



**“CSB Bank Limited
Q1 FY2022 Earnings Conference Call”**

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Transcript**Conference Call of CSB Bank**

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to Q1 FY22 earnings conference call of CSB Bank, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchstone telephone. Please note that this conference is being recorded. I would now like to hand over the floor to Mr. Samir Desai. Thank you and over to you sir.

Samir Desai: Thank you Moumita. Good evening everyone and thank you for joining us today for this call. From the management team of CSB Bank we today have, Mr. Rajendran, MD and CEO, Mr. Pralay Mondal, President – Retail, SME, Technology and Operations, Mr. B.K. Divakara, Chief Financial Officer, Mr. Ganesan, who is Head – Credit Monitoring and Recovery & Mr P V Antony, General Manager, Accounts. Without much ado, I would want to hand over the call to Rajendran sir. Over to you sir. He will give a brief on how he is seeing the environment. Thank you.

Rajendran: Thank you. Good evening friends. The first quarter of financial year 22 has been one of gloom, with the second wave of COVID creating havoc on lives and livelihoods, affecting every walk of economic activity. Given this situation, there were insurmountable challenges in growing the business volumes and in getting the dues collected from customers. This round, in our case at least, the impact was more on the gold loans and retail borrowers, than on SME and corporates.

On gold loan front, it was double whammy, because of the collection challenges compounded by the reverting back to 75% LTV regime, from 90% enjoyed from August 2020 to March 2021. Despite all these constraints, I am happy to note that we could post a profit of Rs 61 crores for the first quarter of financial year 22, which is higher than Q1 of financial year 2021 and that of the last quarter of the previous year.

Let me take you through the main highlights.

Revenue growth: Net interest income grows by 45% year-on-year. Quarter-on-Quarter there has been a decrease of 3%, mainly because of interest reversal on gold loan NPAs, totaling to Rs 24 crores in Q1, as gold NPAs have gone from Rs 46 crores to Rs 354 crores. Gold loan NPA and loss may not be significant and hence we would recover the NPA, including interest in the coming months and this has to be viewed as temporary.

On the expectation of yields taking a northward movement, we are very cautious in the treasury operations and have been unwinding the trading positions and parking the funds

mainly in the short-term securities. However, we are continuing with the trading operations very selectively and watchfully. The treasury profits are down by 55% on year-on-year basis. On a quarter-on-quarter basis, there is improvement. Modified duration of our trading book is 0.55 years.

Despite year on year decrease in treasury profits by 25%, we could post an increase of 3% in overall non-interest income year-on-year, supported by PSLC income, Banca commission, processing fees etc. Q-on-Q treasury profits have increased, but other things have reduced as many of the incomes through ATM and SB maintenance charges are collected only in last quarter, while many others like Banca commission, LC/BG commission, processing fee etc. have a natural propensity to be high in the last quarter of any fiscal.

NIM: The quarterly NIM that was at 4.06% as on 30.06.20 increased to 5.14% as on 30.06.21. Though we were able to contain the cost of deposits to 4.48% during the quarter, both the advance and investment yields decreased by 66 bps and 56 bps respectively from Q4 of FY 21. But for the interest reversal on account of the gold loan NPAs amounting to approximately Rs 24 Crs, the interest yield on advances would have been almost at par with the Q4 level. With opening up of the economy, we are optimistic in recovering/upgrading the gold loan NPAs and this will hopefully restore the NIM to previous highs.

Opex: Staff cost increased by 13% YoY as the number of staff increased from 3337 to 4508 or by 35%. QoQ there is a decrease of 46% as Q4 FY21 had a fair share of extraordinary AS 15 provisions. If you remember, Rs 38 crore due to change in mortality rate impact and around Rs 14 crore towards VRS for award staff. In addition, no DA provision for retirees has been found required for Q1 FY22 since the DA for June 21 is less than that of March 21. In Q4 FY21, we had debited P&L by Rs 23 Cr towards DA for retirees against Nil in Q1FY22.

Non-Staff opex increased on a YoY basis mainly due to increase in depreciation, payouts to dealers/Business Correspondents, rentals due to opening of new branches etc. Number of branches have increased from 413 to 514 and this is the main contributing factor for the increase. QoQ there is decrease of 17% mainly because of depreciation where there was a onetime hit of around Rs 11 crore in Q4 due to reduction of useful lives of fixed assets.

Operating profits: Bank has recorded an operating profit of Rs 179.78 Cr as on 30.06.2021 with an increase of about 39% each on a YoY and QoQ basis. This could be achieved despite the challenges posed by the external environment. As compared to Q1 FY 20(50.26%) and Q4 FY 21(66.77%), the cost income ratio has improved to 47.74% for the first quarter of FY 22. Thus, we could bring Cost Income Ratio below 50% and it is likely to remain there in the coming quarters as well.

Net profit: Net Profit for the first quarter stood at Rs 61 Cr vis-à-vis Rs 54 Cr in the corresponding period previous year. For Q1 FY 21, PAT was Rs 43 Crs. This is after providing for Rs 92 crore towards provision for NPA on gold loans. In Q1 of FY 22, we continued the accelerated provisioning policy for SMA (other than gold) as well as NPA accounts. The additional provisions held over and above the RBI regulations amount to approximately Rs 298 Crs.

Balance sheet growth: Deposits and advances have grown by 14% and 23% respectively on a YoY basis. CASA deposits also grew by 29% YoY. CASA ratio has improved from 29.23% as on 30.06.20 to 33.09% as on 30.06.2021 or by about 4%

Deposits have reduced by 3% QoQ mainly because bank opted not to replace Rs 660 crore of Certificate of Deposits, which matured in June 2021. Advances have reduced by 4% QoQ mainly because of fall in gold loan portfolio by 8% due to the challenges posed by reverting to 75% LTV regime compounded by recovery and collections affected by lockdown. In segments like SME, MSME, Assignments, MFIs etc we were very cautious on fresh disbursements in view of the uncertain business environment. Two wheeler dealerships were closed most of the days in the quarter in the key geographies that we operate affecting two wheeler finance segment.

