"Karur Vysya Bank
Q2 FY2021Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Karur Vysya Bank Q2 FY2021 Earnings Conference Call hosted by Spark Capital Advisors (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors. Thank you. And over to you Sir!

Abhinesh Vijayaraj: Thank you Steven. Good morning to everyone on the call. On behalf of Spark Capital, I welcome you to the 2Q 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 COO, 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. Ladies and gentlemen good morning to all of you. First of all a big thanks from me and the entire KVB team for joining the call all of you. Our power point presentation has already been uploaded in the investors' deck and all of you would have seen it also, so before I start let me introduce our new CFO, Mr. Ramesh Murthy who has just reported today and incidentally he was the CRO of the bank for more than two years that is why he knows in and out of the bank so the comfort and continuity would be continued that way, so Ramesh Murthy is with me here and along with my President.

Now coming back to the today's discussion, I will just give you an update on the COVID what is happening in the activity of the branches, so branches if you look at it more or less all the branches are functioning barring local restrictions if at all are imposed by the states otherwise all branches started functioning normally. Our business continuity plan, which was there actually is the attrition for us to test and it worked so well and everything is going on as per the business continuity plan and the staff members as well as the customers also the adaption has happened for the new normal and everything is going on now, so transaction levels also if you look at it, so pre-COVID levels though the percentage to physical to digital have regional numbers have gone up, so otherwise the levels have come back to normalcy pre-COVID.

Now coming back to the business growth, business growth during the quarter is more or less on the expected lines because we know it progressively this unlock is happening so actually the last year numbers may not come up straightaway, but as expected the numbers are growing any how I will discuss those numbers also with you. The growth momentum when we saw month-on-month is continuing though at a lower pace compared to normal pace, but month-on-month the progress is there. So P&L is concerned all of you would have analyzed because the weekend we have uploaded on Friday itself weekend also you would have seen that, that is why I will keep my narration brief because the figures and presentation is already with you.

If you look at the major points for the P&L so three points we can think of, one is our cost of deposits has come down to 5.06 one of the lowest amongst other banks if you look at it and that has helped us a lot in improving our NIMs as well as to maintain the NIMs and second thing the provisioning requirement also lot of work has been done by the bank last two years for recognizing the pain and that has all helped us and now during this COVID period also all our staff members were continuously in touch with the customers so that way it helped us to seek what the position of pain and when actually this moratorium was listed, the recovery, followup, all these things have helped us so that is why the pain has come down there and lower provisioning that has helped us and third thing is the treasury income though not at the pace what we saw in the month of June so treasury income these three factors have helped us a lot during this P&L of this year. If we look at the NII is consistent, cost and yields are moving in a positive graph so you can see that in slide #17 and #18. Other operating expenses are concerned so they have come down this quarter if you look at it year-on-year also because of the restrictions on the travel and tighter control on expenses and we are seeing what needs to be done, what need not be done with so much of homework so we are able to bring down the expenses and no planned expenses during the remaining year also.

Coming to staff expenses they are 4% lower than last year, so bipartite is concerned right from the beginning bank has been seeing the ad-hoc payment every month so that way that burden will not be there if at all the bipartite is settled and the difference what all is there that only needs to be taken care of that also we have already made some provision it will not take a big hit on the P&L. Now above developments when we see this has really helped us to have a fairly stable operating profit and which has given us also a sufficient headroom for the provisioning so now coming to other ratios, PCR, GNPA, NNPA, all these have helped us because we are comfortable, we have frontloaded a part of the provision of the next quarter also during this quarter so that is the reason the ratios you can see are quite comfortable so 7.99, 2.99, all these you can see that.

Year-on-year as well as quarter-on-quarter all numbers if you see there is improvement. Liability if you come back to liability, liability front is concerned, we have focused much on the CASA, at one point bank used to be at 28% CASA slowly it has moved to 34% and this year particularly this financial year both current account as well as savings bank both grew well and now the CASA of the bank is around 34%, we will continue this trend and we will focus on this and SB accounts we were looking at it number of accounts, current account and savings bank, the pre-COVID last September the number of accounts how many we were opening more or less the same numbers we have reached during September 2020 also so which implies that the normalcy is slowly restoring and people are coming back for opening rest of the transactions.

Our focus was more on a granular variation of the time deposits portfolio. So below 2 Crores portfolio we would have seen that there is a growth of 2% whereas above 2 Crores is 28% degrowth during the year, during the financial year not year-on-year so YTD if you look at it so that way what we thought even if there is a shock so bank should be able to absorb the shock easily we are focusing more on the lower value below 2 Crores deposits than higher value, there were many requests for offering a higher rate for the bulk deposits so we are not even considering so that way we wanted to maintain granular portfolio and cost of deposits also is on minimum. So retail portfolio that way if you look at it at a strong footing is there, they are entrenched and despite these lower rates the customer loyalty to brand KVB keeps us strong and that has been evidenced both in the CASA as well as savings bank and granular smaller time deposits, so we will continue our efforts and as I said the traction will continue for the rest of the year too.

Coming to the treasury operations, treasury is a significant contributor for the profitability of the bank during last few quarters so this trend may or may not continue because the interest rate regime more or less has become flat now and they may not find a lower interest rate regime than this now so, but whatever it is other things will start gearing up now, the income will come back because the processing, other ATM charges, all these things will come up, so we will overall work to maintain the operating profit so even if there is a dip in the treasury income this quarter if you look at the investment income treasury it is 120 Crores, but overall if you look at it during the year the treasury income will be more than the last year.

