"Karur Vysya Bank Q1 FY23 Earnings Conference Call"

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MANAGEMENT: **MR. B. RAMESH BABU – MD & CEO, KARUR VYSYA BANK**
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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22-23 Earnings Conference Call of the Karur Vysya Bank.

We have with us today the management team of KVB represented by the MD and CEO – Mr. B. Ramesh Babu; President and Chief Operating Officer – Mr. Natarajan; CFO – Mr. Ramshankar; Company Secretary and Compliance Officer – Mr. Srinivasarao.

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. B. Ramesh Babu - MD and CEO to take us through the highlights of the quarter gone by after which we will open the floor for questions. Thank you and over to you, sir.

B. Ramesh Babu: Thank you Mr. Steve. Good evening to all of you. Welcome to our Bank's earnings call for quarter one of the financial year 2023. We trust that you, your colleagues, and family members are keeping well and are in good health. I am sure that you would have gone through our presentation on our quarter 1 performance and I am glad to share that the results reflect the outcome of the plans, strategies, and efforts put in by us.

My brief on the performance highlights during the quarter and guidance for the remaining quarter for the current financial year is as follows:. As you are aware, we have reported a consistent improvement in our performance during all four quarters of financial year 22 in terms of growth, profitability, and asset quality. I am pleased to report that the trend continues in quarter 1 also and I am confident that the same will continue rather we will aim for further improvement of the performance in the ensuing quarters.

Based on economic indicators as well as the prevailing uncertain environment and the geopolitical issues, at the beginning of the current financial year, we have cautiously estimated a business growth of around 12% on the deposits as well as advances front. Considering the current trends, particularly on the demand for credit in certain specific sectors as well as the growth witnessed during the first quarter, it is likely that the growth will be higher than 15% on advances and the deposits for the year 2023.

We continue to hold our NIM at the north of 375 basis points, so it was 382 basis points during the current quarter as against 355 basis points last year and 379 basis points during quarter 4 of 2022. Our consistent efforts to keep the cost on lower side coupled with improvement in yields on investments and advances during the quarter supported the improvement in the NIM. During the quarter, we have increased our deposit rates for select maturity buckets by 50 basis points which is likely to impact cost of funds going ahead. Nevertheless, we expect our yields also will proportionately move up enabling us to manage NIM at 3.75% levels.

Net interest income has gone up by 17% year-on-year and sequentially by 5% on account of lower cost of funds and increase in yield on funds and further supported by growth. Yield on investment has moved up from 5.36% at the end of first quarter of last year to 5.64 and sequentially improved by 11 basis points. As indicated earlier, it was a conscious call taken by the Bank to keep the duration of AFS investment at a shorter level for quite some time. The securities now maturing are replaced by those with higher yield as per current market trends. Our yield on advances has remained flat at 8.27.

About 30% of our loan book carries pricing linked to EBLR. So, policy rate changes have been transmitted to working capital accounts concurrently and term loan accounts are repriced as per the terms of the contract. MCLR has not been revised during the quarter. Factoring the deposit and other cost, it will be reviewed based on the market trends. Non-interest income has marginally declined by Rs. 4 crores over corresponding previous quarter. This is mainly due to higher depreciation on investments amounting to Rs. 37 crores and lower investment trading income of Rs. 4 crores which has offset the improved fee-based and other income.

We do not expect any significant depreciation on our AFS, SLR portfolio considering the low duration. Investment portfolio includes interest earning non-SLR bonds and debentures of Rs. 1,507 crores. In tandem with the yield movement, there is likely to be some MTM losses in case of further hardening of interest rates.

Operating expenses have gone up by 10% in view of the increased scale of operations and higher business volumes; however, increase in revenue is to the tune of Rs. 104 crores while the increase in expenses is only to the extent of Rs. 63 crores enabling the lower cost to income ratio of 49.68% which is lower than the previous quarter and previous year. We continue to focus on this and aim to keep the ratio at around 50 levels.

Operating profit for the quarter increased to Rs. 475 crores up sequentially by 8% and 15% on year-on-year basis. This is on account of increased NIM and lower cost to income ratio. Provision for NPA for the quarter was at Rs. 140 crores while net slippages were negative. The provision requirements in respect of migration, ageing needed to be undertaken and also to further improve the PCR.