On Gold loans, while the NPA surge has affected the results adversely it may be noted that economic loss is expected to be not significant as we hardly have any MTM loss on the portfolio. Also, average LTV for gold loans, which was at 83% in March, has been brought down to 75% as on date.

Asset quality and provisioning: Our Gross NPA as on 30.06.2021 is 4.88% where as it was at 3.51% as on 30.06.2021 and at 2.68% as on 31.03.2021. Net NPA as on 30.06.21 is at 3.21% as against 1.17% at the previous quarter end and 1.74% as on 30.06.2021. Similarly, PCR decreased from 85% to 70%. Considering the accelerated standard asset provision in excess of the RBI requirements, amounting to 104 crores, PCR works out to 77%.

As worst seems to be over on gold loan front, we will be able to recover the gold loan NPAs in the coming months which will help to improve the asset quality metrics asset quality matrix and PCR. We were considerate and sympathetic towards the problems of the gold loan customers and extended a breathing time to them for repayment by taking a toll on our balance sheet. This gesture of goodwill from bank's side is expected to earn an appreciation of the customers who were loyal to the bank all these days.

As on 30.06.2021, restructured advances as a percentage of total advances is only 0.48 %. The amount outstanding in the Guaranteed Emergency Credit Line Scheme as on quarter end date is about Rs 135 Crs. Overall we are holding a stand asset provision of Rs 164 Cr including the accelerated provisions for standard stressed assets and the provisions in excess of the RBI stipulation amounts to Rs 104 Crs. Collection vs Demand for the month of June 21 excluding gold loans stood at 93% .

Capital adequacy: Our Capital Adequacy has improved from 21.37% from the Q1 FY 21 quarter end to 21.63% due to decrease in credit/market risk weighted assets. Leverage Ratio has improved to 8.37%

Expanding the network: We have opened eleven new branches in this financial year and merged six unviable branches, thus taking the total network to 517. We plan to open another fifty branches in the current quarter.

Once the demand picks up, we will have enormous opportunities in our priority segments like gold loans, SME, MSME, Two Wheeler, MFI etc. The challenges in the collection front have started to alleviate and it will improve substantially in the coming months. The good thing for us is that the challenges brought by the pandemic have not diverted us from our transformation journey and we are optimistic that our clear focus and strategic initiatives will stay us on track in the path of sustainable growth and stakeholder satisfaction. We remain well capitalised and well leveraged to capitalise the economic recovery tailwinds to drive strong financial and operating results in the coming quarters

I will stop at this and take the questions from you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, our first question is from Ms. Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Hi sir, good evening. Sir, firstly on the gold book, you mentioned that NPA losses based on current prices would be nil in this portfolio. Is that a fair understanding?

Rajendran: That is right. There is no mark to market loss on the portfolio level.

Mona Khetan: Okay. With respect to the auctioning, are there any challenges that you are facing in the State of Kerala?

Rajendran: In every State, there is a challenge. Political and Governmental interferences are there and in some places, adverse public sentiments have also been witnessed. Auction is not the main way of recovery during this period. We might have given auction notices on a large scale. Usually, once the notice is served, 90% of the people come back and redeem the loan and only 10% will allow for auction. This time our experience is that once the notice has been served, there is recovery in most cases, but some portion/accounts remains for auction. So far, what we have auctioned is about Rs 47 crores only. We will continue to give the notices with the intention to get the money back and go ahead with the auction depending on the customer and chances of recovery.

Mona Khetan: And compared to historical data, as a percentage of overall delinquency, are auctions a lot higher this time around?

Rajendran: When compared to previous quarters, auctions are higher this time as the redemption process as well as the rollover process got affected during this quarter. People are not coming forward for taking their jewelry back, because there are no social functions or any compulsion for them to redeem their jewelry. Additionally, they do not have the income to pay the money and rollover them as they have to pay the interest and the difference in LTV, which is a big amount for them to pay when they are not having the regular income. Fortunately, the gold prices have stabilized now and customers are showing interest to redeem the jewelry now. I hope that we will be in a position to come out of this problem in the next two quarters.

Mona Khetan: Sure. What would be the reason behind the sequential decline in the gold tonnage from 17 tons to about 16 tons this quarter?

Rajendran: It is mainly because we have not done much of disbursement and mostly the focus is on recovery during this period.

Mona Khetan: Okay. And some parts of gold loans have matured and to that extent?

Rajendran: Portfolio has come down by over Rs 500 crores or 8%

Mona Khetan: On the non-gold part as well, there are slippages of about Rs 100 crores. So, some color there in terms of where the delinquencies have come from? You did highlight it is from retail, but within retail, where is it that you are seeing that stress?

Rajendran: Out of the total slippages, Rs 337 Crs is from gold loans. DA portfolio witnessed a slippage of about Rs 11 crores. All other retail loans, MSMEs and SMEs have contributed for Rs 86 crores.

Mona Khetan: And how much would it be from the two-wheelers, if anything you have readily available?

Rajendran: Slippages in the two wheeler portfolio is about Rs 4.29 Crs

Mona Khetan: Slippage is Rs 4.29 Crs.

Rajendran: Total outstanding NPA for the portfolio is only Rs 6 crores.

Mona Khetan: Okay, got it. And when it comes to the gold delinquency, you continue to provide 25% even for the delinquencies this quarter?

Rajendran: Gold NPAs are provided at 25%, We have also provided 25% for all the SMA accounts excluding gold.

Mona Khetan: Right. And your SMA book would be in the same range as last quarter?

Rajendran: SMA book has increased by 100 crores over and above the March level.

Mona Khetan: Okay, got it. Lastly, for the second consecutive quarter we are seeing a good growth in the corporate book for you as well. So, if you could give some color around which sectors and the nature of these loans?

