"Karur Vysya Bank
Q2 FY2022-FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022-2023 Earnings Conference Call of the Karur Vysya Bank. We have with us today, the management team of KVB represented by Mr. Ramesh Babu -MD and CEO, Mr. Natarajan – President and Chief Operating Officer, Mr. Mr. Ram Shankar – CFO and Mr. Srinivasa Rao – Company Secretary and Compliance Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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. Thank you and over to you Sir!

Ramesh Babu: Thank you, Aman. Good evening to all of you. Welcome to our bank's earnings call for quarter 2 of the financial year 2023. I trust that you, your colleagues and family members are keeping well and in good health. My Diwali greetings and wishes to each and every one of you.

All of you would have gone through our presentation, reflecting our performance during quarter 2. I am pleased to share that our performance in terms of growth, profitability and asset quality are on the right trajectory and higher than the indications given during our previous interaction. I am delighted to share some of the key highlights of our performance during quarter 2, which is reflected in the business numbers -

We have indicated an estimated loan book growth of 15% for the current year. We have achieved a year-on-year growth of 16% during quarter 2 and the fact that growth is inclusive across all business verticals, which augurs well for the bank. We expect the trend to continue in the current quarter considering the busy season, fairly good monsoon and structural changes implemented over a period of time, which have now started yielding favorable results.

Our total deposits grew a tad lower at 13% year-on-year, as against expected growth of 15%. In tune with the policy rate hikes and the need to mobilize stable term deposits, we have increased term deposit rates by 70 basis points on 16th August and 1st September for 1-year maturity. The rates are competitive and comparable with other players, thereby enabling us to achieve a 13% growth in this segment, which was 4% for the first quarter. So the liability business team is in place and are active in the market to source stable term deposits. Going ahead, we will focus on this segment to improve our stable deposit base.

Demand deposits continued to grow by 15% over last year. Savings bank segment grew at 11%, while customer on-boarding continues to grow, there was some outflow too, as few high-value customers appear to have taken advantage of the spike in yields in other investment segments. We are monitoring this segment very closely and targeting to achieve 15% growth. Savings bank account interest rates remained unchanged during the quarter.

We continue to keep our NIM over 3.75% levels and for quarter 2 it was 4.07%. Our cost of deposits remains flat at 4.08% over last quarter in spite of hike in time deposit rates during quarter 1 of the current financial year, and the increase in cost is compensated by growth in low-cost demand deposits. The effect of two interest rate hikes on term deposits, which I spoke about earlier, will have an impact in the coming quarters. I reiterate that we continue to focus on low-cost deposits so as to offset the impact of hike in term deposit rates and aim to keep the increase in funding costs at a minimum level. Considering positive yield movements in advances, which I will explain next, and investments, we are confident of maintaining a NIM north of 3.8%.

Yield on advances have moved up from 8.27% to 8.55% sequentially; during quarter 2 MCLR rate went up by 15 basis points and EBRR by 50 basis points, followed by another 55 basis points which will be effective 1st October. On account of these hikes, yield on advances will continue to move upwards in the coming quarters. As indicated earlier, 85% of our loan book is under variable interest rates of which 52% is linked to MCLR and 33% is linked to EBRR. Remaining 15% loan book constitutes fixed interest loans, covering deposit loans, auto loans, staff loans, etc.

Non-interest income has increased by 48% over September 2021, mainly due to increase in fee income as well as the write-back of MTM depreciation on investments to the extent of INR 13 Crores.

Employee expenses remained flat, both sequentially as well as previous year, due to lower AS-15 provisions. We expect that it will move up by 10% in the coming quarters considering the DA increase and increase in number of employees besides AS-15 cost, if any. Employee count stood at 7,393 as of September 30, as against 7,262 at the end of first quarter. During the quarter, we have added 295 officers exclusively in the sales.

Operating expenses have gone up by 17% over September 2021, mainly on account of increased scale of operations, however, it is within our budgeted levels.

Increase in net revenue by 26% and operating expenses by 4%, aided the reduction in the cost-to-income ratio at 46%, lower than 56% last year and 50% for the last quarter. We have been indicating that our cost-to-income ratio would be kept at reasonable levels, and now this is made possible because of our conscious efforts in keeping the denominator growing and the numerator at the required level. We will continue to focus on this ratio and maintain it around 50% level,

Operating profit as a bank has been consistently increasing over the past 5 quarters and increased by 56% over last year and 19% over last quarter and this is on account of combined effect of higher growth, enhanced profitability and lower slippages. Our annualized gross profit to assets now works out to 2.64%, and we will continue to improve or maintain this upward trend.

