"Syndicate Bank Q4 FY 2017 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Syndicate Bank Q4 FY2017 results conference call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rakesh Kumar from Elara Securities. Thank you and over to you Sir!

Rakesh Kumar: Thanks. Good afternoon everyone. We have Syndicate Bank entire management team with us on the call to discuss on the Q4 results. We have in the management team Mr. Arun Shrivastava - MD & CEO, Mr. R S Pandey – Executive Director, and Mr. Mallikarjuna Rao – Executive Director, and other management team. So I would like to request Mr. Arun Shrivastava - MD & CEO to give us a brief presentation on the results and thereafter we can start the Q&A session. Over to you Sir! Thanks a lot.

Arun Shrivastava: Good afternoon and thanks Rakesh for arranging this conference call. Good afternoon to all the analyst friends. A warm welcome to all of you for this meeting for discussing the financial results of the bank for the period ended March 31, 2017. We are very glad to connect you to this teleconference and appreciate you for the time taken and the efforts to join this conference. Before I present the financial results hosted by the bank for the year March 31, 2017, let me briefly touch upon the macroeconomic conditions under which the banks in India are currently functioning. During the current year the global economy continues to grow at a moderate and uneven pace constrained by both the legacies of global financial crisis coupled with a number of new challenges. According to the IMF world economic outlook report, global growth is expected at 3.1% in 2016 and projected to pick up 3.5% in 2017 due to long awaited cyclical recovery in investment, manufacture and trade. However in the domestic front also,operating environment remained the cause of concern with the industrial trade and agriculture sector reeling under pressure. Private investment climate continues to be weak with lower new projects being commissioned and slower completion of the stalled projects. Despite this, India emerged as a fastest growing economy among the large economies of the world due to this intrinsic strength such as a strong domestic consumption, greater macro economy fundamentals and a reform-oriented government. As per the CSO data published on February 28, 2017, India's GDP growth rate for the third quarter for 2016-17 grew at 7% as compared to 7.5% in the corresponding period of last year. Due to challenging operating environment, the Indian banking industry faced relatively subdued credit growth, increasing stressed assets, lowering profitability, and deteriorating capital positions during 2016-17. The deposit growth of scheduled commercial banks increased by 11.76% YOY to Rs. 108051.52 billion and a credit growth also rose by only 5.08% to Rs. 78880.87 billion during 2016-17.

The banking sector remains under pressure on its income and profitability level and new challenges emerge from payment and small finance and universal banks, private sector banks. The deteriorating asset quality and increasing NPA due to stress in core sector and subdued investment and weak demand in domestic as well as global economy. The challenges faced by the industry predominantly in Iron & Steel, infrastructure, power, mining, and textiles lead to deterioration in asset quality for the large borrowers. Therefore, it adversely affected the banks net profit, return on assets and in terms of equity due to higher provision for the NPA. However, the banking industry is going through a turnaround period with steps and measures from the regulator as well as the Government. Going forward in 2017-18 the enhanced spending on infrastructure, speedy implementation of the project, and continuation of the reform are expected to provide further impetus to growth suggesting that there will be a need for credit. In the above background bank has identified 2017-18 as a year of profitability. The bank has adopted a business strategy for 2017-18 to improve operational efficiency and recovery, achieve a healthy growth in retail, MSME and agriculture advances and increasing non-interest fee based income.

I will briefly update you on the financial results of the bank for the quarter ended March , 2017 as well as the year ended 2017. The global business of the bank stood at Rs.4,67,626 crore which almost I would say a flat business level as compared to March 2016. The domestic book stood at Rs.4,05,920 Crore, which is slightly upside from the last year total business level. If you see the CASA, which stood at Rs.75865 crore, it was about 12% in growth over the last year and particularly in that the savings bank portfolio is about Rs. 64257 crore, which is plus by 23%. Some of the incremental CASA in savings bank is coming due to the demonetisation as well., But if you see the average growth of the CASA,savings bank in CASA has increased by roughly 64%. The average growth of the bank in the year 2015-16 was roughly Rs.5203 crore which has increased to Rs.8519 crore during the year end. In terms of the bulk deposits, the bank has been able to consciously shed bulk deposits and take in fresh deposits at card rates only and that is how from percentage of about 11% and 10% in 2014-15 and 2015-16, we have come down to roughly less than 1% of the total deposits. The bulk deposits of the bank were about 0.83% as of March 2017. The CASA in terms of the percentage of the deposit grew from 28.88% to 32.32% at the end of March 2017.

