



“CSB Bank Limited Q4 FY2025 Earnings Conference Call”

April 28, 2025, 05.30 PM IST

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Moderator:

Ladies and gentlemen, good day, and welcome to CSB Bank's Q4 FY '25 Conference Call hosted by YES Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shivaji Thapliyal from YES Securities. Thank you, and over to you, sir.

Shivaji Thapliyal:

Thank you Rutuja. Good evening and a warm welcome to all those who have joined the call. The CSB Bank's management is represented by; Mr. Pralay Mondal, Managing Director and CEO; Mr. B.K. Divakara, Executive Director and Mr. Satish Gundewar, Chief Financial Officer.

We specifically thank the management of CSB Bank for giving YES Securities the opportunity to host their result call. The management will first be making some opening remarks, after which we will throw the floor open for questions.

I now invite the management to make their opening remarks. Pralay, over to you.

Pralay Mondal:

Thank you Shivaji and good afternoon, everybody. I will give a brief understanding of the global scenario and then quickly move on to CSB's specifics. Globally, I think all of us know that the uncertainties have risen significantly in the last one quarter. It is reflected in the movement of interest and currency rates and commodity prices.

Bank of England and ECB have cut the policy rates and are likely to cut even further. However, FED may take a wait and watch stance for the time-being. The tariff negotiations are likely to impact global growth adversely and may become inflationary for the US as well.

Indian economy is not insulated either from the global uncertainties and will also be impacted to a considerable extent. RBI has taken proactive steps in managing the liquidity. Banking system has remained in surplus liquidity since the last fortnight of March '25. A series of OMOs aided by benign inflation expectation has also brought the G-Sec yield curve down. The money market curve and CD curve have moved down by 50 to 100 basis points during this period.

The final LCR guidelines have smoothened the liquidity pressure. RBI has also lowered the growth expectation for the financial year to 6.5% from 6.7% earlier and have started to cut repo rates to boost the domestic consumption.

Taking a cue from the ongoing tariff war and consequent uncertainty, IMF and World Bank has lowered GDP estimation to 6.2% and 6.3%, respectively. We expect the liquidity condition to ease further and more reduction in policy rates is on the cards, in this financial year.

Coming to CSB specifics, let us start with profitability. The net profit for the full year FY '25 stood at INR 594 crores, which is 5% growth on a year-on-year basis and Q4 FY 25 on a stand-alone basis was at INR 190 crores, which is 26% growth vs Q4 FY 24.

Operating profit of the bank for full year is INR 910 crores and Q4 FY '25 is INR 317 crores with a growth of 17% and 39% on a FY and quarterly basis, respectively. Other income registered a 94% growth on a quarterly basis and 66% on an FY basis.

Other income constituted 21% of the total income for FY '25. On the cost-to-income side, the ratio is showing a declining trend on a sequential basis and stood below 60% for Q4 FY '25 at 57.92%. Cost-to-income ratio for the full year stood at 62.82%, which is almost in line with last FY.

NIM could be sustained above 4% on FY basis at 4.13%, in spite of the higher interest rate cost looming in the system. NIM for the quarter is marginally below 4% at 3.75%. I'm sure there will be questions on this, and we will respond to them at the relevant point of time.

ROA stood at 1.79% for the quarter ended 31/3/25 and 1.53% on a full year basis. Bank is holding the contingency provisions intact and is continuing with the accelerated loan provisioning policy.

On the liability side, we had a robust deposit growth of 24% year-on-year; amid a slow-paced industry growth of around 10%. CASA grew by 10% Y-o-Y and CASA ratio stands now at 24.19%. We complemented our funding with FCY borrowings and refinance based on cost considerations. This helped us in maintaining the LCR at comfortable level. However, some cost escalation happened for a few months because of the hedging cost, which we can cover through the conversations later.

On the liquidity front, we could efficiently manage the liquidity risk. We were careful because of the uncertainties in the ecosystem. CD ratio stood at 86%. Average LCR for the quarter is 124% and NSFR ratio was at 121%.

On the asset growth, net advance grew by 29% Y-o-Y- which is higher than 2x times over industry growth of 12%. All the verticals have started contributing towards the asset growth, and this is the highlight of this quarter and hopefully going ahead. Gold portfolio registered a growth of 35% Y-o-Y. Retail assets excluding gold grew by 24%. SME continued with the growth momentum and registered a growth of 33%. Wholesale banking portfolio grew by 22% despite the impact of liquidation of almost the entire DA portfolio, which degrew by 89%. Corporate loans on a stand-alone basis grew by 44%. Yield on advances for Q4 FY '25 is at 10.98%.

Asset quality ratios are stable. GNPA and NNPA ratios for the quarter was 1.57% and 0.52% as against 1.58% and 0.64% respectively with a mild improvement on a Q-on-Q basis. PCR now stands at 83.71% with PWO and 67.19% without PWO. We have significantly improved on PCR compared to last quarter where it was ~ 60% without PWO. Bank is holding a provisioning buffer of around INR 185 crores over and above the regulatory requirements.

On the capital adequacy front, our CRAR ratio was 22.46% with a Tier 1 ratio of 20.59%. We have a low proportion of risk-weighted assets compared to the industry. On the shareholder value creation, book value per share is at INR 249. EPS for the year is INR 34.23. ROE for the year is 15.44%.

We expanded our distribution network to 829 branches and 791 ATMs as of March end. We have added 56 new branches during the FY and merged 6 branches as a part of branch rationalization.

