Q3 2023

1. Regulatory compliance updates
- **Narrative:** Management elaborated on their ongoing efforts to ensure regulatory compliance, highlighting the structured process they are following to meet necessary requirements. This involves completing essential paperwork, auditing, and submitting documents for regulatory inspection. The emphasis is on adhering to the stipulated timelines to achieve compliance by the end of the current year.
- **Management's Guidance:**
- Management indicated they are committed to completing the regulatory compliance process before the end of the current year and are actively working towards meeting the deadlines set for these requirements.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q2', '2024']:
- The RBI inspection for the position as on March 31, 2023 was completed and there is no requirement of disclosure with respect to the divergence and asset classification or provisioning.
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- We have completed necessary compliance for the ‘Scale of Finance’ and the required audit process. Post concall, we received one installment and waiting for the rest.
- **Evaluation:**
- Expectations Met: The management's guidance to complete regulatory compliance by the end of the year was met, as evidenced by the completion of necessary compliance for 'Scale of Finance' and the RBI inspection revealing no issues with asset classification or provisioning.

2. Non-performing asset (NPA) strategies
- **Narrative:** Management discussed their strategy for managing non-performing assets, focusing on the recovery of outstanding amounts. The emphasis was on ensuring that repayments from key accounts, such as SpiceJet, are on track to improve asset quality and reduce NPAs.
- **Management's Guidance:**
- Management indicated that if repayments from SpiceJet continue as planned, they expect to close the entire outstanding by June. This will make the full amount available for appropriation, positively impacting the bank's asset quality in the upcoming quarters.
- **Actual Results:**
['Q4', '2023']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
['Q3', '2023']:
- N. Kamakodi: Currently against the expectation of a 20% I have about 7% became NPA.
- **Evaluation:**
- Expectations Not Met: Management expected SpiceJet repayments to improve asset quality, but instead of closing the outstanding as planned, 7% became NPA against an expectation of 20%, indicating a shortfall in meeting targets.

3. Tier 1 capital ratio
- **Narrative:** Management discussed the implications of transitioning to the Expected Credit Loss (ECL) regime on the company's Tier 1 capital. They highlighted that this transition would involve adjustments to the Common Equity Tier 1 (CET-1) capital over a specified period.
- **Management's Guidance:**
- Management anticipates a requirement of approximately INR 200 crores, which will be adjusted against CET-1 capital over five years, as per the RBI's transitional arrangement.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Tier I for Q3 FY 23: 19.41% compared to Q3 FY 22, which was 18.34%.
['Q4', '2023']:
- Strong Capital Adequacy ratio of 22.34% out of which Tier 1 constitutes 21.27%
['Q1', '2024']:
- Strong Capital Adequacy ratio of 23.02% out of which Tier 1 constitutes 21.98%
- **Evaluation:**
- Expectations Exceeded: The Tier 1 capital ratio improved significantly, reaching 21.98% in Q1 2024, which is well above the anticipated impact on CET-1 capital due to the ECL transition, exceeding management's guidance.

4. Return on equity (ROE) enhancement
- **Narrative:** Management has reiterated their focus on maintaining a stable Return on Assets (RoA), targeting a level of 1.5% for the financial year. This is aligned with their earlier declarations, despite short-term fluctuations in quarterly RoA figures.
- **Management's Guidance:**
- Management expects the RoA to remain steady at approximately 1.5% throughout the financial year.
- **Actual Results:**
['Q2', '2024']:

- Return on Equity for Q2 FY 24 is 14.36%.
['Q3', '2023']:
- Return on Equity for Q3 FY 23 is 12.21%
['Q1', '2024']:
- Return on Equity 12.10% Q1 FY 24
['Q4', '2023']:
- Return on Equity Q4 FY 23: 12.10%, Q4 FY 22: 13.15%, FY 2022-23: 13.42%, FY 2021-22: 12.31%
- **Evaluation:**
- Expectations Not Met: Management aimed for a stable RoA of 1.5%, but the actual Return on Equity figures ranged from 12.10% to 14.36%, indicating a performance below the targeted RoA stability, suggesting that expectations were not met.

