



## “Syndicate Bank Q4 FY18 Earnings Conference Call”

**May 17, 2018**



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**MODERATOR: MR. RAKESH KUMAR, ELARA SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Syndicate Bank Q4 FY18 Earnings 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 telephone. 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. Welcome to you all on the Syndicate Bank conference call. We have with us the Syndicate Bank senior management, Mr. S. S. Mallikarjuna Rao – Executive Director, Mr. Krishnan S – Executive Director and our General Managers are also there. We would like to request sir to give a brief presentation on the results and thereafter we can start the Q&A session. Over to you, sir and thanks a lot.

**S. S. Mallikarjuna Rao:** Good afternoon Rakesh, thank you. I will start with brief presentation. Once again as it has been introduced, I am Mallikarjuna Rao – Executive Director from Syndicate Bank.

With respect to the results declared by us ended March 2018, global business has grown by 6% year-on-year from 467,626 crores in March 2017 to 496,122 crores in March 2018. Global deposits have increased by 5% year-on-year from 260,561 crores in March 2017 to 275,776 crores in March 2018. Similarly global advances are increased year-on-year from 207,065 crores to 223,346 crores that is an increase in 8%. On quarter-on-quarter basis global advances have increased from 219,449 crores to 223,346 crores registering a growth of 2% on quarterly basis with annualized growth of 8%. With respect to domestic business, it has grown by 4% year-on-year from 405,920 crores in March 2017 to 422,569 crores in March 2018. Domestic deposits were increased by 3% year-on-year from 234,543 crores in March 2017 to 241,092 crores in March 2018. Domestic advances have increased year-on-year from 171,377 crores to 181,477 crores showing a growth of 6%. On quarter-on-quarter basis domestic advances have increased from 175,872 crores to 181,477 crores, registering a growth of 3% with an annual rate growth of 12%.

As far as the profitability is concerned, the net interest income has increased year-on-year from 6,276 crores for FY2017 to 6,552 crores for FY2018. That is an increase of 4%. The muted growth in NII, net interest income is mainly because of the interest reversal on account of higher NPA slippages from 8,138 crores in FY2017 to 14,310 crores in FY2018. Details of the reasons for this increase is discussed subsequently. Other income has however declined by 19% from 3,457 crores in FY2017 to 2,806 crores in FY2018. This is mainly because of a drop in net profit and sale of investments from 1,740 crores in FY2017 to 946 crores in FY2018. That is a drop of 46% amounting to 794 crores. This is because of a significant increase in 10 year G-sec yields which increased by 74 basis points from 6.66% in September 2017, so 7.4% during March 2018.

Operating expenses have remained flat during financial year 2018, with these expenses decreasing marginally from 5,500 crores in FY17 to 5,494 crores in FY18. Due to the muted

growth of 4% in net interest income drop in other income by 19% the total operating profit has dropped by 9%. The provisioning requirement during FY18 increased significantly to 8,253 crores from 3,581 crores in FY17 that is an increase of 4,672 crores. The reason for this has been discussed subsequently. Overall the bank incurred a loss of 3,223 crores for the financial year ended March 2018 as compared to a profit of 359 crores in FY2017. On quarter-on-quarter basis, the net interest income increased by 3% that is 12% on annualized basis from 1,623 crores to 1,679 crores. This muted growth was in spite of the interest reversals made during the quarter on account of the increase in NPAs which have been discussed later.

Other income grew by 21% from 569 crores in December 2017 quarter 2 689 crores in March 2018 quarter. This was in spite of a drop of 89 crores in net profit on sale of investments. On a quarter-on-quarter basis operating expenses increased marginally by 1% from 1,417 crores to 1,433 crores. Provisions during Q4 were 3,938 crores as compared to 2,090 crores in Q3 earlier financial year that is an increase of 1,848 crores. As a result, the bank incurred a loss of 2,195 crores in Q4 as compared to the loss of 870 crores in Q3. Cost of deposits has dropped from 6.3% in FY17 to 5.55% in FY2018. The yield on advances has dropped from 9.64% in FY2017 to 8.77% in FY2018. The domestic NIM has improved from 2.70% in FY2017 to 2.85% in FY2018. The global NIM has improved from 2.37% in FY17 to 2.44% in FY2018.

CASA percentage is increased from 32.32% in FY17 to 33.33% in March 18. It was mentioned that CASA deposit percentage in March 2016 was 28.9% and it rose to 32% in March 2017 was mainly due to the effect of demonetization. The bank is focusing on increasing CASA through acquisition of salary accounts of our corporate clients vigorously pursuing trust associations, societies and clubs accounts deepening our relationship with SMA-customer besides fresh customer acquisition to strengthening of alternate delivery channels. With respect to focus on retail credit overall on year-on-year basis RAM portfolio increased by 5%. During the year the bank took a conscious decision to drop pool buyouts in retail and MSME segments aggregating to 3,330 crores. This included MSME segment pool buyout of 1,756 crores and retail of 1,674 crores. This drop in pool buyouts was done primarily for capital conservation. If the pool buyouts were not done the RAM would have increased by 8.3% on outstanding basis.

Disaggregating the RAM portfolio on year-on-year basis with banks and banks retail advances have grown by 7%. There is 8.3% if renewal of pool buyout had taken place. Agriculture by 6% and MSME by 1% however, it would have been 7.7% if the pool buyout had been renewed. Home loan growth during the year was 16% year-on-year and in Q4 it was 5%. That is an annualized growth of 20%. It must be mentioned that the retail growth in Q4 has been 5% that is annualized growth of 20%. Our priority sector growth has been 8% and we have achieved 43% of ANBC as against regulatory requirement of 40%. Similarly, in agriculture we have achieved 20% of ANBC as against the regulatory requirement of 18%. In all other sub-segments of priority sector, we have exceeded the regulatory targets. The ratio of retail advances to corporate advances has remained flat during the year at 53% and 47% respectively. Our focus would be to increase the RAM portfolio and moderate the corporate portfolio.

