"Karur Vysya Bank Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Karur Vysya Bank Q4 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 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, Rio. Good afternoon to everyone on the call. On behalf of Spark Capital, I welcome you to the 4Q FY2021 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 Chief Operating Officer – Mr. Natarajan; CFO – Mr. Ramesh Murthy; Company Secretary and Compliance Officer – Mr. Srinivasa Rao.

I now request Mr. Ramesh Babu to take us through the highlights of the quarter gone by, after which we will open the floor for questions. Over to you, sir.

Ramesh Babu: Thank you, Abhinesh. Good morning to the investors and analysts. At the outset, I welcome everyone to this call and thanks for your participation.

We all believed in the hope during the past one year and continue to be hopeful despite the second wave rising across the country on account of COVID. The ingenuity of the mankind resulted in the quicker development of the vaccination by the scientists to safeguard all of us from the pandemic. The pandemic also forced us to think differently, the new normal way of life, maybe it is the work from home or virtual meetings or dealing digitally, all these things they have made us or forced everyone to do on these lines.

The positive point as far as India's COVID is concerned, the affliction curve continues to trend downwards. The reduction in the new cases, the positivity rate and the active cases coupled with the recovery rate and the vaccination what all progressing, there is a lot of hope that the situation will become much better in the days to come.

Due to this ongoing COVID pandemic, as a bank, we too have faced formidable challenges on the personal as well as the business front. Being an essential service, we have continued to deliver uninterrupted services to our customers while taking all necessary precautions to safeguard our staff, their families, and our customers. Employees are the biggest strength of the bank, as the bank like any other good organization, we have done our very best to make sure that our employees are both safe and continue to work with reasonable comfort.

Despite our best efforts, I am sorry to share that we too have suffered casualties amongst our colleagues, I can emphatically state with pride that difficult times did not deter our teams to achieve what all we have planned at the beginning of the year. So I am happy to share that our total business at the end of March 2021 stood at 1,16,098 Crores, a growth of 8% as against a degrowth of 3% during the corresponding period of the previous year, likewise the gross advances excluding IBPC, we have repaid the IBPC what all we had at the end of March 20 and they have grown at 11% and credit growth has come from all verticals and majorly from the retail that too at a lower risk weighted assets percentage.

From our PPT, you can see that improvements in many critical parameters, CASA has moved to 34%, capital adequacy at near 19% and we are able to manage our NIM also more or less flat despite severe pricing pressure on account of liquidity in the market.

PCR has improved, percentage of GNPA and NNPA, credit cost are down due to better collection efficiency. Credit cost and slippages in percentage terms if you look at it, they are the lowest in the last five years. Business per employee has been improving sequentially and you can see that it is the highest in the last ten years. Likewise business per branch also is the highest in the last ten years.

So coming to this operating environment, second wave these sort of things, we will gauge the position closely and we will calibrate our growth in the near-term so post the second wave how we need to go forward. We are open both for the organic as well as inorganic growth and every opportunity what all comes, we will try to capture, and age of the employees always I have said that 35 years and the entire team is now committed and geared up to deliver a sustained growth, of course if the excel environment is conducive.

Our bank has bagged the following awards during the year, clearly receiving a thumbs up from the industry for the digital initiatives. UiPath Automation Excellence Awards for the robotic processing of one of the processes and Confederation of Indian Industry award for Video KYC, DX awards 2020 best price practice category and we have received award from IBA also on the artificial intelligence and the information security.

Now let us come to few specific areas to provide clarity to all of you. First one is the operating profit. As we have been guiding you in the past, our cost of funds has further reduced to 4.99% and this has helped the bank to overcome challenges on account of drop in yield of advances and investments and sustain the NIM at 3.46%. We are confident to maintain this level during the current year.

Operating profit during the quarter had degrown and this is due to, there are four reasons, one is interest reversal of 25 Crores on account of compound interest and simple interest difference in terms of the Supreme Court Judgment and as per the IBA workings. The second one is interest reversal of 15 Crores on interest capitalization account on account of moratorium accounts. Third is Rs 62 Crores towards the wage bill expenses kept in provisions during the last quarter debited to various accounts by write-back of provisions during this quarter, this has not impacted the net profit and fourth is fall in the investment trading profit you can see that from the treasury.

Operating profit during the year has fallen by 19%, mainly on account of onetime wage arrears paid and drop in the service charges restrictions for the first two quarters, but if you can see the subsequent quarters and the March quarter also, more, or less the fee income and all they have come back to the normal, the first two quarters only we had to take a hit not only for us because of the guidelines from government and RBI.

During the current year, we are hopeful of maintaining NIM and normalized income and expenses. However considering uptrend in the movement ofyields, our profit or gains from treasury will be on a lower side, any large recovery from the written-off or fully provided accounts will support our efforts in improving operating profits this year and we are working towards this. As I mentioned last time, we have created a separate credit monitoring department under the leadership of a general manager and we have strengthened that wing, so that at least we need to recover from the written-off as well as the other accounts, so this is a focus area of the bank and we will take it forward very seriously during this year.

Now coming to the establishment expenses. On account of 11th bipartite wage settlement, bank calculated wage arrears of 246 Crores payable to the employees. Bank had expensed 49 Crores up to quarter two of the year 2020 based on estimates. The final impact was calculated and accordingly bank had incurred 197 Crores in quarter three, this last quarter when the con call was there, I had explained it. A sum of 135 Crores was debited to establishment expenses under operational expenses and a sum of 62 Crores was kept in the provision account last quarter. This 62 Crores was written-back and debited to establishment account during quarter four that way it had no impact on the net profit, we clarify that expenses related to wage arrears were fully accounted or provided in quarter three and earlier quarters. Our normal run rate of wage bill including estimated AS 15 provisions for the current year is estimated at around 260 Crores per quarter.

