"Karur Vysya Bank
Q1 FY2021-FY2022 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2021-FY2022 Earnings Conference Call of the Karur Vysya Bank. We have with us today, the management team of KVB represented by MD and CEO - Mr. Ramesh Babu, President and Chief Operating Officer - Mr. Natarajan, CFO – Mr. Ramesh Murthy and Company Secretary and Compliance Officer – Mr. Srinivasa Rao. 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. Ramesh Babu – MD and CEO to take us through the highlights of the quarter gone by after which we will open the floor for questions. Thank you and over to you Sir!

Ramesh Babu: Thank you. Good morning to all the attendees. I welcome everyone for this quarterly earnings call of Karur Vysya Bank. I trust all of you are safe and taking care of yourself and your families. We all witnessed the COVID-19 pandemic and the resultant lockdowns leading to a downward trajectory of the growth downwards last year. It is expected that the growth would rebound in financial year 2022; however, the advent of the second wave of the virus in the beginning of the financial year had led to state induced lockdowns, negated the assumption to an extent. With the accelerated pace of vaccination drive, precautions and safety measures being taken, lots of awareness created, let us hope that the position will not be alarming and exit velocity will be much faster.

Due to the ongoing COVID pandemic as a bank, we continue to face formidable challenges on the personal as well as business fronts. Being an essential service, we have continued to deliver uninterrupted service to our customers while taking all necessary precautions to safeguard ourselves, our families, and our colleagues. More than 80% of our employees have been vaccinated. With the current relaxation of lockdowns at various states our branches are now functioning at full strength. The pandemic created an opportunity for the growth of digital banking. Our bank continued the growth in the first quarter also on the digital front as 92% of the transactions are through non-branch channel as against 88% of the previous corresponding period. The impact of second wave was very much felt in the first quarter by the industry. Despite these odds, we were able to report steady performance in the growth of business.

Let me take you through the numbers in detail. Coming to the business growth, when we met last time on May 31, 2021, for quarter four and financial year 2021 performance update, we had indicated 12% business growth based on the normalcy for the current year. Our strategy is to achieve the business numbers were also outlined. During the first quarter, we have achieved 7% growth in deposits and 8% in advances on year-on-year basis. The growth in deposits side has been fueled by CASA portfolio, which is up by more 200 basis points and is now at 35.2%.

On a sequential basis, business growth has been muted especially on the credit front. The sluggish growth is primarily due to lower acquisitions and lesser utilization of working capital limits by existing borrowers on an account of specific circumstances prevailing in the market which all of you are aware of.

We achieved 33% growth in jewel loan portfolio over the corresponding previous year. Sequentially, it is about 3% and we continue to focus on this segment taking care of the operational issues and faster turnaround time as well as the variation gold prices vis-à-vis LTV. We continue to hold our guidance of achieving 12% growth during current year depending upon the external environment and of course without compromising on the asset quality.

Coming to operating profit, our cost of funds has further reduced to 4.56% down by 43 basis points from 4.99% in the previous financial year. The same was 5.42% in June 2020 quarter and 4.65% in Q4 of 2021.

During the current quarter, we have reduced our interest rates on term deposits across maturities and realigned our savings bank interest rates too. This will aid in reduction in the cost of funds going ahead. Yield on funds is maintained at 7.41% and yield on advances improved marginally at 8.55% over March 2021 quarter.

Net interest margin has improved by 9 basis points to 3.55% for current quarter over 3.46% of the previous quarter i.e., quarter four of 2021. On year-on-year basis too NIM is up by 19 basis points thus NII grew by 14% Y-o-Y. Fee income other than treasury and forex increased by 21%; treasury income has fallen by 80% over June 2020, due to unfavorable and uncertain market conditions as all of you know.

Operating expenses are higher by 6%, cost to income ratio stands a tad higher than 50% due to lower treasury income over corresponding quarter of last year. Operating profit for the quarter is at ₹ 429 Crore that is 2.2% of average effects on an annualized basis, of course the drop in treasury profits did impact Operating Profit, but the overall revenue was almost flat on year-on-year basis signifying that business operations are improving. Coming to collection efficiency, our collection efficiency has been further strengthened and continues to be at 95% levels during the first quarter despite many odds and the further details are furnished in slide 20 of our deck. NPA slippages, gross slippages for the quarter were at 519 Crore and net slippages other than technical write off 404 Crore.

Technical write off during the quarter was to the tune of 379 Crore, gross and net NPA numbers have marginally increased over March. Details of these are furnished in slide 25 and 26. Corporate portfolio witnessed fresh slippage of about 202 Crore consisting of four accounts of which two are in trade and two are from real estate. Of which one of the trade account is already upgraded to recovery during the month of July. Both are Real Estate related accounts are under consortium. The projects are under progress and in the completion stage. Due to differences between the foreign and Indian promoters, there is stress in the accounts neither both the clients have opted for restructuring nor did they avail ECLGS though they are eligible.

