



“CSB Bank Limited Q3 FY2026 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to CSB Bank's Q3 FY '26 Earnings Conference Call hosted by YES Securities. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shivaji Thapliyal from YES Securities. Thank you, and over to you, Mr. Shivaji.

Shivaji Thapliyal: Thank you, Iqra. Good evening, and a warm welcome to all those who have joined the call. The CSB Bank management is represented by Mr. Pralay Mondal, Managing Director and CEO; Mr. B.K. Divakara, Executive Director; and Mr. Satish Gundewar, Chief Financial Officer.

We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their results call. The management will first be making some opening remarks, after which, we will throw the floor open for questions.

I now invite the management to make their opening remarks. Pralay, over to you.

Pralay Mondal: Thank you, Shivaji. Good evening to all. Thank you for joining the CSB Q3 analyst call. Let me start with a little bit of a background of the global scenario because, obviously, there is a lot happening there. Then we will come to CSB specifics.

On the global trade scenario, the trade negotiations have deteriorated since last quarter on the U.S. side. But of course, we had some good news coming from the EU front. Hopefully, that will neutralize some of the impacts, which is happening. It has created volatility in the financial markets impacting currency and equity flows into many countries. The issues related to the FED Chairmanship, control over Greenland and unrest in Iran have all added to the uncertainties and heightened the global risk. This has resulted in unilateral appreciation of commodities in the last quarter.

Indian growth forecast has been revised upwards by economists and multilateral agencies like IMF as well. The inflation is expected to remain below the lower threshold of RBI, which is below 4%, despite the expectations of it moving up a little bit now from its current level.

The deposit growth continues to lag credit growth quarter-after-quarter. The CD ratio of banking system is above 80% now, stressing the deposit rates. The continuous lag in deposit growth has impacted the banking sector NIM significantly. The banking system is likely to continue to face deposit stress, which will keep the deposit rates higher and prevent NIMs from improving immediately.

Coming to CSB specifics which is more relevant to us - On the profitability side, we ended the quarter at INR153 crores, kind of flat compared to last year's same quarter. Operating profit of the bank grew by 32% on a Y-o-Y basis for Q3 and stood at INR292 crores. NII grew 21% Y-o-Y and stood at INR453 crores.

Other income grew by 26% Y-o-Y, constituting 19% of total income for Q3 FY '26. Cost-to-income ratio was around 60% and lower both on sequential as well as Y-o-Y basis. NIM for the quarter was the highest for the current fiscal and stood at 3.86%, supported by marginal reduction in funding costs. ROA for the quarter stood at 1.22%. Contingency provisions are held intact and bank is continuing with the accelerated provisioning policy, which will enable the bank to move quickly towards the ECL framework as and when it is implemented.

On the liability front, the funding base continues to improve. The deposits registered a robust growth of 21% Y-o-Y, much faster than the industry level. CASA grew by 3% Y-o-Y and CASA ratio was around 20.5%. Sufficient liquidity buffers are being maintained. On the liquidity front, we had a reasonably good liquidity risk management. While CD ratio stood at 92%, average LCR for the quarter was at 114% and NSFR ratio was 118%.

On the asset side, the growth of advances registered a Y-o-Y growth of 29%, which again is almost double the systemic growth rate. Yield on advances in Q3 stood at 10.82%. In terms of asset quality matrices, there was a slight deterioration. GNPA and NNPA ratios - although within guidance i.e., below 2% and 1% - were slightly elevated for the quarter at 1.96% and 0.67%, respectively. PCR (without write off) stands at 66.32%. Bank is holding a provisioning buffer of around INR193 crores over and above the regulatory requirements.

On the capital side, we continue to have robust capital with the overall CRAR at 19.41% and Tier 1 ratio at 17.66% as on 31.12.25. Proportion of risk-weighted assets continued to be lower compared to the industry.

On the Shareholder value creation - Book value per share was at INR 269. EPS for the quarter is INR34.91 and ROE for the quarter is 13.38%. On the distribution side, we have a network of 846 branches and 818 ATMs as of 31.12.25.

In conclusion, we continue to outperform the industry growth trends in respect of both deposits and advances. We could grow our deposit portfolio by 21% and advances by 29% as against average industry rate, which is almost half of this level.

Both our gold loan and wholesale banking verticals contributed significantly to our advance growth, registering a growth of more than 40%. We continue to be cautious in terms of unsecured book and have reduced our exposure there. In view of systemic uncertainties, we are exercising vigil while growing the BLG portfolio, which is the SME portfolio, where quality and pricing are of utmost importance. In line with the regulatory prescriptions, we have allowed the loan against security, replidger business, which is primarily collateralised by gold to degrow, thus negatively impacting the overall growth in the retail asset portfolio.

Our operating profit is robust with a 32% growth over Q3 FY '25 and 5% over sequential quarter. The strong operating performance can be attributed to the NII growth of 21%, other income growth of 26% and disciplined cost management. More than 95% of the income is constituted by core fee income because this time, non-core items like PSLC and treasury incomes were almost next to nothing.

