"Syndicate Bank Limited Q3 FY-18 Results Conference Call"

February 12, 2018

MANAGEMENT: **MR. MELWYN REGO – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, SYNDICATE BANK LIMITED**
MR. MALLIKARJUNA RAO – EXECUTIVE DIRECTOR, SYNDICATE BANK LIMITED
MR. S KRISHNAN – EXECUTIVE DIRECTOR, SYNDICATE BANK LIMITED

MODERATOR: **MR. RAKESH KUMAR – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Syndicate Bank Q3 FY18 Results Conference Call hosted by Elara Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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 '*' followed by '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, Ali. Welcome to you all in the Syndicate Bank conference call and on behalf of Elara Securities, we would like to thank the bank's management for having taken out the time to give the presentation on the results.

We have the entire top management team; Mr. Melwyn Rego – MD & CEO; Mr. Mallikarjuna Rao - Executive Director; Mr. S Krishnan – Executive Director and the entire senior management with us on the call.

I would like to request MD & CEO sir to give a brief presentation on the results and thereafter we can start the Q&A session. Thanks and over to you, sir.

Melwyn Rego: Thank you and good afternoon to all investors present on this call. I am Melwyn Rego, MD & CEO of Syndicate Bank. I extent a very warm welcome to each one of you to today's interaction covering the financial results of our bank for the quarter ended December 31, 2017. I am delighted to connect with you and appreciate you are taking the time off for this interaction.

I will straightaway plunge into the performance of the bank in Q3 of FY 2018. Global business has grown by 5% YoY from Rs. 465,000 crores in December 2016 to Rs. 491,000 crores in December 2017. Global deposits have increased nominally YoY from Rs. 270,795 crores in December 2016 to Rs. 271,712 crores in December 2017. Global advances have increased YoY from Rs. 195,000 crores to Rs. 219,500 crores that is an increase of 12%. On QoQ basis, global advances have increased from Rs. 214,887 crores to Rs. 219,449 crores registering a growth of 2% which is an annualized growth of 8%.

If I look at the domestic numbers, the advances have grown YoY by 6% and on a QoQ basis the growth in domestic advances has been 3% or in other words 12% on an annualized basis. I will now come to the profitability. The net interest income has increased YoY from Rs. 1,391 crores to Rs. 1,623 crores that is an increase of 17%. Other income has however declined by 42% YoY from Rs. 986 crores to Rs. 569 crores mainly because of a drop in treasury income.

I will just elaborate on this. This year our profit from the sale of securities was Rs. 135 crores in comparison to an amount of Rs. 617 crores which we earned in December quarter of the previous year. In effect, the drop has been almost close to Rs. 500 crores. In addition, in treasury the mark-to-market impact has been Rs. 200 crores. So putting both these together the treasury income drop, if I take the sale of securities and the NPL effect, it has been about Rs. 700 crores. Now as a result of this, the total income that is NII plus other income has decreased YoY by 8% from Rs. 2,377 crores to Rs. 2,192 crores. Total operating expenses has reduced by 2% YoY from Rs. 1,449 crores to Rs. 1,417 crores.

As a result of the steep fall in other income mainly due to the drop in treasury income, the operating profit has decreased by 16% YoY from Rs. 928 crores to Rs. 775 crores. As you are aware, and we had spoken about this on the last con call which we had, the bank was required to make a total provision of Rs. 4,070 crores for NCLT key account which included the aging provision. Of this amount Rs. 2,879 crores provision had already been made up to September 30, 2017. The balance provision of Rs. 1,190 crores was required to be made in the December 2017 and March 2018 quarters. I will give you a breakup of this for quarter wise what was required was Rs. 485 crores for the December quarter and Rs. 705 crores for the March quarter.

If you put both these together, it aggregates Rs. 1,190 crores. The bank has however decided to make the entire incremental provision of Rs. 1,190 crores during the December quarter itself. In other words, we have front loaded the provision for NCLT to the extent of Rs. 705 crores which could have been provided for in the March quarter.