As far as the advances is concerned, consciously we have reduced our dependence on the corporate loan book, butthe challenges to reduce it substantially remain because of most of the large corporates have become NPAs, exit option is not easy and we need to replace and replenish some of our existing corporate borrowers as well, but we have been able to maintain a satisfactory level of corporate loan book to 50% as well as the remaining 50% going to the RAM (retail,agriculture and MSME). In the RAM portfolio, the growth in retail was roughly Rs.1135 crore and in agriculture it was roughly Rs. 2000 Crore. MSME has taken a slip back during this year because after September we saw that most of the MSME loans getting closed after the demonetisation.

As far as the RAM is concerned the bank has been able to attain the priority sector lending targets, which was 40% and so far in the entire history of the bank, the bank has been able to maintain and achieve the mandatory lending targets given to the bank by the regulators/ government. The agriculture accounted for about 19%, the weaker section about 12%, minority 16%, and women beneficiaries at over 9%, all above the mandatory targets. In terms of the retail loan book housing is the major portion, which accounts for about Rs.15,000 crore of the loan book and it grew about 6% during the year. In terms of the sectoral deployment the bank has been able to keep the infrastructure lending to the desired level and especially within the infrastructure we have been able to reduce our dependence on NBFC to the extent of 10%, which we have been able to bring it down from 12% two years ago. The total infrastructure also has been reduced from Rs.25,000 crore to Rs.22,000 crore, which accounts for 11% of the loan book of the bank. Within this infrastructure also we have been able to reduce our exposure to the telecom sector because going forward probably RBI also desires to have some additional provisioning in the telecom sector, so we have consciously reduced our exposure in the telecom sector.

Coming to the restructured book, the bank's standard restructured loan book stood at about Rs.4292 Crore. If the NPAs is to be seen, we have been able to reduce our NPA during the current year in terms of the gross NPA numbers. The NPA ratio has come down to 8.5% from 8.69% in December and the net NPA ratio at about 5.21% has been achieved. The provision coverage ratio we have been able to improve to 56.37%, which is an improvement over the last quarter.

In terms of the profitability, the bank has been able to show an increase in the interest income in the quarter as we see that the interest income has increased by Rs.106 Crore and whereas the interest expenses we have been able to reduce from the last quarter to the extent of Rs.293 Crore. Going forward also, we would endeavour to reduce our expenses on the deposits. Better liability management has enabled the bank to increase its profit as well as improve its net interest margin and net interest income. The cost of domestic deposits, which has reduced to 6.30% and the yield on domestic advances has come to 9.64% and in the global it comes to 8.34%. The domestic NIM has been 2.70% for the year and the global NIM is 2.37%.

Now, I will just briefly touch upon the deliverables, which we assured to the analysts in the previous two meetings when we had interacted and we gave a forecast of our performance. We assured the analyst in the last year that our composition of the corporate and the retail book was to the extent of 52% and 48%. We are consciously trying to move it to 48% and 52% respectively and in this endeavour we have been able to attain and achieve about a 50% each in the corporate loan book and the RAM. We had projected a provision coverage ratio of about 55% to 56% and we have been able to achieve 56.37%. In terms of the gross NPA, we did indicate that our gross NPA by the end of the year would be roughly 8.4% to 8.5 % and we are at 8.50%. The CASA we projected a growth of 12%, thanks to demonetisation it has increased to more than 23% in the savings bank , which we had indicated to attain at 15%. The NIM we indicated to achieve at 2.70% and a yearly domestic NIM it is exactly coming at 2.70% and the quarterly domestic NIM has increased to 3.16%. The return on assets, which we indicated somewhere in the month of October, at 0.20% to 0.25% s and the yearly return on assets we have attained at 0.19% and globally at 0.12%, probably this was a near miss for us. The cost income ratio we targeted to bring down to 55% when we were having a cost income ratio of 61.72% in the FY 2015-16. We have a near miss in this,which is at 56.51% for FY 2016-17. The projection of the capital, which we indicated to the analysts, was about Rs.12,500 crore and we have been able to get Rs.12,348 crore there on and the capital adequacy ratio, which we indicated to attain at 12%, we are at 12.03%.

In terms of the slippages and the gross NPA, slippages we projected for the last quarter of about Rs.1500 crore, but our slippages are to the extent of Rs.1784 crore. In this, we have added two more accounts, which actually would have slipped in the month of April, but they are SDR accounts where terms are not likely to be met, we have provided them as NPA in the month of March itself and that is how it has exceeded the projection. The gross NPA number in terms of the absolute numbers, we had indicated to being around Rs.17,500 crore but we are at Rs.17,609 crore . So far, I am at least happy to share with the analysts that our performance is near to the numbers, which we indicated to the market and thanks to the entire top management team sitting over here who have ensured that whatever the commitments or whatever the assurance we had given to the analysts has been more or less attained or achieved.