5. Profit margin trends
- **Narrative:** The management has highlighted a consistent performance in profitability, achieving a quarterly Profit After Tax (PAT) of over INR 200 crores starting from Q4 of the financial year 2022. This trend underscores a stable and robust profit margin trajectory that the company aims to maintain.
- **Management's Guidance:**
- Management expects to continue achieving quarterly PAT of INR 200-plus crores consistently in future quarters, indicating a stable profit margin trend.
- **Actual Results:**
['Q2', '2024']:
- We closed the Q2 FY2024 with the profit after tax of Rs.281 compared to Rs.276 Crores in the Q2 FY2023.
['Q3', '2023']:
- Net Profit for Q3 FY 23 is INR 2,178 crores, indicating a continuation of the stable profit margin trend as expected by management.
['Q1', '2024']:
- The current quarter profit is at INR 227 Crs as against INR 225 Crs in the first quarter.
['Q4', '2023']:
- Data Not Available
- **Evaluation:**
- Expectations Met: The management aimed for a quarterly PAT of over INR 200 crores, and the actual results indicate consistent achievement of this target in Q1 FY2024 with INR 227 crores and Q2 FY2024 with INR 281 crores, confirming a stable profit margin trend as anticipated.

6. Long-term growth strategies
- **Narrative:** Management has reiterated their commitment to an ambitious growth trajectory by targeting a 15% to 18% credit growth for the financial year '23, aiming to push beyond pre-COVID growth levels in the subsequent years. They are also keen on improving the vision coverage ratio swiftly in the coming quarters.
- **Management's Guidance:**
- Management anticipates maintaining or slightly exceeding current growth levels in the next financial year, reflecting a robust strategic focus on recovery and expansion.
- **Actual Results:**
['Q2', '2024']:
- 10-year CAGR of about 15%
['Q1', '2024']:
- Data Not Available
['Q3', '2023']:
- N. Kamakodi: We had about INR 1,800 crores growth, which works out to about 17%, 18% to 20% growth.
['Q4', '2023']:
- Data Not Available
- **Evaluation:**
- Expectations Met: The management's target of 15% to 18% credit growth was aligned with the actual results of achieving approximately 17% to 20% growth in Q3 2023, meeting their stated growth expectations.

7. NPA recovery focus
- **Narrative:** Management has focused on improving asset quality by upgrading non-performing assets (NPAs) to standard accounts and reducing the net NPA effect. They aim for a significant improvement in the Provision Coverage Ratio (PCR) and are making strategic efforts to recover NPAs.
- **Management's Guidance:**
- The management targets to achieve a Provision Coverage Ratio of 50% without technical write-offs by 2024, potentially even earlier. They expect a specific account to be fully resolved by June next year, resulting in a reduced impact on the profit and loss statement for that quarter.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q1', '2024']:
- The recoveries from the slippages in Q1 FY '24 amounted to INR 75 Crs, and upgradation to the tune of INR 23 Crs occurred in the live NPA accounts. However, these recoveries were not included in the NPA collection, which deviates from previous practices where such recoveries would have been considered.
['Q3', '2023']:
- Out of the divergence of INR 259 crores, 13 borrowers whose balance was more than INR 1 crore amount to about 89% or INR 230 crores and the balance INR 29 crores constitute about 218 borrowers where outstanding was less than INR 1 crore. Out of INR 186 crores, account worth of INR 47 crores got upgraded as standard during Q3 FY '23. Gross NPA for Q3 FY 23: 19,887 with a percentage of 4.62% compared to Q3 FY 22, which was 5.21%. Net NPA for Q3 FY 23: 11,245 with a percentage of 2.67% compared to Q3 FY 22, which was 3.44%.
['Q4', '2023']:
- Net NPA improved from 2.89% in FY 22 to 2.36% in FY 23, and it reduced sequentially from 2.67% in Q3 FY 23 to 2.36% in Q4 FY 23.
- **Evaluation:**
- Insufficient Info: Data not available.

8. Slippage ratio reduction

- **Narrative:** The management has been actively discussing strategies to reduce the slippage ratio, with a focus on aligning the figures closer to pre-COVID levels over the forthcoming periods. The goal is to achieve a more stable and improved asset quality, with a specific emphasis on reducing volatility and divergence in reported numbers.

- **Management's Guidance:**

- Management anticipates the slippage ratio for the current year to be between 2.5% and 2.8%. Looking forward, they expect it to decrease below 2.5% for the next year, with a gradual movement towards pre-COVID levels. The management is optimistic about reducing the slippage to between 2% and 2.5% and eventually below 2%, with stabilization expected in the second half of the next year.

- **Actual Results:**

['Q2', '2024']:

- Our slippage ratio for the Q2 has come down to 2.06 almost equal to the pre-COVID level.

['Q1', '2024']:

- Because of the above changes in accounting, the slippages for the current quarter is elevated at 3.6 % (annualized basis), our gross NPA is at INR 2,081 Crs, Gross NPA stood at 4.91 %, our net NPA stood at INR 1,039 Crs and NNPA ratio to 2.51 %.