Coming to the capital adequacy ratio it still remains pretty high at 18.41 and out of that CET itself is about 16% though it is much, much higher than the mandatory requirement. LCR also if you look at it remains higher than the prescribed showing the inherent strength of the bank so I do not think any further elaboration is required on this balance sheet front so that anyhow we discussed with all the questions and all we will respond.

Let us come to the credit portfolio, so let me go straight to each of the deals. If you look at our numbers the jewel loan portfolio has crossed 11000 Crores a new high and we have shown also the graph how we grow where we started 1000 Crores, where we are at 11000 Crores all these have been shown now. The digital initiatives which we have started particularly for the jewel loan and others are bearing fruit and quicker TAT is helping us to service to more number of customers and clients. So the journey for the jewel loan will continue because the demand is there so we are very conservative as far as the LTV is concerned so more or less it is below 75 that way we are maintaining sufficient cushion for these things and all and now coming to emergency credit line, already we have disbursed 1600 Crores so 62% of our customers have availed it, if we look at rest of the 38% the demand will be muted because each of the customer we have approached and 38% are more or less comfortable they do not want it that adds comfort to us also because these people they are self sufficient so they can manage their show, so if you look at these emergency credit 1600 also so it may not reflect directly in the business growth because the interest arbitrage is only at 8.2% many of them they have availed to reduce their interest cost, their normal interest cost is more than that, they have taken that and they have created the existing outstanding, so this 1600 Crores straight it will not reflect in the numbers what we see in the commercial segment or CIG segment growth. Retail if you look at it the logins have started and inquiries are there particularly in the home loans as well as vehicle loans so we are confident that clearly the numbers will pickup, but we are careful and we are selective in the selection of the borrowers and main primary focus is the ability of the borrower is to service the loan is cash flow because now lot of uncertainty is there we are looking at those things and wherever we are confident we are actually entertaining those requests. The digital platform what bank has created last two years back so using the surrogate data for validating the information given by the borrower that is really helping us to filter these borrowers and the quality of the portfolio will improve that way much better.

Coming to the CIG and commercial segment CIG is above 25 Crores, commercial loans are below 25 Crores, these two segments if you look at it that will continue, but as I said the circumstances are difficult now, uncertainty is there, we are selective in actually taking the exposure, on the other hand if you look at it the demand also is weak, so as long as demand is weak so we do not want to push and create further problems for the bank so as and when a good proposal is there we would like to go particularly this quarter we will look at deeply what are the opportunities available for us. So if we had a IBPC last year 1325 Crores and that was mainly for the liquidity deployment measure we have use it last year, so now if you look at it IBPC totally has been paid off so nothing is there in the books the real book what all we have is an absolute organic growth only, if we exclude the IBPC and if you look at the numbers the year-on-year growth comes to 5%, which is quite decent and reasonable so though we cannot factor the 1600 Crores straight GECL into the credit because as I said something has been netted off.

So let us come to the main point what all of you must be anxious to hear that is moratorium and standstill on account of Supreme Court there is an elephant in the room. So we have already given a slide there in page number 19 if you look at it we have shown the collection efficiency there so there what we have shown is the book of the term loan book and as well as cash credit for the moratorium has shown, but the demand out of that book is lower than that and the percentages what we have mentioned out of the demand what we have raised not out of the total book because something is not yet due. So if you look at it the numbers overall they are quite encouraging that is much, much better than what we estimated. Initially when we were discussing with the borrowers before the moratorium we were a bit skeptical saying that whether these numbers we will be able to reach or not, but whenever actually we started on September 1, 2020 all the people including the feet on the street, the contact centers, branches, all of them they were actually following us, the numbers what we have got is pretty good that way commercial as well as CIG if you look at it above 91% agriculture is a very small portfolio that is not a big issue. If you look at the retail segment personal segment also so this has come to around 87%, but overall portfolio if you look at it moratorium and non-moratorium it is around 95% it crosses so that is quite satisfaction there because during October non-moratorium also is doing pretty well so we do not visualize much issues maybe there in this book because people started responding and paying this one.

Now interactions are continuing with all the borrowers at all levels as I said FITL is concerned 70% of customers have opted and majority of them are honoring their commitments. Also if you look at the repayment also majority of the repayment is starting from October then from January so people did take a holiday repayment holiday for three months so that is good for us so that we will be able to know their ability to pay now itself so that is also working well.

Now COVID-19 you would have seen we have started providing from March onwards, March we have provided something, June we have provided and again 100 Crores has been provided during this quarter also, which comes to overall 220 Crores so this will take care of the NPAs, which are going to come up because maybe on account of Supreme Court dispensation 32 Crores so that even if that becomes another 5 Crores we may have to provide and even if we have to do some restructuring some slippages maybe there on account of COVID, all these things keeping in mind this 220 Crores profusely we thought that liberally we had to provide and we have kept it for a rainy day so as it is we have not touched that amount and we will see how it pans out because we do not have a trend line as far as the quarter and next quarter is concerned so compared saying that where we will be in this quarter so it unfolds we need to see, but efforts continuously to track and monitor will continue from our side.

