are people who have paid 1 installment. So all together, even if 1 installment is not paid also, we are keeping it under the moratorium.

J. Natarajan: 2% of the book they have paid in advance.

T. Sivarama Prasad: Yes. 2% of the book they have paid in advance, like that, we have analyzed the entire moratorium book and one installment, the people who have not paid the one installment is coming around 48% 34% and people who have not paid in two installments is only 10%. People who have not paid is only 2% and this is only 1 installment. So the overall monitoring and tracking is quite good. So we hope that there may not be extraordinary danger of many of the accounts getting slipped and the position will continue to be manageable position. That is what I would like to emphasize, Prashant.

Prashant Poddar: Sir, one more quick question. On the SME portfolio, which is commercial portfolio, can you help us understand what is the kind of security level if you can share something like 70%, 80% of the portfolio having so much security and I am sorry, also on the corporate, given that we have seen years of almost five years of consolidation now in your corporate book that one must be relatively easier to figure out as to what percentage of portfolio is value at risk in corporate, given the post-COVID environment? Yes, that is all from my side.

J. Natarajan: Prashant, I think probably you should have seen the investor deck, the Page #37, where we have clearly mentioned the security coverage. So a substantial portion, in the case of MSME, so I can say 100% without security, we do not do business. It ranges from 120% to 160%. So as far as the commercial loans are concerned, there is no question of any unsecured loan. These are all covered by the property. In addition to that, during the past 3 years, this transformation process, what we have learned and studied is the value of the property is very important. So whenever any customer today is asking additional loan or any additional loan, so we give 15% haircut on the value of the properties he has mortgaged. So in that way, for the past, I can say, 1.5 years, the 15 months, wherever the account additional remits are sort or additionally loan is seen or at the time of review of the account, we continue this practice. So today, our entire commercial portfolio is completely secure. The value also, by and large, we have been ascertained. And so in that way, the commercial loans, I do not think any challenge is there, even the account becoming NPA, we will be in a position to recover maybe some time lag and time delay will be there because of the environment. But definitely, we will be in a position to recover.

As far as the corporate account, you are very right, and we have completely during the three or four years, we know each and account wise, we know out of these 400-plus accounts we have, we have complete information of these accounts. And wherever the consortium accounts and the high-value accounts for the past 2 years, we pegged the maximum exposure to Rs.125 Crores. So that is why I was mentioning, in the corporate portfolio, Rs.1500 Crores dropped is there when compared to the last year. These are all the accounts have not gone out because we have reduced our exposure to Rs.125 Crores. In that way, today, the corporate portfolio is doing well. First time after a very long time, we have seen a slippage of 0, probably you have seen in the investor deck. So in this quarter, our gross slippage is 0. And today, we are not able to identify any big or challenging account, which may create problem where there is no security. But definitely, it is not there. But there are certain accounts bound to be there. These are all fully secured accounts only. We do not have the unsecured type are the accounts cannot be visible. That type of accounts, we do not have any visibility as of now.