Rajendran: We have seen good demand from the corporate segment as well as the SME segment. Gold loan we have not grown, because our focus has shifted to recovery during the last quarter. Probably during this quarter, the gold loans should start growing positively. As to Other retail, two-wheeler and all, the dealerships have not opened yet. Most of the dealerships have been kept closed. And people are not moving. So, two-wheeler and all will take time for traction to regain. Financial inclusion and agriculture will see demand now, because there is good monsoon, the cultivation will start and we will see good amount of demand coming for gold loans as well as the agricultural loans during this quarter. And MSME also, once shops are opened, for stocking they will come back for the MSME loans. So overall, the demand will come back once the complete opening happens.

Mona Khetan: Sir, I was particularly referring to the corporate book, it has continued to grow. So, within the corporate, where is the growth coming from? I did notice that infra share has increased. So, what are the opportunities, if you could just throw some light there?

Rajendran: Construction segment is a conscious call, which we have taken. State Governments are giving large amount of contracts, as a part of turnaround strategy for the economy as a whole. Therefore, construction contracts are having a good demand for credit as well as the non-fund based limits, and we are catering to it. In the infra segment, we are

selective on the HAM projects for the road, of NHAI or selective State Governments. Demand is also coming from the solar energy. Some of the textiles mills in Coimbatore and a few other industries are going for captive solar energy. As these customers maintain accounts with us and the cash flows are known, we are supporting the solar expansion also. We have also grown in the food processing area; mainly on the dairy, we have done quite a bit of work. In other food processing areas, also, we have taken few accounts and they are doing reasonably well.

Mona Khetan: Okay, sure. Thank you. I will come back in the queue if I have any further questions.

Moderator: Thank you. The next question comes from Mr. Anand Dama from Emkay Global. Please go ahead sir.

Anand Dama: Thank you for the opportunity sir. Sir, gold loan book that we have, we have a fair share even in the State of Tamil Nadu, apart from Kerala. So, how the situation is in Tamil Nadu, whether you have a block particularly in terms of auctions even in the State of Tamil Nadu or is it largely restricted to Kerala? And the bulk of the NPAs that we have seen in the gold loan book are largely from Kerala in the current quarter or is there a fair share even from Tamil Nadu?

Rajendran: It is from all States, not particular to any State. However, Kerala situation is better. The growth has happened only outside Tamil Nadu during the last one year. So, naturally the NPAs are also more only from States outside Kerala. And auction is not a problem in Tamil Nadu to a large extent. There are selective pockets where we had some issues and we have not gone ahead, this Rs 47 crores what we are talking about might have happened only outside Kerala to a large extent. In Kerala, auctions were minimum as we were able to recover otherwise.

Anand Dama: Okay. So, the situation in Kerala remains the same?

Rajendran: Yeah. But, Kerala NPAs are very low. We are able to recover in Kerala.

Anand Dama: Okay. Because I think there was basically State Chief Minister saying that you are not supposed to do collections and so on. So, we were under the impression that basically Kerala situation typically should be bad, right?

Rajendran: No, it is not that bad when compared to other States. But, of course we are not able to proceed with the collection action. We cannot go to the Court. We cannot sell the properties. We cannot sell the gold. But, persuasion is there always. We can persuade the customers to pay and get the money. That is the way we are working.

Anand Dama: Sure. And sir, how are the recovery rates, particularly in the month of July now? I think you have given the data for June, but for July....

Rajendran: April, May, June, all the three months our recovery rate is 93% for the other than gold portfolio. But, gold portfolio it was only 20% in April, 46% in May and 62% in June. And this month seems to be good. Of course, when we close, we will have the number. July has improved a bit, because little bit of opening has happened in many parts of the country.

Anand Dama: Okay sir, it should touch about 70%-75%?

Rajendran: Yeah, it should come.

Anand Dama: Okay. And sir is it possible for you to share the 30 DPD and 60 DPD book, particularly in the gold loan portfolio?

Rajendran: Yeah, we will provide it. I am not readily having it

Anand Dama: Another question was about this....you are again getting back into the corporate loan segment. So you talked about the road project, agri there is a lot of demand coming from Telangana and some of these pockets....and southern India mainly. So what is the basic need for us, the size of the bank that we have basically to get into these kind of road projects where there could be inevitable delays at some point of time and being stuck again. Secondly, what is the ticket size of the loans we have done earlier?

Rajendran: In the HAM projects, our loan sanctions are coming with the condition that at least two or three milestone payments they should have received from the state government before we go for disbursement. The entire contribution from the promoter should also come up front. So the bank disbursement happens only at the last leg. In many cases, by the time, we disburse the loan they have completed 80% of the road project already and out of these loans, which we have sanctioned, most of them have already started getting the annuity payments also now. So they have all completed the projects, so nothing is at risk and it is only annuity projects and we have collateral securities also. Unlike other banks, we insist on collateral security for the HAM projects also. So we have enough collaterals as a fall back.

Anand Dama: Okay what is the ticket size of this?

Rajendran: These are all small loans. State government HAMs are somewhere between Rs 30 Crs to 60 crores maximum for the extension of the existing roads normally. It is not new ones, so the acquisition of land and other problems are not coming up in this. The maximum size is only Rs 60 Crs if I remember correct.

Anand Dama: Okay sir. What is basically now the average tenure of this portfolio that we would have or basically, the portfolio is still not really big enough for us to track the tenure and stuff?

Rajendran: It is not big enough at this point but I can give you the duration, which could be around 7 to 10 years. In some cases, we have stipulated that the entire collection to our loan account first and then only they have to absorb the remaining amount. For some accounts, we have given 7 to 10 years' repayment period.

Anand Dama: Okay and how many banks typically would be there in this project apart from us?

Rajendran: Most of them is a solo for us. One or two cases we might have to share; otherwise, it is solo business. Normally we do not get into a consortium kind of arrangement.

Anand Dama: Oh great. That is it from my side. Thanks a lot.

Rajendran: Thank you Anand.