Overall, the credit cost including standard and restructured advances is 1.09% as against 1.25% for the last year. Credit cost for the NPA is at 0.95 and for the year 2023, we expect that it will be at about 1%. Net profit has risen to Rs. 229 crores for the quarter which is more than double in the previous year and also sequentially up by 7%. ROA for the quarter is at 1.09% as against 0.57% during the first quarter of the previous year and 1.06 during last quarter. As indicated earlier, our estimated ROA will gradually move up and for the whole year, it would be around 1.1% and for exit quarter, it would be in the range of 1.15 to 1.2 subject to normal market conditions. Our CRAR continues to be robust and is at 19.21% providing us comfortable headroom for growth. Our liquidity is comfortable and we continue to maintain LCR at around 200% levels.

I will now brief you on some aspects of our credit portfolio. First thing is slippages and asset quality: Gross slippages were Rs. 139 crores during this quarter which works out to less than 1% of the loan book on an annualized basis. Our recoveries as well as upgrades have surpassed the slippages during the quarter 1resulting in a negative net slippage to the tune of Rs. 21 crores. You may have observed that the Bank has been showing net negative slippages without taking write-off into the account during the past 4 quarters. Technical write-off of Rs. 303 crores during the quarter has been undertaken. There was no sale on SR basis during the quarter. Our estimated gross slippages for the year ahead will be in the range of 1 to 1.50% and considering estimated lower slippages and possible recoveries from the existing NPA book, we aim to achieve negative net slippages in the coming quarters also.

SMA-30 plus balances at the end of quarter stood at Rs. 579 crores which is less than 1% of the loan book. SMA book includes jewel loan book balance of Rs. 48 crores. Due to lower slippages, recoveries, and technical write-off, gross NPA has come down to 5.21%. Our aim is to reduce it to below 5% level by 2023. Our net NPA level has further reduced to 1.91% and it is our endeavor to keep this at below 1% levels.

Restructured book: Our overall standard restructured book stood at Rs. 1,525 crores which is 2.56% of our loan book. This book consists of Rs. 215 crores of working capital and Rs. 1,310 crores of term loan portfolio. As of 30th June, about 63% of the term loans are in repayment demanded category. About 11% of the restructured book is in SMA-1 and 2 and we hold a provision of Rs. 166 crores towards the standard restructured book. Further details are available in the slide number 28 and 29 of our presentation.

Coming to the growth, during the quarter, Bank has recorded 14% year-on-year growth in CASA and 11% in total deposits. Sequentially, we have achieved a deposit growth of 4%. About 92% of the term deposits are from the retail segment that is Rs. 5 crores and below. Considering the need for building up deposits, to meet our asset growth and to be competitive in the market, we have raised interest rates and term deposits on certain buckets and operating team is activated for aggressive mobilization of retail term deposits. We also continue to keep our focus on building good CASA base to reach 40%. During the quarter, we made a fresh loan disbursement of Rs. 4,200 crores as against Rs. 1,662 crores during first quarter of last year. Jewel loan disbursements are not included under this. We achieved an year-on-year growth of 14% and YTD growth of 4% and we are working towards achieving a minimum growth of 15% during the year under the advances. Retail loans under personal segment have grown by 11% year-on-year. This is predominantly on account of residential mortgages. As indicated earlier, we have made certain significant changes in our structure and this will help us in building a sound retail book in the ensuing quarters.

Our agri loan book which consists mainly of jewel loans grew by 15% year-on-year and sequentially by 4% and we expect that this trend will continue. Our overall jewel loan book has grown by 13% and constitutes 25% of our loan book. LTV stands at 71%, commercial loan book has grown by 16% year-on-year and sequentially by 3%. We are focusing on this segment very closely to maintain the trend and to make use of the opportunities. Corporate Banking book has achieved a sequential growth of 4% and year-on-year growth of 13%. The growth reported is mainly on account of availments in existing working capital accounts supported by fresh disbursement to existing and new customers. We are planning for a growth of 12% in this segment during the quarter.

Let me conclude by saying that our performance during the quarter is in line with the expectations and business plans. The qualitative changes and transformation processes brought in during the past few years are helping us to scale up our business, improve asset quality and aid increased profitability. I am sure our business numbers will continue this trend in the coming quarter.

Once again, I thank you all for taking time to join this call. I will be glad to respond to any question which you may have. Thank you very much.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Congratulation, sir for very strong performance in balance sheet and profitability. Two questions, one is, if you could help us understand the investments you are planning to make in strengthening the liability franchise as well as the retail asset franchise, there were some changes restructuring related, you did some restructuring of retail business in the last quarter, if you could tell us the progress of that and how that is likely to help you improve your retail assets growth in the future, so these are the two questions I have?

