“Karur Vysya Bank Limited

Q4 FY'23-'24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY'23-'24 Earnings Conference Call of the Karur Vysya Bank. We have with us today from the management team of KVB, represented by Mr. Ramesh Babu, MD and CEO, Mr. Natarajan, President, Mr. Chandrasekaran, Chief Operating Officer, Mr. Ramshankar, Chief Financial Officer, and Mr. Dolphy Jose, Group Head, Consumer Banking.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

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

B. Ramesh Babu: Thank you, Nirav. So good evening to all of you. On behalf of Karur Vysya Bank, I welcome you all to our bank's earnings call for the quarter four of the financial year 2024. We uploaded our financial results along with the presentation on our website, and I hope you have had a chance to go through it in detail ahead of this call. We are pleased to share that our performance indicators are in line with our guidance that we had spelled out in our earlier quarters and it's encouraging to note our consistent and inclusive performance well above our guidance on three metrics: Growth, profitability and asset quality.

We are also glad to share that our balance sheet size has crossed INR1 trillion during the year. The bank's total business stands at INR1,63,536 crores as on 31st March 2024, as compared to previous year, INR1,40,806 crores, registering a growth of 16%. The advances stand at INR74,423 crores and deposits grew to INR89,113 crores with a growth of 16% each.

The bank's liability business constitutes 54% of the total business of the bank. Deposit growth continued to remain one of the key focus areas for the bank, and you are aware that the bank had initiated various strategies for deposits growth, including establishment of acquisition channel for both term deposits and CASA growth.

Our term deposit growth during the year is at 21%, and this is made possible on account of our continued focus on this segment.

While our CASA acquisition numbers are progressing well, there is a depletion in the existing book of the CASA on account of other opportunities available for the depositors, resulting in lower growth under this segment, which we are trying to overcome by better engagement strategies with our customers.

The advances of the bank grew by 16% for the year, and it could be noticed that the bank has achieved this growth after a gap of 11 years. So it was 24% growth in advances achieved in 2013 when we were growing pretty well in the corporate at that time.

The growth during the quarter was slightly lower, and this is on account of our conscious efforts in reducing low-yielding advances for better margins.

It is heartening to see our consistent efforts in bringing inclusive growth across credit verticals have been rewarding well.

Commercial loan book increased its share to 34% of the total loan portfolio followed by retail with 24%, agriculture at 23%, and corporate loan book reduced to 19%, indicating our continued shift towards granular portfolio.

The commercial business grew by 21% over the previous year as against 12% growth of the corresponding previous year. Our continued efforts in activating branch channel, which manages small business group with INR5 crores exposure and business banking units, which manages exposures of the INR25 crores, resulted in better performance, besides consistent good performance displayed by NEO business team.

KVB Smart, a non-branch channel under commercial banking, mainly sourcing business through open market channel, completed its first full year of operations. It is progressing with a portfolio of INR126 crores and currently operating at Coimbatore, Chennai, and recently, Hyderabad, Madurai and Bangalore units, also have been commenced and the total team size is 48 numbers.

The agricultural loan book had a growth of 17% year-on-year and achieved all targets and sub targets under priority sector for all the quarters of the year and priority sector advances as a percentage of ANBC as on 31st March 2024. While continuing our focus on agricultural jewel loans, we have also started focusing on direct agriculture lending and sourcing business through fintech partners.

The retail advance of the bank registered a growth of 18% during the year under review as against 16% over last year. Our efforts in making products and processes market-related has helped our branch channel to focus on this segment, supported by open market channel. Our co-lending Amazon BNPL program is performing well, and the book is around INR1,000 crores now.

Corporate and institutional loan book had a growth of 5% only during the year, though initially, in the first two quarters, CASA balances has grew on account of withdrawal of INR2,000 notes. Subsequently, there were scramble for sourcing low-cost deposits. Industry witnessed customers choosing alternatives for investments rather than keeping in CASA accounts. Striking a balance between maintaining healthy margins and pursuing strategic growth opportunities is a challenge that we had to navigate last year. As you are aware, we preferred sustaining our growth momentum with healthy margins. In addition to shedding away, low-yielding advances of INR1,415 crores, I repeat INR1,415 crores, we also exited advance of around INR200 crores on account of weakness, thus totalling around INR1,600 crores, which comes to 2.15% of our advances during the year. And thus, we have done the dual task of cleaning the book and optimizing the yields.

Our NEO business model continued to perform well and have built a loan book of around INR6,443 crores at the end of the financial year and precious metal division book stood at INR674 crores.

Transaction Banking Group specializes in cash management services, providing collection and payment products and supply chain finance for corporates of all sizes. In addition to participating in all 3 TReDS platforms for financing MSME vendors, TBG by embracing digital technology aims to leverage the partnerships with fintechs to drive growth. TBG supports the bank for a diversified portfolio and anchor top corporate relationships.