Moderator: Thank you sir. The next question is from Mr. Suraj Das from B&K Securities. Please go ahead sir.

Jai: This is Jai here. A couple of questions sir. One is from the gold loan part. I think you had mentioned that some part of the slippages is because of the LTV management. So can you please elaborate sir? I could not understand as to how LTV change resulted in some spike in NPA?

Rajendran: When LTV is 90%, effectively we might have leant 83% and when the gold prices fell, we might have called for additional margin. The additional margin if not paid, then we take it as an NPA. That is one cause for NPAs coming up. Normally on due date, people come and pay the interest and roll it over. That is the practice in the gold loan. Now, when they come for a roll over, they will have to pay the LTV difference apart from paying the accumulated interest. This becomes a major burden for the people. They are not able to roll over. If they do not roll over, naturally it becomes an NPA for us. So what we have told is if the people are willing to pay the interest we have allowed them to continue the account without going for auction, because there is an intention to redeem. So there are two things which are required for loan recovery. One is intention to pay, another is ability to pay. Some do not have the ability to pay because there is no income, but there is an intention to pay which is revealed by paying the interest amount or a portion of the interest and principal amount. Whenever people come forward to pay a partial amount, we allow them to continue the account in the NPA status itself without resorting to any further recovery process. Once the lockdown is over, probably they will come back and redeem. We do not want to put them to a corner and ask them to act. We would like to be more humanitarian during this period.

Anand Dama: Right. And part of this LTV change was because of the regulatory mandate right?

Rajendran: It is RBI guideline. In FY 21, RBI was keeping a higher LTV from August to March 31st. In FY 22, it is to be reverted to the original LTV. We had reduced it from January onwards because of the falling gold price trends. So these problems will continue only until December.

Anand Dama: What is the typical terms of gold loan sir? Is it 12 months or even lower than that?

Rajendran: We have all maturities; there are three-month loans, there are six-month loans. The tenor of the Agriculture loans depends upon the crop, which they are cultivating. Normal gold loan for consumption purpose is for about one year. For retail/SME, it's normally one year.

Anand Dama: Understood. Secondly, for restructuring, the amount that you had mentioned, is it inclusive of the proposal that you have received or this is the only which has already been effected. What could be the quantum by September?

Rajendran: We don't have any major pending proposal for restructuring as on date. Whatever has come so far, we have already approved it. This includes all the numbers

where we have given approval but it is very negligible. It is only four crores during this period.

Anand Dama: So sir, the person who has taken the gold loan will he not get an option to restructure? I mean instead of getting into NPA anyway you can see this is kind of a temporary thing, he should have asked for restructuring

Rajendran: It is only an accounting gimmick. Anyway when the gold prices are going down, extending the period does not make sense right? Further erosion of the margin will take place. So we have not talked about it and there has not been any request also from any one.

Anand Dama: Last thing on NPA sir, have you moved to daily NPA classification on all products? Whether a spike is because of the daily NPA classification that you would have adopted?

Rajendran: We are having a system, which recognises NPA on a daily basis.

Anand Dama: Across all products right including right including your agri?

Rajendran: Across all products on an ongoing basis.

Anand Dama: The last question sir is on SME book as it looks like the portfolio has not grown enough in the last three quarters and is at around Rs 2000, Rs 2200 crores. What is the thought process here? What is your usual ticket size? What are the challenges in growing the portfolio?

Rajendran: SME average ticket size will be around Rs 2 crores. The preferred size is Rs 5 to 10 crores, so that the concentration risk will not be there. There are many SMEs, which have grown with us over a period of 30, 40 years. They might have gone beyond Rs 25 crores also now.

Anand Dama: What is the thought process on the growth of this book because of which the portfolio has plateaued. I mean it has not grown much

Rajendran: Our portfolio on outstanding basis has been flat for quite a long time. Our disbursements are high but we continue to lose accounts to the competition. Competition offers at a much, much lower rate, which we cannot even imagine today. We do not think that is a right pricing policy. They are freely pricing BBB rated SME loan accounts at 7.5%, 8% and so on. We would like to price the risk properly. We do not change the pricing policy; price goes along with the risk. So even though the disbursements are high the outstanding balance remains almost stagnant for quite some time. I hope the market will understand and re-price the loans properly and once the excess liquidity is withdrawn, loans will be priced properly to avoid the takeover of accounts from our side.

Anand Dama: Understood sir, thank you so much for the in-depth analysis.

Moderator: Thank you sir. The next question is from Mr. Susmit Patodia from Motilal Oswal AMC. Please go ahead sir.

Susmit Patodia: Hello, can you hear me?

Rajendran: Yeah go ahead.

Susmit Patodia: Hi sir good evening. Sir I have two questions. One is on 40 plus crores of gold loan auction that you have done. What would have been the realization? Is there any hit that we would have taken?

Rajendran: We have taken a hit of roughly about a crore of rupees. This will be treated as a unsecured loan in our book and provided completely. 100% provision immediately done. But the recovery process will continue. We will be in a position to recover substantial portion of it.

Susmit Patodia: Okay got it. So one crore loss on 47 crores of auction.

Rajendran: Yeah.

Susmit Patodia: Sir second question is, if you can give us some details on progress of Mr. Pralay and his teams, where are they now and what is happening?

Rajendran: Pralay would you like to take the question?

Pralay Mondal: Can you repeat the question again? Sorry I missed it.

Susmit Patodia: Pralay hi, Susmit here from Motilal Oswal, just wanted to know where we are in terms of product launches. Can you give us some color on your progress?