Coming to the restructuring part if you look at it the demand till date is quite tepid, so we have approached many other borrowers who have some sort of stress if they feel something like that, but we are very clear in our understanding, those who are affected by the COVID only we will consider, suppose even if we consider the cash flows will not be there to support and we are just postponing the problems, we have told all our operating teams not to entertain that, intention is not to postpone the problem recognize the problem now, extend a helping hand, if we are able to get them back into normalcy it is our duty we will support, so that way we are educating the borrowers also the pros and cons of the restructuring, incidentally what has happened few of the retail segment borrowers though initially they have opted for the restructuring when they knew saying that they need to pay interest the moratorium later they had to pay so they have withdrew and they said that we will arrange for the funds and all we will pay, otherwise there is a misunderstanding amongst the other borrowers saying that there will be waiver, all these things and all, so when it is clarified so the demand is tepid, but whatever it is we will keep our fingers crossed, we will see how it works during this quarter because up to December end people can give their request so we will see that, but initial discussions with the borrowers as well as our operating teams if we look at it we feel the restructuring book maybe around 2.5 of the book it can be so we will be able to do that, but if something comes up and crops up suddenly we will not be able to say as I said earlier there is no trend line for this, we have the estimates what we had from the feedback received from our own teams. Now Supreme Court directive NPA addition what all come as I said that also has taken care of and that will have no impact in the December quarter because already we have taken care of that one.

Now that moratorium has come to an end we are not looking at moratorium, non-moratorium these things because everything every rupee what all is due we need to recover so that way only we are proceeding that is the reason we thought that let us spell out what are the numbers in the presentation itself. As I said overall book is much, much better than what we have shown there, so the NPA numbers are low during the quarter and we continue our practice providing higher than what all is required mandatory so that the balance sheet becomes more comfortable and stronger. So business growth is concerned we foresee pickup happening gradually because the capacity utilization and a few of the industries when we look at it, it has come to 60% to 75% and once the question is expansion these things come up once people cross the 100% of utilization or 90%, 80% something like that so the stage has not yet come, the capacity itself people need to utilize, but we are in the market looking at all opportunity, every good opportunity we will try to encash, we have the credit appetite, digital platform is in place and liquidity is there with us and people are geared up now, looking into the market in all these segments so both under agriculture, retail, commercial as well as corporate, all segments we are looking for opportunities anything coming up we will do that, so that is how we are proceeding. So this is broadly from my side and above all if any other questions are there from any one of you we will take it and all and the presentation is already there with you and we will response to the queries. Thank you. Thank you Mr. Abhinesh.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rakesh Kumar from Systematix Shares. Please go ahead.

Rakesh Kumar: Sir the first question also you mentioned in your opening remark FITL number as a proportion looking pretty high so what is the current behavior of the customers and how you are approaching the situation, first question, second question was with respect to the gold loan, gold loan as a proportion has become pretty high now more than 20% and what is the outer limit of that composition we have in mind internally, so these two questions I have? Thank you.

Ramesh Babu: First question is regarding FITL though we need to see whether people actually need or do not require, now what happens when this provision is there few of them they have used it for the sake of using because they do not know what is the future how it pans out so that is the reason when option is there they have used it for keeping a buffer for the future. So if we look at the recovery if we look at it more or less the recovery majority is coming up even in the cases where FITL has been granted so that way we did not find much stress in those accounts. Coming to the jewel loan is concerned, jewel loan RBI has given a dispensation of 90% for the personal segment so still we are very conservative and we have not crossed, overall if we look at including the agriculture segment as well as the retail segment of the jewel loan our LTV is below 75%, so that way even if you have to go for a margin call 25% margin is quite sufficient to take care of these risks because if we are at 80% to 90% then we may get suffocated, so that is why we are continuously looking at what are the positions every day we see the rate and we monitor and based on that how we need to go ahead we are looking at it. Another great advantage I will tell you, so suppose few loans are there more than one year or one-and-a-half years these cases when the rates were low actually gold rates were low you have financed them the value of the gold has gone up so that is the reason here the LTV is under control because the gold rates have gone up so we feel that as it is we do not have much issues and risks as far as the portfolio is concerned now coming to the risk appetite for this and all so we are working on this actually 21% is quite okay so but we will look at it how we modify the position and all so our risk with our risk management department we are also working on that last week itself we thought that so we will finalize the number we will go to the Board and then we will fix some number there. If we look at the FITL efficiency if you look at it also collection efficiency for September if we look at the commercial and corporate, which includes FITL customers commercial is 98% and corporate is 91%, if we look at the numbers of the corporate also for the restructuring those who are wanting not even two digit number has come all of them are below 10 only and no money request have come from corporate also for restructuring so that way if you look at it the portfolio of the corporate where it has already cleaned up it is that we are feeling the sense of that and the restructuring demands are bare minimum there.

Rakesh Kumar: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Kumar Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir if you can explain your portfolio where exactly how much of gold loan is sitting in the various subsegments that you classify, is it a working capital loan or a term loan, is it a bullet payment structure or it is a EMI structure and what is the average duration of the loan book and what are the risk rate of the loan book?