With respect to asset quality, as already mentioned the gross inflation during financial year 2018 was 14,310 crores as compared to 8,138 crores in FY2017. The up-gradations, recoveries and prudential write-off during the financial year 2018 aggregated to 6,160 crores as against 4,361 crores during financial year 2017. It must be mentioned that the total cash recovery for financial year 2018 was 3,331 crores of which 2,202 crores was against principle amount. This is higher than the target of 3,300 crores for the year. In contrast, the cash recoveries in FY2017 was 2,351 crores of which 1,500 crores was against principle. After taking into account the fresh slippages has also the cash recovery up-gradation and prudential write-offs. The gross NPA as of March 31, 2018 was 25,759 crores as against 21,103 crores as on 31<sup>st</sup> December 2017. The gross NPAs as on March 31<sup>st</sup> 2018 in percentage terms stood at 11.53 as against 9.62 as on 31<sup>st</sup> December 2017. The net NPAs stood at 6.28% as on 31<sup>st</sup> March, 2018 as against 5.44% as on 31<sup>st</sup> December 2017.

The PCR as on March 31<sup>st</sup> 2018 was 60.71% which is higher than 56.37% in March 2017 and 59.93% in December 2017. The total stressed assets that is gross NPA plus capital restructured assets as per RBI definition of the bank has increased from 10.95% in December 2017 to 12.39% in March 2018. The provision during Q3 which was 2,090 crores increased to 3,938 crores in Q4 that is an increase of 1,848 crores. The reason for this increase is detailed. The bank has made the entire 50% NCLT provisions required during the year which amounts to 4,482 crores against the normal provision requirement as per IRAC norms of 3,430 crores that is an additional provision of 1,050 crores for the year. Being the provision for Q4 is only 411 crores. RBI had permitted making 40% of the provision in FY2018 with balance 10% to be made in Q1 of FY2019. This 10% amounts to additional provision of 487 crores, it may be mentioned that. However, these 487 crores we have already taken care by March 2018 itself. Further it may be mentioned that RBI has permitted the spreading out of M2M losses on government securities for over 4 quarters.

The bank will be availing this benefit and accordingly the provision to be made during Q1, Q2, Q3 of FY19 will be approximately 100 crores each in Q1 and Q2 and 50 crores in Q3 which is a deferred amount out of the M2M losses. In addition to these during Q4 the bank accounted for the impact of RBI divergence of 2,239 crores including 620 crores for investments. This includes exposure to Discom bonds and loans aggregating 864 crores where payment is being made regularly as per original term. The provision made on these Discom exposure aggregates 346 crores. The incremental provision required for RBI divergence is 1,140 crores. Further and with that of RBI circular dated 12<sup>th</sup> February 2018 on resolution of stressed assets revised framework the bank has to down grade those advances which were restructured and not implemented under scheme plus SDR, S4A, 5/25 as earlier allowed by RBI. The additional slippages and provisioning required on these account was 730 crores and 247 crores respectively. In addition to these the bank was required to downgrade certain chunky gems and jewellery affairs aggregating 357 crores for which 100% provision was made.



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Further during Q4 there was a need to downgrade, we are 100% owned government company and one telecom company having principle amount of 997 crores with resultant provision of 150 crores. Further these provisions increased by 367-368 crores due to depreciation on investments. All these factors accounted for slippage of 4,322 crores with resultant additional provisioning of 2,305 crores as against the increase in provisioning in Q4 over Q3 of 1,848 crores. With respect to capital during December 2017, the bank raised equity capital of 1,150 crores through QIP issue further during March 2018 Government of India infused 2,839 crores as equity capital. The bank continues to target conservation of capital for maintaining reasonable capital ratios. The CRAR of the bank as of 31<sup>st</sup> March 2018 stood at 12.24% with CET1 ratio of 7.56% and Tier-1 ratio of 9.41%. This is against the regulatory minimum requirement of 7.375% for CET1, 8.875% for Tier-1 and 10.875% for CRAR ratio as on March 31<sup>st</sup> 2018.

Now, before concluding there have been several positives for the bank in spite of the trying circumstances the bank has shown a growth in global business of 6% and global advances of 8%. CASA has shown a continuously increasing trend from 28.9% in March 2016 to 32.32% in March 2017 which includes the demonetization effect and also further to 33.33% in March 2018. Overall, on year-on-year basis the RAM portfolio increased by 5%. During the year the bank took a conscious decision to drop pool buyouts in retail and the MSME segments aggregating 3,350 crores. This included MSME of 1,756 and the retail of 1,674 as a vertical informed before. This drop in pool buyout was done primarily for capital conservation if the pool buyouts were not done RAM would have increased by 8.3% disaggregating the RAM portfolio.

On year-on-year basis the banks retail advances have grown by 7%, agriculture by 6% and MSME by 7.7% adjusted with respect to the pool buyout. Home loan growth during the year was 16%. The banks recovery efforts have resulted in cash recovery being higher than the targeted level that is actual been 3,331 crores as against the target of 3,300 crores. The PCR has increased to 60.71% in March 2018 from 56.37% in March 2017. The bank has made full required provision of 50% for NCLT cases and has not availed of the 10% lower provision as permitted by RBI for Q4 of 2018. Operating expenses have remained flat. There has been an increase in domestic NIMs during the year from 2.7 to 2.85 and on global basis from 2.37 to 2.44.

