“Karur Vysya Bank Limited

Q3 FY 23-24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 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; Mr. Chandrasekaran, 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 conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

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

B. Ramesh Babu: Thank you, Yashashri. Good evening to all of you. Welcome to Karur Vysya Bank's earnings call for quarter 3 financial year '24. I trust that you, your colleagues and family members are keeping well and are in good health. My heartiest new year greetings and wishes to each and everyone of you. I also would like to thank you all for taking out time in joining the call.

I am pleased to share that performance of the bank in terms of growth, profitability and asset quality have been consistently improving over the last 13 quarters, and our Q3 performance numbers are in line with the guidance given during our previous interactions.

You will be happy to note that branch has achieved 4-digit profit of INR1,149 crores in 9 months, and our asset sales have passed INR1 lakh crores mark. Besides numbers, the qualitative changes that we have brought in gives us the confidence of sustained improvement in our performance in the days to come. All of you would have gone through our detailed presentation on our quarter 3 numbers. I would like to share some of my thoughts on the performance of the bank during the quarter and our guidance for quarter 4.

The business model transformation that we had embarked is progressing well. We continued to execute on a strategy which is aimed at granularizing the book, and we were able to sustain the growth momentum during the third quarter as our total business growth was at 3% and reached a level of INR1,58,357 crore.

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 steady momentum was observed in RAM verticals with 4% quarter-on-quarter loan growth and 20% Y-o-Y growth. We expect this to sustain in the future. Retail advances grew faster at 5% Q-o-Q driven by growth in mortgage and personal loans category, Commercial advances clocked 4% growth and agriculture advances achieved a growth of 3% during the quarter. As we were focusing mainly on keeping margins intact, we shed away low-yielding advances, which comes to around 0.75% of the advances in our corporate book resulting in degrowth in corporate vertical. This is a conscious decision taken wherever the yields were low, we tried to pass on these higher yields where there is a resistance from them, we politely requested them to that extent, a big account few of them, we got it prepaid. This is the main result for the degrowth. So YTD growth is 13% for our entire loan book which is in line with our guidance for the full year growth of 14%-plus.

Deposit growth remains one of the key focus areas for the bank, and you are aware that the bank had initiated various strategies for deposits, including establishment of sales acquisition channel for both term deposits and CASA growth. Our deposit growth was at 3% during the quarter, and term deposits and CASA deposits grown by 4% and 1%, respectively. While our CASA acquisition numbers are progressing well in line with the targets, there is a depletion in the existing book on account of other opportunities available for the depositors, which we are trying to overcome by better engagement strategies with our customers. Our YTD growth of the year so far is at 12% and we plan to maintain the growth trend in tune with our credit expansion.

Our CD ratio is within the range of 85% and we will continue to maintain at these levels.

We had indicated in the last call that NIM would stabilize at 3.8% at the exit quarter of the current year. NIM improved to 4.32% sequentially by 25 basis points which include 19 basis points on account of interest recovery from 1 NPA account. If we exclude the one off item, NIM was at 4.13% for the quarter. We consciously shed away low-yielding corporate advances, as I said earlier, on one side and focused more on better yielding granular secured advances, that too in RAM vertical during the quarter. This has helped us to maintain the margins above 4% levels. We are hopeful to continue our efforts in maintaining our NIM around 4% for the exit quarter.

We decided to focus primarily on margins with a decent growth till cost of deposits normalizes rather than growth only without giving due cognizance to the yields.

The cost of deposits increased by 9 basis points sequentially. Based on our historical pattern of renewal of deposits and fresh deposit acquisition, we expect moderated raise in the cost of deposits by 15 basis points in the fourth quarter, assuming no change in our deposit rates.

Yield on advances increased by 22 basis points during the quarter (excluding the one off item). We expect a growth of 10 basis points increase in the next quarter as we had increased our MCLR rates twice during last quarter.

Yield on investment has increased by 5 basis points during the quarter, and it is expected to go up in a similar range in the next quarter. Considering all these factors and without taking into any policy rate changes, we expect that NIM will stabilize at 4% at the exit quarter of the current year.

We have achieved ROA of 1.65% in this quarter. It could be noticed that our ROA has been consistently improved from 0.93% in December '21, which is the result of our concerted efforts in stimulating the various levers of ROA and enabled us to achieve this parameter well ahead of the timelines. YTD ROA is 1.58% and we are confident of maintaining ROA of above 1.6% for financial year '24.

Our gross slippages during the quarter continued to be under control at INR197 crores and for the 9 months at INR369 crores, which is 0.51% . On an annualized basis of the 9-month slippages, if you look at it, it comes to 0.68% of our book. Our digital underwriting, eyeballing proposals by risk team, better valuation methods by technical team, collection set up what we have created and credit monitoring all have helped us to keep a better control on the slippages. Also, 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 book is continuing to yield results as we have recovered a sum of INR65 crore during the quarter. Total recoveries till 9 months of the year are INR208 crore, which is equivalent to last full year recovery. Due to lower slippages, recoveries, upgrades and write-off, our gross NPA has come down to 1.58%, and we expect that we will continue to maintain GNPA at below 2% levels.

For the quarter under review, we have provided a sum of INR107 crores towards NPA migrations, standard assets and prudential provisions. We estimate that the credit cost for the current year would be in the range of 75 basis points as guided. As done in last 2 quarters, we have provided a sum of INR25 crores towards floating provision to meet any contingency, including ECL and cumulative provision available under this head is INR75 crores, which we have provided INR25 crores each in last 3 quarters.

