"CSB Bank Limited
Q4 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good evening and welcome to the CSB Bank Q4 FY23 earnings conference call hosted by Axis Capital Limited. 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. Chirag Gandhi from Axis Capital. Thank you. Over to you

Chirag Gandhi: Thank you Ryan. Good evening and hello everyone. On behalf of Axis Capital, I would like to welcome you all to Q4 FY 2023 Earnings Call of CSB Bank. From the management, we have with us Mr. Pralay Mondal, MD and CEO; along with him, we also have Mr. B K Divakara, Chief Financial Officer. Now, I would request MD sir to begin by giving his opening remarks and then we can open the floor for Q&A.

Thank you and over to you sir.

Pralay Mondal: Thank you Chirag and thank you everybody for joining the Q4 and annual results call of CSB Bank., To start with I will give you a brief of our understanding of the global scenario and then the domestic scenario as well. On the global economic activity, we can see that it remains robust amidst the high inflation levels, tight financial conditions and looming geopolitical uncertainties. Amidst the slow growth and tardy easing of inflation, the global slowdown impact is turning out to be less severe than expected so far, at least that is what it looks, but we have to wait-and-watch. These conditions are expected to prevail for a while until inflation rates moderate significantly. Both IMF and the World Bank have projected world output year on year growth rate to be of less than 3% in 2023 and marginally above 3% in 2024. Market is expecting a 25-bps Fed rate hike in May 23 and then they may take a call to pause provided there are no major data surprises inviting rating action beyond May. On the domestic side, of course, the global challenges kept aside, Indian economy continues to be looked at as a bright spot both locally as well as based on some global commentary. Domestic growth was buoyant in Q4 of FY23. RBI has revised the inflation projection to lower levels and took a tactical rate -pause decision in the last MPC affirming its stance on withdrawal of accommodation to ensure a progressive alignment of inflation within the target while supporting the growth. In the latest MPC announcements, inflation for FY24 is projected at 5.2% and GDP at 6.5%. As the current inflation is within the target, no rate hikes are expected in the short term until and unless there are any surprise strong data releases. The 10-year GSec rates plunged from a band of 7.35 to 7.4% in March to around 7.1 to 7.15% levels right now after the policy announcements. The liquidity that was in a slight deficit mode went to a surplus of around INR2 lakh crores and it has normalized a little bit more now. The cumulative impact of monetary action taken in FY23 is still unfolding and the real rate transmission is being spilled over to FY24. As per the RBI statistics, the banking system deposits grew by around 10% and advances by around 16% for the year.

I was reading an article by Nomura that next year, while nominal GDP growth will be around 10% to 12%, credit growth is also not expected to be much higher than that. On that backdrop, let me just get in to the CSB specifics for this quarter and FY 23 performance. Overall the performance on both top-line and bottom-line was reasonably good on a quarterly and financial year basis. I will just quickly talk about the key highlights. Improved profitability - Net profit of INR 547 crores up by around 19% from last FY. For the quarter ended 31.03.23, the net profit is at INR 156.34 crores, which is up 20% versus Q4 of last year. We have a provisioning buffer of around INR170 crores over and above the regulatory requirements. We could maintain the NIM above 5% for the quarter and FY 2023 at 5.38% and 5.48% respectively. ROA improved Y-o-Y from 1.9% to 2.06% for FY 2023.

On the liability side, I think the team put up a good show; deposits grew by 21% year-on year as against the industry growth of around 10%. CASA ratio improved marginally Q-o-Q from 31.44% to 32.18%, though on a year-on-year basis, it was marginally lower. Advances grew by 31% Y-o-Y and 12% Q-o-Q, while, industry has grown about 16% Y-o-Y. Gold portfolio registered a growth of 48% Y-o-Y and 10% Q-o-Q. Yield on advances for Q4 FY 2023 is at 11.17% with an improvement of 15 bps from Q3 FY 2023. Yield on advances for FY2023 is 10.92% and it was 11.21% in FY 22.

Improved asset quality metrics is another key highlight. Fared pretty well in all key indicators like GNPA at 1.26% and NNPA at 35 basis points or 0.35% and PCR of 92%, which is with the write off included. Contingency provisions accounted in the books is higher than NNPA. We are continuing with the contingency provisions and accelerated NPA provisioning policy, which is higher than the RBI requirements. We have fully provided the SR portfolio in-line with RBI guidelines and on the capital, in-spite of advance growth of almost 30%, the CRAR is above 25%, it is 27.10%. Low proportion of risk-weighted assets compared to industry has helped us in this. On the shareholder value-creation, book value per share has reached INR176, EPS - INR31.55 and ROE 20.35%.

On the investments, we are making major investments into branches and we plan to open at least 100 more branches in FY 2024. We are working on technology enhancements, lending systems, liability systems, payments, channels, core systems - there is a host of work that is going on in the technology side and this year our major investment will be on technology, distribution, people and channels. We plan to become a true pan-India bank because more than 60% of our branches that is incremental branches this year will be in North and West regions.

