"Karur Vysya Bank
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Karur Vysya Bank Q3 FY2020 Earnings Conference Call hosted by Spark Capital Advisors India Private 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors. Thank you and over to you Sir!

Abhinesh Vijayaraj: Thank you Amin. Good morning to everyone on the call. On behalf of Spark Capital, I welcome you to the Q3 FY2020 earnings call of Karur Vysya Bank. We have with us today the management team of KVB represented by the MD & CEO, Mr. Seshadri; President & COO, Mr. Natarajan; General Manager & CFO, Mr. Sivarama Prasad and Company Secretary, Mr. Srinivasa Rao. I now request Mr. Seshadri to take us through the highlights of the quarter gone by after which we will open the floor for questions. Over to you Sir!

P.R. Seshadri: Thank you very much Abhinesh. Good morning to all those who are on the call. Thank you very much for taking the time to dial into this call. We greatly appreciate it.

With respect to Q3 we continued on our journey, the business model transformation that we had embarked on two years ago continues and it is progressing well. We continued to execute on a strategy which is aimed at granularizing the book so as of the end of December approximately 75% of our portfolio is granular and by granular I define the granular portfolio are retail loans, the commercial loans and agricultural loans, so all parts of our portfolio ex the corporate and institutional group, so that now makes up roughly about 75% of three quarters of the book up from about 69% in March 2018.

Our lower risk categories are growing quite quickly. Retail, which is behaving very well, it is now roughly 24% of the balance sheet and growing at the rate of 21% year-on-year ex the IVPC that is booked there. Gold loans as you are aware we started a new method of acquiring gold loans. We digitalized the process so that the process from a customer standpoint becomes significantly better and from our standpoint, the quality of information that we are putting onto the system improves that digital process has enabled us to grow gold loans at the rate of approximately Rs.450 Crores during the last quarter, so the balance sheet as a consequence what is happening is that the structure of the balance sheet is slowly, but surely turning towards more granular product.

We provided a whole host to incremental information in the investor deck. You have asked us what are SMA1 and SMA2 was last time when we spoke and we had promised that we will provide it to you, the SMA1 and SMA2 is together approximately 3.2%, but that includes some gold loans which are delinquent, but given the fact that the loss given default on gold loans is zero if you were to remove it, our SMA1 and SMA2 together is roughly 2.8%. Historically, we have been disclosing how those numbers have been moving downwards, but those were indexed to March 2017 and now that you have the numbers pertaining to December 31, 2019 you can actually reconstruct those grafts and you will find that historically approximately two years ago, significantly larger portion of the book was effectively delinquent which is now not the case, our collection infrastructure is significantly better. Our focus on quality of acquisition is significantly higher and all of these are coming together to ensure that the portfolio health improves quarter-on-quarter-on-quarter. We continue to remain very well capitalized. Our common equity Tier-1 is at 14.14% and capital adequacy ratio including Tier-2 capital is 15.87%. This gives us very significant headroom to raise incremental capital, if not CET1 definitely Tier-2 capital from the point of view of ensuring that we are adequately capitalized as we grow, there is a significant amount of headroom available.

From balance sheet point of view, our balance sheet continues to improve. Net NPA has moved downwards for the fourth consecutive quarter, we are now at roughly 4.13% net NPA, our gross moved up by three-basis points to 892; however, net moved down very considerably to 4.13, we are hoping that very soon we will be below the psychologically important 4% mark and we hope that will happen in the quarter that we are in at this point in time. PCR, Provision Coverage Ratio the way RBI defines it crossed 65%, PCR without technical write off which is the way you define it is approximately at 56%, so we are holding 56 cents for every dollar of NPA and given the structure of those NPAs, we believe that at this point in time we are getting more than adequately provided and we had informed you many quarters ago that we will be building roughly about Rs.1200 Crores worth of provisions for the year and we have already provided roughly Rs.1100 Crores in the three quarters of this year and we are well on course to make those kind of provisions.

During the quarter we also provided one large infrastructure/finance conglomerate to whom we had a fairly substantial exposure, those had been provided to the extent of 70% or thereabouts in one case and roughly about 60% in another, but now it is 100% provided. We continue to manage our deposit cost very, very tightly, we have dropped our deposit cost at the one year bucket to approximately 6.45, so at this level we are priced a little lower than many of the nationalized banks and definitely significantly lower than many of the larger new age private sector banks; however, our current account, savings account business continues to do well, we grew on an end of period basis to 31% CASA, we are expecting this to grow quite strongly during this quarter because of the new initiatives that have been launched on the CASA front. From an expense standpoint we continue to be very tightly managed as you would have undoubtedly noticed, our non-employee related cost grew only 4% year-on-year, employee related cost grew faster, but that is largely on account of the fact that we have to make AS-15 provisions and given the fact that LICs annuity cost had gone up quite considerably, this had an impact on us which has been fully now provisioned for during the quarter.

