"Karur Vysya Bank Limited

Q3 FY '22-'23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '22/'23 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. Ramshankar, 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 star and then zero 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. Over to you, sir.

Ramesh Babu: Thank you, ma'am. Good evening to all of you. Welcome to our Bank's earnings call for the quarter 3 of the financial year 2023. I trust that you, your colleagues and family members are keeping well and in good health. My heartiest New Year greetings and wishes to each and every one of you. I also would like to thank you all for taking time in joining this call.

I am pleased to share that, for the third consecutive quarter, our performance in terms of growth, profitability and asset quality are in line with the indications given during our previous interactions. In fact, we have crossed the indicated numbers under some parameters, much ahead of the time lines earlier envisaged.

While I am sure that all of you have gone through our quarter / period end numbers in our presentation. I would like to brief you on the highlights of our performance.

Our ROA continues to improve consistently over the eight quarters, it has moved upwards by 39 basis points from 0.93% in quarter 3 of the previous financial year to 1.32% in the current quarter as against our guidance of 1.2% in the exit quarter of 2023. Our concerted efforts in stimulating the various levers of ROA have yielded positive results and enabled us to achieve this parameter well ahead of timelines. We are now confident of reaching ROA of 1.35% in the exit quarter and continue the growth trajectory in the coming years.

Operating margins further increased to 4.32% for the quarter and sequentially expanded by 25 basis points. Going forward, our normalized NIM after adjusting lag effect of assets and liability pricing, would be in the North of 4%, considering our business model and subject to normal market conditions.

Fee and other income continues to grow in tune with the business growth; higher number reported during the current quarter includes an amount of INR 85 crores accruing from the recoveries made in technically written-off accounts.

Operating expenses are under effective control and are in tune with our guidance.

Thus, improved margins, higher fee-based income, recoveries and written-off accounts and containment of expenses aided the increase in profitability; PPOP has increased by 72% to INR 689 crores over last year and sequentially by 20%.

During Q3, a provision of INR 250 crores was made towards NPA book on account of ageing as well as to improve our coverage ratio. We have front-loaded some provisions with an aim on optimized balance sheet and tax planning. Hence, even though the credit cost appears slightly elevated at 1.02% during the nine months of the current year, our credit cost commencing from quarter 1 of the next year will be considerably lower.

A provision of INR 102 crores was made towards SRs, as per latest RBI guidelines on valuation of SR. With this, the entire outstanding SR book under investments portfolio of INR 491 crores is fully provided.

Our net profit has been consistently growing for the past eight quarters and for the current quarter, it has grown by 56% over last year and 67% for the 9-month period and sequentially by 16%, and the trend will continue to improve on account of increased PPOP and lower credit costs.

Our gross slippages during the quarter continued to be under control at INR 162 crores and for the nine months at INR 345 crores, which is 0.55% of our loan book. Our digital underwriting, eyeballing the proposals by Risk team, better valuation methods by technical team, collection setup and credit monitoring have helped us to keep control on the slippages.

During the quarter, we have recovered a sum of INR 190 crores from NPA book, besides INR 85 crores from the technically written-off accounts. This is the sixth quarter where our recoveries and upgradation other than write-offs are higher than gross slippages.

Due to lower slippages, better recoveries and technical write-off, our gross NPA is now below 3% and stands at 2.66%. Consequently and also as a result of our optimization measures, our net NPA is now down to 0.89%. Going forward, we intend to keep our gross NPA at below 2% and net NPA at less than 1%. With this, we now confidently say that the asset quality issues faced by us in the past have been successfully surmounted and consigned to history. Incidentally, I would like to recall late Shri Rakesh Jhunjhunwala, always asking us, when would the Bank reach less than 1% net NPA. Our heartfelt respect to his thoughts and insights. Bank would endeavor to keep this number below 1% of our loan book. We will continue to focus our efforts in early recovery of technically written-off accounts.

Our SMA 30+ loan book including Jewel loan continues to be less than 1% of our loan book. Again, we are confident of keeping this book at below 1%, considering our improved monitoring and collection systems.

In tune with our guidance, Loan book without considering technical write-off continues to be inclusive and grew at 16% Y-o-Y and sequentially by 3%. As indicated earlier, Bank has strategized to grow inclusively at the existing loan mix. Accordingly, we have initiated various measures in the past to reach best possible growth in line with the industry. Unlike in the past, where branches were the only source for growing the loan book. We have now created Business Banking Units, Corporate Banking unit, Transaction Banking Unit, NEO, Precious Metal Division, co-lending with NBFCs etc., besides a smart Banking group, which will be operational from first quarter of the next financial year and Fin-tech tie-ups. It is a mix of our own team supported by outsourced sales force. The smart Banking, what I mentioned is it is a mix of our own team supported by outsourced sales force for the SME business, particularly the CBG business. Now we are translating these initiatives into business and going forward, we will be in a position to derive value by scaling up our numbers with better management control.