Now coming to the slippages. post Honorable Supreme Court order dated 23rd March 2021, banks continue to classify the advances as per the IRAC norms of the Reserve Bank of India, we have indicated pro forma net slippages of 885 Crores for the period up to December as against that our net slippages during quarter four, even in quarter four some additions are there for the slippages after excluding technical write-off, our net slippages are at Rs740 Crores as against our pro forma net slippages as at the end of December of Rs 885 Crores. This was made possible due to the aggressive collection strategy followed by the bank. Our gross slippages for the whole year was at Rs 959 Crores, which works out to 1.82% of our closing loan book and net slippages other than technical write-off was at Rs 527 Crores, which works out to less than 1% of our loan book. We have made a technical write-off of Rs 598 Crores during the year and after adjusting the technical write-off, our gross and net slippages were negative during the year.

SMA 30-plus balances as at the end of 31st March 2020 was at Rs 861 Crores, which is 1.63% of our loan book, ideally every time up till last quarter we have been providing this information somehow inadvertently, we have missed out that one and all, so we will take care of this one and all, next time onwards this number would be there in the presentation itself. Further details are available in our slide #28 and #29 of our investor presentation.

Now, coming to restructuring. During the quarter, bank has restructured Rs 798 Crores and our overall standard restructured book as of 31st March 2021 was at Rs 957 Crores, which is 1.81% of our loan book, if you can recollect, then a point has come up for discussion during last few quarters, we have broadly indicated that it may be around 2.2% and we are at 1.81% of the loan book because we were relatively conservative and we have seen wherever the scope for the recovery or the unit coming back, those cases we have considered. Further details are placed in slide #30, #32 of our presentation. Reserve Bank of India has issued guidelines for resolution of COVID-19 related stress of individuals, small business and MSME in the month of May and we are in the process of implementing the schemes. So broadly if you look at the revised scheme, last time itself our percentage is at 1.81%, now if at all these people, they come back as per the revised scheme one more year you can give additional moratorium, it will not have a bearing on the amount of restructuring what we are going to do. Now if few more people had come now, we may have to consider those cases, we are actively in touch with all our customers wherever it is required and all to approach us and once we gather that how to go forward, we will see and like last time how we did, this time also judiciously we will see and we will do, somehow we feel that the incremental cases whoever are there only they will be approaching us now, who had the problem in the last one quarter but somehow I feel those who will approach now, the quality of the restructuring cases will be relatively better because they have weathered won COVID 1 and they are able to manage well and COVID 2 had a deeper impact on them that is the reason they are coming but whatever it is we will extend our lending hand for the restructuring whoever approaches us and by taking a judicious call.

Now coming to the provisions, as of 31st December 2020, bank had a provision of Rs 301 Crores towards pro forma NPA and COVID related stress. Bank has utilized its provisions during the quarter in addition to provisions as per IRAC norms, bank has provided a sum of Rs 59 Crores towards certain stress accounts, investment depreciation of Rs 48 Crores is mainly on account of SRs and other debt related instruments. Provision coverage ratio excluding technical write-off has improved to 57.11 as on 31st March 2021 as against 55.80 as on 31st March 2020.

Now coming to the collection efficiency. Our collection efficiency continues to be at about 95% levels during the last quarter of the year 2021 and even in April 2021 too, considering the country wise lockdown, we expect a drop in these levels during the month of May. Anticipating the challenges, we created a separate collection team to closely oversee the stressed assets, particularly SMA 0 and 1. So we felt saying that the efficiency of the collection needs to further go up so we have created a dedicated team now and with the expertise whoever is having and all and they will be using the call center as well as feet on street and the branches, all these they will be using to further strengthen and focus on the collections.

Now coming to the ROA. ROA in our earlier meetings with the investors and analysts, we had indicated that we will try to reach ROA of 1% at the end of financial year 2023, so this is our aim. We are working towards this and bank has worked out a three year strategy to reach 1% plus ROA in the year 2024 and some of the strategic points are shared in our presentation from slide #41 to #49, so we had internal series of discussions with various stake holders because it is not top down approach, the strategy has to come from the bottom, so we had series of discussions we explained them what is the reality, what we need to do, based on that we have brought out some sort of action plans and all, so in a nutshell I can say that while discussing our strategy for not only the current financial year but also the next two to three years, we are very clear that we need to fine tune our offerings across different segments to put customer at the center of any decision, become much more digital and grow our presence in the under-penetrated markets given the advantage of having 54% of our branches in semi-urban and rural areas, hence our strategy is to deliver sustainable and consistent financial performance by providing superior services to our targeted customers.

Now coming to the growth, we have been periodically briefing you on the growth strategy of the bank. As indicated, we are continuously moving towards granular portfolio by diversification of ourlending and the reliance on corporate center is kept at minimum. Our retail loans and small business loans are completely on digital platform and quality of loans under written and digital platform is performing well. Performance of the digital portfolio in the phase of pandemic has demonstrated the robustness of our underwriting and portfolio selections in recent years.

For the time being we have stopped unsecured loans and we will restart after making a study on the market and collections. The digital platform is highly scalable and we will make use of this to expand our assets.

Our jewel loan portfolio, both agriculture and personal segment is doing well and we continue to focus on this during the current year considering the opportunities available. We have kept our LTV at 75% of the personal segment to manage the price risk. Under corporate banking, we continue with our internal per borrower exposure of Rs 125 Crores while on-boarding new corporate or many other existing customers, the exposures of the existing customers also has been brought down to this levels except few certain borrower accounts and few other borrowers.

Coming to the commercial segment. So commercial is a strategic priority for us and we have bet on the strength and future of MSMEs in India, it remains one of the most profitable segments for us even today. We have created specialized business units to oversee this business and we continue to onboard new customers with prudent underwriting standards, our NEO business model is progressing well as planned and they built a loan book of around Rs 1400 Crores at the end of 18-month period, we have plans to expand their area of operations in the current year.

The precious metal department, another initiative taken by the bank, has completed their first full year of operations and during the year, they dealt with 3 tons of gold valued at Rs 1361 Crores and metal loans book at the end of the year was at Rs 310 Crores. The business will scale up further during the current year. The transaction banking group handles supply chain finance, we are offering vendor finance, dealer finance, factoring programs. We are actively participating in the TReDS platform for financing MSME vendors. Total portfolio under this business is at Rs 345 Crores. With these diversified activities, we plan to expand our asset base and we expect a growth of around 12% during the current year because if you look at the first quarter, more or less the immobility of both our staff as well as the customers so it is a deterrent to go out and book the business, so we may have to do rest of the business, most probably from the July onwards or if at all some sort of opening and some freedom comes in the month of June. So that is the reason we have planned this way.

