“Karur Vysya Bank”

Q4 FY2022-2023 Earnings Conference Call

May 15, 2023

MANAGEMENT: **MR. B. RAMESH BABU – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - KARUR VYSYA BANK**
MR. J NATARAJAN - PRESIDENT & CHIEF OPERATING OFFICER - KARUR VYSYA BANK
MR. RAMSHANKAR – CHIEF FINANCIAL OFFICER - KARUR VYSYA BANK
MR. SRINIVASA RAO - COMPANY SECRETARY & COMPLIANCE OFFICER - KARUR VYSYA BANK

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY 2022-2023 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. 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 '*' 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 & 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 Sir!

B. Ramesh Babu: Thank you very much. Good evening to all of you. On behalf of Karur Vysya Bank, I welcome you all to our Bank's Earnings Call for Q4 of FY2023.

I am pleased to mention that bank has been consistently performing well during the four quarters of year 2023 and the outcome numbers in terms of growth, profitability and asset quality are in tune with our guidance. You will be glad to note that bank has in the exit quarter achieved 1.5% ROA, 16% ROE, 4.37% NIM, less than 45% cost-to-income with overall business growth of 16% and four digit net profit for the year and for the first time. We have declared three digit dividend subject to shareholder approval. I am sure you will not disagree if I say that the outcome was on account of our conscious efforts which we are explaining to you in our earlier calls.

All of you would have gone through our detailed presentation on our Q4 and full year of performance. I would like to share some of my thoughts on the performance of the bank during the quarter and our guidance for FY2024.

Net interest margin increased marginally by one basis point on sequential basis during the quarter at 4.37%. Based on our historical pattern of renewal of deposits and fresh deposit acquisition, we expect that there will be a further increase in the cost of deposits to the extent of 40 to 50basis points in the next two quarters assuming no change in our deposit rates. As we already passed on interest rate hike to majority of the loan book under EBLR and MCLR, there may not be an equivalent increase in the yield on advances. Yield on investments have gone up by 39 basis points during the year and it is estimated to go up by 25 basis points in the next two quarters. Considering all these factors and without taking into any policy rate changes, we expect a compression in our NIM in the next two quarters and accordingly we estimate that our NIM will be in the range of 4% in the next two quarters.

We have achieved ROA of 1.5% in the exit quarter and we expect that we will continue to maintain this during the year 2024. In spite of estimated lower margin, our estimated business growth, fee income, lower credit cost and recoveries in written-off accounts will support us to keep ROA at 1.5% levels.

Our adjusted growth in advances for the year 2023 was at 16% and it could be noted that there was an inclusive growth across business segments led by MSME and agriculture. On account of various initiatives bank has undertaken, we expect to continue this trend in these segments supported by retail and corporate and we expect a growth of 14% for the year 2024.

Our deposit growth was at 12% during the year and term deposits and CASA deposits were grown by 15% and 6% respectively. We expect 14% growth in deposits with higher growth share in CASA segment. As indicated earlier, bank has created consumer banking department by merging personal banking liabilities and personal banking assets. A set of senior and experienced officers have already joined to head the CASA acquisition, corporate salary accounts, government business, third party products, etc. The structure is in line with large private sector banks having sizable CASA book. We are in the process of recruiting down the level sales team and feet on street. In the first phase, we have planned for 1300 resources and of which 480 resources have already joined and another 820 resources are expected to join before September 2023. In view of this, we will be incurring an additional expenditure of about Rs.61 Crores which is a full year cost. Though the cost-to-income ratio will go up marginally this year and we expect that it will be helpful for the bank to scale up the CASA book to 40% over a period of three years and better growth in third party product business.

Our cost-to-income ratio for the quarter continues to be below 45 and considering our business expansion plans, we expect that the ratio will be in the range of 45 to 50 for the year 2024. Our slippages are under control and our gross slippages for the year it was at 75 basis points and net slippage ratio for quarter is at 0.06% and for the year it was negative. Our estimated slippages during the year 2024 will be in the range of 1% of our loan book and we are confident that we will continue to keep the ratio below 1% in view of our better underwriting, customer engagement, monitoring and collection process. During the year, we have recovered a sum of Rs.208 Crores from the technically written-off book.

For the quarter under review, we have provided a sum of Rs.287 Crores towards NPA migrations, restructured accounts and standard assets. For balance sheet management and tax benefits, we have made certain prudential provisions and on account of this the credit cost is at an elevated level of 146 basis points. Our net NPA book now is at Rs.468 Crores and expected lower slippages and better collection system will support us to keep credit cost at 75 basis points for the year 2024.

We continue to maintain net NPA at less than 1% of our loan book and gross NPA will be less than 2% at the end of year 2024. Our standard restructured loan book is further reduced to 1.5% of our loan book and we hold a provision of 21% for the standard restructured book.

Our CRAR continues to be robust and is at 18.56% providing us comfortable headroom for growth. Our liquidity is well managed and our CD ratio is at 85%.

Our digital systems are helping us to scale up our business volume with ease and better control. We continue to add many new features in our DLite app which is our customer onboarding application. We have recruited Chief Digital Officer from the market and exploring other digital solutions which shall support our growth and enhance customer experience.

During the year we opened 10 branches and we propose to open around 35 to 40 branches in the coming year besides opening couple of digital banking units during the year 2024.

Bank has recommended a dividend of 100% subject to the approval of the shareholders. Other business performance highlights are given in our presentation.

Let me conclude by saying that our performance has been consistently improving over a period of eight quarters and repeat that the numbers are as per our guidance. A set of experience executives are managing the business, support and control functions of the bank and the details are furnished in our presentation. We continue to outperform our past performance and I am grateful to all the investors, analysts and stakeholders for the confidence and continuous support which we will reciprocate through our better performance in the days to come.

