“The Karur Vysya Bank Limited Q3 FY22 Earnings Conference Call”

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MANAGEMENT: **MR. B. RAMESH BABU – MD & CEO**
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Moderator: Ladies and gentlemen, Good day and welcome to the Q3 FY21-22 earnings conference call of the Karur Vysya Bank. We have with us today the management team of KVB represented by the MD and CEO, Mr. B. Ramesh Babu; President and Chief Operating Officer, Mr. Natarajan; CFO, Mr. Ramesh Murthy; and Company Secretary & Compliance Officer, Mr. Srinivasa Rao.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. B. Ramesh Babu, MD and CEO to take us through the highlights of the quarter gone by after which we will open the floor for questions. Over to you, sir.

B Ramesh Babu: Good evening to all of you. I welcome you all to the Bank's earnings call for Q3 of the financial year 2022. We trust that you and your colleagues and family members are keeping well in good health. Reports that the impact of the third wave of COVID virus has not been as severe as the earlier wave which provides a succour. Going ahead, we are confident that the spread and impact of this mutant virus will be controlled, aided by increased vaccination coverage. I take this opportunity to extend our gratitude to our team members for continuing to extend required banking services to our clients despite an unfavorable environment. We are also pleasantly surprised that the third wave did not impact the business momentum across most sectors, particularly in the southern states of the country. Globally, many countries including the US have initiated measures to contain inflation and the impact is already felt in the Indian financial market. We are closely observing the policy measures of RBI, which may have an impact on the liquidity and interest rates and we are prepared to meet the challenges, if any, which may arise. In line with our guidance indicated in the previous quarters, we are progressing well on the basic parameters and confident that we are moving in the right direction. This is reflected in our third quarter ROA reaching 0.093 on an annualized basis and ROA for the 9-month period on an annualized basis stands at 0.79.

Let me take you through a few important business parameters of our Q3.

First, net interest margin (NIM):

We continue to maintain NIM at about 3.5% level for the quarter 3 despite the competitive pricing environment in the market. Even though the yield of the funds came lower by 16 basis points during the quarter, the stable low cost deposits have aided a 10 basis points reduction in the cost of deposits to 4.22%. Hawkish trends in the financial market clearly indicate hardening of interest rates in the near future and we expect that lower duration of our investment portfolio will aid in improving our yields on investments and also mitigate MTM impact. Our focus on NIM continues and the same will continue to be at 3.5% plus levels.

Operating and net profit:

Net interest income has increased to 687 crores, up by 103 crores from 584 crores during the quarter ended December 2020. Fee-based income has increased by 7% year on year to 162 crores. The same is up by 13% on a sequential basis too. Employee expenses were lower during the current year as compared to Q3 of the previous year after normalizing one-time items. Details of the same are available in slide No. 7 of the investor presentation. Employee cost for the current quarter includes an amount of 27 crores which is a second installment of the amount amortized to meet the enhancement in the family pension obligations. You are aware that RBI permitted banks to amortize these expenses over a period of 5 years. We have decided to account the entire amount of 81 crores based on the actual valuation during the 3 quarters of the current year itself. So, the residual amount to be amortized stands at 27 crores as of 31/12/2021 which will be expensed during the last quarter of 21-22.

Other operating expenses went up by 13% during the quarter as compared to a year ago. Reasons for increase include transaction fee incurred on the digital transactions. Correspondingly, non-interest income too has risen as stated earlier. We have initiated various cost control measures and closely monitored the various items of expenses.

Operating profit after recasting the depreciation on investment as per the revised disclosure requirement increased to 402 crores, higher both on Y-o-Y basis as well as sequentially that is up from 375 crores earned during the second quarter of the current financial year. Our follow up and recovery initiatives resulted in lower slippages. As a result, our credit-related provision requirement reduced to 135 crores which includes restructuring provision also. In spite of increase in bond yields, there is no significant MTM provision on investments on account of our conscious decision to maintain lower duration. So, the depreciation numbers for the quarter pertains to SR provisions.

Net profit has risen to 185 crores for the quarter registering growth across the quarters that is higher than 165 crores in the quarter 2 and 109 crores in quarter 1; improvement on all fronts, net interest income, other income as well. Control over expenses and lower provisioning requirements have led to the positive impact on the bottom line. This is the highest quarterly profit earned by the bank during the past 18 quarters.