Our net NPA has come down to 0.42%, and we would continue to maintain net NPA at less than 1% of our loan book.

Our standard restructured loan book is further reduced to 1.09% of our loan book and we hold a provision of 28% of the standard restructured book.

You are aware that wage revision impact as per bipartite settlement has been arrived at 17%, and we had already provided for wage revision at 15% from November '22 onwards. We have provided additional amount of INR7 crores for the balance 2% during the quarter. With respect to pension obligations, out of the estimated amount of INR114 crores, we have already provided INR33 crores in quarter 2 and during current quarter, we have provided INR41 crores and the balance amount of INR40 crores will be provided in Q4 for the current financial year. Our normalized wage bill for the first quarter of the next year would be in the range of INR325 crores.

The additional provision for pension obligations has slightly increased our cost-to-income ratio to 50.27% for this quarter. However, YTD cost-to-income ratio is 48.95% which is within our guidance range of 50%. As indicated earlier, the bank would strive to maintain CIR in the range of 45% to 50% for the year.

Our CRAR, as per the Basel III, continues to be healthy and is at 15.39% providing comfortable headroom for growth.

So as all of you know, the profit for the 9 months has not been included in that and without that, it is 15.39%.

With regard to RBI's notification on investments in alternate funds, our investments as at the end of 31st December comes to INR10.86 crores only, and we do not have any credit exposure for the companies where they have made downstream investments.

Bank has added 7 branches in Q3, totalling 32 branches during the current year up to December, aggregating 831 branches and 8 more branches will be opened during the fourth quarter.

Our new initiative, KVB Smart and our Commercial Banking business is progressing with a portfolio of INR92 crores. It is currently operating at Coimbatore, Chennai, Hyderabad, Madurai and Bangalore with a total team size of 48. Many of these staff numbers they have reported recently. So, that way, the real potential of this initiative we will be able to see from the next financial year.

Business under NEO, co-lending, transaction banking and precious metals continue to perform well. Few more experiments what we did like opening a home loan branch in Hyderabad and subsequently one more branch similarly converted another branch in Bangalore, these 2 are doing well. So based on that few more branches, we are planning to do that. So that is an experiment we have done, which has succeeded well.

So, striking a balance between maintaining healthy margins and pursuing strategic growth opportunities is a challenge that every one of us has to navigate in the current dynamic banking landscape. Our effort would be to focus on sustaining our growth momentum with healthy margins to ensure that our ROA is above 1.5% level at all times.

I am grateful to all the 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 have a first question from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: First of all, sir, congratulations on a good set of numbers, strong margins, so led by one-offs. So but first, I had a question on the personal loans. So sir, our personal loans portfolio, sir, now stands around INR13 billion. So it has kind of more than doubled in the last 1 year and almost 60%, 70% has jumped Q-o-Q.

And I think I remember, I think we had told in the previous call that we don't have strong corporate salary accounts, and so growing personal loans could be a bit challenging. So -- but we were resorting to co-lending for growing the personal loan book. So just want to understand the strategy so how has this is working? So is there any reason for such stupendous growth there? And any thoughts -- means, would that be able to sustain or not? And how are the yields we are compared to the other products? Yes, that would be the first question.

B. Ramesh Babu: Thank you. Thank you, Chintan. No, what you said is very correct. Even today, what we say is the corporate salary book is not that strong. But all of you know, we have an existing arrangement for the Amazon BNPL. So that has been going on for three years with a pretty decent margin as well as a very low stress there and all.

Under that, because this time, both the festivals are there during quarter, Dussehra as well as Diwali, the spike has come on account of that. In all these cases, this has been absolutely curated lot. First of all, at the Amazon level from the millions of accounts what they have, they'll identify and they'll bring out and filter the customers.

And after that, it passes through our partner and us. And if both of us are satisfied with the criteria, then only we'll give that. So the same process, which we have been following for the three years has been followed. And the spike is on account of the festivals. I'm not saying that the spike is going to continue in the months to come, because the festival spike has come. Maybe on account of the Republic Day, something else may come up.

But in the meanwhile, the rundown will be there by end of March. So that way, this tempo may not continue. It is a one-off. Coming to the yields, if you look at it, it comes to around 12% something like that. But we have an FLDG also, where the cohort loss is around 1.2%, our FLDG is around 5%. So that way, we are sufficiently insulated as far as the losses are concerned. So this is regarding that. That's why it's not a normal personal loans what all are given. It is everything has come through BNPL only.

Chintan Shah: sir. So just one follow-up on that. So I understand, so the tenure for these loans would be less than six months. As you told, there would be a rundown in March.

B. Ramesh Babu: Very true. Less than six months. Yes.

Chintan Shah: Okay. Sure, sir. That is the first one. Sir, secondly, on this margin. So first of all, this 19 bps recovery which we have seen, so that firstly, for that NPA account, we would have recovered the entire principal. So that amount would be for set up against the principal and then we have set it up against the interest. Is that understanding correct?

B. Ramesh Babu: Very true.

Chintan Shah: Okay. And sir, this would be a large corporate account in my opinion, right?

B. Ramesh Babu: Last corporate account? What is the...

Ramshankar: Large corporate.

Chintan Shah: Large corporate.

