"Karur Vysya Bank Limited

Q2 FY '23-'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '23-'24 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. Dolphy Jose, Group Head- Consumer Banking.

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 call, please signal an operator by pressing star 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 very much. Yes. Good evening to all, and welcome to The Karur Vysya Bank's Earning Call to discuss the results of quarter 2 of financial year 2024. I am pleased to mention that our bank continues to demonstrate its consistent performance in the second quarter of the year in terms of growth, profitability and asset quality. I am very happy to say that the bank has crossed historical milestone of total business of INR1.5 trillion, that is INR150,000 crores. You would appreciate that we had crossed INR1,25,000 crores in March '22, and the next INR25,000 crores has been crossed within a short span of 18 months.

You will be glad to note that our performance in terms of credit growth, margin, ROA and delinquency is in line with our guidance. I am sure you will not differ, if I say that, the outcome is on account of our continued focus on various initiatives we were implementing over the last few quarters. All of you would have gone through our detailed presentation on our quarter 2 numbers.

I would like to share some of my thoughts on the performance of the bank during the quarter and our guidance for quarter 3. We were able to sustain the growth momentum during the second quarter as our total business grew by 4% and reached a level of INR153,516 crores. We have been guiding in our earlier calls about our focus on inclusive growth from all verticals with respect to advances.

I am pleased to share that during the current quarter, we continue to maintain this, while commercial and corporate clocking 6% quarter-on-quarter each. Agriculture and retail segments have grown by 4% each. Our continued focus on MSME in metro, urban and semi-urban locations supported the growth under commercial segment. Corporate book, which has muted growth in last quarter improved during this quarter on account of higher disbursements.

Retail growth is similar to last quarter, and the majority of the growth has come from mortgages, both residential and non-residential. Our focused effort on the distribution and benchmarking of our products to market-supported operating team to garner more business under these segments. The overall growth is a touch above on our annual guided growth of 14%, and we expect that the trend will continue.

Our deposit growth was at 3% during the quarter, and the term deposits and CASA deposits were grown by 4% and 1%, respectively. We had highlighted about our liabilities acquisition team. Out of the planned resources of 1,300, we continue to build our retail acquisition team by onboarding 367 resources during the second quarter, aggregating to 1,272 resources. Seamless integration with the original structure is being pursued, first to achieve the synergies of the branch and sales channel for augmenting larger business growth. Our YTD growth during the year so far is at 13%, and we plan to maintain the growth trend in tune with our trade expansion.

We had indicated in the last two calls about expected compression in NIMs in the first half year and would be in the range of 4%. Net interest margin reduced by 12 basis points on sequential basis during the quarter and is now at 4.07%. For the first half year, we are able to maintain NIM at 4.13% in spite of the NIM compression. Our net interest income has grown by 2% during the quarter and 16% year-on-year thanks to our consistent efforts in bringing the desired asset growth.

While cost of deposits have gone up by 20 basis points, yield on advances increased by 7 basis points during the quarter, resulting in a compression of 12 basis points. 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 20 basis points in third quarter, assuming no change in our deposit rates. Yield on investments has gone up by 13 basis points during the quarter, and it is estimated to go up by 10 basis points in the next quarter.

We have increased our MCLR by 25 basis points during the quarter and initiated many efforts in maximizing returns from the credit book and we expect 10 to 15 basis points increase in the yield on advances maybe in the next two quarters. Considering all these factors and without taking into any policy rate changes, we expect that NIM will stabilize at 3.8% at the exit quarter of the current year. We have achieved ROA of 1.57% in this quarter in spite of reduced margin, our business growth, fee income, lower credit cost and recoveries in written-off accounts continue to support us to keep the ROA above 1.5% levels.

Our slippages continue to be under control, and our gross slippages for the quarter is less than 1%, which is as per our guidance. We continue to have negative net slippages taking into account recoveries from the written-off accounts this quarter also. Our SMA 30+ for the entire loan book at the end of the quarter continues to be at less than 1%. We are confident that we will continue to keep the ratio below 1% as guided in our earlier calls.

Our efforts on recovery of technically written-off accounts are continuing to yield results as we have recovered a sum of INR86 crores during the quarter. Total recoveries till first half of the year are INR144 crores. Due to lower slippages, recoveries and write-offs, our gross NPA has come down to 1.73%, and we expect that we will continue to maintain at below 2% levels. For the quarter under review, we have provided a sum of INR102 crores towards NPA migrations, standard assets and prudential provisions. We estimate that credit costs for the current year would be in the range of 75 basis points as guided.

As done in last quarter, we have provided a sum of INR25 crores more towards floating provision to meet any contingency, including ECL and provision available now under this head is INR50 crores. Our net NPA has come down to 0.47%, and we will continue to maintain net NPA at less than 1% of our loan book. Our standard restructured book is further reduced to 1.2% of our loan book, and we hold a provision of 25% of a standard restructured book.