Slippages and asset quality:

Gross slippages were at 223 crores during the quarter, and for the 9-month period, the same was at 621 crores which works out to around 1.11% of the loan book. Our recovery upgrades have again surpassed slippages for the second as well as third quarters resulting in net slippages being negative to the tune of 84 crores during the quarter. There is a reduction of 255 crores in GNPA during the 9-month period. There was no technical write-off or SR transactions during the quarter. We are working towards keeping the gross slippages well within 2% of the loan book at the end of the financial year and are confident of meeting these goals. We aim to achieve negative slippages in the coming quarters also. SMA 30+ balances at the end of quarter 3 stood at 737 crores which is 1.32% of the loan book. SMA book includes jewel loan balances of 279 crores. So, due to lower slippages and recoveries, GNPA level has come down by 41 basis points during the quarter to below 7% and stands at 6.97%. Our aim is to reduce it to below 5% levels by 2023. Our net NPA level has further reduced by 86 basis points to 2.47% during the 9-month period. Bringing net NPA to below 2% will be one of our most focused items on the agenda.

Restructuring book:

Our overall standard restructure book as of 31st December stood at 1616 crores which is around 2.9% of our loan book. During the quarter, 84 crores slipped to NPA and further details are available in our slide number 28 of our presentation. In terms of regulatory guidelines, we have provided 146 crores towards this book. Coming to the growth, we have achieved total deposit growth of 8% year on year and major contribution from CASA segment. Our current and savings book are growing well recording 12% growth. CASA share is at 36% levels and we continue to work for further improvements. Our DLite banking application is working well and we have been continuously adding many more features for better customer experience.

Our agricultural loan book which mainly consists of jewel loans grew by 12% year on year and sequentially by 3% and we expect that the trend will continue in the 4th quarter. We are in the process of implementing interest subvention model of agricultural loans at our rural and semi urban branches. This will be helpful for the branches to expand our customer base. Retail loans under personal segment have grown by 11% year on year and sequentially 3.4%. This is predominantly on account of residential mortgages and jewel loans. Our pre-approved credit card program has been rolled out to our existing customers during this quarter and we propose to scale it up further to our existing customers before opening up for the general public. Our overall jewel loan book has grown by 14% and constitutes 25% of our loan book. LTV stands at 72% with negligible NPA and SMA-1 and 2 at less than 2%. The entire loan disbursement process is fully migrated to digital mode to ensure 100% compliances. Commercial loan book has grown by 8% year on year and close to 5% sequentially. Though there is a visible increase in the sourcing and disbursements, existing book rundown and non-availment of sanctioned limits have impacted the growth. We are focusing on this segment very closely and we expect that we will be in a position to improve further and achieve double-digit growth.

Corporate banking growth remains muted and there was a marginal degrowth. We have made fresh disbursements of 687 crores during the quarter, and due to the pre-closure of certain large accounts, the growth is not visible. However, we expect a moderate growth of around 5% during this quarter, both NEO and precious metal portfolio continue to grow sequentially. Our NEO business model, transaction banking, bullion business, and co-lending business models with NBFCs are doing well. We are now focusing to scale up our activities under these business segments. We expect to achieve a growth of 10% overall in the loan book during this year. Our CRAR continues to be robust and is at 18.79 providing us a comfortable headroom for growth. Our liquidity is also comfortable and we continue to maintain LCR of about 200% levels. Treasury contribution is on an even track, duration of AFS book is 1.92, and we do not foresee any material MTM losses in the current quarter despite raising interest rates.

We had indicated during the last meeting on the launch of government business. We are glad to share that our customers are now able to remit customs duty payment through ICEGATE portal of Central Board of Indirect Taxes and Customs, and integration work is in progress for direct and other indirect taxes. We are now working on to expand our business relations with other central and state government departments and undertakings. We have launched account aggregator services and integrated it with our digital loan origination system. We have successfully tested API services with CERSAI and this will enable us to upload the required data to CERSAI registry without manual intervention. Let me conclude by stating that the financial performance for the quarter is an important milestone, considering the continued improvement in the performance and is an indication that bank is moving towards better times ahead.

I thank you all for your participation, and we'll be glad to accept your continued feedback. Thank you very much.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Good evening Mr. Babu. Thank you very much for the update and good results. Sir, I have a very quick question on the retail growth which still looks modest compared to what we are seeing even in the larger banks in both secured and unsecured. And even in the commercial, there is an uptick in the quarter but we've seen stronger growth in other large banks actually. So, the first question is related to growth, both in terms of branch additions, are you planning any in the next 1 or 2 years? Would there be a net branch addition and what would that mean for the sustainable growth rate after this year? The second question is related to digital penetration. While it is at 93%, the digital volumes when we look at it, again it is modest despite being a small bank compared to many large banks. It feels like that you have relatively low engagement with the customers, probably product customer or the transaction that you have with them. Can you understand how do you plan to improve that?