In conclusion, the success of any organization has four elements in it - Vision, aspiration, passion and execution. Our vision for now is SBS 2030, which is the Sustain, Build and Scale theme launched last year, which is well imbibed within each and every CSBian, and they are translating it into reality. The entire team is aspiring for this to happen and working passionately towards it. The achievements in the year gone by have boosted our confidence as far as the execution is concerned as we embark into the most crucial build phase of SBS 2030.

In FY 2024 we are planning a lot of investments especially in the technology space, which I just talked about where payback period will be closely tracked. We know that it will be an exciting journey with a synergistic approach and the bank will continue to expand our footprints pan-India and we will remain focused on our current year goals and we hope to have an even better year next FY. With that, I hand over the conference, back for questions once Mr Divakara offers his comments if any

B K Divakara: Nothing specific from my side Pralay, you have elaborately covered it. So during question/answer session, if anything needs to be clarified I will chip-in.

Pralay Mondal: Sure, thank you. So we can get into the Q&A.

Moderator: Thank you. Our first question comes from the line of Jaiprakash Toshniwal from LIC Mutual Fund. Please go-ahead.

Jaiprakash Toshniwal: Hello good evening, sir. Thank you for taking my question. Two questions, first one, if you can comment on any more HR hiring which you are looking or which you have done in this quarter on the senior leadership side?

Pralay Mondal: We are almost 70% done on the senior leadership side and when we say senior leadership, now we are no longer looking at the CXO level because at CXO level, almost 80% is done. We are looking at CXO plus one and CXO plus two as well and we have significantly enhanced that side of the leadership strength out there. We are also doing a lot of hiring on the front-end as well and for every product vertical and every business vertical and support vertical. We are enhancing everything because the way we are planning our growth next year and for the next seven years till SBS 2030, we are not looking at a single or two or three products; but we are looking at a whole service franchise, for which the only way to do is to create the right verticalization, so that there is a clear focus on this and then integrate the verticalization through a common kind of a platform.

Because of that, we have actually significantly hired lot of senior people in the last six months and we will continue to have more hirings there. Overall, number of people we hired was around 2,200, last financial year, which is around 46% or 47% growth in terms of manpower. Next year, we are looking at even higher growth in terms of absolute numbers. In terms of percentage growth, it should be almost similar what we had this year. We will continue to invest into our human capital franchise.

Jaiprakash Toshniwal: Great sir. Thanks. On the SME loan book side, we have seen a sequential improvement this quarter, is it more to do a market or function or is it more to that you have the system, teams in-place, and now there will be a sequential uptick at least on the SME portfolio side?

Pralay Mondal: I have told before and again I'm repeating that, we took last year as an opportunity, because I felt in the past three quarters somehow, at least from our risk appetite the pricing of the risk was not happening in the market and given we are a bank with a NIM of 5% plus and given that our risk appetite is very low, we didn't want to significantly expand the business when pricing of the risk was not to our appetite.

However, we saw that changing in the Q4 of last year, last FY. If you see our Q-o-Q growth is around 10% on SME last quarter and we hope that we will continue the momentum going into next year unless the market scenario changes. At the same time, we also exited many accounts last year. Some, we exited because we did not like the business and some we exited because the kind of rates which they were asking, we did not want to participate there.

But in terms of absolute growth in limit setting etc, we did a pretty good job in Q4 so we are happy that the momentum is starting to pick-up now. Also we are going pan-India in terms of our SME growth, in terms of franchise and one of our main models will be to work with every branch and we are launching our current account team, launched the transaction banking vertical headed by a senior resource and between the SME, the current account team and transaction banking ie, between these three triangulation we'll ensure that our SME business starts picking-up this year. SME will be our growth engine for the next seven years.

Jaiprakash Toshniwal: Great sir. Just last question on data keeping sir, your CAR increased to 27% on a Q-on-Q basis, while the profit is kind of same as Q3 and we also have the RWA to total asset has increased, so if you can help us to understand the reason behind CAR increase?

Pralay Mondal: I think Mr. Divakara will be able to answer this question better. Let me try and then I will hand over to him. I think one is the recognition of annual profits and second is the low risk weighted asset proportion because of the gold loan portfolio growth. Let Mr. Divakara add to this this.

B K Divakara: Yes, apart from that as per RBI guidelines for taking advantage of the benefit of external rating, we need to incorporate bank's name in the rating report, in some of these cases, though they have promised to include our bank's name they couldn't do it, as a result of which almost INR 1,000 crores of risk-weighted assets have gone up . Otherwise, mostly, this is in line with movement of credit enhancement, apart from that this is also one of the major reasons why despite having shown a higher profit growth during the year, the capital adequacy ratio has not moved in tandem with this profit growth.

Maybe that is going to be corrected this year, this is what we have been told that at the time of next Annual exercise of this external rating, they have promised to include our bank's name. In quite a few cases, they could not do so and that is why we could not get advantage of the benefit of external rating of AA or AAA.

Jaiprakash Toshniwal: Sorry to interrupt sir, but just because of the Q3 to Q4, is a 200 basis-point increase in CAR while our RWA to total assets has also increased from 38% to 40%, so you are saying INR1,000 crores is because the CAR should be up more than the current number, that's what you're saying? I did not get this answer.