Our partnerships for co-lending with NBFCs continue to perform well and loan book under this segment is around INR1,900 crores. Currently, we have five arrangements, and we are working with more tie-ups during the year.

We had indicated in the last call that NIM be above 4% at the exit quarter of the current year. NIM improved to 4.19% sequentially by 6 basis points. It was 4.13% for the quarter three, excluding one-off items. Our rebalancing of portfolios with more focus on better yielding granular secured advances in the RAM vertical has helped us to maintain the margins above 4% levels.

The cost of deposits increased by 11 basis points sequentially as against 15 basis points guided by us in the last call. Yield on advances increased by 8 basis points during the quarter as against the guided 10 basis points. Yield on investment has increased by 17 basis points during the quarter.

Other income for the quarter is reported at INR388 crores. This includes a one-off item of reversal of depreciation on investments on SRs, that is INR157 crores provided earlier, which resulted in a spike in the PPOP. The release is on account of reclassification of SRs into NPIs, non performing investments, as these SRs have crossed the time limit of eight years. The provision release under the head is consumed under the provision for NPI and hence, it is net profit neutral.

You are aware that wage revision as per bipartite settlement was signed during the last quarter. With respect to pension obligations, out of the estimated amount of INR114 crores, we have already provided INR74 crores till quarter three and the balance amount of INR40 crores has been provided in the fourth quarter.

In view of the wage revision and also on account of drop-in benchmark rates by 30 basis points, additional amount of INR30 crores is to be provided towards meeting pension benefit obligations in the fourth quarter. With this, all liabilities with respect to wage revision has been fully provided for. Our normalized wage bill from the first quarter of the next year would be in the range of INR325 crores to INR350 crores, which works out to 1.35% of our estimated assets.

For the quarter under review, we have provided a sum of INR112 crores towards NPA migrations, standard assets and prudential provisions and credit costs work out to 0.65%. We estimate that for the current year, it would be in the range of 75 basis points as guided. As done in the last three quarters, we have provided sum of INR25 crores towards floating provision to meet any contingency, including ECL and cumulative provision available under this is INR100 crores.

We have achieved ROA of 1.76% in this quarter. It could be noticed that our ROA has consistently improved from 0.19% in December '20, and grown sequentially in the last 13 quarters, which is a result of our concerted efforts in stimulating the various levers of ROA and enabled us to achieve this parameter well ahead of timelines.

I am happy to share that we have declared a dividend of 120% as against 100% last year, and this is subject to shareholder approval.

Our gross slippages during the quarter continue to be under control at INR130 crores, which comes to annualized 0.67% of our loan book. With SMA 30 plus numbers at the lowest level of INR 281 crores, it is estimated that forward flow is likely to be minimal. We are confident that we will continue to keep the ratio below 1%, as guided in our earlier calls.

With our persistent focus on recoveries from technically written-off books, we were able to recover a sum of INR132 crores during the quarter. Total recoveries during the year is at INR341 crores as against INR208 crores for '22-'23.

Due to lower slippages, recoveries/ upgrades and write-offs, our gross NPA has come down to 1.4%, and we expect that we will continue to maintain at below 2% levels.

Our net NPA has come down to 0.4%, and we would continue to maintain net NPA at less than 1% of our loan book.

Our standard restructured loan book is further reduced to 0.96% now of our loan book, and we hold a provision of 42% of the total restructured book.

The additional provision towards pension obligations has slightly increased our cost-to-income ratio to 51.60%, excluding NPA reversal item for this quarter. However, YTD, year-to-date CAR is 49.68%, excluding NPA reversal item, which is within our guidance range of 50%.

Our CRAR Basel III continues to be healthy and is at 16.67% providing us comfortable headroom for growth.

Our digital transactions grew by 37% in financial year '24 and our share of digital transaction stands at 96%. We continue to add many new features in our DLite app, which is our customer onboarding application and there are 2.4 million registered users for our DLite app and 5.22 million downloads for our DLite app.

With regard to RBI's notification on investment in alternative funds, our investment as of 31st March is INR12.55 crores, and we do not have any great exposure to the companies where AIFs had made downstream investments.

Let me move on to what we intend to do in '24FY'25.

Every bank has its own business model. Till few years back, our business mix was skewed towards corporate book constituting 37%. We went for business transformation and lot of initiatives taken to granularize the loan book. Our corporate book has come down to 19% as at the end of 31st March with retail, agriculture and commercial taking higher share. Our focus will continue to be towards this approach going forward.

As we have continuously improved our advances verticals, in technology, processes, people and partnerships, a good momentum has been engrained at all levels. However, this can be continued provided raw material, i.e.deposits at low cost, is available. Though there is no issue on the liquidity front, this is a challenge at what cost of funds would be available for lending. Rebalancing our portfolio would be continued keeping an eye on the margins. We will be continuing our focus of growth with healthy margins. Overall loan growth to be at 14% plus with adequate percentage of growth in deposits, ensuring CD ratio is maintained at around 85% during the current year.

