



**“Karur Vysya Bank Q4 FY’20 Earning Conference  
Call hosted by Spark Capital Advisors (India)  
Private Limited**

**June 25, 2020**



**MANAGEMENT: MR. J. NATARAJAN – PRESIDENT & CHIEF OPERATING  
OFFICER, KARUR VYSYA BANK  
MR. T. SIVARAMAPRASAD – GENERAL MANAGER &  
CHIEF FINANCIAL OFFICER, KARUR VYSYA BANK  
MR. SRINIVASA RAO – COMPANY SECRETARY, KARUR  
VYSYA BANK**

**MODERATOR: MR. ABHINESH VIJAYARAJ – SPARK CAPITAL  
ADVISORS (INDIA) PRIVATE LIMITED.**



Karur Vysya Bank  
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**Moderator:** Ladies and gentlemen, good day and welcome to Karur Vysya Bank Q4 FY'20 Earning Conference Call hosted by Spark Capital Advisors (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors. Thank you. And over to you, sir.

**Abhinesh Vijayaraj:** Thank you, Janice. Good morning to everyone on the call. On behalf of Spark Capital, I welcome you to the 4QFY'20 Earnings Call of Karur Vysya Bank.

We have with us today the management team of KVB represented by the President and COO -- Mr. Natarajan; General Manager and CFO – Mr. Sivaramaprasad; Company Secretary – Mr. Srinivasa Rao.

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

**J. Natarajan:** Thank you, Abhinesh. Good morning, ladies and gentlemen. I am Natarajan – President and Chief Operating Officer. My colleagues Sivaramaprasad and Mr. Srinivasa Rao and on behalf of the management team, I welcome you all for this Conference Call to Discuss on the Q4 and Financial Year 2020.

It is a testing time for the mankind. Millions of people lost their lives and millions are suffering and are in the process of recovery. And at this moment, we pray our Goddess Gayatri, the presiding deity of the bank to show her blessings for the early recovery of the people who are all suffering.

As far as our bank is concerned, 23 employees are so far impacted because of this virus and three have recovered fully and remaining employees are under treatment and I hope that they will come out at the earliest possible time.

We have been issuing necessary advisories and guidance since the second week of March to take care of the employees as well as the well-being of the family members.

The banking being the essential services, so almost 98% of our branches have been functioning, and wherever the local administration is directing us to close down, so all the ATMs and other channels are functioning.

Immediately in the second week of March, our information technology department and our cyber security team and our operations team, we all discussed and rolled out the business continuity plan and accordingly most of the core officers across the bank they are all working from home. So we have enabled secured remote access facility to all these employees so that the business is usual in the bank.

With regard to the business, during these three months period as many of our officers, managers and employees are working from home, we have taken this opportunity to connect with the customers; we have been calling the customers from the senior management side, we have been calling and talking to virtual meetings and then understanding their safety and the business requirement and even the branch managers are also doing the same thing.

But the silver line today is in terms of the transactions and the channels, during the recent past 10-days, our transactions crossed 1 million. 1.2 million was the highest average transaction pre-COVID period, so this we have already achieved during the past 10-days period indicating that people are trying to live with these pandemics.

We are very careful particularly in the lending side we are taking enough precautions and in the month of March itself we have tightened various underwriting metrics and we have been trying to find out the impact of the industry, our customers to understand this impact.

We are all aware that Reserve Bank of India has been announcing series of measures to support the business enterprises as well as the individuals. With regard to banks, they announced the moratorium of term loan installments to the business enterprises and the individuals as well as the deferment of interest in case of working capital account. So, I need not elaborate this. I think most of you are aware of what is all the scheme. But as far as our bank is concerned as of 21<sup>st</sup> June, 41% of our portfolio in terms of value is under the moratorium. And in fact we allowed this facility from the month of March. So initially the number was slightly higher; 52-53%. We have also advised our branches to brief about what exactly the moratorium, how it is going to affect their cost. All these things have helped us to reduce this number to 41% in terms of the value. RBI has also announced that 10% provision has to be made on the stress account which otherwise would have become NPA as of 31<sup>st</sup> March. So we have worked out this amount to Rs.195 crores. So RBI has advised us to provide 5% in two quarters, but whereas we have provided the integral 10% of Rs.19.5 crores in Q4. And, of course, RBI has also announced other measures like declaration of dividend which my CFO will take you once I complete my speech.

So considering the uncertainty situation and we have been continuously maintaining a very high liquidity coverage ratio, so as we speak, our LCR is more than 400% to ensure for any contingency in an unlikely event whatever is there, we want to be very prepared so that we are keeping a very high liquidity about Rs.6,000 crores of money as additional investments in government securities for the short-term maturities.

Before we go to the Q4 Results, I thought of taking you forward some of the business transformation initiatives which our bank has been doing for the past three years. And, of course, our former M.D. and COO has been briefing you and guiding you on these aspects and also updating in every conference call and meetings. And the senior management under the guidance of the board of directors, we strongly believe that whatever the structural changes and other initiatives, the bank has been taking during the past three years, this is going to take

our bank into the next generation. So that is why the senior management is continuously focusing on these areas. For the benefit of all of you, we have listed out all these other contents in our investor deck so you can see some changes, we want to ensure that whatever new structural changes and new initiatives, we would like to brief you because all these measures are going to take our bank to the next level. So if you see the page #6, we have mentioned about how the business was done in the bank prior to 2018 or 2017. The branch was the only source of business. So today you have the multiple, for we have created a corporate banking unit, we have created a business banking unit and the non-branch distribution and last quarter we were mentioning about the precious metals division which have already set up, the complete infrastructure including technology, people, everything is there. In fact we did some two transactions in the month of March. During the current year, so we will be focusing on these once our logistics service, everything is normalized.