B Ramesh Babu: The first thing what you were asking about the business and growth and you were also mentioning about the branch expansion. This year, we are planning to open around 10 branches. Everything is okay because we are trying to get the branches, location, all these things and all, we are on the job. So, that will be there. But irrespective of the branch expansion, the question is business growth is something different because rest of the network whoever is there, that way organic and inorganic, we have been trying. If you look at our retail growth is concerned, a home loan business you would have seen around 10% growth, but naturally when the rates of interest about 6 to 6.5 are being offered by a few big banks, naturally a few of the loans will automatically go out also and we are acquiring also because majority of our portfolio is self employed and these sort of things and all…. A robust growth we have seen and quarter on quarter…. December quarter is one of the highest quarters we have worked under the home loan. Coming to LAP, to some extent, we have given it a lower preference; because of this pandemic and all, the cash flows how they move we do not know. Now we have restarted that. That way, the numbers started coming in the LAP front.

Coming to the personal loan portfolio, last time we had told our overall portfolio is 500 crores. We found EBITDA stress in the first wave as well as second wave. Under these circumstances, we thought it is not fair on our part to open the floodgate at this stage. Now, we have reassessed our position with revised measures. In a calibrated way, we are opening and we are going ahead on the personal loan front.

As far as vehicle loan is concerned, as all of you know that the chip shortage issue is there. Despite that, what can be done we have done that, but your point is well taken. How we need to get it up on this particular front, we will see that.

Coming to commercial if you look at it, suppose 1 or 2 years back, the things were actually negative we were growing. We were continuously losing the business. It took some time for the bank to understand and modify the processes as well as the product. With all these things, this is the quarter where every vertical has contributed including business banking unit which was giving around 300 to 400 crores of degrowth earlier, this year for the 9 months' period, we have grown by 300 crores. Likewise, every vertical including NEO, commercial, retail, every vertical has grown. That is the reason we are able to show…. With the momentum what we have got, we are reasonably sure we are activating all of our branch networks as well as our distribution network also. Based on that, we will push it further. That way, we are reasonably confident that by 10% at least we will get, but next year, we will aim for the higher numbers.

Coming to the digital what you're saying, 93% if you say that, the number of transactions which were coming to the branches when we have reduced it, naturally more free time we are giving to the branches. So, as you said, we are focusing on this process of the product per customer and how we need to engage more with the customers. These sort of things we are already on the job. We are actively leveraging our analytics team for this purpose and we are getting some set of pointed leads where we can actually convert them. That way, we are on the job, and product-wise also, we are trying to see product per customer; what is the level of penetration, insurance how much. All these things we are internally working. So, you will be able to see the traction next year.

Prashant Poddar: Just one more addition on that; could you share any data on number of liabilities that you've done this year compared to last year?

B Ramesh Babu: Liability in the sense the number of accounts you're talking?

Prashant Poddar: Yes, sir.

B Ramesh Babu: Number of accounts compared to last year – but last year, more or less, we have done slightly lower than last year. The reason is, the pandemic in April-May has hit us a lot. During that time, we couldn't do. Then, again, if we look back from July onwards, we are much much better than last year. One more thing what I can say is the quality of accounts what we have opened, the per account balance and the average outstanding for the lower number of accounts though we have opened, the amount of business what we have got it out of these lower accounts is much more than last year. That way, our focus is not to go for granular smaller unproductive accounts but to go for quality accounts. This has been percolated and boys are doing that.

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

Renish P: Congrats on a great set of numbers. Sir, the first question is on our Other Operating Expenses. In Q1, in absolute terms, this number used to be 200 crores which has gone up to now 240 crores. Q2, it went up to 220 and now it went up to 240. Trying to understand where we are incrementally spending.

B Ramesh Babu: There are 2 aspects related to that. First quarter cannot be a representative quarter for comparison now, because once the things started opening up, people started moving out and we need to spend on this also because until and unless we spend on this, you will not get the business there. Not only that, suppose the upfront for the acquisition what all you're going to pay on the assets, this it may look like an expense this quarter, but you need to amortize – let us say home loan, for a DSA, you are paying something, but you need to amortize that over a period of 10 years. That way, this sort of acquisition cost is also there and we are also getting feet on the street for the liabilities also, we are mobilizing, and rest of the expenses also because we are making the people to move around and get the business, this has gone up.

Another thing what we need to see is the UPI expenses. Because the number of transactions are going up month after month, those expenses are going up on which we have no control. We need to see how we need to mitigate that.