We have added 39 branches during financial year '24. With respect to branch expansion for the current year, we have planned opening 80 lite branches and 20 regular branches in 2024-'25, mostly in Southern and Western parts of the country. The lite branches would help us to improve our penetration and bolster our liability franchise.

Our non-branch channel NEO is one of our successful initiatives to bring more synergy between branch channel and NEO, we have integrated operationally NEO into retail assets. This would facilitate the branches to scale up more under retail assets. Now across the bank, we would be in a position to source retail business through branch channel and open market channel. So though the plan is on the anvil, we will be implementing that in different phases during the year with integration.

With respect to the margins, we expect that to be at and around 4% levels till first half of the current year. Our loan book comprises of EBLR book of 44% and MCLR book of 42%. Any policy change would have an effect on the margins. Considering our branch expansion and additional manpower plan, our cost-to-income ratio would be around 50% in financial year '25. Our efforts on recoveries would continue and expect the momentum gained in last year would be retained in this year also.

We have achieved ROA of 1.63% in financial year '24 and 1.76% in the last quarter. We had guided in financial year '21 that we would be 1% plus in financial year '24. We were able to cross it much earlier and above 1.5% throughout all the four quarters of last year. We expect we will continue to maintain this trend. We are clear that focusing on margins is the key to sustainable profitability and long-term success. It also reflects the health and efficiency of bank's operations.

Our effort would be to focus on sustaining our growth momentum with healthy margins to ensure that our ROA is above 1.6% or 1.65% levels at all times. I am grateful to all the investors, analysts and stakeholders for their confidence and continued support, which we will reciprocate to our better performance in the days to come.

Now I'll be glad to respond to your questions, please.

Moderator: The first question is from the line of Rakesh Kumar from B&K Securities.

Rakesh Kumar: Very good set of numbers for this quarter, sir. Especially on the margin front, we managed to hold the margin, like comparing that we had one-off in the Q3. So quite good set of numbers. Sir, just on the TD cost, term deposit costs, so how do we see term deposit cost being out in FY '25? Because you have given the guidance for the first half. So just to understand that part slightly better.

B. Ramesh Babu: Thanks, Rakesh, for the participation and good words. So TD cost, if the current position continues, it may be continued at the more or less same level. As I was mentioning in the remarks -- opening remarks, liquidity is not an issue. cost is an issue. Tomorrow, if we get better opportunities there to deploy the money, then it makes sense for us to raise the money even at a higher cost, then we can go for that. Or alternatively, if the liquidity is under strain, only by raising the deposit cost, we'll be able to get the deposits. At that time we need to think.

Otherwise, currently, so we don't feel that there is a need to increase the TD deposit rates at this stage. So if this be the case, in next three months, more or less with the inflows, what we have, the TD cost will remain more or less the same. And above all, the inflow of time deposits, if you look at it also, majority of them are coming below two years. So that way, it will more or less be same and until unless, we have a problem with the liquidity.

Rakesh Kumar: Understood, sir. Sir, like suppose there is no rate cut even in this entire financial year, then what would be our stand on margin in second half, sir?

B. Ramesh Babu: I'll have to see that. The reason is how the deposit cost, how it was -- because there may not be any rate cut, but the liquidity is under strain. Then we, say, had to raise the deposit cost, then automatically, the margins will be compressed. So if something is not there, at the most, we think between 3.80 to 4% if at all, these sort of situations come up also, at that range, we'll be able to maintain. That's what we feel.

Moderator: The next question is from the line of Prabal Gandhi from Ambit Capital.

Prabal Gandhi: Congratulations on a very good quarter. So my first question was, even adjusting for the one-offs in employee cost, the kind of initiatives that you have been highlighting on the productivity side, that does not seem to translate into operating leverage for us. So how to think about this because our opex to asset even adjusted for all this is extremely high. So how are you looking on this front?

B. Ramesh Babu: Yes. So Prabal, it's a good question. Thanks for the compliment. Now, you see there are two components as far as the employee cost is concerned. One is on account of the onetime one account of IBA agreement and wage revision what we had to provide. And second thing also I mentioned about the rate reduction, that way also we had to provide. This is one part.

Second thing is we have been investing on the resources. During the year itself, around more than 2,300 people we have recruited a different position. But more or less, everyone are linked to sales. So your point is what all we are spending is not getting reflected into the numbers. It is simple. Suppose you see the CASA, the fresh acquisition is going on. But simultaneously, other side, the existing to bank, the money is flowing out either into the real estate or next to the market -- our stock market, these sort of things that is happening.