B K Divakara: Yes, March 31st was the deadline for completing this exercise. That impact was felt in this quarter only and not for the earlier quarters, which is one of the reasons. Moreover, credit growth that happened in Q4 was quite sharp. These are the two main reasons why CRAR has not grown commensurate with the increase in profits.

Jaiprakash Toshniwal: Okay.

Pralay Mondal: I think Mr. Divakara the question he is asking is that inspite of the fact that risk-weighted assets has gone up, how is it that we have been able to show a sharp uptick in our CRAR. I think because of primarily the profit growth -right.

B K Divakara: Profit will be reckoned for capital adequacy purposes only at the year-end. For the first three quarters though we have been making profit, we couldn't get that benefit. For capital adequacy purposes that has been accounted only in Q4 - only when the annual results are announced.

Jaiprakash Toshniwal: Got it sir. Thank you. I will come back in the queue. Thank you.

Moderator: Thank you. Our next question comes from the line of Pruthul Shah from Anubhuti Advisors. Please go-ahead.

Pruthul Shah: Yes. Thank you for the opportunity and congrats on great set of numbers. My question is with respect to the loan book distribution based on interest-rate methodology. So what is the proportion of loan book, which is repo-linked, MCLR-linked and fixed-rate if you can give a number?

Pralay Mondal: Mr. Divakara, you will have that specific number. I know broadly, but if you have the specific numbers, you can give, otherwise, I will give the broad numbers.

B K Divakara: Fixed rate loans constitutes 58% of the loan book, because predominantly we are into gold loan. MCLR linked is 27%, Repo linked is 11% & 4% others.

Pralay Mondal: Broadly, the way it is, the corporate book is primarily MCLR linked, SME is primarily repo rate linked and the gold loan is mostly fixed-rate and on retail, it is a mix of both fixed as well as variable rate, but it broadly mirrors the portfolio mix in the bank.

Pruthul Shah: Okay, got it, sir. One another question with respect to cost of borrowing so Q-o-Q, if we see the cost of borrowings has gone up in this quarter. So what was the main reason for it? Our credit deposit ratio has gone up this quarter. So is it that because we are getting opportunity in case of advances, we are borrowing at a higher-rate is this understanding correct? Would you like to comment on that part with respect to cost of borrowing then CD ratio, both?

Pralay Mondal: I will give you my perspective on a macro / high-level then Mr. Divakara can dissect the numbers. We are very clear about the scenario where we are in and we cannot be completely insulated from what is happening globally. We have also heard from RBI Governor's speech which was published in media today - that the liquidity management and the capital management is of top priority of the banking system because that ensures / insulates the banks from any kind of unnecessary risk. While none of that is hitting the Indian shores today, but I think one needs to be prudent. From that perspective on the capital side, we are very well protected because we have one of the highest CRAR ratios in the banking ecosystem. On the liquidity side, I was very clear that we are looking at growth - Strategically, I am saying. We are looking at growth for the next seven years and when you are looking at growth and I've said this before that I'm willing to sacrifice margins for growth because ultimately we are building a large franchise and we leverage this franchise over the next decade - two decades, so given that perspective, few basis-points here and there I don't want to lose my sleep on that. Given that perspective, we are very clear that we will focus on ensuring that our LCR, our liquidity and our ability to grow the asset side is not constrained by any kind of a liquidity risk or any kind of a liquidity availability and we have grown our deposits twice the system which is 21% vis a vis 10%, that's number-one.

Even with all that, if you look at our net CD ratio, if you look at all the private sector banks we are well within that range; actually, on the lower-end of that range and I think we are 84. In-spite of doing all that, and in spite of the fact our broad comfort is around 5% on NIM, we have been able to retain the NIM at a healthy rate. At this NIM and with this growth and with this level of LCR, I'm quite comfortable in having a few basis points going up on the cost of borrowing or cost of deposits. I have no issues with that and the good news is that we are seeing that 10-year G-Sec yield is tapering down and hopefully the rate cycle is coming almost close to peak.

Having said that, I think our strategy is playing out well. The other thing which we have done tactically is that we have not taken long-term deposits or long-term CDs. We have kept our maturities short-term. To that extent, whatever is there, we are not going to be bound by hard rate for too long a time once the interest rate starts getting flat or starts coming down. Strategically we're going this way and I'm pretty confident that we should be able to be closer to 5%, 5% plus for some more time and given the perspective we are quite happy in building some buffer in the liability side. That is the broad strategic perspective, the bank has.

Pruthul Shah: Okay sir. In addition, one thing that this quarter gone, RBI has increased the repo rate, but we have reduced our MCLR in the same quarter. So what is the strategy there, if you can comment on that part?

Pralay Mondal: I will request Mr. Divakara to answer this. Before that I just wanted to add one more point, in my previous response that we have also tactically brought down CDs from INR 520 crores as on 31.03.22 to INR 96 crores on 31.03.23. This means that most of the liability side of the business you are seeing is mostly deposit focused and hence core franchise. Mr. Divakara, you would like to answer that question on repo rate and MCLR.