We have made a provision of INR 206 Crores towards our delinquent loan book, mainly for ageing of underlying assets and also to further improve our coverage ratio. Credit cost for the quarter works out to 0.33%, and for the half year, it is around 0.56%. We have given a guidance of 1% credit cost on our estimated loan book for the current year, and during quarter 2, we have front loaded our provision requirement for balance sheet management and also for better tax planning.

Net profit of the bank has risen to INR 250 Crores, which is the highest ever number achieved in a quarter, registering an increase of 52% over last year and 11% sequentially. We expect that this uptrend will continue during the next 2 quarters.

Return on assets has been consistently growing during the 7 quarters and for the current quarter; it is at 1.16% and as against 1.09% during the previous quarter and 0.86% during the corresponding previous period. We have indicated an ROA of 1.2% for the exit quarter of the current year, and we expect that we would comfortably surpass this number for the March quarter of the current year.

Our CRAR continues to be at a comfortable level and is at 18.31%, and liquidity coverage ratio is maintained at a prudent level of about 200%.

Gross slippages were at INR 131 Crores during this quarter, which works out to less than 1% of our loan book on an annualized basis, which is in line with our guidance.

Our recoveries upgrades or surpassed slippages during the quarter, resulting in negative net slippages to the tune of INR 74 Crores during the quarter, and this is the fifth quarter in succession, wherein we were able to maintain this trend of negative net slippages.

Technical write-off of INR 576 Crores has been undertaken during the quarter, which was done for balance sheet management, recoveries from this segment are showing an uptick, and we hope to improve on this front during the remaining part of the year. There was no sale to ARCs during the quarter.

SMA 30+ balances at the end of the quarter continued to be below 1%, INR 411 Crores, which includes Jewel loan balance of INR 41 Crores also.

Due to lower slippages, recoveries and technical write-off, gross NPA has come down to 3.97%. Our plan is to reduce it to below 3% level by March 2023.

Our net NPA level has further reduced to 1.36%, and it is our endeavor to bring it to below 1% level by March 2023.

The overall standard restructured book is at INR 1,231 Crores as of 30th September 2022 as against INR 1,640 Crores at the end of March 2022. There has been a reduction of INR 409 Crores, which is by way of closures, repayment, upgradation and movement to NPA. 5% of the restructured book as of 31st March 2022, moved to NPA up to September 2022. We hold a provision of INR 114 Crores towards standard restructured book. Further details are available on Slide 29 of our presentation.

We continue to improve our digital offering to customers for better customer satisfaction and on-boarding. We have successfully implemented digital on-boarding of customers for opening of current accounts across the bank and are in the process of implementing the same for savings bank.

Our digital lending system is working well and enables us to scale up our operations, enhances efficiency besides quality on-boarding of customers.

We have enabled payment of customs duty to ICEGATE portal, GST and income tax and other direct taxes through digital channel by interfacing with respective government authorities and the Reserve Bank of India.

Our Co-Lending Business with 2 leading NBFCs is doing well, and we are in the process of rolling out this service to two more NBFCs this quarter.

We are tied up with a couple of fintechs for customer on-boarding and we are working with 3 more fintechs, likely to be rolled out in this financial year.

Our performance in business growth, profitability and asset quality has been consistently improving over the 7 quarters. There are certain challenges we foresee, and we have taken steps to ensure that this growth trend continues, sans interruptions through the following measures.

Firstly, with the need to strengthen our liability business, particularly to take CASA mix of 40% of our total deposits, and to increase our stable term deposits, we have created a consumer banking department by merging the personal banking liability and personal banking assets business of the bank. For effective management, we have recruited separate sales heads for the verticals and also regional level sales heads in the market and the team has started functioning from Chennai. The team is led by Head Consumer Banking, who has vast experience in this line of activity. The team will oversee retail acquisition, assets retail acquisition of liability, institutional and government business, TASC and third-party products. We have opened an exclusive retail branch in Hyderabad, which will mainly cater to consumer banking segment with focus on retail loans and retail deposits as no commercial banking activity will be undertaken there.

We plan to open 18 more branches during the current year predominantly to source retail liabilities and assets and one digital banking unit.