So that way, had we not commenced this sort of initiative, we would have landed into a big negative. So that way, we could insulate ourselves from this. This is one part. Second thing, if you look at it, this is not the question of onetime CASA what we have got. It is acquisition of the relationship. Once we've got the relationship this one, perennially, we'll be able to get deepen this sort of relationship. So overnight, we cannot look at saying that this opex has not been reflected straight into this one.

Next thing also, I'll tell you. It is very easy to balance the ratio of opex to Assets. Suppose if we go for a pool purchase from different organizations around INR10,000 crores. So straight away, there is no additional staff cost is involved there. But the problem there is, I may have to pay around 8.5%, 8.75%. If I raise the deposits at 7.25% and 7.5%, and 8.75% -- suppose if I take this pool, my existing NIM is 4% and spread is also around that, and this 1% will dilute my NIM.

So in that way, I may be reducing the staff cost on one front. Other side, it will be having a bearing on the NIM. There, it will come down by 20 basis points. So that's why what we thought, rather than all these things, the low-yielding assets on the corporate, if we reduce it. If we have not reduced our INR1,600 crores corporates, in addition to that, another INR3,500 crores have we grown there, our opex to assets ratio would have been much better, much better.

So if both the ratios also, if you look at it, other expenditure is not concerned, there is not much growth. Employee cost has gone up. If we do not spend on this employee cost for the branches what we are going to open and the marketing of these CASA accounts what is there, and in addition to that, we have taken more than 1,000 people within the branches for deepening the savings bank accounts. So it may be transitory now because of the market conditions and the real estate phase what is going on, but the initiative what we have taken is going to give and yield results.

So we need to bear with it for the time being, but you need to appreciate one thing, with all these rigmarole and the working what we have, we are able to achieve our ROA what we have committed.

Prabal Gandhi: As well as growth . So congratulations on that. Sir, my second question is, when you shift from retail to say, other segments, what is the yield differential that you can generate? So let's say, 1% decline in a corporate book can generate how much yield differential for you?

B. Ramesh Babu: I can broadly tell you this way. So let us say, if you see our yield on advance is around 10% plus, okay? Let us say, our commercial is at 11%. Now corporate, if I'm getting out of 8.5%, 8.75%, on a back of the envelope, if you look at it, straight 2%, 2.5% straight you will get on that. So the money what all I'm getting back from a big corporate, INR200 crores, if I deploy straight in the commercial, 10.5%, something like that, they'll get that. So it is around 1.75% to 2% straight we can get that.

So that is the reason, it was a very hard call for us to get out of INR1,600 crores when every bank is striving for top line growth. But we thought saying that we need to bite the bullet. If we need to get these margins well and the same money what all is available if you are able to deploy well other side, why should we go for that? We have gone, negotiated, pleaded with theses corporates, we got out of INR1,600 crores.

Prabal Gandhi: All right. So this improvement yield is more a function of loan mix change rather than say...

B. Ramesh Babu: Prabal understand one thing, INR1,500 crores is not going to change the INR75,000 crores loan mix complexion. This is one of the factors I'm telling.

Prabal Gandhi: No, my question was more generic because this quarter also, loan -- the corporate book as overall share was down 1%. So I just want to understand that...

B. Ramesh Babu: This is the reason. That is why I told clearly, INR1,600 crores when we have lost, this quarter also, we have lost in the sense that they are willing to continue with us. We have told them it made more sense for us to rebalance this one.

Prabal Gandhi: Okay. So the intent was to understand are there levers available in terms of yield improvement going ahead? Or the loan mix is the only one that we are sticking to?

B. Ramesh Babu: So agreed, but other levers are available like, let us say, with partnership -- fintech partnership, we have gone for MFI, okay? There the yields are better, but we do not want to go overboard. So 15%, 16% over, because we have started with the baby steps. And our current portfolio under MFI is around INR135 crores, one year back, we have started.

And initially, we started a partnership with one partner, having got some experience and all, two more new partners who are good, they have entered into partnerships. Those numbers also will kick in over a period of time. Next thing is about the BNPL where the margins are relatively better. So progressively, we have moved to around INR1,000 crores, which we used to have around INR200 crores, INR300 crores continuously.

So with some more experience there, rather than going for a plain vanilla of personal loans where, without any background we do it and all, this BNPL where Amazon also has a background check and our partner has a check, we also have a check. If we grow in those sorts of areas, our margin improvement can be much, much better. And the third one is our commercial banking. Commercial banking, the yields, particularly small business group are relatively better. That is the reason you would have seen that progressively, the loan mix has moved from 32% to 34%, it may reach 35%. So these are a few levers, but undue calls and undue risk, we will not take at this stage for the sake of improving the margins.

Prabal Gandhi: Can I have one more question, please?

B. Ramesh Babu: Please, please continue. Yes.

Prabal Gandhi: Sir, on the retail portfolio -- retail loan portfolio, there are only a few segments, which seems to be driving growth for us. When can we expect a more broad-based kind of -- because Dolphy has been driving this business and he has been trying to scale all the parts of this business. So when can we start seeing that -- translating that two numbers?