In conclusion, I would like to say that our top line, both deposits and advances showed a strong sequential and YTD growth. In Q4, our focus was slightly more on the deposit front given the liquidity conditions prevailing in the system. We could manage the funding part effectively and maintained the liquidity ratios like CD ratio, LCR, etc., at comfortable levels. The asset verticals also contributed to the liability growth by way of self-funding. CASA also registered a yearly growth of 10%. On the advance front, it is heartening to note that all the verticals have shown consistent growth, signaling the journey that we are targeting as a part of our SBS 2030 vision.

We are looking forward to modernization of our entire tech stack, and this is the biggest excitement that's going on in the bank right now. And through the call, I'll cover some of this in detail. We are migrating our CBS to Oracle system along with the implementation of various surround systems. Everything in the bank is changing as it comes to the tech stack, and this will help us in targeting new segments, new businesses, transaction banking, wholesale banking, retail assets scale up etc. Going ahead, each vertical will have the levers to grow at a larger pace once the tech transformation is completed.

Building of the customer franchise journey will really start at the end of this tech transformation, which at best will be done in the next 3 to 6 months' time. This will be a big year for us, and we'll be laying strong foundation for materializing our long-term goals. Towards executing this right, we are working as one team and ensuring participation of all staff members. From a digital perspective also, we are changing the UI/UX. We are going for the OBDX platform.

This FY is going to be more eventful as we have to do lot of balancing act between growth, cost, profitability, etc along with the migration process. The pace of network expansion will remain at least at par with the last FY. We will strive to maintain our guidance on key parameters and endeavour to deliver consistently quarter-on-quarter. In short, our SBS journey, which we started in FY 22, is in the last phase of build journey, and our scale journey will start from FY '27. From FY '27 to '30, it is mostly execution and scaling.

With that, I hand it over for questions. Thank you very much.

Moderator: The first question is from the line of Dhaval from DSP Mutual Fund.

Dhaval: Thanks for the opportunity and congratulations on the good performance. I just had two questions.

Moderator: I'm sorry to interrupt you, Mr. Dhaval, we are unable to hear you clearly. We'll move to the next question, which is from the line of Suraj Das from Sundaram Mutual Fund.

Suraj Das: Sir, two - three questions. First one is on the fee income. This quarter, the fee income has been very strong. If you can give some rationale and the sustainability of the same?

Pralay Mondal: You want to ask all the questions together or one by one.

Suraj Das: Okay. So that is one. The second one is on the slippages part, slippages again, I mean quarter-on-quarter has seen some uptick. Is this because of the MFI book? I think that book was minimal for you.

Thirdly, I think you were saying something in the opening remarks in terms of hedging and all. So, if you can explain that, I mean, what has been that thing? And is that the rationale behind your cost of funds increasing higher than the cost of deposit this full year?

Pralay Mondal:

Thanks for your questions. I will take the first one first, which is the fee income. We had a very strong quarter on fee income. The primary drivers of this fee income is insurance, transaction fees etc. In wholesale, when you see it's a 22% growth, this quarter itself, we have grown from INR 750 crores of disbursement in Q1 to almost INR 1,900 crore disbursement in quarter 4. Along with this, some transaction banking fees has also come in. Thirdly, treasury income has also been good for us this quarter. Fourthly, we also got some PSLC benefits out of our gold loan, Agri and other PSL qualifying portfolios. A combination of all these and other usual income lines like liability, credit cards, retail assets, processing fee etc helped us in overall fees collection. Gold loans also contributed to the processing fee significantly. It is a combination of 7 to 8 items which has contributed to this growth. But within this, gold, wholesale banking, treasury, PSLC and insurance - these are the 5 major items.

On treasury, I will combine this point along with your last question, which is hedging. None of us knew that liquidity would get comfortable by the end of the quarter. Being a very risk averse kind of a bank, we didn't want to take liquidity risk. We created enough buffer in terms of liquidity into the system and this happened (a) through deposits (b) through CDs (c) FCY borrowings and (d) through other borrowings like SIDBI refinance etc. We were sitting on a little bit of excess liquidity for the first 2 months of the quarter. In addition, most of the forecasts, which are expected to happen on the asset side came during quarter end, especially the wholesale business. A part of SME also happened towards end of the quarter. This excess liquidity created some challenge for us in terms of margins. In the money market, you don't get that kind of a yield. We were effectively working on very low spread there. But during the process, we did some trading and gained on a mark-to-market basis. After growing 30% year-on-year on advances, we are still having an LCR average of 124% for the whole quarter - what we lost on the NIM side, we gained on the other income side. But this is kind of a one-off. It happened because (a) G sec yield curve came down; and (b) we were sitting on excess liquidity.

Coming to the hedging, we have a funding mix comprising of 13% of borrowings. Out of that, almost 8 to 9 % is FCY borrowing. Because of the global uncertainty, tariff war and all of that happened, the hedging costs went up because of which, while we are expecting the FCY borrowing cost to come down as these are all SOFR linked, SOFR didn't come down that much last quarter and hedging costs temporarily went up, which took our cost of funds a little higher. This is one of the reasons for our overall NIM compression. But that we made good through other income, through the treasury.

On slippages/provision point, we had some slippages. It is a combination of 2 - 3 things. There are some migration provisions which happened this quarter as part of the planned provisioning. Our unsecured book, which we had stopped sometime back like PL, 2-wheelers, Agri, MFI etc, which we sort of call either unsecured or pseudo unsecured had some slippages. Here we take a larger provision - like 50% immediate provision. The migration provision of this portfolio will also be higher impacting total provision amount. Here the good thing is that this is starting to come down. The retail unsecured book share is less than 3.5% for us right now. We also took some prudent provisions over and above the internal accelerated /RBI policy prescriptions since our overall

business has been reasonably good. One example is the additional prudent provision hit we took on the security deterioration of few accounts which is not required normally.