Ramesh Babu: No, that is a granular work we will have to advise it separately, but if you look at the overall jewel loan book if you look at it so 11000 Crores if you look at it major portion is from the agriculture segment it is coming and 95% of the portfolio is from agriculture and rest is on the retail segment, retail segment off late last one year only the focus is there otherwise majority is coming from the agriculture segment only, that sort of granular work what all is there so we have not yet worked on those lines and all because overall we are monitoring based on the LTV, if LTV is there we are going for a margin call and we are not allowing them and when we go for the auctions also auctions are happening pretty well as you **(audio cut) 26:33** Tamil Nadu, Andhra Pradesh and Telangana, the gold loan portfolio also majority in these three states only, other than this core areas our gold loan portfolio is minimal so that way this problem of having a proper control on the portfolio is low so we are mainly focusing on the LTV and how we are going to do the pricing at which the per gram rate we are going to do it and all that way we are focusing.

Natarajan: Mr. Amit in addition to our MD’s guidance on this jewel loan portfolio as indicated predominantly it is basically agricultural and there is no monthly payment, it is completely bullet payment because we are saying agricultural finance basically it is assessed based on the scale of finance so that is why most of the loans are given as a bullet payment.

Amit Premchandani: Even interest is paid at the end of the term?

Natarajan: Yes correct.

Amit Premchandani: What is the average interest rate, lending rates for the gold loan portfolio and the average risk weight?

Ramesh Babu: Agriculture is concerned 8.5% so the risk weight is 0 because the risk weight is 0 capital also is 0 and coming to the personal segment retail segment is concerned it is between the 9% to 9.5% it ranges that way so these are the two segments where we have the gold loan portfolio.

Amit Premchandani: Given that the lending yields are much lower than the average yield for you?

Ramesh Babu: No, it is like that you need to see suppose if this amount let us say if you need to invest somewhere else when the credit growth and demand is tepid and the good opportunities are not coming this amount you have to invest at 3.35 something like that in the reverse repo and if we are getting at 8.5%, 5% straight on that amount is getting so it is straightaway aiding to the bottomline so we need to see the opportunity cost and opportunity gain in this so it is a better way once suppose other opportunities come you are able to finance at 10%, 10.5% and all then definitely we can reduce here, it is a question where anytime you want to reduce the portfolio you can reduce it so people come in today you can tell them saying that my rate is only per gram if other rate is much better than that people move out like wise rate of interest is higher for us they will move out so this is an area where there is no commitment what all we have given that will be through and on to date it will be paid, so just to encash the opportunity what all we have so we maybe going once the market improves demand is there we may shift the gear.

Amit Premchandani: How do you classify your loan as an agri loan or retail loan, why this gold loan is an agri loan what is the basis of classification?

Ramesh Babu: Basically the jewel loan portfolio is predominantly in the rural unbanked rural and semi-urban places, in the metro we do not do any agricultural jewel loans and we will basically finance to the agriculturalist for their farming activities and the assessment is done based on the landholding either leasehold or own lands and there is a very specific guidance given by the local lead bank above the scale of finance so based on that if assessment is done only for security we are taking the jewels for that purpose and again predominantly the areas where we are working that is semi-urban and rural places our main competitors are public sector banks, so public sector banks the lending rates they are doing at less than 8% so that itself because of our efficiency and turnaround time we are able to get a reasonable growth in this segment.

Amit Premchandani: Thank you Sir. Just a question on the cost to asset ratio if you look at about the 10-year period Karur Vysya Bank cost to asset has steadily moved up while topline have been broadly flattish so what are you doing to ensure that the cost to asset moves down now given that, that has been a key contributor to ROA decline?

Ramesh Babu: Now what happens there are other segments like commercial, which provides better yield to us that is below 25 Crores so this is an area where we have a better pricing power is there so we are trying to grow there so what all gaps are there we are fixing that and which are the products where actually we can push that markets these things we have worked out now and once the position improves we want to grow more on the commercial where the yields are better so that is one part. Second thing regarding the gold loans also what we are planning the retail segment offers a better opportunity with a higher realization so we are working on these models so to shift the same gold loan portfolio a part of that into the retail segment where the yields will be better so if you look at that way overall the yields will improve and all these ratios will improve.

Amit Premchandani: Any clarity on ESOP for the top management?

Ramesh Babu: Yes, ESOP is concerned last time in the June also the question was asked I will be clear. As far as the MDs remuneration is concerned already the NRC as well as Board they have recommended to Reserve Bank of India two components fixed component as well as variable component, variable component has a huge amount of ESOP also there, so Reserve Bank of India has cleared the fixed component and variable component is concerned they said that not only for our bank all other banks they said that a call will be taken they will be giving it, so that way from the Board side nothing is there actually what all has to be done everything has been done and now it is with RBI not only for our bank all other private sector banks also they will be clearing in due course that is regarding for the MD and second is concerned as it is we have two ESOP schemes are there already earlier we have been giving it and all so now we will think we will have to formularize something and all we will go back to the Board for the top management what we need to do so we are mulling on that particular idea so we are working on that so once we have some sort of thoughts on that we will go back to the Board on that.

Amit Premchandani: Finally if I may ask any guidance on the provision front for this year and next year?

Ramesh Babu: Provision front if you see okay if you ask me I agree, but the question is how much of unknown, unknown is there is known to you and me also, so what we have estimated you see 220 Crores also if we look at it so we do not have any bases actually for the 220 Crores totally also, but whatever it is the worst case scenario we are thinking and all we have provided for that so then how this real quarter unfolds is not known because up to the last quarter is concerned either moratorium was continuing, Supreme Court directive was continuing, now today let us assume the Supreme Court Jitendra Sharma the issue is over today so then we will be all knowing, but even if Supreme Court directive that clears also how much would become NPA also that also we have provided, how people will be able to manage their cash flows, how they will be able to sustain and survive, economy is opening up and what sort of issues will come up all these are not known, but whatever it is what we thought is we will stick to the earlier guidance what we were giving that our slippage maybe up to 11.75% of this year if provided that current trend continues and nothing much unfolds, so the feedback what we get from our teams as well as the current accounts if you see so we are not finding much more than this, but as I said that how it unfolds this quarter next quarter we need to see, but we will be more cautious to have a closer tab on this front.