Now I will be glad to respond to your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mayank Gulgulia from SBI Life. Please go ahead.

Mayank Gulgulia: Congratulations on good set of numbers. We have 50% of our loan book in MCLR can we share breakup of reset period in terms of three months, six months, one year?

Natarajan: As already indicated 47% of our book is in MCLR and the EBLR book is 37% and in the case of the MCLR last time we have made the changes in the month of March, by March we have changed the MCLR and out of that next six months completely recycle will happen.

B. Ramesh Babu: Majority of the working capital loans which are linked to MCLR on an ongoing basis depending upon the renewal when it comes it will be happening, so that we cannot talk about a fixed bucket that way because the cost of deposits what all are there we are passing down to them, so still some headroom is available for the MCLR loans to be re-priced whereas EBLR has already been passed on so that way we will take care of that next three, four months at least I can say because last year some more or less October onwards the MCLR spike started so next three, four months the renewals of one year what all will happen we will be getting the benefit for the next three, four months.

Mayank Gulgulia: Next two quarters probably deposit re-pricing will happen faster than the loan side and probably net interest margin will be 4% plus, so going forward we will be able to maintain net interest margin of 4% plus even after two quarters as well?

B. Ramesh Babu: The visibility first of all Mayank if you look at it absolutely it is a dynamic world. Now the deposit which percent it comes and what rate it comes you will not be knowing now. So based on the past trend you cannot say that the deposit will go into a particular bucket, so depending upon its scheme what all is there they will be going, so that is why what we thought is the visibility is there for the next two quarters we thought wherever some loses are there in respect of the loan re-pricing likewise MCLR and other EBRR wherever some concessions are there where we can withdraw, this sort of homework we can do for improving the yield likewise on the cost of deposits where we have no control because the renewals will be happening fresh deposits also will be happening, so conservatively we thought that our endeavor is to maintain that 4% may be once second quarter is over we will have better clarity and visibility then we will guide you.

Mayank Gulgulia: Sure Sir and in terms of like growth, just trying to understand like whether in Tamil Nadu market competitive intensity have increased much higher than the rest of India, the market becoming more competitive because it is more liquidated?

B. Ramesh Babu: I agree but you understand we have been here for the 107 years so that way our footprint and base is here and not only Tamil Nadu our footprint is there in other states also. Currently what all is there, the customer connect what we have and how our people are able to attract the business and all, so more or less every segment we are able to do that. One more thing what I found is last year was also more or less a competitive year, in any of the verticals if I see the disbursements have gone up by 40% to 50% over the previous year. So last year was also competitive so in that way we are fine tuning our products, other things also so we feel that we will be able to continue our tempo and that is the reason the indication what all we have given the 14% loan growth, so not only Tamil Nadu other areas what all we have, so we will be able to grow that's what we feel.

Mayank Gulgulia: Thanks a lot. I will come back in queue.

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

M B Mahesh: Good evening Sir. Great numbers. Just three questions from my side one is what would be the income from written-off accounts for the quarter Sir?

B. Ramesh Babu: The total year is Rs.208 Crores and Rs.100 Crores orders coming during this quarter.

M B Mahesh: What would be the outstanding stock of technical written-off?

B. Ramesh Babu: My point is technical written-off per se if you look at it may not be a good indicator the reason is it may look like Rs.3500 Crores or something like that, but the problem is majority of the old corporate accounts were under consortium which are there with NCLT we are getting 5%, 10%, so that is still uncertain how much we will be getting there. So that is why if you look at it, overall the realizable portfolio we can think of it is around Rs.1500 Crores portfolio where we can do some sort of an exercise and we will push it, rest of them, so depending upon various other factors and all because corporate is there. Many of them may not be able to get that, so we will focus on that in the next two years also on all these things, but one thing I will assure you for last two years we have given enough effort on wherever we have security, enforcement security, SARFASI, all these things, so majority of them in a different stages and people are coming forward for the OTS also, so that way this year also we feel that this progress what all we made will continue under the write-off for this 2024 also.

M B Mahesh: Sir, just to clarify this Rs.1500 Crores of possible recovery pool that is sitting there you could say that you could hit a number closer to Rs.200 Crores again for next year?

B. Ramesh Babu: Yes, definitely.

M B Mahesh: My last question is Rs.110 Crores for provisions for restructured accounts, any specific reasons for it?

B. Ramesh Babu: Nothing like that. Earlier when we were looking at our past on an average 15% to 20% actually delinquency was there, so what we thought it is a good year in that way so it is better we make up that way so that if at all unforeseen eventuality we take a hit also so we need not worry about that because now the restructured book has become a minuscule portion of our total book at 1.5%, out of this portion also we keep it aside we should not bother at all with that intention only we kept it.

M B Mahesh: Perfect and in this Rs.976 Crores of outstanding restructured what is the outstanding provision sitting now including this Rs.110 Crores during this quarter?

B. Ramesh Babu: 21% we have provided out of this.

M B Mahesh: So about approximately Rs.200 Crores right?

B. Ramesh Babu: Correct.

M B Mahesh: Thanks a lot.

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

Jay Mundra: Congratulations Sir, just to clarify this Rs.200 Crores restructuring provision is Rs.1976 Crores right, so net off provision the number is even lesser right?

B. Ramesh Babu: Very correct.

Jay Mundra: Secondly Sir on your 14% loan growth do you envisage any subsector to grow at a slightly faster face or do you think the loan mix will more or less be similar?