Now, with these brief information or details related to our performance of our Syndicate bank, we are open for the queries from the members who are in the concall. Over to you, Rakesh.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-answer session. We take the first question from the line of Jay Mundra from B&K Securities. Please go ahead.

**Jay Mundra:** Couple of questions from my side. Sir, first on this deferred stress can you tell us what is the S25, SDR and S4A, standard which is now standard remaining in our book?

**S. S. Mallikarjuna Rao:** Standard restructured is total 1,921 crores. Then if you want S4A and SDR together it is only 122 crores.



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- Jay Mundra:** Both put together is 122 crores?
- S. S. Mallikarjuna Rao:** 122 crores, which is in standard category.
- Jay Mundra:** And sir, 525?
- S. S. Mallikarjuna Rao:** 525 nothing is left. Everything is in NPA.
- Jay Mundra:** 525 we have kind of classified all as NPA?
- S. S. Mallikarjuna Rao:** Yes, correct.
- Jay Mundra:** Because that is not the commentary, okay, anyway we had very small amount, right?
- S. S. Mallikarjuna Rao:** Yes, correct. Very true but it has been classified as NPA already.
- Jay Mundra:** And sir, you mentioned about 1,140 crores which is the further provisioning required on RBI divergence, did I hear it correctly or recent ...
- S. S. Mallikarjuna Rao:** Yes, very correct. Which is made already, not required.
- Jay Mundra:** That has already been made, right?
- S. S. Mallikarjuna Rao:** That was required to be made as per the divergence which we have already done.
- Jay Mundra:** And sir, if you can ...
- S. S. Mallikarjuna Rao:** tendency of spin over provision is not there only M2M we have already indicated that.
- Jay Mundra:** And sir, can you also specify your SMA-2 book which you last quarter it was some 5,480 crores. How ...
- S. S. Mallikarjuna Rao:** Yes, right now it is as at the end of March 1,111 crores. So, considering SMA-2 also our asset vertical, stress asset percentage goes to 12.95.
- Jay Mundra:** And sir, if you can also share SMA-1 book, I mean because there is a lot of movement in SMA-2. So, if you were to quantify both SMA-1 and SMA-2 put together how much would that be sir?
- S. S. Mallikarjuna Rao:** SMA-1 is also very less. It is around, I think, 4,888 crores or 5,000 crores roughly.
- Moderator:** Thank you. We take the next question from the line of Ashwini Ghongane from HSBC. Please go ahead.



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- Ashwini Ghongane:** Just a small question. Rating wise distribution of advances can you give?
- S. S. Mallikarjuna Rao:** See, if you look at the double year and triple year rated the composition is 44%. Out of the advances of the rated advances and then single A is 15% triple B and below is 41%.
- Ashwini Ghongane:** Sir, one more question, exposure to CRE segment and iron and steel sector?
- S. S. Mallikarjuna Rao:** Exposure to CRE segment is 8,472. Then the other one which you will asked?
- Ashwini Ghongane:** Iron and steel.
- Ashwini Ghongane:** 8,440 crores.
- Ashwini Ghongane:** My last question would be what is the MCLR linked advances?
- S. S. Mallikarjuna Rao:** 69%.
- Moderator:** Thank you. We take the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir, if you can give sir, some outlook on slippages for next year and also on the provisioning cost for next year?
- S. S. Mallikarjuna Rao:** See, before giving the slippages I will also give you the outlook for the business as well. We are looking at a growth of advances growth of 5%, I will give you the reasons why. You must be aware that government of India has sought MoU from all the banks in the month of January 2018 wherein they have advised to reduce the corporate profile excessively up to 25% of the total composition. In the presentation we have made we have indicated that our corporate is currently standing at 47%. So as a result, by maintaining the corporate flat without showing any growth only a matter of replacing with the low RWA advances, we are looking at a growth of almost 15% in the non-corporate segment. As a result, to overall advances growth we are envisaging it 5%. Now, considering that the NPA position as at March 2018 currently stood at 25,760 crores. Now, fresh slippages we are envisaging around 7,500 crores for the current financial year. And after that we are having a recovering target of 4,500 crores. Then up-gradation of 2,560 crores and we may have to even write-off to the extent of 3,200 crores including the resolutions which are expected to come up during the current financial year. So, with that we will have a closing figure of 23,000 crores which would be anything between 9.85% to 10%, less than 10% in terms of gross NPA and between 5.75 to 5.95 in terms of net NPA. That is the guidance with respect to this financial year.
- Anand Laddha:** And sir, what was the outlook on the provisioning cost sir?
- S. S. Mallikarjuna Rao:** It is 2 to 2.25 credit cost.