The foreign promoters and funds are one other reputed global players in the Real Estate market and we expect resolution during the current year. We continue to maintain our guidance on gross slippages at 2% of the loan book and we are working towards negative net slippages by the end of the year under normal circumstances. SMA 30 plus balances as at the end of the quarter was 1062 Crore about 647 Crore which comes to 39% of this book is under jewel loan, which is mainly the result of the lock down measures whereby many customers could not visit the branches. Of this 249 Crore has already moved out of stress either by way of closure or renewal post June. LTV of the remaining balances of these accounts are very much lower than the current market price and we do not foresee any challenge in these segments as our branches are in touch with the customers for closure or renewal of their accounts.

The LTV and other details we have provided in the investor desk. We have worked out strategic plans for recovery and many cases on advanced stage of resolution which include out of court settlements, legal proceedings and sale of properties. As the environment is becoming normal, we will show better performance in upcoming quarters. We have strengthened our collection capabilities to sustain and improve our collection efficiency. As all of you know, last year we have mentioned we have taken measures for our resolution wing and another general manager also we have placed and we are working on that during the year because many other courts they were not functioning, we were not getting the court orders that is why many of disposals of the properties, which we are supposed to do got delayed because once things become normal I am very sure the pace will improve and we have done the entire ground work to take it forward. Further details are available in slides 20 and 21 of our investor presentation.

Coming to restructuring, during the quarter bank has restructured 375 accounts amounting to 96 Crore. Overall, standard restructured book as at the end of the quarter stands at 1028 Crore that is 1.97% of our loan book. Further details on this are available in 28 and 30 pages of the investor deck. So, coming to provisions, we have provided 278 Crore towards NPA during the quarter and continue with our plan for making higher than the required provision towards NPA and to bring down our net NPA. Provision coverage ratio excluding written off accounts is lower at 54.4%, as on March, it was 57.1% mainly due to the prudential write off. We intend to keep this ratio in the range of 55% to 60%.

Our estimated credit cost for the current year will be in the range of 2% of our loan book and we are working on those lines. Finally, coming to the ROA, in our earlier briefings too we had indicated to reach ROA of 1% at the end of financial year 2023 and 1% plus in the year 2024. We hold on this guidance considering our profitability trends, expenditure control, growth, recoveries and lower provision requirements from the next year.

So friends you would have seen that with a lower treasury income of 143 Crore also we are able to manage well because rest of the wings, they are supporting that way, so that way we are reasonably confident that we will be back on track provided the environment and external factors just support us. So that is it from my side, now we can go for the Q&A, please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

Vikas Sharda: Sir, afternoon. One thing I wanted to clarify that you mentioned that you are looking for gross slippage of 2% for the year and net slippage to be negative, so where do you expect the gap between the two? Secondly, you also said that your guidance of credit cost for the year is 2% of loans, so how does it reconcile with a negative net slippage numbers for the year?

Ramesh Babu: The gross slippages what we said 2% we are trying further, we will work on that, when we are talking about the negative net slippages that includes the write offs also, recovery, upgradations, write off all these things together so we will aim for the net slippages because even if you look at the write off also 100% of that has been provided by us so that is the reason every quarter beyond what all is required we are providing additional amounts to take care of these things, so that way we are aiming for the net slippages to be negative, so with all these three factors you can get it. Now coming to credit cost is concerned, if you look at it as it is our intention is to bring down the net NPA, otherwise we would have guided earlier itself that ROA will be 0.8, 0.9 this year itself, this quarter also more than what all is required we have provided for the net slippages, so if we add it back to the profit, so we will be crossing this 0.8, 0.9 what we are thinking, but net slippages have to come down, so this year to the extent possible the provisions what all we are creating is to take that care of the net slippages so with that our intention overall is 2%, we will be maintaining, but over a period of next year onwards this 2% will progressively start coming down because we would have addressed major part of the net slippages by the end of the year.

Vikas Sharda: But I am just curious that why 2% credit cost is here like?

Ramesh Babu: Suppose if you need to meet the RBI guidelines and all you may need 1% okay, but until and unless you make an accelerated provision, the net NPA numbers will not come down if you look at our net NPA it is coming to around 1800 Crore, so progressively we had to bring it down so that accelerated provision we need to make it if I go on adding it towards the profit and ROA this number will not come down anytime so that way upgradations will be there and recoveries will be there, focus will be there, always will be there in addition to that as a kicker if you do not provide something more that what all is required so will not be able to address the problem, we want to keep this problem behind because as all of you know that many measures have been taken in the corporate front and the bigger exposures they stopped taking and all and quality we are looking at it so that way so corporate if it comes under control and if net NPA also we bring under control three fronts will be focusing, one is on the business growth, automatically the percentages will come down, second thing is accelerated provisioning what we are going to make that also will bring down the net NPA, and the third thing the recovery efforts what we are making both through legal, out of the court all these things, so common point for us now be a single point is how to bring down the net NPA with all these things then rest of the things we focus and ROA will automatically go up.