- Moderator:** Thank you. The next question is from the line of Renish Patel from ICICI. Please go ahead.
- Renish Patel:** Sir, first of all, congrats on great set of numbers. Sir, just two questions. One is a follow-up on what Prashant has asked. So Siva Sir, you were mentioning that 34% of the customers have not paid any installment. So this 34% is out of the 49% of the book, which is under moratorium?
- T. Sivarama Prasad:** No, no, no. President will clarify. One second, Renish.
- J. Natarajan:** See, Renish, so what we have done, so out of this overall moratorium book, something around Rs.8630 Crores is the term loan component. So there, we have analyzed this data. So 34% of the value of the loan, that is Rs.2958 Crores, there is no payment, not even a single payment. And since you talked about one EMI, 49% of these Rs.8630 Crores, they paid one EMI. So like that, it is two EMI is 10%, three EMI is 2% that is 2% of this Rs.8630 Crores, and they paid three EMIs. So the 1% of Rs.8630 Crores, they paid the 1% and there are certain prepayments also and in that way only, it was explained, Renish.
- Renish Patel:** Got it. Sir, so coming back to our corporate book strategy so we have been consolidating this book, I think, over last 3, 4 years. But what is surprising is last from three to four quarters; I am just referring to Page #31, just to have a better understanding. So that book, which is above Rs.100 Crores, has been consistently going up since June 2019, last year. And where we are saying, we are capping our ticket size is Rs.125 Crores. So can you just explain me why there is an increase in above Rs.100 Crores book, when on the other side, we are sort of reducing the less ticket size exposures?
- J. Natarajan:** Renish, see, if you notice the actual numbers in December 2019, it was Rs.2300 Crores. Today, it is Rs.2733 Crores. So that is only Rs.400 Crores increased. There are certain things, for example, food credit. Recently, we have joined the consortium of food credit. So where it is a government thing that is all. There is substantial increase in that numbers. In addition to that, there are AAA companies we see, one, what stand we have taken is the existing based on the rating, it is an AAA rating, and still we continue to do business. It is not that we completely stopped the corporate advances so wherever the unrated or the low rated, where we feel that exposure is high based on certain risk, we are trying to reduce the exposure. If the company is a well rated, we continue to do, but we are restricting to Rs.125 Crores if any new exposure. Unless otherwise, these type of food credit or some sort of additional comfort is required. But again, I will try to repeat that we were going to stop the corporate credit, but we are very careful in identifying the customers based on the risk profile. And our existing profile we have been continuously reviewing it and reducing it, that we will continue to do it.
- Renish Patel:** So you are saying incremental credit in the corporate side will be largely towards AA and government entities only?

- J. Natarajan:** Yes. But if it is less than, for example, Rs.25 Crores, Rs.30 Crores all these things, the traders account where rating may not be there. So there, we go with the other risk of the borrower as well as the business.
- Renish Patel:** Right. But so those exposures will be of sole banking sort of...
- J. Natarajan:** 100%. We are not at all going for any consortium account. It will be only a sole account or at least the separate, the security all these things should not be a pari passu. We were taking separate securities. So like that, this is all policy changes we have brought in. We are very careful. Carefully, we are doing this.
- Renish Patel:** Sir, just the last question from my side. Again, I am referring to Page #30 of your PPT, wherein the incremental disbursement size has sharply fall to Rs.10 lakhs a customer. This is on SME platform on digital side. Wherein the previously, it used to be around Rs.25 lakhs to Rs.27 lakhs. So is there a change in strategy or a change in customer target what we used to pursue earlier and now? I mean, is there any drastic change that has happened in Q1?
- J. Natarajan:** So actually no, it reflects only that the June month numbers it is given, maybe the June month-to-date, the maximum number of loan under this SME is, this time is, only the emergency credit loan. That may be one of the reasons for that. But otherwise, the other disbursement in commercial loans is very limited. We are not having much more I mean, in any big disbursements in the commercial sector because the environment is not there. And again, you cannot create a mortgage. MoD is not possible. So much of problems are there. We are not disbursing in a large way.
- Renish Patel:** No. Sir, I just wanted to get a sense, is there any change in strategy?
- J. Natarajan:** No. No, nothing. In the sense change in the strategy, in the sense, we have completely revisited our underwriting standards. We have tightened our underwriting standards. And all the commercial proposals some risk person is eyeballing it today. So earlier, it is all green channels. We have given powers to the branch manager, division manager, all type of powers are there. Today, even though powers are given, we ensure that a risk person is eyeballing the proposal and ensuring that the proposed the business going forward is doing well because all the structure is based on our historical data and historical information. So now we have to see about the future. So that is why we have specifically told the risk people to see how the business is evolving and wherever the negative sectors, for example, travel, hotel, all these things, we are not financing. So that type of things, we are filtering it out. Then only we are allowing for the disbursement.
- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** First question to MD Sir. First of all, congratulations, Sir.