Our cost-to-income ratio is at 49.14% for the current quarter, which is sequentially higher over previous quarter. This is mainly due to additional provision made towards superannuation benefits on account of wage revision of employees. Bank has been providing 15% of our eligible wage bill from November '22 onwards on the estimated wage bill increase.

Now it is estimated a sum of INR100 crores is required towards superannuation benefits on account of wage revision. And we have provided a sum of INR33 crores during the current quarter and the balance amount will be provided in the next two quarters. So far, we have provided INR117 crores. So if you see that including the current quarter additional provision, the additional cost is a onetime expense, and our normalized staff cost would be in the range of INR290 crores to INR300 crores per quarter.

As indicated earlier, our cost-to-income ratio would be in the range of 45% to 50%, and this is our endeavor. Our CRAR continues to be robust and is at 16.84%, providing us comfortable headroom for growth. Our liquidity is well managed and the CD ratio is around 84%.

During the quarter, we opened 16 branches predominantly in semi-urban and total branches opened during the first half of the year is 25 branches and opened one digital banking unit at Chennai. Our new initiatives of KVB Smart under the Commercial Banking business is progressing with a portfolio of INR49 crores. It added Madurai center during the quarter in addition to Coimbatore, Chennai, Hyderabad locations with a team size of 48 members. It is in a formative stage. It will take some time for delivering what we thought.

Business under NEO, co-lending business, and transaction banking and the precious metal continue to perform well. Other business performance highlights are given in our presentation. We have been consistently improving our performance over a period of last two years, and the trend is continued in the half year also.

I would like to conclude with the quote of Napoleon Hill, strength and growth come only through continuous effort and struggle. Our effort would be to focus on sustaining our growth momentum to ensure that our ROA is above 1.5% levels going forward. I am grateful to all our investors, analysts and stakeholders for their confidence and continued support, which we will reciprocate through our better performance in the days to come. Now I'll 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 Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Thank you, sir. So . Sir, just one question, firstly, on this cost of term deposit. So how much increase would have happened, sir, in this quarter on a sequential basis, cost of term deposits, sir?

Ramesh Babu: Term -- it's 20, cost of term deposits.

Rakesh Kumar: Yes, sir.

Ramesh Babu: The cost of overall deposits, term deposits, I think CFO.

Ramshankar: Because we don't have any cost for CA -- it will be same...

Ramesh Babu: Same cost. Yes so during the quarter, the term deposits the same trend is being maintained, and no additional costs have gone up because the rates of interest, they have not changed. The same rates are being continued.

Rakesh Kumar: And cost of deposits, sir, how much increase was there, sir, cost of deposit like -- and how much it is expected in the Q3 and Q4, sir?

Ramesh Babu: Q3, we conveyed in the original listing, around 20 basis points, we can expect that way. And cost, if you can look at this 5.16% is the cost of deposits now.

Rakesh Kumar: Okay. And the similar kind of increase or would be there in Q4, sir, Q4?

Ramesh Babu: Q4, we'll not be able to tell at this stage because the flow is what we look at it because -- how it unfolds, we'll have to see. Suppose if the liquidity becomes an issue and other banks are increasing the rates and all, we will have to do it. Otherwise, we will be continuing more or less at the same rate and the same trend will continue. So that's why what we thought is once the third quarter results are there, we'll have a better clarity about the fourth quarter. At that time will give you an indication.

So that way, if you look at it, our cost of deposits for the June is 4.96%. Now it is 5.16%, 20 basis points, it has gone up there.

Moderator: Thank you. The next call is -- the next question is from the line of Jai Mundhra with ICICI Securities. Please go ahead.

Jai Mundhra: Congratulations, sir, on a great set of numbers. Sir, first, on credit growth? So as you mentioned in your opening remarks, we have done much better than the guidance that we had given at the beginning of the year of 14%. Any thoughts on, sir, revising that guidance approach?

Ramesh Babu: No, Jai, in fact, it's a bigger question why I tell you. So because this quarter, if you look at it, CIG has contributed where the growth was muted relatively last quarter. But if otherwise also if you look at it around the sector, each one of them, they have grown very well. So what we feel is still we want to maintain this 14%, 15% what we are saying. The reason is simple.

Now the deposit cost what all is coming up. So suppose, if this continuous majority is coming up in time deposits, it may not be worthwhile to take the lower yielding many of the assets. So in the process, we may, in fact, during this quarter also, we are planning to come out of a few of the low-yielding assets at least so that the margins can be protected.