B. Ramesh Babu: Prabal, if you can look at the previous numbers two years back, the retail was growing in single digits, sometimes in 6%, 8%. That has moved to 18%, okay. Now it is for us to have this priority, how we need to go for that. We can start with personal loans straight. The growth will be terrific, but we thought we need to grow in a secured way.

Secured way, it happened that way. The mortgages, if you see, around 27% to 30% that is growing that way and home loans also started growing, and you can see some sort of a growth in Jewel loans. Now consciously, the vehicle loans, we are slow. The reason is very simple. The market is so cluttered, the dealer margins what you pay and the delinquencies what you have, the capital cost what you need to maintain on these and the recovery of these vehicle loans once they become NPA are very meagre.

Keeping all these things in mind, we thought we will give priority to the existing customers. There should not be a priority area. It may be a priority area for few banks. We consciously thought that if my other products are not firing actually, I can come here. So you compare a vehicle loan with that as a mortgage loan. The mortgage loan lag with cash flows are there, and the yields are much better. And with my LTV of around 75% to 80% is there, tomorrow something happens, my chances of 100% recovery are fair with higher yield.

Naturally, as long as I'm able to get the benefit there, we will go ahead. So jewel loan is another area where we can work on. And personal loans, already I have clarified to you, rather than going for plain vanilla, we will work on this BNPL. Educational loan in another area we are working. We have entered a partnership with a good firm. A partner who are experts and having this experience in the educational loan, we will be working for high-end loans on this. And over a period of time, you'll be able to see some sort of numbers there.

Moderator: Next question is from the line of Anand Dama from Emkay Global.

Anand Dama: You have reported a pretty strong set of results during the current quarter, so hearty congratulations for the same. So my question was on the floating provision. So you -- this quarter also, basically, you have created some floating provisions. Is it more of a precautionary measure? Or do you see some asset quality risk cropping up, number one?

Number two, you said that you have a BNPL tie-up with Amazon. How are the delinquency trends shaping up over there? How are basically you sharing -- or basically, the Amazon is basically sharing the risk on these loans with you? Whether there is any FLDG arrangement over here? And third, basically, is that what is your ROE expectation for FY '25, wherein basically how the overall your cost and particularly your provisions are going to look like?

B. Ramesh Babu: Yes, Mr. Anand, thank you, thanks for the compliment. So regarding the floating provision, we are not visualizing and foreseeing any sort of stress, though our past numbers also, we have given guidance on each of the front. You would have seen our SMA 30 plus also, which is around less than INR300 crores on a book of INR74,000 crores.

So that way, if something account is not in SMA 30 plus as at the end of 31st March, the chances of that slipping into NPA is remote. So that way, we don't foresee. And the entire team, more or less, they are geared up for monitoring collections, and we have formed a collection team also. Last year -- before last year, I have explained. So that is working well. And across the verticals, they have this awareness that monitoring is very important.

I'm not saying that the number will be at INR300 crores. Whatever it is, may go up also here and there. But it is absolutely under control. Floating provision has nothing to do with our share of getting these higher numbers under the stress. So floating provision, prudentially, we provided. It can be for any purpose. Particularly, what we thought, last year, there was a lot of discussion on the ECL from the Reserve Bank of India.

So we thought there are many unknown unknowns how these guidelines will come up and all, how it transpires is not known. As a precautionary measure, we started making the INR25 crores, and we have created the INR100 crores provision. It has nothing to do with the loan loss.

Second thing, coming to BNPL. BNPL, agreed. So the delinquencies are absolutely under control. And it's not the question of Amazon, we are taking the FLDG. The partner who is an NBFC, we have re-entered into an arrangement for the last six months with FLDG arrangement as per the new guidelines, which we have got from Reserve Bank of India. So we have got an FLDG of 5% under that. And the delinquencies what all are there are much below that, and we are absolutely covered under that.

Now coming to the return on assets. So we also mentioned saying that our last whole year is around 1.63%. So we do not know what are the unknown unknowns during the year, which is going to come up. That is the reason we still say that at around 1.6% something like that, we can think of our ROA. If -- you must be seeing our numbers for the last 18 quarters, more or less, what we have been indicating, we are better than that. So our intention is to excel everywhere and no where a possibility and scope is there, we will leave that. So that way, we will continue to strive well and grow well.

Anand Dama: Sure, sir. Sir, secondly, you basically have talked about adding about 80-odd branches in FY '25. Happy to hear basically the branch expansion from your side. So what is your thought process in terms of why you want to add branches incrementally? Is it more that you're going to focus more on the liability side of it? Which are the areas where basically you could add these branches? What is going to be the overall impact of this branch addition on the cost metrics?