So hereafter, I leave the floor open to the analysts for their observations or any of the views and their concerns they have on the bank and the entire senior management team sitting along with me both the executive directors Mr. R. S. Pandey, Mr. Mallikarjuna Rao, our CFO, Mr. Mohan Rao, our Chief Risk Officer, Mr. Majumdar, our General Manager of Planning Mr. Bhaskar Hande, and General Manager of Corporate Credit, Mr. Jayakumar, General Manager MCD Mr. Prahlad, General Manager Recovery, Mr. Vinayak Bhatt, and the General Manager of Credit Monitoring, Mr. Matolli, the General Manager of Retail Banking & MSME Mr. Manjunath and our Chief Compliance Officer, Mr. Biju Mani and our General Manager International Division,Mr. R. Ashokan are here to respond to any of the questions you have gentlemen and ladies. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Sanket Chheda from IDFC Securities. Please go ahead.

Sanket Chheda: Sir I wanted some data points what would be the SDR, S4A as for the outstanding as well as fresh if any in Q4?

Arun Shrivastava: You see the total number of accounts, which we have under the entire refinancing, is about 11 accounts amount involving a sum of Rs.2500 Crore. Okay and in 24 accounts the SDR has been invoked although, which account for Rs.3500 Crore in which ,SDR invoked during the current year is about 13 accounts of Rs.1700 Crore.

Sanket Chheda: During the quarter.

Arun Shrivastava: During the quarter, we have only one. This quarter we did not have any SDR, we had only in the second &third quarter.

Sanket Chheda: Any 525 in this quarter?

Arun Shrivastava: 525 was only one this quarter that was infra project of Rs.65 Crore.

Sanket Chheda: S4A outstanding?

Arun Shrivastava: S4A total outstanding three accounts Rs.222 Crore. This we have permissions, which are always being written back.

Sanket Chheda: What would be your SMA2 currently?

Arun Shrivastava: SMA2 would be roughly Rs.1688 Crore.

Sanket Chheda: What was it last quarter?

Arun Shrivastava: Last quarter about Rs.7000 crore or so.

Sanket Chheda: Sir any overlap amongst these categories?

Arun Shrivastava: Yes. There will be definitely some overlap between the 525 and SDR that would be there.

Sanket Chheda: So can you give a ballpark number if you have it?

Arun Shrivastava: There are list of accounts because in these 11, there will be some which will be going through SDR also they would have been earlier refinanced itself.

Sanket Chheda: So no numbers on that part definite?

Arun Shrivastava: Three accounts Rs.392 Crore.

Sanket Chheda: Similarly in 5/25.

Arun Shrivastava: In 5/25, there will be four accounts Rs. 1600-1700 crore.

Sanket Chheda: In slippages this quarter I believe only Rs.30 Crore was from the restructured book, so around 17 Crore?

Arun Shrivastava: 1784.

Sanket Chheda: Out of that only Rs.30 to 40 Crore was from the restructured book right?

Arun Shrivastava: Yes.

Sanket Chheda: So all the other were fresh.

Arun Shrivastava: Yes. They were all small accounts as well. The agriculture accounted for about Rs.400 Crore, retail Rs.150 Crore, then MSME Rs.450 Crore, and the remaining about say Rs.790 Crore would be the corporate accounts, but the maximum the biggest account, which slipped during the quarter was Rs.186 Crore, so less than Rs.200 Crore. Any individual account was not there more than Rs.200 Crore.

Sanket Chheda: So the electronic account, which has been in pain has it been taken into this quarter?

Arun Shrivastava: Electronic account?

Sanket Chheda: One electronic giant, which has been talked about, so has that.

Arun Shrivastava: I will not be able to give you any kind of an indication about the account.

Sanket Chheda: Sir was there any ARCIL?

Arun Shrivastava: No.

Sanket Chheda: What would be your SR outstanding security receipts?

Arun Shrivastava: Our total SRS are around 1150 Cr.

Sanket Chheda: Sir any guidance on growth for FY2018 credit growth and deposit growth?

Arun Shrivastava: Yes definitely. We will give your guidance on that. We are targeting 8% in the deposit and 10% maximum. Lowest double-digit growth in advances.

Sanket Chheda: Credit cost and slippage guidance?

Arun Shrivastava: Credit cost should be around 1.45% to 1.5%.

Sanket Chheda: Sir in this quarter, there has been sharp jump in the margins. From what I can understand the interest expenses have been very low, so that expense from sharp fall in cost of funds, but why the rise is there in interest income because I presume that because only 30 Crore was from restructured books, so Rs.1700 Crore would be from our normal book on which the results, so despite that the growth is quite good on the interest income?