Yield on Advances is at 9.04% and has increased by 49 basis points sequentially, and we expect that there will be a further increase of 20 basis points in the fourth quarter. As indicated earlier about 86% of our loan book is linked to MCLR / EBLR and we expect that about 38% of our loan book will be repriced on the respective reset period in the coming quarters.

Considering the need to grow term deposits, we have activated our operating teams for aggressive marketing efforts supported by increase in deposit rates, campaigns and publicity. We have grown by 18% year-on-year and 6% sequentially.

Demand deposits growth continues to be a challenge under the rising interest rate scenario and grown by 6% year-on-year and muted growth sequentially. As indicated earlier, we have recruited resources from the market having expertise to support our operating team and strengthened our sales force for better sourcing and a deepening of liability products. The team has started working with branch channel on CASA acquisition, particularly, customer engagement and deepening besides focusing on Institutions, Government business and TASC and will be fully operational from Q1 of 2024. With these changes, we are focusing to take our CASA mix to 40% in the years to come.

Cost of deposits increased to 4.26% for the quarter and sequentially increased by 18 basis points, we expect that there will be a further increase of 30 basis points in the fourth quarter.

Our co-lending business, with three leading NBFCs is doing well and we are in the process of rolling out this service to one more NBFCs during this quarter.

During the quarter, we have implemented micro finance tie-up with a leading fintech in 16 locations covering two states. We have also tied up with one more fintech for microfinance in Tamil Nadu and will operationalize from the first quarter of next year.

Our CRAR continues to be comfortable at 17.86%. This 9-month profit has not been included yet. And the liquidity coverage ratio is maintained at a prudent level of about 200%.

To conclude, the business numbers indicate that our asset quality issues are an item of the past. Slippages are under control and earnings are improving. Our focus is now oriented towards inclusive growth and recovery from written-off accounts. I am sure the Bank is on the right path to maximize value to our investors.

Once again, I thank you all for participating in the call. The forum is now open for the questions. Over to you, ma'am.

Moderator: We have our first question from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Congrats on a great set of numbers. Just two questions from my side. One is on the commercial Banking division. So if you look at the pie chart, which we show in the PPT, the share of loans between INR 10 crores to INR 25 crores has gone up pretty sharply in the last four quarters. So sir, what is happening there? I mean, what kind of a customer we are acquiring from where we are acquiring this customer? And maybe if you can give us the ROA profile of this customer will be helpful, sir.

Ramesh Babu: Thanks, Renish. One thing is, if you can recollect 2 years to 2.5 years back, we have started an initiative called Business Banking Unit. So it used to be a part of the CBG. So now what we did is, so we have strengthened that, provided them the service RMs and business RMs, likewise analysts, all these what all are required, we have provided them. That's the first thing. And that way, that unit is stabilized.

Second thing, what we did earlier up to last year March, the limit what we have given them is up to INR 15 crores. So INR 15 crores and above, we were asking the CIG that is corporate, INR 15 crores to INR 25 crores, we were calling it as an EMCG, emerging market and we were doing. So now that the BBU has matured and stabilized from April 1st of this year onwards, what we did, we have shifted that emerging market group to BBU. So that way now BBUs can book business up to INR 25 crores. So that way these people once they make sure they started growing and all. So that growth has come into BBU. That is the reason for the shift.

Renish Bhuva: Got it, sir.

Ramesh Babu: And this across the country 15 locations, these BBU outlets are there. And each one, they've their relationship manager, sales, service, all of them, they are moving around and this has become one of the active units for the Bank to mobilize the business in that particular segment.

Renish Bhuva: Got it. Sir, my next question is on the rating profile of the corporate book. So sir, when we look at the rating profile as on December, the BB and below book is still at 30% of the total corporate book. So sir, what sort of confidence we have that whatever guidance we are giving in terms of for slippage and credit cost, we'll be able to deliver as per the guidance and there will be no negative surprise from this 30% corporate book which is because being below.

Ramesh Babu: Good question, Renish. If you see the same table, you start looking at their December '21, where 37% plus 8% comes to 45%. But even if a 45% is BB and below. And now it has come down to 30%. When it is 45% for the last six quarters, we are able to maintain negative slippages. When we have come to 30, don't you feel that we are better off compared to earlier position.

Renish Bhuva: Yes, yes. No, definitely sir, definitely.

Ramesh Babu: I mean that way if you look at our SMA also, not to say rating profile is one part. But if you look at our SMA also, in general also, otherwise, we have not been able to put it in control because one more thing what we did is we have strengthened the 6 months back, our collections team and we have a senior executive under collection and call center we have got under him, feet on street we have created their branch channel. Otherwise, earlier on a distributed way, everyone were doing the collections and all. Now we have got a focus here and analytics also extensively, we are using for a predictive modeling, what can go wrong, all these things and all. With this, we are able to bring some sort of a control.