Vikas Sharda: Understood, thank you.

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

Renish Bhuva: Sir, first question is on our gold loan book, what is our total gold loan book as on June?

Ramesh Babu: If you look at the total book, it is 13206 Crore, so slide #20, they have given it, so 13206 total. This is the book.

Renish Bhuva: Okay and how much of that would be towards SME?

Ramesh Babu: SME, in my inaugural speech, I have told you if you look at the NPA under the gold loan is pretty small amount okay, if you look at the SMA portion 30 plus, 600 Crore odd what I had told in my inaugural remarks out of that more than 260 Crore has already been recovered or renewed or whatever it is we have done that, so the good thing here is comforting factor is, though last year the relaxation was there for giving a relaxation for LTV up to 90% we were relatively conservative, we were maintaining it 75% and not more than 80% in few cases at all, so that way if these loans account come for renewal, the problem is currently what others face is, so people will have to bring some more money because 95% to 100% LTV have come whereas in our case in our slide we have shown it is 78% for the overall, if you look at the personal segment also it is 68%, so hardly above 90%; however, LTV is 1.96 Crore, 90% and above LTV is 1.96 Crore that is all and the above 85 and below 90 is hardly around 400 Crore out of 13 Crore portfolio, so the only question is now that people, they have interest in the gold and even if you go to the market, you will be able to dispose off, we are relatively better place as far as the JL portfolio is concerned.

J Natarajan: Renish, one more point I like to add here, if you see the slide #20, we have clearly mentioned what is our SMA 30 plus level and also we have provided at what is the current level of these accounts, so it very clearly indicate it is purely because of the operation issues, people are not able to come to the bank, otherwise as far as the LTV and market value is concerned is absolutely there is no issue and of course over a period of time I think these numbers will come down drastically.

Ramesh Murthy: One last clarification on slide 20, the LTV numbers which you see there are 78% relates only to the SMA book Renish.

Ramesh Babu: No, we are much better, this is only focused on that, that SMA book, LTV itself is 78, that is why you have 22% margin for this LTV also, so that is what I wanted to clear.

Renish Bhuva: Got it, Sir. just you know a clarification on that, of this total 13200 Crore of gold loan book, what is the split between agri, retail and SME, so retail I am assuming that 1800 Crore is part of this 13200 Crore, how would be agri and SME?

Ramesh Babu: Majority is agri. It is 10000 Crore odd is agri, so the balance amount is business segment very small amount.

Renish Bhuva: Got it, Sir. Just last question from my side on the fee income, so interestingly the 1.5 billion kind of a run rate is sort of sustaining from almost like seven to eight quarters, so if you can throw some light in term of the more granular details whether it is driven from a liability side or the asset side because in this quarter as you had in the opening remarks that this is an activity that you are looking in term of the credit growth so I am assuming this 150 Crore odd of fee is largely coming from the liability side in a sense which is sticky so what is the sort of expectation on this fee income and if you can throw some light on the details about 150 Crore in terms of the breakup?

Ramesh Babu: Coming to the other income breakup if you talk about, I will just share with you one thing, there are two factors, one is to some extent last year in respect of some ATMs and these sort of things and all minimum balance charges they were not recovering in the first quarter because of the government dispensation, so that is a small amount, but in addition to that we started looking at carefully on the credit front the processing charges and these sort of things when we look at it compared to last year, the processing charges itself has gone up by 9 Crore so likewise a few other areas wherever these things are there, we are going head wise, what is a room available what we need to do, we are working on that, in addition to that I also mentioned earlier we have just recently brought out a CRM also, a revamped CRM with that how we need to go ahead for the cross sell and upsell, we are working on that, once that also kicks the cross sell income also will go up, so our effort is two pronged , one is on the every labour of the income head what we need to do, where we need to reduce the concession, we need to look at the quality of the borrower and the risk reward pricing are we doing properly or not that way to legitimately get our income what we are supposed to get from each account and other side also expenses wherever we can contain we are working so that way in a two-pronged approach we are working.

Renish Bhuva: Got it, Sir and how big is the team for data analytics for this cross sell?