- B Ramesh Babu:** Thank you. Thank you very much.
- Jai Mundra:** And Sir, as you said, that you will be sharing your broad vision in the coming occasion. But Sir, if you can tell us about your terms of contract, is there a lock in, have you been allotted ESOPs, if possible for you, that will help us understand a few clarity there.
- B Ramesh Babu:** Terms of contract, RBI, they have cleared it and in fact in the press also, it has come, it is a 3-year contract, okay? ESOPs are concerned, no, ESOPs is not a part of that.
- Jai Mundra:** Correct. No. No, from Board side, have you have any, let us say, that at least from Board side, there is a fixed contract or there is a consideration for ESOPs?
- B Ramesh Babu:** No, no. ESOPs were not considered at all, okay? So it is a fixed pay and variable pay. That is what RBI permits, and it is a three-year period. So these are the two things. But one thing I will assure you, okay? ESOP or no ESOP, so absolutely, I will own up the bank. Not only that two more things I want to say. The bank has invested in a few of the initiatives. I respect the value of initiative because someone has invested some resources in that. It can be manpower. It can be money, executive time, whatever it is instead of reinventing the wheel and restarting this one and all. So I feel that every initiative because investments have already been made in various sources, how to get the maximum out of that? And second thing is, at the time of actually visualizing and bringing out this initiative, we would have expected saying that this is the outcome we have to reach. So if we have not yet reached that, which are the gaps and how to fix that, all these will be focused so that at least we will reap the maximum benefit for the investment, what we have made. That is first thing. Second thing is the direction. Direction in a sense that, so President was mentioning, saying that because of the earlier learning's what all are there. There is a shift in the business mix. So I totally agree with the bank's culture and their decision to change the business mix because when we are in the business, we need to know what we can do, what we cannot do. Suppose something we cannot do out of our anxiety, if we try to do that without the basic risk management and expertise team, all these things and all, there may be bound to have accidents. So that is the reason it varies from organization to organization, what is the level of their risk appetite, what are the products which they can handle. So that way, Board using their wisdom, they have taken a call to move from corporate to commercial. I totally agree with their wisdom, and I stick to that. And this methodology, what they have been following will be continued as it is.
- Jai Mundra:** Sure, Sir. That is very helpful. Sir, second question is to President Sir and CFO Sir. Sir, out of your gold loan business of Rs.10,000 Crores, retail gold, as you have shared is somewhere around Rs.1,000 Crores. The rest is agri gold or there is some proportion of MSME gold as well or SMA gold as well?
- J. Natarajan:** No, Jai, a substantial portion of our entire, for example, Rs.9000 Crores is on the agri sector. So both commercial and retail all put together will be Rs.1000 Crores.

- Jai Mundra:** Sir, what kind of yields do we get on this agri gold?
- T. Sivarama Prasad:** Maybe around between 8.5 and 9.
- Jai Mundra:** Okay. Sure, Sir.
- T. Sivarama Prasad:** But what you need to see is, there is no capital charge for this.
- J. Natarajan:** Correct.
- T. Sivarama Prasad:** So you are saving them.
- Jai Mundra:** Just last two questions. Sir, first on moratorium, I missed that number. How many out of this Rs.8000 out of this Rs.19000 Crores, Rs.20000 Crores of loans under moratorium, how many of them have not paid any single EMI? I am sorry, I missed that number.
- J. Natarajan:** No, Jai, actually how we have mentioned is, we have bifurcated the moratorium book into 2. One is the working capital, where interest deferment was given. And the remaining is the term loan. So the question of installment comes only in the term loan. So what I was mentioning that out of this Rs.8630 Crores book of term loan, 34%, they have not paid any installment. So remaining 66%, at least they have paid 1 installment. I have given the breakup. This breakup, including there are the 1% of this Rs.8630 Crores, they are prepaid. That means all the 4 installments are paid. And 3% of Rs.8630 Crores, they paid 4 installments. So like that I have given the breakup. You want to read the numbers, I will read the numbers because...
- Jai Mundra:** No. That is okay, Sir. So these people, while they have paid the full money?
- Moderator:** Thank you. The next question is from the line of Abhijit Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijit Vara:** Just one clarity I wanted this term loan of Rs.2958 Crores, where not even a single payment is made. Can you give us some color, further color, which segments or is it corporate, retail? What kind of security you have with these guys? Have you followed up with them? What is the payment ability of these guys? Any broad color you can give?
- J. Natarajan:** So, Abhijit, actually, see, if you take the term loan portfolio, substantial portfolio is only in our personal banking, the home loans, the LAP. Commercial term loans, is very less always. So in that way, this is mostly on the personal loan segment because what the problem is, we have taken an option of the customer, but the customer has availed the moratorium. So there mandates are available with the bank. So we have not presented the mandate because if you present the mandate, we are violating the agreement with the customer. But customer will be having the money. But I cannot present the mandate because customer has already opted for the moratorium. So that is why in the first week of September, we are going to present it. And again, always the mix of the portfolio is the self-service and business group is always on the higher side than our