It's a combination of 3 things. One is the migration provision that significantly increased this quarter and which was planned. Secondly our unsecured book had some slippages between credit cards, MFI, PL and other unsecured book and we took upfront 50% provision. Third is the prudent provisioning that we took for the security deterioration for few accounts. A combination of these 3 and slightly higher slippages lead to higher NPA provision for the quarter. But we are confident that we should be able to do better than this in FY 26. Overall slippages were around 1.19% in Q4. But if you look at it previously, our slippages in March quarter last year were 2.16%. June quarter was 1.64%. September was 0.93%, December 0.85%. Despite what we have done, it has come to 1.19% in this quarter. It's not that it is significant, but yes, it was slightly higher, and this will start coming down from next quarter onwards.

Moderator:

Next question is from the line of Dhaval from DSP Mutual Fund.

Dhaval:

Congrats on a good quarter. I just had a couple of questions. First was relating to the margin trajectory, some of that you explained in the earlier answer. But just directionally, how do you think margins move from here on for, let's say, the full year FY '26, and if you can give some qualitative comment about first half and second half, that would be useful.

And the second one is on the fee income side, you talked about several factors driving the fee income delta last quarter to this quarter. If you could just sort of normalize it from a one-off that you called out. How much of this is sustainable when you think about FY '26 over '25? Like would we see similar to asset growth from this base? Or it should be lower or higher. Any comments around that would be quite useful.

Pralay Mondal:

Your first question was on NIM. In addition to what I said, our overall business mix is changing. The wholesale business has started picking up. While the total WSB book has grown by 22%, corporate loans grew by 44% on a standalone basis. Incrementally, I just shared that from INR 900 crores of disbursement last quarter, this quarter, we have additionally disbursed almost equal amount or more. That is one impact. Of course, that helps in many other ways, including fees and other income, but it also does not help NIM necessarily. It helps cost to income also, but it doesn't help NIM, that's one.

Second part is that this year, there has been some slippages. Once we have those slightly higher NPA, NIM gets impacted, by way of interest reversals. The third is that we have decisively pulled back on various high-yielding businesses, like PL, Agri, MFI etc considering the systemic stress. When we're de-growing those businesses, the high-yielding businesses is coming down as a proportion. When you look at business to business, like wholesale, what is the yield, SME, what is the yield, retail other than gold what is yield, gold what is yield, all of that is holding, but our overall yield is coming down because of the business mix change. This is a part of a journey, which we had expected and which we are doing decisively.

The fourth point is the higher cost of funds which went up primarily because of liquidity issues. Some of the FD costs were slightly high and also as I just mentioned about FCY borrowing cost and the hedging cost.

The other thing was the idle cash we had for the initial 2 months of this quarter. Though treasury made some money on the other income side, the interest margins were negatively impacted. Overall, it neutralized and hence from an ROA perspective, there is no change.

Now giving the perspective on what lies ahead, I think from a NIM perspective, we have definitely hit the bottom. We will not go below where we are right now. But on a year-on-year, the NIM is 4.13% and we need to see. Our NIM for this quarter is 3.75%, and for the full next year, the guidance will be somewhere in between 3.75% and 4.00% and probably somewhere close to 4% is what will be there.

What was your second question?

Dhaval: Sir, second question was just possible to quantify the one-off...

Pralay Mondal: Fees is sustainable. What we didn't do is, we didn't book the full treasury MTM as we are conscious that G-Sec yields will continue to come down. Given that, we will have significant opportunity to book other income in this financial as well, which is FY '26. What we did is, the idle cash, which was lying around was used for some trading which sort of neutralized the impact between NIM and other income. But I think that on a broad basis, we don't see any fee income coming down next year, if at all, we'll grow on top of this fee income quite handsomely.

Dhaval: Understood. Just one final thing on the growth. So, what we saw was a very strong closing of FY '25 and the overall growth, do you see a similar trajectory in FY '26 because we had some tailwinds on gold, etc. But just generally, how would you think about growth for FY '26?

Pralay Mondal: Frankly speaking, the growth is absolutely not a problem for us, except for the funding part. On the asset side, our wholesale has taken off, our SME has taken off, our gold is doing well, our retail will take off this year after our core system migration and everything is scalable because all our systems will be place in the next 3 to 6 months. The problem is now we have to see that whom we will give what funding to grow. On the asset growth, we can do even higher than what we are doing today. Our constraint will be how much liability we can generate. That is what will constrain our growth. Because of that, we will be in a good place to say which is the franchise growth we want to have and from where we are getting higher risk-adjusted return, that's where we'll do business. We will do a little bit of choosing and picking up the kind of assets, which we want to do next year.

I always say that we play in the range of 8% to 12% on the yield side. That has become true because we have almost stopped most of the businesses, which are above 12% on the yield side and we generally don't go below 8% as well. Hence 8% to 12% is the range. Now we're in a good place to pick and choose. Overall, I think anything between 20% to 25% growth is anticipated as of now. But of course, we have to see.

One strategic call that we took last year was that we will not lock ourselves into long-term deposits, as the interest rates are going to fall. Given that, the repricing of our deposits will start happening in another quarter or 2 quarters. Hence, our ability to manage NIM and then get growth on deposits may not be that difficult. 44% of our asset book, which is gold, is kind of non-elastic to the falling interest rate cycles and that book will remain in the range of 11.5% to 12%, in terms of yield. Given

that non-elasticity that side and if we will be able to get deposits at lesser rates, we should be able to grow deposits also, is my view. But yes, that's the constraint which will limit the growth. It depends on how much deposit growth we can take.