Our net profit for the current quarter is almost flat compared to Q3. We have conducted a detailed analysis of the underlying causes leading to a slightly higher provision requirement, including certain technical factors, which we can take during the call when there are questions. Corrective actions have been initiated, and we are confident that we will be on track and monitor effectively on both GNPA, NNPA as well as on the credit cost side over the next one or two quarters. CIR has also improved and all regulatory ratios are maintained at comfortable levels.

As we enter the scale phase, the strategic focus is clear – which is building a diversified book, tech driven expansion, granular customer franchise and right execution. Before I end my opening remarks, I want to emphasise on the confidence and experience, the core banking migration along with 52 surround systems has, instilled within the system. Many other systems especially in the TBG domain are work in progress.

We are getting ready technologically to launch the bank effective FY '27 on the scale phase and we are fully geared up to that. On an overall basis, almost on all parameters, except for the slippages and NPA ratios, which we will explain over the call as and when questions come, we have improved significantly over the last 2 quarters.

As we are talking, we are confident that in the coming Q4 and Q1, we will see significant upgrades and betterment on the NPA ratios as well.

With that, I hand it over to you for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Parag Jariwala from White Oak Capital.

Parag Jariwala: Pralay, I have two questions. One - if you look at your disbursements on the Slide number 17, retail and BLG numbers have been down considerably. If you look even during the quarter, gold loan growth is the highest. We have been talking about scaling up the non-gold business.

What I mean, was it a corroborated decision because gold was growing very fast during the quarter. We decided to slightly keep the segment under check or what exactly was the thought process here? That is number one.

Secondly, on the slippage of around INR200 crores. Can you give us some more granular detail with respect to how many accounts are there? What led to this technical slippage? You also said in your opening remarks that you expect upgrades and recoveries in the following quarters. What gives you that confidence that you will be able to normalize these accounts in the coming quarters?

Pralay Mondal: Thanks, Parag, for your questions. I will respond to the first question, which is business mix and growth in gold. Now two businesses are growing very well for us. One is wholesale and in wholesale also previously we used to do primarily NBFC and financial markets. But now we are doing all other corporate businesses. In fact, financial markets mix, we are keeping it lower and not doing much there as we already have a large portfolio. Still around 35% to 40% of the portfolio is financial markets. But corporate banking and mid-market, which is the commercial banking, both these businesses have started doing extremely well for us.

In terms of quality, in terms of pedigree of these businesses, quality is really good and we are expanding the teams across the country- North, West, South everywhere. We have in a short span built a good wholesale banking team. This kind of pedigree we not only have in the management team, but also in the Board and our Chairman for MCB - Credit Committee, Mr Deepak Maheshwari, where anything above INR50 crores goes through his and the committee's supervision. Hence, we are pretty confident that business is growing really well.

Coming to the gold, of course, that prices are going up. At the same time, our LTV is constantly coming down. While the quarter end LTV was 63%, overall LTV has gone below 60% right now. We are not taking the price risk on the gold side.

Even tonnage has grown marginally compared to last year. The other thing which has happened in gold is a new segment, which we are focusing on and which is helping us. This year the replender business, which is higher and classified under retail and having gold as collateral - based on regulatory guidance effective 1st of April, we cannot do that business anymore. Since we cannot do that business anymore, we have started running down the portfolio and it has almost come down to around INR700 crores from around INR2,000 plus crores. That is what has brought down the retail. Retail as such has not degrown except for two-wheeler, Agri, MFI and other unsecured loans etc because of obvious reasons like stress in the portfolio and we saw it prior. As we did not expand that portfolio; we actually got saved in that portfolio. Whatever slippages are happening there right now is on a small base and the tail is only left for that. Otherwise, I think retail, everything else has grown the way it was happening. But the real retail growth will happen only when the liability franchise starts picking up. We were waiting for the core system migration to happen. Now we are launching the products and retail assets will happen in parallel to retail liability as it is two sides of the same coin. That is how we will build the granular retail franchise over a period of time. Meanwhile, we are doing good on CV/CE, Healthcare Finance, LAP - all these businesses on the retail side.

On your second question on slippage. Yes, around INR197 crores is the slippage. Out of that, a large part is on the SME side. Our retail slippages is starting to come down and now it has become flat in terms of slippage or NPA and it is going to come down further from the next quarter because the portfolio itself is kind of eroding. As we are not adding on the unsecured side, which is somewhere around 2.4% of our overall portfolio, the denominator itself is reducing. Hence, even if delinquency percentages are high in retail, eventually, it will not be that material in another quarter or two. To that extent, in retail we are getting into a safe zone just because the portfolio size is not that much. Some of the other business in retail is doing well in terms of quality of the portfolio. Stressed accounts in CV and HCF – we have sort of collected and we are doing good there.