salaried sector. Because our customer base is like that and the portfolio is also like this. So in that way, these are all business establishments and the self-service people where our portfolio is high. So from there only this constitute these numbers and what we are trying to do is because where there is a clarity is not there that is why I was mentioning in the month of August, we are going to talk all the customers. We have been doing it. But the small level customers, we have not discussed. Only commercial loan customers, we have been talking. Before the end of August, we are going to complete the process. Maybe the first week of September, we will be in a position to clearly understand so that how many people are really affected and how many people are just for the sake of comfort, they have availed this moratorium. But again, this vintage, if you see the personal banking, the retail banking, you know that our retail banking, the portfolio has grown only during the past two years. Earlier it was not the cup of tea of the bank. So the portfolio is the vintage is very new. And then the identification of customers after doing a lot of this digital and other exercise we have identified the customer, particularly customers with less than 750, we have not taken at all. So these types of very strong measures we have implemented. I am very, very confident that this will not create any surprise in the month of September and October.

Abhijit Vara:

Sir, my last question is on the credit cost, how are you giving credit cost, of course, you have built Rs.120 Crores as of now. But how are you giving credit costs requirement let us say in Q2 versus the rest of the year, what is the thought process? Are you looking at it in terms of PCR or are you looking at in terms of at-risk portfolio and how much you want to cover LVD, taking LVD into account? Can you give some broad thought process?

J. Natarajan:

See. I am sure you are talking about this moratorium book as well as general. So for example, if you see the SMA 30-plus that is what I also mentioned that. But historically, our SMA 30-plus DPD was something in the range of 3%. Now it has come down to less than it is almost 1.3%, including the moratorium portfolio. So there if you see our SMA-2, that is more than 60 days, it is a very, very negligible number. So as far as the September month is concerned, we are not seeing any challenge at all. We are planning for, again, the negative slippage. In the first quarter, the gross slippage is only Rs.40 Crores. If you adjust the recovery, it is 0. So similar we want to achieve in the month of September because September will not be a much challenge. Only we have to see in the month of December. As far as the non-moratorium portfolio is concerned, it is very, very clear, and we are not going to see any big challenges. But only in the case of the moratorium portfolio, probably we will be in a position to understand the reality in the month of September. Accordingly, we will take a suitable decision. Prasad, do you want to add?

T. Sivarama Prasad:

Yes. As far as the credit cost is concerned, the situation is so fluid. That you know, say, we cannot really ascertain how the situation will change. But if you see historically, the credit cost is depending on the NPA levels, and if you see, originally, we predicted around 1.25% to 1.5%. That is the original plan. And I hope it may be between 1.5% and 2%. And if the situation becomes so worst, then it may slightly go beyond 2% to 2.5% in between. I do not think anything beyond will happen as far as the provisioning is concerned and credit cost is concerned. Because of the recovery steps that what we have initiated and even a part of the moratorium book slips

also, I hope we will be in a position to contain both the NPA numbers as well as the provision numbers. I do not think it will go beyond 2.5%. 2% could be the max. That is what we feel.