Ramesh Babu: Data analytics lot many we are doing and all, now for the business, there are two fronts actually for the data analytics who are working, one is on the stress side and stress side if you look at it because currently the problems are there much in advance, how to identify this, which are the accounts which can go these things and all and these things we are working that is where a lot of control we have got on this particularly on the retail and SME front from the data analytics. Coming to the business side, a lot of mining is happening, the current accounts are there, profiling they are doing and all, what sort of products we can give it to them like pre-approved loans also when the things for going on well and all we did a lot on the preapproved loan, now we are seriously considering now the position has slightly improved can we go back to the preapproved loans, but even with the preapproved loans you go also, our unsecured loan portfolio is around 500, there itself we have enough scope is there, so that the analytics we are using both for business as well as for the fronts both sides we are working and we have further strengthened our analytics wing by providing few more people also who are experienced there, so every wing/vertical what we can derive from the analytics we are working on those lines.

Renish Bhuva: Got it, Sir. Just last question on this write off, obviously 80 Crore write off you suggest that it is primarily from the corporate book, so is there series of accounts or it is towards couple of accounts?

Natarajan: It is seven accounts, Renish.

Renish Bhuva: It is all legacy, let us say 4 to 5 years?

Natarajan: Completely it is all legacy accounts.

Ramesh Babu: But Renish one thing the fact that we would have written off, but mentally we are not written off.

Renish Bhuva: Got it, Sir.

Ramesh Babu: We will be after them and all those NCLT all these things will be going on because courts, and NCLT they are not functioning now, so it is subdued, otherwise once this normalcy restores, so whole hog will be going on this fronts for recovery of this not only these accounts, smaller everything so that will be a big pool supporting us for a net NPA reduction.

Renish Bhuva: Got it, broadly technical write off?

Ramesh Murthy: Yes, absolutely.

Renish Bhuva: Got it. That is it from my side. Thank you.

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

Anand Dama: Thank you for the opportunity. I wanted to check on the jewel loans, you have indicated there is a lot of stress in that book and post the LTV reduction banks are finding it difficult to do or lending into the segment, but if we look at our book we have seen a decent growth in the jewel loan segment, so can you explain like how is it happened?

Ramesh Babu: Mr. Anand, as I was telling earlier, so we were relatively conservative, last year though we had the elbow room to go up to 90%, so we were resuming saying that post this withdrawal of this what will be the position so that is the reason that has hindsight, if you look at it that has helped us, so that is the reason this SMA book itself is 78% only the LTV, rest overall if you look at it, IT is less than 70% to 75% something like that, so LTV front we are comfortable, but then that be the case why this SMA has come, SMA has come, you would have seen that particularly in the areas where we operate, so part of April as well as May, there was an absolute difficulty for the people to move out so that is the reason our people, they could not go and the customers could not come, so June when the normalcy started restoring, we started working on that much of the pain we have removed, but even at the end of June 600 Crore what all is there in the month of July so lot has been out, so we are working on that, in the next 1 or 2 months and all, we will be able to renew majority of them. Even if we are unable to renew these things and all, we have sufficient margin available with us to take care of that even if you go for an auction which is a last resort, so that way we do not foresee a much strain in this particular portfolio because of that comforting factor of the LTV. Now coming to the growth front, I agree last year corresponding period first quarter we have grown by 700 Crore odd and this year we have grown by 285 Crore to 300 Crore something like that, so we were also cautious saying that the same run rate goes and all how it would be and that is a reason when we have gone reasonably okay, this 300 Crore we have grown, but few of them when they are cutting the corners we did not want to do that, so we felt saying that a reasonable growth is better than having a pain later, so that is the reason 300 Crore. I am not assuming saying that last year how much of growth what we have got it under the gold loan, we may get it and all, we do not know, but our focus will be there provided if operationally we are comfortable and we are confident.

Anand Dama: Secondly the slippages that we have seen 519 Crore so you mentioned about some lumpy corporate slippages in this, so that pertains mainly to real estate one?

Ramesh Babu: First thing, I want to clarify, the lumpy, the lumpy was the word actually suppose one year, one-and-a-half years back when we were having the slippages of 150 Crore, 200 Crore these sorts of things, now if you look at it, all the slippages baring one account are all below 50 Crore, so below 50 Crore ideally any bank will be taking and all, so that way this granulized unlike earlier problem of lumpy that is not here now first thing and second thing, if you look at it, out of the two accounts are from the trading and two accounts are from the real estate, real estate also if you look at it they are with projects under consortium and the partner is a foreign partner and more or less up to 80% the construction also has been completed and one another good factor is what I had observed I have told GECL, restructuring though we were offering they did not take it, they felt saying that there is no need for us, we have to internally resolve few issues and all with that we will go ahead, we do not want it, so we have been offering them for the last 6 months because for the just ever greening you can take that money and all, you can repay and always this can be done, but they did not prefer to do it that gives us a confidence that they are serious about the resolution so coming to the two other trading accounts and all, one of the account has already been upgraded and second account we will work on that even if something is not possible also, I can give you confidence that these are backed by more than 100% collateral.

