



“South Indian Bank Q1 FY26 Earnings Conference Call”

July 18, 2025



MANAGEMENT: **MR. P R SESHADRI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, SOUTH INDIAN BANK**
MR. DOLPHY JOSE – EXECUTIVE DIRECTOR, SOUTH INDIAN BANK
MR. ANTO GEORGE T – CHIEF OPERATING OFFICER, SOUTH INDIAN BANK
MR. JIMMY MATTHEW – GENERAL MANAGER & COMPANY SECRETARY, SOUTH INDIAN BANK
MR. VINOD FRANCIS – GENERAL MANAGER & CHIEF FINANCIAL OFFICER, SOUTH INDIAN BANK
MODERATOR: **MR. JAI MUNDHRA – ICICI SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the South Indian Bank Q1 FY26 Earnings Conference Call hosted by ICICI Securities Limited.

As a reminder, all participants' 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. Jai Mundhra from ICICI Securities. Thank you and over to you, sir.

Jai Mundhra: Hi, thanks, Vishaka, thank you everyone, good evening, everyone and thanks for joining this call of Q1 FY26 Post-Results Call of South Indian Bank.

We have from the Bank Senior Management including Mr. P R Seshadri – M.D. & CEO, Mr. Dolphy Jose – Executive Director, Mr. Anto George T – Chief Operating Officer, Mr. Jimmy Matthew – GM and Company Secretary and Mr. Vinod Francis – GM and CFO.

I would hand over to “M.D. & CEO sir for his Opening Comments” after which we will open the floor for “Q&A.” Thank you and over to you, sir.

P R Seshadri: Thank you very much, Jai, and thank you for organizing this call. We really appreciate it. Good evening to everybody on the Call and thank you very much for joining us for the South Indian Bank Limited Q1 FY'26 Earnings Conference Call.

As Jai has said, by a number of my colleagues, Mr. Dolphy Jose, Mr. Anto George, Mr. Vinod Francis, Mr. Jimmy Mathew, and a few other senior executives.

Let me start with “Key Highlights of the Financial Performance for this Quarter.” The Bank declared a net profit of INR322 crores for the quarter, registering a growth of 10% compared to INR294 crores in Q1 FY'25. Operating profit for the quarter increased by 32% from INR508 crores to INR672 crores.

Total deposits grew by 9% to INR 112,922 crores from INR 103,532 crores. Gross advances grew by 8% to INR89,198 crores from INR82,580 crores.

Total business for the Bank has crossed the landmark figure of INR 2 lakh crores and grew by 9% to INR2,02,119 crores.

Our average advances for the quarter grew 6%. Return on assets for the quarter was 1.01% with a return on equity at 12.41%.

Capital adequacy of the Bank as at the end of the quarter was 19.48% and Tier 1 ratio was 18.25%. CASA grew very nicely at 9% year-on-year to INR36,204 crores against INR33,195 crores during the prior period.

Provision coverage ratio, excluding write-off, improved by 988 basis points YoY to reach 78.93% and provision coverage ratio, including write-off, improved to 88.82%.

Overall gross NPA reduced by 135 basis points from 4.5% to 3.15%. Net NPA reduced by 76 basis points from 1.44% to 0.68%. Slippage for the quarter was 20 basis points in the amount of INR182 crores.

Let me now take you through “Other Operating and Financial Parameters of the Bank”:

We continue to grow our gold loan business, which now stands at INR17,446 crores with an average LTV of 61.99%. This includes certain portfolios that we have acquired and an average ticket of about INR1.9 lakhs. Gold loan book grew 7% year-on-year.

Home Loan and Auto Loan also grew quite considerably on a YoY basis; they grew 66% for home loans and 27% for Auto Loans. The home loan book as at the end of June 2025 is INR8,518 crores and Auto Loans is INR2,217 crores. The personal loan book is at INR 2,132 crores.

During this period, we have built out several new systems, rolled out several new processes that enabled us to become more efficient in dealing with our customers and eased the method of doing business and enabled us to acquire customers more easily. So, we are confident that we will continue to maintain momentum in disbursements and collections in the coming quarters to achieve the results that we desire.

With this, I would like to open the floor for questions. Thank you.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Jai Chauhan from Trinetra Asset Managers. Please go ahead.