Pralay Mondal: So let us divide into two parts. One is what we have already launched; products like two wheelers, micro MSMEs and things like that. They are doing well and obviously as the market opens up, economy opens up, we will aggressively grow those businesses because we are launching some of the credit scorecards and some of the templated designs to scale those businesses. So that is one part. In addition, what we are doing is, we are planning to launch HCF, relaunch educational loans, selectively do personal loans for our internal customers and also look at some entry level commercial vehicles and commercial equipment's. So these are the few products...in fact we have just hired some of these people; they have not yet joined. They will join in another three months' time after the notice period. Meanwhile the credit team is working on some of the policies and products of these. Some of the products were there before so we are re-launching them; some of them will be new. Also on the payment side we are going to enhance our capability on the micro ATMs, we are looking how to scale this business a little bit more and on the pre-paid and credit cards side we are also looking at partnerships at this point of time. On the SME side, we are going to focus on hub branches. While we do SME business everywhere, which is the main stay of our business but we need to focus on 60 hub branches in key locations as kind of SME branches where they will be looking at various production services by which we can give special attention to these customers who have been focused in those branches. On the home loan side, we have our own product but that is more on the affordable side or slightly higher up products and we are planning to tie up with one of the leading players to retain our premium customer, who should be taking those products from us and that is why we are tying up with somebody. So we will...with all this, we will have a reasonable suite of products to complement already what we are strong on like gold loans and agri. On agri side we are planning to launch two, three products on the commodity financing, farm mechanization, dealer bill discounting etc because we have a fair

amount of distribution in that particular geography and we are saying that while you have done well on KCC and MFI but now we need to leverage those distributions and show some of the commodities and some of the other products which we are planning. So those are the kind of things, which we are looking at. So we have fairly a large plan but this will all be on the back of the technology platform, which we will create. Our new CTO has joined us, so he will be joining us in India by the middle of August. Once he comes in, we will create a full digital vision for the bank and work on it. Those things take 12 to 18 months but we will start working on the digital vision of the bank beyond the bread and butter digital like net banking API, mobile banking....all those things are doing well but we will look at slightly different phase of digital banking which we will update you when the time comes. So I hope I could answer your question.

Susmit Patodia: Yeah thank you Pralay. Rajendran sir, one more question. Is this LTV adjustment to 75%, has it happened across the book or only for the customers whose loans were due in the last three, four months?

Rajendran: On due date it will happen. If they have the margin, we do not ask them to pay. As and when the loans are falling due, they have to pay the money. Now, as a prudential measure we have moved for getting the additional margins to the extent possible where the loan asset value is above 75%. But normally it happens only at the time of the due date. If it is a six-month's loan, at the end of six months and if it is a one year's loan at the end of one year.

Moderator: Thank you sir. We will move on with the next question. It comes from Mr. Amaan Elahi from Investec. Please go ahead sir.

Amaan Elahi : Hi sir, thank you for taking my question. Firstly, on gold loans I wanted to understand what your outlook is. From this quarter, we have had an 8% impact because of the LTV reset and our current disclosures again shown that as current LTVs are around 77%. This still higher than the previous minimum 75% LTV that RBI have sort of spelt. So what is the outlook for gold loan for the full year FY22?

Rajendran: When the normalcy is restored, the demand for gold loan will go up again because this is the only loan that people can get without much formality compared to any other loan today because most of the banks and NBFCs are going slow on the unsecured loans and business loans. So most of the business people will come back for gold loan because that is the only option available to them. Once lock downs are withdrawn, I am seeing a huge surge in demand for gold loan and we will definitely have our market share of it.

Amaan Elahi: Right sir. Another change that I noticed was....during the time of filing of our RHP, our average ticket size was in the range of Rs 60000 or 70000. Currently that is now upwards of one lakh...around Rs 1.1, 1.2 lakhs. Is that a conscious change that we have done or is that more an outcome of what the demand environment is?

Rajendran: Mainly it is because of the increase in the value of the gold. So when the value of the gold goes up, the average ticket size goes up for all of us. All the lenders, we have seen an uptick in the size along with the gold value going up. Another thing is the segment, which you are attacking. We are in the middle, middle segment. The lower middle class segment goes to the private financiers and the NBFCs. So this ticket size of around a lakh of rupees is likely to go up further because those who have not borrowed on the gold loan

earlier, particularly the more affluent segment, are coming to the gold loan market now, hooked to the convenience proposition. So naturally, the ticket size is likely to move up further.

Amaan Elahi: All right. And sir on the restructuring part, I just wanted to understand...have we restructured gold loan accounts? You tried to answer that question but I think I missed that part.

Rajendran: We have not done restructuring in the gold loan. We never thought about it also because gold loan is linked to the value of the gold and cash flows are not assessed at the time of giving the gold loan and repayment schedules are not fixed. It is only a bullet payment. Normally they have to come.

Amaan Elahi: Thank you sir. Lastly, when we see on the liability side, our deposit rates are among the lowest within the regional bank and our LCR, that is also gone down from 230, 240, 260 levels to around 170, still higher versus the minimum regulatory requirements but on an ongoing basis our present NIM is much higher than what we would like to maintain on an ongoing basis. So what would be steady state LCR that we would want to maintain on our books?

Rajendran: Now, the desired rate is above 4.5% always. When the market is favorable, naturally, money is available at a much cheaper rate today and our balance sheet was not a growing balance sheet for quite some time, you might have seen. Only last year we have grown a bit on the liability side. We always have excess liquidity, which we are deploying in the market. We were very choosy in accessing the term deposits also. Our rates are always maintained at a low level when compared to the competition. This has helped us to keep the cost of deposit at a low level. Going forward when the balance sheet is growing at the desired level of 25%, 30% probably the cost of deposit will also go up. We may have to give little more attractive rates to get the retail deposits.

Amaan Elahi: Thank you sir, thank you so much. That is all from me

Moderator: Thank you sir. The next question is from Mr. Pankaj Murarka from Renifa Investments. Please go ahead sir.

Pankaj Murarka: Hello Sir- a couple of questions, one, your gold loan book is already 38% of your book, so how do you see that evolving as a percentage of the overall loan book?