Amit Premchandani: Thanks Sir for giving all the answers thanks a lot. That is it from me.

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

Pranav Tendulkar: Sir I have some questions regarding the asset qualification first of all during the moratorium I am saying now what is the percent of loans that have not paid a single EMI and have paid just one EMI can you elaborate that?

Ramesh Babu: That is why Mr. Pranav what I was telling initially after this August 31, 2020 is concerned we stop looking at the moratorium because every pie we need to recover moratorium or non-moratorium so focus is on all these accounts individually that is the reason if you look at it the moratorium portfolio even if you look at it also so 91% of CBG, CIG 92% has come, PBG also we are on the job because initially a few of them they thought that they will go for a restructuring the moment when they knew saying that this restructuring has its issues, interest burden and all so they are working and they are going to get some amount, so until and unless one or two months we do not give time and we get the money so we will not have a clarity about the restructuring as well as these things also. So that is why we are not separately focusing on the moratorium book, how it is behaved and all, all these are out so we are focusing on every account now.

Pranav Tendulkar: But you would have data about how much of loans have not paid a single installment this is data about past and installment?

Ramesh Babu: How the accounting system work is as and when the moratorium announced by the regulator the system stops demanding the installment from these accounts so whatever amount paid by the customer will be the advanced payment with the interest benefit so we are not exactly bifurcate one, two, three like that, but there are many cases where they paid the completely advanced amount also now that is why we are not able to bifurcate into one, two, three bucket like that.

Natarajan: But not only that Mr. Pranav understand suppose he has not paid an installment let us assume, but he is eligible for the restructuring now so you may go for that so we cannot straightaway come to a conclusion saying that there is a stress in this so he maybe self employed so we are getting a job or some sort of employment in the next two to three months so these provisions we may have to give some sort of leeway so we will see this one or two months how it works out and all. If you look at it the Supreme Court directive is not there 32 Crores would have become NPA and we have made a provision for that also already in the 220 Crores what we have discussed.

Pranav Tendulkar: So from this 32 Crores how much is the provision that you have made?

Ramesh Babu: 5 Crores we have made a provision for that.

Pranav Tendulkar: If we see the provisions which are not included in NPA calculation can you give us how much is COVID related, how much is above what is mandatory this 5% and 10% for two quarters?

Ramesh Babu: You are talking about the 220 Crores what we have provided?

Pranav Tendulkar: Yes.

Ramesh Babu: Yes 220 Crores is concerned I will just tell you let us assume 5 Crores will go for this what all Supreme Court dispensation comes that way, another 205 Crores will be there so 215 Crores will be there, the worst case scenario when we are assuming ideally the restructuring we are assuming around 2% or at the most 2.5 so even if the 2.5 comes also it comes to 1250 Crores and 125 Crores may have to be provided as a 10% of that so 125 plus 5 Crores if we take out for the Supreme Court 130 Crores, so even then if we look at it 90 Crores we have provided for this there is no reason actually because what we thought is as we do not know how it is going to unfold so as a measure of abundant prudent measure we have provided and not keeping in mind this particular account may slip on account of that so there is no one to one tag there and all it is just a buffer we have created for the unknown circumstances as simple as that, even this 2.5 also what I said it may not go up to that point also we do not know so that is why entire thing other than the 5 Crores what I said for this 32 Crores rest entire thing is free either for the restructuring or for any slippages on account of COVID, which may come up.

Natarajan: Pranav in addition to that see the entire 220 Crores is not counted for arriving the net NPA, the net NPA whatever we disclosed this 220 Crores is not taken into account.

Pranav Tendulkar: What I am asking is that **(audio cut) 41:15?**

Natarajan: So that 10% see during the month of the March quarter, June quarter and whatever the moratorium and the working capital limits RBI has given its guidelines, but as of now there is no 10% guideline is in vogue so whatever the 220 Crores provision other than the 5 Crores what our MD has advised this is all buffer we have created either it can be adjusted for restructuring or if we are not consuming at the end of the year it can be write back also.

Pranav Tendulkar: Okay sir maybe I will call you offline.

Ramesh Babu: Pranav offline we will clarify more in this matter.

Pranav Tendulkar: Okay thank you.

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

Renish Bhuva: Sir just two questions on the collection part, on portfolio business we are collecting is 90%?

Ramesh Babu: You are talking about the collateral collections?

Renish Bhuva: No, I am talking about the collections.

Ramesh Babu: Collection overall, overall portfolio if you look at it comes to more or less around 95 that way correct because I will tell you just one point because Renish maybe for others also you may require this one if you look at the slide #19 if you look at it so for the benefit of all others also I am just sharing the moratorium book 18000 has been split into two parts working capital book of 8748 and term loan book of 9886, but if we look at the term loan book the total demand is not 9886 so it is 9645 Crores only because September demand it varied from BU to BU so out of that if you look at it the percentages what we have given finally holds good if we add the non-moratorium also as I said it is around 95% it comes to and one more thing for the comfort of all the analysts I want to share in respect of CBG which is below 25 Crores and CIG, which is above 25 Crores non-moratorium book the demand raise 100% has been recovered September demand 100% of that, personal bank is also retail if we look at it non-moratorium book 99% has been received.