B. Ramesh Babu: If you can look at our past performance where our corporate used to be 30%, 35% and all, finally in this quarter it has come down to 21%, earlier it used to be 22% so that way first of all the first focus would be on the MSME commercial banking group because where our yields are better, in many places 9.5%, 10% also will get the yields and all, so after that we are focusing another retail segment because retail mortgages are doing well, jewel loans also we are going to focus and third thing is agriculture because there are two advantages. One is the gold loan and agri also we are focusing on that. Last year was a bad year as far as PSLC is concerned, otherwise we were making some money out of the PSLC also in addition to taking care of our own PSLC, so in the order of preference if you look at it commercial followed by retail and agriculture and then corporate.

Jay Mundra: Your opex growth right, so you have staff cost for FY2023 at around Rs.1000 Crores, you said that we are adding few people, 1300 people in the staff and hence you would have an extra Rs.60 Crores, Rs.61 Crores opex number for next year, but how should one look at the opex growth for next year, one part is of course slightly higher because of the proposed staff addition, but in general as loan growth is let us say 14% how should one look at the opex growth?

B. Ramesh Babu: In fact generally our opex assets is in the range of 2.3 to 2.4, so here may be it will be in that range slightly elevated here and there, but we had to see a bigger picture. What we are planning is the feet on street we are going to engage they are going to work on the CASA as well as the third party also, so what all we are going to spend more or less to the extent what all we are spending we will be getting income side also, so it may look opex is on a higher side, but our focus is on fee to income also, fee to assets also how to grow, so overall after doing all these adjustments we thought that 1.5 ROA we will be able to manage with this increased cost also.

Jay Mundra: Lastly Sir on your credit cost guidance of 75 basis points, you already have net NPA which is let us say 75 basis points and you have 20% coverage on restructured and even hit this quarter you have seen almost negative or negligible slippages or negative slippages including TWO recovery so your credit cost guidance is it more conservative or you think basis look at the portfolio, the incremental credit cost can be much lower than what you are suggesting?

B. Ramesh Babu: I agree we are in the first quarter then during the whole year what will happen at least we will not be able to estimate at this stage, though our endeavor you see our 0.56 is our SMA we would like to have a tighter control on that, but still you may have to provide for some standard assets, migration assets, these sort of things will be there and with these we thought that at the most it may go up to 0.75 it may not go also, so that is why we took it saying that, may be after six months we will have a better clarity, we may give a revised guidance for this, but this is what for the whole year, many unknown if at all comes up also we want to factor them, that there is a reason we have given 0.75.

Jay Mundra: Related to this you must be doing parallel run to the ECL framework every six monthly, what would be the proforma provisioning under Ind-AS versus the IRAC is there any meaningful difference?

B. Ramesh Babu: CFO will respond.

Ramshankar: Not a major difference we find half yearly from what we are submitting to RBI, we will be able to manage with what are all provisions what we make we do not see any big change in the new system comes in.

Jay Mundra: There is not material one time transition provisioning needed right is that what you are saying?

B. Ramesh Babu: My point is the guidelines itself they are not out on what basis you need to do, back of the envelope when the risk management and those people they have done that they found saying that the existing provisioning what all has been made could be relatively sufficient there will not be any big shock which bank will not be able to absorb, so that was the understanding we have, so now unfolds as and when some sort of guidelines come up and all we will be able to know that, but currently that is not a major issue which is going to impact the bank.

Jay Mundra: Sure Sir and the SMA number that we disclose as a total loans right?

B. Ramesh Babu: Yes absolutely.

Jay Mundra: Thanks a lot.

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

Pranav Tendulkar: I just have two questions. One is that you have actually highlighted that you are investing more in the people for cross-selling and feet on street, so also can you just highlight what are the targets to cross-sell various products that we have in our bouquet and how are we tracking how many branches are actually enable to sell all the products in our bouquet? Thanks a lot Sir.

B. Ramesh Babu: I agree. Feet on street when we are taking the different sets of people are coming may be for the trade and forex, corporate salary, other accounts that way each one depending upon the profile of a customer whom they are going to market particularly the CASA, the feet on street what we are acquiring is for the CASA and the real focus will be majority on that. The products which we are going to focus are the life insurance, general insurance and the mutual fund; these three would be the major products. Now, currently enablement is concerned we have already partnership with many of the partners in each of the life, general insurance everywhere partnerships are there, so recently we have entered into arrangement with SBI Life also to add bouquet to our total portfolio, so now every branch of the bank is equipped to handle that not that a particular branch can do it. We are going to utilize our analytics also in this process what can be done, the next best product what can be offered and this feet on street also will be on the job together we want to give a focus on this, but one thing I will tell you the feet on street actually they will be coming into the field and most probably from up to September in the process, the recruitment process is going on, but those whoever have already come there or converted from the existing lot they are on the job and we will be monitoring on the third party income.

Pranav Tendulkar: Right Sir, last question from my side. Two years ago there was a competition increasing in our core competence market which is SME, MSME in south, so how is competition panning out right now? Thanks a lot.

B. Ramesh Babu: I agree. At that time the position was relatively different because the COVID was there; other banks are unable to grow. There were no other opportunities at that time people who are approaching on to those accounts now that the market is opened and everyone has other opportunities that sort of a competition we were facing at that time because at that time particularly we are facing on three accounts. One is on the pricing, rock bottom pricing, quoting and taking and second thing is lowest security coverage and third thing is undue enhancement. So we were looking at the quality of the portfolio if by doing this one if we do it and all we will be having a problem tomorrow we were leaving the accounts, but all those issues have come out, but even today if that sort of a undue enhancement where someone do not require we are still not allowing that because today, tomorrow it will be a problem, so that sort of a cut-throat competition going on the pricing all these things have come down to major extent because other banks also they are facing the heat on the enhanced cost of deposits, so that way rock bottom pricing and all that issues have come down now.

Pranav Tendulkar: Superb Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Most of my questions have answered, just couple of things I missed out in between, so what is the growth guidance that we have set for FY2024 which is one and second is in terms of I do not know whether you have answered this earlier, any impact of ECL that you probably would have seen?