Dhaval:

Just one final thing is on this tech transition. Any interim impact that you see on the performance, etc, or it should be quite smooth is your base scale expectation? Like anything that you want to call out of migration for FY '26? I know '27 onwards, the growth expectation is quite strong, but just '26, anything that you want to call out?

Pralay Mondal:

I will be practical to say that we have to see how this transition goes because any Tech transformation of the size and scale that we're doing, probably is one of the first of its kind in the industry. We are doing OGL, OFSAA, Oracle the core system, the entire tech stack, the entire digital stack, the entire OBDX platform, new CMS, LOS systems, supply chain platforms etc. The entire datacentre migration has already happened. Effectively, we are building the bank afresh in the next 6 months. The way the customer sees the bank and the way that we service the customer, the way we build products, the way we create franchise on the transaction banking, wholesale, retail, SME everywhere- is completely going to change. Our main constraint in this bank was that systems are not there/updated. That's why we are not able to do what we wanted to do.

We are not ignorant about the complexity. But so far it is smooth. Yesterday was our second dry run and people are very happy with the outcome because we had very little or no incidences. Dry run is like a net practice, and we are going for the main match somewhere in May. We have to see how it goes.

We have done everything possible, including training, development to ensure a smooth process. We ourselves are giving 3 to 4 months for stabilizing it. Starting from Q3, which is second half of this year, we will completely go all out in terms of scaling the bank. That's where we are. There could be some issues here and there, which is unforeseen, and unknown. But broadly, since we have the right people and the right vendors, our OEMs, our partners who are working with us, we don't see too much of an issue as such.

Moderator:

The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan:

Firstly, again, just touching on the fee base. So, if I look at the fee income for full year at INR 972- - versus INR 584 crores or so last year. Could you share the breakup between processing fees, commission, first-party fees, forex profit? Could you just give for the full year perspective between this year and last year that would be very helpful?

Pralay Mondal:

I don't think we share that level of details. Whatever we have, we have shared already with you. Beyond that, we don't give a breakup of how much is gold loan fee, how much is forex fee etc. I don't think we give that breakup. Do you give that, Satish?

Satish Gundewar:

No, we don't give that detail.

Mona Khetan:

Okay. But any colour or in terms of how much is coming from corporate related fees that itself could help us understand.

Pralay Mondal:

I just covered that in one of the previous questions in detail. But just to summarize it, overall, 21% is our noninterest income to total income. Generally, what happens is that we are somewhere around 18%. Out of that core fee is around 14% and noncore fee, which is treasury and other related income is around 4%. That has changed a little bit this quarter. Next quarter, it will hopefully come back.

This quarter, I think core fee has remained around 16%, and balance being noncore fee, which is primarily treasury income and PSLC. That's the only change which has happened, and I explained in great detail, why it has happened and why our NIM has got replaced by other income because of this excess fund we were sitting on.

Next year, also, I would assume that decent growth will be there as I know the quantum of G-Sec and the MTM gains that we have as on date and if encashed, that will be much larger than what we had this year. We didn't really encash the AFS last quarter. What we booked was mostly genuine trading profit.

That opportunity will be there next year as well, but that will also be reported under noncore income. Our core fee broadly, if you have to estimate next year as well, will remain around 14% to 15%. Whatever we get on top of that, you can sort of calculate it on every quarter around noncore income, which includes treasury and PSLC.

Mona Khetan:

So, sir, I'm only referring to the core fee part, which is ex of treasury.

Pralay Mondal:

Yes.

Mona Khetan:

Would it be possible to give some understanding how much of this core fee of -- you reported about INR 874 crores of core fees this fiscal at FY '25.

Pralay Mondal:

I can broadly tell you. Our core fee has 4 to 5 components. One is gold loan fee, one is insurance, one is credit card, retail assets, forex and wholesale. Then other things will be penal charges and transaction banking fees, forex and all of that stuff. Of these, the heavy weight is picked up by insurance, gold loan fees and to some extent, the forex and the transaction banking fees. Primarily, these will contribute to almost 80% of our fees, and then there's a liability fees, penal charges and all of that stuff. Say 70%, 80%, or almost 100% of this is scalable. If at all, the reason, I think we should do better next year especially, second half of the year, is that we'll launch retail assets. Corporate banking has just started. The transaction banking, once we have the CMS and supply chain, those systems in place, we'll do a lot more on that side. I think our core fees will only improve over a period of time.

Mona Khetan:

Got it. Perfect. Secondly, on the gold loan book, are you seeing any impact of the draft circular that has come up from?

Pralay Mondal:

Actually, it's too early to comment, because it has not been formally circularised. It is a draft discussion paper and various representations are going on through IBA and other similar bodies. Since these are little operational intensive and things like that, we will not be able to comment now.

I think impact will be in terms of primarily more process orientation. A lot of changes have to be implemented in the systems to be fully compliant to some of the points. We have already started working on this and because our new system will come soon in next quarter, so along with that, we'll start making those changes to the system.

It is more on execution, more systems etc. There are a few things, for example, auction and all of that, those things don't worry us too much. Few references on repledge business and all that, we feel that if they don't come through repledge, it will come to us directly.

Hence, if you ask me, it won't stop those businesses. The amount of work we have to do is a lot more and has to be a little more detailed with revamped systems from a compliance perspective. Broadly, we don't see too much of an impact of this on our business at this point of time, but we have to wait and watch for the final circular.

Mona Khetan:

Sure. Got it. And secondly, on the gold loan book disclosures that you gave around LTV and number of accounts, so I see that the number of accounts has declined Q-on-Q despite the sharp growth in the book. So, what is the reason? And also, LTV has fallen sharply Q-on-Q. So, if you could just throw some light around it.