We had a challenge in SME because of two reasons. One is the segments which we are operating in SME and second is certain locations which are impacted by the global uncertainties. But the good news is that most of these are not old vintage legacy customers and these are all well collateralized. The slippages are because of business challenges which they are facing, and their intent is not wrong. Hence, we are confident that we will be able to upgrade most of these accounts. We were expecting upgradation of 4 to 5 accounts in the last quarter of this fiscal itself. But for some reason, it got moved into this quarter. We are confident that these 4 - 5

accounts will definitely get upgraded this quarter. As we are talking till yesterday, we have already upgraded INR30 crores of these SME slippages. We don't see any fresh slippages because majority of our SMA-2 account comprises of gold and LAS, which does not lead to any losses eventually.

We are doing a lot of work on the Q3 slippages and we think that we will have a positive surprise by way of upgradations/recoveries. That will also help us in improving our Provision Coverage Ratio (PCR).

Other than slippages, if you look at line by line, all the components up to PPOP level, the bank has done very well, much better than what we did in Q3 FY25. In Q1, you remember that we had a NIM of 3.54%. The expectation was that it will constantly slide down like that. I had said that it will go up and a lot of people had doubts. But we have eventually shown that in 2 quarters from 3.54% we went to 3.81% and now up to 3.86% in a scenario where NIM is under pressure in the ecosystem. This means that we are in control, and we know what we are talking. Having said that, I think NIM sort of will not move beyond this. We will be somewhere between 3.7% to 3.9% range. I don't see it crossing 4% right now, given the overall ecosystem - deposit challenges and liquidity challenges which are there in the market.

Similarly, I am saying that on the NPA side, we are pretty confident that between Q4 and Q1, we will sort of be back to the NPA levels where we used to be in the previous quarters. That is broadly my response to your questions.

Parag Jariwala:

Just 1 or 2 questions. You said that may be 4 to 7 accounts you will be able to upgrade, but total slippages is around how many accounts? Is it fair to say that large part of these accounts is mainly to do with tariffs as may be in textile, footwear or such kind of an industry. Is that a fair understanding?

Pralay Mondal:

Parag, the number of accounts will be irrelevant because sometimes there are small amounts also. But around 10 to 11 accounts on the SME side will be material. Retail is at a portfolio level and wholesale we don't have any major slippage. We have only one account of about INR4 crores on the wholesale side which is expected to get regularized this quarter. Out of the 10 to 11 accounts on the SME side, we are confident that around 40%, 50% will be recovered this quarter. Not everything will get reversed and not everything will get upgraded but a fair bit will get upgraded because some of these have technically moved into NPA this quarter. Unfortunately, we also did not expect it, but it happened. Proof of it is that we already have upgraded accounts amounting to INR30 crores.

Parag Jariwala:

Sure. Just one thing if I can squeeze in. There were 1 or 2 delinquent accounts in first quarter of FY '26 as well. I mean, is that account now upgraded?

Pralay Mondal:

That was not in SME. That was a legacy wholesale account, and the recovery is under process. We are sanguine that we will get something out of it in Q1 FY '27. The process got delayed as this went to the legal IBC process and all of that. The full thing cannot be recovered but fair bit of recovery will happen in Q1 '27.

Moderator:

The next question is from the line of Natraj Shankar from DSP Mutual Fund.

Natraj Shankar:

Just a contextual question in this journey before we scale from '27 onwards. How do we manage these bumps? Are the systems robust enough to weather this entire journey? At this stage, we are having bumps. So just wanted to contextually understand the risk processes first.

Secondly, you talked about SMEs. Could you just take 2 parts of the question? One, the overall context of the SMEs, what you are observing in general, which pockets are you seeing some bit of stress? Secondly, within your cohorts, how are you placed within that?

Pralay Mondal:

To contextualize, when you are talking about bumps, we have 2 bumps. One is NIM going to 3.54% in Q1 and one is GNPA going to 1.97% for Q3. Now, both of these are well within the range, especially GNPA where we always said we will be below 2%. However, in spite of the bumps, we are below the guided range. But that is not where we want to be.

There are no major kind of roadblocks for our SBS 2030 journey. FY '27 onwards, we will see the scale phase. NIM, we have already said that we have gone back to where we wanted to be, closer to 4%. If you look at most of our ratios, there are not too many bumps, and those bumps are also within the range which we have guided to a great extent.

Coming to the SME, I think I explained enough to Parag on his question on slippage and NPA. There is no point repeating that. One addition in SME is that we have consciously gone slow in growth- we have grown SME 20% YoY whereas last year it grew almost by 30%.

At least one good thing we have done is, whether it was unsecured retail or MFI or SME now; whenever we have seen and read the stress scenario, we had slowed down these businesses. We do not keep accelerating the business and increasing the denominator.

By the end of this year, we will grow even slower than 20% on a year-on-year basis in SME. That is a deliberate kind of a strategy which we have worked out. Having said that, SME is our growth engine. Once these issues get sorted out, we will look back to growth-oriented SME business model from FY '27 onwards as quickly as Q1 FY '27. For SME, we all know that there are certain segments, which had some issues because of the tariffs, global challenges, etc., which hopefully with the EU deal coming in will look better, but that will take some time to settle down. It is only a conversation right now and on sign-off afterwards, this will materialise. But sentiment is very important. Sentiment starts getting positive once people become hopeful and the business starts picking up. What I can tell you is that most of our SME loans, are highly collateralized. More importantly, intent is very good. None of these guys are putting their business back and diversifying or kind of siphoning of the money here and there - that also happens in some SME businesses.