So instead of taking the deposit at that rate and all and with a thin margin of 0.5% and 1% working on that, instead of that low-yielding top line will come down, and we will increase this sort of yield if I'm replacing an account with an 8.25% to 9.25% or 9.85%, I will be straight getting on the same amount of 1% and 1.5%. So that way at this stage rather than focusing on the top line, we're trying to focus on the bottom line when the deposits normalcy restores and all, these sort of a fight comes down, then we can think of the top line also aggressively how we can grow.

Jai Mundhra: Right. Okay. And sir, similarly, you also mentioned that the deposits have been continued. I mean, the deposit growth has mainly come on term deposit side. At the same time, we had -- we were running this initiative on CASA.

Ramesh Babu: Correct.

Jai Mundhra: So if there is any update, I think the -- maybe the growth Y-o-Y and Q-o-Q for CASA has now been in -- is very low single digit 1%, 3% only, is there any -- I mean, how are you accessing the CASA growth initiative?

Ramesh Babu: Yes, absolutely. Our Dolphy Jose, who is the Head of Consumer Banking is on the call. Dolphy, so please take this question and all. Go ahead. Dolphy are you there?

Dolphy Jose: Repeat the question because I got disconnected in between. Can somebody...

Ramesh Babu: The CASA initiative what we have taken, how is it going forward? And what are the expectations and guidance that's what the Mr. Jai Mundhra is asking. You can respond on that.

Dolphy Jose: Yes. So our] growth is 13% is what our CASA growth is no our overall deposit growth is. And our overall deposit where the maximum growth has come from the TD and RTD deposit mobilization. CASA has been comparatively slower. But for ensuring that going forward that we are beefed up to do the incremental top line on CASA and continue to garner the low-cost deposit is in track. As I'd mentioned last time that we were -- also MD sir just mentioned about recruiting around close to 1,227 people already on board, which are --- a pure sales team, who is into acquisition of CASA primarily.

And also to augment that we also have a team is the frontline branch team, which is called branch sales and service executives, which is again a lateral recruitment of about close to 1,000-odd people who are trained for engaging with customers for further deepening and improving the PPC of -- Product Per Customer.

So these are the two large activities which we are doing, and it's in place. And I'm expecting good traction, and we should be able to continue the chase of CASA as per the guidance of the bank.

Ramesh Babu: Yes. Jai, in fact, I would like to add a few more points on what Dolphy has mentioned. I think Dolphy, I think you have to mute, that echo is coming. Yes. So just I would like to add, Jai, are you there?

Jai Mundhra: Yes sir.

Ramesh Babu: Few things I just want to add in addition to what he has mentioned. Now you see then these 1,300 people have come, they have come from different banks. So the technology what they were using and the products what they were using were altogether different. Initially, there was a lot of brainstorming is there and what is good for the bank because the bank has their own products and all, every year we were pushing the product.

Now the question is when these boys have come, they are demanding saying that this is what market wants, we need to modify our product on these lines then only the product will be to through. Likewise, the technological intervention what all are required also, they have been demanding that is good for the bank. So that way, these things are in the process, process changes, technology changes and product changes. So in the process, all these people, they are on the job into the market.

Now coming to the point you are asking, saying that suppose if the CASA vertical started functioning, why it is not getting reflected in the CASA numbers? It's like this, the flow is coming, but the problem is that existing accounts majority of the balance what all is there, is majority is moving into time deposits. Because people are in a hurry, how long these rates will be there and all they want to lock the rates, So that is the reason money is flowing into from the CASA into the time deposit.

Now initially, we were also hesitant not to move and to encourage them to retain with CASA. We had a bitter experience of few other customers straightaway the time deposits that moved to some other banks. Initially, it may go as the time deposit, but later total relationship may go out. So that is the reason we are encouraging them to be with us only by shifting it to time deposits. So this is a process, it may take some more time. But in the meanwhile, you also understand the money may be going for these real estate, gold and stock market, these things also are there in general for the banking industry. That is the reason the new initiative of CASA what we have taken, The new acquisition comes and we deepen, in course of time, we will be getting good numbers there in that. Otherwise, earlier, only branch channel was doing all these things that may not be sufficient enough to take care of the growth what we are having in the assets.

Jai Mundhra: Right. Understood. And sir, before I move to this loan growth, if you have the number for the treasury gains during the quarter, how much was that? And in this a part of other of 142?

Natarajan: So the treasury gain I think this in the presentation Slide number 11 to INR11 crores increase for this quarter.

Jai Mundhra: Okay. Understood. And now sir, a question on your retail growth strategy, right? So in the retail loan book that you have given product-wise housing LAP, personal loan. So there is a very sharp healthy growth in LAP and there is a renewed growth in the personal loan, right? So we were doing a separate channel for LAP, I think NEO and Smart -- KVB Smart. So any, If you can update that, a) how big has been the NEO now? And, b) how is the other alternate channel of Smart playing out? Number two...