And one more thing what we did is, so last two years, we have done enough efforts in weeding out where weaker accounts are there. Suppose there was a lot of competition pressure is there, whenever this weaker accounts are there when someone was trying to do it and all jolly well we were giving it. So that way, we could clean up our balance sheet also to some extent at the cost of top line, but we are able to protect our portfolio.

Renish Bhuva: And just sir, last question from my side. Sir, on the ROA thing, what we have said is that our exit ROA will be 1.35% in Q4. But in full year FY '24, considering there will be some NIM compression happening in FY '24, would one should consider this is 1.35% as a new normal? Or there will be some, let's say, downward trajectory, maybe 5-10 basis points in '24?

Ramesh Babu: I feel we'll be able to maintain that 1.35% actually, Renish. Though, in fact, we are yet to do your homework, our homework because you are asking. So with the confidence, what we have gained over a period of time with these things, we'll be able to maintain that, not an issue.

Moderator: We have our next question from the line of Anand Dama from Emkay Global Financial Services.

Anand Dama: Sir, one is that you talked about your yields to go up by about 20 basis points that you will benefit from the MCLR migration. So what is the outlook on the cost front? And similarly, what will be the impact on the margin that we see for quarter-to-quarter?

Ramesh Babu: Yes. In fact I mentioned that point before, 20 basis points when we are expecting cost side also because you know the time deposits, what all we are booking because if we do not book the time deposit there can be a slight of our CASA to other Banks also. So that is the reason we are actually mobilizing and marketing the time deposits. In the process, the cost is going up.

What we feel is maybe during this quarter, there can be a spike of around 30 basis points can be there up to for the deposit and the 20 basis points in the yield. But whatever it is, we feel that with the yields, the NIM, what all we have. So overall, we will be able to maintain a NIM of 4% plus, cost of 4% during this quarter, and we'll be able to manage that one, that should not be an issue.

Anand Dama: Sir, secondly, if the micro finance book that you've talked about now. So you have tied up with some micro finance institutions. One, what is the thought process over there? and if you can talk about this, is there any running institution that you have tied up with? And so whether it will be more of a tie up I mean, why not going for a BC arrangement rather than going for a lending institutions?

Ramesh Babu: I'll tell you, if you look at our overall unsecured book, it is pretty small actually. If you look at it hardly INR 500 crores, INR 550 crores, something like that. We never ventured into this one. But what we understand is Tamil Nādu offers a huge scope for microfinance and many Banks who now come from other states, they are doing very good business here.

And we made our own homework also regarding the delinquencies, stress levels and all. We found it to be quite reasonable and all its a matured microfinance market compared to many other states. So instead of we entering directly into that one, we have entered into a partnership with one of the agencies. So it's a BC more or less like a BC only. As you said, there's a BC arrangement. And what they will do, they will have the setup and combined with KVB, they will have the staff. But finally, when the sanction will be through us only.

Finally, the end-to-end digital will be working. Once they're keen and all, it will come to us. And once we accept the norms what all we have. It passes through then only it will be accepted and we will have a surveillance of these locations. The intent is not to go aggressively in this microfinance to make a beginning through an established partner who has a better understanding in the area of operation where we are or even around our other states that way, so that at least we'll be knowing where we are and what we can do and progressively we look to take it forward. Otherwise, it will not be a trust area for the Bank. So it's the beginning, what we are making with a decent partner who has an experience in this.

Anand Dama: But sir, what are the internal capabilities, let's say, in a hiring somebody in SME and actually who know the current business?

Ramesh Babu: Absolutely. In our agriculture department, we are taking the people to monitor this one. But the other side, the partner whom we have on-boarded, they are already dealing with similar arrangements with more than 10 Banks for the last 10 years.

Anand Dama: Sir, how do you rely on them, basically our partners will always want to dump some bad portfolio from other Banks expect I think you, what are the internal capabilities that you have? I mean you said that agricultural department, you have, these are the old people who have never done microfinance or you have hired somebody from outside of the Bank?

Ramesh Babu: No. Actually, currently, the expertise, what are in the agriculture, so these people are doing, and we will be taking people also from the market. But what we did is when we looked at it, the portfolio of the other Banks, this partner who is handling, we have seen that. And the question is not the question of any dumping because it's not a pool purchase from any Bank.

So afresh, we are going to start. when we are going to start also the districts where we are going to start in those locations we have seen what the delinquency level of the other Banks, what all is there, we have chosen those receipts where it is relatively much, much better and we spoke to the state government also because state government has a very good setup for the micro finance with these things, a baby steps we are taking to see how it's going to work.

Anand Dama: So sir you're spreading lots of things like you are entering into multiply new businesses altogether. And without hiring people internally, if you get into these businesses based on the partnership?

Ramesh Babu: Other than -- particular this thing, which other thing we have moved...

Anand Dama: On vehicle loan business is also what we are seeing...