Arun Shrivastava: We have been able to bring down our cost of deposit that is how it is.

Sanket Chheda: That is reflected in your interest expenses, so I am saying why the interest income is not reflected?

Arun Shrivastava: . If you are comparing with December what happened in December and September, there was reversal of the SDR/S4A income, so we had Rs.178 Crore, which were recognized in the SDR accounts, so that got reversed and that in fact if you see has a comparative figure, it brings that difference which is not visible over here. Exact comparison cannot be made. Roughly Rs.60 Crore was in the month of December, so if you add back that Rs.60 Crore, the interest income appears.

Moderator: Thank you. We will take the next question from the line of Ashwin Balasubramanian from HSBC Asset Management Company. Please go ahead.

A Balasubramanian: Thanks for taking my question. Sir I have a couple of questions. First in terms of your profits I think between this quarter as well despite I think yields have kind of moved up during the quarter, so just some colour on that and like in going forward what kind of profits would be sustained on a quarterly kind of basis? That is the first question and also related to that we also anticipate that the investment yield would drop going forward given that a lot of corporate has also been booked that was first question and also secondly in terms your loan book growth, the retail loans have grown only by 6%. I wanted to understand in terms of like it is more due to the competition or do you see the demand itself has been fairly weak?

Arun Shrivastava: Can you repeat the second question please.

A Balasubramanian: Sir in terms of retail loans, I think your retails loans have grown only by 6%, so just wanted to understand it is due to competition or it is more reflection of underlying demand?

Arun Shrivastava: It is a mix of both I would say because for the past historically the retail loan growth picks up somewhere after September only. October onwards it starts picking up. The two month cycle of demonetization had an impact on our working as well because most of the period in which we would have probably given our trust to the retail was lost in managing the affairs of the bank on a routine basis, so this was partly and competition is definitely there . There is a competition, but we are taking steps towards it. We have now established our retail processing center and about 15 centers will be put across in India. We did a pilot in the last quarter in Bangalore and with that success probably will be replicating the model soon in the current quarter at about major centers where the thrust on housing loans, mortgage loans, and also processing of MSME loans will take place, So this will definitely take care of the initial days that there will be boost in the portfolio of retail in MSME. The second thing through the center we will be able to maintain the credit quality,due diligence and a good appraisal, so then the assets, which we are going through for increasing the loan book, we do not pick up bad assets in this process. Mr. Majumdar would be just updating you on treasury and investments that you asked.

U.S. Majumdar: In list of the treasury profits, I think you wanted to know the guidance of treasury profit in the current year.

A Balasubramanian: Probably to understand like in terms because a lot of profit might have already been booked, so just to get a sense.

U.S. Majumdar: Last year one thing like G-sec yield, you must have seen the G-sec yield has come down by almost 80 bps year-on-year, but as against our portfolio yield, which has come down by only 16 bps as we have given in our presentation, so our yield is 7.93. Profit from the sale of investments will not be to that extent of last year. In terms of portfolio there will be a reduction, but it will not be very huge. It will be around 7% to 8% . This is because as you have seen last year 16 basis points was the reduction. Now the yield has hardened , so I think that will not be that high in the coming year.

A Balasubramanian: Thank you.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Dalmia Securities. Please go ahead.

Vijay Karpe: Good evening everyone. My question pertains to the tier one common equity. Currently it is at 7.5% and it is little above , which is required, so how do you plan to shore up, as government has already increased capital during the year?

Arun Shrivastava: The government did not infuse the full capital they promised. They did not infuse the full capital, which was promised to us.

Vijay Karpe: So how much amount is remaining to be infused and where it will take our tier one capital?

Arun Shrivastava: That was Rs.258 Crore, which has not come to us.

Vijay Karpe: So when can we expect the tier one capital after that?

Arun Shrivastava: During the current year, we will be having our own profit as well as there is an appetite for the Tier-I. Plus we will take a call for our, I would say rights issue.

Vijay Karpe: Perpetual bonds?

Arun Shrivastava: We have already raised Perpetual Bonds. Crore We have the capacity to raise further Rs 1000 crore.

Vijay Karpe: Would you issue anymore perpetual bonds?

Arun Shrivastava: Yes, upto Rs.1000 Crore.

Vijay Karpe: So, when you hear that the credit growth will be in the lower single digit can we assume that it will be like 2%, 3%?

Arun Shrivastava: No, I said 10%, lowest of the double digit.

Vijay Karpe: Advance is 10%?

Arun Shrivastava: Yes, maximum 10%.