B. Ramesh Babu: Yes, in fact both we have answered, but it is good I will repeat once again. Advances what we thought is 14% plus we wanted to grow, the same is the case with deposit so that we will be able to maintain the CD ratio of around 85%. As far as ECL is concerned our CFO has clarified the working what our risk department does it, they found out with the current framework what all have been spelt out, so our provisioning currently what all is there we will be able to take care of this one and there may not be many major shocks for us to absorb that ECL provisioning but as and when these guidelines unfold from Reserve Bank of India, so we will be looking at that, but one good thing Prakhar what I can say, the transformational journey what we have performed with this the total clean-up has happened now, we have sufficient muscle to take care of these shocks if at all comes up also, has it been two years back our position would have been shattered totally, so now we are relatively much, much better to absorb this sort of a shock comfortably.

Prakhar Agarwal: Just two more questions. In terms of margins when I look at Q4 the reported number is 4.37% and it increased one basis point sequentially when I look at last presentation it was 4.32% is that because of the basic adjustment that we have seen during the quarter?

Ramshankar: Correct. Let me clarify, based on the RBI master circular on the financial statement presentation and disclosure, interest accrued but not due on advances and deposits have to be reclassified and we undertook that in the March quarter that is why there is a small difference in the numbers what we reported in December on the revised number.

Prakhar Agarwal: On the revised number that margins would have been 4.36% last quarter?

B. Ramesh Babu: Correct.

Prakhar Agarwal: If I look at your presentation slide #15, so again on advances we have given that Rs.66000 Crores odd and after write-off Rs.64000 Crores odd is there similar number we have given Rs.64000 Crores?

B. Ramesh Babu: Correct.

Prakhar Agarwal: What exactly is the difference between the two, is that previous classification and new classification that I missed that number?

Ramshankar: Whatever technical write-off which we have done in the current year that we have added back to show the exact growth, whatever growth we have done this year because of technical write-off of 1800 Crores it appears at a lower side, just to ensure show the current growth what we have done in this year we have added back and shown it as advances.

Prakhar Agarwal: That number is Rs.66000 Crores, but if I look at Rs.64420 Crores what exactly that number is?

B. Ramesh Babu: It is only the technical write-off.

Prakhar Agarwal: After technical write-off it says Rs.64168 Crores which is similar, if I look at two columns which is there in slide #15 one is Rs.66031 Crores and other is Rs.64420 Crores, just wanted to understand the difference between the two?

B. Ramesh Babu: You are right. We will come back Prakhar on this number. CFO will have a communication to you. Otherwise, what is our intention is that Rs.1893 Crores what all has been written-off had been not done our growth is 16% actually because one year is the good year we are sort of clearing up, intention is to convey the message, but anyhow CFO will clarify that point separately to you.

Prakhar Agarwal: Sure Sir I will take it. Thank you so much.

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

Rakesh Kumar: Thanks for the opportunity Sir. First question was related to the SA deposit blended cost, so what is the SA deposit blended cost now for this quarter?

B. Ramesh Babu: SA deposit savings bank is at 2.5%, current account is not there, because savings bank our average rate is 2.5% and current account we do not pay anything.

Rakesh Kumar: No, only for SA balance because there are different rates we pay for the different balances, so what is the blended cost that we have?

Natarajan: Our average cost for this 2.57.

Rakesh Kumar: For the SA deposit?

Natarajan: For the SA product, the cost is 2.57 for the Q4.

Rakesh Kumar: How much it was paid during the previous quarter Sir?

Natarajan: It is in the same range because we have not changed anything during this entire one year, for example Q1 it was 2.55, now in Q4 it is 2.57.

Rakesh Kumar: The last I think we change in January sometime, continued to have January or sometime?

Natarajan: That is we have added only one bucket, for example more than Rs.100 Crores we have created a separate bucket, otherwise we have not changed anything in the lower categories.

B. Ramesh Babu: Our CFO has to clarify. **Ramshankar**: Before that previously Prakhar had asked for what is the difference on the fourth column. There is a 252 Crores of technical write-off what we done in Q4 that we have shown separately. The last column talks about the growth in quarter-on-quarter growth. The first column talks about the year-on-year growth that is the difference.

Rakesh Kumar: Thank you Sir. Secondly sir wanted to understand the capital consumption pace like because of the return ratio numbers we were adding capital every year, so this year we have seen some depletion in the capital, core capital number, so is that due to kind of a selection of credit that we are doing so what is the reason that we have seen pretty sharp rise in credit risk numbers so if you can help us understand?

B. Ramesh Babu: Rakesh you see we have shown in the table the risk weighted assets movement, 53% has become 54%, that 1% cannot be considered as construed as a sharp rise, okay. Earlier when the COVID and subsequent period the focus was majority on the gold loans whereas the capital risk weight was not there, so that was the reason the share has come down straightaway in the graph. Now that across the board all verticals we are growing so naturally there is a slight growth in the credit risk weighted assets but one thing also we need to understand if it is too low the risk reward ratio also will be low, you will not be able to make money, so we need to strike a balance between the risk and what sort of pricing where we can manage, so that you can optimize your yields and you can protect your name. With that intention, keeping in view how to maintain the asset quality, the yields and the topline growth all together we are growing ahead but we need not think there is sharp spike in the risk weighted assets, it is just 1%.

Rakesh Kumar: No, no sir. I was referring only to the credit risk rate sir. So if you look at

B. Ramesh Babu: Under that you find a table there, you find a table we have shown that credit risk weighted assets how it has moved, it has moved from 53% to 54% that is a 1%.

Rakesh Kumar: No. I am saying only about the credit risk weight sir, which has increased from 34000 to 41000?