And with these things I have covered all the specific points what all are there and I wish everyone of you safety and good health and hopefully when we meet next time, we will have a much better situation on the pandemic. Let us pray for that and let all of us work hard towards making sure that we save lives and livelihoods. Thank you all. Back to Abhinesh, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Premchandani from UTI. Please go ahead.

Amit Premchandani: If you look at from a ten year perspective, average employee cost per employee has moved from around 5 lakh to 5.25 lakh to around 14 lakhs even after taking into account excluding that one off that you said if you have a 260 Crores per quarter employee cost expense, the average employee cost is 14 lakhs so over a ten year period it is almost 2.7, 2.8 times and if you look at private sector banks, their employee cost per employee has moved from 7 lakhs on an average to 8 to 9 lakhs in this 10 year period and if you look at PSU banks, their employee cost on an average has moved from 6 to 7 lakhs on an average to around 12 lakh on an average, so doubled. So you are worst among the lot in terms of how you manage the employee cost and until you kind of take a handle on this, it is very difficult to see a scenario where your ROA profile will degrow sharply, so what are the steps that you are taking to control this cost.

Ramesh Babu: Yes, Amit in fact we are aware of this one, we have seen that, as you know we are a part, we have signed along with the IBA and we are moving along with them. So now what we did is, in addition to the IBA what all few of the benefits which we have given it, we have rolled them back and progressively we want to work on those lines that is the first step and second thing if you look at it, for the last few years, so we are taking from the market directly, not on the IBA front and directly with the CTC structure and all we are going for that, so progressively the existing teams when they go on retiring, so the pension load also will come down because the fresh, whoever will be coming they will be on the NPS and they will be on a different wage structure than the IBA, so we are in the process of these transition now and we are well aware of this one. Wherever we have the sort of loose ends are there we are trying to contain that and not only that it is a two way, one is on the cost and second thing on the productivity, so that is the reason while immediately with the magic wand you cannot bring down the cost, we are focusing on the productivity also. We have taken many measures during the last quarter by sensitizing all the teams where we are, what we need to do and that is the reason you can find that so as against the degrowth of last year in the advances as well as business levels, we grew by 11% despite the trying conditions during last year. So all of them are geared up, so unfortunately because the second wave of COVID has come, otherwise the trend would have continued so it is a two-pronged approach first, one is to improve the productivity and second side to reduce the cost over a period of time that way we will balance it, we are very well aware of this issue and all, we will handle that.

Natarajan: Yes Amit, in addition to that what I would like to add here, you are right because generally the most of the operations are happening were happening at the branches that is why if you remember bank has implemented two specific projects, one is the centralization project and another is the expenses centralization project, both the projects are now put in place so that is why if you notice our total number of employees, when you compare to the last year something around two hundred numbers has come down. So it is going to be a continuous process and this year, we have also noted a lot of surplus people because of the centralization, now we have just started moving all these people from the operations to sales, so both the numerator as well as the denominator, we have to expand the assets, productivity we have to improve at the same time the cost also should come down, you are right, it is a serious point and we are very closely overseeing this point. I think in the coming quarters or the coming years, you will be in a position to see the good changes in this area Mr. Amit.

Amit Premchandani: Thank you Sir and of this 7746 employees how many are covered under IBA and how many are not covered.

Natarajan: See theCTC concept we have just started two years back, if you see the 90% of our employees are under still under IBA, only during the recent recruitment, now we have completely stopped IBA recruitment wherever we are recruiting for the past two years, so we are doing only on CTC basis. So now the two points we would like to share with you, one is whatever the incremental recruitment we are doing is only a specific job oriented and it will be only on CTC basis completely based on performance and our existing employees also now we are seriously thinking how we can migrate this employees to performance based CTC structure, probably we will be doing some such steps during the current year.

Amit Premchandani: And some of the efficiency of the private sector banks have come from building a proper pyramid structure, what are you doing to ensure that there is a proper pyramid structure in the employee base, this bloating largely occurs because there is hardly any pyramid kind of a structure in the employee base.

Ramesh Babu: Yes, so now there are two aspects, one is marketing and operations, operations is concerned, our president has already told you saying that we are trying to shift it to the back and there all these operations, the team will not be handled by our own team, so we will be going for an outsource team and all that way the cost will be coming down, so likewise if you look at it earlier the lowest level we use to recruit our own people, officers at the IBA cost and all that we have brought it down. Now for the sales it can be a business development both for the assets and liabilities. We are taking from the market. We have created a different structure all together where the salary structure is pretty low and rest of the payment what we are giving is based on the performance that is variable payso which is not as per the IBA, so the lowest level which constitutes the maximum expenses there and all we are trying to set right there, so that the incoming inflow what all is there the cost will come down there.

Amit Premchandani: Sir, just to understand the in terms of number, for example the segment that you spoke about, if you are having an average salary say I do not know the number exactly but company average of 14 lakhs you are replacing them now with what cost per employee.

Ramesh Babu: Now, suppose lower levels of the marketing someone we are taking, a fixed salary of 15000 to 16000 would be there per month and so in addition to that variable what we need to pay we will be paying, so this is what we are working and taking the people.

Amit Premchandani: And you said sir there were around 7935 employees were there last year, and that has gone down but generally how many employees would be affected by the change in the strategy that you just mentioned in terms of outsourcing etc.

Ramesh Babu: No, it is not like that what happens we want to focus on the liabilities now because the liabilities we need to grow when we are trying to go aggressively on the advances front. So for that suppose if we need to go for the marketing and this sort of things and all so the existing people whoever are there we are trying to bring few of them into the marketing and we need to take additional people also for the mobilizing this CASA as well as liabilities so that incremental portion what all comes we will be taking on these lines, currently also around 200 to 300 on a business development we have taken them and rest they will be coming on these lines.

Amit Premchandani: Thank you sir that is it from me. Thanks a lot.

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

Jai Mundhra: Sir the SMA 30-plus number that you had mentioned is 60 Crores, is this the credit data or this is for at the bank level including below 5 Crores number.

Natarajan: No, the 30-plus data is our internal data, talking about 30-plus only know.