Vijay Karpe: According to the new PCA, leverage ratio is to be less than 4%, so what are your plans keeping this in mind?

Arun Shrivastava: Right now it is 5.17%.

Vijay Karpe: It is now 5.17%, so you will be able to maintain the RBI guidelines?

Arun Shrivastava: Yes, definitely, you see in terms of the threshold level in terms of CRAR and CET-I, we are very comfortable as on date. In terms of asset quality ,Net NPA is at 5.21% as against the threshold of 6%.

Moderator: Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Sir, couple of questions, if I look at in our power, iron and steel, and textile sector exposure at least within the power sector the private sector is about Rs.6256 odd Crore out of which Rs.457 crore is an NPL right and in restructure there is some Rs.845 crore I am assuming that is a standard one?

Arun Shrivastava: Yes.

Nilanjan Karfa: What is the state of the balance exposure , any colour, and how much of this, two operating assets versus plants, which are currently under the implementation and how do you see the situation?

Arun Shrivastava: There is no plant, which is under construction or implementation as yet.

Nilanjan Karfa: So everything is operational?

Arun Shrivastava: Yes.

Nilanjan Karfa: That is great. In iron and steel do you see anything outside this Rs.5285 Crore being under some sort of trouble or any of under 5/25 or SDR where you think there is a risk of a slippage?

Arun Shrivastava: Yes, we have identified. There will be about two accounts, which is in the current quarter would be probably going out and there are small accounts segregating about Rs.120 Crore, within which S4A permission we have taken, but probably they missed it, so that we have factored in our report.

Nilanjan Karfa: So what was the earlier thing that you said, some accounts going out, what do you mean by that?

Arun Shrivastava: We have already permission for S4A, but these two accounts, which accounts for about Rs.111 Crore under the steel sector. There are chances that they may slip, so these are factored.

Nilanjan Karfa: Right and just wanted to revisit the numbers that we disclosed last quarter, did we see our SMA2 was Rs.7000 Crore in December?

Arun Shrivastava: Total SMA would have been, one and two together.

Nilanjan Karfa: Okay, out of which SMA1 was about Rs.5000 Crore, last quarter December?

Arun Shrivastava: Now it is Rs.1688 crore.

Nilanjan Karfa: SMA2 as of March?

Arun Shrivastava: Yes, March.

Nilanjan Karfa: What is the SMA1 and would you have the data for March?

Arun Shrivastava: Rs.11000 crore.

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

Jai Mundhra: Sir, just on the slippages, now for the last two quarters we have stabilized at around Rs.1850 crore odd level, so what is your best estimate for slippages quantum for going ahead quarters?

Arun Shrivastava: Going ahead , I can give you a small forecast for the year as a whole . We have been working on that, so if I give you a whole of the year, total slippages should be roughly Rs.6000 Crore.

Jai Mundhra: For full year?

Arun Shrivastava: For a year and the gross NPA, we would be roughly Rs.19,200 crore to Rs.19,500 crore.

Jai Mundhra: Sure, and Sir when we say this is the SMA2 is below Rs.1700 odd Crore and we have a restructured book of more than Rs.4000 Crore, so is it fair to assume that most of the restructuring book is not into SMA2 and is repaying on track?

Arun Shrivastava: I will address your question. The total stress if you see within the whole loan book, besides the accounts, which have already been classified as NPA, so Rs.4290 crore is the standard restructured and Rs.940 Crore would be the SDR. If you add up SDR,S4A, restructured,gross NPA we would be having a ratio of about 11.12 % and you add the entire SMA2 into this you get a figure of Rs.24,700 Crore roughly, which accounts for 12% to be more precise 11.93%, so 12% if you take, so entire stress including S4A, your restructured book, which is a standard, the gross NPA, S4A and the entire SMA2, if you account, so its total number would be of Rs.24,700 crore which accounts for 12%, so that way you can say fairly the stability of the assets quality would be more or less the same and this is I am telling hypothetically everything will not pay during the current year.

Jai Mundhra: Sir there was new restructuring in this quarter and then there was some Rs.750 odd Crore, which moved out of the restructuring book, what was this new restructuring about?

Arun Shrivastava: Restructuring Rs.142 Crore for quarter ended March,2017.

Jai Mundhra: Yes Sir, what was it?

Arun Shrivastava: That has the smaller as well, the agriculture or small MSME accounts. There was not a chunky asset, which has gone into NPA.

Jai Mundhra: There was some reduction of Rs.753 Crore, what would be that Sir?

Arun Shrivastava: That either they would have exited, upgraded or gone into NPA.

Jai Mundhra: Would there be some Discom element here?

Arun Shrivastava: Yes.