These two primary problems are seen in the SME business, one is quickly moving out of the business and the other is not having proper collateralization. On both accounts, we are doing good. Earliest by Q1 next year and latest by Q2 next year, I think we should be back in the growth orientation on the SME business as well.

Meanwhile, in assets, growing by 25% plus is not a problem. Of course, how do we fund that in terms of deposit is something to be figured out. We know how to grow at 20% on deposits. But beyond that, how do you grow on the deposit side needs to be seen.

Natraj Shankar: Just one last quick follow-up on the deposit angle. You talked about system stabilization and glad that is going well. When would you actually start seeing that? What would it take for that to actually fall through in place the deposit growth that you are talking about?

Pralay Mondal: We are looking at 3 levers on deposit growth. One is a long haul, which is creating retail products, CASA and customer acquisition at branch level for which you need the right products, systems and the customer service modules.

In the earlier Maarvel system we could never do that. But now we have the best and the latest systems. We are quickly going to build products. This will take anything between 12 to 18 months. Having said that, obviously, this is a journey. It is not that it will wait for 18 months. We will continue to see some improvements over every quarter.

More importantly, what we have done is we are making all the businesses accountable for self-funding. Whether it is wholesale, SME, Retail - all of them contributed towards liability growth. In terms of quantum, of course, SME was lower, wholesale was also on a little lower side, retail was larger. But in terms of percentage, all of them are growing equally well. We have kind of mandated the teams that you have to fund so much percentage of your business through self-funding through OPDT and other routes, etc., I mean all owners, promoters, directors, etc on the corporate side.

We will get the funding through TASC as well. We have created a separate vertical for TASC, which is the Trust, Associations, Societies and Clubs. But beyond deposits, CASA and the customer acquisition, we are also doing good on the FCY borrowings and refinance that also has grown for us during the last 1 year.

Thus, we are looking at all sources of funding to fund our growth. LCR, we are pretty confident. Last quarter, we ended at 114% and we should be above 110% this year.

Moderator: The next question is from the line of Akshat Agrawal from SMIFS Institutional Research.

Akshat Agrawal: In terms of opex, other opex declined 22% Q-o-Q. Is it because of technology investment coming out of the base? Was there any headcount reduction? CTI is at 60% now. So, do we think we can maintain this level going forward?

Pralay Mondal: What has happened this quarter is, of course, as a bank, when deposit costs are going up and yields are falling, one has to be conscious of cost management. Hence, we put special cost management practices in the bank. Having said that, none of that shows up so quickly.

It is not on account of technology reason that OPEX has come down, as technology costs have otherwise gone up, because in technology cost, capex is going to opex with AMC and other expenses kicking in. As a percentage, technology costs have always been between 8% to 9% of opex. That will not come down.

We did a detailed analysis of the PSLC income which is part of our fees. After doing an analysis of last 2 to 3 years trend, we saw the best time to book income and what is the best time to buy PSLC. For example, we need SMF, so we bought it at the right time, which was last quarter.

This quarter, we did not buy anything. When you buy SMF, it goes into your cost line. Similarly, last quarter we had a good PSLC income. Again, in Q4, we will have a good PSLC income because income is booked as per our analytical tools which predicts the time to book or sell PSL. Based on that last quarter, we bought PSLC on the SMF side, which hit our cost line and this quarter it was zero.

Similarly, on the income side also, PSLC was effectively zero this quarter. Last time we had a good income. These are one-offs, and these are not really franchise businesses. This is a very tactical play. What it means is that next quarter, again, we may have a good PSLC income on the fee side.

On the cost side also, PSLC may go up a little bit leading to cost to income going slightly above 60%. We may not go back to where we were, but it will probably go up quarter-on-quarter a little bit more. This is a one-off tactical kind of scenario. Overall, had we sold PSLC and bought PSLC, we would have shown better profits on a net basis this quarter. But we decided to keep it for next quarter because we know that next quarter, it will be a better income.

Lastly on the fees, like everybody else, we didn't have treasury income this quarter, because, of the bond yields. We are not even factoring treasury income in fourth quarter. If it happens, it is a bonus. Right now, we have not factored that in.

Akshat Agrawal: Right Sir. The benefits of scale - as far as costs are concerned, are we going to see it something like in the second half next year? Or is it like maybe from FY '28 onwards?

Pralay Mondal: FY '28.

Akshat Agrawal: This technology stack cost, which would have started coming off at some point, as for last 2 or 3 years, it was elevated because we were doing a lot of technology investments. Apart from the BAU tech cost like 8% to 9% or 10% odd for every bank, is it not coming off now? I mean the incremental costs on account of the tech stacking -- shouldn't it come up at some point in next 1 or 2 quarters?

Pralay Mondal: No, it doesn't work like that. Tech costs eventually will probably be slightly lesser than what it is today. Right now, it is slightly elevated as at one go, we had to make the full transformation. However, since it is a capex opex game, finally, it will flow through along with AMC, which is also part of opex.