I must also mention that the PCR on the NCLT account is 59%. As a result the total provisions including NPA provisions during Q3 was Rs. 2,090 crores. Consequently the bank has incurred a loss of Rs. 870 crores for Q3 of FY 2018 as compared to a net profit of Rs. 93 crores in December 2016 quarter. To put things in perspective, I will mention the two factors that is on treasury if we compare YoY there has been a drop of Rs. 700 crores and NCLT provision which we have accelerated to this quarter has been Rs. 705 crores. So broadly Rs. 700 crores, you can treat that as the if I may call it unusual item but items which are which we have accounted for in this quarter.

For the nine month period ending December 31, 2017 net interest income has grown by 10% from Rs. 4,415 crores to Rs. 4,873 crores in the corresponding period of the previous year. However, the other income has declined by 9% and I touched upon the quarter performance but for the nine month period the decline was 9% from Rs. 2,332 crores to Rs. 2,117 crores.

The operating profit for the nine months period ending December 31, 2017 has increased by 8% to Rs. 2,929 crores as compared to Rs. 2,719 crores in the corresponding period of the previous year. Overall the bank has incurred a loss of Rs. 1,028 crores during the nine month period ending December 31, 2017 as compared to the profit of Rs. 255 crores during the corresponding period of the previous year. This is primarily because the provision other than tax provisions may in the first nine months of this year was Rs. 4,315 crores as compared to Rs. 2,313 crores that is almost an incremental provision of Rs. 2,000 crores in this nine month period as compared to the corresponding period of the previous year.

I will now come to the cost of deposit, yield on advances, NIM and cost. The cost of domestic deposits has reduced YoY from 6.15% to 5.43%. The yield on domestic advances has dropped YoY from 9.33% to 8.72%. The domestic NIM has increased YoY from 2.42% to 2.74% and global NIM has increased from 2.16% to 2.36% YoY. For the nine months period ended December 31, 2017 the domestic NIM was 2.83% which is higher than the NIM of 2.54% for the corresponding period of the previous year. On a global basis during the same period, the NIM increased from 2.22% last year to 2.43%.

Now I will focus a bit on the three broad strategies which the bank has been adopting which I spoke about the last time we interacted. At the time of that discussion, I had indicated that the bank was focusing on augmentation of CASA, second one. Second growth in portfolio with focus on retail portfolio and emphasis on home loans. The third of the strategy was NPA management. This strategy has been implemented with vigor and the first green shoots arising out of the strategy can be seen in our Q3 performance. The CASA campaign and home loan campaign which was launched a few months back has given us a good head start, and we continuing with the above campaign with more vigor in Q4 as well.

First I will touch upon CASA. Our CASA deposits have increased from 31% in December 2016 to 32.2% in December 2017. The bank continues with its strategy to shed bulk deposits. Term deposits of less than Rs. 1 crore have increased from 32.2% of total domestic deposits in December 2016 to 35.7% in December 2017. This shift clearly indicates that we are continuing our effort to reduce dependence on bulk deposits with focus on retail term deposits which are as you know at normal card rates. Here we are focusing on acquisition of salary accounts of our corporate clients, vigorously pursuing task account that is clubs, associations, societies and cooperatives besides deepening our relationship with HNI customers.

I will now come to retail credit. On YoY basis the bank’s domestic advances have grown by 6% however the YoY growth in the RAM segment that is retail, agri and MSME has been significantly higher at 12%. The YoY growth in retail credit has been 11%, growth in agri has been 17%, growth in MSME has been 9%. On a QoQ basis, these three sectors have grown by 12%, 16% and 20% respectively when calculated on an annualized basis. During the quarter the home loan portfolio has grown by 24% annualized. On priority sector, our bank continues to be in compliance with regulatory requirements. In fact we are far beyond the regulatory requirements with our achievement under priority sector being 43% of ANBC as against the regulatory requirement of 40%. In the agri segment, we are at 21% of ANBC as against regulatory requirement of 18%.

I have spoken about the rebalancing of our advances book in favor of retail advances. The corporate portfolio which stood at 47% of domestic advances as on 31st of December 2016 has dropped to 44% as on December 31, 2017 due to our conscious strategy to reduce concentration risk and also of course optimized capital. Correspondingly the share of RAM retail, agri and MSME which was 53% of the gross domestic advances as on December 31, 2016 has increased to 56% as on December 31, 2017. The increase in RAM portfolio clearly shows the strategy to reduce concentration risk and acquire assets which are capital like and this strategy is reflected in the numbers. Our focus on increase in RAM portfolio and moderation in corporate advances will continue.