- Moderator:** Thank you. The next question is from the line of M.B. Mahesh from Kotak. Please go ahead.
- M.B. Mahesh:** Sir, just two questions from my side. This Rs.2958 Crores of people who have not paid, did they come did you go back to them and ask for a fresh mandate for a moratorium? Or it just kind of automatically got converted into from the previous one?
- J. Natarajan:** No. Automatically, my existing mandate, we can present it. There is no need for any fresh mandate is required.
- M.B. Mahesh:** But you did ask them and then they chose for an extension, right?
- J. Natarajan:** Exactly because we sent an SMS. We have different communication mode we have done. One is the SMS and our branches. They have talked to the customer. And wherever the customers are coming forward, across the counter, all the methods we followed. Based on the option given by the customers, we have marked moratorium option in our books. And wherever the moratorium options are given, the mandates are not presented. So in the month of September, for example, our cycle starts on 5th, 7th and 10th. So we were going to present it the mandates on 5th of September.
- M.B. Mahesh:** Sir, just 1 clarification on this. I am not sure as to whether when you have a loan account, I am sure they would either have current account or a savings account with you. Have you been able to check their balances, how are they positioned on the other side?
- J. Natarajan:** Yes. See, as far as our bank customers are concerned, we know the data, and we are comfortable and only if many of the loan, where we have taken the NACH mandate, that is what we are not able to understand. But as far as our customer is concerned, we have a complete information and data.
- M.B. Mahesh:** And 1 final question. On the working capital side, which is on the balance of the moratorium? What is the general working capital utilization that you have seen in this book that you can still kind of either debit it in the form of interest or whether a substantial amount will have to get converted into an FITL?
- J. Natarajan:** So that is what I was telling, Mahesh. The 15% of the working capital book under the moratorium, they have a sufficient balance in the account. And I can say, another 10% or 15%, they are operating in the current account, so not in the working capital account. There also the transactions are happening. But I can say that in all the working capital accounts, roughly 10% to 15%, we are not able to see much transaction maybe because they have slowed down the business and these are all the small value account, I am talking about Rs.10 lakhs, Rs.20 lakhs, petty shops so where they are not able to come to the bank. Probably, that is one of the reasons.

They are doing business, but were not moving out to deposit the cash. In such type of accounts, so I can say only that 20% to 25% of the accounts straight away, we can debit on the 1st of September. And again, other accounts we have to check. We are going to ask the customer and see. But by and large, even the big accounts where we are talking, we do not come across anybody saying no. I am going to close down the business. I am going to leave, no, even our big accounts, medium accounts, small accounts. In small accounts, there are certain challenges are there. But by and large, we are not seeing any pessimistic view as thrown by the outside world, everybody is very pessimistic. But when we are talking to our customers, we always feel comfortable that the business is delayed, but it is not completely gone. That is the feeling we have. But anyhow it has to be tested because most of our customers are traders and where if they are going to the outside bank, they will be paying 24% because of that whatever funds we are able to get it for our safety side, for comfort side, they used to avail and keep it as a cushion. But we have to test it. In the month of September only, we will be in a position to know exactly. But my overall feeling is that, we may not get that much of problem, we will be facing in the month of September.

Moderator: Thank you. The next question is from the line of Krishnan VS from India Advisory. Please go ahead.

Krishnan VS: I do have 2 queries. I just wanted to know how much of your loan book is from Tamil Nadu?

J. Natarajan: Say roughly 49%, 48% to 49% of our loan book is from Tamil Nadu.

Krishnan VS: The second question, which I have is, if we take the last 5-year data, can you give me a consolidated or cumulative figure of how much provisions were made and how much were actually recovered in absolute write-offs and absolute recoveries. Is the data available?

J. Natarajan: I think three years data I have. I will share with you. Maybe 5 years data I do not have, but if you see the 3 years the data okay, I will share it with you because many numbers are there. We have the data. Probably after the call, we will share the details to you.

T. Sivarama Prasad: We will just reconfirm the data, and then we will share with you, Mr. Krishnan.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Sir, it will be a repetition but if you can just spell out the moratorium and the term loan part, which you mentioned earlier. It will be helpful.

J. Natarajan: Yes. What exactly you require, Darpin?

Darpin Shah: 34% of the value is not paying anything. 49% is paying at least 1 EMI.