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- Anand Laddha:** And sir, this seven thousand and half thousand crores of slippages you are assuming, since we have seen very large slippages this quarter itself. And this full year and the SMA-2 book is also lower, standard structured book is also now quite lower. Despite that sir we assume 7.5% crores slippages, sir?
- S. S. Mallikarjuna Rao:** No, we still have for example it is difficult to tell you the name, even the aviation industry account is there. Though its standard restructured today we are looking at whether it can slip during the current financial year. So, it is the worst case scenario that we are considering that figure.
- Anand Laddha:** Sir, this aviation account is a Government of India account?
- S. S. Mallikarjuna Rao:** Very true, Correct.
- Anand Laddha:** So sir, can Government of India default PSU bank?
- S. S. Mallikarjuna Rao:** It should not but then we are taking worst case scenario because of the experience of vertical-1 government account.
- Anand Laddha:** And sir, what is the exposure to this aviation account sir?
- S. S. Mallikarjuna Rao:** It is around 800 crores.
- Anand Laddha:** Sir, in our restructured book also, sir we have seen Rs. 1,921 crores almost 5,000 odd crores are smaller account, is that correct?
- S. S. Mallikarjuna Rao:** Correct, you are right. That is agricultural advances.
- Anand Laddha:** So, what are these accounts sir? And what are the terms of restructuring sir, when they will become performing ...
- S. S. Mallikarjuna Rao:** See, the problem is these agriculture advances you have seen we have a predominant presence in state in Karnataka. In Karnataka, there was successive droughts which have occurred. As a result as per the government and RBI guidance we have to restructure the book. So, everything we have shown that is reason where the figure is appearing like that.
- Anand Laddha:** And when this account will get upgraded, sir?
- S. S. Mallikarjuna Rao:** Difficult to say but then we are now today only the government of Karnataka has declared waiver of the loans where in up to 100,000 they will be paying fully. So, we expect good amount of recovery during the current financial year. But unless we know the details which are yet to come up otherwise our flow up measures are in progress. This year has been better as far as the agriculture is concerned, so we expect recoveries in a better fashion.





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- Anand Laddha:** And in your seven half thousands of slippage assumption, sir. How much you are assuming from cooperate sector? How much you are assuming from SME, sir?
- S. S. Mallikarjuna Rao:** Roughly around 2,000 crores is from corporate sector and around 1,500 crores from agriculture, another similar amount from MSME segment.
- Anand Laddha:** No sir, we are assuming little higher slippages on the corporate as well as on agri sector?
- S. S. Mallikarjuna Rao:** We are expecting but then it could be lesser that is why I said it is a worst case scenario.
- Anand Laddha:** And sir, what is our NCLT-1 and NCLT-2 exposure, sir?
- S. S. Mallikarjuna Rao:** NCLT-1 out of the 12 accounts we had exposing 11 accounts amounting to 5,176.59 crores against which already we have done a provision of 61%. NCLT-2 out of the 28 number of accounts we have exposed in only 8 accounts amount is 1,785.73 crores against which we have done a provision of 76.5%.
- Anand Laddha:** So, you said 1,780 crores?
- S. S. Mallikarjuna Rao:** 1,785.
- Anand Laddha:** And how much provision you have done, sir?
- S. S. Mallikarjuna Rao:** 76.5.
- Anand Laddha:** But sir, if I remember sir, when we met last time when we are doing QIP, we were expecting to make profit in FY18 and a profit in FY19.
- S. S. Mallikarjuna Rao:** Correct.
- Anand Laddha:** Now, FY18 anyway is a washout year. What is the base on your guidance of 2-2.5, 2.25% credit cost it seems that we are going to make losses even in FY19.
- S. S. Mallikarjuna Rao:** We are not expecting to make losses because why we have shown slippage and even recovery percent, provisioning also more. One is slippages because smaller accounts can come and worst case scenario if the few bigger accounts amounting to 2,000 crores CDR slipping. Otherwise, we do not expect them to slip. Even if that goes in that direction still will be in profit during the current financial year.
- Anand Laddha:** But sir, at 2% provisioning cost on a loan book of 2,000 which means a provision cost itself is 4,000 crores.



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- S. S. Mallikarjuna Rao:** But then recovery will come, 2000 provisioning cost is ultimately adjusting the amount of gap when the NCLT cases are resolved. As a result money in flow will start earning.
- Anand Laddha:** No, I did not got you sir, I am sorry.
- S. S. Mallikarjuna Rao:** What I am saying is in NCLT, see provision cost you are looking at 2 to 2.5 whatever we said credit cost in that there is an inclusion of provision. Is not it? In that provision there is a major portion which we have allocated for adjusting to those NCLT cases where the resolution takes place. So, in which case the advances completely will be wiped out and the funds received will be earning the money, interest.
- Anand Laddha:** So, you have not assumed any resolution of NCLT cases while guiding for 2%-2.5% credit cost?
- S. S. Mallikarjuna Rao:** No, we have assumed that, there is a provision increasing, no?
- Anand Laddha:** But sir, when we are assuming, so when we are having a 60% coverage and if the resolution happens 60% haircut which means you do not need any additional provision.
- Management2:** Let me clarify. There will be ageing provision, so wherever if they are probably we are looking at its aggressive provisioning actually increasing our PCR.
- S. S. Mallikarjuna Rao:** See, I will give you example. See, in NCLT first list we have 61%, second list we have 76.5% provision. All the cases may not be settled in that range wherein we may not be required to make any provision. If any account goes much below that we may be required to make additional provision. So, as a matter of precaution we have also considered that. That is the reason.
- Moderator:** Thank you. We take the next question from the line of Amit Rane from Quantum Securities. Please go ahead.
- Amit Rane:** Sir, I have question on this capital infusion from government that time did you have any performance parameters which you have to promise to the government which you will deliver let us say 1 or 2 years?
- S. S. Mallikarjuna Rao:** See, more than any performance parameter it was a business objectives of every Public Sector bank, which the government was looking at. If you look at as a parameter the one which I already indicated where in the corporate credit has to be brought down successfully to 25% of the profile that is one. Otherwise, these are all strategic parameters which was given by the government where in the MoU was undertaken by the bank's Chief.
- Amit Rane:** And sir, our provision cost for this year, total is around 8,252 crores.
- S. S. Mallikarjuna Rao:** Correct.