Renish Bhuva: Actually that was my followup thank you Sir for that. Second question is on the strategy front, so you have already captured that thing in your opening remarks, but our CASA ratio has been moved from 28% to 34% and that actually shows the customer loyalty to the KV Brand so whatever the incremental customer addition we have done it over last couple of years so what is the cost and strategy and what will be the product for liability customer as we speak today?

Ramesh Babu: Yes, it is a good question actually product per customer is below 1.5, below 2 only so we have worked on that now we are looking at it we took out each customer wise what are the products they have and to a more modified revised CRM we are procuring now so through that we want to aggressively go for that and products are concerned alliances and arrangements are there with the insurance companies both general insurance as well as life insurance and mutual fund so now we need to take it forward so this product per customer how we need to take it forward and how we need to cross sell this is what we are working on that and we had discussions with the package providers, also digital platform provider and most probably by end of December we will be having that CRM in place the modified version so before that based on our earlier system what all is there we will be pursuing it and now once we get the CRM we will be in a better position to push all these things better, but one thing we need to see the focus currently we could not pay much during this period on the cross sell because the mobility is restricted and cross sell is concerned so one to one suppose someone states the ability to market that will be much, much better and all so people were much focused on the monitoring, followup, seeing that these accounts are serviced, the focus and energies are in this so once October November once we have some sort of clarity the manpower as well as energies we will be able to slowly shift towards other side our only anxiety is one point. We had problems in the corporate last year and all of them we have overcome now and on account of COVID we should not be caught again on the wrong side that is the reason our energies we are putting on followup and maintaining the portfolio so if we are able to do this there were lesser provisioning and more profits this is what we are working, but simultaneously as you said cross selling is the major area, which has occupied our attention and we are working on that.

Renish Bhuva: Great to hear that. Thanks a lot Sir. If I may have followup I will come back in the queue Sir.

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

Jay Mundra: This is about slide #19 and this is non-moratorium book I think you mentioned that there is a 100% demand resolution right?

Ramesh Babu: 100% in respect of commercial as well as corporate for the September demand what we have raised and in respect of personal segment it is 99%.

Jay Mundra: Does this mean that there is no overdue in non-moratorium commercial and corporate book so this 100% is not on-time collection right, all people have paid the money but they may have paid with a lag or they have paid in time there is no overdue right is that what you mean?

Ramesh Babu: You are right Jay actually we have mentioned the position as of October 29, 2020, most of them have paid on time and somebody paid with some delay, but we are seeing in a position we want to give a latest position we have taken October 29, 2020 position, as of October 29, 2020 100% of the demand is serviced by the corporate and commercial bank customer.

Natarajan: Jay I just want to add one point. Here because as we know the circumstances are something different so rather than the lag of 10, 15 days we need to look at the intent whether the intent is there for him or not, if you look at the intent is concerned 100% when they have paid they are serious about their obligation.

Jay Mundra: With continuation to that now on moratorium book how do you define collection efficiency for working capital and FITL those who have the outstanding is greater than or equal to the limit right is that how you define or we would have to necessarily pay something for working capital and FITL?

Ramesh Babu: Slide which we have presented here it talks about out of the overall working capital book how many customers have availed the FITL so the loan book is mentioned there so wherever the FITLs are granted on the particular book that is what we have studied, of that particular book if you see 98% in commercial and 91% corporate they are all serviced their FITL loans.

Jay Mundra: Which is what they have to do right in a way because FITL they have to pay interest?

Ramesh Babu: No, principal plus interest in majority of the cases the principal and some cases it is only interest because what we have done we have given the two structure one is the six monthly installment they can do or they can pay for first three months holiday and the next three months they can pay majority of the customer has chosen the six monthly EMI where we collected principal as well as interest.

Jay Mundra: The second question is on BSE disclosure, now BSE disclosure looks to accounts fixed wherein we have mentioned the standard moratorium/overdue position and if you look at the note there we have returned 460 Crores is asset classification benefit extended and this also includes SMA0 so I am a bit confused as to what is 462 Crores where asset classification benefit has been extended?

Ramesh Murthy: This was a mandatory disclosure, which has required as per RBI guidelines so we find that each bank was interpreting the requirement in their own manner so ultimately after a lot of back and forth discussion with our auditors what we decided was the benefit, which was extended as per RBI circular, which we had disclosed or which was a position as of June 30, 2020 was roughly 900 Crores, out of the 900 Crores the accounts, which are still under that category as of August 31, 2020 the outstanding balance as of September 30, 2020 is given under SMA 0, 1 and 2 because theoretically these are the people who have taken the benefit. The account which is standard actually does not require any benefit, so the 462 Crores defines that portion of the people who were in the same category out of the total outstanding of 900 Crores as of June 30, 2020 or if I put it in another way the SMA customer who was in 0 and 1 unlikely to become NPA from the major chunk of the portfolio and the SMA2 portfolio out of this 462 is around 165 this is where we are concentrating on which our MD was talking about collections.