The second slide which talks about what are the new initiatives the bank has taken for example, the corporate credit card. So all these things are listed in the Slide #7.

So in the Slide #8, we are talking about the transaction banking group:

So last year this transaction banking group did a business of big level book size of Rs.370 crores. And because of the uncertainty in the month of February and March, we have slowed down this business. So this time because of the good customer base we have created, so we will be in a position to do much better business in this transaction banking.

So the NEO – Non Branch Distribution, we already briefed you in the earlier meetings. So, you can see in the Q4 the number has slightly come down because many sanctions were not disbursed because from the March second week understanding the market scenario we have slowed down our disbursement. That is why the disbursements are low. But they are taking stock of the situation and once the definite opportunities available so once again they will go for the business. But as far as infrastructure is concerned, people are concerned, everything is put in place.

The next slide talks about the Precious Metals division which I already briefed you. So initially we are planning for Rs.2,000 crores of book size this year. But considering the market on the safety side, we are toning down and then we are planning for Rs.1,000 crores business under this segment. Here the advantage is many of the jewelers are currently banking with the bank. So we are giving the (LCs) Letter of Credit. And if they go to some other bank, they are availing the metal loan. But this has been the long time requirement of our existing customers. So, we are going to ensure our customers are availing the metal loan from our bank.

So we have started the Corporate Credit Card. Initially, the Corporate Credit Card is given to our SME customers and this year we are planning for the Personal Credit Card. But considering the market, we will see the opportune time and then we will go for this business.

But in the meanwhile, we are in the process of creating a suitable infrastructure for the end-to-end digital process.

Slide #12 which we have been talking to you about the robustness of our digital lending:

So, as we speak today, our entire lending system other than the corporate accounts, everything is through the digital lending. So the algorithms are very tightly designed, and the business rule engine is giving the support to the sanctioning authority to take the right decisions. So, for example, all the retail loans are 100% today under this digital lending and all the commercial loans up to Rs.25 crores, everything is under this new digital lending.

Slide 14 speaks about “Analytics.”:

The analytics is giving a lot of support to the business group as well as the collection team. This is a new department which we have created and a lot of cross-selling and upselling is happening in the bank today and there is a lot of cost has been reduced, for example, earlier they used to send SMS to all the customers wherever the installments are due. So today we have the database, we are using our analytics and then understand these are the customers where we need not send SMS every month. So we have cut down that expense. Similarly, many things are happening in the analytical side. And the contact center is one of the brainchild of our former M.D. and CEO. And it is a full-fledged three centers. Now, very effectively these are all functioning.

Slide #15 talks about “Dlite” Mobile App. That also we have been communicating to you. But the information is during the last quarter we have added many features. So every quarter we are going to publish whatever the new features we are adding under this “Dlite” App. Because in the long run what we are planning is we want to make it as a digital banking. So all the retail transactions should happen under this mobile app. I am pleased to say that there are 1.4 million downloads have happened and 1.35 lakhs of accounts are opened without any advertisement, publicity, without any manual involvement of any of the employees. But this year, particularly under this current environment, this app is going to play a very big support to the bank’s CASA growth. So this week onwards, we have started our advertisement campaign and the next three months entire team of the bank is going to concentrate in acquiring the new customers using this Dlite App.

So the next Slide #16 is a very-very important slide, in fact, our former M.D. and CEO has been continuously mentioning this point. So moving towards the granular book, the four years data which we have published in the deck is very clearly indicating, the corporate has moved from 35% to 26%. So other less than Rs.25 crores the granular side of the advances are continuously increasing. We continue to focus on this area.

Slide #17 talks about operation centralization. This is going to give a lot of support to the bank in terms of reducing the cost as well as reducing the number of employees working in the bank. In addition to that, we can mitigate the substantial operations risk by implementing the

operation centralization project. 85% of the project is already completed. In another one month period, we will be completing the 100%. So in the last quarter, we have opened the operations center in Coimbatore with almost 400 seats. So we want to centralize all the back office team, everything at Coimbatore. So already people are working there. It is going to give a lot of support to the bank in terms of reduction of manpower.

So this is what the new initiatives bank has done it. So in addition to that, bank has done a lot of structural changes for example risk culture. Today, the risk culture of the bank is completely redefined. So most of the things are happening on the relationship basis. Now, the relationship is there. but in addition to that, people are aware of the risk, people are aware of what is the CMR, what is the zero score and this is definitely supporting the sanctioning authorities in taking the right decision. In addition to that, to provoke people to improve their marketing abilities, we have been announcing different schemes, (DSR) daily sales report is one of the schemes which we have implemented is very successfully working in the bank. This is all going to help us in moving the operations side of the people to the sales side.

Now, coming back to the Q4:

I am very glad to mention that our capital adequacy ratio at these distressed conditions has improved from 16% to 17.17%. A substantial portion of this is from the tier-1.

And a very important feature I would like to highlight is our cost of deposits. I think many of you are aware that our cost of deposits has been continuously coming down for the past two or three years. But the biggest point is if you have noticed, the last quarter our cost of deposits was at 5.55%, one of the lowest, but the silver line here is during this current year, we have already reduced 30 basis points in the term deposits and 50 basis points in the savings account. So, all these things is going to give a lot of support by reducing the cost. But we are aware that predominantly most of our portfolio is covered under the MCLR. So once our deposit rate is reduced, by default automatically the yields on advances also will come down. So that is why we are taking very calculative steps in ensuring that our aspirational number NIM of 4 to be maintained but we are not very much sure about this year but we will continue to put our efforts to ensure that our aspirational NIM number of 4 will be achieved.