Jai Mundhra: Sir, just lastly on the London branch where we are having overseas advances somewhere around Rs.35000 to Rs.36000 Crore, can you just roughly give some broad breakup in terms of how much percentage of the loan book is linked to India linked corporate, how much is local credit, etc?

Arun Shrivastava: If you see even if they have availed the local credit, everything is linked to India corporate, because we are not a retail banker over there.

Jai Mundhra: So predominantly Indian linked corporate loans only?

Arun Shrivastava: Linked corporate even if they have established they would have availed the loan in the local market for their operation in London also, but the corporate would have some kind of limit.

Jai Mundhra: Sir, lastly how much percentage of our loan book would be linked to MCLR now?

Arun Shrivastava: That would be around 35%.

Jai Mundhra: Thanks very much.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, what would be the full year guidance for the tax rate?

Arun Shrivastava: 20% to 25%.

Sneha Ganatra: My second question is on the outlook on the margin front because now currently we have paid off high cost deposits and we are focussing on the NIM part also, what is the outlook on the margins?

Arun Shrivastava: We would be targeting in NIM of 2.4% to 2.5%, currently we are at 2.37%.

Sneha Ganatra: My second question is on the NPA resolution could you throw some light also and how do you see your recoveries and upgrade for next FY2018 and where do we see your gross and net NPA basically and your ROA target?

Arun Shrivastava: As I did indicate that we would be having a roughly slippage of Rs.6000 Crore. We would definitely endeavor to have recovery of Rs.2000 Crore going by our experience of recovery of Rs.1500 Crore during the current year. There will be some definitely an upgradation or reduction due to which we have factored and so we expect a total reduction in the portfolio of Rs.4300 Crore and at net level we will be around Rs.1950 crore NPA, but there would be increase in our advances so the gross NPA ratio would like to have somewhere between, as on date we are at 8.5%, our endeavor is to bring down to 8.45% or 8.40%, but 8.5% definitely we should be able to maintain and going forward on our provisions also we would definitely like to increase it gradually so the best possible case would be 60%, but 60% appears to be difficult going with the condition because the resolution in most of the cases will not be that easy, so about 58% we should be able have our provision coverage by the end of the year.

Sneha Ganatra: Any stress on the power is being left out on our books whatever the pain we have taken?

Arun Shrivastava: Probably there will not be much of the stress now because in steel we have already recognized 60%. This stress is already recognized and thrown out.

Sneha Ganatra: And in power?

Arun Shrivastava: Power major portion if you see it is state owned which are in to the generation company or some state owned companies, so power we do not see anything, which has not been recognized so far, but there can be some challenges, so we have factored one or two accounts in our this full projection, which we have put it for the next year.

Sneha Ganatra: The credit cost guidance, which has given 1.5 that, is also factoring the ageing of the NPA that will require additional provisions also?

Arun Shrivastava: Yes.

Sneha Ganatra: From the ordinance front if haircut the bank has to take what is the provision already we are holding in our books considering this certain amount of haircuts come from the RBI end or bankers have to take on that front?

Arun Shrivastava: In most of the accounts they already have ageing provision to the extent of 40% also, so even at that haircut is to be taken, that will not be a big hit for us in all these accounts, because all these accounts have been NPA for the last more than 18 months now. Enhanced provision is already in place for this sector.

Sneha Ganatra: Where do you see this resolution down the line for the next 12 to 18 months on the ground level you must be aware on and something must be happening from the RBI and also must be reaching the top level also?

Arun Shrivastava: Yes, definitely with the new ordinance which has enabled RBI to stress for the resolution for some of the big accounts probably the process of identification of such accounts will take sooner in this quarter and let us see how this pans out because the banks also have been trying various ways and means to find a resolution. In one or two cases it is nearing success, but let us see the success may not be coming in the current quarter, but in the full year probably we may see resolution in one or two big accounts and they could give a relief to the banks and in two, three large accounts if happens it will definitely be an added benefit.

Sneha Ganatra: Any sector or two to three big large accounts which you are expecting?

Arun Shrivastava: You are also aware that the accounts, which are being targeted for resolutions belong to mainly the steel sector.

Sneha Ganatra: Last thing on the cost to income ratio, any target would you like to give us?

Arun Shrivastava: Cost to income ratio we had 56.5%, if you recollect March last we were at nearly 61% and we gave assurance to the analysts that we will bring it down to 55%, 56%, we have been able to bring it to 56.5% and going forward, our endeaver would be somewhere 50% to 55% we should be there.

Sneha Ganatra: Thanks Sir.

Moderator: Thank you. The next question is from the line of Abhijeet S from Kotak Securities. Please go ahead.

