



“Syndicate Bank
Q1 FY2019 Results Conference Call”

August 08, 2018



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Moderator: Ladies and gentlemen good day and welcome to the Syndicate Bank Q1 FY2019 results conference call, hosted by Elara Securities (India) 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 now hand the conference over to Mr. Rakesh Kumar from Elara Securities. Thank you and over to you Sir!

Rakesh Kumar: Thanks. We have the Syndicate Bank management led by Mr. Melwyn Rego, MD and CEO, Mr. Mallikarjuna Rao, Executive Director and Mr. Krishnan S., Executive Director and other senior management also on the call. I would like to request Sir to give a brief presentation on the results and thereafter we can start the Q&A session.

Mallikarjuna Rao: Rakesh, Mallikarjuna over here. There was an urgent requirement to travel for our MD so he is not available at this point of time. Myself, Mr. Krishnan our CFO, our CRO and other general managers are available in the conference call.

I will take three to four minutes for giving the brief of our performance for the Q1 and then we will be open for the questions. Global business of Syndicate Bank remained flat year-on-year at Rs.475313 Crores in June 2017 as against Rs. 474976 Crores in June 2018.

Global advances have increased year-on-year from Rs.202735 Crores to Rs. 209312 Crores that is an increase of 3%. On quarter-on-quarter basis global advances has decreased from Rs.223346 Crores to Rs.209312 Crores registering a decline of 6% on sequential basis.

This was in large measure due to conscious efforts to shed corporate advances in view of capital constraints as also due to strategy for rebalancing the portfolio with reduction in corporate advances and focus on RAM advances.

The global deposits have decreased by 3% year-on-year from Rs.272578 Crores in June 2017 to Rs.265664 Crores in June 2018. The bank did not aggressively pursue deposits keeping in sync the deposit growth as required for funding advances rather than accepting deposits at higher rates and keeping the same in low yielding investments. This would also have a bearing on M2M losses in the rising interest rates scenario.

With respect to domestic business it has grown by 1% year-on-year from Rs.405939 Crores in June 2017 to Rs.410870 Crores in June 2018. Domestic advances have increased from Rs.163433 Crores to Rs.174878 Crores year-on-year that is an increase of 7%.

Domestic deposits have decreased by 3% year-on-year from Rs.242506 Crores in June 2017 to Rs.236002 Crores in June 2018. On quarter-on-quarter basis, domestic advances have decreased



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from Rs.181477 Crores to Rs.174867 Crores registering a decline of 4%. The reason for the drop in advances and corresponding drop in deposits has been spelt out already.

With respect to profitability, the net interest income has decreased year-on-year from Rs.1601 Crores in Q1 FY2017 to Rs.1506 Crores in FY2018 that is a decrease of 6%. The decrease in NII is mainly because of the interest reversal of Rs.760 Crores on account of higher NPA slippages mainly from agriculture accounts where Rs.630 Crores as against an aggregate interest reversal of Rs.260 Crores earlier thus net interest income has been impacted due to higher interest reversal of Rs.500 Crores.

Other income has declined by 45% from Rs.687 Crores in Q1 FY2017 to Rs.380 Crores in Q1 FY2018. This is mainly because of drop in profit on sale of investments from Rs.325 Crores in Q1 of FY2017 to Rs.42 Crores in Q1 of FY2018. There is a drop of 87% amounting to Rs.283 Crores. This is because of a significant increase in ten year GSEC yields, which increased by 124 basis points from 6.66% in September 2017 to 7.9% in June 2018. In March 2018 the ten-year GSEC yield was 7.4% that is an increase of 50 basis points in Q1 FY2018-2019.

Operating expenses have remained relatively flat during June 2018 quarter. There was a marginal increase from Rs.1308 Crores in June 2017 quarter to Rs.1328 Crores in June 2018 quarter in this respect. The operating expenses for quarter 2018 June include provision of Rs.60 Crores for pending wage settlement, which was not there in June 2017 quarter. Due to drop in net interest income by 6% and in other income by 45% the total operating profit has dropped by 45%.

The provisioning requirement increased significantly to Rs.2327 Crores in June 2018 quarter from Rs.1243 Crores in June 2017 quarter. That is an increase of Rs.1084 Crores. The reasons for this will be discussed subsequently while covering the asset quality.