Anand Dama: So is it possible for you to spell out the exposure on each of these four accounts two trade and two real estates?

Ramesh Babu: I will tell you sell out the in the sense to whom, ARC or separately?

Anand Dama: No, I am saying what are the exposure needs to trading accounts and to real estate accounts?

Ramesh Babu: No, trading exposure is concerned collaterally it is there and all with us because in its old branch and all we will be able to dispose of the property, but whereas both real estate are concerned we are one of the consortium lenders, so consortium lenders all of us we need to come together, but I can tell you already a SARFAESI notice has been given by the leader and the process is on and everyone, other lenders, three, four lenders who ever are there are equally concerned, they are putting entire pressure, they are not waiting for the partners to settle their spore and we are on our own proceeding as if nothing is going to happen so these two will concurrently proceed.

Anand Dama: So, what is the exposure of this large real estate account?

Ramesh Babu: It is also less than 100 Crore.

Anand Dama: Less than 100 Crore for us and overall systemic exposure is how much?

Ramesh Babu: Systemic exposure is only I think 100 Crore.

Anand Dama: Consortium as a whole?

Ramesh Babu: That is around 350 Crore.

Anand Dama: 350 Crore, it will not a very big chunk?

Ramesh Babu: No, not at all, I will tell you the project itself values 950 Crore.

Anand Dama: This is from South India, I mean?

Natarajan J Yes, only from South India so we one is South India and one is from the north.

Anand Dama: Sir, is it possible to name it?

Natarajan: No, mainly it is all the foreign fund, so it is all very reputed global player.

Ramesh Babu: It is not fair on our part, name it and because we will work as a banker what we are supposed to do we will do that.

Anand Dama: So, you mean to say that of these four accounts about one trading account which has already got upgraded, what is the exposure of that account?

Ramesh Babu: Less than 150 Crore because out of these four accounts they are less than 50 Crore and that real estate account what I said is less than 100 Crore, so that is a resolution is on, rest of them all three are less than 50 Crore.

Anand Dama: Sir, you said that basically some restructuring also might happen, so what is the pipeline of the restructuring happening?

Ramesh Babu: That is a dicey question. The reason is up to September, RBI has given the time, so the pipeline things are coming, the majority what all are coming from the personal segment if you look at it housing loans as well as loan against property these two are the main, so because personal loans may be other banks may be getting a lot, as I said earlier our total portfolio itself is above 500 Crore, so that much of a pressure and requests are not there from the unsecured loans, one of these deals had come up so we are skeptical, if the chances of these people over a period of time getting the cash flows and revival and servicing is good we will go for the restructuring, if that is not possible it is better to bite the bullet itself and now itself you take it forward and all and proceed under SARFAESI. So that way very critically each of the case our people they review if it is workable and meets our standards then only they will go for restructuring, otherwise suppose even if you find a pipeline of 600 finally you may land at around 200, if you see the last quarter whole quarter itself is less than 100 Crore, so that way it is deceptive, if we think that the pipeline is 1000 Crore finally you may land at 200 Crore so overall if you look at it initially 6 months back we were giving a guidance of 2.25%, finally we landed at around below 1.5% and even now today is 1.97%, so we are careful about restructuring, we have not opened the floodgates wherever it is warranted we will do that, but the window is open up to September ending, so I will not be able to say any number at this stage, I can share this number only after October.

Anand Dama: Okay, but is it fair to assume that basically it will be less than 2.25%?

Ramesh Babu: No, that is what I am telling, my intention is that but suppose how it pans out the next few months we do not know the stress and all, based on that in a month of August and first week of September many more customers they come, so I cannot say that I have my 2.25% and beyond that I will not do because RBI provision is there everyone can demand, so intentions are that, so to selectively go for that, that is the reason we have not crossed even 2% as on date.

Ramesh Murthy: Anand, it is difficult to say in the last two weeks of September what will happen, because the deadline is coming close, some more people may decide to go and offer restructure and it is left to us if it is restructurable account we will do it.

Ramesh Babu: but few of them they do not want the tag, the restructuring tag they do not want that is the precise reason they are not coming forward and finally they exhaust all revenues they are pushed to the wall they may come we do not know at that stage.

Anand Dama: But what kind of monitoring we have offered on this restructured base?

Ramesh Babu: No, majority of the case is we have extended the due date only.

Anand Dama: Due date in the sense basically that I mean customer does not want to pay principal for how long?

Ramesh Babu: No, that is what depending on the cash flow availability 6 months to 2 years.

Ramesh Murthy: It ranges Anand, it is not everybody is opting for 2 years, some of them want only 6 months. It is their choice, some of then is a year, 18 months like that, so it is a mix.