['Q4', '2023']:

- Our slippage for FY 23 was at 3.02% which is 2 bps higher than our expected range.

['Q3', '2023']:

- The slippage during the Q3 financial year '23 is INR 439 crores.

- **Evaluation:**

- Expectations Exceeded: The management anticipated a reduction in the slippage ratio to between 2% and 2.5% with eventual stabilization below 2%. The actual results for Q2 2024 showed the slippage ratio decreased to 2.06%, almost reaching pre-COVID levels, surpassing the expectations set for the timeframe.

9. Net interest margin stability

- **Narrative:** Management highlighted the current stability of the net interest margin (NIM), which is approximately 4%. They indicated that their strategic focus is to maintain this margin within the range of 3.85% to 4% in the near future. This reflects an ongoing effort to sustain profitability levels amidst changing market conditions.

- **Management's Guidance:**

- Management forecasts that the net interest margin will remain stable, hovering between 3.85% and 4% in the upcoming quarters.

- **Actual Results:**

['Q2', '2024']:

- The net interest margin for Q2 FY 24 was reported as 3.74%, which is below the management's guidance range of 3.85% to 4%.

['Q3', '2023']:

- Net Interest Margin for Q3 FY 23 is 3.88%, which is within the management's guidance range of 3.85% to 4%.

['Q1', '2024']:

- Net interest margin for Q1 FY24 is 3.67%, which is below the management's guidance range of 3.85% to 4%.

['Q4', '2023']:

- In Q4 FY23, the net interest margin was reported to be 3.65%, which is below the management's guidance range of 3.85% to 4%. The net interest margin for FY 2022-23 closed at 3.89%.

- **Evaluation:**

- Expectations Not Met: The actual net interest margin consistently fell below the management's guidance range of 3.85% to 4% in Q1 FY24, Q2 FY24, and Q4 FY23, indicating that expectations for NIM stability were not met.

10. Rate pass-through effects

- **Narrative:** Management is focused on strategically managing interest income and yield amidst changing rates. They have outlined a plan to incrementally increase interest rates following the Reserve Bank of India's (RBI) rate adjustments, with a specific aim to balance the rate pass-through effect. The management is attentive to the timing of repricing term deposits, which is a crucial factor in their yield management strategy.

- **Management's Guidance:**

- Management plans to implement an additional 25 basis point hike following the current RBI rate increase. They anticipate that the overall transmission of these increased rates will be around 50% to 60%. Additionally, they expect that 70% to 75% of their term deposits will be repriced within one year, which will influence their interest income strategy.

- **Actual Results:**

['Q4', '2023']:

- N. Kamakodi: Normally you say 25% repricing happening every quarter and over the period of time, the deposits which were maturing were at about 6% to 6.5% and there were about 1% to 1.5% or even 1.75% incremental cost for that deposits which were maturing which resulted in the increasing cost of deposits.

['Q1', '2024']:

- Our cost of deposit stood at 5.36%, showing a sequential increase. We have had quite a strong rise in the funding cost, term deposit costs going up by around 90 bps or so.

['Q2', '2024']:

- N. Kamakodi [As I discussed with you all in the March quarter or two to three quarters back we missed in transmitting one or two rate transmissions in the last year which had some impact and further hikes we have already transmitted.]

['Q3', '2023']:

- Data Not Available

- **Evaluation:**

- Expectations Not Met: The management anticipated a 50% to 60% rate pass-through and 70% to 75% repricing of term deposits within a year, but the actual outcomes showed missed rate transmissions and a significant increase in deposit costs, indicating shortfalls in their strategic yield management plans.

11. Yield on advances trends

- **Narrative:** Management provided insights into the future normalization of interest income, highlighting a specific focus on the upcoming quarter's financial adjustments.

- **Management's Guidance:**
- Management expects interest income to normalize in Q4 with an additional INR 32 crores of interest recognized.
- **Actual Results:**

['Q2', '2024']:
- Data Not Available

['Q1', '2024']:
- Our yield on advances increase and it currently stands at 9.53 % for the current quarter.

['Q3', '2023']:
- The interest income on advances for Q3 was on a lower side to the tune of INR 32 crores mainly because of the non-recognition of interest subvention of KCC agri loan.

['Q4', '2023']:
- 0ab37de2ed21c572ce31d3f19229e58f --> [Yield on Advances 9.31% 9.26% 9.23% 9.36%]
- **Evaluation:**

- Expectations Met: Management expected interest income normalization with an additional INR 32 crores recognized in Q4, and the yield on advances increased to 9.53% in Q1 2024, aligning with the anticipated adjustments.