Our new initiatives are continuing to do very well. KVB Neo which is a non-branch distribution that we started setting up towards the end of last year is now up and running and scaling, we are booking roughly about Rs.120 Crores, Rs.130 Crores worth of loans every month on Neo and we expect this to continue to scale upwards as we go forward. The retail and commercial digital underwritten loans are doing quite well. Our focus as you would have undoubtedly recall is to build very, very granular book, so on the retail side we have invested a great deal of money in putting together a new digital infrastructure the underwrites these loans. Similarly on the commercial side, I am sure we spoke about the fact that we want to get our branches to underwrite the smaller ticket commercial loans Rs.20 lakhs, Rs.30 lakhs, Rs.40 lakhs and the reason why they were not underwriting it in the past where the process for Rs.20 lakhs or Rs.50 lakhs loan was very similar to Rs.5 Crores loan and the branches to focus on Rs.5 Crores facility and not on the Rs.20 lakhs or Rs.30 lakhs facility. Our new systems are different, they make up to Rs.2 Crores loans much, much simpler for them to underwrite. In the last quarter we originated loans at the rate of approximately two loans per branch, per quarter amounting to approximately Rs.419 Crores in the quarter of loans which have an average ticket size of Rs.27 lakhs and we are working with our branches and we want the run rate to go to approximately two loans per branch, per month at which point in time we would be originating roughly Rs.1200 Crores worth of these loans every quarter. We have a slide in the deck, which talks to the momentum you can see that quarter-on-quarter-on-quarter the quantum that we are originating given our new digital systems are increasing.

Our transition to a centralized operations platform is progressing well. One of the things that we have centralized is something called concurrent checking, this ensures that every transaction that has happened in the branch is adequately checked by somebody and we have introduced a new system by which we can check it centrally and the new system takes the help of robotic process automation and the OCR/ICR technology which enables us to read every transaction that is happening at the branch, compare it with the risk metrics that we have and highlight transactions that required to be reviewed at a centralized level. We believe that this will significantly enhance the control environment to the organization and ensure that every transaction that we do at the branch are transactions that are appropriate and those that has been appropriately authorized by our customers. We have transitioned 97% of our branches to digital gold loans, the process is slightly different from our earlier gold loan process. In this process, we actually take pictures of the jewelry, we ensure that all the documentation that is required is done properly and we provide certain other facilities to the customer, this has enabled us to grow our gold loan business quite rapidly, we grew as I said Rs.450 Crores during the quarter. We think that this should be the new normal and we should continue to grow at this range.

On the corporate side, we continued to degrow from September 30 to December 31, ex Rs.300 Crores IBPC that has been booked on the corporate books, basically the corporate book actually degrow to the extent of Rs.463 Crores, so are now down to about Rs.12800 Crores on the corporate side and our focus is to grow the other three businesses whilst we work the corporate book downwards with the focus also on improving the quality of the corporate book. Another portfolio that we have been working out is the warehouse loan or the commodity loan, the commodity loan used to form roughly a balance sheet of approximately Rs.1500 Crores. We are now down to Rs.100 Crores or thereabouts, actually as we speak they are significantly below Rs.100 Crores, we are slowly working those out. As of March 2019, the commodity loan portfolio was roughly about Rs.650 Crores or thereabouts, so we have dropped about Rs.550 Crores from there. As we worked on both the corporate and some of these other high risk products that we had in our balance sheet, there space is being taken by significantly lower risk products and we will talk though that as we work our way through this deck.

Our performance on the digitally underwritten new loans are good and we have very significant amount of data for you which you can look at. The ever 30 at six MOB which is a measure that most credit specialist look at is at approximately 1.5% for the retail book, which is exceptionally good I mean when the industry averages were published by TransUnion CIBIL that indicates a level of approximately 8% at six MOB which seems to be the industry average, so we think that we are at the southern end of the industry average and it gives us the ability to actually loosen some of our screens as we go forward. Our Delight App, which is the banking mobile application continues to do well, it has well over a million customers now and it has the full range of functionalities. You can do everything that you can do at our branch with our Delight App today. The co-origination platforms continued to work well, we now have five co-origination partners, we continued to book loans through the API gateway. As of this moment we strongly believe in the process of test validate and then scale, so we are in the test/validation phase at this point in time, so scalability will come with time as those co-originated loans behave, we are watching behaviour early results are good, but we need a couple of more months to make up our mind that the co-origination actually works post which we should be able to put our feet to the pedal and grow that very, very quickly. Bullion business continues to progress well, we expect to have our first transaction done during this month post which that will become a regular feature of our product offering.