Anand Dama: So, even to housing loan customer you would offer principal no repayment too leverage?

Ramesh Babu: No, that is what I am saying it depends on the cash flows the estimate is their, suppose if he feels within 6 months this normalcy will be restored and all, he will be optimal only for 6 months, it is a question of initial discussion what all is there and at the most suppose a self-employed is there and he may say that Sir, one year I may require and all because I do not know how things are going to pan out and all I will have to come back and restart my business also so you may have to be slightly considerate because you cannot kill him straight so there we may consider for one year, so it depends on the nature of profession, profile of the customers, cash flows that is the reason each case will evaluate critically based on that they are giving it just like giving a straight method of everyone give 2 years, everyone give one-and-a-half years not just that way.

Anand Dama: That is it from my side. Thank you.

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

Jay Mundra: Thanks for the opportunity. First, this collection efficiency number that you have given is for the entire bank right because it was given in the gold loans slide, so just wanted to double check?

Ramesh Babu: Yes, the collection efficiency is separately for the whole book, term loan. Term loan separately have given it, yes.

Jay Mundra: Right, so even in April there is not too much of a difference, if you see, it would include the situation today maybe based on the repayment that may have come after the month right?

Ramesh Babu: Correct.

Jay Mundra: Why is there a slight dip in working capital, working term loan I though it should be the other way round, but I mean if can qualitatively explain that why would the collection efficiency be lower in working capital versus the term loan?

Natarajan J: Jay, actually in the case of working capital as per the IRAC norms, the interest come out whatever we are debiting during the quarter at least the collection should come, the credit should be equivalent to the interest debited during the 3 months period and because of the lock down the shops are not opened or the customers are not able to reach, they may find it difficult to give the credit, we call it he is out of order, so basically the collection efficiency we talk about working capital is they have to service the interest number one and during the 3 months period the credit should be equivalent to the interest debited to the account this is what we calculate as a demand unless the term loan where this is specific EMI, in the case of working capital this will not work out, so there definitely the operations are not there or credits are not equivalent to the interest debited there will be some time delays.

Ramesh Murthy: Not only that suppose sometimes the working capital they may debit and all they may honor the term loan installment also.

Jay Mundra: Right, understood. Sir, now on your commercial book of around 16000 Crore if you can qualitatively explain what percentage of this book would be in let us say B2B customers and how much would be B2C facing customer are it is commercial or would be just in the supply chain wherein end to end they are facing a large corporate or how much proportion could be in the B2C kind of a segment?

Ramesh Babu: Jay, I think we need to workout on this and we need to come back because currently I do not have the data with me.

Jay Mundra: But any broad numbers, we do not want any?

Ramesh Babu: One thing, commercial book is concerned there are two components okay, 9500 Crore is a small business, small business is up to 2 Crore to 3 Crore something like that, out of this majority of the business is from the traders, so that way you cannot expect this B2B supply chain directly all these things you cannot expect because they are small time players, it is better for us because the yields what we get from these people are around 10 to 10.5, now coming to the BBU customers if you look at it under the commercial there is 4500 Crore what you see which is about 2 Crore to 3 Crore and all only those segment we may have to look at it how many these things are there, so otherwise B2C or B2B whatever it is the focus what we are giving is the one on the same, currently if you look at it one more thing if the buyers are not able to honor in time so these people are again struggling so during the COVID period the earlier concept of these things are undergone change, so a few people unable to operate, the production itself is not there few people are unable to get, but whatever it is your point is well taken, we will work on our BBU customers, how it works and all and accordingly we will plan for that.

Jay Mundra: Understood, Sir and second, on your guidance on 2% credit cost and someone was also explaining this is slightly elevated number, so this would include your restructuring provisioning as well right?

Ramesh Babu: Jay, you have been tracking the bank numbers for the last few years, so 2% was an elevated number, 2.5%, 2.7%, these things 1600 Crore, 1800 Crore also slippages, 1600 Crore used to be there, so if you see the real capability of the bank not to boast, I will tell you 2021 when majority the period the moratorium is there people they were fence sitters even if you were asking for the money they were telling when Supreme Court dispensation is here why are you asking the money when we have got a little and small window of 10 days, so we could bring it down the slippage has to below 900 Crore, so which used to be 1600 Crore so now if you look at it had the position continued their second wave the sort of stringent wave is not there, the momentum would have continued, so we would have confidently told you saying that we can bring it down further it is not an issue, but because of the position these things are there with all these things also if you are saying 2%, which used to be much, much above 2% in the earlier years and all, so we are reasonably feeling okay with the March experience what we had if the market and environment is conducive we will be able to take it forward and because the issues earlier exit legacy these accounts have gone out now we will have a better control on this account so currently if you look at it 2% maybe there over a period of time our intention is to bring down to 1.5 over a period of time once things improve so 2% current number and the current environment if you look at it I think it is a good number.