Rajendran: There is no target amongst the proportion for the gold loan per se. It all depends on the opportunities. I do not mind growing the gold book if there is an opportunity in the market. At the same time there are opportunities coming from other segments also. There is a good demand coming from corporate segment and the SME segment. If that book is growing, probably as a proportion gold loan will come down. But as a policy we will not slow down on the gold loan. There are no worries on the gold loan side. If you look at the yield, if you look at the credit cost or the capital requirement, nothing can match gold loans. So we will continue to grow our gold loan book as and when opportunities are there.

Pankaj Murarka: Over the next two, three years how will it behave? Will it be around the similar level?

Rajendran: In a growing balance sheet, it will come down proportionately because the other retail businesses will also pick up; Pralay was talking about various new products being introduced in the retail. Similarly, SME also many opportunities are coming and we are seeing that capex demand is coming from the corporates also. As a proportion, gold loan may go down, but growth rate will remain high for the gold loan for the next two, three years.

Pankaj Murarka: Yield on Gold loan is about 11.5%...that is what you said in your presentation...

Rajendran: Last quarter it was 12.81%, this time it has come down mainly because of the NPA interest reversal. That 11.5% is the effective yield as about Rs 24 crores of interest is not recognized because of NPAs. So when we recover the money along with the interest this yield will go up.

Pankaj Murarka: The NBFCs on gold loan side, their book is much higher. Interest runs into high teens and in some cases even higher than 20% also.

Rajendran: As a bank, I cannot go up to that level. I think another half percent or one percent increase is possible, not beyond that level. Our customer segments are different from NBFCs where the ticket size is very small and sourcing methodology is different. Apart from that, cost of operations will also be high at the low-ticket size. So this is the optimum size and optimum yield. Maybe another half or one percent increase is possible but not beyond that.

Pankaj Murarka: And finally, for the bank as a whole on the concept you are trying to build, what should be the normalized credit cost?

Rajendran: Target is below 1% always.

Pankaj Murarka: Below 1% you said is it?

Rajendran: Yeah.

Pankaj Murarka: Okay thank you.

Moderator: Thank you sir. The next question is from Mr. V.P. Rajesh from Banyan Capital Advisors. Please go ahead sir.

V. P. Rajesh: Hi, thanks for giving me the opportunity. Sir just trying to understand; you said there was a loss of one crore on the gold loan auctions and you are trying to recover that. So I was just wondering given the size of these loans, is it worth pursuing the delinquent customers? How does that work?

Rajendran: The sales force, which is bringing these proposals, they will be in charge of recovery also. We have about 600 people working for sales in gold loan; they will be recovering this money. Even before this also, last time in 2013-14 we had about Rs 1.5 crores as a gold loan deficit in the auctions on a small portfolio of about Rs 3000 crores. Out of which more than Rs 80 lakhs is recovered over a period and all these cases are reported to CIBIL as a default. When they go to the next institution for any borrowing, they have to clear this amount and then only they will get the credit. It also helps us, even without our

effort this money will be paid back to get clearance. So it is not a major challenge. Not much of effort and money is spent on this collection.

V. P. Rajesh: All right got it. My second question is; you were talking about the other people giving loans to your SME customers at a very cheap rate. So isn't there concern that they will pick off your best customers by giving them lower rate loans and therefore the quality of our book incrementally will go down? What are you doing to protect against that?

Rajendran: Not necessarily, so in SME always risk is there. If you look at the SME book of any bank, 5% to 6% NPAs are common there. Ultimate loss may be less because most of them are collaterally secured. You cannot price it at such fine prices; as margin will not be protected. So in the process maybe one or two customers may be lost. We have seen many customers have come back also. They were with us for 30-35 years, they left us for just that somebody was offering half percent less, but when they go there, they understand there are other ways of making money for banks, non-transparent ways of charging the customer. So they come back. The comfort level of this bank will be much more. Some of the customers might have been lost but it is okay. But if we start reducing it, then it will become a race and you will lose your margins.

V. P. Rajesh: I see. My last question is what is your sense on the growth of our loan book over the next three to five years?

Rajendran: Minimum growth is 25% for loans on an ongoing basis.

V. P. Rajesh: Okay, thank you and all the best.

Rajendran: The size of the balance sheet is very small, so it should not be a big challenge.

V. P. Rajesh: Understood, thank you so much.

Moderator: Thank you sir. The next question is from Naishi Shah from Acko General Insurance. Please go ahead.

Naishi Shah: Hello sir, thank you for this opportunity. I think I must have joined the call late. My first question, would you be able to help me with the breakup of the NPAs in the book?

Rajendran: Of the fresh slippages, Gold is Rs 337 crores, direct assignment is Rs 11 crores and others are Rs 86 crores.

Naishi Shah: All right okay sir. OTR book would be largely which segment of the loan book?

Rajendran: Come again?

Naishi Shah: I know that you have not re-structured any gold loan. So apart from that the OTR constitutes mainly of the retail book or which part of the loan book that you have?

Rajendran: it is SME book; re-structuring has happened only there.

Naishi Shah: All right. In the MSME book, you have a new MSME book, so what does that include? What is the difference?

Rajendran: There was a legacy book, which we still run, which is done in the conventional way of CC account, OD accounts...like that. Now the new MSME is only term loans, three-year loan, two-year loan. They are all parameterized and dedicated teams are there to manage the portfolio and we are trying to get out of the legacy book and convert it into the same model.

Naishi Shah: Okay all right sir, that is all. Thank you so much.

Moderator: Thank you sir. The next question is from Mr. Harsh Shah from Edelweiss. Please go ahead sir.

Harsh Shah: Hi, sorry this is Harsh Shah from L&T Mutual Fund. Basically my question is, what is the percentage of your gold loan book, which currently has 85% plus LTV?

Rajendran: Roughly, it should be 15%.

Harsh Shah: As and when the re-pricing happens, this will again come down right?

Rajendran: Once the high LTV loans are repaid, yes.