Jai Mundhra: Yes. This includes your, I mean below 5 Crore ticket size also right.

Natarajan: See normally we publish the percentage in our presentation, since it was not published we are mentioning it, in a bank, all the portfolio, entire thing we have included under this.

Jai Mundhra: Now sir I mean this data is of March and considering I mean the system as a whole we saw a strong headwinds starting into April and May and apart from the GECL extension, there seems to be no blanket moratorium or any other thing, so do you suspect that in the near-term slippages at least in first half FY2022, could be much higher especially from this pool and even otherwise.

Natarajan: Jai, the first point what we are making is you know that in the history, in the past, our ratio of something around 3.5%, 350 basis points there is a 1 and 2, so now it has come down to something around 1.7 level. You are very right and the market was not as it was in the last quarter and if you see our collection efficiency, in the month of April we are comfortable, the same efficiency was there in the earlier years, but in the May we have to check because completely it is lockdown, we expect that there will be a fall in the collection efficiency level so naturally the SMA 0 level particularly it will start moving up, but the bright point is historically we were 3.5%, now we have come down to 1.7% even if some increase is there, I think we are better than the earlier times that we have to see how it is moving so accordingly we have to take our collection counts.

Jai Mundhra: And if you can quantify the collection efficiency sir for April at least and how much?

Natarajan: For April we are 90 plus so already we have given so the last quarter all the three months it was well above 95 and April also we are able to maintain above 95, only May probably todaye end we will just check how it is behaving.

Jai Mundhra: And the second question is on your commercial plus MSME slippages, so while the number are very much contained, right in a pandemic year, the full year, I mean the core pool is more or less equal to full year, so the full year commercial slippages are around 485-odd Crores, if you can provide some insights sir I mean why these accounts slid, did they not got ECLGS, anything which actually impacted them and not the rest of the portfolio in the commercial because the stress it looks like was a very wide spread.

Ramesh Babu: No, you have to see this way what happens it is a combination of two factors, one is whoever actually in the month of March of 2020, February, March they are on the brink, so naturally because of the moratorium they were maintaining this standstill clause, so those things will have to come because at March also we had this issue and all so that has come and second thing is when sudden shock of the COVID has come, many of them they could not withstand because who are in the borderline case and all, they had to but whatever it is wherever the possibility is there our people they have been talking to them and all getting these things done, but one good thing is in the commercial portfolio, if you look at it so particularly the small business group where majority of these things will come up, so majority of them are collateralized, so the customer or the borrower also will have some sort of an interest to get back to this one or over a period of time we will be able to dispose or the collateral will be able to get back the money, it is a question of time, that is so that way there are two combinations are there one is the previous year's carry over will be there and second thing is the COVID asset what all is there together they have come, so coming to restructuring as I was mentioning, we were very selective as far as restructuring, there were many request, we have rejected many of the cases also and wherever we found saying that this account is going to be back to normalcy, those cases we have done unlike asking everyone and handling that one so this also has created.

Jai Mundhra: So, you think that most of the SME slippages have actually come from the delinquent borrower as of before COVID right and hence..

Ramesh Babu: No, I cannot say that, I cannot quantify the number, it is a combination of these two what I say is because they were there as a borderline cases earlier also so then naturally as it is they are weak when the COVID hit has come, they could not sustain that, so straight away there was a issue so that these are the cases actually there is a sudden fall, in addition to that progressively who could not withstand those things would have added.

Natarajan: But Jai, if you notice the last two quarters for commercial you are talking about we have indicated 475 Crores pro forma slippage and if you see the current quarter there is not much in 485 minus 81 something around 400 Crores, so these are the accounts, as you rightly told these are all accounts already there, probably before COVID also they were suffering and because of this the environment, the position is deteriorated. So there is not much change as far as the commercial is concerned.

Jai Mundhra: No, I am saying the performance is very good sir, I mean despite the pandemic year, if my number is right, given the last year your commercial book also saw similar slippages so Y-o-Y 485 is more or less comparable with the previous year full year slippages. So, it is not a meaningful delta in a way, I was just wanted to understand is there any sector or if we have noticed any underlying theme within the people who have slipped, so that was the question and the third and last question sir is, at retail side if you have a broadcast number how much of your retail home loan borrower would be a salaried/self-employed/let us say government employee etc., anything on the retail side sir, how much is the broad level, how much is salaried and non-salaried side.

Natarajan: Jai if you notice we have started the retail lending only a couple of years back, so the immediate marketing strategy is to encash our existing customer support, generally in our bank profile if you see our existing customer profile, the salaried and self-employed percentage is higher than, I mean, the self-employed percent is higher than the salaries, so accordingly I can say at least a 70% of the home loan portfolio is from the business and the self-employed people and remaining 30% from the salary group.

Ramesh Babu: You see as I was telling earlier so these are the cases which are backed by a collateral at the question of time, so you may not be able to because the position is not conducive, even if you go to the markets you may not be able to dispose off, once maybe after six months or so you will be able to dispose off, you will be able to get back the money, it's the question of only time it can be self-employed, it can be private sector employee, or public sector employee anyone whoever is there so it is a question of time only.

Natarajan: Now but only the point here is they were all existing customers we have an established relationship and maybe five years, six years like that so that is why the customers are known to us, the slippages in these sites will be lower and when compared to the new to bank customers.

Jai Mundhra: Thank you sir. I have few questions, but I will come back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikas Sharda from NT Asset. Please go ahead.

Vikas Sharda: One question on the employee cost even after taking 62 Crores as one off in this quarter for employee cost, it still comes out around 290 Crores which is higher than the previous few quarters run rate and your guidance of 260 Crores for next year per quarter. So could you explain I mean what were the reasons for that?

Natarajan: You are right, see the only point here is this is the AS 15 provisions, it varies depending upon the yield and the discount factor so that is the difference amount but that is why we have given guidance in the coming quarters what would be our normalized establishment expenditure.

Vikas Sharda: And secondly the ROA guidance, if I am not correct you have mentioned for FY2023 or 2024 for clocking 1%.