B. Ramesh Babu: Correct. You're right.

Chintan Shah: Okay. And so sir, any other means, accounts on which we are working for similar, where we could have a similar bump up in margins because of this?

B. Ramesh Babu: It can come up, but nothing is in our hands because many of the large corporate accounts either NCLT legally somewhere stuck. When suddenly it will be released, we do not know. So that is the reason we cannot give any assumption or a guidance on these things. Whenever something once in a while comes up and all, it may bump up once in a way.

Chintan Shah: Sure. And sir, this account was written-off or present in the books? Was this a written-off account?

Natarajan: No. So whatever the interest account we have shown, it was the principle was in the books. So that's why the -- it has gone to the interest. Otherwise it would have gone to the recovery from technically written-off account…

Chintan Shah: Exactly. Okay. Sure. Got it. And so sir, just one last thing on the wage bipartite settlement. Sir, there the incremental hit to us because of an additional 2% is INR7 crores. So that is until December. So now we have provided up to 17%?

B. Ramesh Babu: Up till December we have provided, but one more quarter also, we have split into two parts.

Ramshankar: So there are two things in this. One is the normal wage revision. Another thing is pension obligations which we need to -- acturial valuation to be done, okay? That's was done at 17% for this quarter. Last quarter, if you remember, we had mentioned 101 cr for the full year and Rs 33 cr for the quarter…

Chintan Shah: You have already mentioned.

Ramshankar: Yes, 33. Now since revised to 17%, it should be revised actuarial valuation, which came to INR113 crores -- INR114 crores. So the 33 has become 40, 40 for this quarter and next quarter.

Chintan Shah: Sure, sir. And so sir, you mentioned the normalized base would be INR125 crores, that would be per month from Q1 FY'25? INR325 crores quarterly, sorry. Okay.

B. Ramesh Babu: Correct. Yes.

Chintan Shah: Sure, sir. This is actually very helpful sir. Thank you for patiently answering all my questions and all the very best. Thank you, sir.

B. Ramesh Babu: Thank you, Chintan.

Moderator: Thank you. We'll take our next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Good evening, sir. Congratulations.

B. Ramesh Babu: Good evening, Mahesh. Thank you.

M.B. Mahesh: Sir, just on this -- on the previous question, you mentioned about your 20 basis points positive impact. How much is it in rupees, sir?

Ramshankar: That will -- it should be around INR30 crores, yes, INR30 crores.

M.B. Mahesh: INR30 crores, is it? Okay. And sorry, I missed one comment which you made. You indicated that cost of deposits would grow by how much by 4Q?

B. Ramesh Babu: 15 basis points.

M.B. Mahesh: 15. And what would be the current term -- cost of your term deposit book, sir?

B. Ramesh Babu: Term deposit book, let us check, one second. Mahesh, in fact, during the course, we'll just come back to you, okay? We'll just take that number and all we'll let you know.

M.B. Mahesh: And if you were to just kind of add this 15 basis points for 4Q, you would say that the -- your repricing has been completed on the cost of deposit side?

B. Ramesh Babu: No. How can it be? Because accounts -- deposits which are getting matured, when they get repriced, automatically they'll place it at this one, no? So that way, we cannot say the total repricing has been completed.

M.B. Mahesh: So it will still continue into 1Q as well, is it?

B. Ramesh Babu: And one more thing, the fresh deposit what all are coming also they'll be coming at this rate only.

M.B. Mahesh: Sir, the idea is that if your book carries a duration of about a year or slightly above that...

B. Ramesh Babu: Not one year, it carries two years also because earlier, we used to have 555 days these sort of deposits also. So that way, it is 1.5 years to 2 years.

M.B. Mahesh: Okay.

Ramshankar: 6.74% cost of...

B. Ramesh Babu: Cost of time deposit is 6.74% average.

M.B. Mahesh: 6.74%. Okay. Perfect, sir. So you would say that next year margins will also still be under pressure unless there is a mix in the loan -- on the loan side?

B. Ramesh Babu: No, the sense that margins can be like this, but still, whatever it is, we are more or less reasonably feeling saying that 4% NIM we'll be able to maintain for the exit quarter. Earlier, we were telling 3.8%. So many cases, we are engaged with the borrowers for the repricing and particularly, where bigger borrowers who are not willing, so we have come out of those exposures.

So those things, actually, they are helping us actually because there is no point in taking a deposit at 6.5% and adding the PSL cost, capital cost, term cost all these things. So that way we told them, which is low yielding and all to get out of that. That money if you are deploying in 9.5, 9.75 those sort of assets and all, overall, our yields are going up. So that way, the cost of deposits also we are selective in raising the deposit also where we are not warranted. First of all, we are rebalancing the portfolio. With that what all money is coming, we are lending it. And beyond that, what is required, we are going for the deposits.

M.B. Mahesh: Perfect, sir. Thanks a lot for this. And just one clarification. I assume that you seem to have a pretty good demand on the mid corporate loans because you've grown that book quite well, and you're seeing pretty good demand there.

B. Ramesh Babu: So the demand is there, actually, in fact, because of the good onboarding, what we have done and as we were mentioning in the initial discussion, the monitoring and collection with these things, the stress also is more or less under control. Mahesh, if you look at it, the mid corporate, the disbursements are going up more or less 20%, 22% quarter-on-quarter. So last year compared to December '22, if I look at it, it has gone up by more than 40%.

M.B. Mahesh: Perfect sir. Very useful. Thanks a lot for this.