I will now come to NPA management. Our efforts in sensitizing all our staff about the importance of NPA management has started yielding results. In a scenario of significant stress, in asset quality the total slippages in NPA was Rs. 2, 275 crores mainly due to the slippage in about three to four large accounts.

In fact I will mention at this stage that out of the total slippages of Rs. 2,275 crores, 60% was in the corporate sector and of this 60% half of it related to one telecom company. Now if we adjust for this our slippages are almost equal to the upgradation, the recovery and PWO. Overall the gross NPAs in the quarter have increased by Rs. 926 crores to Rs. 21,103 crores. Of course I have already calculated it by saying that this what we did not anticipate the slippage in that one company which is in the telecom sector. The gross NPA ratio has marginally increased QoQ from 9.39% to 9.62%, however net NPA ratio has reduced QoQ from 5.76% to 5.46% during Q3.

The provision coverage ratio has improved from 54% in December 2016 to 60% as on December 31, 2017. The total stressed assets that is NPA plus standard restructured assets as per RBI definition has come down marginally from 10.96% in September 2017 to 10.95% in December 2017. I do believe that our concerted effort on NPA management and fast tracking of resolution recovery process has been yielding results and our gross NPAs are expected to remain flat to current levels in the March quarter.

I will now come to capital. Consolidation on the capital front is an ongoing process. During December 2017, the bank raised equity capital of Rs. 1,150 crores through a QIP issue. Government of India has conveyed its approval for infusion of Rs. 2,839 crores at equity capital and this process is expected to be completed by the end of March 2018. An EGM is likely to be convened at the earliest. We also have scope to raise AT-1 Bonds of Rs. 550 crores and Tier-II bonds of Rs. 500 crores. Meanwhile we shall continue to target conservation of capital for maintaining a healthy capital adequacy ratio. The total CRAR of the bank as on December 31, 2017 stood at 11.88% with CET-1 ratio of 7.15% and Tier-1 ratio of 9.06%.

As I have mentioned to you earlier, and also when I was on the road show for raising the QIP issue, our Ananya project is going on in full swing and its result will be felt as time goes by. This of course encompasses people, process and technology which defines our bank's working in a nutshell. A great deal of emphasis is being given on the HR front where human skilling, focused classroom training and e-learning process are all being done concurrent strictly.

I would now like to just summarize the several positives which have been there for the bank during the quarter. CASA has improved from 30.41% in September 2017 to 32.19% in December 2017. Global advancers on a YoY basis have grown by 12% annualized. The RAM portfolio has grown by 16% annualized, retail by 12%, agri by 16%, MSME by 20%. Home loan portfolio has grown by 24% annualized. On a YoY basis, the bank has increased its RAM portfolio from 53% to 56%. We have surpassed all the regulatory norms relating to priority sector lending. While gross NPAs have increased and I mentioned the reason for that as well to 9.69% the net NPAs has decreased from 5.76% to 5.44% QoQ.

The provision coverage ratio has increased from 54% to 60% in December 2017. The bank has made the entire provision required under NCLT that is Rs. 1,190 crores in this quarter itself and has not left any for Q4. The bank has been able to cut cost and operating cost have reduced by 2% YoY. Despite challenging market conditions we have been able to increase domestic NIM YoY from 2.42% to 2.74% and global NIM from 2.16% to 2.36%. The bank has been able to augment capital by raising Rs. 1,150 crores in December 2017 through a QIP issue. Further government would be infusing equity capital of Rs. 2,839 crores during the quarter which would enable the bank to have a comfortable capital adequacy ratio.

We have chalked out a very clear strategy for NPA management, CASA augmentation, and focus on retail with emphasis on home loans to reduce the concentration risk and optimize capital. With this, the bank is poised to affect a strong turnaround. Team Syndicate Bank has resort to make our bank strong, vibrant and profitable on a sustained basis. I too am confident of this happening and this confidence stems from our fate in the bank's intrinsic financial strength, strong customer base, the determination of staff members, and support of all stakeholders. I will now leave the floor open for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Anitha Rangan from HSBC. Please go ahead.

Anitha Rangan: I have a question. What is the proportion of loans not linked to the MCLR? And what are your views on the RBI study report on the MCLR benchmark released on Friday?