Natarajan: I understand. Generally that the 100% weightage for the general credit. For example, whatever the MSME loan we are doing it, so that the increase there, 7000 Crores is reflecting our growth in the MSME sector and corporate and the other retail.

Rakesh Kumar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Madhu Chanda Dey from MC Pro. Please go ahead.

Madhu Chanda: Congratulations on a good performance.

B. Ramesh Babu: Thank you very much.

Madhu Chanda: I just had couple of questions. One is FY2023 has seen an exceptional year for the banking industry in terms of high margin, low credit cost, would you think at FY2024 although you have given specific guidance of what are the niggling worries that you see going ahead which was pretty much not there in FY2023, that is my first question and the second question is deposits has been a challenge for the system and it has seen a challenge for you also. We have seen organization adding feet on street but do this answer to the deposit challenge and how confident are you about your reported guidance of 14%. These are my two questions?

B. Ramesh Babu: Fine. Thank you madam. In fact one thing I just need to say for the banking industry 2022 to 2023 maybe an exceptional year but for us is all the more exceptional, the reason is the baggage what we were carrying in the earlier years so last two to three years the journey what we have to perform, lot of cleanup has to happen in addition to other things also, so the baggage also we could clear and we are in a decent position now so the worries if you look at it as it is if you look 3 broad parameters if you look at it, business growth, profitability and asset quality, so I will talk about asset quality, so we have formed collections team, and centralized and a vertical head has come last year, so from then onwards we started seeing lot of improvement in our SMA one and two. So then we started focusing on SMA 0 which flows into SME 30 plus. So that way we have got a fair control on what the asset quality because these only will flow into this one and next thing is corporate used to a big pain for us at a point of time so under the, now the corporate SMA has come down to the miniscule. So that way the bigger worry what we used to have has gone out. Now what all we are acquiring now so what we did in the year 2019 we have gone for a loan origination system with checks and balances, with tie up with many other agencies with surrogate data to check what we are doing is correct or wrong, so what we do on an ongoing basis, we will do an analysis of pre 2019 what all accounts have been underwritten and post 2019, so when we see particularly the commercial banking and the retail if you look at it, pre 2019 the stress may go up to 4% to 5% odd and subsequently what all we have book with all checks and balances so this is more or less around 0.5, 0.6. At these levels, it is there. Maybe in the process we may not have grown so well because we are not open the flood gates, but what are we have acquired we are reasonably confident that has only helped us during the COVID period without having much of a stress under that, so with all these things in mind, so the asset quality should not be a major problem for the bank. Now coming to business growth so we thought that having brought the momentum vertical wise for each vertical contributing, we thought that each vertical will be able to contribute 14% that should not be an issue, but provided if the market and economy also supports. Then the question comes the worry part is the cost of deposits where absolutely some sort of a visibility we can have for the next six month and beyond that we do not know how it pans out whether the rate, how it moves out and all. So now there is a limit also beyond that you may not be able to pass on the yield to the advances on the pricing, so how much you will be able to pass on, how you are going to maintain the NIMS at this 4%. This is one of the worry, which we need to keep in mind but we are looking at other factors like fee to assets and how to improve the NII also by improving the yield. These things we started working on. To address the particular issue of cost deposits and NIM. Now coming to deposit I agree with you there is fierce competition in the market and last year also though we were trying our level best for a CASA so many of our customers other branch were wooing them for shifting them into the time deposited higher rate, then after 3 months, we ourselves realize just of losing the relationship, it is better we only convert them into time deposit though it involves additional cost for us, but we tried to do that. Now the people the feet on street everything what we have told them these are the people actually in the field so currently what all is not there even if they add a gain of gain to the gain overall it will be a gain and that **audio cut 42:34** as well as the CASA which is what our intention so currently first set of people what have come, if you look at their performance is reasonably okay, but we need to test the water for another six months so we are hopeful that so with the initiative what we have done that the deposit growth what all we planned will work.

Madhu Chanda: No sir, I mean if you just part of the sentence which not audible fully, but I could make a sense of what you are trying to convey so if I understood you correctly from all the initiatives that you have taken, deposit growth and at what cost remains the key worries as we enter FY2024. Is that what you wanted to convey?

B. Ramesh Babu: No I just want to clarify here. Deposit cost at what cost suppose if you are acquiring the CASA and if you add this cost for the acquisition also if you add, it may be slightly costlier that is the reason what we are working is those people whom we are acquired now, they will be focuses on a third party also that income also they will be generating and there also be in the some other business, so we want to make that vertical what all we are creating self-sustaining, and profitable on its own, within a one year, so that way initially one year, there can be lead lag otherwise from subsequent years onwards, it will be working on its own.

Madhu Chanda: Okay sir, just one last question. The unionized employees and the cost etc., had been kind of an issue with all the private sector banks like yours, so if you could just clarify going forward in the next couple of years what is your take on the employee cost increase, what kind of increase should we factor in?

B. Ramesh Babu: Mam in fact for the last four years, if you look the three to four years, whomever we are taking, we are taking them on a CTC basis, so we are not taking them on the IBA basis and all, so those who are coming they are absolutely linked to their performance and all. So not only that the existing team also we need not think like unionized and all because the productivity of the people have gone up like anything. If you can look at our presentation the last page, the business per employee and the profit per employee how it has moved. The same set of people it has moved. If you can look at it 2017, our total staff strength was 8000, now it is 7700 after five to six years it is 300 down, the productivity has gone up by many fold. So if you look at the costing also more or less you will be able to manage this establishment cost what all is there for them and that itself if we feel that 1.5 ROA what we have convey so we will be able to achieve that.

Madhu Chanda: Just one small housekeeping here. Of this 7700, what percentage is IBA and what percentage is normal CTC as you mentioned?

Natarajan: Madam 90% is IBA, mam.