B. Ramesh Babu: Thank you.

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

Rakesh Kumar: Yes, hi. Can you hear me, ma'am?

B. Ramesh Babu: Yes, please. We are able to hear you.

Rakesh Kumar: Yes. Good evening, sir. Quite a strong set of numbers. So congrats for that. Sir, one question was pertaining to this NBFC exposure that we have, so this is like around INR3,000 crores and we have slightly shredede the exposure I think in this quarter. So what is the strategy plan that we have to increase the exposure in the NBFC further or we would keep on trimming this number.

B. Ramesh Babu: No, it is not the question of trimming. I just hear earlier, so what we were having, AAA, AA, all those things were there with a very low yielding. When RBI guidelines have come up for additional capital provision also for that. And the cost on the other side is growing the cost of deposits. A few of them, they are not willing to take the additional cost at the time of repricing.

So that's why we told them saying that it may not be possible for us to fund. And we told them to prepay at the time of repricing, few of them have prepaid. It made sense for us as well as for them because they might be having alternate source of raising the money. But why we did also because many of these relationships, they are price-sensitive and not agnostic.

So for tomorrow, actually, we are able to normalize the deposit rates and all, and we are able to raise the money at a normal rate. And actually we go back to them, again they'll come to us. So that is not the question of relationship, it is all related to the pricing. So those cases, what we have found out and all, we have actually got out of that. Our NBFC exposure used to be above 7.5% something like that, now it has come down to below 7%, so it doesn't mean saying that we'll be at 7%. It can come down also, it can go up also. Continuously, we are gauging. The yields what we are getting and the low-yielding accounts what all are there on the top, continuously we're engaging. If you find a better revenue in other verticals with better pricing or yields are there, we do not mind getting out of those exposures also and to rebalance the portfolio.

Rakesh Kumar: Understood, sir. Very good. Sir, can you tell on this SA deposit due to an industry-wide phenomenon, but we are also like getting slightly volatile number that we have seen on this SA deposit side. So any strategy or what plans you might have to augment this SA deposit number?

B. Ramesh Babu: Yes. Rakesh, in fact, I'll tell you. So I'll make a statement and then I'll hand over to our Head Consumer Banking also. But if you look at it, so I was mentioning in my opening remarks, our new to -- suppose new accounts, what we are getting, at least that is strong, we are going on. Now the existing book what all is there, a part of that is going into time deposits. If we resist them not to go to a time deposit, the chances are it may go to some other bank initially. And finally, the relationship also may go out. So it makes sense for us instead of going out and taking a deposit, it is better to get from them. And likewise, if I look at my numbers also, the cost of raising time deposit between the retail and bulk is different.

Bulk, I may have to pay 20 to 25 basis points more. If many of our customers instead of going elsewhere, if they are placing the money with us, I'll be getting the retail time deposits at a cheaper rate and the relationship also I'm able to maintain. So what we are trying to do for the deepening and all these things, Dolphy, Head Consumer Banking, will explain. Yes, Dolphy, over to you.

Dolphy Jose: Yes. Good evening, Rakesh. Dolphy here.

Rakesh Kumar: Good evening, sir.

Dolphy Jose: On the SA side, Rakesh, I mean, this is an industry phenomenon. There -- almost all banks are facing this SA erosion primarily, which we all understand is because the consumer -- customer itself has shifted from savings to consumption and some consumption to investment, and that's the trend. So the ideal way to hold on to your balances extra is to make sure that your hooks are in the right place, and we need certain product hooks and why we are critically focusing is on the third-party products.

So in third-party products where our primary focus is, of course, insurance and then mutual funds where we are again focusing on SIP, both on shares as well as mutual funds. These are our two primary hooks, which we are aggressively marketing. And that would give us some decent hooks to hold on to the balances and have some incremental balances.

On the organization part on the bank per se, on the liability franchisee, we have again segregated the overall franchisee into one on the ETB deepening channel and the new acquisition channel. So we have a separate acquisition channel, which is a sales team of about 1,200, 1,300-odd people who are purely LTV going out to the market and acquiring new-to-bank customers on CASA, TD.

And we have further sub-verticals for corporate salary and for now lately, we have developed a team of about close to 200-odd PRMs or priority RMs, as we say, who will be catering to those customers whose balances are from INR10 lakhs and above. So that's for further deepening. And we have a product bouquet, which can keep these customers engaged to make sure that the deepening is in place.

So these are things which we are doing on the organization level. And focus will continue on RTD, as MD sir mentioned that, yes, a part of our SA depletion is because of the transfer of SA to TD for higher rates, etcetera. So these are the multiple things which we are doing. We are also parallelly developing a BC channel where we intend to, again, new-to-bank customers, but they will also get into other retail asset products. So overall, this is how the deepening focus -- for deepening in the branch.

So going forward, our deepening activity or where we focus on the ETB, the existing to bank customer, and we have a decent customer base of about close to 9 million customers, it will be primarily managed and enhanced by our branch banking team. And we have a granular structure in the branch where we're trying to have a hybrid model in the branch where we have 2 separate goals which we have introduced lately, which is one is the BSSE, which is the bank sales and service executive and PRMs, so both put together today, as of today, we should see around close to around 1,200-odd people already in and rolling.

And they're already in the last quarter, all these channels have given us significant incremental on the new-to-bank acquisition. The ETB also has started tracking and we have -- they are started giving us incremental volumes in the last quarter. So that's the whole idea, and that's how we are proceeding in the CASA segment.