Overall, bank incurred a loss of Rs.1282 Crores in June 2018 quarter as compared to the net loss of Rs.263 Crores incurred in June 2017 quarter. On a quarter-on-quarter basis, the net interest income decreased by 10% from Rs.1679 Crores to Rs.1506 Crores. This decrease was mainly due to interest reversals made during the quarter on account of the increase in NPAs mainly in agriculture accounts, which will be discussed subsequently while covering asset quality. While other income decreased from Rs.689 Crores in March 2018 quarter to Rs.380 Crores in June 2018 quarter, operating expenses decreased by 7% from Rs.1433 Crores to Rs.1328 Crores; however, provisions during June 2018 quarter were Rs.2327 Crores as compared to Rs.3938 Crores in March 2018 that is a decrease of Rs.1611 Crores. As a result the net loss incurred in June 2018 quarter has come down by 42% to Rs.1282 Crores sequentially from Rs.2195 Crores in March 2018.

The cost of deposits, yield on advances and net interest margin: The cost of deposits have dropped from 5.75% in June 2017 quarter to 5.39% in June 2018 quarter. The yield on advances has dropped from 8.77% in June 2017 to 7.79% in June 2018. The domestic net interest margin has decreased from 2.85% in June 2017 to 2.60% in June 2018. The global NIM has also



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decreased from 2.46% in June 2017 to 2.3% in June 2018. The drop in NIM is mainly there was an interest reversal of Rs.760 Crores of which Rs.630 Crores is on account of higher slippage in agriculture accounts. This is in contrast to interest reversal of only Rs.260 Crores during June 2017 quarter.

With respect to CASA, the percentage has increased from 30.13% in June 2017 to 33.43% in June 2018. The bank is focusing on increasing CASA to 35% by March 2019 through acquisition of salary accounts of our corporate clients rigorously pursuing the accounts under stressed and clubs deepening our relationship with the HNI customers besides fresh customer acquisition through strengthening of alternate delivery channels.

With respect to focus on retail credit, overall year-on-year basis, the RAM portfolio increased by 5%. On year-on-year basis, banks retail advances have grown by 11%, agriculture by 2%, while MSME portfolio remained flat. Home loan growth during the year was 15%. On priority sector, the growth has been 5% and we have achieved 43% of the ANBC as against the regulatory requirement of 40%. Similarly in agriculture, we have achieved 19% of the ANBC as against the regulatory requirement of 18%. In all other sub segment of priority sector, we have achieved till the regulatory requirement. The percentage of retail advances and corporate advances to total advances as on June 30, 2018 stood at 54% and 46% respectively marginally up from 53% of RAM portfolio achieved as on March 31, 2018. Our focus would be to improve the RAM portfolio to 55% by March 2019 and moderate the corporate portfolio.

With respect to asset quality, the gross slippages in June 2018 were Rs.3945 Crores as compared to Rs.6628 Crores in March 2018 quarter. The total NPA slippages in agriculture sector was Rs.1831 Crores, which constituted 51% of the total slippages of Rs.3945 Crores in June 2018 quarter. Out of the NPA slippage of agriculture sector, 95% pertained to advances financed in Karnataka State.

Further a sum of Rs.1030 Crores also slipped during the quarter in high value loan accounts of Rs.10 Crores and above.

The upgradation, recoveries and prudential write offs during June 2018 quarter aggregated to Rs.3342 Crores as against Rs.1972 Crores during March 2018 and Rs.1257 Crores during June 2017. After taking in account the fresh slippages and also the cash recovery, upgradation, and prudential write offs, the gross NPA as on June 30, 2018 stood at Rs.26362 Crores as against Rs.25759 Crores as on March 31, 2018.

The gross NPAs as on June 30, 2018 was 12.59% as against 11.53% as on March 31, 2018. Had the gross advances in June 2018 remained the same as of March 2018, the gross NPA would have been about 79 basis points lower than the 12.59%; however, the net NPAs in absolute terms as on June 30, 2018 decreased to Rs.13011 Crores from Rs.13239 Crores as on March 31, 2018.



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The net NPAs as on June 30, 2018 was 6.64% as against 6.28% as on March 2018. The reason here itself is also with respect to the decrease in the advances profile as at the end of June 2018. The PCR as on June 30, 2018 was 63.04% as against 54.8% in June 2017 and 60.71% in March 2018. The PCR in June 2018 for 18 NCLT referred accounts having aggregate principal outstanding of Rs.5525 Crores were 67% as against 64% in March 2018.