And the second positive point I would like to mention is continuously for the past third year, so we are achieving our operating profit of more than Rs.1,700 crores. In spite of difficult conditions, we have been consistently achieving this Rs.1,700 crores. So it clearly demonstrates the capacity and the strength of the bank in this profitability. So we continue to maintain this. Last year maybe because of the higher treasury profit, we are able to achieve this, but in the coming years we will ensure that this Rs.1,700 crores is maintained.

So another favorable factor I would like to tell you is the net NPA. So the net NPA 100 basis points is reduced when compared to the last year because of the higher provisions and recovery and accordingly our PCR has gone up to 68.90.

In the next Slide #22, it talks about the business profile averages:

So the average business level, there is a reasonable growth in terms of deposits, 6% and in terms of CASA it was 8% and in terms of advances, it was 3%. But end of the period if you notice, there is a flat or 1% we have degrowth in our deposit when compared to the previous year. So the previous year there was a specific situation prevailing at that time. And because of that whatever growth we have achieved up to the month of February, so we lost in the month of March. But this current year things have changed, and we are already getting a lot of term deposits. I think we will be in a position to compensate whatever lost in the month of March during this current year. And the CASA because of the numerator, denominator effect, it has increased from 30% to 31%, but this year the focus for the entire bank will be on the CASA side. Using the digital platform, we want to build up our aspirational number of 35%. We will try to reach at least 32%, 33% this year and next three years we would like to achieve this 35% number.

And with regard to the third-party products, this para banking business, the Slide #25, where we have displayed this number, this year as we are expecting the fall in the NIM, so we are planning to compensate by doing this some non-interest income. So we have onboarded two partners this year, Bajaj Allianz for life and the Star for health insurance. So, we have already had rounds of discussions with all these players. So this year using our digital platform, we would like to enhance our revenue from this business.

Slide #26 talks about the investments:

The substantial revenue has come from this investment portfolio. So this is a very strategic move by the investment department. So you are all aware that two years back we moved our domestic treasury from Karur to Bombay and the FOREX treasury from Chennai to Bombay. Now, we have a full-fledged integrated treasury is placed in Bombay. And there is a very senior person who is handling it. So strategically, we have been taking a lot of good decision. Fortunately, we are going in the right direction and we are able to do a lot of tuning resulting in substantial profit and last year there was a substantial profit and this first quarter also this is very much encouraging. At the same time, so there is no dilution and duration. If you notice, AIF is 1.52 as against last quarter of 1.30 because consciously we have taken slightly the higher maturity. So I think over a period of time, we will be continuously maintaining this.

And with regard to the loan book, I am very happy to mention that we have been consistently growing in the gold loan segment. In the Slide #28, we have placed the number there. So there is a 19% growth and this year this number is going to increase further...there are two reasons for that -- we have completely digitalized the lending process. Earlier it was completely manual. So we have completely done away and then we have implemented digital process. In addition to that, we have implemented a new product wherein the customers one time they come to the bank and pledge the jewels and at the convenient time they can avail the loan using our "Dlite" app. So this is one of the very novel schemes...of course, already couple of

NBFCs have implemented it but still there is a requirement for this product from our customers. And we have launched only two months back. There is a substantial growth in this portfolio. Here also there is an advertisement campaign we have started. Under this pandemic environment, this type of a product will be very helpful for the customers so we are aggressively moving for that. In addition to that, particularly in Tamil Nadu, so there is a sufficient water available, so people are going for second crop so there is a good demand for the jewel loans. In the first quarter so far, we are witnessing a substantial growth in spite of lockdown and other difficult conditions.

Another success story of the bank has been our concentration on the retail side. And you could have noticed for the past three years the retail loan segment is consistently increasing. But because of the current environment, we are completely reviewing the underwriting standards and we have already taken some steps for example, unsecured personal loan we have stopped in the last week of March and April and now we have completely reviewed the underwriting metrics. So for example the bureau score earlier it was 150, so we have increased to 800. Like that some tightening has been done. We want to ensure that people with good future cash flows, the loan should be given. For example, in home loan, earlier it was green channel. Once sanctioning authority approves, it goes for the disbursement. Now we have ensured that the risk management department is eyeballing each and every application to ensure that the future cash flows are certain to the extent possible. So, we are hopeful that even though numbers may not be that much bright this year because at this moment we are not very much sure about how the things will change but we are just seeing wherever the opportunities are available we will take it forward.

If you see the next two pages we have furnished how the portfolio in the retail loan is behaving. And the Slide #33 it talks about the digital SME platform. This also we have been briefing you for the past two or three meetings wherein the number is consistently increasing. Initially, we had the issues the people mindset is not there. Now people are learning and then going for more business. So, in June 169 crores were only disbursed, in September Rs.311 crores, in December it is Rs.419 crores. In March many sanctions we put on hold. To review the sanctions, that is why the number is less. But now people are acute, system is stabilized and our underwriting metrics also suitably we have changed it. We will be in a position to start this aggressively once normalcy is restored.

The next two slides talk about the portfolio, the CMR buckets and all.

And the Slide #36 talks about the corporate book. So as we have been telling all the analysts that our exposure particularly corporate side we are continuously ensuring that it is tapping at the same level. So it is indicating in this slide.