Rakesh Kumar: Got it. Thanks for very elaborate answer sir. Thank you and all the best for the future performance sir.

B. Ramesh Babu: Thank you.

Moderator: Thank you. We have a next question from the line of Prabal Gandhi from Ambit Capital. Please go ahead. Mr. Gandhi your line is unmuted. Please go ahead with your question.

Prabal Gandhi: Yes. Am I audible?

B. Ramesh Babu: Audible Prabal. Please go ahead.

Prabal Gandhi: Congratulation, sir. My first question is on MSME side. So we are growing at 20%. In the morning, another Tamil Nadu based lender reported MSME growing just 2% on a Y-o-Y basis. So just wanted to understand how are we able to capture demand and grow at 20% when our same geography peer is struggling on the growth?

B. Ramesh Babu: I cannot compare our selves with anyone, because ours is a journey not started today. So you must be seeing last 3 years continuously, we have been focusing on the MSME. If you can look at it, our percentage of the total book has moved now to 33%-odd now. So progressively, we have been moving. Now the various engines what all are there, so we have activated them.

Many other branches, which they were unable to absolutely source them, so we have provided necessary inputs like training and process-related many issues, hiccups are there, we started fixing them. And that way, the confidence levels for the people have gone up.

And above all, the tag with which what we are giving and the confidence the other side borrowers they have got it that also is helping us. So all these things have supported us so in onboarding. And above all, our risk team, continuously, they monitors what is good, what is bad they are telling.

So right from the sourcing, we are selective in what we need to do, where we can do, where we cannot do. All these things have helped us. In addition to that, new initiatives like -- so our KVB Smart, what we have created, those things also will be helping. So it's an ongoing journey, so the journey has slowly started working and many more people are joining the band wagon.

So that is the reason we are able to do. So we are finding good amount of -- absolutely, if you can look at it, our approval rate is around between 40% to 45%, which implies out of sourcing 55%, we're declining it, which is not meeting our standards.

If we can dilute and relax our norms, it can go up to 70%, which we do not want to do it. Once we do it, there later, we have to face about the SMAs and NPA. So that we are finding some set of opportunities there we are doing despite issues coming up and demand in the textile has not picked up yet. So maybe after 6 months, the textile picks up well, the downstream industries related to textiles, that also will give us some more scope for us to grow further. Prabal, are you there?

Prabal Gandhi: Yes, yes. Perfect. So just an extension to that will be, so the growth in MSME is coming, say, disproportionately from the new customers or the old customers utilizing their limit, which is just...

B. Ramesh Babu: No, the utilization levels are more or less at the 70% only. It has not crossed. So we thought saying that even any other industries, if we look at it, hovering between 70% to 75%, so new customers, majority is coming from the acquisition and though enhancements are there, but major growth is from the acquisition.

Prabal Gandhi: Perfect. Sir, second question will be on operating expenses. So even if I have to adjust for the wage revision and the pension obligation, even then this seems to be running high obviously, we are investing in the bank. So that could be the reason. How do you see the productivity pan out? And any targets on the opex to asset or cost to income that you envisage for 2 to 3 years?

B. Ramesh Babu: And I fully agree with you. So though we were also abreast of this one. But the point is until and unless the capacity and infrastructure what all are required the manpower if we do not take it. If you have a big plans to grow and all of them, they go, haywire that is the reason the manpower we are investing on that.

And not only that, we are having a mechanism also to continuously gauge the productivity and performance of these people wherever comes sort of the people who are unable to deliver, either we are counselling them and otherwise, providing some separate support to grow. If something is not there, a few of them, they are leaving also an ongoing process, but new initiatives, what we are taking in the process, we are supposed to incur some costs.

That's why earlier I used to say, so rather than treating them as a cost, we need to treat as an investment, which will be yielding results in due course. But at this stage, if we do not invest, the future will be bleak. But in addition to that, you need to appreciate one point, with all these math still we are able to deliver the ROA what we have guided.

So that way, we are trying to work out within the broad parameters what we have committed, including a cost-to-income ratio, ROA, NIM with these things, what we need to devote for the infrastructure and future growth, we are trying to spend on that. But anyhow, we are also in the process of reviewing wherever some sort of an unwarranted expenses is there, how to get out of that, we are looking at it, and we are on the job.

Prabal Gandhi: Okay. Sir, and just last point. So I did notice that we made INR25 crores of floating provision this quarter as well and we have been making that from last 3 consecutive quarters. But just a request that in a quarter like these in a bump up quarter like these when we get sort of one-off recoveries and things like that instead of having 17%, 18% ROE?

If we can just increase the quantum of floating provisions that will sort of give more confidence on the sustainability of the earnings for next 2 to 3 years rather than having one quarter of very good numbers. So just a request from my side...

B. Ramesh Babu: No, no, no. Absolutely. Your point is well noted. But just one more point, you need to keep, Prabal. So you see somewhere some bumping up is there in the income side. But other side, expenses side also some bumping up is there because the 15% to 17%, some sort of a pension, these sort of things we need to do.

So keeping all these points in view, we thought that let us do it, but your point is well noted, next time to insulate these sort of turbulence. So what we need to do, we will do that. So that continuity and sustained performance will be there. We'll do that.

Prabal Gandhi: Great sir. Thank you and all the best for the future.