J. Natarajan: Right. Do you want more light?

- Darpin Shah:** If you can provide some more light?
- J. Natarajan:** Yes. So that is what I was mentioning. We have bifurcated the loan book under moratorium into two, term loan and working capital. The term loan component is Rs.8630 Crores, of which the 34% of this Rs.8630 Crores, they have not paid any installment. But because the specific mandate is given, we have not presented this mandate. It has to be tested in the month of September. And remaining customer, 49%, they paid 1 EMI; 10%, they paid 2; 2%, they paid 3, 3%, they paid 4; 1%, they paid more than 4. That is in advance.
- Darpin Shah:** Out of this so remaining, that is almost Rs.3000 Crores which have not paid any single EMI. How much risk do you see in this portfolio and how it will turn out for credit cost?
- J. Natarajan:** So that is what I said. The substantial amount of these portfolios constitute the personal segment, where the home loan or the LAP, they are not secured loans where we have a very limited unsecured portfolio of the bank. So this constitutes. That is for the segment. And again, if you see the home loan and LAP segment, the customer base is predominantly, they are all self-service business people. And there are certain connected business is there within the bank. So such accounts, definitely, we may not have any difficulty. But because specific mandate is withdrawn for this six months' period, we have not presented and because the portfolio, the vintage also, it is a very two years, three years portfolio, where after a severe underwriting test only the accounts are on-boarded. And we do not see any big challenges. So that is why we have been talking to all the business community. And here we felt it very comfort, and we are not expecting any big damage in this portfolio. But there will be some delinquency, I am not denying it. There will be some delinquency. I am not able to show exactly what many number would create the problem. We are very confident that by September, we will be in a position to recover most of the amount because these self-service, they are business people, they have connected business and they have current account, they have cash account and all accounts will be there. So that will not be the difficulty. And other account, we have to test it in the month of September.
- T. Sivarama Prasad:** Darpin, Prasad here. So even in case of some of the salaried-class segment, what we have in terms of home loans and all, so you will be having the mandate and that we will be presenting, and also we will be personally talking to them and see that, that portion also is recovered. Major portion, as the President has told, could be there but there is salaried class also. So where the recovery is definitely possible, and they are keeping the amounts and all that in their SB accounts for the comfort purpose as they have availed the moratorium. But once the moratorium is over, they should be paying. But anyway, all these are subject to RBI guidelines, how the moratorium how the RBI is going to react now for the present moratorium whether that is going to be onetime restructuring as what it is appearing in the press. We do not know what is going to be the position of how the things are going to shape up. But as the things stand that we are completely on the top of the portfolio and continuous monitoring and recovery mechanism is going through and this portfolio of Rs.2900 Crores, we will be putting more effort in those accounts and see that these levels are brought down.

- Darpin Shah:** Sir, just if you can help me, how much will be salaried segment and just how much will be self-employed?
- J. Natarajan:** I have the data. Darpin, I will just share with you.
- T. Sivarama Prasad:** We will just come back to you on that.
- Moderator:** Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.
- Rakesh Kumar:** Sir just wanted some understanding on this gold loan portfolio. So how much growth we are anticipating in this fiscal year, Sir?
- J. Natarajan:** See, the first quarter, we achieved 8%. Amount wise, it is something around Rs.760 Crores. So the trend is continuing in the month of July also and again, because there is no other opportunity available for the branches, commercial loans and retail loan. Our century score, normally, we assess the performance-based on the century score. And the incentivization, everything is based on this score. So they treat it and whatever it is possible we will do it. Earlier, we say that you do this much of retail loan, this much of commercial loan, this much of business loan and all. Today, we say that if it is possible to do jewel loan, you do jewel loan. In that way, we are provoking people to go for more jewel loan. And second, if you see in Tamil Nadu particularly, there is a copious of rain and good water facilities available, and it is a very unusual and the people are of the agriculture, particularly, the delta area. So there, they are going for the second crop and third crop. So generally, the culture in Tamil Nadu is the farmers, immediately, they will pledge their jewelry and take the loan and do their activities. And only what is required today is a good turnaround time. So if you are able to maintain a good turnaround time and encourage people, sometimes they come on 1 o' clock, 2 o' clock in this lockdown period. If you are doing some extra service, so that word by mouth that news will go. So that is what we want to capture. So this Rs.769 Crores this quarter, I am very much sure that it will continue in the remaining 3 quarters also.
- T. Sivarama Prasad:** Yes, Rakesh-ji. In addition to whatever President has told, even you know we find that, by and large, in the southern area, it is Tamil Nadu, plus Andhra, Telangana and Karnataka, it is across the board, this gold loan is improving, especially in the southern parts. When compared to all other areas of the country, entire southern states, actually, the gold loan book is improving. It is uniform. Generally, the rains are good and the sowing is also good. That is the reason why the gold loan book is improving.
- J. Natarajan:** But I see, I understand there are basically the two risks because the rate is going up consistently and there are certain price risks. So both the things we have the measures to mitigate it. For example, today, the per gram rate of Rs.5000, 22 grams so we are very conservative in giving Rs.3400, Rs.2500 per gram so even though there is a big change happened during the past 2 months' period. So normally, we review it on a fortnightly basis and monthly basis. We have not