Ramesh Babu: Vehicle loan, I never told also in my inaugural remarks. Vehicle loan, when we are talking the vehicle loan is a normal 4-wheeler, what in the retail segment we do, not the commercial vehicle.

Anand Dama: But I think we need to build but I think particularly in microfinance is a bit of risky business, we believe that we have seen what is microfinance with many other companies, and that is where we need some internal capabilities is must?

Natarajan: Anand, actually, I agree with your point. See, what we are trying to do is we are not going to scale it in a 3-digit number and all. So what we are trying to do is because of our digital capabilities and these two partners, they are also having a very good digital capability. Through API we have connected and we have created a good digital underwriting model, specifically for this.

And then we are trying to test it. So initially we will test it. And then based on our review, probably will scale it further. So we understand that in Tamil Nadu the delinquencies are low and the yields are also better. So some sort of a cream layer is available here. So why not we test it? That is the intention.

Anand Dama: Great Sir. .

Ramesh Babu: It would be rest assured, we will not go overboard on that. And second point, we are also on the job to internally equip ourselves with the capabilities by taking people from the market. And this absolutely as I said, it will be only a baby step. We will test the waters and all, then only we will take a call on this. Okay?

Anand Dama: Sir, third you talked about recovery from some written-off accounts. I believe about 4 accounts were recovered this quarter? Is it possible to give some color as to like, Are these loans which have been talked about and making in the ARB Group or somewhere where you have done some recovery in the current quarter. And is there any pipeline? Is there any pipeline for more recovery in quarters?

Natarajan: Anand, you would have noticed during the past 4- 5 quarters, we did some a lot of technical prudential technical write-off. So today, the inverse, the portfolio has become slightly larger. And then we expect the consistent recoveries will be coming from this portfolio. In fact, we have created a separate team exclusively for this and to see that we are maximizing the value at the earliest possible time. But if you ask specifically accounts, many accounts are in the final stage.

So something matured last quarter. And this quarter also something is definitely it is coming. So like that many cases, particularly NCLT cases also, it is in the final stages. But we are not able to give any specific numbers and commitment. But going forward, there will be a some numbers in this recovery from the technical write-off Anand.

Moderator: We have our next question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Sir, I just want to understand, in the opening remarks, you mentioned that you recruited dedicated resources for sourcing liability products. So just wanted to understand how will you operate differently from what the Bank was already doing up till now?

Ramesh Babu: Yes. Currently, the majority of the focus for the liability mobilization is from the branches. The branches, they will be mobilizing the liabilities, while making from the existing and known are these sort of things. Now the current revised model what we are doing it is absolutely through sales and marketing and to feet on street. The entire structure we are creating, wherein the feet on street will be there, and they'll be mobilizing it can be a state level or territory level that way, they will be focusing more on the CASA acquisition as well as the third-party distribution, everything 360-degree what we can do. So that's what is going to happen. Once they mobilize and bring it and nurturing the account for few months or few quarters. After that, the branches will take over those accounts and all, they will do the deepening, then it becomes an ETB existing to Bank customers and all branches will depend.

In the process, the branches can focus on the existing customers, how the service and how to engage with them rather than doing both the jobs of going out and mobilizing and bringing them and within the Bank servicing them. So we are bifurcating this so that way good resources who have the expertise we started recruiting them and all.

By the end of March, most probably we'll be able to complete a major part of that one. So first week of August onwards, if these 2 sets in tandem, they'll be working, one for the sourcing and nurturing and keeping and second one, deepening. So we can think of having a good traction on the liabilities.

Rohan Mandora: Just want to understand, this team we will have the tariff primary on liability origination and will not have any asset target?

Ramesh Babu: No, asset targets will be incidental to this, asset as well as the cross-sellings we will be doing. So overall, the main focus will be the hook will be asset sorry, liability. CASA will be the main for our focus and all. Along with that, the related assets as well as the third party also they'll be doing, but the main product will be CASA, marketing retail asset.

Rohan Mandora: How much the deligination happened for this? Wouldn't it be coming from the existing customers or how would the deligination work for them?

Ramesh Babu: Yes. That is for the existing customers as well as some other sources. That is the reason we are taking this team, the feet on street, including everything from the market. Those who are already in the market who are established who knows this methodology and all, those sort of things we are taking. So that way, so they need to hit and run.

Rohan Mandora: And sir, second is, in terms of the incremental spread that we will be making on new assets originated and new liabilities originated if you can share some color on how is that incremental spread right now? If you could know the back book pricing, which is happening on the asset side?

Ramesh Babu: Now, if you look at the repricing of the assets, if you look at it, EBRR, a major part of the EBRR hikes where it to pass on. In every segment, more or less, we are able to pass on except in few accounts where we'll have the pricing pressure and the competition will be there because other things what we are getting from the customer and the relationship also we need to see. So that way, if we look at it, so pricing decrease, Currently, our EBRR book is around 49%is MCLR.