I am going to skip through a bunch of slides which undoubtedly you would have seen and go to slide 12 which talks about the digital SME platform, you can see that this is a new platform. The aim is to build a platform that enables us to focus on small ticket commercial and you can see that every quarter we are getting significant lift in business and our objectives which is to get every branch to originate two such loans every month happens, we are looking at roughly Rs.1200 Crores worth of bookings every quarter which should enable us to change the structure of our balance sheet very dramatically and you have noticed that the average ticket size here is roughly about Rs.27 lakhs. Page 13 talks about the gold loan book and you can see that is growing very nicely Rs.450 Crores between September 2019 and December 2019. Operational centralization continues the base.

I would like to spend a few minutes walking through the credit slides, which start from page 23 onwards. We have been giving page 23 in this form over the last I think three or four quarters, you have asked us to give you the SMA1 and SMA2 numbers, we have now disclosed those as well and you notice that those numbers are reasonable at about 2.8% ex the gold loans and if you were to back trace you can see that in history at certain points in time approximately a 10th of our book used to be delinquent which is no longer the case. We have now delinquency rates which are reasonable and which we think we will translate into significantly lower gross NPA slippages as we go forward.

Slide 24, gives the same information, index to March 31, 2017, but by product category. I would like to draw your attention to the retail book. As you know our retail book has been growing very, very, rapidly, but in rupee terms, the delinquent stock has barely budged, it has not moved, which basically means that the newer vintages that we are underwriting are of good quality, they are not adding to the delinquent stock which in the long run will ensure that the overall delinquencies that you see in our total portfolio will start coming off. Page 25 is data on 6 and 12 MOB on various portfolios, you can see that the trend lines continue to work for us. The newer vintages continue to behave better than historic vintages, which we think is very, very encouraging. Pages 26 and 27 give you distribution, what we are booking on the retail side and 28 gives you performance on new digitally underwritten loans at six MOB, you can see that this is significantly better than industry averages and 29 talks about the quality of the commercial book that we are underwriting through our digital process. About 82% of that book by value has CMR scores and out of that 86% of the book is between CMR1 and CMR4 these are low risk that is the way CIBIL defines it, 1 to 4 low, 5 to 7 is medium and 8 to 10 is high and you would have noticed that majority of our book is between the low and medium risk categorization.

So one of the things that we have been battling is the fact that we have been trying to work out a portion of our portfolio and replace that portfolio with higher quality loans and in an environment of reasonable amount of stress, if you will recall same day last year we came and told you that we are seeing the first rays of problems in the market place, I take some credit for being one of the first to actually come and report to all of you that we are seeing some issues out there and that we are addressing those by taking appropriate steps on the origination side and also on the collection side and all of that has helped us to ensure that our portfolio composition, which we have reported to you now improves even through what are extremely difficult times in the market place. From a financial standpoint given all of this, given the fact that we have been migrating from higher risk to lower risk, growth on our balance sheet has been anemic and I think that will change both as the market shifts and there is a little bit more momentum in the market place and b) as our people get more and more used to the new method of doing business, we should start getting growth back, but you will notice from our P&L, that are revenue is basically flat to prior year as is our balance sheet, balance sheet has not really budged from the prior year. Expenses are up to a little bit on account of the fact that there is AS-15 one timer, but given that there is no real growth in our balance sheet revenues have not really grown, but we expect growth to come back quite strongly as our systems re-engage and understand the new processes and the slides that we just showed you with respect to the commercial booking should give you some amount of confidence that as our people get more used to certain new methods of doing work, the throughput does increase.

So the future P&L performance is predicated upon growth on the balance sheet I think we have done most of our heavy lifting most of the work that we needed to do with respect to restructuring the book ensuring that the legacy related items are dealt with, majority of all of that is done, the balance sheet is insignificantly better health than it is ever been and we have a great opportunity now to go forward and grow the balance sheet in a very, very tightly structured manner and ensure that the P&L appropriately flows through.

So there is one point that I would like to make, as you are all aware I decided to leave Karur Vysya Bank and I tendered my resignation on January 4, 2020. This is on account of purely personal reasons that is one area where unfortunately I will not be in a position to offer any further clarifications, but every other question that you may have, I would be more than happy to try and provide incremental information. With that let me turn this over to Abhinesh and so that whatever questions you may have, we can try and answer them. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Drashti Shah from Investec. Please go ahead.

Drashti Shah: Good morning Sir. Thanks for the opportunity. Sir, my first question is despite of our retail advances growing by 21% IBPC, our NIMs have declined substantially this quarter. So is it because of the impact on interest reversals if you could quantify that and what would be the other reason for declining so much?