B. Ramesh Babu: Thank you.

Moderator: Thank you. We'll take our next question from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: Hello sir. Thank you so much for the opportunity and congratulations.

B. Ramesh Babu: Yes. Thank you, Mr. Sundaram.

Arvind R: Great set of numbers. Sir, I just have two questions. Sir, 1 is, so our non-core fee income like close to INR400 crores in the third quarter. I guess like that would predominantly include the technically written-off -- recovery of technical written-off or other written-off accounts.

B. Ramesh Babu: True, true.

Arvind R: Yes. So what I would like to understand is like, for example, if I see the annual report of FY '23, like we have like on book like INR4,500 crores worth of you know technically written-off of accounts. I mean like is that the base, I mean, like where we can see this kind of recoveries for the next 1 or 2 years, either from that book? Like is my understanding, right?

B. Ramesh Babu: I agree with you, Sundaram, but the point is there are many unknown, unknowns involved in this because many of those big corporate accounts are with NCLT. So finally, how much percentage of that comes out, we do not know.

So sometimes, it may come out well, sometimes it may not come out well. So that way, a credible guidance I may not be able to give. But every effort is on both on the retail as well as the corporate accounts. So to the extent what all is getting and all, we'll be trying to do that. So this is what actually is, the pool is there, but entire pool cannot be prima facie looked at saying that this can be recovered.

So out of the few of them would have been already evaporated and many of them are consortium accounts are there, where due to delay also something may not be there. But we are on the job, how much -- as much as possible to salvage and to get out of that, that is the reason if you can look at it last year, the whole year's written-off recovery, we are able to get that recovery in 9 months.

So the same is the case. Last year, whole year's profit we have crossed this year in 9 months. So we are on the job to extent possible. Sometimes it may be possible, may not be possible. But we will focus on our routine, what we need to operate. And these things once in a while come up, it may be a bonus for us.

Arvind R: Sure, sir. And just to understand like in INR4,500 crores, like as per annual report or like in the what we have in the income statement, if I can get a texture of what kind of accounts? Is it predominantly corporate accounts or does it also include...

B. Ramesh Babu: Yes, yes. Majority -- more than INR2,500 crores or INR2,800 crores is just corporate account, that too big corporate accounts are there. So that way getting that will become difficult.

Arvind R: Yes. Okay. So the recoveries also came from the big corporate accounts?

B. Ramesh Babu: Once in a way, just this quarter, how it has come, otherwise, continuously, we'll be getting we do not know that particular point. So we are focusing on the smaller accounts where we have collaterals, where we can dispose off and we are approaching the court, those things we are focusing, which is within our means. Bigger things stuck at different locations and different stages that we need to get it from the corporate INR2,800 crores. As and when we get, we need to book that.

Arvind R: Sure, sir. So the interest income, you said like which included this one-off. So basically, whatever is recovered in this quarter, the principal amount on that, like we just calculate interest on that and that -- okay, is that the way to understand?

B. Ramesh Babu: No, no. You're understanding is perfect.

Arvind R: Okay, sir. Just one more thing. You said that 10 basis points increase in yields, we can see. So when I see -- when you say that, like I have to exclude this effect and basically and then add 10 basis points to...

B. Ramesh Babu: Yes, yes. True, true. And that's also -- in my original guidance, when I was reading, I have told you saying that if you exclude this one, this comes to this rate and on the 10 basis points, you can expect that.

Arvind R: Okay. Okay. And just one more thing, sir, on fee income, like you are seeing some healthy growth in like fee income, especially the core fee income in 20% this quarter to the last year, the same quarter. I mean, like may I understand like what kind of activities or what kind of you know activities helping this fee income?

B. Ramesh Babu: Yes, yes, absolutely. I'll tell you basically because the disbursements have gone up, naturally, the processing fee has gone up on that. Second one, if you look at our cross-sell income compared to last year, more or less, more or less 75% more than that we are able to do that because the awareness of the people have gone up in that and our people, more or less, they are getting that one.

And third thing, if you look at the non-fund based also, while LC business is not in line, actually, not happening because the exports may not be there a verity of reasons international business is down overall. That too, we are predominantly dependent on the textile with the 7%, 7.5%.

So there is some sort of lull is there, but we have diversified into infrastructure like smaller contractors where we require some sort of a guarantee. That is also helping us to get some sort of income out of that.

So likewise, the good contractors whoever are there a lot of roads, these sort of projects are coming up. So those non-fund-based business also, we are focusing, and a culmination of all these things is helping us to grow in the core income.

Arvind R: Okay. Okay. So like one can assume that like whatever credit growth in line or slightly above that, we can actually expect that fee income...

B. Ramesh Babu: Yes, yes. It is in line with the credit growth, what all credit growth is coming accordingly the other side also commensurate non-fund-based income also will be there.

Arvind R: Okay. Thank you, sir. Thank you so much,

B. Ramesh Babu: Thank you.

Moderator: Thank you. We have our next question from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: Sir, congratulations for great set of results.

B. Ramesh Babu: Sushil ji, thank you, thank you, very much.

Sushil Choksey: Sir, my first question is, you had an outlook on deposit. You have looked at your NIM and everything. Sir, one question I have. How much of your business is from your existing customers, which is growing at 15%, 20% or 30%, specifically that INR5 crores to INR25 crores bracket?

B. Ramesh Babu: You're talking about the advances or deposits?

Sushil Choksey: Advances?