Jai Chauhan:

Good afternoon. Thank you for the opportunity. So, my first question is on the cost/revenue balance. The Bank has done a commendable job of maintaining flat operating expenses largely through 5% reduction of headcount over the last year. In the Q3 call, you mentioned that you are closing in on the limit of how much you could cut without impacting business given that most attrition has been in customer-facing roles. How do you plan to balance the need for continued cost discipline with the

imperative to invest in sales capacity to drive the high-yield loan growth that is central to Bank strategy?

P R Seshadri:

It is a very good question. So, we have been reasonably disciplined in managing our costs, for which I want to thank all my colleagues here on this call as well. And a significant portion of the cost management has come in by way of not replacing employee attrition. We have reached I think the limit to how far this can be taken. So, we are now contemplating renewed hiring, but we are confident that renewed hiring will also come with revenue growth for the simple reason that over the last 18, 20 months, we have been able to build out new systems and new processes with which we have made the process of acquiring and onboarding new customers. Given all of that, we think that as we go in and hire more people, especially on the customer-facing areas, we can get them productive relatively quickly and therefore contribute to earnings more aggressively. In addition, the format of hiring that we've chosen is going to be slightly different from what we would normally do where the economics are a little bit more favorable. And that is the route that we are taking as of this moment. And we are hoping that, that will work out and that will give us the incremental headcount that is necessary for us to actually get business growth as well.

Jai Chauhan:

Understood, understood, sir. A very well explained answer. I have just one more question where management has rolled out an impressive suite of digital lending, right, like the GST Power and LAP Power over the past year. However, the core MSME loan book has remained largely flat ending Q1 at INR9,700 crores similar to the start of last year. Could you elaborate like on the early stage adoption and utilization rates of the new platforms at the branch level, and more strategically, what are the key learnings on this technology-led approach?

P R Seshadri:

So, the adoption has been reasonably good. So, our first product that we put out was GST Power. All our people in all our branches are reasonably conversant with it. And subsequent products came in later. So, LAP Power came in September of 2024, and the rest of the products came in, in quick succession thereafter. So, the good news is that finding adoption is not that much of a problem. We have early adopters and then we have slightly later adopters. But by and large, that's not proving to be the challenge that we initially thought. What we are trying to do is to try and get increased traction on products that we have already adopted and have got to know reasonably well. And that is where we are having conversations with our people. Our branch productivity, the way we measure it using our branch value addition metrics, are trending very nicely. So, against Q4 of FY'24, our branch productivity has increased 60%, the way we measure it. So, if that trend line were to continue and improve further, I think you will see that the complexion of the portfolio that we have also changes with time. The point that you made saying that look, our MSME portfolio has not really budged in spite of all of this, is a valid one. But I think as we go through this quarter, you will see that change happening. Let me just hand this over to Dolphy, my colleague, to weigh in on whether the MSME business how it is going to do going forward since he is spending a lot of time looking at it.

Dolphy Jose:

Thank you, Sesh. I am glad you brought that up. So, this is the first quarter in several years where both our MBG and ECG, which is MBG stands for our MSME business group and ECG stands for our emerging corporate portfolio. This has turned decisively positive in net accretion in this first quarter. And the earlier drag was largely due to legacy cleanup and cautious stance has now transitioned into a positive cadence mode. So, we are seeing a strong demand on the MSME across the mid-market, and emerging corporate segment. And very visibly seen in our portfolio mix today in overall advances, a lot of growth has come from outside of the state of Kerala. And in fact, our overall advances, 30% is still in the state of Kerala and 70% comes from outside of Kerala. And for MSME specifically, around 61% of our overall MSME business comes from outside of Kerala. The turnaround is not just numeric. It is a strategic shift towards reshaping our overall portfolio mix. We are proceeding towards improving the blended yield then keeping our customer franchisee in the coming quarters. So, on the MSME segment per say, what would we do differently? If you ask us to have better representation outside of the state of Kerala is what we did consciously. And we split our MSME businesses into two zones, particularly, one, which is South where we have a separate regional person who manages South, excluding Kerala, specifically, which covers four states other than Kerala, and we have rest of India as another zone. So, this has given us in getting the right person behind the wheel and the right talent behind the wheel is what we did, and that is working perfectly well. And the positive cadence is actually coming from those geographies where we thought we should represent ourselves better. So, that is clearly visible. We have also done further for overall advances, we have typically two verticals which we run today, which is one is the branch channel, which is our largest franchisee, which takes to the customer all our products except the corporate banking as a product. And we have non-branch channels. So, we have these two verticals primarily which looked at our advances business separately and evaluated and measured separately. In our non-branch, we have two channels, of course, the DSA and the alternative channel and the digital acquisition channel, which also includes co-lending and co-origination and partnerships. This is how we are proceeding and the accretion is very visible. And it is a positive pulse, and we intend to move forward in this direction.