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- Amit Rane:** Can you give your outlook for FY19 on this number on absolute basis?
- S. S. Mallikarjuna Rao:** I have just now indicated I have given the figures for NPA that is cost is 2 to 2.25, in absolute terms it will be around 4,000 crores.
- Amit Rane:** Sir and on account of ageing provision how much do you expect? Any estimate on that on the old NPAs, what are we have recognized?
- S. S. Mallikarjuna Rao:** 2,400 crores.
- Moderator:** Thank you. We take the next question from the line of Sri Kartik from Investec Capital. Please go ahead.
- Sri Kartik:** Sir, we have about 40,000-odd crores of overseas advances. And this has been built over a very short period of time particularly in our London office.
- S. S. Mallikarjuna Rao:** Correct.
- Sri Kartik:** Could give you a sense of what this book is and who are the underlying borrowers?
- S. S. Mallikarjuna Rao:** Majority is interbank advances.
- Sri Kartik:** To other banks?
- S. S. Mallikarjuna Rao:** Yes, interbank. I will tell you. The portion of customer advances is very less. If you look at the corporate clients we have the Tata, Adani and NMC.
- Sri Kartik:** And apart from that majority is interbank. These would be Indian banks?
- S. S. Mallikarjuna Rao:** Yes, Indian banks only.
- Sri Kartik:** Indian banks who have borrowed from us in our international offices.
- S. S. Mallikarjuna Rao:** Correct.
- Sri Kartik:** And secondly sir, any initial comments on the Karnataka farm loan waiver that got announced?
- S. S. Mallikarjuna Rao:** No, it got announced we also just came to know about it is up to 100,000 they say, but we need to get the details then only we can work out to understand what would be the impact.
- Sri Kartik:** And finally, if you can comment a bit on the Karnataka economy. So, how is it behaving versus the other state whether you seeing any signs of improvement?



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- S. S. Mallikarjuna Rao:** See, it is very difficult to observe anything on that. If you see Karnataka economy it is there one government for 5 years, now new government have come. We cannot give any details because we will not be very privy to any information except for whatever news comes. So, in the news we have not seen any adverse comments on the economy.
- Moderator:** Thank you. Next question is from the line of Sanket Chheda from IDFC. Please go ahead.
- Sanket Chheda:** As you have indicated for the next year slippages from corporate to one account was as in that aviation account. Are there any other accounts that have been identified, one or two more accounts?
- S. S. Mallikarjuna Rao:** See, we did not give the name that is why I said 2,000 crores roughly, 4-5 accounts amounting to 2,000 crores.
- Sanket Chheda:** How many 4-5 accounts?
- S. S. Mallikarjuna Rao:** Yes, correct.
- Sanket Chheda:** So, other 2-3 accounts will belong to which sector?
- S. S. Mallikarjuna Rao:** Infrastructure and then power.
- Sanket Chheda:** And this would be mainly private power, right?
- S. S. Mallikarjuna Rao:** Correct.
- Sanket Chheda:** And sir 7,500 as you have indicated 2,000 will be from corporate, 1,500 from agriculture, 1,500 from MSME. So, still balance 4,000 you expect from retail?
- S. S. Mallikarjuna Rao:** Some small loans we have written that is why I said worst scenario case we have taken 7,500. It could be much lesser than that. But at this point of time we would like to have that as an estimate.
- Sanket Chheda:** And the other thing on the corporate loan side as you indicated you have mandate from the government to reduce to 25% of the book, right?
- S. S. Mallikarjuna Rao:** That is right.
- Sanket Chheda:** Yes, so is it when communicated to all the banks or some smaller banks or how is it like?
- S. S. Mallikarjuna Rao:** No, that we are not aware. As far as MoU is concerned it is individually entered by the bank, each bank. It is a 2 year horizon not immediately. It is a 2 years horizon. That is why we are looking at flat at this point of time. Currently it is 47% now we would like to bring it down little



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further by March 2019. In absolute terms it may be flat but in percentage terms it will be go down.

**Sanket Chheda:** So, I just wanted to have your sense like is it possible that it has been communicated to at least 50% of the public banks similar to yours?

**S. S. Mallikarjuna Rao:** It is difficult. See, if you look at overall it is only a measure to ensure that bank runs in good health. That is the major requirement.

**Moderator:** Thank you. We take the next question from the line of Jay Mundra from B&K Securities. Over to you, sir.

**Jay Mundra:** Taking from the previous questions only. So, now sir if I compare our bank versus other PSU banks we are still let us say on the better than the median. So, why are we ask to restrict our corporate growth because there so many banks, which are fairly poor than us and if we are too, we have been asked to restrict our corporate growth then who will stand ...

**S. S. Mallikarjuna Rao:** There are 2-3 angles Jay, you listen to me. First of all, why should I be happy by comparing with those who are not doing well? Our benchmarks are different wherein we would like to achieve. If you are happy comparing to others then it will be difficult. It all depends upon what kind of exposure the bank has taken in the time of infrastructure lending which has taken place during 2009 and 2012. Now, the second point is, if that is the restriction for banks like Syndicate Bank or others where the NPA ratios are less, how there would be lending? First of all, where are the opportunities in the infra lending at this point of time? When the opportunities arrived definitely banks will see. As on today, why the government indicated is to ensure that you are going in a right direction for improving the health of the bank.

**Jay Mundra:** So, do you mean only by corporate you mean large ticket advances or even let us say 100 crores odd advances would also fall in this corporate your banks?