B. Ramesh Babu: Thank you first of all Prashant, you were asking about deposit franchise how we are going to restructure and what is our approach, correct?

Prashant Poddar: You had talked about some branch additions as in last time, so whatever, any, what are you going to support them for getting deposits?

B. Ramesh Babu: There is a multipronged approach we want to take for the deposit, one is branch addition is one part. Last year itself we tried to open 15 branches. Because of the first quarter we had issues, we could finally open 9 branches and this year, we are planning to open another 15 branches including the backlog also, we will try to cover it up and all. As many as branches as possible we will try. The main focus of these branches would be mobilizing the deposits and the smaller level, the loans what all are available, the retail as well as the commercial also to do that and all, but in addition to that, they are making some more efforts, actually internally we are making some more efforts because we have got the approvals for the government and we are trying to focus now on the institutional as well as TASC also. So, we have capacity building also we are doing and all and that is the bet. Our focus will be on the CASA as well as the TASC. These sort of segments will focus on that and we are focusing on our ETB segment because as you know 106 years, the Bank's legacy is there. Up to last year, we didn'tfocus much on these term deposits because the credit growth was not that much and all. Even if you mobilize profusely, you may have to deploy them at lower rates and all, so that is the reason now we have activated all our branches. Even if you look at our renewal percentages also, it is more than 80% in respect of many of our branches. So, that way if you look at it, we are focusing on that particular and senior citizen is another segment where the Bank is pretty strong and this, we are going for that and the channel what all is there, feet on street, other channel other than the branch channel, so we are strengthening the particular channel. Currently, that is there and now we are further strengthening and we are making it active by taking people from the market also. So, that way if we look at it, overall, we feel we will be able to manage. If we look at it, our overall the growth of the deposits in the first quarter on a year-on-year basis is also 11%. Even the current account as well as the savings Bank also, it is more or less much better than what we were doing last year. So, that way what we feel, so with the existing setup and the additional measures what we are going to take, so we will be able to meet the requirement what all is required for the credit growth. Mr. Prashant, just I want to say one more thing, the BC partnerships also, they are actively working on that. Already one business correspondent, so we have worked at technically and technology integration has been completed and we are in dialogue with few more because that will be a light touch model and all. We did not open up full-fledged branches, the BC will have their outlet and their main activity is to mobilize the deposits. So, that way BC also simultaneously we are working on that.

Prashant Poddar: And on the asset side, if you could help us, on the retail asset, we have done some restructuring, the progress?

B. Ramesh Babu: You want to know about restructuring or asset growth?

Prashant Poddar: No sir, you talked about the restructuring, so what is the progress of that? Has the team integrated now?

B. Ramesh Babu: Absolutely, what we are trying to do, so we have created a channel for the Neo for few other products which are going. So, what we are planning actually is Neo is a channel with feet on street. Currently, the home loans, these sort of things and all are being handled by the branches, so now we are planning to have Neo team also used for this purpose currently when they are using the LAP and the same customers they have the requirements of the home loans with other Banks and all, so that way the feet on street currently available with them. We are going to use them also for mobilizing the home loan structure. So, that way home loans will be another focus area, mortgages, and home loans we will try to do. Another focus area would be the gold loan. So, internally we are making some more restructuring we are trying to do it and all. Gold loan will be another focus area because there, the yields will be better as well as NPA is low and already many of our branches they know how to do it and all. So, some more strengthening we are doing and market related practice we are trying to bring. So, that way these mortgages as well as gold loans will be pole areas which are going to take the retail segment forward.

Prashant Poddar: If I can just add one more question sir related to this, so you have been entering into certain partnerships in the last few years, if you can tell us about some of the relevant partnerships which are kind of contributing currently to the growth and any incremental partnerships that you have entered into, not exploring, but entered into?