Jai Chauhan:

Got it. Thank you so much for a very detailed answer. That is it from my side.

Moderator:

The next question is from the line of Sneha Ganatra from Star Union. Please go ahead.

Sneha Ganatra:

Hello! A couple of questions, sir, from my side. First is recently the new additional steps which have been taken on the MSME and on the corporate side, how do you expect that the overall operating leverage to benefit? And how do you see that the overall ROA numbers to be kicking in? And what are the strategy on the branch expansion side? And one more question is how do you see the overall credit cost and any internal target you have set to maintain your PCR?

P R Seshadri:

I could not hear you very well. So, I will try and answer the portions that I heard reasonably well. So, the last question was how do I see credit costs? So, credit costs were elevated for this quarter as we continue to build incremental provisions to bring down our overall net NPA numbers, whereas the net slippage, the slippage for us for the quarter came in very low at only 20 basis points. So, on an annualized basis, our slippage was 80 basis points. Our sequentially previous quarter, slippage was 24 basis points, so annualized is 96 basis points. So, we have now consistently been lesser than 100 basis points. We expect in the remaining three quarters to not have to build provisions in the same measure as we have done this quarter and therefore help the P&L appropriately. I mean, therefore, given the fact that our net NPA number is at 68 basis points, which is perfectly respectable, the pressure on us to continue to provide incrementally to what is required under IRAC reduces that much and therefore, credit costs should trend down very considerably as we go forward unless there is an eventuality that we are not able to foresee at this point in time. Now, you were talking about operating leverage. From an operating leverage point of view, this quarter, we again have positive operating leverage; our revenues grew 13%, expenses were flat and therefore, pre-provisioning operating profit grew 32%. So, as we go forward, we think that there is going to be some amount of pressure on the expense front as we hire incremental people to bolster our sales forces. But at the same time, we want to front-load it with as much revenue as is possible. So, we continue to think that we will have positive operating leverage as we go through this year. We are reasonably keen on ensuring that we end this year also where the rate of growth of revenue is higher than the rate of growth of expenses. That is an aim that we have. We hope that we are able to achieve it and which in turn will enable us to have reasonable buoyancy at the pre-provisioning operating profit level. We are little challenged from the perspective of NIMs because the interest rate regime has been quite unfavorable. As the external benchmarks have reduced, our cost of money has not moved with sync, and that has not yet fully flown-through our P&L. So, that is a key monitorable. We need to manage that aggressively. And the way we are trying to address that is to see if we can grow our higher-yield books a little bit more aggressively than we were in the past and try and restore this as quickly as is possible. But having said that, in the near-term, those challenges will continue to remain. So, we are cognizant of it, and we will try and manage it the best we can. The first part of your question is not audible. Branch expansion. As of this moment, we are not considering branch expansion. We want to wait for a more appropriate point in time when our revenue expense mix is a little bit more favorable before we start expanding branches. And when we do, our branches will be more in Peninsular India, Maharashtra, Gujarat, and the National Capital Region. So, at this immediate juncture, we are not looking at any branch expansion. We just want to sweat our branches more so that we can get greater throughput from our branches.

Sneha Ganatra:

Any number you would like to assign on credit growth as well as deposit growth which we are targeting?