Pralay Mondal:

Lower LTV is good news because, with prices going up so much, we are not very comfortable in taking the risk of a high LTV on such a high price. We do a very detailed sensitivity analysis of every 10%, 5% drop in gold price and which can happen. Generally, when prices go up, our LTV actually comes down, and that has happened for us. On your question on ticket size or number, one of the primary reasons for that is that we sort of stopped sourcing gold loan business below INR 2 lakh because as per the guidelines, below INR 2 lakhs, you cannot have a collateral security. Hence, we moved up and because of that, the ticket sizes improved, or ticket sizes went up.

If you look at it, our business growth is slightly lower than the overall industry business growth, and this could be one of the reasons. Second reason, of course is as gold prices have gone up - our LTV has gone down. These are the 2 main reasons.

Moderator:

We'll move to the next question, which is from the Chirag Singhal from First Water Fund.

Chirag Singhal:

Sir, first question is on the guidance on the credit cost trend. So, you mentioned that there were a couple of one-offs in Q4, and you also did some prudent provisioning. So, for FY '26, how should I look at the credit cost?

Pralay Mondal:

I think if you look at our overall credit cost, it is somewhere around 29 basis points. We are keeping our credit cost guidance below 30 basis points for next year. We should be able to comfortably achieve this - is our view.

Chirag Singhal:

Okay. And second question is on the other opex. So even that has gone up significantly, if you look at it in Q4 versus previous quarter as well as last year. So, I mean, if you can provide some colour as to how should I look at it for FY '26 and going forward?

Pralay Mondal:

If we look at overall, our opex has been reasonably managed, but I think it is at 20% growth. Because of the significant technology costs, opex has gone up. On a quarterly basis from Q3 to Q4, it has gone up by INR 60-odd crores, which is a 17% growth in opex.

Chirag Singhal:

I am talking about other opex.

Pralay Mondal:

Other opex has gone up by around 35% primarily because of some of these technology-related expenses, there's a capex and opex there. For example, to give you a data, on IT capex, we have not fully utilized last year. A lot of the execution items comes into picture as it comes closer to D Day and a lot of opex expense starts manifesting itself on the technology side because we are now very close to the migration. That is one of the reasons.

The other reason is, in the past quarter, we had some PSL buy on the SMF portfolio because we could not achieve our target there. We covered it through PSLC paying premium which is coming on the expense side. Most of the buy we did in the fourth quarter. These two have contributed to the overall opex increase. But on the overall PSL, we were actually a net positive in terms of income.

Chirag Singhal:

Right. And if you can help me with FY '26 guidance, since you said that in first 2 quarters will have some more cost towards the technology. So overall, how should we look at this number for FY '26?

Pralay Mondal:

I think we should be okay on our opex broadly because costs are already baked in. We are just executing it right now. When I was doing the budgeting for this year, I didn't see a major opex increase vis-a-vis this year at this point of time. Hence, we should be okay.

In fact, if at all what we plan to do is not in the first 2 quarters, in the next 2 quarters, which is Q3, Q4, once the technology transformation is done and it's working fine. Then say in Q3 and Q4, we will expand significantly on our manpower because if you saw last year, we didn't grow our manpower. We are working on the productivity and all of that and without full technology, we didn't want to unnecessarily invest there. The pending investment on people will come in the second half of this year, and hence, some of the staff costs will start picking up from Q3 and Q4.

Moderator:

The next question is from the line of Chinmay Nema from Prescient Capital.

Chinmay Nema:

A couple of questions from my end. Firstly, could you give some colour on the health of the unsecured book, which you talked about previously in terms of the asset quality and if you could - you're expecting any more slippages from it in the coming quarters?

Pralay Mondal:

Here, we have taken some prudent calls, and we are fortunate because now it's starting to taper down for us, primarily because the portfolio is degrowing. Throughout last year, we have been constantly degrowing the portfolio. We started this degrowth a year back. Currently, our overall retail unsecured book is around 3.3% of the overall book.

Within that also, there is one portion which is credit cards, which while it comes as a credit cost, we are able to ensure that on a net ROA basis, we are neutral. From that perspective, I think while on a percentage basis, it might look high, but the book itself will be so small, barring credit cards it will not have a meaningful impact next year. I think in another 2 quarters between MFI, personal loan, 2-wheeler and all of these products, it will start becoming negligible and it will not have any material impact.

Chinmay Nema:

Sir so the incremental provisioning during the quarter, is it entirely attributable to this book?

Pralay Mondal:

I explained in great detail that some part of that is the migration provision. Some part of that is because of the unsecured, where we took significant provisions. Third is because of additional provisioning for some security deterioration, which happened in some of the legacy portfolio.

While it is not regulatory guideline to take those calls, but we did it because we said that we'll start the New Year on a clean slate. From that perspective, we took some more prudent provisioning based on securities, which we have. Between these 3, we had slightly higher provisioning in Q4.

Chinmay Nema:

Got it, sir. And sir, my second question is on net interest income. If I look at the last 4 to 5 quarters, the net interest income has been somewhat flatish. Previously, you've talked about the competitive intensity that comes in to play if you pass on the increased cost of borrowing. Could you give some more colour on this, essentially trying to understand why it affects CSB more than the industry? Or where do your borrowers turn to if you increase the yields on the product?

Pralay Mondal:

I explained in great details on this a few questions back but let me attempt once again. You're right that our NIM has come down. But on a stand-alone basis, for a full year basis it is 4.13%. Is it too bad a number? Probably answer is no because when we mirror like a proper portfolio, eventually in the long run, I'm not proposing anything above 4%, 4.5% kind of a NIM. If at all, it will be closer to 4%. That is the guidance I've been giving all through.