Hence, I think 8% to 10% of our overall opex will be technology. Maybe it will go down by one odd percentage. That will not be material in terms of overall P&L.

However, even if it goes down, the real cost that we will now incur is in terms of customer acquisition because one of the reasons why our CASA or our granular deposits has not been great so far is because we did not have the products and the systems to get those customers in. Now that the system is there, products will be there and then the cross-sell of retail assets also will happen to those customers.

All this will play out in the next 2-3 years. I have always said that our cost to income ratio will start the target glide path from FY '28 onwards. Once it starts gliding down, it will be pretty fast, and I think we should be able to go to 50% by FY '30.

Akshat Agrawal:

Right. Sir, my next question is on NIM. Yield on advances declined this quarter. It is coming from higher wholesale mix at lower yield, MCLR revision and some repo rate impact. Wouldn't the higher gold proportion with incremental higher yield at 11.83% versus 11.77% kind of offsetting most of the impact on yield on advances?

Pralay Mondal:

Right. If you look at it, because of the repo rate decrease, impact of almost 125 basis points happened in the last one or a little more than a year. All of that has flown through the SME business and some in the retail side also, which are linked to RLLR. Wholesale business is mostly linked to MCLR and that is gradually coming down.

In terms of our mix, almost 60% is fixed rate loans, including gold loans. That is exactly what I said when the NIM was 3.54% in Q1, which has gone up at 3.86%, and that will sustain at the same range. But yes, with the repo downward revision, SME went down instantly and we have to work on pricing of the new businesses as well.

In addition, we did not grow that much in the SME new business because we were a little circumspect of the segments we were in at that point of time, given the global challenges. I think things are settling down now and hopefully, we should be able to stabilise the NIM at a similar level where we are right now.

Akshat Agrawal:

Right, sir. On the cost of funds, cost of borrowing came down, but cost of deposits was down by just 2 bps. So incremental borrowing cost versus the book borrowing cost – are you seeing benefits there going forward? Or most of it is already in?

Pralay Mondal:

Borrowing cost has definitely come down marginally compared to what we had taken. Borrowing cost is linked to SOFR and unfortunately it has not really come down as expected. Hopefully, it will come down over a period of time. In between, the hedging costs also went up close to 3% for one year and the net landed cost was slightly higher than our estimates.

It is a combination of all of this and this reduction though marginal, helped us in managing the cost of funds and in maintaining the NIM.

Akshat Agrawal:

Right, sir. On the asset quality, is this incremental flow from any new accounts? I mean is it all in this quarter and we are just expecting recoveries? Or do we expect some more accounts to slip on the SME? What kind of coverage do you have? You did say that it was well collateralized but if we can get some colour on the overall coverage including collateral on the SME accounts.

Pralay Mondal:

If you are talking about SME, we are well collateralized -- almost 80% and above is collateralized. But obviously, if you look at Corporate Banking, it will not be well collateralized as SME. But we don't even have an SMA 1 or 2 account in corporate banking and we don't expect to have. This I said before and it is worth repeating because this quarter, the point in question is why slippages are high, despite everything else looking positive for the bank. The point is that, yes, it happened, as there were certain challenges in the ecosystem with the

customers. The good part is, none of these customers have left their businesses and gone, instead they are all working hard on reviving it and some have even started paying us. Consequently, some of them are getting upgraded this quarter. As I said earlier, we have already upgraded accounts amounting to about INR30 crores. I think we will positively surprise the way we show our upgrades and recoveries this quarter and Q1 as well.

These are not like 10 year old accounts. We know those customers. We cannot disown them also because we acquired those customers. Hence, the responsibility is squarely on the relationship managers and the businesses to get the money back where we can and we are at it. Unfortunately, three or four accounts, we wanted to upgrade last quarter. For some technical reasons it did not happen in Q3, but it has started now. I was not even expecting to have these discussions on this call, frankly. I think we are pretty much confident that we should be able to upgrade most of these accounts in this quarter itself.

Akshat, in short, it is business as usual for us. As we know these customers and the current situation, we are not so worried on this slippage, internally in the bank.

Moderator:

The next question is from the line of Parth M. Gutka from 360 One Capital.

Parth Gupta:

Sir, when I look at your Slide 19, the mix between bulk deposits and retail deposits, a large part of the growth within the quarter has come from bulk deposits. Now with bulk deposits or CD rates going up at least by 10 to 20 bps in December end and January, should we expect the cost of funds to be sort of flattish from here on? That is my question one.

Second is some of the peers have raised the term deposit rates i.e., the retail term deposit rates. So, are we also considering anything like that?

Pralay Mondal:

On the deposit mix, as you rightly said, our bulk deposit percentage is slightly higher than the ecosystem. We are at around 47% of the overall term deposits. As our overall balance sheet size is so small, once the retail journey starts taking off, this will drastically change in a quick span of time. That is number one.