B. Ramesh Babu: Advances, that's what I say. Suppose, if you look at it INR5 crores to INR25 crores, more than 60% is coming from the new to business. Existing, the enhancement, these things are there, we are not relying majority on that. If an existing customer requires enhancement on its own he comes, so we need not worry on the particular account. We need to maintain the relationship. Our main focus is on the fresh acquisition. So that's what we are working on that. Majority growth is coming from that only.

Sushil Choksey: Does it mean that your existing product enhancement that is if you add five products, you needed to 10 cross-selling...

B. Ramesh Babu: No, no, I'll tell you, it is not the question of products. Products can -- because we have a plethora of product, 20 products are there, Doctor Plus, this plus and all. But the solution what we are supposed to provide to the customer based on his requirement, that is making sense actually.

So many of our people, at least they could know how to source this sort of thing that is helping. And majority of our business comes from the wholesale and retail traders because traders business a lot of scope offers in Tamil Nadu and South. So that is helping us a lot.

Sushil Choksey: Okay. Any sectors which you find are getting more vibrant like construction in infrastructure...?

B. Ramesh Babu: Yes, yes. So infrastructure under the construction if a look at it, maybe the roads these sort of things and commercial real estate also is working to some extent, paper is also doing well and all so chemicals and these activities are coming up, but major portion is coming still from the wholesale and retail trade.

Sushil Choksey: Your textile base as well as auto ancillary?

B. Ramesh Babu: Auto ancillary to some extent, it is coming up, but many of them usually, they go for the vendor financing with the original bankers, but whereas textile is concerned, nowadays, again, we are able to see some green shoots. And now the stocks at abroad have been exhausted. Few markets which are export-dependent, they started getting some sort of an order at a low case. But all of them are confident that in the next 6 months, the position will be improved compared to earlier.

But one good thing what we look at it is though the utilizations have not gone up, the quality of our textile customers is good. That is quite heartening to see. So with 7.5%, the stress what all we are getting every quarter is nothing much from the textile sector. So that's why we are pretty happy with this one.

Even if they are not utilizing the limits, if the business is not there in the utilized that is a cause of concern for us. So for the time being, the utilization not there is good for us. Once they get the order, automatically, they'll utilize because the relationship with us.

Sushil Choksey: Sir, second thing is, what kind of initiatives are we because we have been very profitable, our market cap has done well, all parameters every stakeholder is happy with you. Now if I have to take a journey for the next 3 years, 5 years for long-term shareholders, what initiatives have you enabled and what initiatives you are targeting in the next 3 years, so the bank gets to the next level?

B. Ramesh Babu: Yes. Currently, what we are doing, we were totally dependent on the branch sourcing model. So the branches, they have a limitation. So that is the reason we are trying to take -- differentiate this one. Now if you look at it, sector-wise, if you look at it vertical-wise, the retail segment.

So we have last year started some sort of a few branches with home loans, only Hyderabad, Vizag -- sorry, Hyderabad, Bangalore, those are working well and now we are going to increase the number of those branches where this home loan intensive and real estate, commercial real estate, so that works well.

In addition to the branch sourcing what we are doing now is the direct sales agent, DSA feet on street, further retail assets, we are working on that. For that, the centralized, how these credit sanction, processing underwriting has to be there that we are working. With that, we can have a different set of numbers for the retail.

Coming to the commercial is concerned, the process-related issues, what we have removed and all, and now we have created a new vertical called KVB Smart, which used to work on the lines of our NEO, which was working for the LAP, now KVB Smart is for the working capital, where our branches, they are busy with their routine and the existing customers leads they are getting.

For the new to be bank, these sort of customers are getting -- we have created a setup. These five centers with 48 staff members, what we said, it is going to work that way. And now coming to the agriculture also, all along, you would have seen that majority 95% of our agriculture portfolio used to be on the jewel loans. So we started diversifying that. That has come to around 15% other than jewel loan has come up now because you cannot continuously depend on the jewel loan.

Jewel also we are actively working to create a setup wherein a feet of street will be there for getting the jewel loan business to the bank and already 2 branches which are exclusive jewel loan branches are there. Based on that experience, how can we create a few more branches we will look at that.

And coming to that agriculture, we are diversifying into other than the jewel loan, like poultry, these sort of things, wherever goods are there with partners we are doing. And a few months back, 6 months back, we started a partnership with another agency for MFI. We are not there in the MFI business at all.

So we started doing with them. Already slowly, the portfolio has reached INR100 crores. We do not want to grow aggressively there. We are now entering into a tie-up with two more partners on that so that we will diversify your risk amongst all of them. And these people progressively they'll be getting that.

Agriculture also few more agriculture offices we are taking it for taking care of this direct agriculture business. So that way, each of the vertical, if you look at it, we have a separate plan for ramping up. The current growth model is there after some time, it may not sustain and stop. So the engines we are introducing, which will work in the years to come.

Sushil Choksey: Sir, you -- your plan is more for tie-ups and distribution capabilities, but you might be ready at digital end, but human resource within the bank, we need to do something or that is already --

B. Ramesh Babu: That Is the precise reason you see one of the participants they asked, the employee cost has gone up, so that is the reason to front run this one and all, so we are already recruiting the people in the branches or rest of the locations where we require. And we are keeping that sort of a setup ready. Technology-wise, we are ready. Manpower also, we are getting it. On the other side, process and products also we are preparing. Together, we need to take it forward.