Bank always considers MSME sector as a core focus sector of the bank. In the past, the lending business was exclusively managed at branches, and the bank has established 15 business banking units across the country to manage commercial lending business, that is a ticket size of INR 5

Crores and up to INR 25 Crores, and 9 corporate banking units to manage commercial business, ticket size of INR 25 Crores and above. Business up to INR 5 Crores is managed in the branches.

Further, bank has set up a non-branch distribution unit, NEO in Mumbai, and this unit has 14 centers across the country, covering 40 locations and managing MSME business focusing on commercial mortgages, lease rental discount and drop line overdraft. Business is sourced through channel partners, connectors and DSTs. With these changes, bank has started achieving a double-digit growth, and during quarter 2, bank has achieved an inclusive growth of 15% in the loan book.

We are now in the process of creating emerging small business centers under small business group to exclusively focus on MSME business that is for less than INR 5 Crores exposure. We have recruited a senior executive who has vast experience in this line of activity. This team will source business through Direct Sales Channels, Aggregators and Partnership besides DSAs and DSTS and scale up the business using bank's Digital Lending Platform. We are planning to establish new centres in few potential locations during the current financial year.

Let me conclude by reiterating that we did well during quarter 2, and our performance is in line with expectations, business plans and guidance. We have demonstrated a consistent satisfactory performance during the past 7 quarters in different challenging environments, and this is well reflected in ROA moving gradually from 0.19% in third quarter of December 2020 to 1.16% in quarter 2 of the current year.

We are confident and hopeful of maintaining, rather improving our performance during the next 2 quarters. Once again, I thank you all for taking time to join this call.

I will be glad to respond to any questions which you may have. Yes. Over to Mr. Aman.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: Sir, congratulations on the set of numbers. Sir, my question is around our deposit franchise, okay? So in our PPT, we do share the ticket size-wise deposit breakup, and when we look at the deposit base above INR 5 Crores of ticket size, so that bucket has actually doubled in last 4 quarters. So it used to be 5% of the total deposit, which has been increased to 10% of total deposits now, which essentially are hinting at incremental deposits, is largely coming from the above INR 5 Crores ticket size. So can you throw some more light on this? I mean, this is the strategic move. Or how one should look at this trend?

Ramesh Babu: Yes. One thing I just tell you, suppose, if you look at last 2 years, when the credit growth was not that much was there and all. So even if you take these deposits also, the bulk deposits of our customers, I am talking about all these bulk deposits, they are all our customers for decades,. So we were discouraging them saying that we are not interested in these deposits. In the process, they all have gone to other banks. So now what we thought is even if at the time, we will take it also, we will have to place so which will be counterproductive. now that the deposit franchise is required, the credit growth has picked up. So we have reconnected our sales with our customers and told them in the process, what our maturities are happening with other banks and all, they are bringing back to us because earlier they were dealing with us only. We only told them, but we cannot accept at this stage and all we do not want to pile up the deposit. So that way, the deposits of our customers we are getting it back. It is literally homecoming for them.

Renish Bua: Okay, got it. So, this is a bit of balance management drive?

Ramesh Babu: Correct, and not only that the relationship has ended when the deposit market has heated up and all, then there will be a few more bankers and all, they will be going in the process either total customer over a period of time. So now if I get them back also, at least they will be by fold forever that is the point.

Renish Bua: Got it. Got it. Sir, secondly, on the margin side, of course, so this quarter, it is 4%, and then as you rightly mentioned in your opening remarks that second half, the pace of increase in cost of deposit will be slightly higher than the Ascential expansion. So how one should look at the second half of 2023 NIM trajectory? I mean, should it be a downward trajectory or it should sustain where it is currently?

Ramesh Babu: No, Renish , you would have heard that what all the guidance we have given, we said that 3.8% plus we will maintain because something will be transitory. But for the sake of clarity, I will give you the full picture. Now when we talked about our MCLR book, MCLR book comprises of the working capital loans. So working capital will be over a period of 1 year, they get repriced. So this is the peak period next 6 months and all this working capital accounts gets repriced. At that time, the new MCLR rate will be passed on to them. Currently, all this portion is passing to the old rates. Whereas EBRR is concerned, straight away, we are able to pass at 33%, but 52% is the process going on now. So that way, there is a possibility of the yields going up on the advances front also so that these deposits also if the cost goes up, If the yields what all are going up as well as the deposit cost going up, we will be able to maintain. But whatever it is, is transitory. So we still mentally have a feeling saying that we need to maintain 3.8% and above.

Renish Bua: Because first half we are already higher than that?