Madhu Chanda: 90% is still IBA right. Okay and given the retirement profile of this people, what it would be maybe in the next three to four years' time?

B. Ramesh Babu: That all we have to say in regards we also thinking of that. We will have to see that mam because our current focus is how to get the productivity from the existing team rather than meddling this and all, so if you can get the best productivity from them and we are able to maintain our ROA, ROE all these things and all, so we will try to see that, then we can think of addressing the rest of the issues.

Madhu Chanda: Okay. Thank you sir. Thanks and all the best for the next year.

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

Krishnan Asv: Thanks. My question is more to do with cost of deposits on one hand and just in terms of our current MCLR what is the pricing that we have an MCLR and where is the current when blended book on your MCLR portfolio which is 47% of your portfolio?

B. Ramesh Babu: So what is that you want in about cost of deposit?

Krishnan Asv: Just in terms of for a 14% kind of growth that you are building in given your CD ratio 85%, where is that you expect your cost of deposits to settle over the next year. The reason I am asking that is obviously we are in an environment where there is a scramble for deposits. For some bank it is showing up disproportionately higher so just wanted to understand in terms what you are seeing in the market, where you are looking for the deposit?

B. Ramesh Babu: First question I will respond and second one our president will respond. First one is on the cost of deposit. If you can recollect our guidance what initially I have mentioned there so we were thinking and saying that with the back of the envelop work when we did it the current renewal pattern for the existing deposit renewal and the fresh inflows what all are coming, which will land into which bucket, so we thought on an average around 40 to 50 basis points growth may come up in the cost of deposit, but simultaneously I was also mentioning the l0osers, what are all there in the pricing of the loans that also we are going to tighten up so that is the reason we are indicating a NIM of 4% but with the existing rates on deposits you can expect around 40 to 50 basis points going up in the next six months to eight months.

Krishnan Asv: Understood that is helpful, about MCLR?

B. Ramesh Babu: MCLR yes. Our president is going to respond.

Natarajan: See as indicated earlier, so our MCLR book are something around 47% so based on the reset plus whatever we have arrived, and out of this Rs.30000 Crores almost 15, I mean I can say 25% will re-priced within the next six months period that is up to September that is what the MCLR working we have done. So currently we are charging the MCLR is 9.35% and then if you take the blended rate, it will be something around 9 to 9.2%.

Krishnan Asv: Understood. Just the other thing I think this kind of resonate with one of your earlier question as well as in terms of credit cost with technical write offs you have a coverage of about 90% plus, 92%. The 75 basis points again for FY2024 seems to be over shooting, so is that excessive at your end or is there is any uncertainty in the MSME, I am just trying to understand …

B. Ramesh Babu: No absolutely all of you be very clear, absolutely there is no uncertainty. We also do not have an iota of doubt about the quality of the credit, if it is there, it will have reflected comfortably in the SMA 30 plus so that apprehension none of you need to have, it is more or less on a conservative basis we have given. We do not have any sort of apprehension on our portfolio.

Natarajan: Krishnan in addition to that there are certain tax benefits are available if it is a rural advances something like that we need to provide the minimum quantum and secondly if you see they have indicated 1% slippages for the entire year. So wherever the new slippages are coming, we need to provide for that, but recoveries whatever it is coming, it will go to the technical written off account, so in that way only we have just estimated the number, not because of any specific stress we are seeing.

B. Ramesh Babu: Absolutely correct. So that apprehension no one need to have because we ourselves we do not have any apprehension about that.

Natarajan: There are certain migration provisions we need to make, so all these things put together only they are doing it.

Krishnan Asv: Got it. If I could just squeeze in one more question?

B. Ramesh Babu: Please.

Krishnan Asv: This is to do with how you read the environment for MSMEs right now given the kind of steep hike in pricing that MSME have seen, how are MSME doing in terms of their own health, today vis-a-vis what we might have seen three year back.

B. Ramesh Babu: Krishnan one thing we need to understand. The banks pricing is one of the factor for the MSME in the whole scheme of things. Now suppose if he is going to get the business and he is able to make money out of this, this pricing of 1% here and there does not make any sense. Whenever we deal with few of the MSME they are dealing with NBFC paying a 13%, 14% 15% also with that they are making money. So that way if it is 1% on account of that MSME is going to collapse that is a myth, so this is not going to have. There are few sectors which are doing well and we focus on that where their margins are better, and they are established so that way this pricing higher pricing on account of delinquency till date because last six month one year we have been passing on, so on account of this particularly coming sort of weakness and delinquency which we did not find because provided if you are profitable and making money this 1% does not make any difference for them.

Krishnan Asv: And you are saying that the current economic environment allows them to absorb that.

B. Ramesh Babu: Correct, provided that is what the economy what all is there, it runs well and all, few of the sectors that are doing well. If it runs well they will be able to absorb and many of them when we talk to them this 1% here and there is not a matter of big concern for them.

Krishnan Asv: Understood that is helpful. Thank you.

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

Anand Dama: Congratulations for a good set of numbers.

B. Ramesh Babu: Thank you.

Anand Dama: Sir, I have a question on the cost. I think you said that this year basically the cost income ratio actually would go up primarily because you are expanding people on the ground and trying to get more business. Is there a deviation or basically a reset that you are having for this year where you want to expand business and where you are basically investing more in the people and if yes, how do we look at the cost income ratio or cost to tax ratio going forward after I think you done the reset in FY2024.

B. Ramesh Babu: Yes I agree, so you are perfectly right because of fewer initiatives what we have taken, so those things initially the investment we have to make for the future, so in the process also but earlier you have seen that our cost to income ratio used to be 52% to 54% and all but even then we have given a cautious guidance that our cost to income ratio will be in the range of 45% to 50%, it will not cross because rest of the levers on the income side also we are working continuously. So going forward we feel after the 2024 these investment what all we make and they start yielding the result. The cost to income ratio can be in the range of around 45. Our intention is to maintain that in the range 45 that range.