In Slide #37, our gross advances have degrown by 4%. So even though there are a lot of disbursements happened, there are two reasons for that – one is in the IBPC if you notice last year it was around Rs.2,000 crores, this year it is only Rs.800 crores, so Rs.1,200 crores we

have repaid and we have not taken fresh IBPC here. In addition to that, we have completely shut down our warehousing loan portfolio considering the huge risk in the business and also the price volatility is very high, so we thought that it is prudent to stop this business for time being. So accordingly, we lost almost Rs.450 crores to Rs.500 crores in this warehouse loan segment. And if you adjust these things and taking the new disbursements, we have done a good growth under this advances segment.

Next slide up to 43 talks about the different industry wise classifications and the compositions:

Slide #44 is a very important slide. It talks about the slippages:

So the slippages for the entire year it works out to something around 3.3% as against our aspirational number of 1.75%. But the reason for that, we had the stressful corporate book there and we have been continuously trying to recover and reduce this exposure. But I think during the two, three calls, we have been continuously telling that this is an end, in future it will not happen. So we do not want to commit at this moment. But we are very much sure that it will be contained around from 1.75% to 2.5% because of the COVID and the unfavorable market conditions.

The next slide is #45. I was mentioning about the 41% of the portfolio is under the moratorium. The breakup details are furnished here. And if you notice column no.4, where we have furnished the SMA balance as of current date for the SMA-0, 1, 2. So it is roughly 1.23% of our portfolio.

And in page #48, we have given the breakup for the provision wherein we have mentioned COVID-19 relief package we have provided around Rs.47 crores for this quarter. Out of this 19.5% is the 10% which I talked about initially. So the remaining 27.50 we have provided additionally expecting some stressful accounts once our moratorium period stops and regular repayment starts in the month of September.

Further balance sheet analysis, everything, my CFO will be talking to you. So as far as this year is concerned, I have already indicated that we will be focusing more on the liability side, the CASA and term deposits particularly using our digital technology and we have been continuously talking to the operations team and maybe once the normalcy is restored, we will be aggressively going for this.

With regard to advances, we do not want to commit any number because there are uncertainty movements. But the silver line is our jewel loan is growing and the new business initiatives, particularly the transaction banking, the bullion business, the new, everything is going to contribute additional business to the bank. In addition to that, whatever the digital, we are waiting for the opportunity to see what best can be done here. Particularly on the co-lending side, very shortly we are going to have a tie-up with a leading NBFC from Chennai. These are all going to give the additional business for the bank. We are hopeful of reaching 10%, is

aspirational number for the current year. But with a lot of uncertainty, we do not want to commit this number.

As far as the cost is concerned, I already indicated that the cost of deposit is going to play a major role in the profitability of the bank for the current year. So we continue to focus and ensure that the cost of deposit is kept at the low level. So in addition to that we have already worked out a lot of the cost control measures particularly the operations cost, the establishment cost. These all are going to support us in case the market behave unfavorably in the next two quarters.

As regard to the slippages, still we maintain our aspirational number of 1.75% but still the market is not clear, maybe in the month of September, October, November, we will be in a position to understand. But the way we are talking to the customers, we expect there will not be any major issues in terms of the slippages because the only 41% of our entire portfolio is under the moratorium and many customers have expressed their willingness to pay in advance, everyday some transactions are happening. And I was mentioning that we have been connecting with all the customers except some sector in the exports side. We are not able to see or visualize any major impact on the other businesses as of now the way our customers are responding for that.

With regard to provisions, our aspirational number is 70%. We already achieved around 69%. And this year the recovery side, there are many NCLT cases. In the month of March itself, aggressively we are taking steps and because of the environment at that time we are not able to close it. We will try to close these issues now.

So finally, we are aware that we are not able to provide much rewards to the investors, the stakeholders and the senior management is fully aware of it and whatever the transformation which our bank has done, it is going to translate into business during this year. So we will be in a position to demonstrate our strengths in the coming quarters, maybe the numbers will speak in the first quarter and second quarter. So with this assurance, I will conclude my speech.

**Abhinesh Vijayaraj:**

Could you just comment on the moratorium proportion Natarajan ji and how that is trending over the last couple of months?

**J. Natarajan:**

Abhinesh, in the month of March, when we first implemented this moratorium, so the ratio roughly worked out to 53%. Because the numbers are dynamic, so initially customers not fully aware of what exactly the moratorium because we sent an SMS, so the option is given in the SMS, if they click yes/no, that type of things were happening. We were not able to explain properly to the customers. Now, because the people are working from home, we made it a point to talk to these customers and explain the scheme, if it is a term loan, how it is going to impact particularly the interest part, how many months it will go further at the time of maturity. So hearing all these things many customers voluntarily come forward to pay the

amount. So that is why the number is continuously coming down. So it has all surprised us also. It has already reached 41% on 21st June. But every day still this number is coming down.

**Abhinesh Vijayaraj:** So the trend is downwards; 53% in March and 41% currently?

**J. Natarajan:** Yes.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The next question is from the line of Aakash Dattani from HDFC Securities. Please go ahead.

**Aakash Dattani:** My first question is on Slide #39 of your investor presentation. So in your commercial book there, if I look at the six months on book line, there is a spike from 48% to 57% whereas 12-months trend line continues to trend down. So, could you explain how that would occur?

**J. Natarajan:** In the commercial portfolio in that particular quarter, there are some two or three accounts slipped. This is also reflected in the slippages page if you see, the commercial slippage is slightly higher. So because of that there is a movement but still this is I think within the expected lines.

**Aakash Dattani:** But could you sort of explain the divergence between the 6-month line and the 12-month line, how would that occur in terms of the trend?