It's just that our NIM was slightly higher because we had a slightly higher gold loan proportion. Incrementally, now other businesses are starting to pick up. But the real reason for our NIM depletion has been because of the liquidity challenge, which was there in the ecosystem. We were sitting on excess liquidity for first 2 months of this quarter. We had FCY borrowings where we had a significant hedging cost, which came up during the quarter and which has gone away now because it is linked to dollar index.

Given that perspective, while FCY borrowing costs should have come down, it went up temporarily. Again, this quarter, it is coming down. It was a blip. That's why you saw the huge drop because now our borrowings are 13% of the funding mix. Our borrowings used to be almost nothing a year back. Eventually, that will start tapering down as it will follow the SOFR.

On a trending perspective, I think we have been coming down, and that is what is expected because most of the mix of the businesses are changing. Our deposit franchise and CASA is not that high. To that extent, our cost of funds is higher than 6% and that will sort of taper down only when the interest rates start falling. The good part is, when interest rates start falling, on a competitive basis, we'll be better off because our fixed rate loans are slightly higher. Like our gold loans and other fixed rate loans share is about 60%. 23% is MCLR linked, which will mirror the overall cost/yield curve. Our book linked to EBLR, and T Bill is around 15% to 16%. Where we have fixed rate loans also, like gold, while they are of shorter tenure, but the sensitivity of the yields is much lesser, like credit cards in a rising cycle and a falling cycle, in both cycles, they remain the same, the interest rate. Gold is also somewhat like that. We'll retain our yield at around 11.5% to 12%.

When you look at 1 year from now, we will be slightly in a better competitive advantage from a NIM perspective, purely based on yield versus the funding cost, which is the spread. Given all this, I think we are confident that because of that one-off that happened last quarter on hedging and

because of this trending which will happen, our cost of funding will also start coming down gradually mirroring the overall G-Sec yield movement.

I think we are hitting our bottom on the NIM. I don't think coming down further anymore. Our overall guidance will be somewhere around 4% - in between what our quarterly NIM and yearly NIM was. Yearly NIM is 4.13%, quarterly NIM is 3.75%. Our next year guidance is somewhere in between of this - around 4%.

Moderator: The next question is from the line of Rohit Priyadarshi from Mittal Analytics.

Rohit Priyadarshi: Congratulations on the good set of numbers. Sir, 2 questions from my side. What is your medium term like 2 to 3 year target for maintaining the return on assets and return on equity?

Pralay Mondal: On return on assets, our guidance is between 1.5% to 1.8% and return on equity between 15% to 17%. RoA will be closer to 1.5% for the immediate 1 or 2 more quarters. This quarter, return on equity went up a little bit. But for the full year basis, we are slightly higher than 15%.

Rohit Priyadarshi: Okay. And sir, next question will be like what are the 2 to 3 key risk areas the management is most focused on mitigating it in FY '26?

Pralay Mondal: One of the risks which is there in the ecosystem was this unsecured book. I think we have broadly mitigated it. Unsecured, including MFI and retail, we have broadly mitigated it - some more flow through will happen, but that will not be that material, maximum 6 more months after that, it should taper down.

Second risk was liquidity risk, which is a bigger risk for a bank like us because we are a small bank and our ability to attract retail deposits is slightly lower compared to some of the larger banks. Thankfully, the liquidity in the system is much better now. Hence, I think we have passed the most difficult year for the bank last FY. Despite this, we have done reasonably well. Liquidity has improved and getting deposits is a little easier compared to before. One of those risks is starting to get better for us. I mean mitigation is happening automatically in the system. The biggest thing for us is not risk, but the opportunity. How do we manage the opportunity which is staring at us once the system migration happens. Obviously, for 2 - 3 months, once the entire migration and the tech transformation happens, things will take time to settle down. In the process, say 1 or 2 months, people will be busy doing that. Once that is done, which is another maybe 3-4 months from now, the biggest opportunity is to build the business from scratch based on the new stabilised system.

If you ask me, the biggest risk for us is this migration and the entire transformation and biggest opportunity is also that and we are waiting for that. Otherwise, I don't see any major risks. The legacy risks are also more or less done because we did the rejig of our SME/WSB portfolios. I don't see too much of a risk there.

Liquidity risk is hopefully not there. But obviously, the global risk, the tariff risk and all of that lingers in the system and as a smaller player, we will always have challenge when the whole ecosystem gets impacted. I don't see any major risk otherwise.

Moderator: The next question is from the line of Rupesh Tatiya from Intel Sense Capital.

Rupesh Tatiya:

Sir, my first question is on cost-to-income ratio. Cost-to-income ratio used to be 57%, 58% annual. I'm talking about the annual number. It has moved up to 62% in last 2 years. So where do you see this number in FY '26 and FY '27? If you can give some view -- I understand that the technology capex is there and then maybe from second half of the year, it will taper down. I understand all of that.

But if you can give some number, it will be very helpful. That is question number one. Question number two, is in terms of philosophy at the AUM level, where do you see the gold loan percentage is at, I think, 44%, if I remember the number right. So where do you see at a philosophy level, where do you see that number in 2, 3 years?

And then the third question, sir, is I mean, despite liquidity, despite negative carry on your book and all of that, you are saying that the NIM will stay at 4%. And then you are still saying that 1.5%, 1.8% ROA is your guidance. So, then I mean, there is no margin for any cost of credit spike. There is no margin for error for any cost-to-income spike. So how do you balance all of that? Because ROA calculation doesn't work, it looks to me at 4% NIM. So those are the 3 questions, sir.