Rohan Mandora: Sir, sorry to interrupt. What I was saying to understand is the existing book is repricing because of the EBLR. But what I want to understand is the new loans that we are originating, - are we able to get a similar yields as what is on book yield or that lower or higher than the existing book yields on the newer loans that we are originating. So just want to get some sense on that.

Natarajan: So see, new origination, for example, if you take agriculture predominantly is jewel loan something around 8.9%. And if it is a commercial, it's more than 10%, 10.10%, 10.15%. And again, the corporate around 9%. So the consumer, it is 9.74%. So like that it is more or less the matching with current yields.

Rohan Mandora: And sir, lastly, if you look at and there is slight uptick in the SMA number sequentially. So what's driving that? And also, we have seen an 8% sequential increase in the textile portfolio. So what is driving this growth in the textile sector with working capital utilization of such expansions?

Ramesh Babu: No, textile is concerned. For the last 2 quarters, majority of the exposures what we have taken is for the renewables -- renewable energy because a few of them, they now have gone for solar or the sort of wind power so that they can save the cost on the power and depreciation benefit also will be there. Otherwise, if you look at it, the majority of them, they didn't go for any expansion, our customers I'm talking, they didn't go for any expansion. That's why term loan book has not grown well under the expansion because they have not gone further.

Second thing also, we need not worry much on the working capital also because many of them the cotton prices, oscillation these things are there, the working capital utilization is also relatively low. So it may be 8% is there. The book these people, they have seen ups and downs over a period of time. So they are reasonably matured in this business. We don't see any much issues out of that.

Coming to the SMA book what you are saying here and there, these sort of things will be happening because a few accounts, what all are there in either in the corporate, commercial, these sort of things. So we are suppose if you are going to flow into that one, we are allowing it to flow. The reason is instead of keeping it and tomorrow, having this burden. It is better we do it and all. And over a period of time, if you can recover sooner the better, we'll be able to recover that.

So that's why we have allowed few of the accounts to flow into SMA so that should not become an issue. Even if something is there, we'll be able to start the resolution process much faster, and it is not a major issue. That's what I feel.

Rohan Mandora: If I can explain one more question. If you look at the last 3 quarters on annual slippage roughly taking around 1%. So would it be fair closing for FY '24, we can have slippages below that number? Because the GNPA has also come down and the SMAs are under control relatively?

Ramesh Babu: Agreed, but '24 along with the March numbers, once we take stock of whole thing and all will come back. But ideally, what you said is correct. We'll also aim on those lines having got this sort of a maturity, both on the collections as well as the quality of the portfolio, we will also aim for those sort of numbers only.

Moderator: We have a next question from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Just one question. When you are now speaking to your borrowers. If you can just kind of give us a little bit of color on -- are the skill looking to take more loans? Are they looking to slow down a bit? Just trying to understand what is the general feedback of conversation that you are having with your commercial?

Ramesh Babu: Mahesh, it's a good question. But this question, it depends on the industry. Suppose few industries where actually the demand is slightly slowed down, so the utilization levels are low. But there are a few sectors where actually the demand is there, it can be real estate or construction or these sort of a contractors and infrastructure. These sort of things are there, the demand is still there.

So that is the reason these people are approaching. So it shifted from maybe textile. Textile, it used to have a lot of demand, now from textile it moves to other sectors. So once the textile normalcy restores, there and on, again, the textiles utilization will start. So that way, the requests are there and some requests are coming from the renewable area also because Tamil Nadu, as you know, it is a hub for this renewables and solar as well as wind mills. So those reports are also coming. But trading in these things are concerned. So the demand is there and all and absolutely, we are able to go ahead on those wholesale and retail trading.

M.B. Mahesh: Sir, in your understanding would you be able to accelerate growth from here? Or do you think that the growth is more was going to be around like 15% kind of a market?

Ramesh Babu: What we feel is let us see because these current growth rates, whether it'll sustain or not for the Banking system also. In fact, I have my own thing and all. So that's the reason this year, we thought that let us see 15%, once budget is out, we'll have other indications also then we will take a call on the growth path for the next year. But you must be knowing earlier when single-digit growth was going on for the Bank for 7%, 8% and all.

So we could scale it up to 15%, 16% now. So that's where the opportunities are plenty. So we'll be able to increase it further, and we will not miss any opportunity, but it will be too early now to commit for any number beyond 15%, but this March, we'll be able to do it 15% plus. And once budget and these things are out, we will size up our thinking and on, and we'll be able to come back.

Moderator: We have our next question from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Sir, my question is on the written-off pool for this quarter. So INR 600 crores, what we written-off during the quarter in the corporate segment. I mean is there any couple of big accounts or let's say, these are 10, 15 small accounts put together, we have written-off?