B. Ramesh Babu: One thing is, last time also we were discussing on the gold loan front, the Rupeek with them we have entered into an arrangement, so with few districts, already we have covered and all. Now, the momentum started getting and all around Rs. 150 crores, something like that. We have got it. Now, further fine tuning the commercials, all these things we are finalizing, with that we are going to take it to the next level. That is with the Rupeek. Likewise, Cholamandalam what we have entered, so for the vehicle financing, these sort of things and all, so this is working well and all, we started getting lot of traction into that one and all and we are in dialogue with few more people. So, once we work on that we would like to do it under the MSME segment for this co-lending and partnerships. On the one side, Amazon is working well, it is going on pretty well that way, that is not an issue and Razorpay also we have entered, so that also started giving some sort of numbers and all. So, that way instead of entering an arrangement for the phase of entering, so we are seeing the value wherever it makes sense because it requires the investment on our part that technology also, so selectively we are entering and all. So, we are in dialogue with few other players for the liabilities also, digital players who can support us and all. So, that way whichever way assets or liabilities, we are in discussions with the players and all, so we will take it forward, Prashant.

Moderator: Thank you. The next question is from the line of Renish Patel from ICICI. Please go ahead.

Renish Patel: Sir, couple of questions, one was on the restructured book, so as per our presentation, our NPA in restructured book is close to Rs. 360 crores and when we look at the demand portions, it is almost 63% of the total restructured book which worked around let us say almost 40% of the book had already slipped into NPA, so when we are projecting this 1.5% kind of slippages, are we factoring our slippages from restructured book as well, right sir?

Mr Natarajan: Actually, you are right, we are including whatever restructured book also, for example, if you see our SMA-1 and SMA-2 that is 30 plus it is still less than 1%. So, it includes all the restructured assets, but basically the restructured assets, whatever you have mentioned, predominantly it is all MSME. So, MSME we started restructuring 2 years before. So, that is right, the delinquency level is slightly higher there, otherwise it was, for example, if you see the corporate side, we don't see any issue there because all the restructuring is predominantly on account of DCCO. So, the projects are going on well. We don't see any problems there, so only thing is the MSME is a little bit challenging, and we are putting our best efforts in clearing it, but one point we have to see that all the whatever loans these are all completely 100% collaterally secured.

B. Ramesh Babu: Renish, one more point just I want to share with you. I think now that further restructuring, COVID, these things are not there, now the inflow will not be there, so that way over a period of time, the denominator will start coming down whereas what all forward flow will be there in the NPA, the numerator will be going. In terms of percentage, if you look at it, maybe 2 years back and now, it looks the percentage is high, but if you look at it overall the movement is there. So, that is quite reasonable, initially itself 1-1/2 years back when we were doing the restructuring we gave an indication. The overall NPA can come around up to 15 to 20%, it can come up and all. So, that is the reason we are working, but whatever it is as our President has mentioned it is within the ambit of the total SMA 30 plus which is 1%, we are working in that way.

Renish Patel: And sir, in current quarter of 1.4 billion of slippages, how much has gone from the restructured book?

B. Ramesh Babu: Rs. 61 crores, in fact, you have seen, suppose if you look at our page number 29, so we have shown that the slippages during the period is Rs. 61 crores. Out of Rs. 139 crores what all slippage is there during the quarter, Rs. 61 crores has come from restructured book.

Renish Patel: And sir, again, maybe kind of a followup of what Prashant was asking on the retail restructuring side, I think sir, the Neo we have been talking since long about having this as separate channel, so in terms of the biggest contribution as on just quarter, sir, what percentage of disbursements are coming from the Neo channels?

B. Ramesh Babu: I can say on an average, the monthly growth is around Rs. 125 crores we can expect, that is what is the run rate going on. Now, we are looking at few more areas which are actually deeper hinterland, so where you need not have a branch and all, but the feet on street can go and do it and all, so that way rather than focusing on the metro center, if you go deeper into the semi-urban and tier 2, tier 3, the business opportunities are much better, so we are going into that one. The 125 that range we are going, so we will see how we will scale it up.

Renish Patel: But sir, in terms of the contribution, any ballpark number would you like to highlight?

B. Ramesh Babu: So, contribution, you mean to say that which way you are saying that?

Renish Patel: So, let us say if we are disbursing Rs. 100 a month, how much of that is coming from this Neo channel?

B. Ramesh Babu: In the quarter, what all advances growth is there, so you can say Rs. 375 crores because 125 is the run rate for the Neo if I say per month the growth, so Rs. 375 crores suppose overall for whole year if you look at it, around Rs. 1.500 crores will come from the Neo channel.

Moderator: Thank you. The next question is from the line of Mahesh M B from Kotak Securities. Please go ahead.

Mahesh M B: Sir, just one question, one is on the, if you look at your portfolio in terms of yield repricing on the loan side, could you just tell us how does it work in the next couple of quarters?