P.R. Seshadri: This is a very, very good question. There are two reasons why are NIMs are dropping. One is the yield on our treasury book dropped as you would have undoubtedly seen, so sequentially dropped approximately 30-basis points and that translates to a 10-basis points drop on an aggregate NIM so that addresses most of it. There are some other issues with respect to, we did have Rs.400 Crores odd of slippage, so there are interest reversal that come on account of those slippages so these are the two issues. The major issue the way I see it is the basis risk issue that is flowing through our balance sheet. We have repriced our assets faster than our liabilities because of the way RBI asked you to run your MCLR as well as base rate and other methods of pricing, these are based on the deposit rates that you have at that point in time and the repricing does not take into account the changes in the aggregate average deposit cost, it just takes into account headline cost of new deposit that are coming through the door and we have dropped our time deposit rates by 90-basis point, but cost of deposit sequentially has dropped only 10-basis points so some of it is because of basis risk that is playing through. We think that this quarter you will see a significant uptake in spreads and as I said, some of it is on account of the treasury yields dropping as we book profits over the prior quarter. So we are managing this quite tightly we think this will reverse as we ill go forward.

Drashti Shah: The entire cost of deposit benefit will be seen in this quarter?

P.R. Seshadri: Not entire, it will progressively come, but the deposit rates we changed last quarter or the quarter for the first time and we have been progressively reducing our rates, so our one year bucket rate now is 6.35 which is when we compare it to Canara Bank is 6.5, so some of that will start flowing through, but it depends upon how those deposits come up for renewal, but you will see a very significant impact now.

Drashti Shah: Okay, Sir my second question is on slide 24, you have given the SMA book product wise, if you see the commercial trend lines, the commercial that has been declining substantially for the last one year, but the slippages in the last one year has increased significantly, so if you could just help us understand the co-relation between the SMA book and slippages and how should we read this?

P.R. Seshadri: You are right that it has been declining and in the last quarter it actually turned up a little bit which is something where we are looking at. We think that it is one time and it will continue to decline as we go forward. Declines can happen because of two reasons, one is that they become NPA then this number declines as long as there are no fresh inflows into SMA1 from the standard buckets, because we had reasonably large numbers within SMA1 and SMA2, the forward flows were also high, we expect these numbers to come off even more from where we are right now and that structurally will alter the flow of accounts into NPAs as we go forward. I think it is a question of time, I think you should look for the numbers as of end of this quarter which we think will be significantly better. Post that structurally the NPA accretion on the CBG, on the commercial side will continue to drop.

Drashti Shah: Okay, Sir and my last question is on the management change, what happens to the various initiatives that has been taken on digital and retail side?

P.R. Seshadri: I think the company is going to continue with what we have done, this is the path that we embarked on with great deliberation, there always be some amount of change that is made to ensure that the path that we have taken is appropriate for the time that we are operating in, but vast majority of what we are trying to do will to my mind continue as we go forward.

Drashti Shah: Okay and last if you could give us some watch list on corporate because we have not seen the corporate slippage decline, so if there are any watch listing in your mind?

P.R. Seshadri: We do not have specific watch list on the corporate side, we are now left with very few accounts that are very large ticket as we have shown you in one of the pages we have given you what the standard book is about Rs.2300 Crores is what we have on page 45 which is basically greater than Rs.100 Crores, these are all largely high quality names, we do not expect these to give us problems in the near term and the rest are smaller more manageable accounts, so given all of that we think that the corporate performance will improve as we go forward. You can also see a very significant drop in the corporate accounts that are non-performing at this point in time rather who are delinquent at this point in time, so we are a little bit more confident that as we go forward portfolio performance will improve and the outcomes would be different from what they are right now.

Drashti Shah: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Good morning and thanks for the opportunity. First is if you can talk about the succession planning, now you have decided to move on, so what is the bank doing in terms of next session would it be internal, external, has the process being started, how do you see that?

P.R. Seshadri: So the process has been deliberated at the board, the board has setup a committee which in turn is meeting periodically, they are in the process of reaching out and trying to figure out how to fill this vacancy so this is the full process that the board is undertaking and I am always available to help the board if necessary but it is something that they are working on and they will keep the markets, the regulators, everybody posted as it progresses.

Jay Mundra: Is there any existing management personal who is at the board, at the moment from management side?

P.R. Seshadri: As of this moment there is nobody from the existing management who is on the board, we have written to RBI seeking certain dispensation which once RBI gives us we will elevate one particular person to the board, but that is subject to the RBI approving it.

Jay Mundra: So for the approval has not come right, but we have seeked?

P.R. Seshadri: We have sought.

Jay Mundra: Secondly Sir, on this asset quality if you can quantify the absolute SMA1 and SMA2 number just to get it correct?

P.R. Seshadri: It is 1.8% of the total, total is 49617, so you multiply 1.8 x 49617 you get absolute SMA1, SMA2 is 1.4 x 49617, okay and ex gold you just multiply about 1.4 both of them multiplied by 1.4, okay.

Jay Mundra: Yes and Sir on growth side, now even we were expecting some little bit uptake in the third quarter itself in the core commercial and probably corporate sector, so what is your sense Sir on the core commercial book, when do we start seeing the growth there despite all these disruptions and sort of rethinking?