The total stressed assets that are gross NPA plus standard restructured advances as per RBI definition of the bank have marginally increased from 12.39% in March 2018 to 12.79% in June 2018. The NPA provision and write off for the June quarter 2018 is of Rs.2425 Crores against Rs.1399 Crores in June 2017 quarter. This is mainly due to provision of Rs.948 Crores towards agriculture NPA accounts, additional provision of Rs.324 Crores towards NCLT referred accounts and write off Rs.685 Crores towards one of the NCLT accounts, which was settled in Q1.

As mentioned at the time of release of March 2018 results, RBI has extended the spreading out of M2M losses on government securities over four quarters. The bank has availed this benefit and accordingly the bank has provided Rs.248 Crores in June 2018 quarter that is Rs.407 Crores so far and further provision to be made is Rs.586 Crores in the remaining three quarters. It must be mentioned that yields on ten year GSEC has dropped from 7.9% as on June 30, 2018 to 7.75% as of today.

It is further expected that these yields would remain range bound till the next monetary policy in early October 2018 thus there is every likelihood of lesser provisioning requirement on GSEC investments.

With respect to capital the bank continues to target conservation of capital for maintaining reasonable capital ratios. The CRAR of the bank as on June 30, 2018 stood at 11.84% with CET1 ratio of 7.01% and a Tier I ratio of 9%. This is against the regulatory minimum core equity of 5.5% CET1 including CCB of 7.375% and 8.875% for Tier I and 10.875% for CRAR ratio as on June 30, 2018. It must be mentioned that the risk-weighted assets to gross advances has reduced from 86.27% as on June 30, 2017 to 81.63% as on June 30, 2018. This broadly indicates an improvement in capital conservation efforts though building up better quality assets and also increase in regulatory retail assets, which have lower risk weights.

Now I will just summarise whatever I have put before you. Degrowth in advances was primarily due to the need to conserve capital and also rebalance the advances in favor of RAM. The drop in advances by about Rs.14000 Crores since March 2018 has impacted the net interest income. Further the reversal of interest of Rs.760 Crores as detailed above has resulted in drop in NII and also NIM. CASA percentage has increased and is trending towards the yearend target of 35%.

Operating expenses have remained flat since June last year notwithstanding the additional provision being made for the pending wage negotiation. As regards provisioning, the bank has



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taken the entire impact of the restructured agriculture advances and provisioning is likely to reduce in the next two to three quarters.

The bank's recovery efforts have results in cash recovery of Rs.1410 Crores, 25% of the annual target of Rs.5600 Crores in June 2018 compared to Rs.378 Crores in June 2017 and Rs.741 Crores in March 2018. The PCR as on June 30, 2018 stood at 63.04% as against 54.8% in June 2017. In spite of degrowth in advances, the core equity and then capital conversation buffer stood at 7.01% as against the regulatory norm CET1 of 7.375%, which will increase to 8% on March 31, 2019.

With the bank's strategy to focus on high rated corporate advances and regulatory retail assets, which are capital light coupled with focus on augmentation of CASA and steps taken for NPA management still Syndicate Bank, is confident of an improved financial position and profitability in the coming quarter.

This will conclude my brief presentation. Now our team is open for the questions from the members. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aditya Kiran from L&T Mutual Fund. Please go ahead.

Aditya Kiran: Thank you very much for taking our question. Our question is on the capital front Sir, so the CET1 as of now 7.01, which has fallen below the regulatory requirement of 7.375%, which is as of now, and possibly it will increase to 8% by March 2019. Sir my question is that since it has fallen below the regulatory requirement, so are there any restrictions that would come from the regulatory side either in terms of business going forward that you may not be able to increase the business going forward or even in terms of distribution either in the form of a dividend or even in the form of say coupons on the tier 1 and tier 2 instruments of Basel II and Basel III, so are there any restitutions, which are imposed given the fact that it has fallen below the regulatory requirement?

Mallikarjuna Rao: No. There are no restrictions. The results are declared for this Q1 and we believe that the capital assessment is done at the end of the financial year; however, while I cannot predict anything from the Reserve Bank of India side, we are very confident that there would not be any restrictions and even if you look at our business proposition from March or in the last two to three quarters we have been concentrating in rebalancing our advances profile moving towards the RAM segment. Though the growth has been slow in that we are moving in that direction, so the reduction in advances in June was a conscious measure and we have already planned for augmenting the capital to the extent of Rs.5000 Crores during the year and we have already taken the required approvals to the AGM. We will be doing that exercise whereby we would be confident to achieve the 8% by March 2019.



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Aditya Kiran: Sir on the plans of Rs.5000 Crores of capital infusion how much is the proposition that would be coming from the government and whether the government has already committed on that part?