B. Ramesh Babu: If you look at it in the inaugural this thing I was mentioning, this repo is considered working capital straight away we have passed it and one month is already over, next two months, so majority of the other EBLR linked, so we will be passing it on. So, that way there should not be any issue. Here and there, wherever the value of the customers, these things and all we may give a concession and all, but otherwise EBLR is concerned not an issue, but if you look at our cost of funds, currently at 4.09 which is the lowest actually. In the Bank also, if you look at it last 10 years, these sort of lowest cost of funds we didn't find, so with these cost of funds and the other cost remaining more or less stagnant are under control, the MCLR side we will not be able to increase it immediately. So, once we have already increased the rate of interest by 50 basis points for the other deposits, making it more market related compared to peers and all. Our rates are relatively attractive, so with these things, once it kicks in and the cost of deposits goes up and all then automatically, we will translate into MCLR. Overall, if you look at our credit book, 85% is under floating rate. Suppose under the 30-31% is under EBLR, so rest of the 55% is under MCLR, the moment we start increasing the MCLR automatically there also the working capital will get immediately repriced and term loans also will get repriced over a period of time.

J Natarajan: Mahesh, with reference to your point, we already indicated 30% of our loan book is from EBR, so we drill it down further, 33% of our EBR book is towards working capital, so this already is all passed on to them. After the remaining 67% term loan portion, 56% reset is already done. So, what is left out is only 44% of the term loan component of the EBR. That is roughly about Rs. 5,400 crores. We expect in another maximum 4 to 5 months, all these things will be replaced.

Mahesh M B: And on the cost side, in your sense that this margins that you have reported today, is it fair to say that you have at least a tailwind for at least another 2-3 quarters before it starts coming back to where it is today?

B. Ramesh Babu: Yes, absolutely, because the reason is the increase in the cost of deposit totally will not reflect, so over a period of time, it gets reflects, but whereas the MCLR as well as EBLR what all we are changing, working capital we are able to get them straight and within 3 months, the term loan also is coming, so that way we will have the benefit for few quarters definitely.

Mahesh M B: And you don't think spreads have come off because of competition in the market, it is kind of holding up as in you don't?

B. Ramesh Babu: No, now the competition has come down, absolutely that way, so the number of accounts which others are taking have come down drastically because our pricing is also quite market related and last year during COVID what all pressure we were facing and all that currently we are not facing at all.

Mahesh M B: And the second question is, sir, you kind of indicated the gross NPAs will be below 5% this year, we are already at 5.2, you don't seem to have a very large book in terms of stress portfolios, you think this number is extremely conservative here?

B. Ramesh Babu: No, it may be much better, in fact, you see how we were there at 3.3 odd in net NPA and within two quarters we have moved to 1.92, so at the three pronged approach we are actually trying, one is the growth and second thing is aggressively we are working on the NPA reduction and third thing is the provisioning prudentially what all is required, but when I am talking about the gross NPA reduction, there are many big accounts which are stuck with the consortium, NCLT, courts and all, so these more or less at the fag-end, if it clicks as it is we will be able to get it. Otherwise also we will start working and all, below 5% is I will tell you even 4.2 is also below 5%, so that way our focus is to clean up this one and all once and for all we want to get out of this. That is the reason I told net NPA also we are actually aiming to come to around 1% by 23, so that we can put all this to an end. In future, what all we are earning as a PPOP, it should straight flow into net profit. All these leakages, different holds and all should not be there, so that is the entire cleaning of operation is there and the business growth is on one side is there. This is our plan of action.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Sir, similar question to what Mahesh was asking, in terms of the upper credit growth guidance of 15% and we have been talking about maintaining the 3.75% margins, both these can be achieved in tandem, right because you mentioned to the previous participant that growth is not a challenge considering the competitive intensity has come out and the draw downs or balanced transfers that were taking from our book has reduced substantially, is that a fair thought to have?

B. Ramesh Babu: Absolutely, what you said is correct, both will have to go in tandem. Suppose, for the sake of growth if you start compromising on the NIM, the purpose will be difficult, so that is why intention is. If we grow only in a particular segment, so then the question of compression on the NIM comes up and all, but we want to grow under each of the segment. That is the reason the introductory remarks we were giving. Vertical-wise, we have given the guidance and all, so under the vertical also whichever are the products, where we are going to yield better and with lighter capital hit and all, so we are focusing on those lines. That is where these two will go in tandem, 15% as well as 3.75.