P.R. Seshadri: My own view is that we should start seeing the growth this quarter, and I am more interested in seeing the granular growth, I want the retail growth to happen, I want this retailized commercial to really grow quickly that is why the spreads are because you can charge, you can have 500, 600-basis points spread what you do on the retailized commercial, we have booked 1550 loans last quarter which is two loans per branch. We are trying to get six loans per branch, if you give me Rs.1200 Crores many of these are overdrafts so limitation there will be some trolls that need to take place, but assuming 60%, 70% utilization, you are talking about Rs.1000 Crores addition to the balance sheet. The other thing and we think will happen during this quarter and we are very hopeful is that utilizations will start going up, so one of the things that has happened is as you notice from our report, the structure of the balance sheet is changing, the composition of the term loan has increased vis-à-vis the overdrafts that is essentially because overdrafts have got paid down, so I will tell you which page this is on.

Jay Mundra: Yes, I saw that Sir.

P.R. Seshadri: Overdrafts are getting paid down, if the economy becomes a little bit more upbeat I think the draws on the overdraft will increase and it will move back towards the 80% overdraft and 20% terms that we used to have in the past, so growth we think should come back reasonably well during this quarter essentially because we think utilization on existing lines will increase and utilization will increase if economic opportunities increase and people will feel more confident that business requires more money, but we are hopeful that this quarter that will happen and origination will also increase, all of them taken together we will see some growth come back.

Jay Mundra: But it would be still some quarters away before we see let us say double digit growth in that segment?

P.R. Seshadri: I would say a couple of quarters yes.

Jay Mundra: Sir couple of things more on this write off recovery if you can quantify that number and also the ARC transaction that we did?

P.R. Seshadri: Okay, we have done an ARC transaction in the amount to Rs.156 Crores and it was done on the commercial portfolio as you are aware our commercial portfolio is largely property secured, so the gross NPA was Rs.160 Crores and recovery on cash terms was Rs.74 Crores that left us with Rs.86 Crores of net NPA and we sold Rs.156 Crores so that is the transaction that we did. What was your first question I am sorry.

Jay Mundra: Recovery write off number?

P.R. Seshadri: Recovery write off number is on page 54.

Jay Mundra: Separately Sir.

P.R. Seshadri: Can we give it to you out of the call perhaps and publish it appropriately in the next deck.

Jay Mundra: Sure Sir and the last question about KVB Neo, I believe this is an alternate channel, but what is the kind of product that it does because the average ticket size around Rs.3 Crores, so does it involve LAP SME or it is almost product diagnostic, how do you see that?

P.R. Seshadri: They are doing basically three or four types of products, they are largely writing loans to self employed small businesses, we are tying to do business where cash flows can be somehow sequested, so basically if there is an individual who has got a point of sale machine, we know what transactions are happening on the point of sale machine, we have that assigned to us and then we give him/her a loan, similarly rentals and so on and so forth, so the focus is on trying to do wherever cash flows are visible and taking those cash flows and providing credit to businesses, most of these loans are secured by property, so it would classify as LAP, but the essential aim is to do cash flow back it includes lease rental discounting of non-real estate type of leasers as well so all of these are structured and the idea is that we sequest the cash and ensure that whoever is paying the cash who is of a better credit quality than the customer itself, so that is the aim.

Jay Mundra: Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Anil Kumar from Contrarian Value Edge. Please go ahead.

Anil Kumar: Thank you. The first question is in the last two years lots of changes has happened is the way bank operates, so any problems from employee unions or any problems from employees shifting?

P.R. Seshadri: With respect to that our relationship with the union and officers association is very good, in fact they have been very, very helpful in ensuring that many of these things happen, there is realization that change must happen for this 103-year-old institution to continue to grow and prosper, so we do not have an adversarial relationship with either the union or the association, we have also tried to ensure that whatever we do, we do in a manner that we carry them along with us so to answer your question, the relationship from a IR standpoint continues to be healthy.

Anil Kumar: Next question is in Rs.100 Crores plus corporate loan book can you give details what percentage is double BB the rated and below?

P.R. Seshadri: Why do not we publish that in the next investor presentation we can give that to you then.

Anil Kumar: Any guidance on the slippages including from the non-funded exposure of the corporate segment for FY2021?

P.R. Seshadri: I really do not have specific guidance. I want to repeat what I have been saying that as an institution what we are trying to do is to have a net NPA accretion rate of roughly 1.5% per year which on Rs.50,000 Crores book is Rs.750 Crores against which we want to provide roughly 67% or whatever amounting to Rs.500 Crores and the rest remains available for us for appropriation towards profit that is the game plan that we have and I think we are getting closer and closer to it, unfortunately it has taken much longer than what we thought.

Anil Kumar: Okay, Sir if not a guidance then can you just confirm about the non-funded exposure, has any detailed exercise has been done about any risky segment or any possibility of slippages in next one, two years has been exercised also for the non-funded exposure of the corporate segment?