**S. S. Mallikarjuna Rao:** It defers from bank-to-bank the amount. But ultimately the objective is capital light. If you are having the government advance where the central government guaranteed advance where RWA is zero, where is the problem and the government what indicated is in fact probably I am misquoted myself. It is not be 25% of the advances outstanding. It is 25% of the RWA rather. So, what they are expecting is right now to improve the health of the bank. It is better you have the corporate which is higher-rated corporate, so the risk weightage will be less.

**Jay Mundra:** Is this something to do, when this ease was announced wherein Government of India said and Ministry said we would be bifurcating banks into those who can do retail lending those who can do large corporate lending, and some would be doing MSMEs. Is this the extension of that thought process?



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**S. S. Mallikarjuna Rao:** Correct. However, you see they have declared very truly but then everybody is saddled with problems, whether big or small. So, first the objective in front of all of us is to come out of this problem and show improvement in the business.

**Jay Mundra:** And sir, secondly on this RBI 12<sup>th</sup> February circular, which mentions about that bank will have to keep a track of the system-wide corporate borrower of more than 2,000 crores. So, just wanted to check sir, have we done any kind of an internal assessment as to what is our share of these more than 2,000 crores borrower at system level?

**S. S. Mallikarjuna Rao:** There are only 4 accounts.

**Jay Mundra:** Which are standard, right?

**S. S. Mallikarjuna Rao:** Yes, correct.

**Jay Mundra:** And sir, you mentioned about this pooled buyouts also. I actually could not hear that properly. So, we have done?

**S. S. Mallikarjuna Rao:** Last year March 2017, see the retail advances which were outstanding which included pool buyout in retail and MSME. That we did not continue during the year as a result there is a de-growth to that extent. However, though we have grown well that growth has been muted because of the reduction of this particular advance. That is the reason why to signify our performance effectively in retail and MSME segment, I have indicated the pool buyout which we did not renew for outstanding.

**Jay Mundra:** And sir, if you can just quantify that in the quantum of these 2-4 accounts which are at systemic level more than 2,000 crores. What would be roughly our exposure?

**S. S. Mallikarjuna Rao:** It is maximum 5,000 crores, all together.

**Moderator:** Thank you. We take the next question from the line of Sumit Bhalotia from Emkay Ventures. Please go ahead.

**Sumit Bhalotia:** Sir, couple of questions. Just to get the Maths right for provisioning, we ended the year with a loan book of 2.23 lakh crores and next year you are saying we are looking at an advances growth of 5%. So, if I just take 2.25% of 2.35 lakh crores of loan book that we are targeting with the provisioning comes to around 5,200 crores. Now, I fail to understand how we will be reporting profits in FY19 if these are the numbers that you have indicated.

**S. S. Mallikarjuna Rao:** You talking about the guidance?

**Sumit Bhalotia:** I am talking about profitability in FY19.



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- S. S. Mallikarjuna Rao:** FY19, that is right. See, our loan book is expected to be 233,000 crores. That is right?
- Sumit Bhalotia:** Right.
- Moderator:** And the credit cost is expected to be between 2% to 2.25%.
- Sumit Bhalotia:** Which comes to around 5,000 crores?
- S. S. Mallikarjuna Rao:** Correct. Yes.
- Sumit Bhalotia:** So, I mean considering our operating profits the trend that we had for last 4 quarters and we have a decent healthy growth....
- S. S. Mallikarjuna Rao:** See, the operating profit in the last 4 quarters you have to divide into 2 parts and look at. The first half, we had a wonderful treasury income. In the second half, treasury was almost nil. So, to that extent the total figure gets muted. Whereas, in this quarter in this financial year we are expecting a treasury income at least to certain extent. Then our operating income also we are expecting to increase. In case of NCLT resolutions whatever resolution takes place once the amount is recovered it will form part of the, what is the reduction in advances where we can still grow where interest income will come. So, considering all these factors only we have projected to be in profit. We are not integrated any amount of profit but we will be certainly be in the profit during the current financial year.
- Sumit Bhalotia:** So, recovery from NCLT cases, I mean excess recovery over provisioning what we have done is the amount which will affect the, will be the balancing figures so to say?
- S. S. Mallikarjuna Rao:** Yes, that means in NCLT first category cases I have indicated 65% provision we already done. In the second category 76% we have done. So, if the haircut is lesser than that that means lesser than what we call that then we do not have an issue. In which case our provision also will go down, credit cost also will go down. However, a worst-case scenario is we have quote in such a way that even if the haircut is little more that amount of provision we have considered and once the accounts are resolved the amount which will come to us will be using for the disbursement. That amount will be reduced. That means today they continued to be non-performing where we do not earn anything. The earning will start.
- Sumit Bhalotia:** Any specific number of recoveries that you are targeting?
- S. S. Mallikarjuna Rao:** See that is in, is the question is in your hands only you know 3 cases are there where current bidding is in final stage.
- Sumit Bhalotia:** Non-corporate slippage percentage the trend is above 3% of the book for FY19, I am saying that appears to be on the higher side. When do you see it normalize?

**S. S. Mallikarjuna Rao:** We have taken on higher side. The one being after successive restructuring in agriculture, still there are accounts where that continuing standard but recoveries are what we called still we are endeavoring to get the recoveries. In order to have a worst-case scenario, we have taken agricultural profile under slippage to the extent of 1,500 crores. Similar is the case, in case of MSME though the outlook is good, still there is a stress in MSME segment. There as well we have projected almost 1,500 crores to 2,000 crores apart from the corporate of 2,000. And further from small advances also we have allocated that is why we have taken the figure. Again, I repeat it is a worst-case scenario, probably we would be doing better than that.