B K Divakara: The MCLR has been reduced by few basis points because when it was computed as per RBI guidelines, the operating costs have slightly come down and that has been passed on to the customers. Our MCLR is already high and we thought as and when some opportunities are there to pass-on the benefit to the customers, why can't we do that, so based on that analogy it has been done.

Pruthul Shah: Okay, got it, sir. Thank you. I will get back-in the queue.

Moderator: Thank you. Our next question comes from the line of Samraat Jadhav from Prosperity Wealth Advisor. Please go-ahead.

Samraat Jadhav: So two questions, one is, we had an impact in NIM quarter-on-quarter based on first quarter FY2023 it was a good increase and then we had a drop in last quarter. So what could be the reason behind that?

Pralay Mondal: As I said before, I'm not saying guidance but in general in all my previous analyst calls, I've said that we are quite happy to have our NIM closer to 5%, but we'll focus on growth because NIM by itself doesn't mean anything. We had a growth which is double than the system. NIM also is a function of the mix of businesses, the cost of funds and various other things. To that extent I think on a year-on year basis, if you look at NIM, it's looking okay, maybe on a quarterly basis, it has slightly tapered down at 5.38%. For the quarter, it has been slightly down, but when you look at Q1 vis-a-vis Q4, we are pretty much okay out there.

When you look at Q4 last year vis-a-vis this year, we are almost similar, I think we will play in this range between 5% to 5.5% and we hope to retain at this kind of a level. We should not have a problem with this, but we are quite happy being in this range. Too high a NIM is not sustainable when you are growing a franchise consistently.

Samraat Jadhav: True and you also said in your remarks that you have a target of opening 100 new branches. So that would be for the full financial year.

Pralay Mondal: Yes, for the full financial year. I will tell you strategically the thinking is that we are going to start focusing on building the CASA franchise now. I am sure some question will come on CASA at some stage so let me just clarify upfront. The CASA franchise will not be built on gold loan focused branches and we are expanding significantly in North and West. Almost 50 to 60% of our new branch openings this year will be in North and West. Along with that we are building products, which will also help us in building the CASA.

CASA is not always grown by just focusing on liability so we will start retail assets, we are starting payments, we are starting SME in a big way, we have been building transaction banking, we are focusing on current accounts, in a way both savings and current and nothing but float that remains in the account depending on either transactions or usages. Therefore, to that extent, we have to start building and we have significantly grown our new acquisition this year and we want to get significantly more new acquisitions next year. Accordingly, we are building a fairly large team to get new customers to the Bank and new customers to the bank only helps when we have the right products and services and the technology to on-board them and cross-sell other products.

This entire journey is a three-four-five year kind of a journey and we are starting it this year. Significant investment on technology is going to help us in scaling this from FY 2025. For our CASA journey, in a way, we are kind of teeing off this year and this will be on a larger-scale over the period of time and hence, as we see FY 2024 we should see similar kind of a CASA ratio as we have while we continue to grow at a similar kind of a pace next year both on deposits and on advances. That is broadly, what we are strategically thinking of.

So on the branches, I'd say that, yes, we will have 100 branches minimum and out of that 60% will be in North and West, and these are not necessarily gold loan branches.

Samraat Jadhav: Okay, great, that's it, thank you and best of luck for the next one year.

Pralay Mondal: Thank you very much.

Moderator: Thank you. Our next question comes from the line of Shrish Vaze from Moneylife Advisory Services. Please go-ahead.

Shrish Vaze: All right. Thank you sir for taking my question. My first question is regarding our gold loan originations. Can you provide me with the split of what percentage of our gold loans are we currently sourcing in-house and what percentage are through externally through direct assignment, securitization, other means? Thank you.

Pralay Mondal: The gold loan portfolio what you are seeing has nothing to do with direct assignment. Direct assignment portfolio is reported separately and that comes under the wholesale banking business, which we do through some of the NBFCs. Gold loan business, which you are seeing, is grown organically through in-house acquired customers within the bank.

Shrish Vaze: Got it, thanks sir. My second question is around our treasury strategy. So I can see that we have a duration of about 4.57, so I just wanted to understand how are you thinking about the duration strategy going-forward, like, are we going to be increasing the duration of our treasury portfolio like if we have a view on our interest rates or are we going to be conservative and sort of holding low duration securities for now? Thank you.

Pralay Mondal: Thanks for the question, I will give a partial answer and then Mr. Divakara can add to that. Obviously, in overall global scenario the way things are playing out, increasing the duration may not be the right kind of risk strategy or even optically, it may not look as the right thing to do. We will obviously watch things out because treasury strategy can change depending on how the macro changes globally and in India. What I say now may change after a quarter or after six months, or after a year. Right now, the way you are seeing that the yields have softened a little bit in India - 10 year yields. From that perspective, I think we can tactically move some portfolio and book not only profit but also reduce the duration of the portfolio. I think we will use those tactical opportunities to ensure we don't increase the duration of the portfolio. Mr. Divakara, do you want to add anything to that?