Number two, on your specific question, whether this is going to impact our cost of funds or it will remain stable. The answer is that we didn't lock in long-term bulk deposits anywhere. The tenor is generally one year or below. What it means is in a falling interest rate scenario, as and when the liquidity situation becomes a little better in the ecosystem, and we have more certainty on that, we will probably see bulk deposit rates falling faster than the retail deposit rates. Hence, in the short run, it will help us. In the long run, obviously, we will go for good quality retail franchise, which is a desirable and preferred option. Right now, we don't have that option and we are building it. If we continue to grow at a much faster pace than the industry, almost at twice the pace, then we don't have a choice but to fund the asset growth opportunities through these various routes. Hence, we have tactically handled it with a lesser tenor so that we don't get locked into this.

Cost of funds, I think should be going down by a few bps. As you rightly said, currently retail deposit costs are going up - not only retail but even bulk deposit rates are also not coming down anymore primarily because of liquidity issues, which are there in the market right now. That can

change. If it changes, in the short-term, bulk deposit rates will come down faster than retail as you lock in retail deposits for a slightly longer period. If the liquidity situation does not change, I don't think cost of funds will change drastically from here. It all depends on liquidity in the market.

Moderator: The next question is from the line of Ishmohit from SOIC Research.

Ishmohit: Sir, my question was related to our return on equity. I think in the past, you have always talked about that 15% is the Lakshman Rekha. I think the quarter 4 is always our quarter where ROEs jumped up. But this time in first 9 months, our ROE is close to 13%. So, are we confident of maintaining the 15% guidelines?

Pralay Mondal: We will try to touch the Lakshman Rekha. We will definitely be better than where we are right now.

Ishmohit: Right. Sir, second question was related to the credit costs. I think in the past, we have also spoken about credit cost being close to 50 bps. I think this quarter has been a multi-quarter high in credit cost because of one-off reason that we had. So, do we see the credit cost also falling down as you go into Q4 and Q1? Are we expecting the credit cost to normalize from there?

Pralay Mondal: Our endeavour is to do that. I think we should do a lot better than where we are today. I cannot make a forward-looking statement on a call like this. But I am pretty confident of our overall GNPA, NNPA and credit cost improvements going ahead from where we are now.

Ishmohit: But will it be like fair to understand that this quarter marks the peak of the credit costs.

Pralay Mondal: Yes, Like I said about 3.54% NIM for Q1, this is peak in terms of credit cost.

Moderator: The next question is from the line of Anusha Raheja from Dalal & Broacha.

Anusha Raheja: One thing on the slippage side, given the fact that global macro is still uncertain, how are we confident that the Q3 slippages will not continue in Q4 and going forward? Secondly, what is the broader call in terms of advance growth that you are anticipating in FY '27? Any internal targets for ROA, ROE for FY '27?

Pralay Mondal: We will be growing asset book somewhere at 25% and above and whatever it takes to fund that growth, we will do it through the various routes primarily from deposits. Hence, deposits have to grow by 20% and above. Coming to the slippage and the quality of portfolio question - we know exactly where our customers stand as we are monitoring the SMA portfolio very diligently- SME in particular has given the higher slippages. We also applied breaks on the disbursements in the SME affected sectors as is evident from the lower numbers YoY. Hence, we have adequate grip and visibility on the accounts, and we can assure that things are well under control aided by the proactive actions that we took. Having said that, these cases are not like a micro finance or an unsecured loan where the challenge continues for a while, and things are expected to settle now and start getting better. Once we are confident that things are comfortable, we will start growing this portfolio because we have the entire established

machinery in place. It is only a matter of time to take a strategic call to grow this business when the overall market scenario improves.

In short, we are not only confident of recovering the slippage and NPA, but we are also confident of the SMA book which we have at this point of time.

Anusha Raheja: Okay sir. Any ROA, ROE targets for FY '27?

Pralay Mondal: I have always said that we want to be somewhere around 1.5% in RoA and around 15% in RoE. This year, we should be coming closer to that and next year, in all probability we should cross that.

Anusha Raheja: One last thing on the slippage side. Out of INR197 crores that slipped during the quarter, what could be any rough estimate, that can get upgraded in Q4?

Pralay Mondal: Well, we can't comment on the exact numbers. However, we will do well there.

Moderator: The next question is from the line of Shivaji Thapliyal from YES Securities.

Shivaji Thapliyal: Yes. Just one question from my side. Just to understand the underlying asset quality a little better. Could you help us understand what could be the exposure to some of the sectors, which are potentially impacted by tariffs, I mean, the textile sector in Tamil Nadu or elsewhere in South India, some of these other sectors like fisheries, shrimps and so on.

Any sense of what that portfolio is? Or is it not sensible to look at it from that lens? And just only it is better to look at it from an account specific perspective. Any thoughts around that, basically?

Pralay Mondal: Shivaji, we are not a large bank. When you are a large bank, you have to look at the systemic issues more closely. For smaller banks, it would be more prudent to see from an account level, without overlooking the overall ecosystem.

For us, it is a combination of both, but we are more focused at account/ customer level - what is going on in his business, how his cash flow is coming, how he is expanding business, if you are diversifying the business, the impact on the core business and things like that. With this focus, the outlook is positive now.