Renish P: So, it's a combination of business growth plus sort of digital growth.

B Ramesh Babu: Otherwise, we are trying to have every head-wise control. Everything unnecessary we do not want to do it. A lot of sensitization awareness has come amongst all.

Renish P: I was just wondering, the sequential growth is some 9% versus loan growth of 4%. I was just trying to reconcile that numbers there. Sir, the second question is sort of a follow-up about what Prashant had asked. If I look at our asset quality performance, it has been by far one of the best on the street when we look at the SMA pool of sub 1%. So, clearly we are far behind the balance sheet problem. Again, when we look at our liability front size and when we look at our cost of funds of around 4.4%, it would be one of the lowest on the street. So, why not pushing for the growth aggressively and gain some market share from NBFCs and HFCs?

B Ramesh Babu: What happens is suppose if you have to push aggressively by reducing the pricing, there is a major risk what you find is this is a closely knit market where many of our customers in South, particularly in Tamil Nadu if you look at it, if you make a rate of interest of 1 account from 9% to 7%, within 5 minutes, the message spreads. And around 20 accounts will come immediately in a queue to reprice. So, first of all, I may get another 5 crores business or 10 crores business is immaterial. My repricing first of all comes down from 9% to 7% for 50 crores. So, I have to go in a calibrated way. That doesn't mean that the number of loans what we have booked under the commercial segment where this pricing is not a major issue, i.e., up to 2 crores, likewise of the business banking unit up to 15 crores – here, they are not price sensitive customers. So, we are pushing a lot this year. That's the reason you are able to see visible growth under this segment. Whereas in the corporate if you go for that, despite that good corporate accounts and all we have done that – AA, AAA these cases are there, we have done that, but across the board, card rate itself if we change, there will be a total change actually repricing of the whole portfolio. That is a risk.

Renish P: I agree with that. There could be some pressure on margin. But somewhere down the line, we have to strike the balance between rate sensitive growth plus hard growth. I was just wondering till what time we will be happy with 10% growth.

B Ramesh Babu: Okay, we will do one thing. We will do our own working based on, suppose pricing in a few locations which are price-sensitive locations, by reducing the pricing, how best we can grow. Accordingly, we will take a call on that.

Renish P: Is there a thought process about all these things?

B Ramesh Babu: Every day. I will tell you the number of cases what we consider every day for a reduction, so many. So many cases we will be doing and they will be seeing what is the market, what others are doing, how we need to frame. All these things continuously every level people are looking. That is the precise reason you are able to see our NIM more or less we are able to maintain at that level and yield also, but otherwise, we are very much aware we are not allowing many accounts to go past us and simultaneously we are acquiring fresh accounts also.

Moderator: The next question is from the line of Jay Mundra from BNP Securities. Please go ahead.

Jay Mundra: Thanks for hosting the call on the same day. I have a few questions. First, again, on growth. If I see your commercial growth, while you had mentioned that you have done a reasonably good business, but there is non-availment in the facility of this underlying borrowers. If I see your average, the detail that you have given is your majority of the commercial is above 10 crores.

So, a) Could you comment that how is the competitive intensity here? Because it looks like large banks have come down to this ticket size in the last 1-2-3 quarters. Any comments there? b) If you can share let us say within commercial, what could be balance transfer ins and balance transfer out? And is there any change in the trend there?

B Ramesh Babu: First of all, coming to competition, competition is not accelerated in this quarter. It is there for the last 2 years. Actually, when the COVID started, every bank started to get others' accounts, but despite that, we also knew the trick of the trade and how we need to manage. That is the reason this quarter despite all these issues, we knew our strength; textiles, we are pretty good, traders we are good. Through analytics also, we did what is our expected loss going on. With all these things, we worked on that. That way, 10 crores up to 15 crores also. Granular portfolio under the BBU is growing pretty well. We have a strong pipeline also for the BBU. That way, competition is there. I'm not disputing that one. But despite that, the potential is also so much. That's why we are able to grow this year under the commercial.

Coming to the organic indirect and direct if you say, everything what we have done is absolutely from our bank channels. And we have done that. No any bulk here under the commercial.

Jay Mundra: What I was asking was let us say 2 years back if you had 6 new customers and maybe 2 customers outgoing to competition, has that changed over the last 2 years that you may have to dig deeper into newer customers because your BT outs may have increased? How would you look at that BT ins…. I mean new customers coming in and existing customers moving out?