Ramesh Babu: Absolutely. That is right. That is why we want to be frank. So as long as we could get the benefit of it, we will take it, not an issue so this cannot be a permanent feature. So we need to look at it. That is it.

Renish Bua: Got it, and I mean, is it fair to assume that let us say, if we want to compromise at 10, 20 basis points of margin to chase higher growth. Are we open to that?

Ramesh Babu: Yes. We are open to that, but the only issue I understand. So I suppose you are currently at 16%. Suppose if you are growing at 20%, simultaneously, you need to grow deposits also at 20%-22%. Suppose that systemic liquidity is not there at that level. If you press the accelerator button on the Advances engine, at one point, you are unable to discuss that sort of trade and all it will be embracing in the market. So that way, we need to go in a calibrated way, how much you can mobilize the deposits, how much you need to go and all. So now all verticals earlier, a particular vertical was doing and all others are piggy riding on that. Now the question is every vertical you are able to find a double-digit growth. So that way pressing them and taking it forward should not be a much issue. So that is why we will look at both how is the liquidity position, how is the growth and all accordingly, we will take it forward.

Ranish Bua: Got it. That is it. That you Sir and all the best.

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

Jai Mundra: Congratulations on a great set of numbers, Sir. I have a few questions. So first is, Sir, you had said that we have started adding branches, and we have started adding manpower also, and of course, there is a pickup in the business volume. So just wanted to check, how should one look at the Opex growth in the, let us say, coming quarters and coming years.

Ramesh Babu: Yes. Jai, in fact, we need to see because Opex at all we have factored the budgeting and all. So that will be within that because if we do not open the branches and these things at this stage, particularly for the liabilities, we want to recruit the people. So this is an investment we need to make. So we may be reaping the benefit with a lag of 6 months or so, but that investment is very much needed, but when we are doing this ROA tree and calculations and all, so we have factored all these things into our account. So correspondingly, the increase in the income also has to be there so that the ratios are not vitiated and overall, what all we have committed on the ROE front also will come up and all. So both the organic growth will have to happen and ratios were committed also will have to be there. That is what we are planning.

Jai Mundra: Right. So Sir, the Opex growth for the, let us say, should be lesser than loan growth, right? Is that what is implied?

Ramesh Babu: Agreed, but the question is supposed loan growth will happen currently Opex growth something which is the capital expenditure, if you do not do it now. So you may have to branches all these things and expenses and all current and rent and all. So you will not be able to get a benefit after 6 months. So that way, there can be an overlap in the Opex to some extent. Likewise, you are recruiting many people for the liabilities now so from day one, they may not be able to do it and even if they mobilize the deposits also that need to be deployed. So this will take some time and all. That is why we thought that an overlap of 6 months now that the position is relatively better. We can think of spending on this for the future.

Jai Mundra: Right. No, no, so I do not doubt that Sir. I was just asking that would Opex growth be similar to loan growth or it could be, let us say, lower than loan growth of, let us say, 15%.

J. Natarajan: Whatever currently the 6 months of this Opex growth is as per our estimated lines and again, 18 branches, which we are proposed to open this are all not in the metro centers, but all Tier II and Tier III centers, and we do not think any substantial cost will be added in the operating cost. But in our working while budgeting for this year, profitability and profit, we have already taken this 18 branches and well within the budget, whatever we have planned. So coming back to your question, about whether it is equivalent to 15% or 16%, we are also expecting on the same lines.

Jai Mundra: Second question is, Sir, on your savings account rate, right? So I think now we are probably the lowest in the lower bucket at 2.25%, and our highest is 3.25%. For the last few months, other banks have raised the savings account rate. We have also done on term deposit side, but any thoughts on revising the SAAR rate upward?

Ramesh Babu: Yes, Jai, in fact, many times, 2 to 3 times, we did a home work on either the reduction or increase in the savings bank, increase is giving huge inflows or reduction outflows are happening. So 2 to 3 times when we saw it is not that elastic that way is not straightaway linked to the rate and all, the marginally here and there, there are changes there but if you change the rate on the whole portfolio, it undergoes change, that is why we are tracking continuously ALM level. We are looking at it and now as and when it is required and all, we will change the rate.

J. Natarajan: In addition to that, Jai, we have a specific product called rainbow where there is a sweep in facility is available. So are directly linked to the deposit rates. In case the customer demands, probably we can link that account to that. So that in that way, we do not think that it is essential for us to review these savings bank.

Ramesh Babu: Autosweep is there. Overnight, the money will go into the time deposits.