B. K. Divakara: M duration of AFS portfolio is hardly 0.37. We do not have anything in HFT also. For HTM, it stands at 5.61. Overall, it looks 4.57. However, as I said earlier, the AFS M duration is a hardly 0.37. Therefore, we do not envisage any issues on this.

Pralay Mondal: Yes. I understand what you are saying. I am just saying what happens if you do a hypothetical calculation of MTM on a HTM portfolio as well. We do all the calculations and assess the various related risks. Given that perspective, I think what Mr. Divakara is saying is right. At the same time, there will be tactical opportunities that you can move one time from HTM to AFS and (a) book some profit; (b) reduce the duration and things like that.

We will look at this tactical opportunity. Broadly, things do not change because we are not into majorly trading. As Mr. Divakara has just said, we do not keep much of AFS in our portfolio. That is our strategy. We are not majorly trading into this kind of portfolio. However, duration, I do not see how it will significantly go up from here.

Shrish Vaze : Got it. Thanks. I will go back in the queue.

Moderator: Thank you. Our next question comes from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Hi sir good evening. Sir, my first question is on the cost of deposits. we saw this rise of 55 bps Q-on-Q rise in cost of deposits this quarter. So, one, I just wanted to understand what exactly led to this? and two, assuming that there is no interest rate increase, what sort of rise in cost of funds per quarter could one sort of anticipate broadly speaking?

Pralay Mondal: Thanks, Mona, for the question. In a way, I partially answered this question already that we wanted to ensure that we have enough buffer and dry gun powder in the system to grow not only for last year and last quarter but on a sustainable basis especially when NIM and other things are looking very good. Somewhere, you have to ensure you take a call. Given that perspective, we have ensured that our LCR and our CD ratio and our liquidity is extremely strong.

Having said that, when so much of increases happen on the repo rate, at some point of time, some increase will happen on the cost of deposits also. This is only one quarter, where some increase has happened last year and we ended at 4.85%. Last quarter, we ended at 4.30%.

Having said that, I'll tell you what we did tactically. We said that (a) we will keep it little more shorter term because we knew that there is a reasonable likelihood of G-sec flattening out. Hence, we did not take too much of a longer call. That takes me to the second part of your question, which is what would be the outlook ahead for the next few quarters or next year. I think outlook ahead is reasonably flattish from here, and we do not see too much of growth on cost.

The marginal growth can happen, but I don't see anything which would impact NIM to that extent, which eventually impacts your P&L positively or negatively. That is not keeping me awake at night, the NIM and cost of deposits, at this point of time.

Mona Khetan: Okay. So, when I look at your, you know so I see that most of the rises come from higher term deposits. Now when I look at your quoted rate or card rate, they have not necessarily increased over the quarter. So, is it like a lot of wholesale term deposits coming at higher cost, short term or something like that?

Pralay Mondal: You know how much business happens in a tight liquidity situation on card rates. We were lower than some of the larger banks where we are quoting. Most of these are retail but by RBI terminology these are wholesale because these are more than INR 2 crores. These are mostly retail customers except for a few which maybe rightly termed as wholesale customers. Otherwise retail branch banking team source them basically from that perspective, but they could be slightly larger ticket size.

Secondly, none of these businesses, which we did, I was very clear that we are not going to compete with some of the banks, which have given very high rates. We are not competing there. I said that only when the top three largest private sector banks - there, I said that either we'll match or we'll not do the business. To that extent, this is mirroring what the larger part of the market was and not some of the players which were giving, because we didn't participate there.

Thirdly, the card rates generally one needs to do it very carefully because you have an existing book. You have existing, for example, savings book, FD book, renewals and all of that stuff. You know how this entire thing plays out. One would handle the card rate very carefully. Otherwise, the cost of funds can go high. That's the way, that's a very standard practice across all banks and we have also followed that. But yes, to some extent, special rates, if you ask -

Special rates have gone up last quarter a little bit for the entire ecosystem and the industry, and that is true for us also. We have not given preferred rates in the market to buy business. We have not done a single deal, which is higher than any of the three largest private sector banks - at what rate they are doing those businesses.

Mona Khetan: Got it. So, I mean, the kind of rise we have seen in this quarter it's not something that will be sort of replicated in the subsequent quarters, maybe 20 bps per quarter or something?

Pralay Mondal: See, I cannot do that kind of a splitting of hair at this juncture. It's almost like crystal ball gazing. What I can tell you is that I am not worried on this. I'm going to protect my NIM to a great extent., I mean, maximum one or two quarters, a few basis points here and there can happen. Eventually, it will actually start tapering down after that because we have not taken long-term funding. That was done tactically as ALCO decision and that is exactly how it is playing out right now.

Mona Khetan: Sure. Secondly, on the loan-to-deposit ratio, you mentioned you are at the lower end of average for private banks at 84% or thereabout. So, can one assume that loan deposit ratio can continue to rise from here on? Or it has reached at level where it should remain closer to where it is?