Bhavik Dave: And the second question is on the ROA trajectory that we are looking for 1.15-1.2% exit, sir we already reached 1.12 for the quarter, right and we have been maintaining?

B. Ramesh Babu: 1.09.

Bhavik Dave: Yes, 1.09, so my point is, the incremental that will come of whatever 6-7 basis points or 10 basis points that you are expecting will come from lower provisioning or any other levers that you think is possible? And second question is, sir, what is the kind of ROA that we will aim for, right, like 1.1, 1.2 is what we have achieved and historically we have been likely higher than that considering the kind of business that we have been running, do you think that the higher ROA is also possible, may be in FY24-25 is a kind of balance sheet that we are running or do you think 1.2 is?

B. Ramesh Babu: Sorry, Bhavik it got disconnected when we were at 1.1, 1.2, it got disconnected, we are back on the line again.

Bhavik Dave: Sorry, what I was trying to understand is like we have almost reached where we want to, what would be the next target for us as a management team, can we go above 1.2% ROA considering some levers on these or may be operating leverage via OPEX with growth coming back, is there any change of improving about 1.2%, I understand 1.2 is a reasonably good number, but is it possible to improve from there as well?

B. Ramesh Babu: Bhavik, because you have been tracking our Bank you know very well last year before last year, 0.3, 0.35 and all ROA was there, this reaching this 1% itself was a dream, so we were indicating that 23 March we will reach, but concerted effort has been made on every lever of ROA to reach this 1.09. Now, our intention is to see on a sustained basis is 1.09, 1.1 and 1.2 reaching, so let us cross the bridge this year, but we are equally interested in seeing that. Bhavik second point you are asking is by tinkering the provisioning are we going to make the ROA, no intention is not that at all, so all of them will have to go in tandem, the cleaning of thebalance sheet, provisioning, PCR as well as the net NPA reduction, ROA, everything it has to come from that growth as well as other income. Ideally, they must support and intention is also to grow from that and not to have cutting the corner from other side.

Bhavik Dave: And we will continue to grow at 15% if this environment or credit growth is same, right?

B. Ramesh Babu: Absolutely, we are optimistic, so we are pushing the entire team on those lines only.

Moderator: Thank you. The next question is from the line of Jai from B&K Securities. Please go ahead.

Jai: Congrats on a good set of numbers, most of the questions have been answered, just one question sir on your yield transmission, so I think during the call you had mentioned that 50% of the book is EBLR of which working capital you have already passed on the rate hike, so just wanted to understand sir, when you pass on the hike to the borrower, is there a renegotiation on the effective rate to him or by default, he would be saying 40 basis points higher or can he come back and renegotiate the rate, how does it work actually?

B. Ramesh Babu: So, regarding the yield transmission, what I say, so the working capital is concerned straight away we could pass it on, not a problem, transmitted and the term loan is concerned, so there are few cases were depending upon on the relationship, AAA accounts are there, some sort of the negotiation was there. Otherwise, we are taking the total relationship value into account, few cases, we would have agreed, but I can say that majority of the cases, we could pass it on.

Jai: So, by default there is a transmission if?

B. Ramesh Babu: Yes, absolutely, by exception, it will come up to the MD level for giving these sort of things and all, we will evaluate what overall service we are getting and all, all these things we will see. Otherwise routinely, that delegation is not given at the lower level.

Jai: And sir, on your restructuring out of your 1500 restructuring standard account, what is your sense of the default here over the next 12-18 months?

J Natarajan: See, Jai, already we have indicated based on our experience and also study, it is roughly 20% we are expecting, predominantly on the MSME and other sectors, not on the corporate,

B Ramesh Babu: but Jai one more point what I am saying this percentage what we wanted now is it is because dynamic. The reason is so that denominator will be coming down. Many repayments are coming. If you look at this one also, there are close Rs. 26 crores closed and all recovery Rs. 45 crores is there. With all these things, denominator will be coming down, so that way we overall feel that from the original number, the overall the NPA slippages will be around 20% from the overall number. That way we can say. So, tomorrow, suppose it becomes 30%, the denominator comes down to Rs. 1,000 crores, it will be 30% also.

Jai: No, that is okay sir, but let us say your restructuring at the peak was around this level only, right 1600?

B. Ramesh Babu: Correct, 1800 it was there and all, so it is correct, true.

Jai: 400 crores?