Abhijeet S: Good afternoon Sir. I am looking at slide 13 and there is a clarification called as mortgage loans so I am assuming it prefers to loan against property? There you see a very sharp quarter-on-quarter growth close to 25%, so is it some kind of a loan that you have done in this quarter?

Arun Shrivastava: No.

Abhijeet S: This is all organic?

Arun Shrivastava: Yes, organic, we did not have a pool buyout.

Abhijeet S: Okay and sir what would be incremental yields on this portfolio?

Arun Shrivastava: That I may not able to give you on these specific mortgage business, but definitely it must be around 11%.

Abhijeet S: Alright that is it, thank you.

Moderator: Thank you. The next question is from the line of Viraj Gandhi from Samco Securities. Please go ahead.

Viraj Gandhi: Thank you. Can I know your exposure towards MFI, NBFC and telecom sector?

Arun Shrivastava: Already in the slide. I will tell you the slide number is 15.

Viraj Gandhi: No problem, and just can I know how are we planning to improve our operating income because in this quarter despite having such a big treasury income our operating income has not grown so much, so how do we will plan to improve our operating income this year?

S.S.M.Rao: In the last two to three quarters you must have seen consistently even though the credit growth have been less, internally there has been a reduction in the corporate book and the increase in the retail book, thereby there is a possibility for increase in the yield on advances. In the similar manner in the current financial year 2017-18, we are planning for increasing the retail and MSME book in such a way that the yield on advances will increase, that is how we will have to project for increase in the operating income.

Viraj Gandhi: One final question from my side, Sir fresh slippages for this quarter were very high and hence the management is already guiding for approximately Rs.9500 crore of gross NPA for the next year, is it contrary to the view of AQR ;this is what I understand?

S.S.M.Rao: No, if you look at the guidance what is given to you is fresh slippages 2017-18 is around Rs.6000 Crore, if you look at the net increase in global advances is only around Rs.616 Crore. Gross NPA position as at the end of March 2017 is around Rs.17609 crore, which we are projecting to Rs.19200 crore by March 31, 2018. So the increase is around Rs.1600- 1700 Crore; however, slippages would be around Rs.6000 crore considering the stress existing in some of the large corporate accounts and t we may even endeavor to reduce that.

Viraj Gandhi: But we are trying to maintain it as 8.5% of gross NPA level?

Arun Shrivastava: Yes, around 8.4 to 8.50 %Second thing your question on the MFI our total NBFC exposure is Rs.20200 crore and MFI exposure is Rs.250 Crore and your question on the slippages when you say that the slippages were high, if you recollect we had already indicated that the minimum slippages during the quarter would be Rs 1500 crore. I also mentioned that we had this estimate much earlier before the end of the quarter, the increase beyond Rs1500 crore is because of some account which was in this SDR crossing 18 months in April, which we could sense that in the March 31 these will not be fructified hence the same was recognized as NPA by March 31 itself.

Viraj Gandhi: So you mean to say which was supposed to happen in Q1 this year, we have already seen it is happening and we have recognized in last year itself?

Arun Shrivastava: Yes, that is small increase because of that

Viraj Gandhi: I got it Sir! Thank you very much for taking my questions.

Moderator: Thank you. We will take the next question from the line of Rakesh Kumar from Elara Securities. Please go ahead.

Rakesh Kumar: Sir, just one question the margin guidances are like higher than what we have achieved for this year 2017, so considering that there would be some shift of loans happening from base rate to MCLR and there is a gap between base rate and MCLR so that would lead to some yield on advances, would not it be leading to dilution in margin ?

Arun Shrivastava: Rakesh it may not to be that extent because those advances, which are at base rate at least we will like to maintain some kind of spread. It will not be reducing exactly with the same percentage. Second thing it will happen gradually by the time we will also have an incremental loan book.

Rakesh Kumar: That is already factored in it means.

Arun Shrivastava: Second thing all the advances, which are even at MCLR and some of the advances, which are under the agriculture or these sectors that definitely the yield is high.

Rakesh Kumar: Got it. Thanks Sir!

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Thanks for the repeat opportunity. There was a question on the mortgage loans and if I broadly remember going back to slide15, I think this total outstanding used to be less than Rs.1000 Crore and then we had a very sharp growth last year and obviously this year it was much lesser growth, how do we source these loans is it through direct selling agent (DSA)?

Arun Shrivastava: No, not DSA business it is direct by us only.

Nilanjan Karfa: What kind of LTVs, do we have on this product, outstanding LTV?

Arun Shrivastava: LTV will not be less than 75%

Nilanjan Karfa: 50% right and on the LTVs on the housing loan currently?