Ramesh Babu: Jai, in fact, there is a small difference in what the KVB Smart and NEO are doing. NEO's focus was earlier on the LAP. But later, when we have given them the task of the home loan also, they opened a branch in Hyderabad exclusively for the home loans and CRE. And later, one more branch of Bangalore also has been converted for the NEO. And these branches are focusing on the home loans and NEO focus on the LAP continues, So NEO is growing very well. Absolutely, there's no issue.

So overall, the per year, our expectation is around INR2,200 crores. And this quarter also, the growth is around INR600 crores, INR700 crores.

Ramshankar: INR945 crores we have grown.

Ramesh Babu: Six months their growth is INR945 crores. Whereas coming to Smart, the different is, Smart focus is not on the LAP, their focus is on the working capital. So that way, they started the centers in the inaugural address I told that. Now Madurai center also recently just people have been onboarded in the sense that recruitment has been happened. So their outstanding is around currently INR49 crores, something like that. So they are settling down with the existing bank practices, what all are there, they are able to settle down and they start giving the numbers.

But if you look at originally when the NEO started, NEO's numbers also were like this only. But over a period of time, NEO started contributing around INR2,000 crores or INR2,500 crores per year. So over a period of time Smart also will do that. But both of them are on track and Smart is also because what all centers they wanted they did it. So now maybe next three months, four months, we will start seeing the numbers.

Jai Mundhra: Right. And sir, what is the outstanding number for NEO? I mean, INR2,200 crores is the run rate for disbursement...

Ramshankar: INR4,800 crores.

Ramesh Babu: INR4,800 crores, yes.

Jai Mundhra: Sure. And lastly, sir…

Ramshankar: INR5,055 crores. Yes.

Jai Mundhra: Okay. And sir, has anything changed on your outlook on personal loans? Because earlier, we were, the book was not growing. And now there seems change in that direction personal loan.

Ramesh Babu: No, Jai in fact, I'll tell you, our outlook on the personal continues as it is. There are a two-pronged approach. One is, out of our existing accounts, what all we have filters with that pre-approved personal loan, we have identified which has come to around INR450 crores to INR500 crores, out of that INR50 crores to INR60 crores we could book.

But we earlier also, we have told, the Axio partnership what all is there, where under BNPL so many customers have been created, along with our Axio partners. So we thought that depending upon -- after looking at their repayment capacity and the CIBIL score of the last two years, how we have identified -- Axio has identified with the analytics team a set of people who are good for the personal loans. And we asked them to fund those personal loans initially, and six months to nine months, they did it and all the repayments were good. And after that, we bought a small pool from them.

Now we are in the process of working with them for a co-lending arrangement with 80:20. So that way, what all pool -- small pool we have taken. But this pool, what we have taken is also the customers of ours because they are a part of the BNPL. So we have gone in a different stages. One is the total BNPL, out of that we made Axio to do that. Once we tested that model and all, third, we started going for the co-lending and the pool purchase. So our focus would be two-pronged. One is on the existing book what all ours are there out of that.

But let me be frank with you, you cannot expect huge numbers from the existing book because the corporate salary package accounts in our book are relatively few compared to other banks. So if those sort of accounts are not there, is self-employed and now if you go for personal loans and all, COVID time what experience we had, similar experience we may have to encounter. That is the reason we are going slow on our own book personal loan, but whereas that Axio book what BNPL we have done, there absolutely we have a good scope. We will take it forward.

But whatever it is, we will not go aggressively under the personal loans because if we grow there and all the growth will gone aggressively. But Reserve Bank of India, whatever guidance they are giving, in that way, we will go in a measured as for as personal loans are concerned. But we have a good window opened through the BNPL customers for funding these personal loans.

Jai Mundhra: Right. Understood. And last question, sir, what would be your -- I mean, target for branch opening this fiscal year?

Ramesh Babu: 40 branches we planned, out of the 25 branches have been opened because they wanted to front-load this thing so that once they come, you may be incurring the cost, I agree but they will -- progressively, they will be delivering something. 25 have been opened, and next another 15 branches also. We will try to do open majority of branches in this quarter, leaving very few for the last quarter.

Moderator: Thank you. The next question is from the line of Prabal Gandhi with AMBIT Capital. Please go ahead.

Prabal Gandhi: Congratulations, Mr. Babu, and entire Karur team for the good quarter. So just continuing from the last participant's question, where you highlighted that bank does not want to compromise on margins and that is why bank is conservative on guidance of growth. But we also have 250%-plus LCR, Liquidity Coverage Ratio. So can you utilize this LCR and fund loan book?

Ramesh Babu: Yes, yes, we can do it. You have to look at it in two ways. One is LCR is there. Second side is the CD ratio. So all along, we have been maintaining a CD ratio of 85. Currently, also, if you look at it, just 84-plus, we are there. So that way, we have some room. If you look at a few banks that there 90, 100, 110 also is there. But we do not want to go with that majority of our funding credit we want to do it through our capital or the deposit.