**T. Sivaramaprasad:** The 12-months cohort and 6-months cohort, the behavioral will be slightly different. Actually 12-months book is far better than the 6-months book. So then what happens in the 12-months generally the year-on-year numbers will be better. So that is why you find that there is a slightly better this thing as far as the commercial in 12-months cohort.

**Aakash Dattani:** Secondly, could you sort of elaborate on the dip that you have seen in the current account balances this quarter?

**J. Natarajan:** No, madam, surprisingly this quarter both current account and savings balances is continuously increasing.

**Aakash Dattani:** On the government's MSME credit guarantee scheme, firstly what proportion of your book would be eligible and how are you as a bank viewing the scheme?

**J. Natarajan:** In terms of the scheme, this is almost like a pre-approved loan, so the customer asked to opt out from the scheme, so accordingly we have used our database, we did the bureau scrubbing and roughly Rs.2,200 crores disbursement we are expecting for the current year if all the customers as per our database are availing this facility. But as we speak, something around Rs.800 crores disbursement has happened out of this Rs.2,200 crores. But surprisingly there is not much enthusiasm from the business enterprises in availing these limits. In spite of the fact that our branch managers are proactively calling the customers and briefing them about the

scheme. So the availment is considerably less. Almost completed one month period. So far we have done only Rs.800 crores.

**Aakash Dattani:** Could you sort of elaborate on the growth in agri loan the bank has seen in this quarter please?

**J. Natarajan:** Predominantly, our agri loan portfolio consist of the loan against jewels. If you see the branch location, substantial portion of the branches are in semi-urban and rural places particularly in the Tamil Nadu and other southern states. Generally it is a practice the farmers used to pledge their jewels and take a loan for agricultural purpose. So predominantly this portfolio consist of a loan against jewels.

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

**Jai Mundhra:** Sir, first in terms of moratorium that you have put out how are you calculating moratorium just to understand so let us say from March, April, May, June, roughly around four months, if one customer has paid two EMIs and has availed moratorium on two or one, have you included that into moratorium or not?

**J. Natarajan:** How we are calculating is if the customer pays all the dues, so the system is removing from the moratorium list. It is not that any partial payment he made, we do not touch that. It will continue under the moratorium.

**Jai Mundhra:** So even if he has skipped one EMI, the system recognize him under moratorium?

**J. Natarajan:** Exactly.

**Jai Mundhra:** For example, in corporate book Rs.5,000 crores worth of loans are under moratorium. Within this would you have a data as to how many corporates have paid let us say two EMIs or at least have started paying in June, so maybe they were not paying in March, April, but at least they have started because now some activities have also opened up, they have also understood what is this, so they have started paying in let us say May, June?

**J. Natarajan:** I do not have the data right now. I think it is a good point. We will come back to you.

**T. Sivaramaprasad:** There are some payments but numbers we do not have. So we will just have a look at that and come back to you.

**Jai Mundhra:** In terms of gross addition to GNPA, is this Rs.422 crores for this quarter or this is some net number?

**T. Sivaramaprasad:** Rs.422 crores is for the current quarter.

**Jai Mundhra:** And this is comparable with last quarter number, right, there is no inter-quarter netting off?

- J. Natarajan:** No.
- Jai Mundhra:** And would you have the recovery upgrade number and write-off number separately for the fourth quarter and for full year?
- T. Sivaramaprasad:** Technical write-off is there around Rs.400 crores and around Rs.90-100 crores is the sale to ARC.
- Jai Mundhra:** Just last two questions; one is the gold loan. So you are seeing a decent growth there. But how much is retail gold loan and how much is agri gold loan and is there a difference in the growth?
- J. Natarajan:** 80% is from agri only.
- T. Sivaramaprasad:** Jai, in page number 29, we have given under retail. Gold loan has improved by around Rs.270 crores year-on-year under the retail.
- J. Natarajan:** Actually, there are three classifications; one is the agri purpose, another is the trade, another is the personal. So 80% of our overall book is for the agriculture, remaining 20% is bifurcated into trade and personal.
- Jai Mundhra:** On M.D., CEO succession, what is the status if you can tell us? I believe the name has gone to RBI. And what is the timeline that you are expecting?
- J. Natarajan:** Jai, the process is in advanced stage, that is what I can say. Maybe at the earliest possible time, we will be in a position to get some information.
- Moderator:** Thank you. The next question is from the line of Renish Patel from ICICI Securities. Please go ahead.
- Renish Patel:** Just a couple of questions. One is on the recovery side. So as per Slide #44, the corporate recovery stands at close to Rs.500 crores in Q4. I am sure bulk of it was due to sale to ARC. So can you please just explain this corporate recovery please?
- T. Sivaramaprasad:** Renish, around Rs.350-odd we have done the technical write-off. So then around Rs.90 crores or something we have sold to ARC. So the balance is a recovery.
- Renish Patel:** On this Rs.90 crores of assets which we have sold to ARC, what is the ultimate write-off we have taken?
- T. Sivaramaprasad:** In the present sale, there is no write-off.
- Renish Patel:** And sir, next question is again on this deposit piece which sir has explained that current account and savings account traction has been good in the month of June. But can you please

explain the 5% sequential decline in the deposit base as on March, is this due to the interest rate cut which we have done it over last six months or this was due to some bulk deposit getting repaid and then we were not able to sort of renew at a higher rate?