Pralay Mondal:

Let me handle the first 2 first. These are more qualitative questions. Cost to income, I had always guided that till FY '27, it will be somewhere around 65%. Once the entire ecosystem of the banking gets built up around the core system transformation and other things we are doing, the whole franchise will start playing out. Very quickly between FY '27 to FY '30, the cost to income will go down to 50%. Hence the journey of cost to income from 65% or 62% to 50% will happen between FY '27 to FY '30. I have articulated this tapering in almost every call, every meeting, which I have with investors.

On your second question on gold, we will continue to do well in gold as long as we can, but other franchises have started picking up. If you see SME has grown by 33% this year, highest growth for SME ever in this bank. Our wholesale banking, while it has grown by 22%, but if you take the DA portfolio out, which we ran off, and that's a lazy portfolio, effectively wholesale has grown by more than 40%. Retail growth story will start post system migration in H2 of this FY.

This year, if you take Agri and MFI out, retail has grown by more than 40%. But because we degrew in retail, Agri and unsecured, some of this, our overall growth is around 24% or 25%. But actual growth, what we are focusing on and in meaningful portfolios for us in future is growing upwards of 30%, 35%.

All of these will ensure that gold loan as a mix will start tapering down. Gold loan price will not go up like this every year, the way it has gone up now. Sometimes it will stabilize, sometimes it will come down and so on. Given that perspective, our long-term philosophical thinking is wholesale will be 30%, SME will be 20%, retail will be 30% and gold will be 20%. That's our FY 2030 journey.

Meanwhile, because you're also asking the cost-to-income question, to ensure that we are there, we have to have good profit-making product as well, and we understand the gold loan business. That is helping us in building the other businesses at this point of time. FY '27 onwards, we'll see other businesses will start contributing more, and hence we'll have a more meaningful mix.

Your third question was on ROA, I think it's clear that we are a 1.5% minimum ROA bank and ROE between 15% to 18%. You can do 2 things here. Either you can plan for cost of credit, or you can decide good credit in the beginning itself. There are philosophies. I'm not saying what is right, what is wrong. There are philosophies that do high-risk business and provision for higher credit. There are other philosophies by which you do lower-yielding businesses, best risk-adjusted businesses, long-term sustainable growth businesses and better cross-sell business in the long run. What we are building on the wholesale side, for example, right now, we are not generally doing a business above 9.5% or 10%. But our ROA will come there not through NIM, but through fee income and cross-sell and supply chain and all of this for which we are building systems.

Same thing with SME. SME is somewhere around 10%, but they are building cross-sell over a period of time. Retail is all a cross-sell game at the end of the day. I don't believe in too much of a high risk, high return kind of a game. We play in that 8% to 12%. There, our margin for error is very limited.

If you look at our last 3, 4 years, you see where our NPA and credit cost has been. This year, it has been a little high because of 2 accounts, and those are all legacy accounts. I said before that most of the legacy accounts are now at the end of the life cycle for our bank because we have been working on them.

Given this perspective, as soon as you start baking in a huge credit cost for the businesses you are doing in your ROA tree, then automatically, you start doing higher-yielding business. Automatically, you will follow that cycle of higher rates leading to higher loss. It will become a self-fulfilling process, which we don't want to do. From that perspective, we are pretty confident that we should be able to do somewhere around 1.5% ROA and 15% ROE on an average without too much of a problem.

Rupesh Tatiya:

Okay. So just one question, sir. through this transformation, right? I mean, what you are trying to do, I totally get the logic. Is it fair to assume that AUM and profitability will grow at 20%, barring any black swan events for multiple years? Is that a fair assumption to make?

Pralay Mondal:

Yes, give us another year. Ask us this question in the next annual call. We'll be able to answer more decisively, but that's the attempt.

Moderator:

The next question is from the line of Sagar Shah from Spark PWM

Sagar Shah:

Sir, I just had two questions. My first question was regarding liabilities. You had highlighted initially on the call that the main problem is not on the asset growth but is on the liability growth. This year, in FY '25, we increased branches by around 50. In this particular year, our bulk deposits as compared to total deposits has also increased from 33% to almost 43%. So, going ahead in the next 2, 3 years, what are you seeing -- what steps are you taking to increase your retail base to increase your customer acquisition strategy? That is my first question.

And the second question was related to data keeping that inspite of a sequential growth in the asset side by almost 10% sequentially from Q3 to Q4, our net interest income actually reduced. So, were there any huge interest reversals in this quarter that led to NII decline trend in this quarter? So those are my 2 questions.

Pralay Mondal:

The second question I've answered in various ways, so I will keep it short. But let me answer the first question. It's a very good question. You're right. If you look at our branch distribution, currently, we have around 33-34% in Kerala. It was 52%, I think few years back.

What it means is that more and more branches we are building for the future. No longer we are building a branch, which will break even in 1 year, where we'll only do gold loans and those kinds of businesses. These branches are being built for the new transformational technology, products, processes, retail, wholesale, transaction banking, SME- all of this is kept in mind.

Hence, you cannot time it. Can I start doing all this after my tech transformation is over? Then we'll be sitting and waiting for these branches to come up and people to come in, etc. Hence, very strategically, we have put these branches in various locations in North, in West, in rest of South, everywhere. We are well distributed. There is a slide, I think, where we show the branch distribution across the country, and it shows how well distributed we are becoming.

Now each of these branches will be able to get leveraged a lot more once our tech transformation journey is over and the new products and processes are in place. This will help us in building the entire granular liability franchise.

But what happens is until then can we sit quietly and do nothing when we have an asset opportunity. That's why we are taking some bulk deposits, which comes at a slightly higher cost. That's why we have taken FCY borrowings. This is like a bridge funding for us till our entire retail journey starts on the liability side. That will start in another 12 to 18 months.