Natarajan: Not any big account -- there is not a big account, Renish. It's all a number of accounts because it's all prudential provision. And if you notice our net NPA or corporate drastically come down, it's only INR 20 crores

Ramesh Babu: No, not only that even gross NPA corporate, Renish, if you see the slide, it is INR 102 crores. So that was not a big account. All big accounts have earlier itself gone. Here other small accounts, what all are there, it is a optimization and all clean-up process we have completed, not any big accounts are having issued those sort of things are not there.

Renish Bhuva: And sir, I missed that number from the recovery from the written-off account for this quarter?

Natarajan: INR 85 crores.

Ramesh Babu: INR 85 crores.

Moderator: We have our next question from the line of Jai Mundhra from Batlivala & Karani Securities.

Jai Mundhra: Congratulations on a great set of numbers. First question is, sir, on your SA growth. So while we appreciate that you intend to raise CASA to 40%. But at the same time, the SA growth has been very muted in the last one, two quarters. Your card rate has also been one of the lowest. So when you aspire for 40% CASA growth, is there any risk on the pricings also?

Ramesh Babu: I agree, Jai, if you can understand, thanks for those compliments. SA, if you look at it, during the COVID a lot of build-up was there for the SA. And once the things started relaxing and all people started using either for their business or for the real estate or for investments in the capital market, something like that people are there for personal consumption. So that way SA has come down. Now consciously, we also took a call internally, if we leave the SA like that when the interest rates in general in the market have gone up, there can be a tendency to move this SA towards the time deposits of other Banks also. So that is the reason many of our Banks also who are susceptible for moving this to other Banks, so we have moved them to time deposits also so that we can lock in.

So this is a transitory phase which can come up. But if you look at our acquisition, what all is happening new accounts, these things and all that process is on. Agreed, what you said that 40%, it may look at astronomical number at this stage when the things are pretty difficult now.

But with the new set of what we are planning to do with the feet on street and a full fledge channel going on that and not. And we feel that we need to aim for that sort of a number, maybe pricing here and there, it can be there. But overall, we will look at our NIM, whether we are making money out of this and RoA, all these factors will be kept in mind.

Suppose, there can be a case Jai, if pricing here and there if you are not paying and if you are not even able to get a resource at all, if you are unable to lend, that it will be much more detrimental than not getting a higher pricing. So that way, we will see a commercial call will be taken. How much we need to pay, how much we are earning. Overall, it makes a commercial sense or not. Based on that only, we will take a call.

Coming to the CA also. Agreed, so CA first quarter, we had a good buildup and all over a period of time, it has come down because started using and all. So now with the setup we have created for the TASC that also will be fully functional from first of April of next year. So we focus in on this TASC.. And that way, with the government also, we have got the permission.

So we are hopeful that we need to intensify our efforts under the TASC segment for the CA. So that way, both engines if they start firing, surely, we need to move up. And because 40% when we say, the time deposits are also growing, it will be a challenge, but we wish to have the purpose and aim so that progressively we will move forward. The main hope for us is the new setup what we have created.

Jai Mundhra: And sir, what would be your deposit growth targets when you target a 15%-plus loan growth, because your LDR ratio is now 50%-plus, 81%. So how should we look at the deposit growth?

Ramesh Babu: You are right because when this is more or less the CD ratio is running. So we need to grow hand-in-hand both deposits and advances together. So that way, so suppose 15% we are planning more or less deposits also 15%, 16% we need plan, then only well then only we'll be able to move forward here and there, except SLR, lot of SLR is where we'll be able to get out of that. But over a period of time, these two will have to move in tandem deposits cannot be much lower than the advances growth rates.

Jai Mundhra: So in continuation, sir, business is growing at more or less 15%-plus. But on opex side, so far, the opex growth has been very calibrated, 10% to 15% Y-o-Y growth. And in this quarter, I think you would have started providing for bipartite also and still the staff cost is single-digit kind of a growth Y-o-Y. And even the other opex growth has been some barely 10%. So would you -- I mean, does this kind of current opex growth or current investment would help you to gain because your business growth in is around 15%, but opex growth is still behind. So I mean, what kind of an opex growth one should assume going forward in '24 to help sustain 15% business growth?

Ramesh Babu: Opex growth, there is one more thing you need to keep in mind, last year, because of the family pension when Reserve Bank of India wanted the Banks to provide, they have given a dispensation for three to four years or five years, we took a call in providing that in the three quarters. So that will reach per quarter 27 crores additional provision we have made it that it is not there this year. So that way, if you take it out, opex growth will be normalized. That is first thing.

And second thing, I fully agree with you. When the operations are growing and our business estimations are also much higher and all. And that to the teams, what we are going to have by the liabilities and all, opex costs will be going up. But we are planning in such a way. There can be a lag of six months. And initially, we may have to spend the teams will have to come, stabilize and they start mobilizing the liability.