Harsh Shah: Okay. Can you talk a little bit on the operational side of it? So bank as an entity was still allowed to operate in most of the geographies in the time of lockdown whereas on the peer side, which are your NBFC peers, they were not allowed to operate, so optically speaking, they must be having a bit more stress than what you have been having. So for CSB Bank as an entity, what kind of operational challenges did we face in Q1?

Rajendran: Mainly getting the staff and customers to branches/offices because of the lockdowns. In the initial stages, even the staff movement was very restricted and staff were unable to come to the office or go to the field for recovery. When they go, also, they were not able to meet the customers and customers were reluctant to meet them. We never had a recovery team for gold loan to be frank. It was automatic and efforts were minimal. This time we had to set up a call center, wherein we contacted the customers and the potential NPA customers and offered to collect remittances from their end where they are finding it difficult to come to branches. Our people go and collect the money either as partial payment, interest payment, or closure amount. Like this, we had extended some customized solutions for this problem, and then only this kind of recovery is possible. Coming to recovery numbers, in the month of April the recovery rate was only 20%, May it improved to 46% and June it has gone up to 62% and for the current month, it could be much better. So it is improving, so when full relaxation sets in, this will definitely improve a lot.

Harsh Shah: Right sir, so you also mentioned that there is willingness of customers to pay back. So without giving any absolute figures where do you see this GNPA figure coming down, maybe in a quarter or two....so even if you miss one quarter because of extended lockdown that's fine; but towards the end of FY22, where do you see this figure settling down?

Rajendran: There are some indications. Compared to March, the SMA numbers in gold has come down drastically. The likely slippages for September will be much less when compared to what happened in the last quarter. And it will go down further during the third quarter and in the fourth quarter, it will come to the normal.

Harsh Shah: But your next quarter slippages will be lower and that will also be supported by higher recoveries right?

Rajendran: Naturally.

Harsh Shah: Okay, optically you are expecting the current GNPA number to go down quite a bit by the end of FY22?

Rajendran: Yeah. If you just see the past record, in September 2020 and December 2020 we had not announced the NPAs at all due to Supreme Court embargo though we had separately disclosed the proforma NPAs that were significant in December quarter. December gold proforma NPAs were Rs 135 crores, but we could bring it down to Rs 46 crores in March. So that will happen in the current phase also. I think it should come down to the normal level very soon.

Harsh Shah: Okay, that's very helpful sir. Thank you and all the best.

Moderator: Thank you sir. The next question is from Mr. Jehan Mada from Nirmal Bang. Please go ahead sir.

Jehan Mada: Good evening sir. How has been the on-ground situation in terms of disbursements across gold and non-gold book and if you were to compare the Q4 run rate of disbursements how behind are we from the Q4 levels?

Rajendran: Hardly 30%, I can say across the board. Only 30% of the disbursements are happening when compared to the Q4 of last year.

Jehan Mada: Okay, so probably for full recovery to happen, it will take us....it might happen in Q3 once things normalize?

Rajendran: It all depends on the next wave and the extent of it.

Jehan Mada: Okay. My second question is on credit cost. I could not hear you properly, so our earlier guidance in the earlier calls was that steady state it should be around 1% but in current year, can we expect that by the end of current year, in Q4 we will reach that level?

Rajendran: Hopefully yes. By March end we must be in a position to reach, that is what we believe.

Jehan Mada: So probably, the next....so every subsequent quarter there should be an improvement?

Rajendran: Yeah.

Jehan Mada: Okay fine, thank you sir.

Moderator: Thank you sir. The next question is from Mr. Ronat Shah from Hexagon H Fund. Please go ahead sir.

Ronat Shah: My question is like you told that gold prices are stable, so it is like the bank expects to grow by 25%, in FY22?

Rajendran: The original target was 25% growth and we would like to stick to that at this point with the hope that the economy will recover and there will be a larger demand for loans in general in the coming quarters.

Ronat Shah: So what we are expecting about our NIM

Rajendran: I would not like to give a forward-looking statement like that, but our internal target is around 4.5%.

Ronat Shah: Okay that is all from my side.

Moderator: Thank you sir. The next question is from Mr. Nirmal Bari from Samiksha Capital. Please go ahead sir.

Nirmal Bari: Thanks for taking my questions. My first question is on the gold NPA that you have recognized. Is it possible to give what would be the LTV in those portfolios?

Rajendran: Less than 75% is Rs 32 crores, 75% to 90% is Rs 147 crores, 90% to 100% is Rs 173 crores, above 100% is about Rs 27 crores.

Nirmal Bari: Okay and when we say above 100%, does this include the interest component as well or just the principal

Rajendran: Upto date interest amount also.

Nirmal Bari: Okay. My second question is on the growth and that you said, the internal target for the current year is about 20%, so last year the growth was largely driven by gold loan. In the current, in the sense there is an LTV reduction from 90% to 75%. What segment are we looking at to achieve this 20% kind of growth?

Rajendran: It should be all round growth for the current year because for the first time we are seeing enough demand coming from the corporate segment as well as SME segment. Agriculture has done well last year and current year also monsoon is good in the areas where we are operating. So the demand from agriculture also should be good. NBFCs have totally moved away from the bank for quite some time now, our NBFC portfolio has come down by 50%. Probably when the demand comes back, NBFCs will also start borrowing, so that will also help us to grow the credit. We are very low on DA at this point of time because when the COVID started we were not aggressive in this DA portfolio. If recovery rates improve, probably we will look at the assignment portfolios and PTC portfolios are also there. That is another area of growth, which can happen. Certainly gold loan demand will also come back and we are opening a large number of branches. Last year we have opened 101 branches and they are all active in the market now. There are another 200 branches likely to be opened during the current year. At least 70 to 80 branches will come up in the first half year. So they will also contribute to the growth.

Nirmal Bari: Okay. The next question is on the assignment loan that we do. Is there some credit improvement that is provided on those loans or we do it for our PSLC purpose and there is no credit improvement involved?