B Ramesh Babu: Very correct. Not only for our bank, every bank more or less the outflow compared to the previous years, the numbers have gone up. But we have managed in such a way, the inflow is much much higher than the outflow to take care of our growth as well as for the outflow. That way, few accounts what we have lost consciously which is an exit market account, there is weakness and many collateral issues. All these issues are there. Despite that, others are offering on a platter we are handing over. It is because in the normal course, you may not be getting rid of that. It is an occasion now; others are taking, we are giving it. But wherever the quality of the account is good, we are trying our level best everything what all we need to do including the rate of interest what Renish was mentioning, we are giving the competitive rate what others are offering to retain them. That way, the outflow is concerned, yes, numbers have gone up relatively compared to last year, but the inflow is much much higher than the earlier years. That way overall, we are able to grow well.

J Natarajan: Jay, I would like to add a couple of points here. Our commercial lending is bifurcated into Small Business Group and Business Banking. Small Business Group takes care of up to 2 crores and more than 2 crores up to 15 crores taken care by the Business Banking. Now, we have created a very clear cluster for the Business Banking at all the important locations. Specific RMs are posted. If you see when incremental growth other than our existing customers' normal growth, only balance transfer is possible because there is not much new projects coming up and the only way is now we have to take over the good accounts from the other banks and NBFCs. That is what we are trying to target. And if you see comparative study, for example, the previous year's and now, definitely, the sourcing numbers have increased both in Small Business as well as the Business Banking. Only thing is like our MD has already mentioned that the unavailed limits and the cautious people they reduce the limit, these type of things, growth does not reflect that. But having said that, very good sanctions are made during the past 6 months' period. If you take the availments from these, it is only 40% to 50%. We are confident that this quarter being a busy business, particularly on the textile – cotton season started and chillies season will be starting and other trading activities, definitely the availments will be more. So, whatever the availment from the existing sanction, we are expecting that there should be a sizeable growth increase will be there. Going forward, the growth has been our mantra. Every week, we have been continuously see that how we can push the growth. We have implemented a lot of new strategies and we have put a lot of people in the market so that all these things will gradually upgrade our growth from the single digit to at least 10% to 12% in the coming quarters.

Jay Mundra: Secondly, if you can share the outstanding provisions against restructured loans – I think some 1600 crores is the restructuring standard loans, how much is the provisions that we are carrying against these?

J Natarajan: 146 crores is the overall provision we are keeping it for restructuring book.

Jay Mundra: Is there any other pool of provisions? This 146 is pertaining to restructured and then you have PCR which we have increased in this quarter and there is no other contingent provisioning by whatever names, right?

J Natarajan: No, we don't have any other contingent provisions. This 146 is the standard restructuring book, Jay.

Jay Mundra: And last few questions, sir. On NARCL, I think the bad bank is now implemented. How much of the assets have you earmarked which you could transfer let us say in the near term? And what would be the resultant impact on…. What could be the provision write-backs there? Because I believe all this would be like 100% provided.

J Natarajan: As per the initial indications, a couple of months back when IBA called for the details, I think 9 to 10 accounts were in the list. But if you notice a couple of days back, the SBI chairman in the press he was mentioning that they will be taking only 15 accounts for this financial year. We are trying to get the details of these 15 accounts. And I don't think any large accounts will be there. I think this quarter, based on our indications from the bad bank, I don't think much progress will happen this quarter. Maybe in the next financial year 1st quarter, opportunities are there.

Jay Mundra: Maybe if you were to go by that 80,000 first tranche – forget about in the last 7 days' development wherein there are 2-3 tranches – but these 9-10 accounts, what would be your gross exposure and expected cash recovery?

J Natarajan: As per the initial indication, I am not sure about the final accounts. Seven or eight accounts put together 600 to 700 crores is our book balance. These are all majority of the books already fully written off because one of the primary conditions for this is we have to provide 100%. Some of the accounts are technically written off, some of the accounts where we have 100% provided. In that way, if it materializes, the 500-600 crores, they have to work out what is the ratio and all. Everything will go to the cash only.

Jay Mundra: But ballpark number cannot be more than 100 crores, right?

J Natarajan: All the realizable value and all these things, we are yet to get from them. Once they work out what would be the percentage – basically 15 is the cash component and 85 is the SR component – and they have to value what is the value they are transferring, that we have to work out.

Jay Mundra: On your collection efficiency, if I see the slide that you have given very good details on collection efficiency, it is better in December versus November and versus let us say October. Does the trend continue in January or there is some impact because of Omicron, etc.?

J Natarajan: There is no change in the trend, it continues. That's what it is also reflecting in our SMA 30+ book. It is the lowest number we have achieved. In January also, that trend will continue. We don't see any big change in the collection numbers, Jay.