Sushil Choksey: Sir, the previous participant had asked you about technically written-off accounts. I'm not asking you from a particular number what you will recover next year. But if I take a historical data and your experience, what percentage of your written-off accounts you will feel that would be recovered, 30%, 40%, 50%?

B. Ramesh Babu: It's a very, very difficult and impossible question I can answer because each half is a different animal and a different treatment. So if you ask me from the retail segment, what you can do, at least some sort of a ballpark number I can give you. But out of the total write-off account majority when it is coming from the corporate, so I will not be able to give that number at all.

That too, suppose even if I give a number, in this particular year, how much it has come up and all, so I may not be able to tell you.

Sushil Choksey: Okay. Sir, second thing, my last question is on treasury outlook for your bank, looking at the current G-Sec in India and the limited volatility in US. Everybody estimates that 2024 maybe second half or the third, fourth quarter, there would be tapered off. We are likely to be included in some bonding access, one and two, both is more or less indicative. Now based on this, where do you see our treasury positioned for betterment or will be stable from that because of our CD ratio?

Natarajan: Yes. Sushil, up to three months before, we had a very low duration. If you have noticed our AFS portfolio is all less than 2% only. Now we are slightly confident that going forward, the interest rates will not be going further high. So we started picking up some of the investment. That is why if you notice, our AFS and durations in other sectors is slightly moving up. And in that way, we are not very aggressive, but within the limited band, so we are trying to play around.

Sushil Choksey: Sir, one more last question on co-lending and assignments. Are we fully technology-enabled?

Natarajan: Yes, yes. See, the basic requirement for co-lending is you should have a very robust technology. So without that, it's very difficult, particularly for the Amazon BNPL platform and all -- these are all 24/7, particularly in the festival and the holidays -- heavy activities would be there. So the manager -- all the active co-lending business today, everything is technology oriented and the end-to-end seamless process.

B. Ramesh Babu: Other partners also with whom we have entered, it is absolutely end-to-end and seamlessly working.

Moderator: Thank you. We have a next question from the line of Prakhar Agarwal from Elara Capital.

Prakhar Agarwal: Couple of things. One is on, sir, lending rate, so you have highlighted that you took a couple of MCLR rate hikes. Have you been able to pass through anything in retail and commercial banking side?

B. Ramesh Babu: No. Suppose if our jewel loans, if you look at it more or less -- one-month MCLR. So automatically, majority of them at rig price is not a problem at all. So in respect of other retail, so the process is on. So that's the reason conservatively, we have estimated a hike of around 10 basis points in the next quarter.

Natarajan: So during the last quarter, we increased our MCLR two times. So that we are gradually -- when that renewal happens, we'll be passing on that whatever increase to the accounts.

Prakhar Agarwal: Okay. And sir, moving on to FY '25, if you were to take that there are no systemic rate changes by RBI. How do you foresee your margins moving on and in that context growth that you're envisaging, because you said in a passing comment that you probably are choosing margins over growth at this point in time. So, if you were to just --

B. Ramesh Babu: Prakhar in fact, it is a dynamic position now. Once we look at our March position, then we'll be able to give you guidance for the next year. So for the time being, I wish to confine to our guidance to next quarter only.

Prakhar Agarwal: Sure. And just last bit on sir, this personal loans. So who is a partner who is running you through in terms of this buyout that you had to do for BNPL Amazon?

Natarajan: That's Axio, a company called Axio.

B. Ramesh Babu: Former name was Capital Float; later, it has been renamed as Axio, based out of Bangalore.

Prakhar Agarwal: Okay. And this partnership has been for how long, sir?

B. Ramesh Babu: More than three years.

Prakhar Agarwal: Okay. sir, how suddenly then probably if we were to look at past trends, how suddenly that during this festive season, we have seen this sort of growth while in earlier years, we have not seen any sort of this pamper?

B. Ramesh Babu: No, what happens, a few more variants also we have brought. But because based on the experience, what we have with few other customers, and going on well. Instead earlier, suppose if we are giving one month, now we can give for two months or three months, something is required. So that few of the customers instead of rotating in one month, it has become three months that also got elongated repayments that way.

So that way, overall, if you look at it has gone up. But this time, there's a robust demand on account of this. Even Amazon also what they have released the list also from their side. A good number of fresh -- that is not fresh to the Amazon. Amazon, there must be there for three years also. The list what all has come also has come up. So that way, the demand is pretty good this time.

Prakhar Agarwal: Sir, what will be your rejection rate in this for us in this product?

B. Ramesh Babu: It is, I think, miniscule because the reason is after so many checks and balances, Amazon is releasing. And after that, we -- our partner has checks and balances and we have many gating conditions. With all these things, someone passes through, they will be able to go through. So the same process has been going on for the last three years.

With all these things, the cohort loss is around 1.2%. So that's the reason what we thought. So the model what all is following the same model is getting followed that way. There's no deviation or dilution in the model what we are following.

Prakhar Agarwal: Okay. Sure, sir. That is it from my side. Thank you so much.

B. Ramesh Babu: Thank you. Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today. I now hand the conference over to Mr. B Ramesh Babu, MD and CEO, for closing comments. Over to you, sir.

B. Ramesh Babu: Yes. So once again, I thank you, one and all, for taking out time and for very curiously asking many questions and detailed question, so which shows the interest of what each one of you have in our bank. I profusely thank once again and all the best. And a good day to all of you. Thank you all.

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