- P R Seshadri:** We will grow credit at north of 12% for this year. Deposit growth will be in accordance with credit growth. What do you think, Dolphy?
- Dolphy Jose:** Deposit growth has been fabulous so far and I think we will continue that kind of growth cadence for sure. So, I do not think it is an issue. Also, on the deposit side, we should know that we are pretty well poised on the NR segment and around (+30%) of our total deposit base is coming from NR. And that is predominantly SA, that is a low-cost deposit which we have in favor of us. So, we have also taken a lot of new initiatives to increase this space and continue to pursue the NR deposit base and that we will see progressive impact on our deposit base in the future.
- Sneha Ganatra:** Sir, one more question. How do you see the overall return ratios to be moving on for this fiscal as well as the next fiscal? Any target further to maintain an RoA?
- P R Seshadri:** The return on assets for this fiscal, I mean, as long as the net slippages remain in these levels, we should be able to accommodate, and we should be able to return RoAs in the 100 basis points neighborhood. As the environment becomes a little bit more benign, i.e., our cost of funding reduces in line with the repo rate cuts that have taken place, the return on assets will improve in the coming year. We think that at that point in time, we will be closer to about 115 basis points or thereabouts.
- Sneha Ganatra:** Okay. Got it. Thank you so much and all the best.
- P R Seshadri:** Thank you.
- Moderator:** The next question is from the line of Darshan Deora from Indvest Group. Please go ahead.
- Darshan Deora:** Yes. Thank you for the opportunity. So, is it fair to say that in this quarter, we had some treasury income, which we sort of have used to increase our PCR?
- P R Seshadri:** Okay. It is a right assertion. We had INR256 crores worth of treasury income during the quarter. And we use that opportunity to ensure that whatever incremental provisioning we needed to make so that our books are completely clean is done.
- Darshan Deora:** Got it. Got it. So, that is a good initiative. The second question I had was, generally speaking, as M.D. sir has outlined very eloquently on earlier occasions the need for moving more into high yielding loan products. But obviously, this quarter, when you just look at the numbers, I mean, I know you spoke about looking at it qualitatively. But just quantitatively, the MSME numbers do not look very encouraging. And just as investors, I guess, we would like to see more progress there. But the second question I had was regarding the home loans. We seem to have been getting reasonable growth on the home loan side. Is this a mix of prime and affordable or is it primarily prime home loans, which I would assume would be fairly finely priced, right?

- Dolphy Jose:** This is prime home loans. I mean we have just about started with the affordable home loan vertical, and that is probably about a couple of months old, and we are still yet to see some good accretion there. But to answer your question, yes, this is dominantly primary.
- Darshan Deora:** And what would be the average yield on these home loans?
- Dolphy Jose:** So, our average yield is at around 8.3% to 8.5%. It ranges there. That is a ballpark average. But I can say around 8.4%, you can keep it as our average.
- Darshan Deora:** So, just in terms of our overall strategy of moving towards more high yielding products, I mean, I know the home loans bring with it some other benefits, right, like probably more savings balances by the customers. But I just want to know how that sort of fits into our overall goal of increasing the overall yields on the book.
- Dolphy Jose:** Yes. Good question. I would like to answer this specifically because this is what is the current challenge, not in a very isolated way that it is specific or unique to our Bank. But this is the issue, I think across fraternity, I think this is what the issue is. Now you are right about home loan. I mean, sometimes we do have debates on the economics of home loan, how is it going to really shape up unless I can double down or triple down the volumes, which will actually give me the NII effect. So, having said that, I would like to correct you here. It is not higher yield, but better yield business is what we want to get into because the underline is that we do not want to compromise quality for sure. So, better yielding is where we want to progressively move forward, and that would be primarily the MSME LAP, and we are looking at gold loan pretty seriously to scale it up. And these are primarily secured and in fact, gold is 100% liquid collateral secured and all of that. And post complete clarity from the regulator side on the policy and for gold loans, I think we are very much geared up to scale it to the next level. So, gold loan, LAP and, MSME retail, we have done a lot of progress in the sense we have backed it up with product with processes for the MSME retail segment. And I think we are doing very positive progress there. So, I think that is what our primary focus is going to be, and which will help us to reshape our portfolio mix.
- P R Seshadri:** To answer, some of this is not entirely visible largely because our MSME book has two components. One is the high yield bit and the other is a low yield business, which is largely LC-backed bills.
- Darshan Deora:** Your voice is breaking up. I am not able to hear you clearly. Can you just repeat?
- P R Seshadri:** Our MSME business has two components. One is the high yield component, which is where we do the ODCC and other such facilities and the other is an LC-backed bill component. So, where we are discounting bills drawn on other institutions, that has very low capital charge, but it has very tight spreads. So, where you are seeing declining balances is on the LC-backed bill side, whereas in the core areas that where we want growth, we have had reasonable growth in the first quarter, which is

a change from the past. In the past, this portfolio, we were struggling to get growth. So, we have got in the areas that we do want growth, we have got it in the first quarter, and we are reasonably confident that it will continue as we go into Q2 and Q3. We do have large chunks of our portfolio, which are low yield, but low risk. So, as our marketing capabilities and sales capabilities and our processing capabilities improve, we have to cycle out of these low risk, low yield businesses into higher yield, but manageable risk businesses. And that is when the NIMs will start growing. It is unfortunate that the repo reduction has happened when it did because structurally, as we get into this quarter and the following quarter, that is when we would have been able to see some amount of movement in that direction. But unfortunately, all of that is going to now get a little impacted by the changes in the benchmarks and the issues arising there from. So, I trust that answers your question.