Jay Mundra: Also, sir, on slide 14, we have given the digital loans at the origination. From last quarter, I think there seems to be some moderation in the momentum that the sourcing has declined (slide 14) and then disbursement has also been flattish kind of a thing. Is that to do with what is happening here? Because we have a decent fintech partnership and few NEO programs, etc., all put together. What is the reason for the slowdown here?

B Ramesh Babu: You understand; the September one is slightly deceptive. The reason is, first quarter we had to take a beating on account of the second wave. That way, that accumulated what all a part of the first quarter also have come into the second quarter that way. But whereas this quarter if you look at it, standalone we had to do it. That way this number if you look at it, the disbursement amount if you look at it, more or less same, 575 and 581. So, the trend is continuing. The backlog of 1st quarter what all have come, that is the reason 2nd quarter looks slightly on a higher side.

Jay Mundra: Last clarification from my side. The SMA 1 and 2 numbers that we are showing, this is for entire bank, right? It is not for commercial or corporate book?

J Natarajan: Yes, whole bank.

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

Vikas Sharda: Sir, 2 questions. One is that, you mentioned that you would target FY23 less than 5% gross NPA. Would be good to understand…. I mean what assumptions you are building into that and how do you plan to achieve that? Second is that, you achieved basically 10% ROE this quarter. Going forward, what kind of ROEs are you looking at and do you think that now double digits is a new normal for you?

B Ramesh Babu: First thing GNPA when you said, our planning is for actual putting in labor and in a harder way to recover only. On one side, these sorts of things will come up, I am not disputing, but whatever it is, next year we have an elaborate plan for recovering, particularly by auctioning the assets what all are there. Many times, last year also when we tried, some courts were not working or actually the COVID wave. With all these things coming to this thing, we want to push this particular vertical very critically for the next year so that we will get maximum for an organic reduction in the GNPA. In addition to that, inorganic may be getting and all, I am not disputing, but our efforts will be towards the organic reduction.

Coming to ROE is concerned, I agree because we have been on this path continuously because the first meeting when I had with the analysts, the ROA discussion has started. With that, every vertical we have been working on those lines. So, we are confident that because every lever is working now, we will be able to move forward and this double digit under the ROE will improve further. Our motto is also the same.

Vikas Sharda: How sure about the gross NPA target?

B Ramesh Babu: You need to aspire for a number. If you do not even aspire, the entire team will not have any goal to reach. That is the reason if we talk about 5%, the entire team will be geared up to move towards that. Even if 5.2, 5.3, but first of all, we need to aim for 5%. Otherwise, if I say 6%, it will be easier, or I cannot say 4% which may be difficult.

J Natarajan: Vikas, a simple point I will tell you. Currently, our gross NPA number is 3800 crores. So, simple working what we have done is we have listed out the accounts which are the accounts that have a probable chance in the next year. Like that, we have worked out some 800-900 crores worth of accounts we have listed and then we are aspiring that, okay, these 800 accounts we can push and if we reduce by 3000 or less than 3000 crores and increase in the advances, naturally the number will come to 5%. That's why only, it is predicted with some clear mathematics.

B Ramesh Babu: Likewise, the NCLT cases which are in advanced stage, likewise retail around 1400 crores portfolio is there under NPA, we are trying different means to get money out of that. That way, for each of the segments, we are trying in a different way to get some money out of that.

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

Mahesh M B: One question to add on to the previous one. As per your assessment, you have reached a credit cost today which is a little less than 1%. But there are some segments like corporate where the NPL coverage ratio is still at about 65 odd percent. In your assessment, where does this go, sir? Does this number have to go up materially as these assets become older from an NPL bucket perspective and the aging provisions will be higher or you think you can control it at these levels?

J Natarajan: Mahesh, the current percentage is 68.8, at most 69% provision we hold. And all the historical legacy accounts all these things are by and large fully provided except 1 or 2 accounts. That also, over a period of time can be adjusted. So, what we believe is that going forward, there will not be any large requirement from this number. I am talking about regulatory provisions. For a prudent provision, all these things, yes, that is a different issue. On the IRAC norms if you ask, there is no need for providing much provision except some sort of aging provisions where the recent NPA account. Otherwise, the old historical legacy accounts all these things, these are all completely provided.

Mahesh M B: In your sense, if we have to just take this forward, if the net reduction is let us say the recoveries and upgrades is higher than slippages, do you think the extent of credit cost could meaningfully decline as well?