Ramesh Babu: FY2023 we are aiming for 1% but at the time we were not expecting such a severe second wave but even then we will put in all our efforts to reach 1% by 2023, from 2024 onwards 1 plus on a sustained basis, we want to go forward that is what our strategy and we are internally working on those lines.

Vikas Sharda: Thank you.

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

Anand Dama: My question is also related to the ROAs, you said that you have an aspiration of 1% ROA by FY2023 and more than 1% by FY2024, can you please run down in terms of how the margins will look like, how the fee income will pan out, how your cost to assets look like and your operating profits so that you will have a sustained 1% kind of an ROA going forward.

Ramesh Babu: I will tell you one thing, the last month itself we have conducted our detailed strategy meeting and all so we have prepared our blueprint, here and there some sort of loose ends are there, we need to fix that so once we fix that we will internally discuss with our team and all then we will have an absolute clarity.

Anand Dama: So basically the 1% ROA target and all is still cleared.

Ramesh Babu: Yes, because to understand one thing, so we would have planned many things in the month of December but we never estimated the impact of COVID second wave will be like this and all these things, so now at the end of June once some sort of normalcy restores, we will be knowing what is happening and all so which particular head or parameter is going to take a hit and how we need to compensate where, these things we need to work out then we will have some more clarity rather than talking about that now.

Anand Dama: Yes, but that would largely impact your FY2022 numbers right, I mean that would really impact the FY2022 numbers.

Natarajan: See Anand specific to your question, there are multiple, I mean three or four metrics, as far as our NIM is concerned we have already indicated we are confident and comfortable in maintaining or at least improving the yield, I mean NIM, so why I am saying improving is if you see our yield on investments it is one of the lowest because of the interest rates have bottomed out, consciously we kept this duration very low and whatever the investments we are doing only in the treasury bills on the short duration securities, so all these things it is going to be the repriced now. So, now instead of treasury bills, we are going for higher yielding securities, definitely there will be some improvement in the income on investments. In addition to that in the difficult times, we are able to manage the spread and if you notice our cost of deposit if you notice the March of last year still it is lower than the entire full year, so there will be some benefit will be there, only thing is the competition how are the yield on advances going to impact that we have to check and second point is with regard to the fee income, by and large we are comfortable with the existing cost but definitely there will be some improvement. Only thing is, the question mark is, what is the treasury gain so treasury gain at this moment we are not able to predict, so it depends upon the interest rate movement. Coming to the expenditure, already we have worked out the establishment and other expenditure also bank has taken lot of initiative in reducing this expenditure. If you notice last year also, it is almost flat, so this year also we are planning for the same flat type of expenditure planning we are doing it. So only the silver line is we have a huge 6400 Crores nonperforming assets, which in the last year many things materialized but we are not able to complete the process because the SARFAESI was not there, NCLT was not functioning so couple of accounts definitely it is going to…

Moderator: Participants please stay connected we seem to have lost the line for the management, please stay connected while we reconnect the line for the management. We have the line for the management reconnected over to you sir.

Natarajan: Sorry Anand the line got disconnected, so this is what we are hoping and we do not think all these things materializes but still we are very confident of one because we already indicated last year, our MD has already indicated last year and only what is the change is the strategy documents, which were disclosed in our presentation also. We have done lot of work towards this and our aspiration number is, we need to cross this 1% in 2024 and should sustain and consistently maintain that so that is why the strategy document which we have published.

Ramesh Babu: Yes two more point just I would like to add, one thing is if you see because during 2020-2021 the first two quarters we have lost income on account of maybe ATM or minimum balance all these things which will not be there this year and second thing is the one time hits of the employee cost what all was there has already over that way we will get that benefit also this year and third thing is, now we have geared up our growth for the advances, you would have seen that during last year excluding IBPC, we have grown at 11% because last few years because we were not growing on the advances and other side we were providing profusely for the NPAs, so we had a double whammy, both sides we were taking a hit, now we have set right the momentum and all and people are in line to grow, particularly on to the retail wing, the advances, what all growth that will start giving some income and second side we have created the collections team also, now so that the grip will be there on the slippages and all so the lower provisions this side and growth in income, interest income the other side and the income what we set at fee income and the reduction in the cost as President was mentioning all these are going to contribute towards the ROA and that is what we are planning actually.

Anand Dama: That is the major hit but sir you also not have treasury gains as the way you had it last year.

Ramesh Babu: We did not capture that because we know it may or may not come because of the uncertainty in the market, so we are working is 1% even without reckoning the treasury gains.

Anand Dama: Sir another question is about your resolution pipeline, so as we said that there are some accounts where you are setting a resolution, I am not asking about the timeline, I know it might take about six months or seven months or so but if I have to say that there will be some resolution which will happen in FY2022, then which are those accounts and what is the exposure that we have, if you can just detail out two to three large accounts there.

Natarajan: Anand, I think right now we do not have, but we will share with you offline.

Anand Dama: Sir another thing is about the COVID provision, so how much COVID continuing provision are we sharing on the books now.

Ramesh Babu: No the provision what we have created we had Rs 300 Crore now that the Supreme Court Judgment has come as per the IRAC norms, we will need to classify an account as per NPA, we started doing and what all is required, at the end of March, we have provided that 301 Crores has been utilized and additional provisioning what all is required we have provided, from now onwards, anything stress coming and all from the profit what will be earning and all we will be providing.

Natarajan: Only thing is in addition to the as per the IRAC norms, we already indicated in our presentation, so the additional some Rs 59 Crores provision is kept in the other resources I mean other provisions.

Moderator: Thank you. We take the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Congratulations for a great set of numbers. Sir I just have one question. You said in the opening remarks that there is some remarks on slippage but what I make out is that your gross slippage in this quarter looks like 959 Crores of the whole year and up till last quarter it was around I think something like 59 Crores reported and then there was Rs 885 Crores in pro forma so actually in this quarter slippage is very low, so can you just reconcile because as you mentioned some number like 400 Crores in the opening remarks, which I lost so can you just say it what is the gross slippage you referred.

Natarajan: No, Pranav see in our MDs guidance so what we are trying to mention is there are two points we have told one is about the quarter and another is the whole year. So the whole year what he said is, that 959 Crores was the gross slippages, which has already indicated in the presentation. So what we are trying to say is out of this 959 crore what is the net slippages we have reduced in our reduction, you cannot compare the quarter wise because the same quarter some accounts would have recovered also, so you cannot compare the quarter to this, we have to see the overall year.