B. Ramesh Babu: Yes, you are perfectly right in saying that. Okay, because you may think that digitally you can acquire, but the Indian mindset is somewhere a nearby physical branch is there, in case of necessity, I'll be able to have touch base, and I can get it clarified. But that situation and necessity may not come up at all in the digital world, but the feeling that I can approach someone is much better.

So that is the reason what we thought, let us go for 20 branches full-fledged where they'll grow very well, both in advances as well as the liabilities. And rest of the 80 branches where they will be lite branches, their major focus will be on the liabilities with a lean structure and all, but they'll be going simultaneously for the cross-sell as well as upsell. We will be going for a hub-and-spoke arrangement, wherein they'll be linked to a hub. So that hub will be taken care of the sort of requirements of the advances and other things and all. So the feeder will be the spoke and how we'll handle these things, so there's the experiment we wish to make so that our presence is being felt in different locations.

Moderator: Next question is from the right of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Sir, just one question. These guidelines with respect to the infra one, it also covers commercial real estate. We know that most banks do have this particular book, including yours. Can I just clarify as to whether this guideline is applicable based on the exposure norms that you give to us in the annual report? Is it a meaningful one or not a meaningful one?

J. Natarajan: Yes. So you are basically talking about that infrastructure and the DCCO, right, Mahesh?

M.B. Mahesh: And also for commercial real estate, sir. Because if you look at the annual report, your commercial real estate exposures tend to be high because you have some collateral there. So if you just kind of clarify on that one as well?

J. Natarajan: Yes. So there is a regulatory guideline on what is a project. So if you are doing your real estate, taking a land and constructing a building with large scale, we can classify under the project. Similarly, for the other manufacturing companies, wherever they are starting from the scratch, we call it as a project.

So there is basically an infrastructure project like putting up the industries or the real estate construction projects. This is what normally we classify. And if you take in our bank, both put together, both the infrastructure manufacturing and the real estate put together, it will be a very less than 12 or 14 numbers. And if you talk about in terms of DCCO out of that, so only hardly 1 or 2 DCCO cases we are facing. As such, these circular guidelines are not material to our bank.

M.B. Mahesh: Perfect sir. Sir, as you also clarify, let's say a textile company was to put a project, will that also be part of it?

B. Ramesh Babu: Textile company wants to put up a project...

J. Natarajan: Yes. So that's what I'm saying. For example, if they are acquiring some more machineries, for example, existing textile unit, buying a solar or this windmill, we don't classify it under the project. But if a textile business is starting from the scratch, buying a plant, putting up the building and buying machineries, entire infrastructure creating it, normally, we call it as a project.

Moderator: Next question is from the line of Suraj Das from Sundaram Mutual Fund.

Suraj Das: Congratulation on a good set of numbers. Sir, a couple of questions. In terms of non-interest income over the last couple of years, obviously, you have done the franchisee and non-interest income growth has been very good, but what is the trajectory from here on? Can we expect still higher the loan growth income in the non-interest side? And also within this, I think last year, we did something like INR200 crores of T.W O recovery. This year, nine month, the number was something like INR220 crores. So I'm assuming for the full year, that number would be higher. So I mean, what is the visibility there in terms of this TWO recovery supporting the overall non-interest income also. So yes, that is the first question.

B. Ramesh Babu: I think the first point I need to clarify. In our in my initial guidance note itself, I have mentioned, this year, the write-off recovery is INR342 crores. So it is much, much higher than the last year number, okay? So that way, it is much better. And coming to the non-interest income, there are many levers. It can be the letters of credit, guarantees and cross-sell.

So cross-sell income also, if you look at it, compared to last year, it has grown very well. And we are trying to have few more partners and grow it much better. Whereas under the LCs and guarantees, if the textile sector is doing well, we would have got good business under the letters of credit, import and all these things. For the last three years, textile sector is actually struggling.

One good thing is we didn't have any other stress on account of the textile because our customers are good, but the transactions which have come up are down. So that way we may not expect much from the LC, but we are focusing on the guaranteed business. So wherein the non-fund-based business will be there. So that may give us some sort of an edge over that. Coming to the recovery and the write-offs, that is one of our focus areas and we are further strengthening our recovery wing for the growth -- for the recovery in the write-off. So that way, what I feel this trajectory, what we had for the last two to three years, it will continue, and we'll be able to do better.

Suraj Das: Okay. Sure. Understood. And sir, on the floating provision, so for last quarter, you have done it. So will it continue for next financial year as well since this is a good time, and you will continue to create provision in the next...

B. Ramesh Babu: No. That is a call Board will take after the results, something is there. But for the time being, what we thought, some good times are there, INR100 crores we have provided. So maybe next quarter, there is a call to be taken by the Board for the next year.

Suraj Das: Okay. Understood. And sir, last question on the CASA side. I mean, anything -- any initiatives there. You are working on in terms of this CASA? I know -- I mean, overall franchise is very granular in terms of liability. But still, I mean, in terms of, let us say, current account growth, I mean, has been relatively slower versus, let's say, overall, the SME segment loan growth. So in terms of, let us say, on the CASA side, what are your thoughts to improve this CASA going ahead?