Arun Shrivastava: Depends on their quantum of loan.

Nilanjan Karfa: On an average Sir.

Arun Shrivastava: LTV would be 75%.

Nilanjan Karfa: Could be 75%?

Arun Shrivastava: Minimum 75%.

Nilanjan Karfa: That I understand, which is why I am asking the median or in average?

Arun Shrivastava: Average would be somewhere between 65 %and 75%, the high end loans where the margins are quite high minimum 35%.

Nilanjan Karfa: So we are not participating currently in this affordable housing and there is so much of talk about that, how do you see that as an opportunity for you?

Arun Shrivastava: No, we will see as the opportunity comes during the current year, so far we have not gone aggressively.

Nilanjan Karfa: My second question is on the staff expenses, so on the full year basis it was higher by about Rs.862 Crore, how much of that is because of the pension provisioning Sir?

Arun Shrivastava: About 45% is provision.

Nilanjan Karfa: 45% is because of additional pension?

Arun Shrivastava: Correct.

Nilanjan Karfa: Thank you so much Sir!

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, just if you could give me the outstanding number of employees at the end of Q4?

Arun Shrivastava: It is total 32,548 no. of employees.

Bajrang Bafna: Sir, since this year there was huge provision on the pension liability side, which has increased the quarterly run rate of our staff expenses, could you guide us ballpark since now we are seeing more or less stabilizing around 7% minimum and we might not have that actual impact going forward. Most of the banks you have seen the quarterly run rate of the staff expenses has come down, but in our case it has gone up, so what is the broad quarterly run rate that we can assume going forward on a quarterly basis?

Arun Shrivastava: On the employee cost front there are two reasons why the increase was, due to actuarial valuation and another is the addition of the staff also if you would have seen last two years we are adding around 2500 people, of course this year is now consolidation phase basically an investment what we made for business. The same increase may not be there. Around 8% to 10% increase may be there and this year we have to factor in the wage revision.

Bajrang Bafna: 8% to 10% that we can assume?

Arun Shrivastava: Correct.

Bajrang Bafna: Sir, what is the branch addition target this year?

Arun Shrivastava: It will be around 150 net addition because we are looking at rationalization as well around 300 new and rationalization around 150, so net increase will be around 150.

Bajrang Bafna: Thank you very much Sir!

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

Srikant Waghle: Sir, thanks for the opportunity, just wanted to understand why we have not declared any dividend for FY17 even when we are comfortable placed on net NPA?

Arun Shrivastava: There are two things, one is that as you are aware, last year government was supposed to give us a capital of Rs.1034 Crore out of which they have given only 75%, remaining 25% of Rs.258 Crore was to be received by us, but we could not get it and there was an understanding at our end that the profit being at Rs.358 Crore even if you let to declare the dividend should not be that much and the contribution from government and LIC has been very large we thought it would be prudent to retain the profit without declaration of dividend, we should give more strength to the balance sheet of the bank.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, could you share something on the fee incomes that has been consistently not improving significantly and the second question is on the ROA you did not mention at that time?

Mohan Rao G: It has not increased what you said. It is almost consistent. Fee income I see the barring treasury, and sale of investment, quarter and quarter other income other than treasury profits was increased by 21% and in case of year-on-year is by 106 Cr, 7%.

Sneha Ganatra: Any target for ROA do you like to maintain?

Arun Shrivastava: ROA target?

Sneha Ganatra: Yes.

Arun Shrivastava: ROA target, it would be roughly I indicate at 0.20% to 0.25%.

Sneha Ganatra: Thank you.

Moderator: Thank you. Ladies and gentlemen that is the last question. I would now like to hand the conference over to Mr. Rakesh Kumar for his closing comments.

Rakesh Kumar: Thanks everyone for participating in the call and most importantly thanks to Syndicate Bank, entire management team for spending their precious time to enlighten us and enrich us. Thanks a lot Sir! Would you like to give your closing remark?

Arun Shrivastava: Thank you Rakesh and I thank all the analysts who have attended this conference call and with their observations probably the onus is fast enough to ensure a consistent consolidated performance during the next year and the guidance probably, which we have given, should come through. My good wishes to al of you and once again on behalf of the entire senior management team, I thank each one of you who participated the conference and also on an individual basis I must thank both the executive directors, Mr. Pandey and Mr. Rao and the senior management team, which has enabled to put up a wonderful performance, coming out of loss of nearly Rs.2158 Crore in March'16 ,we have been able to make a turnaround, each and every vertical has contributed to this successive story, and that is how it has happened. Thank you once again for keeping us on toes for giving a good performance from quarter-to-quarter.

Rakesh Kumar: Many thanks for everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.