B. Ramesh Babu: No, agreed, but in between the inflow was there, from April onwards there is no inflow. Only outflow will be there. Repayments and recoveries will be there and all, so that way, anyhow we have a different model and closer monitoring of these accounts separately unlike we did bundle it with rest of the accounts.

Jai: And your corporate restructuring you have a fair visibility, right that these are viable account, right because usually there is an issue on the corporate level?

B. Ramesh Babu: Correct, I will tell you, many of the accounts because of the DCCO extension they have come and landed here, but the repayments have not yet started whereas there, if you are continuously monitoring them and all, they are on track, but that way we do not foresee any big hit coming from the corporate segment into the restructuring NPA.

Jai: And last question sir, on your OPEX because the common trend from the Banks so far in the last 1-2 quarters has been there is a sharp increase in the operating expenses, staff, and particularly non-staff, how are you looking at your Bank in terms of OPEX growth for the, let us say, next 12-18 months?

B. Ramesh Babu: Yes, CFO is there.

Ramshankar R.: Jai, on the OPEX front, one thing what we have to see the last year because of COVID, the base was low. That is one reason if you compare this it seems in a higher side, other point is also, in certain things actually because of the COVID, rents were negotiated and deferred, moreover the certain expenses because of the growth in business, it cannot be avoided, for example, marketing expenses, advertisement which was not, advertisement which was literally not there in the last, in Q1 of June, so those things again we need to start doing it.

B. Ramesh Babu: Likewise, the DSA, feet on street, all these things because we cannot compromise on that now. If we compromise on that it will take badly on the business.

Ramshankar R.: And accretion of business what we did that should compensate whatever incremental cost which we look at it.

B. Ramesh Babu: Jai, you need to appreciate one more point, when we were struggling at the cost income ratio, everyone used to add 54-55, when are you going to come down to below 50, so we are happy that at least good quarter we are able to bring it down because all rounded we try to do both on the income side and expenses side, 49.68 we could bring it down. Our endeavor is to continue to further improve this one.

Ramshankar R.: One more point also, this number is after considering the depreciation on investments also, so if we exclude the number is 47.78 further lower.

Jai: So, you are saying the endeavor would be to maintain cost flow income at current levels, right at 1Q level?

B. Ramesh Babu: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Dixit Shankar from Emkay Global. Please go ahead.

Dixit Shankar: Sir, regarding this DCCO restructuring, so what is the total amount that forms the DCCO restructuring?

B. Ramesh Babu: Rs. 169 crores something like that. I will just check that number, I hardly recollect, but I will have to see that. Before the call ends, we will let you know.

Dixit Shankar: And in last call, you said that there are two big accounts which got the DCCO extension for the second time, it would be good if you give that number too, how much this flow comes from as well as the total of the restructuring book?

B. Ramesh Babu: Yes, so the corporate side on account of DCCO how much is there we will let you know, but one thing, what I can tell you there are two to three big accounts which are under the hospitality, so what is more or less completed and all, we do not expect any issues in those things and all will come out at the restructuring book. Anyhow, suppose next person is there, I will let you know this number, readily available with me.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Congratulations on the best results in the industry.

B. Ramesh Babu: Thank you.

Praful Kumar: Sir, couple of questions, first on the deposit side, now incrementally we are seeing system growth, loan growth picking up, the deposits are slow to combine, in that background you have done phenomenal work in terms of maintaining and growing deposits as well, how do you maintain and grow deposits given the fact that your branch additions have been slow for the last 1-2 years? That is the first question.

B. Ramesh Babu: Praful, as I was mentioning, branch channel is one of the channels. As we were mentioning last year and before last year, we were going slow on the time deposits because if we raise the money at 5-5.5 and all, the avenues were not there, we were deploying the money in the reverse repo at 3.35, so we were having a negative carry straight of 2% on the time deposit. So, we were lying low on the time deposit without pressing an accelerator button there. So, now that it is back, so all our branches are activated, the existing customers whoever there and all, the branches are going on two fronts they are working, one for the fresh deposits and second thing is the renewal of the existing deposits what all are happening. So, this is one. As I was mentioning that senior citizens is one of our good force, so we are approaching them and that is the reason our rates of interest if you can look at it, compared to our peers, we have slightly kept a shade above, so that we can get our deposits also. So, that way on deposits, our branch channel will bring it and as I was mentioning CASA on the TASC, institutional, we have created a structure now and next 1 or 2 months and all, we will create that structure for the feet on street rest of the things so that channel also will be developing these fresh connections and all, so branches will focus on the time deposits, CASA channel will focus. Together we want to take it forward. That is the reason our intention is to progressively reach CASA 40% also simultaneously having a growth in time deposits. If time deposit starts coming in, automatically CASA will be up. Intentionally, it is not that. So, both in tandem we need to move, 40% for CASA and time deposit, so even if you look at it, the industry on and average grew in deposit by 8% and we grew at 11%. So, we want to maintain that edge and all, we have activated our branches.