B. Ramesh Babu: So there are many initiatives we have taken that one. So what we thought is on the sales channel, what we have created. So first level, we have taken around 1,200 people. And it took some time for us to activate them because many of them have come from different banks. When they have come from different banks, understanding our culture and having a unified approach was difficult.

And one good thing is they have brought out the best practices what others are following, we could get that. In the process, more than 24 variants of products we have structured internally. The team itself they did and all. We have brought into forth. And IT deployment is going on. With that, we'll be taking it forward.

So that way, once these are in place, so the fresh acquisition will start working. Next thing what we thought was revitalizing the branch channel. The branch channel currently, they were acquiring some sort of an NTB who comes once in a way, but with the sales channel doing these sort of things, we thought we can ask the branches to focus more on the deepening. So for that reason, we started taking customer relationship management and branch relationship managers into the branches so that they will look after the deepening as well as the cross-selling.

So we want to further increase the number of Feet on Street on the sales channel that more number of branches can be covered. We also took another set of people. It's around 1,200 people at the branch level. We call them as a branch sales and service executives. These people at the lowest level we have taken. Their job is to deepen these accounts and to get more balances under the CASA. So digital is becoming -- this one and all both integration is happening.

And the next is focusing on the business correspondent channel. There also, we have got the platform now. IT integration is getting completed. By June, once we complete, more or less around 500 business correspondents at different locations, we would like to go further. So that way, we are trying to take many initiatives to take care of the NR, HNI, BC, forex, Trade Finance, all these different sub-vertical we have created. Each ones, once they start firing, so we'll be able to see some sort of attraction on all these fronts.

Moderator: Next question is from the line of Jai Mundra from ICICI Securities.

Jai Mundra: Congratulations on a very steady performance quarter after quarter. Sir, my first question is on employee head count, right? So they have increased to around 9,000 odd. What is the sense, sir? Are we still adding more people on the Feet on Street at overall level? Or this is likely to stabilize there?

B. Ramesh Babu: Thanks for the compliment. Now, agreed. Just now in the earlier question, I was responding, Jai. So we have taken sales channel around 1,300 people. And at the branch level around 1,200 at the lowest level, we have taken. So now earlier, we thought of going for actually 2,600 for the sales channel, but we stopped it at 1,300 for one reason.

When we started the process, we understood saying that the products what market requires are not there and the digital enablement's what we need to do to make these people to deliver were not there. Then suddenly, we stopped the recruitment more or less at 1,300. And these people with the available infrastructure started mobilizing the business now. So now during the process of last 8 months, these 24 new products have been added and the digital enablement's have completed.

So now we are well off to take it forward to the next level. We may see another 600, 800, we had to take it. But because with the earlier 1,300, a set of branches are covered. Now, there is a potential in many other branches. By taking these sales channels, we'll be able to cover other branches also. These are first side on the sales channel.

Second thing on the branch level channel also, if the branches are extremely busy with the routine transactions, their ability to actually handle and meet the customer will be difficult. At the lowest level, what we have taken BSSC, we are trying to have another channel called virtual relationship managers. Beyond a cutoff, there will be centralized virtual relationship managers. They'll be handling a set of customers. And so that is another channel we may be adding that. So that way, if you look at it, both we may be adding, but we will ensure saying that the mobilized deposits what all there are properly deployed. And overall, we'll be able to maintain our ROAs.

Jai Mundra: Understood. Understood, sir. And sir, secondly, on growth, right? So I heard you that you have said that the FY '25 growth would be 14% plus, considering that we have best of the asset quality, our cost of deposit is still one of the lowest amongst peers. 14% growth, of course, you are focusing on profitability as well. But could this be, I mean, a lower end number? Or you would -- at this point of time, you would think that 14% is a good enough number? Or it can actually move up as we deliver or as the new people join, etc.

B. Ramesh Babu: Jai, you would have remembered, last year also, we quoted more or less around 14%, okay? We landed more or less at 18.5%. If I add back the 2.5%, what consciously we left it out. So that way, so the lower end, it will be. Our intention is always to grow much better. But only point is that there is no point in taking a deposit 7.5% and lending at 8.5%. So that only adds my CRR, SLR, capital cost, PSL, opex, provisioning, with all these things.

Our top line may be growing and my ratios may be growing, but it will not make any sense for the bottom line. So this, we are mindful of the fact. So that's why growing in advances because all engines are firing now. The 21% under the commercial banking, if you see, so year-on-year how the growth is coming there. A new set of branches are coming into the fold and existing branches, they have understood how they need to do the business and the TAT has improved.