Jai Mundra: Right, right. Sure. Understood, Sir, and Sir, you also mentioned on the asset quality side that now we intend to bring GNPA below 3% and net NPA below 1% by March, and we continue to have slippages, net slippages as negative level, right? So I mean, it looks like that trend should continue, and hence, even if you were to reduce your GNPA from current 4% to below 3%, which is like 1% reduction, this will be aided by negligible net slippages, right and hence, there will not be too much pressure on the credit cost. Is that what is being implied?

Ramesh Babu: Yes, yes. Absolutely, you are right. So agreed, our endeavor is to keep the net slippages negative but so it may happen here and there some quarter. But whatever it is, overall, what you said is correct in the sense that this net slippages, they will not have much bearing on the provisioning because the recoveries, what are having so the provision, what will be released there, a majority will take care of the gross slippages what are coming. Because the miner slippages, old slippages are there, it can be in substandard or doubtful 1, 2, 3. So that was a provision total gets failure there. If an account has become a slip NPA now substandard to 15%, it will be able to take care of that. But whatever it is, we are trying to have a tighter control even in the slippages. That is why if you can see it, our corporate SMA 30+ as at the end of September is 0, 30+ 0. So likewise, if you look at it, we are trying to have a control on the slippages and focus is more happening on the recoveries. Thanks the post-COVID environment. The courts are working and all the auctions are happening and all that way we are able to do that. But as you said, overall, the position is like that only so for this balance sheet management, once we complete this provisioning and all, later, it may be on a self-sustained basis, the recoveries as well as the slippages.

Jai Mundra: Excellent, Sir, and last question, Sir, from my side is if you can share a few details of the lateral hires that we have done in the last few quarters, I think you had mentioned that we have hired a new person, who is setting up his team, in which area? And we had hired, I think, national CASA head and if you can highlight a few of the lateral hires that we have done?

Ramesh Babu: Fine, fine. Yes. Because what we thought was in the month of March itself, so we were foreseeing that demand, what it comes up for the deposits, and then onwards, we started scouting and one of the big private banks, whoever is there and on. From there, we have got on CASA National Head and he will be stationed in Chennai, and along with him, the regional sales heads also and others also, we are recruiting them and all. These people, they will have a feet on street. Literally, the feet on street, what all the mobilization that the business development associates all these people who look after the liabilities team this team will separately handle. Currently, some here and there what the branches are doing, the focus is not that there. So that way this national head CASA, who has come from the private bank. He will be holding this responsibility and all he will take it forward. In addition to that, we have taken another national head for the government business as well as TASC also. So she is also having a good experience in all we have taken from an another private bank there also, and that we know that we are well equipped to handle the government business integration, these things are over now and all. So there can be many opportunities for us, both for the government accounts as well as the customers who have these payments and all are dealing with other banks and all. So they will handle not only the government business what are there also a separate strategy is being worked out. So that way, these two wings separately will work. In addition to that, one more person also from another bank, we have recruited, he is head of the third party. That is a cross-sell. So he will be in-charge of taking care of all our products, how methodically, we need to do it. He has an earlier experience, working in an insurance company, in a bank also. So with the blended exposure, what he has, so being able to bring out some sort of practical solutions for us, and there also we are creating the structure for doing this one so all these things will go under the liabilities, consumer banking wing. So Jai, as I said, these things initially when we are spending, it may involve some costs and taking the people. But 6 months of period, over a period of time once we start getting our raw material engine, they will be continuously pumping, and if you are going on the advances front, we should not actually stay at darkness. That is the intention. So we are making all these adjustments and also that once this news set up what we have created so mainly to focus on the liabilities acquisition. The branches will be focusing on the term deposit with the connections, what are there and all. Likewise, the new acquisitions, what have happened and all deepening also will be taken care of. That way total focus we are giving on this vertical, how to take it forward, we will see that.