The liabilities, what we mobilize will start earning also. So that way the cost, what we are going to incur will be offset by the earnings what we are going to have. That is the reason, overall, the cost-to-income ratio also we are planning to have around 45% to 47%, which used to be 54% something so that way, this quarter, it will be an average and it has come to 42% odd. Otherwise, we will try to maintain between 45% to 47%.

And there can be a small lag Investment, if you do not make on these sort of initiatives, what we are mentioning. Over a period of time, we will not be able to reap the benefit. So we are not shortsighted as far as the investment and cost is concerned for the next six months, but we are looking at the long term, where we are going to yield the benefit of it.

Jai Mundhra: Just to understand that, sir, what would be a branch expansion and headcount because both these things are more or less stagnant? So would you be doing this 15% business growth without adding too much of branches or headcounts? Or there should be -- one should start seeing some traction on the headcount in the branches?

Ramesh Babu: Now you see branches, we were opening around 15 branches per annum. So next year, we plan to open around 25 branches. And we will go with that particularly. And then over a period of time, we will see how to scale it up. Second thing, what we are planning is the branches basically they need to mobilize the resources. So the new setup what we have created here. So we are going to have tie ups with the business correspondence. Currently, our business correspondents are around less than 150. So with these tie-ups, if we set up our own business correspondents there, so they will start testing the water first.

And if the business and liability business is coming up, and they'll also be mobilizing and marketing the retail assets. If these things are coming up, so they can think of opening a branch in that particular location. The cost of operations of the business correspondence is relatively much-much lower compared to a branch, because there is no fixed cost there. It will be an operational cost, variable cost, that transaction we had to pay. So we are planning to go for number of business correspondents in 25 branches and three sets of people will be going up. One, on the liability side, as I said, feet on street will go up.

Second side for the home loans as well as LAP also, the feet on street, we are going to mobilize and those marketing teams are going to come into place. And the third thing, the KVB's smart initiative, we have given a name recently. On the SME portion, that is CBG. So we have created a setup under the sub vertical under the CBG wherein we are creating the relationship managers, feet on street for the for the SME business.

All these will be in addition to the branch channel. There also, we will be taking some people. Definitely, the staff costs will go up on account of all these three. Three, verticals liabilities and retail assets what we are going to create under the SME. These three are going to have some sort of cost, as I said, it can have a lag effect also of six months, but we will try to even it out during the next year it self by earnings. But whatever it is, we -- our intention is to maintain between 45% to 47% with the cost-to-income ratio also.

Jai Mundhra: And last question on opex, sir. What would be the wage revision in an absolute amount that we would have done for the two months this quarter?

Natarajan: We have done INR 15 crores, Jai.

Jai Mundhra: For two months, right?

Natarajan: For two months, yes.

Jai Mundhra: Secondly, sir, on your -- you have given a guidance assuming normalized environment going ahead. On your net slippages, sir, so for the last six quarters, we have been seeing the negative net slippages. And you have utilized the entire thing on bringing down net NPA. How should one look at the net slippages numbers going forward? Maybe 1 quarter is still -- I think you can still manage. But how should one look at from a, four, five quarter perspective, how should one look at the net slippage in the net of recovery?

Ramesh Babu: Yes. Jai, in fact, the perspective from now onwards, we may have to change. Because earlier, the recoveries, what all are there from the NPAs, and we were looking at the slippages because a part has now moved, majority has moved to the write-off bucket in future, we need to look at the normal recovery from the NPAs as well as the write-off together what all is coming. And the actual slippages, our intention is still to maintain net negative slippages as far as possible. That is our intention, and we are proceeding on those lines only.

Jai Mundhra: Good to have those intentions sir, but I'm saying, do you have the visibility for the next two, three quarters, that including PWO recovery?

Ramesh Babu: Yes. We have a visibility.

Jai Mundhra: Sure. And just last small accounting thing, sir, the tax rate for this quarter looks very low. Is this because of the write-off and it should not matter for a full year perspective, or how should one look at it? I mean the way we calculate tax rate is around 10% only.

Natarajan: No, you are right, Jai. Actually, because of the write-off, some changes happened. Otherwise, if we take the 9 months period and the entire year, it will be normalized.

Ramshankar: For 9 months, this come to 23%. If we see first quarter, almost we had 28%, 29% as our effective tax rate, and 28% in Q2. So on an overall basis, the same 25% will be maintained.

Moderator: We have a question from the line of Pranav Tendulkar from Rare Enterprises.

Pranav Tendulkar: Congratulations on a great operating metrics. Sir, I just have one question. About that, there is one provision on the slide number 29 or 30, well, there is NPI provision of INR 102 crores. So what does this exactly is for?

Ramesh Babu: Yes. Thank you, Pranav. This is simple Pranav that is SR, what all balance is there, we had to provide as per the RBI dispensation.

Pranav Tendulkar: So that is the same thing that you alluded in the opening remarks?