Praful Kumar: Sir, second question, given this backdrop on deposits, you are incrementally claiming share, on the advances side, you have done lot of granularization on the corporate side as well as retail, we have done phenomenal work on the digital side, now, is there any visibility today that from 15, you can pedal up to 18% growth over next 2 to 4 quarters in terms of the pipeline building?

B. Ramesh Babu: No, I will tell you, initially till last quarter, we were indicating more or less 12% because last 3 or 4 years, the position was quite sluggish, so with this thing, I felt actually we need to grow progressively rather than going at a breakneck speed because the issues what we had in corporate we do not want to repeat in the retail. So, that is the reason. Consciously looking at the environment, on our own, we have revised the guidance from 12% to 15%, so let us see how it works and all, it is actually working and all, so no one need to ask on our own how we have improved 12 to 15%. The same way we will come forward and all, we will see how much we can grow.

Praful Kumar: No, that is phenomenal sir, I think Bhavik also asked the very relevant question that you have reached 1.1 in terms of ROA and since you are generating enough and more, it is a good time to build pipeline and look at the next level of ROA improvement?

B. Ramesh Babu: We are absolutely on the job, we are on the job and not only particular vertical, we are trying to activate every vertical, because what all contribution comes, a grain of grain is a gain.

Praful Kumar: That is well said, sir. Congratulations and all the best, sir.

B. Ramesh Babu: Thank you very much.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Sunidhi Securities. Please go ahead.

Prashant Kumar: Sir, on the profitability side, obviously the Bank has performed outstanding, just on the balance sheet side, borrowing has increased and 150% year-on-year growth and just wanted to understand that if the deposit is not growing at that level that advances can, the CD ratio can match, so why not we have cut the investment some point of and we can manage because obviously the borrowing must be a high level and investment may have given us a lower yield?

J Natarjan: Whatever investments we are doing absolutely is not from the borrowed funds, so whatever borrowed funds you are seeing on the end of the quarter or the end of the year is on may be one day, two day is against the government securities, the repo borrowings we are doing it. By and large, our CD ratio is something around 83 to 84%. If we are maintaining 84% CD ratio naturally Rs. 3,000-Rs. 4,000 crores surplus funds the Bank will be having it. That is what the LCR is 264%. So, that is what we are investing in the short-dated securities and depending upon the yield we are growing it. So, in that way over a period of time, probably the demand picks up, these are all short-dated securities where easily we can come out from that investment. That is not an issue.

Ramesh Babu: One more point just I want to share with you, it is a transitory. That particular day if you look at it, that number in the borrowings you may be finding 2,611, but currently if you look at it is less than 500. So, that way as I said it is transitory number, on the particular date has come up and all, so it is a question of management of the funds that way, now it is below 500.

J Natarajan: Again, the balance amount in the borrowing, for example, refinanced, we borrow from SIDBI, we borrow from NABARD, these are on lower rates. So, in addition to that, for example, precious metal so whatever we are, because we are doing it only borrowing of the gold, a bullion, so in that way that peer is not a very vanilla borrowing, it comprised of different combinations.

Moderator: Thank you. The next question is from the line of Abhishek Tandon from Bowhead India. Please go ahead.

Abhishek Tandon: What would be the overlap between restructured and the SMA book?

B. Ramesh Babu: Overall, our SMA you would have seen it and it is less than 1%. That includes restructured also.

Abhishek Tandon: That is not I am asking sir, what would be the overlap, what would be restructured book that is also coming in the SMA?

B. Ramesh Babu: I think Rs. 93 crores is there in that. Out of the Rs. 500 crores odd what we have told SMA-30 plus which include some Rs. 40 crores under jewel loan and Rs. 93 under the restructured book also SMA-30 plus itself.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I now hand the conference over to Mr. B. B. Ramesh Babu - MD and CEO for closing comments. Over to you, sir.

B. Ramesh Babu: Thank you very much to everyone of you for the interest you are having and for participating in the conference call. Thank you and good day. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of the Karur Vysya Bank, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.