Anand Dama: Secondly is it possible for you to give the SMA book number including the low value accounts below 5 Crores?

B. Ramesh Babu: Everything, SMA what all we have given that number it includes even Rs.1 loan also.

Anand Dama: Okay clear sir.

B. Ramesh Babu: So you would have seen that this SMA number, actual number is lower than March 2022 through book has grown, because our current SMA now it is 360 Crores, last year it was 470, the advances have grown to 56000 but even then the SMA has come down to 360 which includes every loan account every vertical.

Anand Dama: Sure sir. Thank you.

B. Ramesh Babu: Thank you.

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

Chintan Shah: Congratulations on good set of numbers.

B. Ramesh Babu: Thank you.

Chintan Shah: Thank you for the opportunity. Sir just one question actually I joined the call a bit late. I am not sure if I have made this number. Have you given any guidance for ROA guidance for FY2024?

B. Ramesh Babu: Yes absolutely. So what we did you see the cumulative for the whole year ROA has come to 1.27. For the exit quarter it is 1.5. So last year also the exit quarter what all was there we have given guidance we will try to maintain during the rest of the year and that way we finally landed 1.5, so for the next year the guidance given by us 1.5 plus that is what we want to maintain for the whole year up to next year.

Chintan Shah: Secondly, I just wanted to understand what would be total provision on our entire book, can you break it up into the specific provision restructured the provisions or any other provision.

Ramshankar: On the standard assets on overall book we would be having around 1% of the advances as provision.

Chintan Shah: Okay that is the standard asset.

Ramshankar: Yes.

Chintan Shah: I mean sir on absolute terms if you could just quantify total provision standard specific toward restructured any other contingent provisions, what will be the total pool of provisions on the book. Any number on that on our Rs.65000 Crores book.

Ramshankar: It will be around Rs.620 Crores yes.

B. Ramesh Babu: 620 Crores, no it cannot be.

Ramshankar: Standard advances alone 330, other …

B. Ramesh Babu: Total provision is only 620 Crores.

Ramshankar: Other than NPA, only standard.

B. Ramesh Babu: Other than NPA what he is saying is Rs.620 Crores is because NPA anyhow separately if I give you 92% is the provisional coverage we have given. So that way what he is saying around 1% of the standard assets we are maintaining as a provision.

Chintan Shah: This includes Rs.200 Crores of restructuring as well.

B. Ramesh Babu: Restructured also is a restructure standard.

Chintan Shah: Last question on the retail portfolio, so our retail portfolio has grown roughly 16% for the year and if you look under that the loans which is roughly 1/6 of the retail portfolio that has grown 34% and while housing loan has only grown 12%, so any color on what the loan comprises and where is the growth coming from.

B. Ramesh Babu: There are few loans as in as time deposit. Few of them they wanted a loan and all, they took it, so that was the reason that growth has come up and it includes some staff loans. They are comprised of small portion but other loans comprised of majority loans against time deposits.

Chintan Shah: Loan taken is time deposits.

Natarajan: Correct. We have multiple products running account product and fixed product and all. It is a combination of all.

Chintan Shah: That is it from mine. Thank you sir.

B. Ramesh Babu: Thank you Chintan.

Moderator: Thank you. The next question is from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: Congratulation on a stable result sir.

B. Ramesh Babu: Thank you Mr. Sushil.

Sushil Choksey: First sir, what is your likely estimate digital spends for transformation journey?

Natarajan: For digital you know that we have started the initiative in the year 2018, so most of the capital expenditure at that time we already spent. So currently whatever we are doing is to just to maintain the operating expenditure only we are doing it. Currently we are not planning for any major capital investment except for trade finance, now recently we have tied up with a company and then we are in the process implementation. Otherwise there is not much cost involved other than the operating.

B. Ramesh Babu : Another one also this corporate internet banking also we are working on that, these two and one thing I tell you Sushil we have that is the reason to have more focus on this particular area so we have taken from the market a chief digital officer who will be focusing on what are the investments we are making, what value we are going to get out of that, what is the expectation of the customer, what others are doing to look at the whole gamut we are reported a month two months back and once he works we will come back with a plan, based on that what all investments are required we will do, but somehow we felt that the investment what all we have made, we need to get some more value out of that, that is the reason the first task what we have given to CDO is you get some value and simultaneously look at what investment we need to make. May be it will be another three months and all we will crystallize on the count.

Natarajan: For your specific reference. For example year 2021 we have invested around Rs.50 Crores which includes all other IT. In the year 2022, we have invested 43 Crores. Last year we have invested 53 Crores so roughly 40 to 50 Crores is our total IT spent.

Sushil Choksey: Standard average is 50. Second thing is the rate, internationally or domestically you have peaked based on MPC or fed or whatever norms you want to take, what is your outlook on treasury specifically for based on our current book, based on our CD ratio.

Natarajan: We have noticed our investment book all along we are maintaining very low duration during the past two years and now we are trying to replace our low yielding security which at the time maturity with the higher yielding security. That is why if you notice last year there is a substantial increase in the yield from 5.1% to 5.80%, so what we have guided is based on our initial estimate in the next two quarters another 23 basis points yield will go up based on our current book, so we have around Rs.2000 Crores surplus SLR and the duration we are keeping it very low. For example if you take our AFS is only less than 1. Only in case of HTM it is 3.2.

Sushil Choksey: Okay in view of the election coming up next year and global and domestic environment specifically textile, auto and ancillary value added farm produce, and the MSME sector which we are supporting are it in domestic or manufacturing. Would you front end because the rates are high and expectation will be lower in the second half accessibility of credit goes more in the first half or you would not to get it back to it?