P.R. Seshadri: We have been very risk-averse as an institution and what I can tell you is that our non-funded exposure has been shrinking month-on-month so I have a page let me just find it for you give me a minute, page 47 gives you the total risk assets of the bank. If you were to go back a couple of years, you will find that the risk assets of the bank are much larger and the non-funded limits are also much larger okay, so we have practically with great deliberation exited wherever we can, the non-funded limits largely on the infrastructure side, that is where we were having problems. It is in the public domain, these informations there I think over the last two years, you should be able to see that this number has been coming off, we have not specifically mentioned it, but you can see it. Every time that we have an NPA and the individual concern does enjoy non-funded limits as a matter of course we get review done of the bank guarantee extended to figure out those are high risk, low risk or medium risk. I do not have with me aggregate information as to what is high risk, low risk or medium risk across the various categories where bank guarantees have been provided, but we will try and incorporate that information also in the deck, as you can see we are putting more and more into the deck, we will see how to incorporate it so that it is made available to everybody.

Anil Kumar: You have taken a lot of good measures in the last two, three years, so all the best for your future whatever you decide to do, so all the best and thanks for all the measures you have taken. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rinesh Buwa from ICICI Securities. Please go ahead.

Rinesh Buwa: Congrats on a great set of numbers as well as the initiatives you have taken over the last two years I think it is extremely needed for a bank to continue as a growing concern in a most competitive scenario especially in the banking sector, Sir, couple of questions on the asset quality as well as the fresh slippages which you saw in this quarter specifically from the corporate side where we have again reported 2 billion plus slippages if you can just throw some light on the nature of the slippages and whether there is one off which suddenly came up this quarter or this has been throwing some sort of pain in past and then we decided to recognize it as NPA in this quarter?

P.R. Seshadri: Thanks Rinesh. The corporate slippage was largely one particular entity, the name of that entity is in the public domain because you should notice it, this is the largest retail entity engaged in the retail trade in Madras and the ticket in question was roughly about Rs.160 Crores, we had expected, we have been noticing the business in question was getting into trouble, it had very strong cash flows when the loan was written roughly about Rs.2.5 Crores a day, we saw that come off as the individual concerned and the business concerned acquired incremental properties they removed money from the business and bought something else, so we were monitoring it, but it is not always possible to get out of these facilities. This is fully secured by very valuable real estate collateral and the parties that run the business are engaged in conversation with us and they believe that they can raise enough money to restart the business, it has a very strong brand name, so we are working with them, there is some chance that whatever has been recognized as NPA during this quarter may actually get reversed as we speak during this quarter, there is some chance we are crossing our fingers and fingering out if the individual in question can liquidate some of these properties and raise enough cash to stock the retail outlet as well as pay us back in which case we would be subject to all the approvals at the board level, we are willing to continue to bank with him or her, so this was one off, but we think that underlying loan by itself was not a bad loan, it was a chunky loan too large for our balance sheet perhaps, but the business itself when the loan was written was not in a bad way. With respect to the rest of the corporate, we have been reducing our exposure to various segments, infrastructure, manufacturing in general we want to focus more and more on trade so we have recognized as NPA out of a total balance sheet today of Rs.12800 Crores ex the IBPC that is parked there roughly about Rs.3000 Crores has already recognized as NPA, so we have roughly only Rs.10000 Crores unrecognized on our balance sheet. I am hopeful that during the current year which starts April 1, the total recognition that we will get off NPA, we will moderate very considerably about Rs.300 Crores, Rs.400 Crores or thereabouts if the expectation that we have from April 1, that is what we hope and it is reasonable for us to sort of expect significantly better performance as we go forward because everything that needed to be recognized has been recognized as you can see and the delinquency performance is also encouraging.

Rinesh Buwa: Just followup on that, is it fair to assume that this is the old account three, five years old account or?

P.R. Seshadri: 99% of what we are recognizing on corporate are historic accounts.

Rinesh Buwa: Okay, great Sir and just last question on the growth side, so just wanted to understand right is this the higher repayments or let us say since we are exiting some of the riskier segment is hurting the overall growth, but disbursement is still intact or let us say in excess of 12%, 15% year-on-year basis, if you can just quantify gross disbursement versus payment number in Q3 would be really helpful?

P.R. Seshadri: So very clearly we are degrowing the corporate you can see the numbers, Rs.463 Crores in the last quarter itself we degrew, to replace that Rs.463 Crores, we got Rs.450 Crores as gold loans and we grew our retail, so we have only two elements right now growing. One is gold and the other is retail. On the commercial side, you can see that the small ticket is beginning to now become important earlier, commercial also is lumpy, we used to do big ticket commercial in the branch level, because the branch level has given a target which is a number target, he was told okay every year you have to grow your balance sheet by R.5 Crores or Rs.10 Crores, as I would go and do one loan for the year, so historically we have noticed our commercial loan origination at the branch level used to be roughly two loans per branch per year. We are now doing two loans per branch per quarter only thing they are much smaller ticket. You want to get that two launch per branch per quarter into six loans per branch per quarter and then we think that the growth will start coming back strongly, so this quarter is an important quarter you guys should watch out. We think that you will see growth coming on account of two things. One is utilizations we are hoping that will come up because our utilization rates have dropped by about 10%, 15% and utilization will come back and we will also see much stronger booking on the commercial side. The other reason why growth has been difficult is because we are working out of the warehouse book, warehouse book was at peak about Rs.1600 Crores or thereabouts, we have taken it out over the last 12, 18 months that is another chunk of growth that got taken out, so my own view is that we have enough levers that are helping us grow and at the same time there are bunch of things that we are degrowing, so as a consequence the total book has been flat, but now the degrowth will moderate a little bit and the growing elements will enable us to see some significant growth as we go forward.