Pralay Mondal: I think it depends actually on our credit growth next year. If we are at around, let's say, if the market is at 10%-12% and if we grow by, let's say, 20%, 22%, 23%, 25%, then we should be able to retain this kind of a CD ratio. Suppose we do a better job and grow the book faster, then I don't mind having our CD ratio because 86%, 87%, 88% CD ratio I have lived with in my past, in my previous organizations. It's not a big deal as long as it remains below 90% for a good cause, not because we cannot mobilize liabilities, but because our credit growth has been faster because all the cylinders are firing, I would not lose my sleep on that as well. However, we will never go above 90%.

Mona Khetan: Got it. On the fee income side, we've seen a very strong uptick in fee income this quarter. So I mean, and the entire fiscal as well. So, could fee income continue to grow at a higher pace than loan growth, something we saw in this fiscal?

Pralay Mondal: This, I can tell with definite conviction that it will grow much faster than the loan growth. I'll tell you why. If you look at most of our operating metrics, Mona, if you follow my analyst calls in the past or our one-on-one meetings, most of these trajectory is exactly moving in the same line, which I've talked about before. That's what gives me and my management a lot of satisfaction that it is moving exactly as predictable, each of the operating metrics. On the fee income, let me tell you, which I have told before, that we had a significantly lower fee income this year on treasury and on PSLC income.

I think between the two, we did almost INR 30 -31 crores lesser than last year. In spite of that fact, we have grown by 28% on the fee income, which is in line with the credit growth. Next year, the PSLC income will come back for reasons which I've explained before. We do have a very good PSL book this year as well. Our momentum on the processing fees will only go up because with credit cards and retail assets and SME businesses coming in and transaction banking getting launched, the granularity of the fee income is only going to improve significantly.

Our TPP business, trade, forex, we are focusing a lot more on NRI and trying to ensure that, some of the remittance happens, from NRI book, directly through the bank. All of these will give us significantly higher traction on fee income. I'm very bullish on the fee income. I said that sometime back, if you take ex treasury and ex PSLC, our fee income is to be less than 5% of the total income. I said that at some point of time by SBS 2030, we should be somewhere around 17%, 18%.

In fact, we are ahead of that trajectory. We have almost reached; I think 12% in the last FY. I think in the next two years, we should be able to reach at least 15% in terms of our fee income contribution to the overall income, which will be then in the same league as the big players. I think we are well on track on that front, and this is something which is doing very well.

Mona Khetan: Got it. so if I look at this quarter, the 44% growth in the core fees, which is commission and processing fees, so this already included or what has this benefited from? Is it the same thing you mentioned card, trade, forex, transaction fees?

Pralay Mondal: No, those have not yet come. This has come primarily from gold, insurance, some debit card small little here and there, ATMs and all that. Again mostly it is core liability fees. Of course, core liability fees will continue to add to overall fees as the liability franchise grows. I think we have done the basics right. Next year, we will add on a few more cylinders to it. These basics, which we have done right, some of them will fire even better next year.

Next year, we'll not have a negative growth on treasury and PSLC. In both, we will have a positive growth. Therefore, if you add all up, you will see a reasonably good traction on the fee business.

Moderator: Thank you. Our next question comes from the line of Sheel Shah from Sameeksha Capital. Please go ahead.

Sheel Shah: Yes, thank you. Thank you for the opportunity. So, we had a great year in terms of asset quality, and we saw improvement each quarter. We had a negative credit cost for two years in a row. Now it is definitely outstanding. For FY '24, can you please share your credit cost guidance and your thoughts on slippages for FY '24?

Pralay Mondal: Before that, let me just tell you what happened in FY '23 and what the good news in that is. Other than recovery from written off book as well as up gradation of accounts, I think the other factor which is slippages is something which makes me very happy because the slippages has been pretty positive for us, the entire trajectory. What it tells us is that our risk management, our credit governance and all of that is working very well for us. That's number one. Hence, going ahead into next year and future, we see that we have a good risk and credit governance, which finally leads to credit costs.

Secondly, on the credit cost, yes, we have continued to improve on our credit costs, and we were more negative this year than last year as well. I think it is around 25 basis points negative this year compared to, I think, 7 basis points last year. But of course, this cannot continue forever as you grow your book. What I have told in the past, I'm telling again that our GNPA will be less than 2%. NNPA will be less than 1%, and our credit cost will be less than 40 basis points, and this I'm saying at least for the next three to four years on a CAGR basis.

I will hold on to that. Having said that, obviously, given the trajectory, we may not have a negative credit cost, but we may not reach that higher end of this limit. I mean, the higher end of this range. We should be doing reasonably well on our credit cost next year as well and well below the three, four year guidance.

Sheel Shah: Okay. Thank you. Just one quick question. If you can just share total investment, in tech that we have done for the current year?

Pralay Mondal: Total investment?

Sheel Shah: Yes. In the tech investment?

Pralay Mondal: Tech investment.

Sheel Shah: Yes.

Pralay Mondal: What we have done is we have built a structure and the architecture and clarity on what we want to do on technology this year in FY '23. The leadership team is in place, the structure is in place, and we have clarity on what we want to do. The easiest way to say what we're doing in technology is almost 70% - 80% of what is there in the bank won't be there after two years. Whether it is a core system, whether it's the LMS, whether it is the LOS, whether it is the corporate net banking, whether it is the entire API integration, lead management system, the entire project management system, I mean whatever entire architecture.