B. Ramesh Babu: It is not like that actually. So we are actually planning. We need to see that by July ending we are more or less at Rs.141000 Crores business level at the end of March. So we thought saying that by end of July or just middle of August whether we can cross at 1.5 that is Rs.150000 Crores that is what actually we are internally planning so once we plan and get that so as you said it gets front ended because the advances are growing correspondingly we need the deposits also for the 85% CD ratio, so we are on the job to front head front loaded, but the question we want to balance it in a such a way that there is no dilution, the quality of the acquisition and simultaneously to grow and before August we are trying to do this exercise.

Sushil Choksey: Thank you for answering all my question and all the best for the years to come.

B. Ramesh Babu: Thank you Mr. Sushil.

Moderator: Thank you. The next question is from the line of Aravind R. from Sundaram Intranet. Please go ahead.

Aravind R: Hi. Thank you for the opportunity. I just wanted to get a better color on the SME book, what kind of industries are we lending to and which will be like a top three or four industries or sectors we will be looking and I wanted to understand the other loans have actually grown faster rate year-on-year in comparison to all other books like are they predominantly credit cards like what kind of loans that is represent and on cost of funding part so I was able to see lot of banks actually was trying to focus on time deposits. I understand that you have spoken about this throughout call, but I still want to understand what kind of thought process went into this like 40 to 50 basis point increase in cost of deposits. So basically like if all other banks focusing on term deposits because the rates are high and the competition is high for CASA so how confident are you for 40 to 50 basis point, I thought it could be even higher.

B. Ramesh Babu: Agreed, agreed. Understood. I will just respond and president will add also. The first point what you mentioned the commercial, majority the way the MSME is growing so actually the majority is coming from trade that is wholesale and retail trade, transport operators, commercial real estate and under manufacturing the textile, food processing, construction, basic metal and metal products. These are the main sectors actually we are growing there, so these things are good because we are reasonably confident and we have some sort of expertise in the trade so that basis lot of business we are getting it. In food processing also lot of scope is there, we are growing in that. Now coming to the unsecured, if you look at it I can say that the personal loan in the retail sheet what you are seeing there is a row called personal loans which is around Rs.337 Crores that is the clean portion of the book and rest is the other loans and all. Other loans comprised of two portions. One is the loan given to the staff members and second thing is time deposits and these two are the main. Otherwise there is no much unsecured sitting there and if you look at another slide where we have showed the security and unsecured portion, also another slide is there, you can find how much is the minuscule portion of our unsecured portfolio, so that way the other loans need not be a factor to be worried because it is backed by either security or time deposit. Now coming to the cost of funds what you are mentioning, 40 to 50. As I was mentioning earlier, so our ALM department where we did some sort of a homework based on the past renewals what were happening and when the renewal is happening in which bucket they are growing and the current inflow of deposit what all are coming, they are coming into which buckets and what is the rate of interest. Looking at all these things, we thought seeing that there can be a spike in 40 to 50 basis point in the cost of deposit that was the working we have done.

Natarajan: See Aravind if you notice during this year, our yield on advances has gone up by 120 basis point whereas our deposit cost has increased only 52 point because of lag effect, it is the industry scenario. So what we are trying to workout is based on our historical data maybe the renewal pattern and all these things, we estimate that in the next two quarters there will be increase in the cost to the extent of 50 basis point based on the lag effect and there will be some corresponding yield also because of the MCLR entire thing is still we are not passed on, still I can say some 40% to 45% of our MCLR book on the respective due dates we will be passing it on, but conservatively we estimate that 50% may not be possible for us to completely pass on to the MCLR, but of course we have other factors also. For example, I was mentioning about yield on investments. So yield on investment will support us by another 20 to 25 basis point, so overall we are just for conservatively we are estimating it and then we are trying to work out how to minimize this lag effect.

Aravind R: Thank you. Just one more question. The numbers you have mentioned, so 16% is roughly fixed book, so all of that fixed book is re-priced by now or like there is it will be re-priced in the next subsequent quarters?

B. Ramesh Babu: Then MCLR, EBLR, fixed percentage were fixed book.

Natarajan: So fixed pricing mostly for example, if you take retail loan, vehicle loan, you take a fixed rate. So we do not change during the tenure of the loan.

B. Ramesh Babu: Likewise and the staff loan, time deposit loans also, that are fixed, so you cannot change during the current year of the loan because the underlying time deposit what all is there over and above, there is a markup we will give a loan then, so it will not undergo change even if there are agnostic to MCLR and EBLR changes.

Aravind R: No I understand that. I was trying to understand that in the subsequent quarters there would be some maturities right in the fixed book also, like is there any schedule.

B. Ramesh Babu: Maturities are there. The fresh acquisition what are we are going to do will be at the current rates only.

Aravind R: Yes. I was trying to understand what would be the impact of that that is what I was trying to understand?

B. Ramesh Babu: Do not worry. There is small book of that one and all. Our ALM working, they are going on, but keeping all these things in mind only, we thought that 40 to 50 and NIM of 4% that is what we were indicating.

Aravind R: Okay. Thank you sir.

B. Ramesh Babu: Thank you very much.

Moderator: 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.

Ramesh Babu: Thank you very much and first of all a profound thank to each one of you for taking out time and showing interest in our bank. So just to conclude I just want to reassure that the transformation journey plan has been showing promising results. The loan book is improving towards SME and retail, granular the corporate book with better access quality and with all these things and benign asset quality, granular deposit, structural changes, what all we have brought out for a revamped business model and strong capital base, with all these things bank is well poised to go forward and we will continue the journey the same way and what all we have been guiding we will go ahead on the same line and we will try to deliver that. Thank you once again to all of you.

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