Jay Mundra: I understood SMA1 and 2, but I am just asking SMA0 which is less than 30 and the meter had started Feb end so anyone who was ab initio SMA0 would anyway would have become SMA1 as of September end?

Ramesh Murthy: Correct but there are possibilities that during the COVID period also he was operating his account or repaying the installments so it is a dynamic figure, nothing prevents you for you take yourself for example if you had housing loan EMI you may not have paid all the six or seven EMIs you might have paid three or four or sometimes if you are lucky that means say we stuck a lottery and you might have paid eight also.

Jay Mundra: Okay maybe I wanted to understand a bit more, but anyway thank you so much Sir. Thanks for your answers. Thank you.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: Mr. Babu more than three months in the bank I just wanted to know some thoughts into your strategy so how we have been challenged by COVID that what are the key areas we have worked upon, what are the key priorities over the next 12 months in terms of strategies and next question is in terms of human resource, which are the areas we would want to reassign over the next six to nine months?

Ramesh Babu: I will split that into two parts one is for the business. Business if you look at it again the business we will divide into liabilities as well as assets. Liabilities we want to focus as I was earlier mentioning on how to mobilize more of CASA and to granuralize the time deposits portfolio, so bulk deposits we want to discourage so because it will give us some sort of pricing power if we further improve our CASA which used to be 28, 34 as currently I mentioned that way so the energies will continue on that including the feet on street, what are the other modes we are taking people from outside also so that is what the focus will be on the CASA front. Coming to the assets front if you look at it let us go each vertical wise, vertical wise first of all corporate if you see corporate we have already taken a call not more than 125 Crores per unit will be there and all so we will stick to that religiously and many of the accounts existing which are beyond 125 also conscious call has been taken to exit and they have reduced their exposure to 125 and hardly less than 10 accounts are there above 125 and majority of them either lot of comfort is there or government or state government, central government these sort of things are there so the first objective of bringing the portfolio down to 125 has been accomplished. So now coming to the portfolio booking so corporate is concerned we are very selective we are looking at it, around 50 to 75 Crores we are focusing not every case taking 125 and all if we look at the average portfolio also it is around 38 Crores is the corporate portfolio average outstanding so we will grow there selectively not aggressively there in the corporate. Second thing coming to the commercial segment, commercial segment if we look at it the main pricing power we have in the commercial segment all of them are below 15 Crores or 25 Crores so we have the presence and in these areas lot of opportunities exist there so that is the reason what we thought many of the branches around even 13 branches we have identified which can actually push the commercial business so we are activating them and we are providing this sort of training and guidance and all how they need to go ahead, what sort of opportunities are there, so we will try to market the commercial segment to the extent possible of course in a safer way so safer way why I am telling earlier everything used to be manual so last one, one and a half years back banks have migrated into a digital platform, digital platform is really supporting to get the data from surrogate sources so the various information what the borrower has given whether it is correct or wrong so that way safely we would like to focus more on the commercial segment if more we grow there then bank used to have strong presence in the commercial segment so there the pricing power would be there the focus would be on the commercial segment. Coming to the retail segment is concerned lot of investment has been made digitally for the retail platform for the digital underwriting so now we will be able to tell a customer within 15 minutes whether he is eligible for the loan or not in principle sanction can be given or not at his doorstep, so we will continue and leverage this portfolio. If you look at the housing loan portfolio also last two years it has grown by 2000 Crores odd and we want to focus on these portfolios, which are relatively safer both validated by digitally as well as by the security so we see a lot of scope in the retail segment as well as in the commercial segment. Coming to the agriculture currently the focus maybe there on the gold loan we want to diversify that by using the Fintech and taking the support of these people, so we want to grow under agriculture where we will be relatively safer so that is what we want to do under agriculture. If we look at the co-lending platform with partnerships we are entering tie-ups with few of the players because they have the benefit of feet on the street on the ground and we have the muscle to provide this funds and all and loyalty is also there so that way we would like to go for partnerships so that we will have a better reach there. Likewise under liability front is also we are in discussions with few of the business correspondent to our national business correspondent so to increase our footprint in a rural and semi-urban area where we can mobilize more of this savings bank deposit so they will add further to our retail liability franchise, so in addition to that all of you know that we have started two more initiatives one is on the precious metal department where the gold will be given in the form of a loan so these things also is doing well and all February is started, but because of the pandemic we started going slow on that so we will revive that with the demand is coming back once again particularly from the jewellers and all so we will look at that progressively we will improve that portfolio also. The another focus we want to give is on the NEO that is a non-branch channel so here where we have a lot of scope, everywhere we cannot have our own branches this non-branch channel we have taken laterally and lot of feet on street is there and few other products we have identified so if we look at the stress there also is digitally we are booking, it is much, much low and the yields are also good, so we want to focus on NEO. All these things will support us in the assets front. Now coming to HR front what you are mentioning the average age of our staff is around 35 so that way if you look at it so these people they can be encouraged so we want to go for a mass communication program also and we will discuss on that and training these people wherever the training gaps are there and lot of encouragement also we are providing through rewards structure also and in fact many days every day I was talking to five branch managers every day, so to know from the ground what is happening and they were also pretty happy we have chosen branch managers who are doing pretty well and internally prepared metrics also for gauging the performance of the branch at various levels, business units and all so this will show then the mirror how they need to perform and all we are creating some set of competitor spirit amongst the people to function and to increase the market share, so that way our HR front also many measures we are taking to activate these young workforce whoever are there so that way we feel that overall we will be able to do something well in the liabilities as well as asset franchise and we have extensively discussed on the NPA monitoring, stress these portfolios, what are the efforts already we have told so that way we are working totally on all these fronts to take the brand to the next level. Mr. Anuj are you there?