Mallikarjuna Rao: No. The government has not committed as on today. You must be aware that in the month of March, the government has given capital to all the banks and afterwards in Q1 they have given capital only to four or five banks. With respect to other banks, there was only a faint message or news in the papers indicating that the government may be reassessing in Q2. Now we will be engaging with the government with respect to our requirement. Our overall requirement is Rs.5000 Crores. We have not bifurcated. The first discussion will be with the government soliciting for the capital and afterwards we will be taking the action with respect to capital infusion through other modes.

Aditya Kiran: Sir are we very much confident that by March 2019, we will be able to achieve CAT1 of 8%?

Mallikarjuna Rao: We are confident because Rs.5000 Crores is the requirement for capital. We are confident of getting some capital definitely substantial amounts from the Government of India and we will also look to go for the market.

Aditya Kiran: At least till March 2019, we do not have any rustications on any business or even on the payment front?

Mallikarjuna Rao: As on today, we do not have any restrictions. We are going as per our plan.

Aditya Kiran: Thank you very much Sir.

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

Jai Mundra: Thanks for the opportunity. Sir if you can last time when we had this call you had an expectation of Rs.7500 Crores of slippages for the full year of which Rs.2000 Crores could be coming from corporate, so Sir what is your sense now Sir for the next nine months?

Mallikarjuna Rao: First thing in my brief indication, I have given that Rs.1800 Crores slippage has come from agriculture and this if you look at the restructured profile as at the end of March 2018, you would have seen a figure of around Rs.1200 Crores to Rs.1300 Crores, which majorly comprises agriculture. What we have done in Q1 is we did not want to keep any restructured profile of agriculture mainly in the State of Karnataka and we have identified them as NPA. After identifying as well we have taken the provision to a greater extent, the reason being from taking the debt from the first date of restructuring because in the State of Karnataka drought was there consecutively for three years, so the NPA slippage in agriculture besides the restructured profile, there was also a little extent of around Rs.600 Crores to Rs.800 Crores, so considering that our large corporate profile, what guidance we have given last time is Rs.2000 Crores will continue to remain the same. Our total of Rs.7500 Crores, but overall Rs.7500 Crores the next three quarters



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considering the slippage what has happened in Q1, we are correcting it to Rs.9600 Crores slippage so overall our closing NPA should be Rs.2500 Crores. As on the end of June, closing NPA is Rs.26362 Crores, which we are confident that in the next nine months to bring it down to Rs.25000 Crores. This is also where there are few accounts in which case RBI during their AFI is discussing with us and in those accounts as well if there is any likely slippage that also we have reckoned while we are recalculating the position of our slippage from Rs.7500 Crores to Rs.9600 Crores including the agriculture; however, we would like to control the global overall NPA outstanding to Rs.25000 Crores.

Jai Mundra: Even after based on your preliminary discussions with on during this RBIs audit this means this Rs.9600 Crores will include everything?

Mallikarjuna Rao: That is correct.

Jai Mundra: Sure that is one question and secondly Sir if you can tell us what is your SMA1 and SMA2 book if you have that number handy?

Mallikarjuna Rao: SMA1 and SMA2 are around Rs.6797 Crores.

Jai Mundra: Rs.6977 Crores?

Mallikarjuna Rao: Rs.6797 Crores.

Jai Mundra: Roughly between the SMA1 and SMA2 Sir individually?

Mallikarjuna Rao: SMA1 is Rs.1767 Crores.

Jai Mundra: Okay and the rest is Rs.5300 Crores is SMA2?

Mallikarjuna Rao: Generally in June you get the SMA2 more, but over a period of next few quarters, it gets reduced.

Jai Mundra: Sir just last thing from my side. Recently there was a report, which was tabled in Parliament in June for electricity sector I mean power sector, which had details of 64 gigabytes of stressed power plant, IPP, Sir what would be our exposure to these either NPA or stressed private power loans Sir?

Mallikarjuna Rao: Our total exposure in the power sector is Rs.13079 Crores against which government sector is Rs.8063 Crores and under Samadhan, the accounts covered are two amounting to Rs.383 Crores, so we do not expect much of a problem here because the government and RBI are engaged in this. We will wait for the outcome of the same.

Jai Mundra: These two accounts on the Samadhan they are already NPA right?