Jay Mundra: It is of course a reasonable number. I just want to do check that this would include your restructuring provisioning also right?

Ramesh Babu: Credit cost you are talking or slippages?

Jay Mundra: No, credit cost, so credit cost.

Natarajan: See, Jay, the credit cost we have mentioned about that 2% even in our MD's guidance, he was mentioning that our plan is to make higher than required provision even the current quarter we have the credit cost of 278 Crore if you exactly work out the IRAC norms and all these things we have made to an accelerated provision in that sense only we are talking about this 2% all include the restructuring and all.

Ramesh Babu: Jay, sorry, I was thinking earlier the slippages you are talking that is the reason I responded, like credit cost is as President Sir said it is very correct because net NPA over a period of time we need to bring it down for that accelerated provisioning what all is required we had to do that which includes the migration provision, the current slippages and the accelerator all these things together we are planning for 2%.

Jay Mundra: Right, Sir. Just a small observation the SMA number that we give I mean that the chart that we show that seems to have almost doubled say from March to June this would be by index number?

Ramesh Babu: That is slightly deceptive the reasons, I will tell you. March you would have found out around 900 Crore okay now 1600 Crore. In the 900 Crore the jewel lone SMA was less than 100 Crore at that time. Now the jewel loan SMA is 600 Crore, so that is the reason if you exclude this jewel loan SMA it comes to 1000 Crore. Earlier also 900 Crore, 100 Crore if you exclude that it comes to 800 Crore, so 800 Crore other than jewel loan has come to 1000 Crore, which with the second quarter or second wave what all is there it is expected because people could not go out and all so that way this is not that alarming, but if you compute including jewel loan if you see it looks like that but it is slightly deceptive.

Jay Mundra: Understood, Sir. Thank you so much for your time and explanation.

Moderator: Thank you. We take the next question from the line of Amaan Elahi from Investec India. Please go ahead.

Amaan Elahi: Sir, just some comments again pestering on the corporate book, so we had 210 Crore of slippages in the corporate book and we have been slowing down and rationalizing this book, so you know going forward what kind of slippage rate can we expect from this book, I understand most of these are smaller exposure, so just some guidance on what kind of slippage we can expect on this book?

Ramesh Babu: Amaan, in fact if you look at our March ending SMA it is less than 50 Crore, SMA 30 Crore plus under the corporate book, okay, so we were reasonably confident everything has been brought under control, everything has been disclosed. So these things because second wave has hit and the issues which have come up in respect of the real estate so those two accounts the foreign player as well as the Indian player these have cropped up otherwise, we were not even expecting this at the end of March, so if that way if you look at it so nothing big we are expecting as it is, we are having a thorough control and above all we have granulized the book also so I do not expect this sort of lumpy accounts and all coming forward that is what I can say because you see number of March ending that corporate book was 13 Crore SMA 30 plus as on March 31, 2021 was 13 Crore so these are the developments which have come up during the quarter because of the peculiar circumstances otherwise we were on a firm footing as well as the corporate is concerned.

Amaan Elahi: Right. The other question was on the question was on the margins, so we are being able to maintain our yields and there was some reduction in cost of funds, so do we have further room for a deposit cuts and what should we expect on the margin front in the coming quarter?

Ramesh Babu: I have to be open with you, the room available for further deposit cut may not be there, the reason is we have come to this stage and how long this will continue we do not know, now the reversal starts slowly you may have to start working on this, but only advantages is in respect of liability repricing so the past what all is there at least they will not get repriced whereas in respect of assets the repricing starts first their the advantage, now coming to the margins also you need to look at it because of the liquidity over hang in the system there is a rat race going on, so few people there offer a lower rate and all, now at least to retain your own customer who is good actually because acquiring a fresh customer is a costly affair compared to retain an existing customer sometimes you may have to compromise on the margins if they are good customers so that way intention is to optimize the margins both from the cost wise reduction as well as improving the margin, so improving the margin now would be difficult. yield on advances also once the interest rate cycle starts moving we will be able to know otherwise, so we can think of maintaining this margin and here and there, there will be brick here and there.

Amaan Elahi: Sir, lastly you have given the chart on employee and attrition rate, so the attrition rate has been past price 15 months your employee count has gone down by roughly 400 and the attrition rate has been coming down, what explains this?

Ramesh Babu: There are two things. As it is we are focusing on the productivity, business for employee these things and all, so that is why wherever loose ends are there we are trying to fix those things so next thing is the wastages, wastages in the sense that any retirement, any deaths these things are there from the employee side, we are not replacing at one point of time few years back and a person to person basis every year we were replacing that, now we did not replace that also so that way with the existing structure what we have created and the digitization what we have brought and the back office the centralization what we have brought with all these things wherever the manpower can be reduced, we are trying to reduce them and focusing the existing manpower on the sales to improve the business levels and all rather than on earlier the back office work doing in the branch.