Pranav Tendulkar: So, which is 959 that is it.

Natarajan: That is right.

Pranav Tendulkar: That is having better to consider that sir.

Natarajan: Gross slippage is 959 only.

Pranav Tendulkar: Yes, sir also there was a bank in which Tier 2 banks we have invested so that write-off is over.

Natarajan: Yes it is over.

Pranav Tendulkar: Thank you.

Moderator: Thank you. The next question is from the line of Sivakumar K from Unifi Capital. Please go ahead.

Sivakumar K: Sir, my first question is with regards to the tax rate, this quarter we see the tax rate at almost 42% what is the sustainable tax rate that we should assume from FY2022 onwards.

RameshMurthy: Yes, tax rate is slightly higher because last year we had some one-time benefits on retail.

: I will just explain, if you look at, so the DTA benefit sort of skewed the tax rates if you compare Y-on-Y but going ahead if our provisions are down then the tax rates will be 25 plus something.

Sivakumar K: Okay, so the normal tax rate right.

Ramesh Murthy A lot depends on the provisions which we are going to do because that is the only major item of benefit which banks derives from taxation point of view.

Sivakumar K: With regards to your provision coverage ratio, what is the number you will work towards the current 57%, would you try to get to something like 65%, 70% or are you comfortable at a slightly lower number?

Natarajan: Mr. Sivakumar actually the PCR is basically if you work out it is based on the LGD, so when you compare our LGD still we have a very comfortable PCR and what we are internally thinking is at least 60% should be the ideal number that is what we have been working on it.

Sivakumar K: Sir, if that is the case and given the various positive attributes that you are expecting in FY2022, would not we be crossing the ROA of 1% in FY2022 itself assuming that the provisions are around the same lines and things move in the right direction as far as NIA is concerned.

Ramesh Babu: See Sivakumar what I suggest as an opportunity be given by 21 itself I thought of doing 1% but the question is now everything is uncertain now till such time this June the second wave is completed because everyone is immobile now, so how it pans out, no one knows so that is why instead of taking up ROA of 1% now let it be over then from our side we are on the job, we will not wait 23, 22 what all is there and all, every day we will work towards that only, all the levers whoever are there which are going to touch the ROA, we are focusing on each of the lever and we have created owners also for the levers and all and we will work on that to see how we need to reach that number.

Sivakumar K: Sir, one last query on the recoveries part of the business, what are you aiming at for FY2022 in terms of recoveries from GNPAs.

Ramesh Babu: It will be currently too difficult to say because when we are going for the auctions, so hardly we are able to dispose of initially in the first round around 5%, people off late stopped coming also for the auctions, now again you got a revised listing, you reduce the price another 2% to 3% will go because the question is outside the environment is weak, people are conserving the cash, so till such time some clarity comes the security what all you have you will be able to dispose-off, it is not an issue it is a question of time. So now we will not be able to give any guidance at three months or six months, nine months, and all so though there are many cases where advance stage also is there, bigger cases as well as the smaller cases where security is there so it depends on the environment where our ability to dispose-off, otherwise absolutely we are on the job, we have created a separate structure to focus on this all these things from our side we are ready.

Moderator: Thank you. The next question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Sir, I have two, three quick questions, this recovery from written off accounts of 30 Crores this is all the recoveries that we have or these are cash recoveries and then there are other recoveries as well, because if I remember right we have a large gross…

Natarajan:: It is cash recovery, straight cash recovery there is no SR.

Prashant Poddar: Sir my question is you have a 5700 Crores block of which 57%, this is an old number I do not know what is that number right now, the written off block of which 75% is corporate, what I am trying to understand is of that we recovered only 30 Crores in financial year 2021 and only 9 Crores in financial year 2020 is that the right number I am seeing.

Ramesh Prabhu It is actually the amount of cash recovery in technically written-off account which we took at the P&L there could be other recoveries which would have resulted in write-back of provisions or principal reduction.

Prashant Poddar: And could you share that number for financial year 2021.

Ramesh Prabhu Last year it was 9 Crores. Current year it is 30, previous year it is 9 Crores.

Natarajan: Prashant we will give the breakup separately Prashant.

Prashant Poddar: The second question is about your margin guidance, you said that as of now you are stopping to give unsecured loans, will that have any impact and this is only a flow number so which means on the asset side, the impact will not be as much into the mix but what gives you the confidence of net interest margin being maintained at 3.46% and if you could also help us understand how does the bank see the impact as interest rate goes up, I mean is it net positive or is it net negative for your margins.

Ramesh Babu: There are two components Prashant, one thing is so it is not the question of now stopping when the COVID started at the time itself we were skeptical and all, this unsecured we have stopped more or less last year April, May itself, so that is the reason you can find that, overall unsecured for the portfolio is around 1% which comes to around 520 Crores something like that, so this year actually we did not get any incremental benefit on account of unsecured that is the first thing. Second thing if you look at it, we have shifted our focus on the commercial, commercial if you look at it the fresh, particularly the small business group what we call 2 Crores, 5 Crores these sort of cases even under the digital when we are booking, if we look at the stress levels and all, the stress is relatively much lower even if stress is coming for the pre-digital, the yields on account of this is 10.5 plus even today last year what we have booked, the incremental for the commercial is 10.5, so which is backed by 130% or 160% of the collateral, so this is a ticker for us. If the normalcy restores, we have to focus on this particular segment and we have to get that and again when we get the confidence and all, the unsecured portion will also start going up but in the normal course also unsecured personal loans is not a great ticker for us because at a portfolio of 53000 Crores, it is only 500 Crores.

Prashant Poddar: Sir, one last question from my side, question, comment, whatever, I think enough participants have pointed this out the key challenge for the bank is that the number of branches have remain constant for a long time but employee cost have continued to go up, with the help of technology, as you are saying that we are likely to see more employees being used for other productive users as they are not required for core banking as through earlier, could you help us understand from the finance side what are the, I mean, how do you look at these employee cost block of about 260 Crores a quarter, how will that move over next few years because this is the single biggest case advantage of old private sector banks and public sector banks versus private sector banks I would say.