**J. Natarajan:** Because of the liquidity position, Renish, we have stopped taking bulk deposits including certificate of deposit for a long time. Particularly in the month of March, we are seeing interest rates are coming down. So even for a regular bulk deposit customer, we have started giving higher interest rate, that is one thing. And in the month of March, particularly in the last fortnight of the March, people are a little bit shaky and they want to have a more liquidity so that the pre-closures were slightly higher but the amount is kept in the current account, savings account like that. But the second week and third week of March, you are aware that there is a specific situation prevailing at the time post the YES Bank issue. There was a certain closure of deposit happened during that time.

**Renish Patel:** Let us say till yesterday the traction has been good directionally on the deposit base.

**J. Natarajan:** Traction has been good, consistently, the portfolio is increasing, and in addition to that our digital "Dlite" app, the number of accounts opening has also increased; currently 200 accounts per day are getting opened without any manual intervention... without any marketing effort. So people are aware of this product and then it is getting opened. So that balances are also building up.

**Renish Patel:** And sir just a last clarification on this CGTMSE scheme wherein you mentioned somewhere close to Rs.2,200 crores of disbursement opportunity. So can you please highlight the total quantum of our book eligible for this? Let us say this Rs.2,200 crores is at the rate of 20% or what per cent of the eligible book?

**T. Sivaramaprasad:** The 20% is an eligible book, Renish.

**J. Natarajan:** Rs.12,000 crores is the eligible book size. So if 20% if we work out, maximum amount I am saying is Rs.2200 crores. But in all cases we are not giving the entire 20%. Some sort of assessment is there. So in case if we give the maximum so the disbursable amount will be Rs.2,300 crores. There are certain gating conditions are there. So if you apply everything, the book comes to something around Rs.12,000-13,000 crores.

**Renish Patel:** Just a last clarification again on the slippage number which you highlighted that our aspiration would be to restrict at 1.75, but in a worst case scenario it can go up to 2.5. Is this the right understanding?

**J. Natarajan:** You are right, Renish.

**Moderator:** Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

**Rakesh Kumar:** Just a few questions – Firstly, sir for this quarter and the year, the credit book has actually contracted and anyway even in the presence of last M.D. sir, there was hardly any growth happening in the credit side. So are we waiting for the new person to join and thereafter we will chalk down our plan and then go ahead, is the bank's board line of thinking right now?

**J. Natarajan:** No, Rakesh, actually it is completely wrong. So the business is as usual in the bank. In fact, in spite of the unfavorable situation prevailing, we have conducted our business plan meet so wherein 60 participants were there. Instead of meeting personally, we had a virtual meeting. We have discussed about the business strategies. We have worked out the target numbers. And normally we measure the performance. We have essentially scorecard metrics. So we have finalized scorecard metrics. So business is as usual but whatever the drop you witness last year is purely because of the drop in the IBPC major and the warehouse loan is a second. So third point is something around Rs.700 crores worth of corporate accounts exposure is reduced voluntarily because you are aware that we put a restriction cap of Rs.125 crores per borrower. So wherever it is coming for the renewal beyond Rs.125 crores, so we express our inability to continue at this level. We are trying to bring down to Rs.125 crores in stages. It cannot happen in a single day. But we permit sometime and then the portfolio will also come down. So Rs.600-700 crores consciously we have reduced. So that is the basic reason for the drop. Otherwise, there are three or four slides we have published here, so it speaks about whatever the disbursements we are doing in each sector, for example, jewel loan historically very highest growth we have achieved, retail segment, yes, again, we have achieved. So only problem is the corporate and commercial. So consciously we are doing it. In fact, we have lost a couple of accounts because of the dilution of security because now we have put a condition that whatever the value of the security, we are putting 15% haircut. So the existing customer is asking more exposure. So his security will be diluted. So we are not accepting it. We are asking him to give more security. In some cases, the customers are not willing for that and then taking their exposure to some other bank. So consciously we allow. But all the portfolio, whether it is a commercial, corporate, there are disbursements happening, even in the first quarter I was mentioning about the jewel loan. We have not stopped our commercial loan. Even though we have tightened our underwriting metrics, it is not our intention to stop. So there are disbursements happening in corporate, disbursements happening in commercial, disbursements happening in the personal segment.

**Rakesh Kumar:** Secondly, our interest rate on retail TD is almost the same what City Union Bank is offering at least for one year and one to two years maturity bracket. So what is the growth in deposit that we are expecting? Second point is that what is the reason for such a drop in current deposit from Q3 to Q4?

**J. Natarajan:** This year I was mentioning you that our main agenda for the current year is strengthening our deposit base particularly on the CASA segment. So something around 12-15% growth we are planning for the current year mostly from the CASA segment.