We've got full clarity this year how much. We started investing this year, but the big investments are coming in the next two years. In terms of capex, most of the capex will be through in the next two years in the bank, which obviously on accounting principles will flow through our X plus 3 or X plus 5 basis. It's not that everything will hit the P&L, but maximum investments in terms of capex will happen in the next two years in the bank. After that, obviously, we will continue to do bits and pieces here and there.

That's where the major investment will come in - in FY '24 and FY '25. We'll try and see if we can execute it right. A lot of that would get front-end loaded in FY '24 itself. This is a big investment for us, and this is a big strategy for us next year.

Sheel Shah: Okay. Can you just quantify it?

Pralay Mondal: I mean, it's a difficult number to give. What I can tell you is that in terms of, because I've told it before, I can repeat it, that whatever our annual profits are, hopefully, we should be able to invest that kind of money in capex. Obviously, it will get apportioned over three, four, five years.

Sheel Shah: Thank you so much.

Moderator: Thank you. We take our next question from the line of Shrish Vaze from Moneylife Advisory Services. Please go ahead.

Shrish Vaze: Yes, thank you. So, I just had one small question regarding regulatory treatment of our bank. So in terms of RBI classification, we are classified as an old private sector bank. We are trying to kind of transform the business towards a new private sector bank. So just wanted to understand from a regulatory perspective, does that have any material impact on us that we're classified as an old private sector bank vis-a-vis competitors who are in new private sector banks? Thank you.

Pralay Mondal: Frankly, I have not thought through this yet. Since you have asked this question, I have to now think about it. But from a regulatory, I mean from a license perspective, whatever I understand is we can almost do everything what large new private sector banks can do. If there is any restriction anywhere, not that I'm aware of. Mr. Divakara, would you know anything?

B. K. Divakara: No, I don't think so any restrictions are there. We can do all business what they are doing as of now.

Pralay Mondal: I'll check this out. This has never crossed my mind because we have not actually faced any hurdle in doing anything so far., I have worked in two/three large private sector banks before - two large and one medium and whatever I have done, so far, nothing has been told not to do here. But let me take a clarification of this.

Shrish Vaze: Got it. Thank you sir.

Moderator: Thank you. Our next question comes from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Yes, hi sir. I just had two additional questions. So firstly, you mentioned that there is this plan of big investments, this fiscal as well. So, on the opex to assets, we had opex to assets of 3.5% or so this fiscal. So, could this continue to be at similar levels? Or will the other opex growth of 28% over the last two years moderate, given the high base?

Pralay Mondal: A very good question, Mona, and this is something, which I have been telling to all investors, including investor calls in the past, that we will significantly increase our investments primarily into four parts. One is distribution; one is people and leadership - including customer acquisition mostly in technology for the next two years. Fourth is building channels, including digital and other partnerships and things like that. These four investments, we'll do come what may. Given that perspective, yes, opex will go up because this is not cost, this is investment and each of these investments has a clear payback period.

I said that by FY '30, SBS 2030 as we call it, our cost-to-income kind of our target is somewhere between 40% to 45%. Having said that, I said in the short run, our cost to income target is between 55% to 60%. We have retained within that this year. Next year, probably, we'll be at the tipping point out there, maybe few basis points, may go up or down. From next year onwards, again, we'll be in the range within 50 to 60, and it will gradually start tapering down every year to about 45% by FY '30. That's my plan and it will exactly play out that way.

Mona Khetan: Okay. Got it. just finally, on the retail growth, we have seen a very strong growth in other retail. So where is this coming from if you could share some details around it?

Pralay Mondal: It's coming from a low base Mona. Our retail growth has not yet started. What you're seeing is primarily because we have started nibbling bits and pieces here and there. I'm very clear with the team that we will not grow retail till we have our systems in place, till we have the right to ask the right business from the right partner and till we get our branch distribution on retail cross-sell well and till we get our liability franchise where we have the acquisition machinery working like a machine to which we can cross-sell.

Frankly speaking, none of those will take off until FY '25. FY '25, we will start seeing some green shoots out there. Right now, it is low base and we are doing bits and pieces here and there. That is showing it up. But you will see, as I told before, I said that by FY 2030, we will have 20% gold, 30% retail, 20% SME and 30% wholesale and other businesses, including securitization. If you have to go to 30% retail, where are we in retail? I mean, we have to go there. You will see a significant scale up in retail between FY '27 and '30.

By FY '25 for the first time, we'll start seeing the real growth happening. What you are seeing is basically on a low base, we have started bits and pieces everywhere. That is what is showing, including agri, micro finance, a little bit of a PL, some of the home loans, some of these LAPs, some of these businesses here and there. These are all showing up as little bits and pieces. This is not the real journey. Real journey will start only post FY '25 after our system, processes are in place because I have done this business enough to tell that we should not scale this business unless all our machineries are ready.