Having said that, on the macro - our risk department did a detailed analysis for exposure to some of these affected kind of industries in the SME side and they had come out with stress testing formula/scenarios on the potential challenges. We figured out that it is not something which is earth-shattering and not all of that is/will be playing out also. Having said that, certain places where you do not analyse, there it is playing out. For example, if a person who is supposed to do exports to a particular country is not doing that and selling the goods within India at cheaper rates, then he becomes competitive, and somebody else gets impacted. Hence, sometimes, formulas don't work that way. Hence, we have to see the bigger picture and say that leave the bigger picture outside and look at specific customers. We now have the count of customers where the challenges are and what the solutions are. We have worked on this and in least 50%

of the cases, we have visible solutions in our hand at this point of time. Ultimately, as a banker, if you do business, there will be certain times where certain challenges creep up. How to resolve these challenge gives the marks to the department or to the institution. That is what we are focusing on.

At the same time, we did not believe that we should simply expand the denominator and add to the stress. We withdrew from some of these markets and businesses right now, but without losing the relationship so that whenever we want to go back, we can go back and do those businesses full-fledged. Sometimes, when you hold hands of people, it is easy for us to just go and say that I am auctioning a property, then you lose those customers forever. Hence, the intent part in SME side is very important. When you support them, they remain your customers forever.

Hence, I think it is a balancing act. It is not one formula that works everywhere. I think overall, we have got a hang of the whole thing. I don't see the SME portfolio going any worse than where it is today.

Shivaji Thapliyal: So, I mean just a quick follow-up. No material slippages of this quantum, which can take gross slippage to 2 percentage levels should be emerging in the upcoming quarters, basically. I mean whatever stress because of tariffs, etc., have emerged as most of the slippages have been created?

Pralay Mondal: It has been played out. Even if there is a global stress, it will not impact us anymore because we have taken prudent calls and even at the cost of business. I will be extremely surprised if in the next 3 years, we see a 2%, in gross NPA. Though we have given a guidance of 2%, we will remain well below 2%. This is the peak of our slippage is my view.

Moderator: Thank you. The next question is from the line of Yash Dantewadia from Dante Equities.

Yash Dantewadia: I just have one clarification. I think with the recoveries, we gave a number, I think INR30 crores to INR40 crores. Did I hear that right?

Pralay Mondal: Yes, INR 30 crores, not recovery, upgrades.

Yash Dantewadia: Perfect. You said 80% of the NPAs are sort of accounted for. You have assets up to 80% of what you lend. Is that right?

Pralay Mondal: Collateralized, what I meant was collateralised. I am only talking about SME, not wholesale. Wholesale is high-end corporates and cannot have such high collateral coverage.

Yash Dantewadia: That is understood. Coming back to gold loan business, how do you see this kind of the momentum in the next 1 or 2 years, like, let us assume that the gold prices sustain where they are currently. How do you see the gold portfolio growing as a percentage of your total book, maybe 1 or 2 years forward?

Pralay Mondal: See, Gold price movement surprises me almost every day now. Obviously, how long it is sustainable, we don't know. We cannot build our business model based on gold price going up or remaining at this level. We are also taking base case scenario where it will come down also. Based on that, all our projections are derived.

If it goes up, it is an opportunity, why not do this business. It is also an opportunity to improve the portfolio and bring down our LTV ratio. Our LTV is below 60% right now. Hence, even if we do an LTV sensitivity analysis, it goes up by 5%, 10%, or even 20%, the analysis throws out a very rosy picture. As these are short-term loans say 6 months, 1-year etc, unless one fine day it falls by say 50%, there is no challenge.

That is on the risk side. On the opportunity side, I think the biggest opportunity that is emerging in the gold loan segment is not necessarily price but a new segment, where it is no longer just a loan against gold jewellery for consumption. It is a 5%, 7% segment, for working capital and the ticket sizes are much higher than what we have done in the past. We are creating separate focus on that within specific service areas. That is one business where irrespective of gold price going up or going down, the growth will sustain because they will get funds cheaper on the collaterals they possess, compared to unsecured loans where there is no guaranteed sanction. They will be using it for their working capital requirement.

Second thing I want to say that at times, we think that if prices have gone up, the portfolio has gone up in ratio of prices. It is not like that because ultimately, propensity to consume is important. People will take what they need for their working capital, for their consumption, etc. So tomorrow, if the need remains the same and gold prices comes down, they top it up with more gold if they have. Hence, it is not a direct correlation between price and growth.

With gold price going up, gold portfolio is also going up, obviously, for everybody. Considering this trend, our portfolio growth is much slower because we have been careful in terms of LTV and other things. But if gold prices start going down, certainly, everybody's portfolio growth will start coming down. I think it is a combination of all of this.

Anyways, in the long-term scheme of things, we want the gold to be lesser in terms of business mix. It plays out well because we are not saying that gold price will remain here.