Melwyn Rego: Alright. 62% of our total advances are linked to MCLR, 10% is they are fixed rate loans, and the balance is linked to the base rate. Now RBI guideline have come out and we are studying that to see what the impact would be on our interest rate and correspondingly on profitability.

Anitha Rangan: Okay and another one what is the commercial related exposure as of December 2017?

Melwyn Rego: Just one second. I know it is a very small amount but I will give you the exact number. The total exposure is Rs. 9,800 crore, total CRE but CRE this is broken up into two components, one is lease rent discounting and other than lease rent discounting. So the LRD is Rs. 3,666 crores and the balance CRE is Rs. 6,177 crores. The reason I mention this is that our LRD portfolio and in general the LRD portfolio is a fairly strong portfolio because of the various fair cuts which has been put in place.

Moderator: Thank you. We will take the next question from the line of Vijay Karpe from Dalmia Securities. Please go ahead.

Vijay Karpe: My first question pertains to the RAM portfolio. In September 2017 it was shown as Rs. 89,874 crores which moved to Rs. 94,000 crores. Has there been any regrouping done for September 2017?

Melwyn Rego: Yes, there has been some regrouping. The major one pertains to you know we have shown it in Slide # 9 which is retail others and of this I can mention to you that loans given against our fixed deposits was not taken under RAM. It came in corporate others and naturally as you understand this is purely a retail phenomena. And that breakup is given on Slide #9.

Vijay Karpe: And what is the rating wise distribution of the advances?

Melwyn Rego: The rating wise distribution of advances AA and above is 38%. If you look at A and above it is 57%, BBB is about 19%, the balance being below BBB.

Vijay Karpe: Alright and I have two more questions. With the capital which the government is going to infuse be enough to fund the 8% to 10% growth that you have given out?

Melwyn Rego: Yes, we have done some calculations on that and with the 10% growth of course I have been maintaining an 8% to 10% growth but obviously for capital purposes you would not like to be caught on the wrong foot so we have worked it out based on the 10% growth scenario and on this basis we will be above 8%, CET-1.

Vijay Karpe: My last question pertains to the AT-1 bonds issue. So do you have any plans to retire any additional Tier-1 bonds as directed by the RBI for certain banks and how much interest are we paying on these bonds?

Melwyn Rego: See, as I understand government has sent an advisory to those banks which are under PCA for retirement of those bonds. We have not got any such advisory. In fact we have sought government approval for raising another Rs. 550 crores by way of AT1 bonds.

Vijay Karpe: And what interest are we paying on these bonds?

Melwyn Rego: There are varied ranges between 9.8% to 11.25%.

Moderator: Thank you. We will take the next question from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, my first question is on your power sector. Have you taken a new exposure during the quarter?

Melwyn Rego: See whatever new exposure we have taken these are state government guarantees. Besides that we have not taken any additional exposure. In fact I can just give you the numbers. We have in fact our overall exposure to power sector has dropped from Rs. 15,795 crores in December 2016 to Rs. 13,103 crores in end December 2017. In other words the portfolio in power has dropped by Rs. 2,692 crores.

Sneha Ganatra: So you have not taken any major exposure in that fund?

Melwyn Rego: No, we have not taken except we have taken exposure but in government guaranteed.

Sneha Ganatra: My second question has the RBI audit done or any divergence has happened?

Melwyn Rego: The RBI this is not over and we are in dialogue with RBI. So there is not been any the exercise has not been completed.

Sneha Ganatra: And my third question on the operating cost. How do you see your cost to income ratio which remains higher vis-à-vis your peers and what is the rationale like a take on it?

Melwyn Rego: See cost to income ratio can be quite misleading because of the denominator effect. If you look at the numerator the cost have in fact declined but because of the income factor and this income factor is largely because of the drop in treasury income which has been more than Rs. 500 crores because NII has grown but the other income has dropped as a result our cost to income ratio is high. We are targeting a cost to income ratio of below 50%.

Sneha Ganatra: And how much is your SMA-2 book as of now?

Melwyn Rego: See the SMA-2 book actually keeps varying and varying quite a lot and this is because of small ticket loans which are there. So the fluctuation has been quite stark for December where it was Rs. 5,400 crores. Now incidentally I have been tracking this number and on 29 of December the number was Rs. 1,400 crores. So we are getting into this very closely and now I am asking for a statement on a daily basis because the small ticket loans are not being followed up because I wanted to be followed up very vigorously the moment they come into of course even in SMA-0 they have to be tracked but the moment they come into SMA-1.