**Sumit Bhalotia:** I am saying this could you please help us with the breakup of this slippage of 6,331 crores that we have in this quarter what amount fell from the current LCR as for a book, what was the bigger, big accounts that had slipped?

**S. S. Mallikarjuna Rao:** No, see one is the divergence which we have indicated that is around 2,200 crores. Even in that also if you bifurcate already 1,800 crores has slipped by December. The addition was 1,386 during the current quarter and RBI circular 12<sup>th</sup> February 730 crores we have done the slippage. Then there are three chunky accounts where we have to declare as fraud which you are aware that the exposure is less that is 357 crores. Unexpected there is one Central Government account and one telecom together around 990 crores. So, these are the slippages which contributed to around 3,500 crores.

**Moderator:** Thank you. We take the next question from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

**Vikas Garg:** One was on the breakup of the slippages which you have just given in the previous question. If you could also give the breakup of the provision which you have made of around 4,000-odd crores in the quarter? How much of it pertains to the slippage which you have seen in this quarters and how much would be purely because of the ageing analysis of the exiting NPAs that you may have?

**S. S. Mallikarjuna Rao:** Listen to me first regarding the exceptional cases. For example 12<sup>th</sup> February case the provisioning requirement was 250 crores. Then divergence around 1,140 crores, then 3 chunky accounts fraud 350 crores then telecom and STC together around 150 crores. So, this total comes to 1,893 and remaining is normal ageing slippage and small accounts.

**Vikas Garg:** Sir, on the divergence part you are saying that everything has been provided already.

**S. S. Mallikarjuna Rao:** Completely, whatever have indicated to you everything is provided.

**Vikas Garg:** Yes, so divergence of 2,200 crores which was there of which almost 50% has been provided which was required by the RBI to be provided.

**S. S. Mallikarjuna Rao:** Correct.





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- Vikas Garg:** Still provide 50% of that?
- S. S. Mallikarjuna Rao:** No.
- S. S. Mallikarjuna Rao:** NCLT we have done everything nothing is left.
- Management:** No we need not project for the ...
- S. S. Mallikarjuna Rao:** No, there is no requirement of any provision further in case of divergence.
- Vikas Garg:** And sir, on the new circular part where you said slippages 730 crores pertaining to that February is of ...
- S. S. Mallikarjuna Rao:** 247 crores to be exactly the provision which we have done.
- Vikas Garg:** But as you were saying that SMA-2 and SMA-1 accounts were like to the order of running into a couple of ...
- S. S. Mallikarjuna Rao:** SMA-2, I have indicated to you 1,111 crores.
- Vikas Garg:** So sir, eventually even those accounts will fall into the NPA category as for the new RBI circular?
- S. S. Mallikarjuna Rao:** No.
- Vikas Garg:** On the SMA-2 accounts sir, do we have to instigate that NCLT process, all these accounts have to be referred to the NCLT because they may not be performing on time?
- S. S. Mallikarjuna Rao:** No, that is not a mandatory thing. They are okay. We do not foresee any high slippage in that category.
- Management:** All are small value actually, majority have done.
- Vikas Garg:** And sir, apart from that 730 which has slipped already how many more accounts would be nearing in a scale where you would have done some kind of restructuring under previous norm like S4A or SDR or ...
- S. S. Mallikarjuna Rao:** No, we have told our restructuring profile itself is 1,921. So, maximum is 122 crores figure is there, if it sits, that is number of accounts are 3.
- Vikas Garg:** And on the restructured book also you was saying that 50% is coming from the retail side. So there is not much of a chunky accounts which ...
- S. S. Mallikarjuna Rao:** Majority, there is agriculture only. Out of 1,921, 1,500 crores is agriculture.



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- Vikas Garg:** So there is no chunky account which may just fall into the NPA category?
- S. S. Mallikarjuna Rao:** That is right.
- Vikas Garg:** And sir, also if you can just indicate something on the top management how the things are happening, any sanctions or anything which would have is there an observation?
- S. S. Mallikarjuna Rao:** No, nothing. We have already clarified to the BSE also whatever incident has happen it is not related to Syndicate Bank. So, I think that is the only better answer to the question for you?
- Management:** Functions are going as normal as it was.
- S. S. Mallikarjuna Rao:** Correct.
- Vikas Garg:** No change in the top management at all or no one else ...
- S. S. Mallikarjuna Rao:** Absolutely no change.
- Moderator:** Thank you. We take the next question from the line of Anand Laddha from HDFC Mutual Funds. Please go ahead.
- Anand Laddha:** Sir, what was the interest reversal done by us this quarter sir?
- S. S. Mallikarjuna Rao:** Anand, I do not have the figure immediately. I will update you afterwards.
- Anand Laddha:** And sir, what is the outlook on the margin despite high slippages our NII margin was strong this quarter.
- S. S. Mallikarjuna Rao:** Yes, correct. You do not be expect NIM to be between global 2.5% to 2.55% and domestic between 2.9% to 3%.
- Anand Laddha:** And this assumes some resolution from NCLT or without this?
- S. S. Mallikarjuna Rao:** We expect resolution from NCLT.
- Management:** Yes, it will be but yes, that impact more will be on the provisions side.
- S. S. Mallikarjuna Rao:** Yes, correct. See, resolution NCLT should give us advantage of the funds in flow.
- Anand Laddha:** No sir, today these advances are not earning anything for us. The moment they get resolved and ...
- S. S. Mallikarjuna Rao:** I have repeated many times to everybody that this funds inflow will be earning for me and considering that we have been achieving the advance figure of 233,000 crores.