B Ramesh Babu: Ideally, we too think like that, Mr. Mahesh. We sincerely hope for that. That is the reason we are working on these lines. You would have seen that last 3 quarters continuously how we are able to bring it because we started controlling from the SMA itself. Earlier, we were focusing on the NPA. Now, SMA itself when we start working and it is working well more or less. So, we are also aiming in the same way.

Mahesh M B: One last question, sir. On the OpEx front, currently if you look at the numbers, we are doing approximately about 470 to 480 crores for the last couple of quarters. Can this number hold on to these levels for at least another year or you think that you may have to spend a lot more than this?

B Ramesh Babu: Ideally, you may have to invest in something, suppose IT. So, you have to grow continuously…. or sometimes the commissions for the acquisition, you may have to pay. So, what we will do is to the extent possible which are controllable, we will try to control, but too much of trying to have a control on this and focus is on the containing the expenses rather than on the business, it may actually deviate the focus. That is the reason we are planning that we need to grow much better on the income side so that overall the ratios are better, but whereas expenses are concerned, once the income grows, automatically percentages also will go up, not an issue. Everything will be improved. For expenses are concerned, we are well aware and we are trying to contain every head. Wherever not warranted, we are trying to reduce it. Even right from the rental, rental also many places it has been renegotiated. It has been brought down in the COVID; likewise ATMs, everywhere. Every head our people are seeing what can be renegotiated, what can be brought down.

M D Ramesh Murthy: If I may add; in our department in finance, every single line is questioned, scrutinized, and we go back to the departments which are incurring these costs as to how can they be brought down. There is a tight control which is being managed on the expenses.

Mahesh M B: I was just trying to understand, if the margin levers are not quite limited from here onwards and if your balance sheet is going to grow a little over 10%, the levers on ROE for next year essentially comes only on credits looking at the conversation that we had until now.

B Ramesh Babu: Credit cost as well as business also.

J Natarajan: But Mahesh, you have seen the NIM? During the past 6 quarters, how this NIM has translated, particularly on the cost side and a lot of focus is given on the acquisition, the CASA, the deepening. So, we continue to penetrate the market, increase the CASA segment. In that way, we are trying to retain whatever benefits we already accrued on the cost of deposit side. On the yield side also, for example, we have a very low duration. Going forward, almost 2000 crores' worth of investment is maturing in the next year. It will all be repriced for a better price so that that benefit also will accrue. Not only on the credit cost but general growth as well as on the other profitability, we are very confident.

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

Prashant Poddar: Mr. Babu, just a clarification. As you have explained in detail, we have to congratulate you for being able to maintain margins in this tough environment where you don't do much unsecured loan honestly. So, to be able to grow at 10% with a relatively weak CASA franchise honestly, it's a pretty good job.

We don't want to lose your credit cost success. It is only that we were saying that the balance sheet is small. So, maybe you will be able to explore areas which aren't very high credit cost but give you your desired yields. That was just a suggestion.

I have one last question which is on the pool of NPL that you have on the balance sheet plus written-off accounts that you have. Put together, what would be the size of commercial and retail assets? Because corporate I don't think there is much hope of recovery. So, I just want to understand what is the pool of NPL plus written-offs in commercial and retail which is mostly secured, both of them.

B Ramesh Babu: Written-off if you look at it, majority of the portfolio is corporate. The retail portfolio as well as commercial, it is a pretty small portfolio. Wherever they are collateralized, definitely we are going forward and we are trying to get the court orders and all disposal, these things. That is not an issue. But rest of the cases where the consortium members, we are a member of the consortium bank, they written-off. So, NCLT, all these cases are there. So many ifs and buts are there. That's why we have absolutely no control straightaway to any number for the written-off is concerned.

Coming to rest of the portfolio, even other NPA also, as I said earlier, we have given some focus for…. Because if you look at our collateral – we have a slide also – except 922 crores, majority of our portfolio is more or less collateralized. So, the collateral realization it had some set of problems for the last 1 to 1-1/2 years due to COVID because courts were not actually functioning and they are not giving. Even if we approach them also, it's a backlog….

Prashant Poddar: …. you spoke about that.

B Ramesh Babu: That is the reason. The rest of the cases, we will be focusing on that. We will be able to recover, not a problem. Corporate only is not in our hands for the time being.

Prashant Poddar: These cash recoveries are recognized in Other Income, right?

B Ramesh Babu: Yes, correct.

Prashant Poddar: Upgradations would reduce your slippages, right?

B Ramesh Babu: Yes, provision reversal will be there for the upgradation whereas cash recoveries therefore written-off will go to Other Income.