Darshan Deora: Yes, yes, it does. Thank you for that explanation. I really appreciate it.

Moderator: The next question is from the line of Mr. Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good afternoon, sir. Thanks for the opportunity. Sir, firstly, I just wanted to understand what is the outstanding AFS reserve?

Vinod Francis: It is close to around INR8 crores.

Rohan Mandora: Okay. Second, in this quarter, we have seen healthy growth on the current deposits. I just want to understand what changed in this quarter. And how sticky will this be? And secondly, on the term deposits also, we have seen a good sequential growth of 3%, 3.5%, plus we did some CDs I think. So, in a quarter where we knew that the deposit rates are going down, was there any specific thought process behind raising the deposits more in this quarter than waiting for maybe one or two months and then going aggressive on deposit growth? Because when we are onboarding retail deposits, the cost gets locked in for almost 15 to 18 months.

P R Seshadri: So, our peak rates are offered at 12 months and 7 days. We do not offer peak rates at the longer end of the curve. Deposits, when you have a customer franchise, and we are priced lower than our larger peers. So, till this morning, we were priced 10 basis points lower than our larger peer in the same geography. And only this morning, our larger peer has reduced its pricing on deposits to our level. So, consistently over the last quarter, we were priced between 10 and 15 basis points lower than competition and yet our time deposits grew. That is because we have a decent liability franchise. We have some kind of relationship with our customers, and they do not mind placing money with us even if it is at a lower rate than some of the larger institutions in our neighborhood. So, the thing is it is not possible to turn these things on and off at will. You have a relationship; you have to maintain those relationships. When those deposits become available, you cannot deny those deposits. You can only price those deposits appropriately. So, liquidity in the environment improves. We reduced our rates quite early. You can see that our cost of borrowing has been coming off quite nicely. In spite of

that, deposits came in. I think there was some amount of management action to say, hey, let us focus on this a little bit because in the prior year, we had problems of availability, and therefore, we did not want to be in a situation where deposit growth becomes a limiting factor on portfolio growth. So, consequently, we are where we are. There is no particular reason why we have raised this. On the current account and savings account side, we have a very good mix of retail customers, TASC customers and government customers. And some of the customers that we have has cyclical in their business, and they tend to have current account and savings account growth that comes in, in Q1 and Q2, which was particularly visible during this year. And the fact that rates in the environment had come off as well also helps in current accounts, savings account growth because alternate methods of deploying the money become a little less attractive. So, all of this comes together to give us the outcomes that we got during the last quarter.

Rohan Mandora: Sure, sir. And sir, on the corporate book, the rating profile has tilted towards AAA, while we are trying to onboard customers which are higher yielding to have NIM expansion, but the share of AAA is going up. So, what is the strategy there or thought process there?

P R Seshadri: See, on the corporate side, we are not going down the chain very aggressively nor are we enhancing tenors. On the corporate side, we have a double disadvantage in some senses. We are very rating sensitive in the sense that we prioritize higher ratings over lower ratings. So, we have a very large chunk of our book, either AAA or AA. And also, we prioritize shorter duration. So, a very vast part of this book has very low duration, which is why the total disbursements are very high. So, those give us flexibility, and we are not tied in for a long duration loan with most of these corporates. But having said, it has the flip side of having significantly lower NIMs. The idea was that as our ability to originate MSME and retail increases, at that point in time, it gives us the flexibility to dial down the corporate. Unfortunately, we have not got the level of growth that we wanted, but the situation is becoming more and more encouraging as we speak. And we think that this temporary disadvantage that we have, will turn into an advantage as we go forward. I mean that is the strategic intent in any case.

Rohan Mandora: And sir, lastly, of the 100 bps of repo that has happened on a portfolio basis, blended impact, how much would we have already passed on and how much do we expect to pass in 2Q?

P R Seshadri: We passed on the entire 100 basis points.

Rohan Mandora: Okay. So, 100 basis points has been passed on T+1?

P R Seshadri: Yes, T+1.

Rohan Mandora: Sure. Thanks.