Now what is happening is that this vigorous tracking happens only when it comes to SMA-2. But the composition if I can call it some constellation is that most of this pertains to small ticket loans where our people need to follow up very vigorously. Because the fluctuation is too much and we need to have something which is more power focused.

On this incidentally I will also mention that we have done an analysis for the last three years and of course the number is a little skewed at this time. Normally between 3% and 4% slip into NPAs of the SMA-2 number. But that was in a situation where the loans were larger in size. This time it is because of the smaller ticket loans. Another thing I must mention because you are aware that RBI has come out recently the day of the monetary policy they have come out with regard to treatment of NPAs in respect of MSME cases which are registered under GST where the total exposure is Rs. 25 crores or less. And it has given an additional 90 days moratorium period for that.

Our people are tracking this and I am certain that this number which I told you about SMA-2 would come down very drastically after factoring into the provision of RBI circular.

Moderator: Thank you. We will take the next question from the line of Sankalp Baid from HDFC Mutual Fund. Please go ahead.

Sankalp Baid: Sir, I wanted to know the SDR, S4A, 5/25 and SR numbers which is there on 31 December which does not form part of the standard restructured?

Melwyn Rego: Absolutely I will give you those numbers. We have five S4A which are standard; nine SDR which are standard. In terms of total is 14 accounts. Now the five S4A accounts in terms of amount account for Rs. 555 crores. The nine SDR standard accounts account for Rs. 869 crores. So the total S4A and SDR which are 14 in number in amount is Rs. 1,424 crores. Since you have raised this question I will just take you through the numbers of what we consider or you would also look at as the stressed portfolio.

The gross NPAs in terms of percentage is 9.62%. The standard restructured is 1.33% so it aggregates to 10.95%. The standard S4A and SDR accounts is 0.65% and so the total is 11.60%.

Sankalp Baid: And sir, 5/25?

Melwyn Rego: In 5/25 there is only one standard account and that actually is moving quite well. It is Rs. 440 crores.

Sankalp Baid: And sir, we have any SRs outstanding?

Melwyn Rego: The SRs outstanding, we do have SRs outstanding, Rs. 1,131 crores.

Sankalp Baid: Sir, how much was the interest reversal during the quarter?

Management: Interest reversal will be Rs. 150 crores.

Sankalp Baid: Sir, if I may ask one more question. What was the investment book composition?

Melwyn Rego: See the total HTM book was 62% and AFS 38%.

Sankalp Baid: And then the total investment value will be?

Melwyn Rego: The total investment book value was Rs. 77,879 crores.

Sankalp Baid: In terms of the credit cost can we assume it is going to be flattish or coming down slightly going forward or we might see some more in coming couple of quarters?

Melwyn Rego: No, we are looking at a lower credit cost till December it was 2.63% now for the fourth quarter we are looking at 2.25% to 2.4% in that range.

Sankalp Baid: And do we have any target provision coverage in our mind?

Melwyn Rego: We have already reached 60% and our target in the near term that is for coming would be between 61% and 62%.

Moderator: Thank you. We will take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, taking from one of the previous question like on the credit cost guidance that you are giving are totals around 2.25% to 2.4%. So sir, are we expecting some monthly slippages because we have already done the NCLT thing provisioning during the quarter?

Melwyn Rego: No, this is not because of any lumpy provisioning but purely because of the aging factor.

Rohan Mandora: So sir, in that case the provisioning coverage is increasing only 1% to 2% on quarter-on-quarter from 60% to around 61%, 62%?

Melwyn Rego: I did not get you, could you repeat?

Rohan Mandora: Sir, if it is due to aging factor then the provisioning coverage guidance that we are seeing from 60% to 62% in the near term should that not go up further I was just trying to understand that?

Melwyn Rego: See the 62% which you are mentioning is a conservative number which we are looking at. See the Prudential write offs also are not considered.

Rohan Mandora: And sir, like what is the modified duration on the AFS books?

Melwyn Rego: See the modified duration on the AFS books is 4.44%.

Rohan Mandora: And what was it last quarter in September?