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- Anand Laddha:** And sir, on the treasury side how we are place like how much excess SLR we are having and what is the duration we are carrying, sir?
- S. S. Mallikarjuna Rao:** Treasury the excess SLR is roughly around 4.43%.
- Anand Laddha:** And what is the duration, sir?
- S. S. Mallikarjuna Rao:** Duration is 4.43 and excess SLR is ...
- Anand Laddha:** Sir, till what yield we are protected sir?
- S. S. Mallikarjuna Rao:** See, currently the M2M if you are looked at December it was high and March it has come down. Now, if the rates go at around what level they are 7.80, so at this level it is okay for us.
- Anand Laddha:** At 7.8% level we are protected now. We do not have to make any additional provision.
- S. S. Mallikarjuna Rao:** We are very strongly nicely positioned but still we will not have more MTM. 6.84% to be precise is our tolerance level.
- Anand Laddha:** 6.8% is the additional SLR we are having.
- Management:** No, there is the tolerance level for fixed income. Anand, it is before taking the MTM to it. What Arjuna sir has told now it is ...
- S. S. Mallikarjuna Rao:** Anand, the yields are going up, see the increase in business will give us the churning opportunity in fact we have churned the portfolio before this last quarter. So, going forward now even if yields go up beyond date also, it cannot go beyond 8 but assuming it crosses 8. At least we will have the option to in this 3<sup>rd</sup> quarter and 4<sup>th</sup> quarter to off load and book some profits.
- Moderator:** Thank you. We take the next question from the line of Tushar Sarda from Athena Investments.
- Tushar Sarda:** My question was actually related to this resolution of Bhushan Steel. So, was that part of, I mean the bank part of that account? Yes, so yesterday I was listening to Tata Steel call and what they said is that the banks are selling 56,000 crores of debt to Tata Steel and Tata Steel is only paying 35,000 crores and they will recover 21,000 crores from Bhushan Steel extra so is it not some kind of enrichment?
- S. S. Mallikarjuna Rao:** No, we are not in picture.
- Tushar Sarda:** No, because you are selling that 21,000 crores additional debt to them for 100 crores.
- S. S. Mallikarjuna Rao:** No, see that could be their estimate but as far as our bank is concerned ...
- Tushar Sarda:** No, that is the scheme they have submitted and the committee of creditors has approved it.



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- S. S. Mallikarjuna Rao:** No, that is true, but the point here is ...
- Tushar Sarda:** I mean, my point is banks are forgoing 21,000 crores but that benefit is not going to Bhushan Steel. Tata Steel is going to recover that money.
- S. S. Mallikarjuna Rao:** That we will have to go through in details. Then I can comment on that.
- Moderator:** Thank you. We take the next question from the line of Rakesh Kumar. Please go ahead, from Elara Securities.
- Rakesh Kumar:** Just one question on the capital front, so like how much capital we are expecting to get in this fiscal year now from the government?
- S. S. Mallikarjuna Rao:** See, now we have accessed, you have seen the position we are 7.56 in CET1 and the mandatory requirement is 8 by March 2019. However, we reach to project around 8.5. So, if that is our projection we need around 4,000 crores during the current financial year. And we will definitely look at the all the opportunities including follow on public offer Government of India, preferential allocation, and rights issue. We are expecting from government of India a major part of it.
- Rakesh Kumar:** And the resolution of these loans under IBC would not that release some amount of capital?
- S. S. Mallikarjuna Rao:** Yes definitely.
- Rakesh Kumar:** Would that release because being NPA it would be taking higher risk weight?
- S. S. Mallikarjuna Rao:** Correct, you are right. As of provision, as on today the provision what we have made will be reduced in risk-weighted assets.
- Management:** The risk weight is also lower. It is only 50% where the provision is more than 50% in NCLT in all the cases as Mr. Rao was telling that in the first case we have around 61% and second tranche we have about 76%. So it may not release the capital to a great extent.
- Rakesh Kumar:** And you are expecting by December end all the, like list 1 and list 2 to be resolved?
- S. S. Mallikarjuna Rao:** No, we do not know. See, currently if you look at there are 3 accounts where the bids are in final stages, we expect them to get the money before September.
- Rakesh Kumar:** But even this are the 270 days have gone by in some cases but is still the process is on, some discussion is on. So, why that is happening beyond 270 days it should not happen, or should it happen. What is the like what is the thing there?



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- S. S. Mallikarjuna Rao:** No, what happens is once the bid is given and any query or any litigation related to that bid until it is finalized the days will not be counted.
- Moderator:** Thank you. We take the next question from the line of Amit Singh from B&K Securities. Please go ahead.
- Amit Singh:** Sir, of the 2,000 crores corporate slippages that we are expecting how much power will be contributing to this of the 2,000 crores?
- S. S. Mallikarjuna Rao:** It is a small amount it is not a very huge.
- Management:** About 200 crores.
- Amit Singh:** So, you are expecting 200 crores slippages this year from power out of 2000 crores of corporate slippages.
- Moderator:** Thank you. Well that seems to be the last question for today. I would now like to hand the floor over to the management for their closing comments.
- S. S. Mallikarjuna Rao:** Thank you very much. If there are no questions, then we can close our conference call.
- Moderator:** Ladies and gentlemen, on behalf of Elara Securities Private limited, that concludes this conference. Thank you all for joining us, you may disconnect your lines now. Thank you.