One more Jai, please one more thing. One more thing just another initiative also what we are taking we will tell you, though it is not connected to the liabilities, bank is focused on the MSME because you would have seen that our percentage of the total advance is 30%, 33% that runs. That is one of the areas which will give a yield of 10% for us, and the book is totally secured by the entire collaterals are there. So what we thought is that the branches, where the locations are there were we doing, there are many locations where we do not have a presence, but still position is there. Likewise, a few market-related products are required. So that is the reason. We have again recruited some another private sector bank and SME head in my inaugural speech I was mentioning, emerging small business group. What they will do more are less on lines with NEO. So they will have their own feet on street relationship managers, underwriting team and the connectors as well as DSAs. So these people, they will be mobilizing from the market below INR 5 Crores business. Because below We are now currently above INR 5 Crores, we have a relationship banking through business banking, now we are bringing it down to the below INR 5 Crores also. There is a lot of scope available. That way, the branch channel, what all is that they be mobilizing, but this channel also we need to grow and mobilize good business. In that process, initially, we want to start with somewhere in Coimbatore, Chennai and Hyderabad and Bangalore. These 4 centers we have in mind. Most probably next month, the team will start coming. Once they start coming and all, we will start working on this may be by the end of the financial year, we will be able to open a few centers for the emerging business. So that way, we want to give some more flip to the commercial wing also.

Jai Mundra: Sir, just on this, so this is like would not there be an overlap between the business that branch will solicit and this team will solicit right because branches are also doing below INR 5 Crores business. This team will also do INR 5 Crores business, and the centers that you mentioned, you have a decent presence there, right? So would not there be an overlap kind of a thing?

Ramesh Babu: The same thing, we thought, Jai, when we were starting NEO. Then now the question is the market and pie is so big, even if both are working also, there is enough scope. Now if you look at it, NEO on an average INR 125 Crores to INR 150 Crores on their own they are growing and never branches and these people, they sell them as a competitor. Suppose if we are not getting some other bank will get the business and all. So that way that sort of a synergy has come in NEO. The same we want to replicate here also, and one more also, NEO, we are doing the LAP business there is a lot of opportunity for providing working capital for them. Their working capital is with some other banks that we are yet to acquire. So for this sort of team comes up and all, they can work in hand-in-hand with the NEO team and all. The working capital accounts of those banks also, we can target that.

Jai Mundra: Right. Great Sir. Thank you.

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

M B Mahesh: Congratulations on a good result. just keep the questions short because there is a noise still in my background. The situation with respect to export slowdown in the area of Tirupur, Coimbatore what is your sense going to them? And how are you reading into it? That is it.

Ramesh Babu: Thanks, Mr. Mahesh. Thanks for the compliment. Now I agree, we have an exposure of 8% in the textile, and that has different levels are there came home textiles, there is yarn spinning, all these things. So we are continuously gauging what the position of that. So now agreed and currently, the demand is low in Tirupur and all. So over a period of time, it may pick up and all. But a few points if you look at it, last 2 years that people are saying that these machinery manufacturers for the textile, their order books were pretty full and all. We were also expecting there will be good demand from our textile customers for the expansion. But incidentally, there are only 2 to 3 customers of ours who have come for the expansion. They did not go for expansion. So second thing is even if someone has gone for the Capex also, they have come only for the solar and these sort of things only and not for expansion. That way, if you look at it, many of the exposures, what we have the customer, they are seasoned, they are in the business for a long time and all, and they know these sort of ups and downs how to manage, and they do not want to over leverage themselves also. That is the reason when the position was good also, they did not expand well. So that we look at it currently also, the corporate, including textiles, when we talk about no account is under that SMA 30+. But we are closely gauging the position here and all, how we need to take it forward, and we will see that.

M B Mahesh: Just one clarification on another point of range. You started indicating that there will be higher Opex on salary from next quarter pertaining to DA. Can you also clarify on that?

Ramesh Babu: Yes, I agree. If you look at our model, we have budgeted for the staff expenses, we have initially indicated it can be around INR 1,071 Crores to INR 1,100 Crores. We feel so even if some sort of spike is there in the DA on the other side, what the benefit we get in the pension and all gratuity these sort of incremental contribution, what we need to do. Both of them may get offset at all that way there cannot be there may not be much spike in the staff cost is concerned. But even if INR 10 Crores, INR 20 Crores, here and there is there, but the growth in the income side is much, much more than the growth in the expenses. So that way the ratios will not alter on account of this.

M B Mahesh: Got it, Sir. Thanks a lot and best of luck and congratulations for what you have done.

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

Anand: Congratulations on good set of numbers. So firstly, on your savings deposit, you said that the person has come on the CASA front somewhere in March, but if you look at current for the quarter seems to be down quarter-on-quarter. So how is it will be playing because the numbers certainly are not talking what basically we have done on the ground, number one. Number 2 is that you talked about the fintech partnerships. So what are these fintech partnerships doing, basically, which field are they operating? Are they into SME business, business banking or primarily in to retail? And what is the overall contribution of the fintech partnerships on the asset side? And any plans to onboard any of these fintechs also on the liability side. These are my questions.