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- Mallikarjuna Rao:** That is Rs.383 Crores. Both are NPA.
- Jai Mundra:** Both are NPA?
- Mallikarjuna Rao:** Correct.
- Jai Mundra:** The question is, is there any stressed power account wherein discussion is going on between RBI and finance ministry wherein the account is stressed but not NPA?
- Mallikarjuna Rao:** No. Individual accounts we are not discussing. They are only looking at the overall power sector policy, which the government is engaging with RBI because of this recovery preliminary surplus.
- Jai Mundra:** They have given 34 names, which are stressed and then they have also added some 10 to 20 accounts more into that list?
- Mallikarjuna Rao:** In that list if you want to compare we have only two accounts.
- Jai Mundra:** They have given 34 names which are stressed and then they have also added some 10, 20 accounts more into that list?
- Mallikarjuna Rao:** So in that list if you want to compare we have only two accounts. What I have said these two accounts have become NPA.
- Jai Mundra:** And what is the total power 4000 roughly, Rs.5000 Crores is roughly private power exposure, how much is NPA as we used to help that in our presentation, but I believe?
- Mallikarjuna Rao:** Yes, it is there, 1075 is the NPA.
- Jai Mundra:** That is not reached Sir I believe presentation?
- Mallikarjuna Rao:** Slide #10 it is given, no problem.
- Jai Mundra:** Sure Sir. Okay. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Last time we have increased our slippages guidance from Rs.7500 Crores to Rs.9600 Crores, Sir is there any change in our provision cost, guidance also?
- Mallikarjuna Rao:** Provision last time what we have indicated was Rs.4500 Crores in terms of the provisioning which we have now recalculated to Rs.5000 Crores.



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- Anand Laddha:** Okay. Rs.5000 Crores full year provisioning now of the same 2500 Crores has been provided in Q1 itself?
- Mallikarjuna Rao:** Yes.
- Anand Laddha:** For a full year we would not be able to make profit this year Sir?
- Mallikarjuna Rao:** We will be breakeven, last time we have indicated we will stick to that, we will be breakeven, we will not have loss.
- Anand Laddha:** Today Q1 we have Rs.1200 Crores of loss, next three quarters we should be doing a Rs.1200 Crores of profit?
- Mallikarjuna Rao:** Rs.1200 Crores of loss contains one time interest reversal and provisioning amounting to Rs.980 Crores related to agriculture.
- Anand Laddha:** You said Rs.760 Crores in the initial remarks Sir?
- Mallikarjuna Rao:** Interest reversal then provisioning both together and this is done consciously because already government has declared for the jet waiver as a result of which the amount is expected to be settled during the Q2 and there may be an advantage for write back.
- Anand Laddha:** Okay, for us also there will be one last steel account which got settled in NCLT, so it could have considered so what could be the interest income we could earned on that account Sir, additional interest income?
- Mallikarjuna Rao:** Rs.300 Crores.
- Anand Laddha:** So NII is inclusive Rs.300 Crores of additional income?
- Mallikarjuna Rao:** Direct reversal of Rs.760 Crores.
- Anand Laddha:** This Rs.300 Crores has not been come and would have been Rs.1200 Crores?
- Mallikarjuna Rao:** You are absolutely right.
- Anand Laddha:** If I were to look at of the gross NPA what is the corporate NPA Sir?
- Mallikarjuna Rao:** Slippage is you are talking about?
- Anand Laddha:** No Sir, out of outstanding gross NPA of Rs.25000 Crores odd, how much Corporate NPA in that Sir?
- Mallikarjuna Rao:** Rs.26361 is the total gross NPA and Corporate NPA is Rs.14625 Crores.



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- Anand Laddha:** Okay and Sir of this Rs.14000 Crores Corporate NPA how much has been referred to NCLT?
- Mallikarjuna Rao:** NCLT Rs.5500 Crores. Now outstanding Rs.5500 Crores if you remember.
- Mallikarjuna Rao:** NCLT the case of tranche one, tranche two what we have referred is Rs.6900 Crores originally, now after settlement of the two accounts it is Rs.5537 Crores wherein we hold 67% of the provisioning.
- Anand Laddha:** Of the Rs.14000 Crores corporate NPA Rs.5500 Crores is referred to an NCLT, on the balance if you can guide us what is happening on the balance, where we in terms of resolution, why are we not referring to altogether to NCLT?
- Mallikarjuna Rao:** Other than these accounts we also referred some more accounts to NCLT.
- Anand Laddha:** How many cases we have referred?
- Mallikarjuna Rao:** Tranche one, tranche two as per the RBI other than that we are referred 34 accounts amounting to Rs.3175 Crores.
- Anand Laddha:** 60% we are holding?
- Mallikarjuna Rao:** Here also we are holding 60% provision.
- Anand Laddha:** Okay Sir, effectively we have Rs.8069 Crores of NCLT case yet to be resolved?
- Mallikarjuna Rao:** Correct, that is Rs.8700 Crores of NCLT and provision will be almost 72%, 73% if you take both together, 65%.
- Anand Laddha:** Okay. That is all from my side Sir. If anything I will get back to you.
- Moderator:** Thank you. We have the next question from the line of Dinesh Gupta from Dalmia Securities. Please go ahead.
- Dinesh Gupta:** Good afternoon Sir. Sir I have three questions. First one is that in disclosure you have mentioned about Rs.100 Crores as we have taken for the provisioning based on legal advice, so I want to understand what is for that and whether it is as per the RBI norms?
- Mallikarjuna Rao:** No, in one of the accounts NCLT has given in favour; however, the effort has been referred to NCLAT, so we are pending the decision whatever the cash funds have come against that inline with expert opinion we have reversed the provision.