Natarajan: See, there are two points here, one is as far as the existing employees are concerned as you rightly indicated, they are governed by IBA, particularly the AS 15, the pension and other gratuity provisions, this cost is continuously going up so particularly during the last two years because of the drop in the discount rates, it has drastically gone up and second point is, see we have to improve the productivity level so we have only limited role in managing the cost on these employees, whatever for example, 200 number of employees have retired or resigned during the last year, we have not filled it, so we know that there is a surplus people are available because of the centralization in other projects so we are making use of it, in the beginning of the year, so when we did the annual transfer we found that another 200 employees are surplus in the branches, so we have moved the entire 200 employees for the sales side, so once our operations and other projects are settled, still we will be in a position to reduce the number of people working at the branches for operations, we can move towards the sales so once it started happening, definitely we will be online with the other banks whatever you are mentioning it. You know that we are all branch-oriented people, the transactions are happening in the branches that is why we have taken this project but you will be seeing the changes, this transformation is not possible in a very short period of time, it requires some time, but we are all doing it so that is what we are trying to say that in the coming quarters you will see the productivity level as well as the cost.

Prashant Poddar: Sir, quick question on the employee cost block I am saying you would have a clear clarity on how many people are retiring etc. So, how do you see this employee cost block of 260 Crores if we have to forecast two to three years from now, will this number remain largely constant because there will be some retirals, some inflation etc., and therefore they will match out each other, do you think this number can stay at that.

Natarajan: Yes, see numbers may stay because the focus what we are doing is at the branch level, the operation level, we are reducing the number of employees at the same time, especially for exampleNEO, so once the business expands we need to recruit more people, we are trying to enlarge the operation to different states so you need to recruit people, for the precious metal, we just started, now when we are expanding, we record a specialized team, for that we cannot stop the recruitment. What we are trying to say is, the people require for the routine operation will come down substantially; so that other things whatever we are recruiting these are all performance based, therefore there will be a visible result on account of these recruitments so over a period of time we will see the people required for operation will come down whatever people we are adding will directly contribute for the sales so that is the metrics we are working on it.

Prashant Poddar: Thank you sir, thank you very much that is all from my side.

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

Mahesh MB: Sir one question, in slide #28 the deletions of 520 Crores that you have shown on the corporate side can you just kind of give us some color as to what happened there.

Natarajan:So, Mahesh this is mostly from the technically written-off cases, they are recoveries but by and large you can say some 80% is from the write-off cases.

Mahesh MB: From the write-off right.

Natarajan:: Yes, technical write-off because of the age of the account and say fully provided, so we have technically written-off.

Mahesh MB: So there were no resolution here so it just essentially written-off.

Natarajan: Not, much very small corporate recoveries were there but large accounts, no.

Ramesh Babu: Because last year also if you see, Mahesh, in fact I am MD speaking, so last year also if you see many other courts they were not working even the NCLT also, nothing much was moving and all, so that way now the things may move now because many of them are more or less in the brink, so taking it forward so we are pushing these cases also if we can get few big cases, we can crack this year that would be pretty good for us otherwise we are focusing on each of the big cases and how to resolve it.

Mahesh MB: Just one clarification, you have 2000 Crores of NPL book on the corporate side and in addition to the question Anand asked earlier and Prashant, what is the chances that you will see some good recoveries in FY2022.

Ramesh Babu: Yes, if you look at it many of the accounts what we see, the collateral what we have is pretty low. Many of them are under consortium or even if you have multiple banking, also they are big accounts and all so that way if you look at it NCLT cases what all they are getting resolved, so how much of amount we are able to salvage we have seen; so that way we cannot expect too much of recovery from that and all and above all in effect to the consortium cases, we are absolutely dependent on the leader so they have been pushing and we people are talking to them and all, so that way the consortium we are relatively helpless and pushing them and wherever we have the sole security with us under the multiple banking also exclusively given to us, we are proceeding against them, we are trying to salvage that money first of all. So with these backdrop as well as the experience, only until and unless it is an extremely good account, we are not going for a consortium accounts, also we are reduced under corporate also with the learning what we had.

Mahesh MB: Just one clarification here this 2100 Crores of gross NPAs on the corporate side what would be the provision sitting against this if you have it ready now.

Ramesh Babu: We will get you separately because readily I do not have it with me so I will ask my people to pass it on to you.

Mahesh MB: No issue sir thanks a lot.

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

Renish Hareshbhai Bhuva: My questions has been answered. Thank you.

Moderator: Thank you. The next question is from Nihkil Veshna from IDBI. Please go ahead.

Nihkil Veshna: I had just one question what is our capital raising plan for this year or next year.

Ramesh Babu: Now, if you look at our risk weighted percentage has come down to 53% and our capital adequacy ratio is also around 18.98, 0.02 short of 19, so if we do not require capital at this stage, even the stress test also last time what we have done for the COVID 1, so with that also the worst case scenario, four levels we have seen, the worst scenario also we will be able to meet the RBI stipulation and we are above the RBI stipulation by 1% so if suppose under these circumstances, if we raise the capital, we will be putting the capital for a inefficient use so it may not be required but we are gauging continuously, as and when any warranted sort of requirement is there, we will go for that but currently nothing on the cards.

Nihkil Veshna: And are we expecting like more restructuring account.

Ramesh Babu: Restructuring, as I explained earlier initially when the scheme has come we were a bit skeptical, we were discussing, we were thinking of around 2.2% and there will be enough flow of restructuring proposals will be there but internally we took a call saying that instead of entertaining every account which comes to the restructuring, we need to see the intrinsic worth of the account actually, where they will be able to come back onto their feet or not and we try to support only those cases, where just to postpone the case and to put it under the corporate, we took a conscious call not to do that, so that is the reason if you can see that our restructuring percentage has come down to 1.8 and if you see this 1.8 includes up to March 20 pre-COVID what all restructuring was there. If you take during last year period, it is much, much lower than that, so that way if you look at it those who have already gone for restructuring, so they will not come for the restructuring, even if they come, they are at the most ask for an moratorium extension of another one year because it has become four year, it has become five years now, that we will give it, that is not going to impact the amount of restructuring but whereas those who are going to come for fresh for the restructuring incremental; so that already we have been in touch with all the borrowers wherever this requirement is there like how last time we have considered, we will judiciously see and we will evaluate the position, but in the initial address what I was mentioning, the quality of the people those who are going to approach this time would be relatively better because the first wave what all is there, they did not approach even for the restructuring, they are able to manage on their own so that way they have an intrinsic worth as far as their standing is concerned, so if really they come forward and all, we will be able to do so that is where we do not expect a huge flow of restructuring under these, massive surplus and if at all something comes we will handle it, it should not be an issue.