Ramesh Babu: Thanks for the compliment. No, no, there is a small communication gap, what is understood. We started thinking and identified the problem from March onwards. But when we started scouting in the market for a good head, it took some time. It took some time. So finally, more or less in the month of June, July we are able to finalize and the new head has come and reported in the last week of September. So that way, he has just reported here and all and forming the team and all, so it works that way. Now coming to the reduction in the CASA, these are our balances, what you mentioned is. So if you look at our YTD numbers are there, first quarter of this year, so we have got sizable inflows, which are chunky and bulky amounts have come. So it was there for some time and all, and a few of them which have gone out, that way, overall, if you look at it, though the new acquisition was there and the average ticket size was going up also because those lumpy accounts who are there balanced and are included in the government accounts for the payments and the schemes and all when it has gone out, so that we are able to find a marginal difference there. Otherwise, the inflow new accounts opening, acquisition, all these things are going on as it is, and now the new CASA head has just reported end of September. So the activity will start working in 1 or 2 quarters that you can find that. So coming to fintech question what you asked, our President will respond.

J. Natarajan: Yes. See, with regard to the whatever, the fintech tie-up currently, we have, it is not a big business level, but it is all completely tested and going on well. So what we are planning to do is now out of the 3 fintechs, one is on the liability side and the initial working everything we are doing it, basically, we will be concentrating on the Gen Z. So it will start up, and we like the product, and we like their vision, and we are working together with them to create a suitable infrastructure and process for that, and the second fintech is for the agri-related product. So where we felt that these fintechs are doing very well there, and whatever gaps we have in our capability, I think they are in a position to offset that. So that is why we are working with them for this product. Prima facie, we are not planning for any unsecured loan products and whatever we are doing it is by and large either in liabilities or secured product.

Anand: Okay. Now Sir, what is the skin in the game for this fintech basically barring sourcing loans for you? Are they into collections as well? Do you have kind of FLDG arrangements with the fintech or no?

J. Natarajan: So currently, as per the regulatory guideline, whatever existing also, we have discontinued the FLDG thing, and we have realigned our commercial within the compliance within the guidelines of the RBI, and going forward also, we will go by that. But what we are currently looking for is on the liability side, it is on-boarding for new customers and also the good customer experience that we believe that the fintechs will be in a position to deliver so based on that that will be a good value for the bank. Over a period of time, we will be in a position to add more number of customers. As regard to the Agri-related business, definitely, there will be the value in terms of a loan.

Ramesh Babu: Yes. Anand Ji, just to add, I want to add 1 point. You were touching about a point on the collections. So what we did is the last 6 months, so I can actually say 3 months. So actually from within the bank, we have identified a senior executive, who has the well experienced in the collections as we made him as a collections head, and we brought the call center also under him as well as the feet on street, what we are engaging the agencies also and the branches under them. Now we are in a dialogue with one of the fintechs, who have a sophisticated model for the collections also digitally. So our wing is our recovery wing is working with them and all. if it suits well and if we find some value, we will be able to get it and all, we will partner with them.

Anand: Sure, and Sir, third, if you look at the kind of profits that we are now running, and I think, Mahesh Bhai was also talking about some problems that we have in Tirupur and secondly, if you look at the way the SME business could get dislocated with the macros going bad, is it not prudent on our part basically to make some prudent additional provisions rather run on going down on the overall provisions, writing off loans and showing higher profit numbers. So any thoughts about that?

Ramesh Babu: A point well taken. The question is, we are looking at the SMA 30+. So 30+ suppose if any signs of the sort of weakness are there, we thought of doing it. So that way, when we look at including the MSME portfolio, the overall SMA 30+ is INR 411 Crores, which includes INR 40 Crores of agriculture also. So hardly, it is coming to around INR 360 Crores, INR 370 Crores of SMA on a book of INR 62,000 Crores. So we look at this one. But first of all, for the balance sheet purpose, what all we are doing, and after that, there may not be much need for the provisioning also. We can think of doing all these things also not an issue at all. So point is taken.

Anand: But I mean the signs will really not show up now, particularly when the markets are buoyant. I think that will happen maybe 6 months down the line, 7 months down the line, and the way basically you said on CASA and to some extent, right? I think that on that side, also the sense will come later, but I think what to provide from now right?

Ramesh Babu: Fine, fine. Okay. I will note the point and I will examine that one, Anand Ji. Yes.