By that, we'll be actually picking up a faster pace than doing it now and then taking two steps forward and one step backward. I'll not do that in retail. We'd only go all out only once we are fully ready. This growth you are seeing is basically because of low base.

Mona Khetan: Okay. So the systems are expected to be in place only by FY '25?

Pralay Mondal: No. The retail asset systems will be in place by FY '24, mid to end. Then what happens is based on my experience, I can tell you that once the system is in place, you need channel machinery to work, you need the process machinery to work. Also, what we need is customers. We are starting that entire sales machinery of customer acquisition. What we'll do is because we have digital access now unlike 20 years back, so on boarding of customers will happen with some retail asset businesses as well because of the digitized ecosystem.

All of that stuff will happen this year. The experience of cross-sell, all said and done, technology team will deliver, but we have to ensure the culture of retail assets cross-sell in the branches. I'm getting the team to get activated towards that. With the sales team, they will have a separate strategy. With the branch banking, they will have a separate strategy. With the OCC, which is outbound contact center, they will have a separate strategy. Only if these three machineries are working fine then we will look at DSAs and dealerships and start building the businesses, not the other way around because we should go with strength and not looking for businesses because our other businesses are not happening.

That's the way we'll build retail businesses. So, to that extent, yes, the short answer to your question is, the systems will all be ready. Only system, which will not be ready this year, will be core system. Core system will come in FY '25 because that is something, which we are not going to compromise. We will get the best of the best. Hence, that will take a little while. That will come by FY '25. Then everything gets integrated around the core system.

Mona Khetan: Sure, got it. Thank you, that was very helpful.

Pralay Mondal: Thank you, Mona.

Moderator: Due to time constraint, we take our last question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes, sir. Thank you for taking my question. You just previously mentioned about the special deposits. So what will be the share of that in the total deposit mix? Secondly, on the NBFC side, we've seen some exposure picking up to that. So what kind of NBFC we see?

Pralay Mondal: I don't have that exact data, but I think we have always worked on 30-70 kind of model where 30 is large, I mean for us, large ticket is very small ticket also from an ecosystem perspective. But whatever reason, for the special deposits, generally, it has been 30-70. Maybe it would have gone up a little bit last quarter. It will come back to somewhere around 30-70 or 35-65 and most of these deposits are relatively, with maturity of not more than a year or six months kind of a thing.

Also, you must understand that we ran up our CD book almost completely. From a fairly INR500 crores of a CD book, we brought it down to INR95 crores. Given that, I think we had that special dispensation in a way to build some book on a shorter-term basis, which we have done. Hence, we have buffer on CD and things like that and CD rates are coming down

It will be a play of all of this till our entire CASA franchise machinery fully picks up. I'm not unduly worried on this percentage. It may have gone up a little bit this quarter compared to what is generally around 30-70. I'm giving you a very broad picture. I exactly don't have the data in front of me.

Pallavi Deshpande: It sounds like NBFC exposure, that is at 8.8%, is higher than 7% in the third quarter. So what are we seeing in that space?

Pralay Mondal: Mr. Divakara, would you like to answer this question? After that, I'll top it up. I don't think Mr. Divakara is able to answer this. Maybe he's not able to connect. So, I'll answer this. What has happened is, see, when it comes to NBFCs, we generally do at a category of A / A plus category.

B. K. Divakara: Our advance to the NBFCs are mostly to the top rated borrowers - A-rated and above. Out of the total INR 3,000 and odd crore exposures towards NBFCs/HFCs, 94% is A and above type of accounts.

Pallavi Deshpande: Would this be primarily vehicle finance or the diversified finance?

Pralay Mondal: No, no, it's not vehicle finance, its highly diversified. A lot of this is to do with home loans and those kind of businesses. In fact, not too many is vehicle actually.

Pallavi Deshpande: All right sir. Sir, lastly on the recoveries from written-off accounts, what is the, figure has been for this year, I guess it would be part of the other income

Pralay Mondal: Sorry, I didn't get the question.

Pallavi Deshpande: The recoveries from written-off accounts, how much of that has been this year versus last year? I'm talking about the amount that's included in the other income from this.

Pralay Mondal: Mr. Divakara would you like to answer.

B. K. Divakara: Yes, PWO recovery this year is INR 70 crores, last year it is INR 77 crores.

Pallavi Deshpande: Right. Okay. How much out of the 70 would have impact on the other income?

B. K. Divakara: It is netted off against the provisions to be made

Pralay Mondal: That is a new regulation, right? Mr. Divakara that you have to net it out.

Pallavi Deshpande: Okay, great. Thank you, sir. That is all from my side.

Moderator: Thank you. We have reached the end of the question-and-answer session. I now hand the conference over to Mr. Pralay Mondal, Managing Director and CEO for closing comments.

Pralay Mondal: Thank you very much. I would really thank everybody who patiently listened to our commentary and asked very relevant set of questions. What I can comment on behalf of the management is that everybody is very excited to build the bank based on the SBS 2030 vision. The first instalment is delivered this year, but more excitement to come in the next few years.. Thank you very much.

Moderator: Thank you, sir. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.