So that way what you said is correct, that room is available there. We can take it out. We can do that. That also, we are working on that. So second, because they have INR2,200 crores more than the SLR required, what all that cushion is there. So we kept it other side. But to the extent possible, we want to raise the deposits here and then to fund the assets. Otherwise, what you said is correct, that also the room is available for us.

Prabal Gandhi: Okay. And in the deposit as well, we are focusing more on the CASA franchise and the…

Ramesh Babu: Correct. As we said, because last year itself, we started the process, but it took some time to augment these people. And now our team has come in place, and I was telling that initial hiccups what all are there, maybe in the process, product, technology, these things the process is going on. Once they are through, so they will be on the job and all, they will be firing the gun. And then those customers deepening the branches will be doing. So this is the plan.

Prabal Gandhi: Okay. And sir, so since they're focusing on CASA franchise and now in we have also built the team for a CASA -- with CASA people, should we not increase our SAR rate because our saving rate is 2.25% which is one of the lowest, so instead of getting term deposit at 7% and above, we can simply raise SA rate maybe 4% or 5%. And you can get [inaudible 0:30:42] that as well.

Ramesh Babu: I agreed. Prabal that is a good point what you have mentioned. But what you do empirically when we saw it earlier, the interest rate change has not brought much money. Let us assume in our case, also above INR100 crores, we said that we'll give a higher percent of 4%. We did find any terrific growth into the particular INR100 crore segment at all. Next thing also, you need to look at it. Suppose if we are going to change the rate and if you are going to revise, the uncertainty that I may or may not get fresh accruals that is uncertain. But certainty is existing portfolio gets repriced immediately, and I will have to pay on this -- at this ratio to all of them. And tomorrow for any reason, if I reduce this rate, there will be a big heartburn.

So that is the reason what we thought, which has been discussed many times in our ALCO meetings and with the liabilities team also. So what we thought instead of spoiling the existing setup the customers and paying higher, so why can't we try, and we had a discussion with the field team also whom we have taken whether we need to do? What they also said is, let us test the waters currently with the current rate. And if we reach a Chinese wall where we cannot beyond that at that stage, we can do it rather than an overnight increase in the cost for the CASA now itself.

Prabal Gandhi: Perfect. Sir, second question is just to clarify also, you said in your opening remarks that we are expecting 20 basis points jump in cost of deposits for the next two quarters and 10 basis points jump in...

Ramesh Babu: I didn't said two quarters, I told about third quarter.

Prabal Gandhi: Okay. Only third quarter, and an increase of 10 basis points in yield on advances.

Ramesh Babu: No, no. That's also what I mentioned was is like this. 20 basis points spike in the cost of deposits and a 10 basis points to 15 basis points spike in the yield on advances in the coming two quarters. Because if you look at the third -- second quarter also, the yield is up by 7 basis points. So that's why what we thought is if the same trend continues for the next two quarters. The yield will go up by another 15 basis points. That's what we thought.

Prabal Gandhi: Okay. But by the end of third quarter, at least the deposit so that fully repriced. So the maximum of that deposit can get reprised up by 20 basis points.

Ramesh Babu: That is what our intention because it's quite opaque now how it works if we do not know if the credit growth grows every other bank also raises their deposit. You may have to raise. Otherwise, if it is not required, you may continue the same way or RBI may do something. It all these still let us see on this quarter and all then we'll take a call for the next quarter.

Natarajan: See Prabal, repricing on that aspect and NEO upon onboarding, whatever we are onboarding, we have to pay a higher cost so that is issue now.

Prabal Gandhi: Okay. Yes, understood. Sir, the third question is on growth in the commercial and the small and medium segment. The competition is relatively on the higher side but we are still able to clock on the rate of 19% growth. So what is our strategy here? And how are we able to do much better than what our competitor is doing?

Ramesh Babu: Yes. In fact, the team there, they did a homework of what are the changes required in the process and the knowledge gap in the people who are unable to deliver, with all these things and those who are well performing, how did they do it? All these things, they have studied. And the same thing is getting replicated to see more-and-more branches contribute. That is the reason. So if you can look at it, the disbursements quarter-on-quarter are going up by 10% to 15%. So likewise, which are the sectors where we are strong.

If we focus on those sectors, this clinching the deal will be much faster. And that is the reason the food processing, the wholesale, the retail trade and these sort of things have been given focused rather than the textile. At the point of time we were doing only textile. Now textile slowdown is there. So the team started focusing on rest of the things. There is buoyancy in the market in the ground. So this requirement of the credit is there. So we are able to do.