Melwyn Rego: Last quarter it was 4.18%.

Rohan Mandora: And sir, like with respect to the decline in yield on advances during the quarter sequentially that is around 58 basis point less so want to know one would be the reduction in MCLR but other than that like have we Royal Enfield-priced some of the loans lower or what explains the decline?

Melwyn Rego: See when we are looking at there are two factors. One of course was mentioned about the NPA impact where both the accrual of interest cannot take place. Second is of course the write back of interest and third of course is market factors where if you want to maintain a healthy growth we need to increase our advances and remain competitive in the market. Because ultimately keeping those funds idle or keeping it in treasury instruments it does not seem to be the right strategy at this point in time.

Rohan Mandora: So sir, given the last factor how much would have been the impact on the yield on advances would it fair to assume 25 to 30 basis points?

Melwyn Rego: No, not at all. In fact from a NIM perspective we are looking at a range globally and again this is conservative. For domestic it is between 2.75 and 2.85 and on a global basis we are looking at 2.40 to 2.45. Now more or less this sort of is within a corridor where we have been operating over the last six months.

Rohan Mandora: And sir, finally like the employee expenses had increased by around 7% QoQ?

Melwyn Rego: The employee as you know the bipartite settlement kicks in from November 2017. So we have been making provisions which in fact I would like to say this but the audit department informs that we are making higher than normal provision.

Management: Specifically for two months November and December.

Melwyn Rego: This increase has been for November and December because the bipartite settlement is from November.

Moderator: Thank you. We will take the next question from the line of Amit Singh from B&K Securities. Please go ahead.

Amit Singh: First of all I want to know what is the gross SDR, 5/25 and S4A and how much is the restructured component, how much is standard and how much is NPA of these?

Melwyn Rego: I think I already mentioned it but I will repeat it. For S4A there are five cases; for Rs. 555 crores. These are standard. I am talking about the standard category. S4A standard five cases, Rs. 555 crores; standard SDR nine cases Rs. 869 crores. Total standard S4A plus SDR fourteen cases Rs. 1,424 crores. Standard restructured Rs. 2,924 crores and if I take it in percentage terms the combination of gross NPA, standard restructured and standard S4A and SDR is 11.60%.

Amit Singh: Sir, what is our SMA-2 and SMA-1 number?

Melwyn Rego: I think you joined the call recently because we have been having a lot of discussion on this. So anyway I will repeat it. The SMA-2 number is Rs. 5,481 crores but I had just mentioned that there has been huge swing in the last two days because on 29th it was Rs. 4,000 crores lower and all this comprises small ticket account. We are going to place a great deal of emphasize and I am calling for reports now every day because the focus has been on collection of these small accounts after they get into the SMA-2 category.

I want this focus to be not only on SMA-0 but at least when we are in SMA-1 we should ensure that it does not move into SMA-2. So this is something internal to us and we need to address it on a war footing which we will be doing.

Moderator: Thank you. The next question is from the line of Sankalp Baid from HDFC Mutual Fund. Please go ahead.

Sankalp Baid: Sir, just a follow up question. SMA2 number was Rs. 5,400 crores on 31 December. What was this number like you said you follow it daily so what was this amount on 31 January?

Melwyn Rego: On 29 January it was Rs. 4,000 crores lower.

Sankalp Baid: January it was Rs. 1,400 crores?

Melwyn Rego: On 29 January.

Moderator: Thank you. We will take the next question from Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Post this QIP money as well as the government institution still you would like to grow your book by 10% only?

Melwyn Rego: I am sorry you will have to repeat the question because it was very faint.

Sneha Ganatra: Post QIP money, post the government institution still you would like to grow your book by just 10%?

Melwyn Rego: See the growth will be based on the opportunities for acquiring good assets. We are not going to grow for growth sake. Obviously the RAM portfolio is growing very well but the RAM portfolio does not give us that push like you can by doing say a Rs. 1,000 crores or Rs. 1,500 crores corporate loan because it carries along with that the attendant concentration risk and as you know all banks are facing problems today because of the concentration risk.

Those banks which are lower concentration risk has showing better numbers. So although capital would come I said that with a 10% growth we would be over 8%. In other words next year the CET1 regulatory requirement is 8% but we will be meeting that in this year itself.