- T. Sivaramaprasad:** Rakesh ji, whatever the current account there was a dip, everything has been regained in the first week itself. Almost there has been a reasonably very good growth in CASA from 1<sup>st</sup> April onwards.
- Rakesh Kumar:** Do we plan to revise our SB deposit rate like City Union Bank is offering now higher rate on the Rs.10 lakhs and plus ticket size on the saving deposit?
- J. Natarajan:** During the last month, we have reduced our rate from 4% to 3.5% across all the buckets. We have not bifurcated. So there is no plan to increase. But we will see the response and any further reduction is possible, we are planning to do it at least for the lower segment of the balances.
- Moderator:** Thank you. The next question is from the line of Rakesh Kapoor from Kapoor & Co. Please go ahead.
- Rakesh Kapoor:** Sir, firstly, could you give us the detail of what were the slippages and the recovery for this quarter?
- T. Sivaramaprasad:** Slippages were Rs.422 crores on Slide #44 and total reduction is Rs.634 crores, consequentially the gross NPA has come down to Rs.4,213 crores.
- Rakesh Kapoor:** What have been the figure for annualized basis?
- J. Natarajan:** Annualized basis, that is around Rs.1,600 crores is the slippage, that works to around 3.3%. Rs.600 crores is the total addition and total reduction is Rs.1,800 crores on the same Slide #44 it is mentioned.
- Rakesh Kapoor:** But what are we envisaging for this year considering the extraordinary situation and the moratorium part... are you in a position to set any target for this financial year?
- J. Natarajan:** At this moment, we are not able to exactly predict. That is what I have been telling. The good news is only 41% of our portfolio is currently under moratorium. So the remaining 51% hopefully is doing well and we are not expecting any challenges in there. So in this 41% also, we are not able to visualize any major impact here. So that is why our aspirational number of 1.75% is the slippages we are expecting because much of our stress account have already moved to NPA during the past three years. And whatever the incremental business we are doing, it is performing well... the slippages are very low. So considering the fact that maybe in extraordinary situation another 50 basis points or 75 basis points go up from 1.75 to 2.50. So that is what as of now we are having the numbers with us.
- Rakesh Kapoor:** What is our ROA target sir?
- J. Natarajan:** Again, our aspirational number, we have been telling that we are moving towards that number.

- Rakesh Kapoor:** What has been the ROA for this 31<sup>st</sup> March 2020?
- T. Sivaramaprasad:** Quarterly ROA is 0.46 and 12-months ROA is 0.32.
- Moderator:** Thank you. The next question is from the line of Bhavin Dave from Nippon India. Please go ahead.
- Bhavin Dave:** My question is regarding your guidance that you are giving on your slippages. Considering our moratorium book is quite high, even retail we have 34% kind of moratorium number, can you just share with us what gives us the confidence that the slippage ratio will be around 2-2.25%?
- J. Natarajan:** The confidence level is I was mentioning you, for the three months period the entire team and branches have been talking to the customers, even our senior management we are conducting a virtual meeting every week, talking to the customers to understand their current business level and what type of problem they are facing it. So except some couple of sectors, we are not able to see any panic situation like closing down the business or running away and even the individuals wherever we are coming across, they have not lost the jobs as far as our portfolio is concerned. So there will be some challenges. I am not saying that nothing will happen. So, at this moment, we are not able to predict. So wherever we are talking, we are not able to get any major negative signal. That is why we do not want to have any big number but safety side we are telling that 50-75 basis points more than our aspirational number. And one point you have to see that for the past three years we have been suffering because of the delinquency and substantial slippages already happened. So today the portfolio is clean and whatever the incremental book is coming, these are all very-very choosy and then we are very selective. So this is giving a confidence that the problem may not happen beyond 2.5%.
- Bhavin Dave:** Sir, just on your retail moratorium, I wanted to understand, within the Rs.3,700, 3,800-odd crores is the proportion of mortgages or home loans will be very high because...?
- J. Natarajan:** Retail side, yes, predominantly the portfolio consist of home loan.
- Bhavin Dave:** So even in the moratorium book, major proportion will be from home loan customers, right?
- J. Natarajan:** That is right.
- Bhavin Dave:** Just on this home loan front, if we look at one of your charts that you give where nearly 20% of your book is to thin file or new to credit customers. So, are you not worried about these customers because that 20% of your home loan book is reasonably large, so what gives you the comfort on this part of the loan book or what is the behavior?
- J. Natarajan:** See, Bhavin, earlier our retail loans were not a cup of the tea. Only during the past two years, because we want to go for a granular advance, so we are expanding on the retail side. So we have built a very robust underwriting system. We believe on the system. So they are very

choosy, for example, our sanction rate is less than 20%, so 100 applications are sourced. So in that way we are very confident that the portfolio will not go bad that much.

**Bhavin Dave:** Last question sir in the housing Rs.4,500 crores book, what will be the proportion of loans towards customers on the top-5, 6 metro cities or what is the proportion of maybe Tamil Nadu in this housing book of Rs.4,500 crores, any specific...?

**J. Natarajan:** Geographical bifurcation currently we do not have, Bhavin. Probably, a particular we will send it across to you. Roughly, I can say that predominantly our semi-urban and urban branches are doing well in this segment. So if my guess is right, I can say 50%, 60% is from the urban and semi-urban side, remaining 40% is from metro.

**T. Sivaramaprasad:** Anyway, we will check up and comeback to you.

**Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprise. Please go ahead.

**Pranav Tendulkar:** Sir, I just wanted to ask that in terms of your portfolio if we consider that it is much less elastic than a normal bank with respect to rate cuts and whereas you are able to pass deposit rate cuts to the customers. Obviously, regularizing for quarterly fluctuations, can we see a NIM increase going forward because your portfolio structure is moving towards retail which is above 11% yield or 10% yield?

**J. Natarajan:** See, the problem is today substantial portfolio of our loans is the MCLR loans. Once we reduce the deposit rate, so automatically our marginal cost lending rate comes down, #1. And #2 is the external benchmark weight because the repo rates are continuously reduced. So we have linked most of the retail loans with the external benchmark wherever the fixed rate is not there, we have to pass on the benefit to them. That is why our concentration is more on reducing the cost. Ultimately, we want to achieve the aspirational number of 4. So how are we going to achieve? That is what we are working on it. Maybe we are trying to do more on the deposit side than on the interest rate side. So another challenge we envisage is so once the normalcy is restored, big brothers definitely will go for the BTs. So where unless otherwise if you give competitive rates over existing customers, it is very difficult to retain our portfolio. So in that way also we expect that we may have to pass on certain benefits to the existing good customers for the retention.