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- Dinesh Gupta:** Okay, that is fine and other question is regarding the restructuring loan like just want to understand about the restructured agri loan which has been classified I would say NPA, are still pending like some amount is pending?
- Mallikarjuna Rao:** Now if you see the restructured profile it has come down drastically.
- Mallikarjuna Rao:** Now only we have Rs.425 Crores.
- Krishnan:** Rs.425 Crores is the restructured profile now.
- Dinesh Gupta:** Rs.430 Crores?
- Mallikarjuna Rao:** Rs.425 Crores.
- Dinesh Gupta:** Okay and what percentage would be that this agriculture loan?
- Mallikarjuna Rao:** Agriculture we have taken everything, agriculture is zero now in that.
- Dinesh Gupta:** One more thing like recently that Karnataka government has announced for agriculture debt level, so whether that will have any impact further like on NPA?
- Mallikarjuna Rao:** That will have a positive impact on the country because whatever Rs.1800 Crores I have indicated that we have made NPA during Q1 in agriculture 95% belongs to the State of Karnataka where we have reversed the interest almost for two, three years taking the first date of restructuring and also provided more than 60% as a result there will not be any impact negatively and the country total provisioning is now 80% in those accounts. So as a result it will be positive impact for us during Q2.
- Dinesh Gupta:** So that will have positive for your bottomline right if I understand properly?
- Mallikarjuna Rao:** Correct.
- Dinesh Gupta:** Okay and one more question is regarding this right now the RBI has increased the interest rate, so what impact in net interest margin like going forward?
- Mallikarjuna Rao:** We do not expect any impact immediately it may be if you look at the lag effect it may take another one quarter that is why we have not even changed our MCLR at this point of time, so we will wait and see and take a call probably after the next RBI declaration comes.
- Dinesh Gupta:** You do not think that the NPA will increase because these are like?
- Mallikarjuna Rao:** No, very, very marginal at this point of time. We will have to wait and see for a couple of months.



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- Dinesh Gupta:** Okay. Thank you for that Sir. I have this question.
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** I wanted to know on the growth part for the full year, because we are having capital constraints also despite of raising Rs.5000 Crores, how do you see growth will be assuring it?
- Mallikarjuna Rao:** No, if you have seen the position of risk weighted assets in our brief I have already indicated that we brought it down from 87% to almost 81%. So we have been consciously trading in terms of the large corporate to provide the credit only for high rated companies, thereby risk weight is coming down. Our projected figure for advances for March 2019 is Rs.233000 Crores which we indicated last time and we spoke to you. The guidance will remain there would not be any change on that because we have added projected for capital infusion for Rs.5000 Crores which we are confident of mopping the same during the current financial year.
- Sneha Ganatra:** My next question is on the recovery front, how much recoveries are they expecting from the NCLT resolution also and on the normal recoveries also when you are mentioning of Rs.25000 Crores gross NPA, so based on PCR target who would like to achieve it?
- Mallikarjuna Rao:** With respect to NCLT there are at least five accounts which are in the pipeline, which we are expecting to fructify during Q2. Now considering them the overall recovery what we are looking during the current year would be around Rs.4800 Crores and Rs.1800 Crores roughly will be the upgradation. Considering all these factors we are expecting the closing figure of gross NPA at Rs.25000 Crores.
- Sneha Ganatra:** Okay and on just investment book, we have to amortize for the next three quarters, what would be the amount on that Sir?
- Mallikarjuna Rao:** It is around Rs.560 Crores in the next three quarters, but this is the figure as on today, but we are confident the figure may come down because of the moment of the G-sec prices expected to go down.
- Sneha Ganatra:** And on the credit cost you mentioned around Rs.5000 Crores right?
- Mallikarjuna Rao:** The provisioning is Rs.5000 Crores, so percentage is 2.25.
- Sneha Ganatra:** Okay and the opex would remain at the similar level what we have seen in the Q1?
- Mallikarjuna Rao:** No, it will remain at the same level. In fact if you compare it also even though our cost to income ratio has increased it was purely because of the reduction in the income, our expenditure will remain same.