The acquisition story, which you are talking about, is very important and that will start in 6 months from now, and we are going to create a full acquisition team. We are just waiting because today, if I do it, we'll not get good customers because we cannot offer the products or services, which some of the larger banks are offering. How will you get good customers.

That's why we have delayed it a bit, but we didn't delay the branch expansion strategy in the right areas, which will leverage this entire transformation, which we are doing. So that's the first answer.

If I can add something more to that, just not the branch distribution and liability, retail assets will happen around those customers because to the same customer we will cross-sell. We'll not go much externally to get business. Most of our asset businesses, fee businesses, everything will happen internally to our liability customers and hence, acquisition strategy will become very big, and that will help us in our asset fees and everything else.

That's why I'm saying that our journey is just beginning now, if you ask me. Coming to the second question on growth versus NIM, I think I explained it 2 times actually. The lower NIM, was primarily because of higher funding cost, a little bit of a carrying cost- which we had used in trading and compensating it on the other income side. Hence, we had a little bit of an issue there.

I think further going down in NIM from the present levels is behind us. That's why I'm saying that we have sort of bottomed out on NIM right now. From here on, we'll only improve, and we'll be somewhere between 3.75% to 4.14%, and we will play in that range for the whole of next year.

Sagar Shah:

Right, sir. Can you quantify the interest reversal in this quarter, sir?

- Pralay Mondal:** I mean there will be probably some reversal, but don't think it is meaningful. Satish, you want to add to that.
- Satish Gundewar:** When there are slippages, there will be interest reversals. That kind of information is not given. What you should ultimately see is in terms of what is the credit cost that is there because whether there is interest reversal or everything or there are provisions, ultimately, everything will be captured in the provisions number. And for the full year, our credit cost is 29 basis points, which is reasonable.
- Pralay Mondal:** Then if you look at it, gross NPA is 1.57%, which is lower than last quarter. Net NPA is 0.52%, which is less than last quarter. From a slippage perspective, except for what I already explained I think we are broadly okay with 29 basis points, and we'll go below this next year.
- Sagar Shah:** Great, sir. So last one from my end. So at least from FY '26 and FY '27, will we see the expansion of branches, the pace to be higher than what we saw in FY '25?
- Pralay Mondal:** We have every year, grown by anything between 50 to 100 branches. We will retain that kind of a pace for our acquisition because we cannot invest at a very large scale till, we have the product services and processes. You will see a significant expansion from FY '27 onwards.
- We already have 829-odd branches right now and that is a large enough branch distribution to leverage for at least 1 more year. FY '27 onwards, we'll start expanding because otherwise, we will be expanding and keeping it idle for systems to come or products to come. I think we have invested enough and larger investment into branches will start only after FY '27. This year, we'll expand similar to last year.
- Moderator:** The next question is from the line of Mona Khetan from Dolat Capital.
- Mona Khetan:** So, my question was related to the corporate account that has slipped about a year ago. Any update on the recovery there? And what sort of provisions you hold against it?
- Pralay Mondal:** Unfortunately, it has gone into a little bit of a legal tangle right now and that's why we could not recover it. But we have a fair bit of assets out there, which is secured with us. Hence, we should be able to recover at some stage. Since it went into a little bit of a litigation at this point of time, we are going through the entire legal process at this point of time.
- Having said that, we have taken provision as per our Board guidelines, which is around 50% and we have taken a little bit more prudent provision against security deterioration etc as we thought that we'll be able to recover some money this year but we couldn't. Net-net, if you look at the PCR, the PCR has improved to 67% now from 60% last quarter, and that is one of the reasons for that.
- Moderator:** The next question is from the line of Saikiran Pulavarthi, an Individual Investor.
- Saikiran Pulavarthi:** Just a couple of questions, sir, before you enter from the build phase for scale phase, do you feel that any gaps exist in the top management? Or do you feel some gaps over there to get filled up? That's question number one.

And question number two, how do you ensure that you can get your liabilities to grow in excess of 25% when the systems deposit growth itself is very low. What kind of initiatives you are taking and how you ensure that on a sustainable basis to grow the balance sheet much significantly higher than the industry?

Pralay Mondal:

On the management, we have no major gaps as of now. Every senior position starting from CXO level to CXO plus 1 to regional head to distribution head to product heads is in place. Further even on the wholesale, entire team is growing at a very rapid pace. The SME team is already in place. Transaction banking team is in place. Every team and every senior management are completely in place, and we don't have any attrition in the senior management. Of course, at an entry-level/junior-level, there will be some attrition. That way, we are doing extremely well in my view. The team is very engaged in trying to build the bank. The whole motivation is to build the bank to that extent, I think there is a lot of engagement with the top management team out there.

Coming to your question, we are not talking about high teens. I think we should do better than that. The reason for that is if you could do it last year with that kind of a liquidity issue and that kind of a challenge which was there on the liability side, I think it will get a little easier this year for us, primarily because we have a little better experience and post our migration, we will have our entire systems and processes and products in place.

Second half of the year, we should start picking up a lot more on the liability side. That time, hopefully, the reduction will get priced into the liability business as well because we also don't want to book too much into the long-term liability even now. But I think by the second half of the year, when we'll be fully ready with all our products and services, hopefully the liability prices also get rationalized a little bit more. We are pretty confident of anything between 20% to 25% growth. Last year, we grew by 25% to 30% in a very difficult environment. The management is confident of that.

Moderator:

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

Pralay Mondal:

Thank you very much for your questions, and we look forward to our next meeting again after a quarter. Till then, hopefully, we should be able to do even better than what we have done this quarter. Thank you very much.

Moderator:

On behalf of YES Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.