- Yash Dantewadia:** But you still haven't said a number, maybe as a percentage of your total loan book.
- Pralay Mondal:** Right now, it is 50%, 51%. If the opportunity is there, it can go up also a little bit. But eventually, by 2030, it will be between 25% to 30%.
- Yash Dantewadia:** So, when you say 25% to 30% by 2030, which part of your loan book are you looking to scale to that extent to bring this 50% down to 25%?
- Pralay Mondal:** Wholesale will be a little more than 30%. SME will be somewhere around 18% to 20%. Rest will be retail.
- Yash Dantewadia:** Under retail, I am assuming gold is 25% and other 25% retail.
- Pralay Mondal:** Gold is not 25% of retail. Retail is separate. Gold mix on a standalone basis is 25% or 30% with the 5% special segment, which we will create for working capital, where collateral will be gold. SMEs, let us say between 18% to 20%, wholesale is around 30%. Rest will be retail assets, which will be all other products like your auto, consumer vehicles, HCF, commercial equipment, retail

LAP, all of this together and mostly, it will be built on the existing customers of the bank and hence building the liability franchise is very important on which we are focusing.

Yash Dantewadia: Just have one last question. Exit ROE for this financial year. The second question is, next year, you said you would be looking to do above 15% right -- so could you please also give us some guidance of cost to income for next year?

Pralay Mondal: I think cost to income will remain elevated somewhere around 60% for another year. After that, it will start coming down sharply.

Yash Dantewadia: On the first question, the 15% ROE for this year

Pralay Mondal: If we say 15% is a Lakshman Rekha and if we come close to that this year, then next year, obviously, we have to cross that.

Yash Dantewadia: So, are you telling me you are confident of closing at 15% this year?

Pralay Mondal: We will come closer. We will be better than where we are today. But beyond that, I cannot discuss.

Moderator: The next question is from the line of Arush Gupta from Angel One. As there is no response from the current participant, so we will move on to our next participant.

We have the next question from the line of Vansh Solanki from RSPN Ventures.

Vansh Solanki: Most of the questions are answered. Only one question about the slippages that we have in Q3. Management does say INR4 crores to INR5 crores was about wholesale. So, can you just give a rough estimate about rest INR190 crores, how much from the retail segment and how much from the SME segment?

Pralay Mondal: I think retail was similar to last quarter. On the wholesale, there is almost nothing. This is a very vintage customer. In wholesale, we do not do INR3 crores, INR4 crores, INR5 crores of business anymore. Broadly, in retail, there will be some in cards, some in personal loans, some in Agri, some in MFI. Retail is sort of in the same range as last quarter.

Vansh Solanki: In crores if you can say this?

Pralay Mondal: I don't know, we don't give those numbers as such. I am giving you a good flavor of it that a larger part is from SME, retail is similar to last quarter and wholesale, there is almost nothing.

Vansh Solanki: Okay. Just one suggestion from my side that you just mentioned this in last quarter, you had PSLC fees income as well as expenses and also this is about to happen in the quarter 4 also. Can you just give a little more bifurcation in your ppt. It will be more helpful to understand that how much is the granular income and how much is one-off? It will be helpful.

Pralay Mondal: No, we don't give those details. All I can say is that our attempt is to have core fee income somewhere around 14% to 15%, and overall fee income somewhere around 19% to 20%. Hence,

core will be around 15%, non-core will be 5%. Sometimes the non-core will come from treasury, sometimes it will come from PSLC.

- Moderator:** The next question is from the line of Akshat Agrawal from SMIFS Institutional Research.
- Akshat Agrawal:** In terms of coverage, which is down to 66% this quarter. So, you plan to build it back to above 70%. Is it correct?
- Pralay Mondal:** Yes. Once we start to upgrade the accounts it will automatically come back.
- Akshat Agrawal:** Right, sir. In terms of branches, which is now 8 branches this quarter versus 7 in the first half. So, are we going to accelerate in the fourth quarter? Or is there any change in the strategy on branches?
- Pralay Mondal:** I think we are adding somewhere around 40- 50 branches every year. We will remain around that level itself. Right now, we have to first leverage the branches. For this we should invest into products, processes and sales machinery etc, which will enable faster acquisition of new customers.
- We have enough branches now say 840 plus branches; it is just how much business is to be done. Our priority is to first leverage these existing branches and then expand on a larger scale. But yes, we will continue to add 40 to 50 branches every year.
- Akshat Agrawal:** Right sir. Just if I can squeeze in one more. In terms of fee income, was there any syndication fee?
- Pralay Mondal:** No syndication fee.
- Akshat Agrawal:** So, in terms of run rate from here, it will slightly increase due to PSLC income next quarter.
- Pralay Mondal:** That is the goal.
- Moderator:** Thank you. Ladies and gentlemen, we will take this as the last question for today. I now hand the conference over to the management for closing comments.
- Pralay Mondal:** Thank you very much everyone for joining the call. I can tell you that mood within the bank is positive, and we hope that we will be able to do very well in Q4 and end the year well. Thank you very much and see you for Q4 results. Good evening.
- Moderator:** Thank you. On behalf of YES Securities, that concludes this conference. Thank you all for joining us today, and you may now disconnect your lines.