So that way, if you look at it earlier, a few divisions were contributing. Now many divisions started contributing. And any sort of hitches here and there in whole process of onboarding that we started fixing. So that way, it has more than the process and the team who are operating, they become more comfortable in pushing the SME.

Prabal Gandhi: Understood. And sir, how are you seeing your loan mix evolve over a period of time because now our corporate loan book share already at 21%. It used to be around 40% earlier. How you see the projection...

Ramesh Babu: You would have seen that. So if the commercial book grows, nothing like that for us. The reason is it's a granular book, highest yielding and where we have strength. And that way, our aim is to maintain the 33, 35 what all is their progressively to take it. And rest of the two verticals of the agriculture as well as the personal banking those sort of things. And the balancing number will be the corporate. And corporate also, you would have seen that our focus has moved from a big corporate like INR200 crores, INR300 crores, it has come down to below INR100 crores and majority of exposures are below INR75 crores. That is a reason our average ticket size also has come down to INR39.41 crores.

So corporate also, though it is a normal case talks about corporate, we started granularing the portfolio for better yield and for the risk management. So our focus will be on the commercial, followed by the retail, agriculture and then CIG. Agriculture is really helping us in maintaining our the priority sector. Otherwise, for this growth, what we are getting in the priority sector is not growing, we need to buy the PSLC subsequent, which again is a cost for us.

Prabal Gandhi: Understood. And sir, last question. So what would be our technical write-off pool? And what kind of recovery are you expecting in terms of pool over next 2 to 3 years?

Ramesh Babu: In fact, we have indicated saying that it can be around -- last call, one of the analysts were asking whether we'll be able to more or less reach the number of last year like INR208 crores. So we are more or less on track for the INR250 crores, something like that we'll be able to do that. INR200 crores, INR250 crores we'll plan for this one. And for the whole year, we will see how we can take it forward.

Prabal Gandhi: Understood. And you have the number ready for technical write-off pool?

Ramesh Babu: Ready -- What is that?

Ramshankar R: Write-off of pool number.

Ramesh Babu: Pool, is -- I'll tell you, Prabal, it is deceptive. The reason is suppose pool, if I talk about, let us say, 400, I'm just saying that, there are many accounts of the old infrastructure, which were booked in 2012 and all where -- actually, when they want to consult NCLT, what you get is 3%, 4%, and many other consortium accounts are there. Those accounts where the chances of recovery is pretty low.

But where if you look at what is actually retail, MSME and the corporate with some sort of security, which comes to around INR1,500 crores, INR1,600 crores will be there. So our focus is majority on them. But as you know very well, so every time we try to do it and all, the borrowers are much more smarter, we will use all legal means to stall the process.

And we are also tuned for this comment on how to overcome that's why we started getting this money which was not there earlier. So our team is now geared up to push the technical write-off amounts also to the extent possible. So that really to expect around INR1,500 crores to INR1,600 crores is a pool where you can put your hands on that.

Moderator: Thank you. The next question is from the line of Madhu Dey from Altavista Capital Partners. Please go ahead.

Madhu Dey: Congratulations on continued strong performance. So I have this question on your unsecured book, which is very small. So I wanted to understand your strategy on this piece because while it is extremely important to focus on the liability which you are doing, but this is something which is -- although you have a large share, higher ending MSME portfolio. But this is also one segment which a lot of competitors are going very aggressive on. So given that you still have a very low risk-weighted asset density. What is going to be your strategy on the unsecured piece?

Ramesh Babu: Yes, yes. Ma'am, in fact, if you can look at it earlier when they were asking I was narrating, actually earlier, actually, the personal loan was not a focus area at all for the bank because our focus was majority on the secure. Even if you look at it majority of our personal segment as well as SME segment, they are backed by security.

Now that outlook, we have changed over a period of time, pre-COVID, maybe it was a wrong time, I do not know. So we have actually analyzed our total portfolio. We brought out some -- our own existing customers who are eligible for the pre-approval personal loans, and we have gone for around INR500 crores to INR600 crores of portfolio.

So we were growing at that time suddenly COVID has come and the first default started in the personal loans , because there is no security, no stake, no skin in the game. So they defaulted on that. And we had to bear the brunt at the particular point of time. And subsequently, we were lying low. Then little we thought when everyone is growing. So the point what we sort of thought was, this is a cycle when things move well. Personal segments, personal loans will go well. If there is a small issue here and there and all, again, you will be having this sort of thing.

We have come out of the bigger issues at the corporate earlier we do not want to actually repeat those sort of issues again in the retail. That was a precise reason we were a bit conservative. But then found out different opportunities in that. As I was mentioning, our existing customer base, if you look at it, majority of them are not salaried.