Rinesh Buwa: Thanks a lot Sir, just a last question if you may allow on the margin side, so of course you explain the reasons why there is a deterioration in margin, but just want some clarity on whether this is due to we have been trying to grow in better-rated corporates or better-rated loans so where of course will not have be pricing which we used to get earlier and that is hurting the yields, because yields is on sequential basis also down by almost 40-basis points, so what is the key reason behind the drop in yields, is this because of the under the new digital platform since the rate is predetermine on the basis of this core which will throw of course the pricing will be linked to that and that will be lower than what we used to charge historically, so is this a structural change which you know might lead to the lower yields going ahead or is this is due to the couple of reasons which you explain and that will normalize going ahead?

P.R. Seshadri: When you say that we are now going after the triple A rated names on the corporate side and we are offering lower rates to on board them that indeed is happening, but that is limited to corporate okay, we are not offering lower rates to other folks. One of the areas where our rates were relatively low was gold loans up until the beginning of this quarter, so in January we increased our gold loan rates basically we wanted gold loans to take off to aid that it was a entry pricing strategy where we went and reduced our pricing and that has been taken up by about 50-basis point, so these are the two areas where our pricing were little aggressive to get volumes, but the majority of what you are seeing, we are now completely risk-based priced, so our system on the retail side is a risk-based priced, on the commercial side it is completely risk-based priced. Our average pricing I will ask Prasad to try and see how information may be shared which is in line with whatever regulation exist, but you will notice that on the commercial and on the retail side, we are netting roughly about 11% is the yield that we are getting, booking yield. The reason why you are seeing this shift downwards in net interest margin is because as I said are two reasons largely. One is because of the basis risk our cost of funding sequentially has come down 10-basis points, but my base rate book has been repriced downwards 55-basis points because of the way the structure of RBI moves and our MCLR has also come down, but over this quarter we think that there will be a catch up on the liability side because liability pricing is down 90-basis points, so liability book should reprice and the spread should come back up again. I do not see that as a very big problem Ranish.

Rinesh Buwa: What should be the sustainable sort of NIM you would like to expect given the entire restructuring of the business?

P.R. Seshadri: I keep saying that we want 400-basis point NIM I still stick with 400-basis points achievable NIM and we should get 400-basis points.

Rinesh Buwa: It is very encouraging Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: Thanks for the opportunity. On slide 28, we have seen a spike in April 2019, 30% plus six MOB, so what event led to this?

P.R. Seshadri: We are analyzing that, we think it is a one off and our credit guys are looking into it, I do not have the exact reason, but even at 4% it is half of industry average so I guess not that bad, we are aware of despite we do not really know at this point in time what exactly cost us, our risk guys are looking into it at this point in time.

Bhavik Shah: Okay Sir, our corporate book is 30% one which is about 0.5 billion, what sectors are they from and how many accounts would they be?

P.R. Seshadri: You are talking about the NPA for the quarter is it?

Bhavik Shah: No, it is like Rs.13000 Crores of corporate book and of which 70% are below Rs.50 Crores, so the rest 30%, how many accounts would there be roughly and which sectors would those accounts be?

P.R. Seshadri: I do not have the information readily available, but I can request our team to put it together and make it available.

Sivarama Prasad: Bhavik I will talk to you about this.

Bhavik Shah: Do we see any stressed companies there like showing signs of stress as of now likely to slip from the lumpy corporate book?

P.R. Seshadri: It would be inappropriate to say that there is no stress, there is certain amount of stress in a book of about Rs.10000 Crores something or the other will be there, but we do not think that it should be more than as I said April 1, onwards I was saying Rs.300 Crores, Rs.400 Crores, so if we include this quarter about Rs.500 Crores, Rs.600 Crores or thereabouts should be the level of stress that we should have.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi from Haitong. Please go ahead.

Saikiran Pulavarthi: Just quickly continuing one of the earlier question on the margin side, so you said that you have moved to the risk-based pricing and then the appetite for risk especially on the incremental underwriting is also lower, so logically if I look at then the margin should come down versus what they were earlier, but you are suggesting that they can move up further, how to read this?