Amaan Elahi: Right, got it and lastly my question is under the OTR scheme 2.0 we have restructured 90 Crore odd of loan, is there a corporate account in that?

Ramesh Babu: One thing, I just want to clarify, the attrition is suppose someone who has left the organization before their retirement is under attrition, so normal retirement what I was telling a normal base tickets and all this we are not taking that why the numbers are coming down. Attrition is coming so it gives a confidence for the people saying that I need to stay back with the organization, so that is a good for as a lower the attrition rate and all because you have seen our average age is also around 35 so younger this age and all with lower attrition it is good for the organization because many measures internally employee welfare measures we are taking internally to promote them to capacity building, to train them with all these things the confidence levels of the employees are going up that has resulted in the lower attrition level.

Amaan Elahi: Thanks. My question is under the resolution scheme 2.0, we have restructured close to 90 Crore odd, is there a corporate account in that?

Ramesh Murthy: Mostly retail. It is primarily a retail book, not corporate.

Amaan Elahi: Got it. That is it from my side.

Moderator: Thank you. The next question is from the line of Arjun Jandrani from Green Shanki Foundation. Please go ahead.

Arjun Jandrani: Thank you so much for the opportunity. What I wanted to ask was that how was the recovery shaping up in Q2 because the problem of COVID has still not receded in the southern part of the country and do you expect a negative net slippage number for this quarter?

Ramesh Babu: I agree. The question is so as far as we are concerned, we are working with the courts as I said earlier so these sort of getting orders from the courts these things are not coming that is the problem, but we are trying for the OTS, suppose under the OTS even without the courts and all we will be able to do that so our intention is to have the negative net slippages we are working on that, we need to see how it pans out and all, but otherwise this year is concerned it will be a year of recovery and we will be focused on this or not this quarter and the coming months also and as and a window and opportunity is there we are for that and all and in fact we are taking people from the market in the recovery who have the expertise from a few of the companies and the firms who were actually dealing with them and some experience people also we are taking it because we want to take it forward to next level.

Natarajan: One more point, Mr. Arjun, if you see your collection efficiency for July it is something around 96 % to 97% as far as the collections are concerned, but as far as slippages are concerned in July we have not seen that much slippages when compared to the earlier quarter so what we are confident is whatever recovery measures the bank has taken during the last year and during the first quarter we think that many of the things will materialize so that is why we are confidently at the end of the year we are planning for the negative slippages, there will be some slippages but what we are expecting is our recoveries will be better than our slippages.

Arjun Jandrani: That was answered. Thank you.

Moderator: Thank you.

Ramesh Murthy: I think, if there are no more questions so I think let us bring this to an conclude to an end, our MD will give you the concluding remarks now.

Ramesh Babu: Friends, thanks to all of you for your interest in discussing and participating in this particular call. Finally I just want to say few things to you. We from the management side we are very keen to fix the issues what we have because particularly two-pronged approach we need to do, one is the focus on the ROA. As I was mentioning if we leave providing for the NPA, net NPA reduction and these sort of things and if you focus on ROA we will be able to achieve the ROA of 1%, but somehow I feel it will not work that way. The percentages of the net NPA and other things need to come down, but three-pronged approach is very much required one is the growth, growth in the business if all of you can see the little window what all five, six months was available last year so we could grow better than the market at 11% excluding IBPC and so that way the growth we could get particularly more so in the last quarter. Had the position continued the momentum would have continued in the first quarter also. Now many other operating teams they are geared up and various vertical started contributing so that way once the environment is normal, we will be able to get the growth numbers. Second thing is our intent we have shown during this quarter also so the accelerated provisioning. That is when I am confining to what all is required we want to provide accelerated provision so that we need to bring down the net NPA issue what all is there, so your total focus would be on the ROA and third thing it also need to support from the recoveries that is the reason we have strengthened the recovery mechanisms here and provided once this legal these things are available it will be much more better because auctions also if you go for that the people are not coming forward because they are bogged down with the COVID related issues once these things are fixed, the recovery also will start giving good numbers, total base is ready we have enough numbers under the recovery front to get it so if these three fronts will support us, we will be in a better position to bring down the net NPA and the provision automatically the cost credit cost comes down, it goes towards the ROA and we will be able to focus on that. So this is our approach and all verticals we are working very seriously, business, non-business, recovery, collection, everything we are it quite seriously. Thank you very much once again from the entire the team of KVB for the interest what you have shown. Thank you.

Moderator: Thank you. On behalf of The Karur Vysya Bank that concludes this conference. Thank you all for joining us. You may now disconnect your lines, thank you.