With all these things, we will be able to grow well, but provided other side, we need to look at because another constraint is the 85% LDR, loan-to-deposit. So if that is not there, the surplus SLR what all is there, on that we can raise and the borrowings, we can raise and we can lend. So with this framework what all is available, we need to work on this. That is the reason we felt saying that let us give a guidance of 14%.

Jai Mundra: Great, sir. And sir lastly, if you can highlight what is the run rate of NEO on maybe monthly or quarterly disbursement. Has that gone up significantly? Or how is this debt trending?

B. Ramesh Babu: Now. As I said, NEO we are integrating with the main bank now. So from now onwards, both of them will be working together. We have an open market channel working there. So on an average, I can say around INR200 crores, I can say that. So that way, the growth will be coming from that channel. And because they are integrating, overall, the growth will be much better together.

Moderator: Next question is from the line of Chintan Shah from ICICI Securities.

Chintan Shah: Congratulations on very good set of numbers, 1.7% ROA. Sir, just I had one question on the loan rundown. So basically, we are letting go some low-yielding advances in the corporate. So is that now done? Or do we expect some another advances, probably which we could let go in FY '25 with a low yielding? Or some weak asset, as we told around INR1,600 crores of loan we have let go for this year. So any ballpark number. Or is there any still thing in the pipeline? Or now we are done with this?

B. Ramesh Babu: It is a work in progress, Chintan. In fact, if you can look at it, so we have done that. I cannot say anything saying that a readymade list is there where we'll be getting out. It is the question of opportunities other side available. If other side on the RAM front, particularly commercial banking, the engines are firing much better, then automatically the least yielding, which is the asset I need to look at it, and we need to engage with them. We need to get out of that.

While on the other side, mobilizing the deposit and lending will go. Here by rebalancing and redeploying the money from that side to this side, if you are able to get 2% more, why should we leave it? So because there is an ongoing process we see, till such time, the deposits growth improves. And just like a tap, as and when I want If I am able to get the deposit, then growing in corporate should not be an issue.

Otherwise, we have to be mindful of the fact saying that which is making sense only we need to grow. So this work will be continued, though I will not be able to quantify what is the number at this stage.

Chintan Shah: Sure sir, sure. This is very helpful. And sir, secondly, just follow-up on this. So the weak accounts, as we said, so what makes us believe that this account is weak. So how do we arrive at that comment of weakening. INR200 crores, I think, we let go because they were weak accounts. So basically, some stress or some delays in payments or how do we quantify that?

B. Ramesh Babu: Yes, yes. We have a concept called early warning signals. Early warning signals, we have different parameters are there -- around 40 scenarios are there. If this -- continuously, our systems will be generating the sort of early warning signals. Based on that, we'll be knowing through a predictive analysis, what can happen for these people.

And suppose incipient sickness is there or tomorrow it's going to have a problem, while engaging with them with the market intelligence, what is hearing and all, with all these things, we felt saying that it is better much in advance, we engage with them, we get out of these accounts rather than getting stuck with these things. So that's why it is a question of analytics, early warning signals, market intelligence, all these constraints together, we have come to a conclusion yes saying that we need to exit these accounts.

In fact, the yields there were extremely good, extremely good. So there's another cause of concern. If someone just like that, they are paying that much of yield or pricing, that itself will be the first line of early warning signal for us.

Chintan Shah: sir, we can say that these are standard accounts. We are paying accounts, but only thing is we believe that they might turn bad or they might give some stress, and that is why we are exiting it early?

B. Ramesh Babu: Very correct. Absolutely, you are correct.

Chintan Shah: Okay. But sir, then how do we exit. So for example, if the repayment is after three years. So do we ask the customer to close the loan? Or how does it work that way?

B. Ramesh Babu: The customer will go to some other bank and it will be taken over by some other banks.

Chintan Shah: So basically, we just -- if the customer comes with a BT out proposal, then we let it go, and we don't ask to retain the customer that way, yes?

B. Ramesh Babu: Not only coming with BT proposal. Few cases, we are initiating the process. For you to engage with some other bankers, they may go to NBFC also. If the banker is not willing to do -- take it and NBFC has a better risk appetite, he may pay a higher price and he may go there. So we initiated the dialogue with the customer that they have to leave it and all. This has been going on for more or less -- because overnight, if you come and tell the customer tomorrow, no one will leave. It's a question of six months to one year, the discussions will be happening. Then progressively, they will leave.

Chintan Shah: Okay. Understood. And sir, just last thing on the recovery from TWO number, can you just -- sorry, data keeping question, the recovery from TWO number for the quarter, if you could just help on that?

B. Ramesh Babu: INR132 crores and for the whole year, it is INR340 crores.

B. Ramesh Babu: So it is INR132 crores, Chintan, for this quarter.

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

B. Ramesh Babu: Thank you all for your interest in the bank and for the good wishes and the compliments what you have conveyed. We will try to live up to your expectations and take the bank forward. Thank you once again for sparing time for us. Thank you.

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