Anand: Yes. Yes. Because what happens is that we are running a higher profit number, showing good numbers, and if we do not provide well, possibly at a later point of time, we might not be touching a 1% ROA rate because this is what we are seeing across the cycle, what happens 1 or 2 good years…

Ramesh Babu: No, no, agreed. Anand Ji, but just one point, what I want to say, now I suppose even if ROA of 0.1, 0.16, 0.12% comes up also. If you look at our current net NPA is around INR 800 Crores. Suppose if by the end of this year, if it comes to around below INR 500 Crores or INR 400 Crores, whatever it is, I am saying that and all, if the requirement for the additional provisioning is not there. Then the question is many of the accounts which are in advanced stage of recovery, they will be releasing the provision, and not only that because additional provision requirement in the normal course is not required from the profit, what we are generating also that plus this will be able to manage, if at all, the additional stress comes. But whatever it is, what you said is correct, along with our risk management department, we will work on that and all, what we need to see, we will have working on that.

Anand: Sure, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sharad Jutur from Zen Wealth Management. Please go ahead.

Sharad Jutur: Congratulations on good set up numbers. So can you just please elaborate more on the write-offs during this quarter? That is one question, and second question was about the moratorium portion of the restructured book, and can you also please give some color on the stress over there. That is certain, and yes, my question on MSME was well covered, but I would like to get more insights into the future and steps being taken by the management to assess that would be more helpful to me. Thank you.

Ramesh Babu: Yes. I suppose if write-off, if you look at it, so this quarter, we have written off INR 576 Crores. So that we have given in the presentation also, if you can look at it that way, this amount any how fully provided, that is the reason we are able to manage the balance sheet. We have done that, but it is only a technical written off. That does not mean that the focus will not be there. As far as the recovery department is concerned, it is as good as a normal NPA only. Only for the balance sheet management, it has gone out and all. The same amount of attention it will get what we are doing for a normal NPA account. So this is the first part, and second part what it was? Restructuring.

J. Natarajan: Yes. So with regard to I think you are asking about the moratorium on the restructured accounts, right? Okay. So for example, in terms of account, the 97% of our accounts, all repayment started. For example, we have a restructured book of INR 1,231 Crores as of 30th September, and it was INR 1,640 Crores as of 31st March, and in terms of value, 87% of our restructured loan book, already the repayment started and whatever stuff, everything is included in the SMAs 30+ that is one of the lowest in the bank. So in that way, we are not now the entire restructured book is less than 2% and we are not that much concern on the recent book, but having said that, we have a complete track on these accounts, and there will be a complete follow-up system is put in place, and we are continuously monitoring these accounts.

Ramesh Babu: Yes. Sharad, one more point just I want to add here. You see out of our restructured book, 68%, that is 837% of the accounts, there are no previous record of SMA because of the COVID at this time, they wanted them. Otherwise, before that it is not even an SMA. So that way the quality of the accounts that all have come are good. If you look at it also from March onwards, the delinquency slippage is around 5%, so in addition to that normal provisioning, we have provided something more also for the restructuring, and that way, it is INR 1,200 Crores, which comes to around 1.9% should not be a major issue for the bank, and second point also I will share with you. All these portfolio what all is majority, majority is backed by 100% collateral. So if at all something happens also in the position of time of 1 year or 2 years and on, but you will be able to get back your money.

Sharad Jutur: Thank you very much. My other question was on SME- MSME book and stress over there. What are the steps being taken by the management to...?

Ramesh Babu: That is what we were telling. Suppose SME is concerned so which is 32%, if you look at it, the SMA 30+ what we are disclosing, it includes SME also. MSME also, including that it is 0.66% and all, so which comes to around INR 370 Crores out of INR 411 Crores, INR 40 Crores agriculture gold loan if you exclude it. So INR 370 Crores on a book of INR 62,000 Crores,

Sharad Jutur: Okay, fine. Thank you very much.

Moderator: Ladies and gentlemen, that would be our last question for today. I now have a conference over to Mr. B. Ramesh Babu, MD and CEO, for closing comments. Thank you, and over to You, Sir!

Ramesh Babu: Thank you all, gentlemen, for taking out time. A long weekend is there. But despite that, how much of interest you have towards the bank is very well known. The intricate questions what you have asked and suggestions what you have given and all. So we will continue and strive our effort to take it forward that way in every point what we have guided and all. So once again, a Happy Diwali to you and your family members. Take care. Good day to all of you. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of The Karur Vysya Bank that concludes this conference. Thank you all for joining us and you may now disconnect your lines.