- Moderator:** The next question is from the line of Subhanshi Rathi from Anand Rathi. Please go ahead.
- Subhanshi Rathi:** Hello, sir. My question would be what is the write-off pool for this quarter and income from this pool during the quarter?
- P R Seshadri:** Sorry, Subhanshi, can you repeat that? We could not hear you very well.
- Subhanshi Rathi:** Sir, could you please share the write-off pool amount and the income that is recovered from this in this quarter?
- P R Seshadri:** Amount written off since recovered for the quarter was INR37 crores. So, that is the income that has come from amounts written off which has since been recovered.
- Subhanshi Rathi:** Yes. And what was the amount written off?
- Vinod Francis:** It is around INR2,400 crores.
- P R Seshadri:** It is INR2,400 crores approximately.
- Subhanshi Rathi:** Okay, sir. Thank you.
- Moderator:** The next question is from the line of Himanshu Upadhyay from BugleRock. Please go ahead.
- Himanshu Upadhyay:** Yes, hi, good afternoon. My first question was on this branch value addition you gave region wise, okay, and consolidated, okay? If we look at the branch value addition that region wise, over a period of time, there is a big difference which is coming between Kerala and outside Kerala, okay? And what would be the reason for that? And secondly, we have a large chunk of branches in Kerala. So, how do our overall numbers improve over a period of time if we do not see much of value addition happening at Kerala branches, some thoughts will be helpful on that?
- P R Seshadri:** I think you asked a very valid question. The reasons for lower value addition are manifold in the sense that our branches in Kerala tend to be staffed more and therefore, the base level of value addition tends to be higher to start with. The opportunity space in Kerala is different from the opportunity space in other markets. So, some of the things that we can do in other markets where large manufacturing entities exist, let us say, you are operating in Tamil Nadu in Coimbatore, for instance, there are large number of MSME units, that luxury does not exist in many parts of Kerala. And therefore, there is this difference that comes about. So, we are very conscious of this. We are tracking it. We are trying to get these numbers to go up. The drivers of productivity are also different. In Kerala, we get a lot of value addition on the liability side, whereas outside of Kerala, we get more value addition from the asset side of the book and both of which are critical for us. So, we are very

conscious. We are trying to get all our regions to perform the way at the highest level. So, I trust that answers your question.

Himanshu Upadhyay: And secondly, though what we are seeing is a mean, okay? How fat are the tails, okay? So, regions or branches which are doing extremely well and are much higher and some branches which may be near than 100 only. So, are we seeing fat tails or you see the clustering is happening with the mean only because if the tails are fat -?

P R Seshadri: It is a very good question. I will be honest with you. We can give you those details since all of it is available. I suspect that we will have a reasonable tail, fat tail. But I do not have the answer readily off hand. But it is a good question. We can come back to you subsequently with an answer as to what the distribution of these numbers are, the mean of which is on the chart.

Himanshu Upadhyay: And do you think that improvement would remain on the South and rest of India only majorly over next two years also or the trend will remain similar, or you think Kerala will start having in next one or two years means the improvement what we were expecting?

P R Seshadri: I am confident that we will get value addition growth both in Kerala and other parts of India. The rates of growth may be different, but I think the trend lines will be that definitely value addition will grow. And since we now have the tools to measure it, and the incentive structures to support growth, we are reasonably confident that these numbers will show an upward movement as we go forward.

Himanshu Upadhyay: And we had this branch level incentive scheme, okay, where all employees get benefit based on how they try to distribute. So, this branch value addition, is it happening or it is getting implemented in terms of incentives also or are we continuing with that scheme and branch value addition as a key driver or how is it?

P R Seshadri: Yes, it is implemented, and incentives are being paid on a quarterly basis. That is helping us grow productivity. As you can see, I mean, it is a pretty significant growth, 60% growth. Quarter 1 is actually normally a historically weak quarter for us, because there are lots of transfers and all of that happen, and it tends to be a difficult quarter. In spite of all of this, for the first time, we have had a bunch of positive outcomes in the first quarter and which we see as a very, very positive situation. So, the incentives at the branch level are being paid out quarterly.

Moderator: The next question is from the line of Mr. Rajagopal Ramanathan from Sadakush Please go ahead.

R Ramanathan: So, you did indicate that aspirationally, say, in the next three years or so, you would want the Bank to have an RoA of around 1.5%, but please help me understand how is this going to be possible given that your loans liquidate so quickly? And I would presume that your operating cost intensity is also slightly on the higher side because of this very reason. You need to keep originating a large quantum

and almost an equal quantum gets repaid in the same year. So, if operational cost leverage does not come through, it seems to be a very, very difficult task. Would you not agree?