**Pranav Tendulkar:** So the best case is that NIM will be maintained and growth will go up in retail?

**T. Sivaramaprasad:** Pranav, as president has mentioned, so we have cut the deposit rate and what happens is there will be a lag effect on the cost of deposit side. So then we expect some further reduction unless and otherwise the rates go up because the inflation is going up. In the current scenario we expect the improvement in CASA that has happened from April onwards and also the rate cut on the deposits what has happened in the last two, three months, that would have some effect on the cost of deposits also. All the things together should help the NIM. And also the

commercial book is now growing because of the emergency lending scheme where the rates are reasonably at 9.25%. So that should help us as far as the NIMs are concerned.

**Moderator:** Thank you. The next question is from the line of Sri Karthik Velamakanni from Investec Capital. Please go ahead.

**Sri K Velamakanni:** Sir, I wanted to check the reason for the increase in a tier-1 because we have added only about Rs.235 crores of internal accruals which is 50 basis points. But our tier-1 increase from 14.1 to 15.1, more than 100 bps, what led to this jump?

**T. Sivaramaprasad:** There has been a reduction in the credit risk because of fall in advances. So that has also helped besides profit getting added.

**Sri K Velamakanni:** So what will be your risk weight assets sir currently?

**T. Sivaramaprasad:** Total risk weight is Rs.34,126 crores. I just give the comparison also from the last quarter and also add to what our president has told. Even in December quarter, our SMA 1 and 2 book is around 3.2% which is there in the last year slide of page #23. We have given the 29.2. position because 31<sup>st</sup> March position is not going to exactly reflect because of the moratorium because otherwise the trend we are maintaining is the same level.

**J. Natarajan:** And again, this is not the numbers of 29<sup>th</sup> February. The 29<sup>th</sup> February SMA number is what is the current balance.

**Sri K Velamakanni:** So you are saying that even compared to 29<sup>th</sup> February level it has actually further reduced materially from there?

**J. Natarajan:** See, every month there will be some additions, there will be some deletions. That way only the numbers we maintain. That is what I am saying. Roughly 3% of our portfolio is 30-plus.

**Sri K Velamakanni:** That has come down to almost Rs.600 crores as of current date?

**J. Natarajan:** Exactly.

**Sri K Velamakanni:** The second question I had was with respect to the disclosures on SMA-book. Sir, what would that number be as of December because this is seeming to be very-very low compared to what other banks have reported. So I just wanted to see whether this is a normal level itself or there has been any peculiarity in this number?

**J. Natarajan:** On page #45 Rs.598 crores is not our overall SMA number. So as of 29<sup>th</sup> February, whatever the SMA outstanding current balances it is reflected here, for example, if you see the agriculture, Rs.2,200 crores was mentioned. Predominantly, these are all large jewel loans, these are all closed. So the balances of these accounts whatever the earlier is 72. So it is not a

SMA as of date. So our SMA normally 30-plus we disclose is something around Rs.1,600 crores which comes to 3% of our book.

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

**MB Mahesh:** Just a couple of questions. One is to just add on to the previous question that was earlier asked. This slide essentially says that for example in agriculture I have 2,289 crores, 72 crores of this were the ones which is sitting in SMA-0, 1 and 2. It does not mean that Rs.598 crores is SMA-0, 1 and 2.

**J. Natarajan:** That is right. For example, agriculture loan you are talking about, other than this Rs.72 crores, either it was closed or would have become standard.

**MB Mahesh:** Or they would have been in SMA-0, 1 and 2? They would not have taken moratorium?

**J. Natarajan:** Maybe, because what we have mentioned is only under moratorium.

**MB Mahesh:** On the other Slide #39 where you guys kind of mentioned, the portfolio is seeing substantial improvement in terms of origination over the last four, five years. When do we actually see that is reflecting in slippages because we continue to show roughly about Rs.400-odd crores levels in terms of slippages. Why is that trend not coming here in this line?

**J. Natarajan:** Mahesh, understand we have given the break up in that particular stage where the substantial portion of it is from the corporate. Of course, only silver line is earlier the balance is on triple digit. So today this Rs.252 crores consist of maybe 10 or 12 accounts. That is the reason. But we are seeing some traction as the numbers are coming down. Going forward the slippages will definitely come down. So that is why we are confidently saying that 1.75% normal course and in extraordinary circumstance because of the COVID environment, it may go up to 2.5%.

**MB Mahesh:** What is the outstanding security receipt because if you added substantial numbers this quarter and when I look at Slide #47...?

**J. Natarajan:** There are certain redemptions also. The balances as of 31<sup>st</sup> March is Rs.687 crores.

**MB Mahesh:** What will be the gross value on this or do you have to make any provision again?

**T. Sivaramaprasad:** See, as per the RBI circular, Mahesh, now even on the SRs also, you have to make an aging provision like if the account is in advances, the same way we have to make a provision even in the SR as per the latest guideline, even for that also we had made a provision of around Rs.15 crores in the current quarter. So the total provision for this is around Rs.100 crores plus. So the net will be around another Rs.100 crores minus.

**Moderator:** Thank you. Well, ladies and gentlemen, due to paucity of time, that was the last question for today. I would now like to hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital for his closing comments. Over to you, sir.

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

**T. Sivaramaprasad:** Thank you, Abhinesh.

**J. Natarajan:** Thank you, Abhinesh.

**Moderator:** Thank you. On behalf of Spark Capital Advisors (India) Private Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.