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- Sneha Ganatra:** Got it. Thank you and all the best.
- Moderator:** Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Are we looking to sell any of the non-core assets to raise capital or do we have any non-core assets?
- Mallikarjuna Rao:** No, we do not have any non-core assets only investment is there where probably in Q2 we will try to do that.
- Anand Laddha:** What sort of investment and how much one can expect Sir?
- Mallikarjuna Rao:** We are expecting it to happen before Q2 and we may get around Rs.100 Crores to Rs.120 Crores benefit.
- Anand Laddha:** But, are we also looking into some of our real estate Sir?
- Mallikarjuna Rao:** We are not looking at it.
- Anand Laddha:** This quarter where recovery from return of assets were quite low anything to read into that Sir?
- Mallikarjuna Rao:** No, we will be gaining up in the next three quarters, there were efforts for recovery. The written off account if you look at it is around Rs.66 Crores during the quarter as against Rs.58 Crores last year June 2017 whereas in March if you look at Rs.181 Crores. We are expecting it to get more recovery in the next three months. The efforts are on. We have taken effects even for auction and other related activities with respect to various NPA accounts.
- Anand Laddha:** Last year we did almost like Rs.400 Crores odd is return of assets, can you expect similar amount or higher amount from that Sir, would that come Sir?
- Mallikarjuna Rao:** It will be more than that.
- Anand Laddha:** How much is internal we are targeting for this year?
- Mallikarjuna Rao:** It could be around Rs.500 Crores.
- Mohan Rao:** Anand, if you see last year also it normally happens in the second, third and fourth quarter.
- Mallikarjuna Rao:** Third and fourth quarter, we actually pickup in third and fourth.
- Anand Laddha:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Thanks for the opportunity again. First on your overseas book, how much more run down can happen from first quarter levels?
- Mallikarjuna Rao:** Run down means?
- Jai Mundra:** This portfolio has been shrinking because of obvious...
- Mallikarjuna Rao:** If you look at our portfolio 70% to 75% is the interbank portfolio and the interbank portfolio is in a short-term duration nature. So it is always in our hands to look at whether to increase or decrease. There are two elements to it when we look at, average risk weighted assets comes to around 35% and also the NIM is very low, so as a result considering the requirement while assessing our advances profile, we take a call. If you look at the March position we were at Rs.42000 Crores and in that is advance of figure I am talking about and in June it has come down to Rs.34444 Crores, so overall we are projecting the figure to be at Rs.40000 Crores by March 2019.
- Jai Mundra:** Sir secondly on SME dispensation of 180 days DPD what is the quantum that we have taken under this dispensation?
- Mallikarjuna Rao:** It is not a very high amount, I will tell you.
- Jai Mundra:** I believe that is the quantum is not mentioned in that release.
- Mallikarjuna Rao:** Rs.930 Crores overall.
- Jai Mundra:** Sir just on Bhushan Steel, this Rs.300 Crores income that has gone to NII, was there any corresponding increase in slippages pertaining to this entry?
- Mallikarjuna Rao:** There is no slippage, but then in provision write offs will always begin. What happens it is the kind of settlement how it has happened and the component whatever amount is received the component of principle as well as the interest, so that bifurcation has given, this Rs.300 Crores as an interest income; however, while writing off the entire outstanding the residual balance was shown under written off.
- Jai Mundra:** Okay, because one of the other bank, this Rs.300 Crores they have also increased the loan book, so this Rs.300 Crores when loan book increase then it also goes to the slippages?
- Mallikarjuna Rao:** The loan book increase point comes into picture only we are not closed the outstanding, now for us the outstanding is zero.