Rajendran: There is no need for PSLC for us; we are sellers in the PSLC. Quarter after quarter you must be seeing, we make a good amount of money on PSLC. This quarter alone we have made 12 crores by selling PSLC. We have met the PSL target, sold whatever is possible and probably bought micro loans where we were running short by a small amount. We resorted to this purchase probably because we have not done DA transaction. Normally this micro comes from the micro finance companies. When DA is not the option the other option is to go and buy PSLC certificate. That seemed to be the right option during the last quarter considering the recovery rate for the MFI, so this is the right strategy, when the recovery rate improves, we will go back to the PTC /DA transaction.

Nirmal Bari: Okay. My last question is on the retail loans that we have given in the advances mix of 1162 crores. So if you can give a further break up of how much of it would be housing and how much of it would be unsecured and others, which would be helpful.

Rajendran: About Rs 500 crores is from the LAP and Rs 200 crores is housing loan, Rs 200 crores should be deposit loans, Rs 100 crores for the staff members and unsecured would be negligible.

Nirmal Bari: Okay we don't do personal loans and other unsecured loans?

Rajendran: Personal loans are there from some corporate arrangement but it is not significant.

Nirmal Bari: Okay thank you sir.

Moderator: Thank you sir. The next question is from Ms. Mona Khetan from Dolat Capital. Please go ahead ma'am.

Mona Khetan: Sir I just had two additional clarifications. So what would be the incremental dues in the corporate books from the solar and the road investments that you are making?

Rajendran: Entire infra is only 1.81% of our book today which includes road and solar also.

Mona Khetan: So sir, I was referring to the yield....for the incremental lending in the corporate book.

Rajendran: Solar is comparatively less, road is better. Corporate yield should be around 9.5%.

Mona Khetan: That is for the entire portfolio?

Rajendran: Yes, entire portfolio.

Mona Khetan: But what could it be incrementally? Could you give a rough range? Would it be less than 8% or?

Rajendran: Rates are coming down in the market so naturally incremental lending may happen between 8.5% to 9.5%.

Mona Khetan: Okay. Secondly on the gold book this Rs 5600 crore, is it all organic or do we have some purchased portfolio as well?

Rajendran: We have purchased portfolio but it is not accounted in the gold loan. That is accounted in the DA. We have nearly about Rs 500 crores of direct assignment portfolio in gold. That is accounted as an assignment portfolio not as gold loan portfolio.

Mona Khetan: Okay. So 5600 crores is all organic?

Rajendran: Yes.

Mona Khetan: Got it, Thank you and all the best.

Moderator: Thank you sir. The next question is from Mr. Sanjay Kumar from iThought PMS. Please go ahead sir.

Sanjay Kumar: Hi sir, one question on the gold book. You said the main reason for NPA in gold book because of the LTV management? But fundamentally, I want to understand customers. Why are they choosing gold loan? Is it because they are not able to pay the principal or do you think they just pay the margin money or the difference?

Rajendran: See if you go by the history for the past 100 years, we have never lost in the gold loan. Industry used to have a loss of 0.36% where as our losses from all reasons like NPAs, shortage, frauds all put together was 0.1%. There is no other business where credit loss can be contained to less than 0.1%. So these seasonal fluctuations will be there. It is one off event and when we are talking about gold loan shortages, I mean mark-to-market losses; it is not a real loss from the customer point of view. What is valued at Rs.100 for me, the replacement cost should be Rs.115 minimum for the customer if he goes for re-purchasing the jewelry. There are a lot of sentiments attached to the jewelry in any family. These are all middle class family. They might have got it from their mother on their occasion of their marriage. Normally they would not like to leave it. So they will come back and redeem it is our experience. We know these customers for a long time. So we have told our managers, do not force the sales and if you are confident of the recovery, let a portion of the amount /interest be paid now to show their intention. Most of them paid the full interest and part of the principal also. That is how the system works. After two or three quarters when you see the number, you will also understand how it works.

Sanjay Kumar: Okay. My point was about the roll over because we also have some loss in tonnage. So the tonnage loss does it go to other banks or NBFCs or has it gone out of the system?

Rajendran: It cannot go to other NBFCs because nobody is giving that kind of value. Sometimes it goes to the private moneylender. Private moneylenders may give even 130%, 120% over the value of the jewelry because they will be recovering on a daily basis or a monthly basis. So some times, it goes to a private moneylender where the loan asset value can be much higher otherwise, in the present set up shifting to another bank or NBFC may not happen.

Sanjay Kumar: Okay, so banks still do have an upper hand over NBFCs in gold loans?

Rajendran: I always say if we are able to deliver like NBFC, NBFC will be out of the main stream.

Sanjay Kumar: Okay thank you sir. Just one request, you did give out the SMA numbers to the previous question, if you can give that in the presentation and the NPA breakups also that will be great.

Rajendran: Yeah, I will make it available to you

Sanjay Kumar: Thank you, all the best.

Moderator: Thank you sir. Ladies and gentlemen if you have any question, please press * and 1 on your telephone keypad. There are no further questions. Now I hand over the floor to Mr. Rajendran for closing comments. Please go ahead sir.

Rajendran: Thank you friends for having made it on a tough day like this. I am told entire Bombay is having heavy rains and there are problems in movement and staying late. We are very confident. Whatever problems we are facing in the gold loan or any other area for that matter is only temporary and the conversation with the clients indicate that there should not be many challenges in the recovery of the loans once the lockdowns are removed. We are optimistic that the demand for loans will also be very substantial once recovery starts and the bank will have a much better time going forward. Let us hope for the best and pray for the best. Thank you.

Moderator: Thank you sir. Now I hand over the floor to Mr. Samir Desai for closing comments.

Samir Desai: Thank you everyone for joining us today this evening. Thank you to the management of CSB Bank Limited for giving us this opportunity to host the call. That is it for now. Thank you and all the best. Thank you sir.

Rajendran: Thank you Samir, thank you everyone.

Moderator: Thank you sir. Ladies and gentlemen, with this we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening everyone.