done it. We have not increased it. Because we are not sure whatever the increase happening, how long it will sustain. We are not very sure. So that is why the per gram rate consciously, intentionally, the latest trend into account, very gradually, we are increasing it. In that way, the price risk we are mitigating it. And as far as the operation is concerned, today, it is completely digital. So earlier, there is a lot of manual methods were implemented. Now today, customer onboarding, everything is digital. We have taken the images of the jewel, we could put it in the system, we are giving the acknowledgment, and the bags are untampered. And every day, the verification is there and periodical audit is happening, wherever the numbers are going suddenly increasing it or people are going and then verifying it, everything, all the systems are put in place. Like that, we are mitigating both the risk and we are sure that this portfolio will not give any surprises in the long run. But again, once our normalcy restores, we will go back to our traditional funding model because the opportunities are available, we want to encash the opportunity today.

Rakesh Kumar: Sir, my only apprehension was not from the collateral side. Like the underlying activity, what borrowers are doing with availing gold loan is you are saying it is agri. And agri GDP as a country has not going to expand so much as the gold loan is going, expanding. Every bank is saying that we are giving gold loan. So my thinking is that growth in the gold loan with the underlying activity as agri and the agri GDP growth, both things are not going in line. So somewhere problem has to occur. So that is from that is my thought, actually. From collateral, I am quite okay.

J. Natarajan: So you have very valid point, Mr. Rakesh. The point here is there also our metro and urban branches are not permitted to do any agri loans. So all the agriculture loans under jewel loan, we have allowed only rural and semi-urban branches. So and again, it is not unlike the earlier system where branches simply can give agri, it is not possible today. We have created digital system where as an agriculturalist he has to submit the proof, it has to be documented. And again, there is a scale of finance. So many controls we have created. But our market share is Rs.10000 Crores we have built over a period of time, and I do not think it will give any big challenge. But as far as we are concerned, all our semi-urban branches and rural branches, actively, they are doing this predominantly for agricultural purpose maybe few areas where people will take money using the agricultural document that they will be using it for some other purpose. But as far as we are concerned, we ensure that the end use, the agricultural proof, all these things, we ensure at this point.

T. Sivarama Prasad: Then Rakesh, as far as I mean, there could be a little portion of the segment under the non-agri, but that percentage is very less. That happens mostly in the cities. But predominantly, as President has told, this is agri. But some portion now slowly because of the digital gold loan, slowly the personal loan under the urban and metro also is slowly improving.

J. Natarajan: The digital loan, which we have started a couple of months back for our metro and urban centers, where we are not allowing agriculture, but it is only for a personal segment where customer that pledge the jewel at the branch, and then you can take the loan any time using our DLite app. So it

is a very convenient and the portfolio is continuously increasing. This type of small, small innovations we are creating and then we are doing it.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Abhinesh Vijayaraj for closing comments.

Abhinesh Vijayaraj: Thank you, Steve. On behalf of Spark Capital, I would like to thank the management team of KVB for taking time out and patiently answering all the questions. Good day. Thank you.

T. Sivarama Prasad: Thank you.

J. Natarajan: Thank you, Abhinesh.

T. Sivarama Prasad: Thank you all. Thank you.

Moderator: Ladies and gentlemen, on behalf of Spark Capital Advisors that concludes this conference. Thank you all for joining us. You may now disconnect your lines.