Now that the liability teams what we have created we have a sub-sector and the team will be doing for the salaried also. Over a period of time, we also will be along with other personal loan. But in the meanwhile, what we thought is you must be knowing we have an arrangement with Amazon through our partner Axio and we have created a big pool, and more or less the outstanding range is between INR350 crores to INR400 crores.

But this is not a question outstanding, the number of customers whom we have created out of that. It ran into 30, 35 lakh customers are there. Out of them, many of them out of their past record and performance they have proved with their CIBIL score also, they are good for the personal loans,

So what we did is our Axio team has a very good analytics team is there. So we work with them and found out and filter who are the people who are good for the personal loans, And for that, what we did is we asked Axio to finance these people initially. And Axio started financing them from the last year January.

And up to 1 year, more or less they have financed and the recovery was going on very well as planned by them. That is the reason this year we bought a small pool out of that because these are combined customers of both of us. And now we are actively engaging with Axio, for the co-lending because it's a tested customer, where the chances of failures are, I'm not saying failures will be there, but the loss given default, if you look at it, that is bearable from the yield what we are getting.

So our focus is our two-pronged on these customers. One is you fix a personal loan limit against them. We have activating our credit card team also by taking people from the market.

So we have other things are there. So once that team is in place, these customers many of them have low credit card, the personal loan limit what we are giving a part of that we can give them as a credit card debt, let's say, INR5,000. So that it will help them to create their credit history.

And for us, the credit card business also will go up where MDR will be able to get and on the other side, personal loan also we can give. So this is a broader plan what we have, and we are actively working on that.

Madhu Dey: So what's the -- I mean, is it that only a personal loan is the only unsecured piece in your entire book? Or is that...

Ramesh Babu: Absolutely. Personal is unsecured. Otherwise, the rest of the data if you have seen. So home loans, mortgages, jewel loan, vehicle loans, all of them, they are more less secured by something or other. Education loan is also, to some extent, backed by some sort of collateral. And other loans, what we talk, it includes the staff loans what we have as well as the loan second is a time deposits. So personal loans in our connotation is they are literally unsecured loans.

Madhu Dey: Okay. So any target for the unsecured loan in the next two years? And any new products that you are planning to add here?

Ramesh Babu: all in all what I have explained to you, this is what is the plan, but I tell you, if we did not go aggressively in the particular segment, it can be maybe a 5%, 10% of our portfolio that way, and not -- cannot be beyond that.

Madhu Dey: Got it. And any new products that you're thinking about?

Ramesh Babu: Yes, product is a blended product, what I said. Suppose if you give a personal loan to them, a part will be financed this way, and second one if you give a credit card limit to them. So then it is the blended product going to them credit card limit, and on that, you have a dual benefit. So on the interest portion, MDR, what you are getting that way. So that will be helping us. Let us say the interest will come. So now once we start doing this one, we will be finding many more opportunities from this customer. Our Axio who is very well entrenched into these sort of things, they are working on them. So we will bring out some of our products for the people once we start testing with the personal loans.

Madhu Dey: You are not -- a lot of your competitors are eyeing this micro finance segment also?

Ramesh Babu: Yes, that's all I tell you. In fact, in one of the calls last time, we have mentioned it, that also I need to brief you. What happens there is a lot of opportunity is there because there also is absolutely unsecured bank was not going. Last one year, we did a homework on that. Rather than we're directly embarking on the journey and do this one because when you do not have an internal expertise, later you may burn your finger.

What we did is we partnered with 1 other BC who is already doing with around 12 other banks and all for the last 7, 8 years, and they have majority presence in the South, and we have partnered with them by looking at their track record and all.

So now we -- they started opening the branches of ours as well as their together, and we have common underwriting norms are there. With that, the portfolio is more or less reaching around INR100 crores last 3, 4 months when we started. And we are in the process of entering into a tie-up with 2 more such partners. And once this two place -- also will come into place. So progressively will be going under the MFI space also.

Madhu Dey: This is coming under which heads in your...

Ramesh Babu: Agriculture. Under agriculture, it will come there.

Madhu Dey: Okay. So there's a small piece of unsecured in agriculture also.

Ramesh Babu: Yes, yes, yes. Absolutely, absolutely. My point is we started taking the baby steps because we are looking at what are the various pros and cons. And once we have comfort and all the firm footing what we have, we'll scale it to the next level.

Madhu Dey: Okay. And my very last question is you indicated that you wish to maintain this 1.5% ROA that you have already achieved. It seems that there's going to be some kind of stagnancy in ROA before the deposit engine starts firing. Am I correct in this understanding?

Ramesh Babu: So it's not the question of stagnancy. If you look at it, we have many pockets are there. If you look at our NPA, the total NPA of the net NPA of the bank is INR324 crores Out of that, if you can just look at the same slide, INR155 crores is the slippages of this quarter. If you deduct that INR155 crores of this quarter seepages, the net NPA comes to INR169 crores. Out of that, if you look at restructured book 25%, we have a provision there. Out of INR900 crores, 25% is INR200 crores is there. If I appropriate the INR200 crores restructuring book my net NPA will become on zero.