Prashant Poddar: Looking at this pool, would you be expecting almost negligible net slippages even in the next year? I think you answered that question partly as in earlier question, but would you have in your assumptions what kind of recoveries you could have from the current pool which will help you reduce your gross slippages next year?

B Ramesh Babu: That's what. We mentioned in the indication and the guidance initially the net NPA as well as the gross NPA. We will try to work towards that. It has to be a two-pronged approach. One is the fresh additions have to come down, and the second, we have to recover. Both we have to do it. So, it's a two-pronged approach.

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

Pranav Tendulkar: Sir, I have these 2 questions. First of all, in the existing retail and self-employed customer franchise, what are the matrices that you are tracking for cross selling and in terms of key products as well as maybe trace products? And would you like to highlight some of the matrices that are panning out well?

Second is, GNPA you are saying that FY23 will be 5% and our PCR at the end of FY23 will also be commensurate to what it is now which is 65% to 66%, right?

B Ramesh Babu: Regarding the first question is concerned, self-employed, that's why I was earlier mentioning saying that routinely doing will be difficult. That is the reason we are using our analytics started extensively and they started seeing and what sort of products can be actually targeted to which sort of customer. That way, they have done the customer profiling and self-employed, salaried, that way they have given it and which we have taken it. Now, branches are focusing on that. That is the reason we could see some sort of a momentum and we will improve it further. Earlier, just like that our teams were doing it. Now, it is more focused through analytics what all is there, that way we are doing. That way, the conversion rate is relatively better compared to earlier.

Pranav Tendulkar: If you share some matrices like say we have X amount of customers, and out of these, these many are approached in a quarter. Then, it will be easy for us to also get a sense of your efforts if something related to that is available. Or how many customer calls were made last year versus this year – something like that. Something to track to understand the efforts because the results are not in our hands, but at least efforts could give us some confidence related to future growth.

J Natarajan: Pranav, during the past almost I can say 4 or 5 quarters, what currently we are doing is we have started the pre-approved programs. The pre-approved programs not only for the personal loan but also for the auto loans and other loans. The existing customers continuously now we are in touch by even including the credit card. The first set of cards were given to our existing customers. Like that, considering the success of the pre-approved program, we are continuously launching this program to all our products to our existing customers. That is number 1. Earlier in the past, many of our customers used to take an auto or a home loan from the other banks. Today, we made it a point that the first choice should be with our bank. So, in that way, that's what our MD has mentioned that the analytical department is continuously pumping the data to the branches, approaching them – these are the customers where we can approach a home loan based on some algorithm, these are the customers where we can touch for auto loan. Like that, these efforts already we have started and all our sales teams continuously they are doing this job. Since it is giving a lot of results, now continuously we are doing this exercise.

B Ramesh Babu: One more point also, Pranav. Because we started that recently, it requires refinement. Suppose once we approach them, happening or not happening once we know it and all, analytics is getting the feedback, they are refining. So that more and more focused lead comes, the conversion will be much better and otherwise energies get frittered away and you will not be able to get the results. That is the reason, this fine-tuning we are doing and we are in the process.

Pranav Tendulkar: So, is it safe to assume that FY23 will be a mid teens loan book?

B Ramesh Babu: Yes, definitely. We are aiming for that only.

Pranav Tendulkar: About PCR? What is the PCR target for FY23?

B Ramesh Babu: PCR, let us see, because more or less 63-65 is there at comfortable position. How best we can take it forward, we will see that. In the meanwhile, recoveries also will be coming. That also we can use it.

Moderator: The next question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: Most of the questions have already been answered, just a couple of data-keeping questions. Sir, if you can give the breakup for the NPA reductor in Q3. It is roughly around 300 odd crores. If you can give the breakup between what is the recovery, what is the upgrade, and what is the write-off?

J Natarajan: Actually, in this 308, there is no write-off involved, Suraj. Everything is either recovery or upgradation. If you want, we will share with you how much is upgrade and how much is recovery.

Suraj Das: My second and last question is, this unamortized family pension amount which is roughly around 27 crores, is this amount netted up against the capital?

J Natarajan: Yes, netted up against the tier 1 capital for CRAR computation.

Suraj Das: So, it has been netted up against tier 1 capital?

J Natarajan: Correct.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. B Ramesh Babu, MD and CEO, for closing comments.

B Ramesh Babu: On behalf of the entire team of KVB, I thank all the participants here for patiently asking questions which shows your interest towards the bank. We will work further and we will take the bank forward to the higher levels. Thank you very much for the participation.

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