P R Seshadri:

A very good question. And there is a germ of truth in it, but it is not fully accurate. The simple reason that operational costs for us are largely human being costs. These are fixed costs. And the huge churn that you see is on the corporate book. So, the number of transactions are not that many. The value of each ticket is very large. And therefore, they are not very cost accretive. Now the question that you ask, saying that, hey, if you are going to lend money, very short duration, how are you going to get higher yields? That is a very, very valid question. And for which the answer is that we have to cycle out of this and get into MSME, retail, affordable housing, personal loans, the higher yield products have to come. We have to get growth there so that we can then start slowly getting out of these corporate loans that we have, the shorter duration corporate loans. And that is why we are saying that over a period of time, if we are able to do that, automatically, spreads will improve and consequently, your return on assets will improve because the cost will be by and large where we are at this point in time. There may be some marginal increase, but we have proven that we can manage these costs reasonably well over the last two years and therefore, we should be able to get the outcomes that are favorable. So, the transaction intensity in this product in the corporate side is not really that much of a problem nor is it costing us a great deal of money. I mean, obviously, it will be cheaper if we had fewer transactions, but it is not structurally impairing us very dramatically. The bigger problem that we have is the slow pace of growth of our retail and MSME books. The higher yielding books are not growing as fast as we would like. And the moment that growth starts coming through, which is what we think will happen over a three-year period, that is when you will see significant accretion to our P&L and that in turn will drive an increased return on assets. Does that kind of answer your question?

R Ramanathan:

It does. But I just have one final follow-up. What is constraining this growth? Because see, we have to all accept that as a system, we are no longer going back to the 20%, 25% loan growth days, okay? So, those days are gone. You had banks which had 50%, 60% CD ratios. Now you also are operating at closer to around 78%, 80% CD ratios. So, clearly, we are not going to go back to those days where we are going to be hitting much, much higher levels of loan growth. What constraints are currently there for you? And realistically, with this cost base, do you think this aspiration is achievable in a three-year period or maybe you think you might have to probably elongate this goal to maybe say a five, seven-year period?

P R Seshadri:

Good question again. See, I mean, whatever be the systemic growth rate, since we are a small player, our growth rate does not need to be tied to the systemic growth rate. The reason why we were not able to grow was internal to us, not external to us. And one of the issues that we had was that our systems and processes were non-industry standard, and we were doing things differently, and we were not doing them efficiently. So, over the last 12, 15 months, we have been building out new

systems, new journeys, new processes, if not industry standard at least as good as the best in the industry. I mean we are trying to get them to a place where we do things as well as anybody else who is really competent in this subject can do it. And that, to my mind, gives us a right to actually grow reasonably well. And since we have the raw powder, which is basically we have the liquidity, we have the distribution, we have eight million customers, we have the right to actually, I think, grow a little bit perhaps faster than what other people are growing. And our historical impediments having been taken away, we think that we should be able to grow significantly faster than before, even though the entire environment may not be growing that fast. So, you are right, "Can we do it in three years?" "Will it take longer than three years? I do not know. I mean, on an excel spreadsheet, it is very easy to put numbers and come up with outcomes. As of this moment, we still think that a three-year time horizon, we should be able to change the internal dynamics of this place in such a manner that we can get closer to 1.5 than we are. If not to 1.5, we get to 1.4 or thereabouts over a three-year time horizon. We have demonstrated that we are able to manage costs. So, over the last 18 months or so, we have not really grown our costs very much. We have demonstrated that we can get revenue growth. Even if under certain circumstances, the revenue growth is predicated on treasury revenues and so on and so forth. So, I think there is a reasonable amount of mindfulness in all of this. I think we have a shot at doing what we have set out to do. It is not easy by any means, but nor is it completely far-fetched. So, I do not know if that answers your question.

R Ramanathan:

It does to a degree. I would just want to wish you all the best, but I still believe it is a tough ask. It is a tough ask, and I hope you and your entire team manage to come as close as possible to your aspirational goal.

P R Seshadri:

Thank you very much.

Moderator:

The next question is from the line of Mr. Jai Mundhra. Please go ahead.