Over a period of time, then a need for providing for the credit cost comes down and automatically by book growth the top line, both on the income side as well as the credit cost comes down, in between the cost we are incurring for these new projects. May be there, but they are going to yield results over a period of time.

So we need not to worry about the ROA because if you can look at it, when the things are good, INR25 crores, we have provided for the contingency reserve last quarter and this quarter. Maybe after two to three quarters, there may not be any need to provide that one once we get a clarity that what all we have provided would be sufficient enough to take care of the ECL.

So all these cushions what we have, we are not yet exhausted. So that way, if you look at it, we are more or less getting a feeling saying that in this quarter, we will be more or less at about 1.6% as far as the ROA is concerned. So the trajectory, what we have, and you would have also seen our SMA 30+, which has to forward flow into the NPA. Their also when it is under control, the chances of NPA and in turn the credit cost, all these things, that's why we wanted to show transparency to the market.

So there, we have enough cushion in the credit cost because of INR324 crores, after two months or two quarters, there may not be much need to provide INR102 crores what we have provided here. If you had to provide INR25 crores to INR30 crores, there itself we will have an additional cushion of INR75 crores there.

Madhu Dey: Okay. You see upside in the credit cost in the near term, in the next two quarters?

Ramesh Babu: No, no, we are not looking at it. That's what I'm saying. Credit cost, what we have given an indication is 75 basis points, we will be well within that, well within that. Credit cost will not go up there. That's what I'm telling. The reason is then your SMA 30+ is 0.68%, something like that. Then even if you assume 50% goes towards NPA also, it may not be 0.34%. So that way, there may not be much need for the credit cost there. So you will have some sort of a freedom from the credit cost, which will help you in your ROA. Am I clear or not. If you are not clear, I can repeat.

Madhu Dey: No, no. I understood it. What you're trying to suggest is, there could be some pleasant surprise in terms of your need to provide in the coming quarters?

Ramesh Babu: No, no. There is no question of any pleasant surprise. If you look at it, numbers are very clear. When my net NPA is INR324 crores, how much I will provide. I cannot provide INR400 crores for that. Okay? As simple as that.

Madhu Dey: And a very last question since -- because of the need to garner -- improve the quality of deposits you're having to beef up your field force, etcetera. What is a realistic time line to get to that aspirational cost-to-income ratio?

Ramesh Babu: Aspirational cost-to-income ratio, you would have seen that we were at 54 55, okay? Ideally had we not taken the initiatives like liabilities, 1,300 people taking in a branch level, 1,000 lower-level team we are taking. Smart -- KVB Smart for the commercial banking what we are taking. And all these things, if we have not done, ideally our cost to income would be at 45 only, no problem. But we will be doing industries to the bank if we do not take these initiatives, the future of the bank will be very gloomy.

That is the reason, as an investment we are making, which should not be considered as a cost at this stage. If you do not incur these costs at this stage, tomorrow is our top line and income will not grow. Otherwise, our intention is to be in the range of 45 to 50 only. So you could see that they are on March ending also how is our cost-to-income ratio.

Moderator: Thank you. The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Sir congratulations on a good set of numbers, congratulation. Sir just one question on clarification maybe. So like you mentioned that on the employee side, the expenses maybe broadly in the range of about INR290 crores to INR300 crores after adjusting for this superannuation benefits. So like from FY'25 onwards, like we can see a annual employee structure in the range of over INR1,200 crores to INR1,250 crores. Is that right?

Ramesh Babu: Yes, yes. We estimate that only. I'll tell you Lalit, what we are doing because IBA what all has come up and all. So last time when we did it and all, there was a shortfall in one quarter we had to make. So we do not want those sort of surprises and shocks to any one of them. That is the reason sufficiently we are making provisions for these sort of cushioning. So tomorrow, if this much of requirement is not there, we will be reversing these things, sir.

So agreed, what all we can perceived and visualized what is required, everything we are providing because when the good times are there if you do not provide at this stage, tomorrow, you may have to repent. Once these are through and as we said, that one time INR100 crores for three quarters if you provide, this will be out. So then onwards, it will be a normalized cost and all, what you said is pretty correct, we may be in that range only.

Moderator: We'll have to take that as the last question. I would now like to hand the conference back to Mr. V. Ramesh Babu, MD and CEO, for closing comments.

Ramesh Babu: Yes. Thank you all for the patience and the interest what you have shown in our bank. And for the good word and the good wishes what you have conveyed and we'll continue our journey the same way and we will take it forward, keeping the interest of all the stakeholders. Good day to all of you, and thank you once again.

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