Nihkil Veshna: Any quantum you can say like are we expecting that much.

Ramesh Babu: No, no, quantum we will not be able to say because at a portfolio of 53000 Crores our restructuring portfolio is around 900 Crores which you have seen that that way and if what all have been exhausted, the weak links which are there, those have been exhausted, now a set of people will come, it may be quite marginal, it is not that much material that what we feel.

Nihkil Veshna: Thank you.

Moderator: Thank you. The next question is from the line of Sreesankar from InCred. Please go ahead.

Sreesankar: I have two questions, the first one is a continuation to what Mahesh asked about your corporate NPAs, what is the kind of LGD that we have been seeing in the corporate levels, if you have around 3.5% of NNPA which is on outside range and your biggest problem is the corporate side, so what is the level of LGD that you are expecting there that is the first thing, secondly in the last question on ROA part, you also mentioned about the various strategies, my simple question is what are we doing to improve our underwriting to that extent.

Ramesh Babu: If you look at the corporate, up to last year the major pain was coming from corporate and major provisions were also going for that and this year if you look at it, even during the pandemic year also, the overall numbers if you look at it the corporate number in the quarter four, quarter four is the main quarter where more or less every addition has come because rest of the three quarters standstill clause was there, so you are able to see 209 Crores addition there and later if you look at rest of the pipeline which is weak also so there are few accounts here and there will be there when in the commercial organization naturally some accounts will be there but the big tickets which we were having earlier, those sort of incidents have come down drastically so now COVIDs impact we need to see, so what all is there which are in a manageable position from the normal earnings what we get, unlike early system of chunky accounts, lumpy sort of things there may not be there that is what the indication as far as the SMA book if you look at it.

Now coming to the ROA, underwriting is concerned, in the inaugural remarks itself I told clearly, saying that the digital what the measures what we have taken so it is really supporting us particularly under retail as well as the commercial so we always gauge our book based on pre-digital and post-digital, so whenever our risk management department also works on that what is the stress level under the pre-digital and post-digital, clearly we are able to see what all have been passed to the digital the stress level is absolutely minimal and it is much, much comparable with the market and the best banks whoever they are there, so that way we are reasonably sure what all incremental business we are booking they are relatively safer, under these trying circumstances as COVID also, when the stress level under the digital booking is reasonably good that gives us enough confidence saying that the homework what we have done under the digital is actually delivering now.

Sreesankar: Sir, that is the whole point that I am trying to drive at you mentioned the digital way you are lending has actually seen better in terms of what you call quality of the assets and somewhere I heard that you have mentioned that in the corporate side you are limiting yourself with the maximum 125 Crores exposure correct?

Ramesh Babu: Yes you are right.

Sreesankar: So, now the whole issue for this is what has been our LGDs in corporate because at the end of the day we are provisioning to a great extent though the RBI norms and everything is less, if your decision to the extent of what is the LGD that we are normally seeing at these kind of accounts is when you actually start doing provisioning. So if I look at your entire portfolio of 52000 Crores also that specifically a significant amount of it is actually to the corporate book and if you say that in the corporate book we are not actually going to be get any much of a recovery then their provisioning also will remain high, LGD also will remain high that is what I was trying to understand. On the other side you also mentioned that as the commercial side etc., your yields are 10.5 lakhs, you have better realizations there and we do not see much of a slippages out there, so you do not have much of an issue so which will also help you to go to that ROA target of 1% plus so why that we do not have much slippages in those accounts. So what is the LGDs that we are talking about in your corporate book that you have not answered sir.

Natarajan: Yes, see I will add with MD, see the first of all as far as the underwriting is concerned today all our retail loans and small business banking which we call up to 200 lakhs is completely the BRE based digital platform we have created it is working well and the delinquency is a very, very negligible numbers. What you are telling is right, so with regard to the corporate account whatever we are talking about these are all legacy accounts, so whatever accounts we have on-boarded during the recent years, we have not come across any delinquencies, we are very careful, our underwriting standards are stringent and we have also reduced our threshold limit and all. So, if you talk in terms of LGDs, so the LGD is basically we are talking about the legacy accounts, corporate accounts, you are very right that the LGD will be very high for example 50% or 60% but what we are trying to say is whatever account we have on-boarded so it is all working fine number one and number two with regard to the existing portfolio of whatever the 2114 Crores, roughly more than 70% is already provided number one and in addition to that we have to bifurcate this portfolio into two, one is the consortium accounts where we do not have much to say, the duration also almost four or five years, so we have to wait for something to change, whether it is a bad bank or something we have to wait and as far as the sole bankers are concerned, we have certain large accounts where there are sole banker or multiple banker and specific securities are available, we have the fair chance of recovering this money but only thing is they are all different stages, something in NCLT, something in SARFAESI different stages are there so still all these accounts are minimum of four or five years duration, we expect some sort of recovery will start from this year because last year also there are many accounts in the final stage and because of the operational and other the environmental issues, we were not able to take it forward so this year all these things will start materializing and when we are working out the ROA, we are also hoping on it, for example we have almost 6300 Crores including technical write-off portfolio so where we are expecting we have substantial recovery during this year in fact when we are putting the budget for this team also, very cautiously we have given the targets, we have created a separate team for that and in addition to that for collections we have separated the team so the entire focus on the bank is how to encash this 6300 Crores, how much is possible this year, this is our important agenda for the bank.

Sreesankar: Thank you very much I will take it as per the thing is there off-line.

Moderator: Thank you very much. That was the last question in queue. On behalf of Spark Capital Advisors that concludes the conference. Thank you for joining us, ladies, and gentlemen, you may now disconnect your lines.