Jai Mundhra:

Sir, just continuing from the previous question, so I wanted to check, we have introduced new products, especially on MSME side, right? I can see there are a lot of digitally enabled products and I think systems, processes, most of that, we have seen a decent, let us say, traction or timeline, but the MSME growth is still flattish. What is your sense, I mean, when can we get, let us say, a 10% growth in MSME, is it like going to take within this fiscal year, can we get a 10% growth in MSME or that may take even longer duration? And is there anything specific which is hindering this?

Dolphy Jose:

Hi Jai, Dolphy here. In continuation to the previous question also, it was a very elaborate question where highlighting that the way ahead of course it is going to be challenging. And I think it is going to be challenging for the entire fraternity. Let us agree to that. When we categorize banks, we have small banks, we have mid-sized banks and we have large banks. And all the three differentiated bankers has very specific strategic challenges. For a small Bank, there is XYZ as a challenge and a mid-size and a larger. Where I would rather answer this question is in a comparable standard, where

do I stand and what is my advantage and how am I going to leverage? So, if I broadly say this is the scope where I am going to answer this question, I think I stand in a good stead. So, being a small Bank, we have certain agility, being a small Bank with a good liability base, we have that as an advantage. If I want to go today, if anything is tabled on an overly price-managed situation, I can. I would not let go competition for pricing today because I have that advantage of low-cost liability. Whether I will publish my rates tomorrow and say that, yes, I am going to be at this price. And if I have the cloud to pull and demand volume, I may not. But I will not let go any competition on pricing on the table. So, that is what my advantage is and I will continue to be a Bank which want to consistently deliver double-digit numbers. And I would concur with our growth guidance and probably try and do it better. And I think we are well-poised in a situation like this in compared to the other three differentiated Bank sizes which I mentioned. Your question is on the MSME side. We are looking at close to about 15% to 18% growth in the MSME side, not 10%. And I think we are in a good stead. Our denominators are not that challenging. So, we can easily look at those double-digit numbers and go for it. We have just started getting good accretion on the outside of Kerala geographies, and we have got our arms and legs there and we are really working hard on the distribution side. We have also come out with certain hub-and-spoke model, specifically catering to the geographies like Karnataka, Maharashtra, Gujarat, and Tamil Nadu, where we have a hub-and-spoke model on both distribution as well as on credit underwriting. So, this is to basically go deep down and start acquiring on a field underwriting kind of a model where we can deep dive, get into deeper buying and we intend to cater to the MSME segment far more. I would not say aggressively, but better and deeper. So, that is the idea. And the opportunity is at large. And as I told you, to get a double-digit 15% to 18% kind of growth consistently is not a large task for us.

Jai Mundhra:

Sure. And lastly, sir, if you can give the breakup of your loan book by benchmark, I mean, how much is repo, T-bill, and MCLR? And a related question, how do you see NIM progressing? We have seen 18 basis points decline and you have already let us say, passed on whatever on a T+1 basis. When should the NIM bottom? I mean, does it bottom in Q2, or do you think there is a chance that it may still go down in Q3 or Q2 should be bottom and Q3 should be moving upward?

P R Seshadri:

So, let me try and answer that. Roughly 40% of our book is either repo or T-bill, okay? The rest is either MCLR or fixed rate, almost 50% is fixed rate. So, our structure of our balance sheet is not that adverse. I think the bottoming out of all of this is going to happen in Q2 unless RBI changes repo rate again in Q2 at some point in time, in which case, the impact of that will carry through into Q3. If there is no change, the repricing on the existing deposit book will take place. And actually, the spread will start widening again in Q3 going forward unless there is market disruption. Now in Q1, there was complete madness on pricing, especially for large corporate transactions. I think there was a dearth of assets, and the banks were scrambling and offering pricing on assets, which were significantly lower than the prior quarter. Now assuming that kind of scenario does not continue and assuming some kind of normality returns to the pricing sphere in the marketplace, I think Q3 onwards,

you should see some normalization of all of this happening. So, I do not know. Jai, does that answer your question or is there anything else you would like to -?

Jai Mundhra: No, no. That answers, yes. Thanks a lot, sir.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

P R Seshadri: We would like to thank all of you for being here with us today. We really appreciate the time that you have spent with us and the penetrating questions that you have asked us. I think we have had a decent quarter during the first quarter. It was difficult, but the outcomes have been reasonably good for us. We are hoping that the actions that we have taken thus far will help the Bank grow from strength to strength as we go forward. Thank you, ladies and gentlemen, for being with us.

Moderator: Thank you, ladies and gentlemen. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.