Ramesh Babu: Yes, in the inaugural, yes, correct. You are right.

Pranav Tendulkar: Also, can you just explain, , what all balance is there we spend 1 minute on what is driving the credit growth currently for you? And will the credit growth continue?

Ramesh Babu: Credit growth, I feel that for this quarter, it should not become a problem. Basically, the commercial, if you look at it, so demand is these, actually, many of these smaller units, business Banking as well as up to INR 25 crores, they are able to get a good traction that is not a problem at all. And retail is the only one thing where the acquisitions are there. The disbursements are concerned, quarter-on-quarter more or less happened in the same way.

But a few prepayments these things and a few people, those who have money and all those prepayments have come. And third thing is last quarter, we didn't go for any pool buyout because the pricing what all has come up in the market are the repo and all. Few of them are not willing to take it and all. We didn't take it. Otherwise, the inorganic growth also would have been there. So that way this quarter is concerned, that trend will continue, and we will be able to meet the guidance what we have given.

Moderator: We have our next question from the line of Rishikesh Oza from RoboCapital.

Rishikesh Oza: Could you please indicate on credit costs for the coming quarter Q4 and also for FY '24?

Ramesh Babu: Yes. FY '24, it is too early for me. As I said earlier, Let's the budget be over and all. In the meanwhile, we'll mull over and all. We will have a clarity on that. Otherwise, Rishikesh, you would have known that for this year, we have given a guidance of around 15%. The growth will be there for the credit. And we will stick to that and all, maybe 15% plus we will be able to grow. That way, the gap, what all is there, so we'll be able to do it and slightly shared above that, we'll be able to do for the quarter for.

The credit cost you are talking. I thought credit growth. Credit cost is concerned, so 1% we have told, but if I look at it 1.0% to what all is there. So that is majority. It has come from the prudential provisioning what we have made. When last six quarters, our slippages are negative, net slippages are there.

The need for providing has literally pretty-pretty small, maybe for the aging provision we had to make. So that way we feel that nothing much will be there. Organic credit cost, nothing much will be there. If at all, for the purpose of balance sheet, we had to make because the funds are there. So we may have to do. Otherwise, credit cost is not a worrying factor for this quarter also.

Rishikesh Oza: And for FY '24 sir, any indication?

Ramesh Babu: So '24, we will try to maintain between 1%, 0.75%, 1% and all we'll have to work on that once this year is over. So we'll work on that. We will try to be lower than this year.

Moderator: We have our next question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Just to understand on the provisioning side, we have accelerated and have been provided for most of the NPAs and we have healthy PCR, because of incremental slippages and incrementally, the aging provisioning component on the overall provision will be lower. So for the incremental slippages, will we look to go as per RBI regulations or will we look to accelerate some provisioning on the incremental slippages, just want to understand that?

Natarajan: We go with only the IRAC provision norms. Only thing is the prudential provision instead of making 15%, we will provide 40% or 100%. In that way only, it will be underlying accounts will be there for each and every provision we make.

Ramesh Babu: But Rohan, if you look at the slide for the NPA. The net NPA of the Bank is just INR 550 crores. So that way, so even if here and there something made also, it doesn't make any difference that way because if it is INR 5,500 crores. Then the question of all these things will come up. The net NPA has come down drastically to INR 550 crores. So incremental, even if some INR 50 crores is provided also it's not going to have much bearing on the bottom line.

Rohan Mandora: I agree. It was the total net I was having but in case you incrementally provide as per the RBI guidelines probably we could see some drawdown on the PCR reducing and the better profitability in RoA expansion. And if you probably choose to maintain a PCR of 65% to 70% even on the incremental slippages to be ready for the Ind AS things that may come up. Then probably the credit cost could be higher. And then it would be a balance sheet strength that is there on that. So if you can, I just wanted to understand how it will play out?

Ramesh Babu: I agree that in call, we cannot take it at this stage because RBI guidelines what all have come draft paper, they have given time up to 28th of February to study and go ahead. Till such time, we have a clarity, we'll be going ahead with IRAC norms only once we have some sort of clarity, what we need to build up and all, a call will be taken at that stage. Otherwise, we'll go with the IRAC norms.

Moderator: We have our last question from the line of Prakhar Agarwal from Elara Capital.

Prakhar Agarwal: Just one question and follow-up towards the last participant asked. We will be submitting our Ind AS proforma to RBI. Any deviation that you probably see based on the numbers that we have been reporting to RBI if we have to make a transition today?

Natarajan: It's all negligible, not much any big difference we see. A couple of items where there is a gap between our Ind AS and the GAAP. But it's all negligible. It's not any big numbers.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. B. Ramesh Babu, MD and CEO, for closing comments. Over to you, sir.

Ramesh Babu: Thank you, I thank you, one and all for the interest what you have shown in the Bank and all, and I wish you all the best in your endeavour. Thank you very much.

Ramshankar: Thanks a lot.

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