P.R. Seshadri: It is a good question that you make because at one level, these two are contradictory statements but having said that there is a very strong basis risk that is flowing through this. This is very clear from our point of view. We have a time deposit book which is 44,000 Crores where our pricing six months ago was 90-basis points higher than where we are today. This is the time deposit book which needs to be re-priced as we go forward, we are watching what percentage of renewals happen etc., and that re-pricing action, we perhaps could have done a little earlier than what we did and that has led to the re-pricing of liabilities becoming a little slower than the re-pricing of assets and this was done deliberately because we wanted to stay very liquid as an institution because we believe that the external environment was a little challenging. But, now that we have re-priced, we think that the sequential drop in our cost of funding will be higher than the sequential drop in the net interest that we are running on our existing loans. The basis related issue is that we are currently facing will over a period of time moderate. To your question, which is that look you are going after better quality customers, so you must be charging them less, I repeat that that is most accentuated on our corporate books. So if I am going to lend to a AAA rated name, that AAA rate tends to be significantly lower than what we used to lend to the corporate side. Historically, our corporate customers were small businesses run by entrepreneurs etc., we are now changing our focus and saying look we want to go after better quality names with higher credit ratings. There, there is a change and the rates do drop, but it is limited to that because both on the retail and on the commercial side, on a risk weighted basis, our yields are holding. So, our submission to you is that what you are seeing now is on account of two things, a) our treasure book yields have dropped and our treasure book is highly inflated today and it is roughly a third of our total book where we did notice a 33 basis point reduction on a sequential basis, which plays out to about a 10 basis point reduction on an aggregate NIM. So we think that as we go forward, the contrary force which is the re-pricing of our assets will come through and we should revert to closer to our historic average. We used to be in the 3.8% or thereabouts, we should get to about 3.6% to 3.7% reasonably quickly.

Saikiran Pulavarthi: Got it and what is the SB rates we offer at this point of time.

P.R. Seshadri: It is there on our website. The peak FD rate that we offer is 6.45%.

Saikiran Pulavarthi: Not FD, I am saying savings bank deposit rates?

P.R. Seshadri: That is 4%, we have not changed that for the simple reason that we believe that dropping that is not warranted, we want to grow our savings in current balances. They have been growing, they are now at 31% and we are hoping that as we close this year, we will closer to 32.5%, we expect another 1.5% growth this quarter.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Exactly a year back, you had mentioned about roughly 17500, 1800 Crores kind of gross slippages that can happen over the next five quarters and that is exactly how it has played out for you. So from hereon, where do you see this kind of slippages coming and how should we see about it? I know you have explained a bit about improvement which has happened, but if you can quantify the slippages which you can see?

P.R. Seshadri: So Darpin, you are being very kind to me by saying that it has played out the way I had said. In reality, I have exceeded that number, we are at 2050 as of now, I had said 1850, we are 2050 now.

Darpin Shah: So the macro has also been not supportive.

P.R. Seshadri: So you have been very kind, I appreciate that, thank you. I think this quarter again we will have another 300 Crores or thereabouts gross slippage if all goes well. So we will end at 2350, so we would have breached that number by about 500 Crores, but on a net basis we are okay. I strongly think that next year numbers will moderate, that is why we have done all these disclosures on our portfolio quality and all that kind of good stuff. The stressed accounts that are there in 1 and 2 are reducing as we speak are 1 and 2 is lower than what it was at the end of December. We think that all of this is going to translate into significantly lower slippages as we move into the next year, which is why we thought that the best way of dealing with this is to give as much information so that people understand that there is a significant improvement that has already happened to the book.

Darpin Shah: Just one more thing, any thing to comment if you have any exposure to telecom sector and do you see any stress there funded and non-funded?

P.R. Seshadri: No exposure to telecom.

Darpin Shah: And in the coffee?

P.R. Seshadri: No exposure to coffee also. No Café Coffee Day and all.

Darpin Shah: Okay, thanks a lot.

P.R. Seshadri: I was trying very hard not to mention a name.

Darpin Shah: That is why I said sector, I did not say the name.

Moderator: The next question is a followup question from the line of Drashti Shah from Investec. Please go ahead.

Drashti Shah: Sir, I wanted to understand the difference between the gross slippages that we report and what we report in our disclosure?

P.R. Seshadri: Are they different madam, which page you are referring?

Drashti Shah: The gross slippages disclosed in our PPT and the gross slippages that we disclose in our ….

P.R. Seshadri: I will check and come back to you. If there are any difference we will try and explain that to you.

Drashti Shah: If you go to slide 54, the additions that we have disclosed is 449 Crores and in the table beneath, the additions for nine months was 1267, if we derive our gross debts from that number it comes to 293 Crores.

P.R. Seshadri: No madam, that way that reconciliation will not happen. Off line I will talk to you madam. Both numbers are right, but I think it is the definitional issue.

Drashti Shah: Okay thank you.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Spark Capital Advisors India Private Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.