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- Jai Mundra:** Okay and just lastly on there was media reports on this AQR second round of AQR wherein RBI auditors are going and checking or at least asking banks to provide more or may be they have started this RBI audit pretty early this time. One fear was on they have identified some accounts wherein banks may provide more and secondly there was list of this forensic audit wherein RBI asking to step up the provisioning?
- Mallikarjuna Rao:** These are all major reports but one thing is yes, RBI is in progress in many banks by RBI, so also our bank. There were few discussions related to some of the accounts, so what we have done is based on the discussions of those accounts we have already reckoned in our readjusted slippage figure at Rs.9600 Crores. Earlier when we have spoken to you we gave a figure of Rs.7500 Crores, so there were two elements of those which we did not reckon at that time one is agriculture, which we wanted to take it completely, second one is this kind of RBI, so together in reckoning we readjusted with Rs.9600 Crores.
- Jai Mundra:** Could there be any corresponding increase in provisioning assets, because some of these accounts when you start recognized them as an NPA?
- Mallikarjuna Rao:** Correct that is why we have adjusted NPA provisioning figure also from Rs.4500 Crores to Rs.5000 Crores.
- Jai Mundra:** Last question from my side. Sir, after this September 12 circular advances about Rs.2000 Crores at system level, those who are in day zero default category, just wanted to understand from qualitatively perspective, have you seen any successful resolution so far or all of them would come together towards the deadline. Is there any few cases?
- Mallikarjuna Rao:** It is one which is related to those accounts which are already in default category, not NPA but default above Rs.2000 Crores; however, if you look at the traction of those accounts where units are doing well but earlier they used to pay before 90 days, there is a little difference across the banking industry where now they have started paying in time when there is a cash flow in their units. Now with respect to the accounts where there is a default and resolution to be referred time is there you all aware during this month and we do not have many accounts to be referred to that and they are all in consortium category.
- Jai Mundra:** Not from your bank perspective Sir, but is there any resolution which is being accepted for all banks because the condition is that all banks should have accepted the resolution accounts should become standard to all banks?
- Mallikarjuna Rao:** Correct.
- Jai Mundra:** So, has there been any successful such cases where you the company was in day-10, day 15 default and it has become standard?
- Mallikarjuna Rao:** So far no.



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- Jai Mundra:** Thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Chintan Shah from Elara Capital. Please go ahead.
- Chintan Shah:** I had just one question related to the provision coverage, so we have been continuously increasing provision coverage from around 54% a year back to 63%, so any targets in mind by March 2019?
- Mallikarjuna Rao:** We should be around 65%.
- Chintan Shah:** Okay Sir, not beyond that it will stabilize around 65%?
- Mallikarjuna Rao:** It is all based two, three calculations. One is what is the ageing provision required, second is what are the fresh slippages we are looking at and the third one is, any RBI indication to in case of existing accounts to make the additional provision. So all the three reckonings we have done and accordingly our expectation is around 65%.
- Chintan Shah:** Okay Sir. Thank you.
- Moderator:** Thank you. We have the next question from the line of Rakesh Kumar from Elara Securities. Please go ahead Sir.
- Rakesh Kumar:** Just like some questions from our side. Firstly is on private owned power exposure of Rs.5000 Crores, so Rs.1100 Crores is already NPA, so how much more is expected in coming time?
- Mallikarjuna Rao:** In the private Rs.5000 Crores, the existing NPA is around Rs.1100 Crores, Rs.1075 Crores, any other accounts where which are under stress. Rakesh, we do not have any other accounts which are under stress.
- Rakesh Kumar:** Okay Sir, all are running condition?
- Mallikarjuna Rao:** Correct. All are running.
- Rakesh Kumar:** Secondly Sir this positive impact what we discussed on this agri loan waiver, so when can we realize or this in which quarter possibly?
- Mallikarjuna Rao:** It could be in Q2 or Q3 because there is an indication from the government that while they are looking at everything it may take place in the month of September end or October.
- Rakesh Kumar:** When restructuring of these agricultural loans were done like how old?



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- Mallikarjuna Rao:** In the State of Karnataka drought was there for consecutively three years ending 2017 that means 2014-2015, 2015-2016 and 2016-2017, so the accounts were restructured two to three times because of the drought as per the declaration by Government of India and under the RBI guidelines; however, the monsoon in the current year has been good since the government it is sensitive matter politically, since the new government has declared that there will be coming out with the scheme of debt waiver, people have not paid money, so we did not want to wait and then we have taken entire profile under NPA.
- Rakesh Kumar:** Okay and the provision cover on that is around 60%?
- Mallikarjuna Rao:** 80% because we have taken the day two three years back.
- Rakesh Kumar:** Okay.
- Mallikarjuna Rao:** Failure of first restructuring.
- Rakesh Kumar:** Okay, I am done. Thanks.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!
- Mallikarjuna Rao:** Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Elara Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.