Moderator: Sir seems like we lost the connection for Mr. Anuj we move to the next question from the line of Drashti Shah from Investec. Please go ahead.

Drashti Shah: Sir I had two questions one was regarding slide #19 when we say that the collection efficiency is 99% in the non-morat book when I see our corporate segment and commercial banking segment does that mean that the morat book has very low collection efficiency of 60%, 70% in both these segments because the non-morat book is 99% and the average is at 91% for corporate and then what was the guidance for that book could you just throw some light on that?

Ramesh Babu: Madam in fact as I was telling earlier so we are not distinguishing between a morat book and non-morat book everything is one and the same we are following now, but for the sake of because the analyst will be curious to know what is the progress in respect of morat book we have split that, if we look this here also the corporate the demand what all is suppose to raise when we have raised it 92% has already been honored likewise commercial segment also if we look at it 91% has been honored, if the agriculture front is there 83 Crores is the demand raised and 57 has already been paid, the difference comes to around 20, 25 Crores something like that, so consumer segment the personal banking is concerned the demand raised is 3647 out of that 3179 Crores has already been honored so that way the 60% all these things will not come up if you look at the number it will grow further and it will improve and if suppose for any reason someone is unable to pay that offer of restructuring is already there, there also as I said we will be quite selective on account of pandemic if they are struggling and we have a fair view of they are getting the cash flows back then only we will do the restructuring otherwise we will bite the bullet, but these things will have a clarity only by the end of December because people have an option to opt for a restructuring up to the end of December so at this stage so how much would be going for restructuring stress and all we will not be able to do we will continue our efforts in respect of the gaps what all are there commercial, corporate and consumer.

Drashti Shah: In corporates if 91% are safe and the 9% which is not safe there are how many accounts in that 9% and what is the average ticket size and what do we personally think on those accounts whether they split or these accounts can be revised or restructuring?

Ramesh Babu: Madam that is what I was just telling intension is to revive them because on account of COVID if someone has got a problem and…

Drashti Shah: Sorry to interrupt Sir which are the sectors in which these 9% accounts are especially corporate?

Ramesh Babu: I will tell you the sectors in general if you look at it where some sort of request for that restructuring also are there it is on account of hospitality, it is a commercial real estate where some sort of malls these things are there, gem and jewellery is there and suppose in addition to that very few one or two accounts here and there in textiles and these are the sectors actually we found so some sort of request are there, so these cases anyhow they are eligible for restructuring and there the real pain in the economy everyone knows that so that is why we look at these things otherwise these are the four, five sectors where we found the request have come forward and some sort of stress we are able to find and which is genuine also because of the COVID these sectors have really struggled.

Drashti Shah: My second question is when we pay that the bank has already been focusing on digital for the last one and a half years and in future we want to accelerate that digital focus and tie-up with Fintech what is the opex outlook for this, what are we thinking in terms of investments which will go when we convert the bank completely basically and passing on with the Fintech?

Ramesh Babu: Madam as you rightly indicated bank has been investing in the digitizing lending system and as well as on the liability side, but for the past two years we have been doing it and most of the investment has already been done and what is required is only a recurring cost because we have tie-up with 14 external vendors connected through APIs, each and every transaction if it flows so there will be a recurring cost otherwise all the investments particularly the application side and hardware side banks need not have any further additional investments for the roadmap, which we have drawn for completely digitizing our lending system and again if you see for the past two years completely entire lending system we brought under the digital and also the commercial sector if initially started with the small business group that is up to 2 Crores and subsequently we expand that to the BBUs Business Banking Units up to 15 Crores now we are in the process of doing the corporate accounts so these are all not end to end digital, but the first all the validations, the customer validation and the demography detailed validation everything will be done through the digital process and subsequently the assessment everything will done through the manual system. On the liability side the DLite app is one of our focus points where it is a digital bank for the bank so every quarter they have been publishing in the slide, what are the new futures we have added there, using the DLite app now any prospective customer can open the account, operate all the transactions including the opening of the deposit account so this is going to be the focus point for the bank where we have created a roadmap and we have been achieving every quarter, so as such most of the investments have already been done and most of the investments have been capitalized and if at all the depreciation cost and recurring cost will be there.

Drashti Shah: Got it. Thank you so much Sir.

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

Darpin Shah: Sir again on this collection efficiency piece so to keep it simple if you can just tell us the numbers of collection efficiency on the entire book and segment wise so for 50000 Crores of loan book approximately at gross level if you can help us with collection efficiency for September and October and then for individual segment if possible?

Ramesh Babu: Yes we will do one thing as it is September we are worked on that and October we are still because the numbers what we have given moratorium book is 90% as I told you so non-moratorium book segment wise also I have told so we will combine this one and all we will see all along we have been monitoring separately so we will work on that and Mr. Darpin we will share it with you.

Darpin Shah: Okay fair enough that is it from my end. Thank you.

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

Renish Bhuva: No Sir my questions have been answered. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. On behalf of Spark Capital Advisors that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

Ramesh Babu: Thanks from my side also to all of them for taking out time. Thank you very much.