Sneha Ganatra: My second question is how do you see the resolution one on the NCLT1 case which has been currently going on?

Melwyn Rego: First is that we are not lead in any of these cases but we do see a lot of traction happening. Positive factor has been government giving an additional 90 days for this resolution. From our side the way we look at it when we have got an asset in provision coverage ratio of 60% as long as we get more than Rs. 0.40 to Rs. 1 it becomes a kickoff for us. So we are looking at this very positively and we feel that we will reap the benefits of these NCLT account during the coming fiscal year.

Sneha Ganatra: And in which city you are expecting this faster resolution can happen?

Melwyn Rego: Obviously some of the large steel companies when you go into the genesis of what the problem was basically there were two problems. First problem was on the demand side. Now that has by and large been addressed. The second has been the over leveraging which has taken place. And this over leveraging will be addressed by taking the haircuts which are there. Another factor which you should look at in the steel sector is the cost of setting up a new steel plant which is several times that of the existing plant.

So market forces of course will play out but we definitely see us getting more than Rs. 0.40 to Rs. 1. Obviously depends on the type of sector also. Fortunately we are not there in the EPC area in NCLT cases because in the EPC area the assets in let me put it in the other way around in steel sector the assets are on the ground. They can be seened, they can be inspected whereas in EPC I cannot say the same thing.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir, the capital raise which you have done this quarter in December the effect was same as it reflected in our Tier-I ratio, sir?

Melwyn Rego: Yes, that has been reflected in the Tier-1 ratios and CET1 as well.

Anand Laddha: Even the nine months loss has been reflected in the same, sir?

Melwyn Rego: Absolutely.

Anand Laddha: So post nine months there is no change in the CET1 actually?

Melwyn Rego: That is right.

Anand Laddha: And sir, with the additional capital raising from the government side what sort of improvement in the CET1 we expect?

Melwyn Rego: I did mention that CET1 would be in excess of 8% even with a 10% growth.

If you do not mind I think we will have to restrict it to another 5 maximum 10 minutes because I have a press conference at 4:30.

Anand Laddha: Okay. Sir, if you can give some guidance for next year what sort of loan growth you are building in what sort of margin, what sort of provision cost and ROA we are targeting next year?

Melwyn Rego: See next year we will be looking at an advances growth of around 12% and the ROA which we are looking at frankly the imponderable which is there and we have not factored that into account we are looking at an ROA of 0.15% to 0.2%. Now if the NCLT cases resolution takes place that would be a big kicker for us. Because if we have made 60% or by March may be 62% overall and we get Rs. 0.60 to a Rs. 1 that Rs. 0.20 will be a big kicker for us.

Anand Laddha: And your 0.15%, 0.2% ROA guidance assume resolution to happen?

Melwyn Rego: The normal resolution to happen other than NCLT.

Anand Laddha: So you are building in provision cost assuming the NCLT solution does not happen you will have to further make provision for aging?

Melwyn Rego: That is right.

Anand Laddha: And suppose sir, you do not have to make any aging provision then what could be the impact?

Melwyn Rego: Then it would be another probably 5 to 10 basis points higher.

Moderator: Thank you. We will take the last question from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: Couple of questions. First, just wanted to confirm the percent of loan book which is linked to MCLR was that 28% that you mentioned?

Melwyn Rego: No, I did mentioned that 62% were linked to MCLR, 10% is at fixed rate, 25.5% is at base rate link and BPLR linked is around 3%.

Harshit Toshniwal: And sir, another question on this particular MSME, SME segments. So even government has announced for another 90 days how has things been on ground so is this there some pain from GST which is still there?

Melwyn Rego: I think that has been the motivation for giving this concession. We have obviously not factored in, it just came before few days back. So we have not factored this in to account in our accounts for Q3 but the exercise is on and in a couple of days we will get to know the exact position.

Harshit Toshniwal: Sir, more than positioning I want to know the on ground reality rather than the accounting of or the recognition part. Has there been pain which is still continuing or how has it been because growth has been good in this segment but again as I am not sure of the asset quality?

Melwyn Rego: See when any change is brought about there is resistance to change. And GST coming in is no different. So initially it does involve pain and there is a resistance from the concerned parties. However, with passage of time new normal effect and we see this period as being the period during which this new normal will take shape. Ultimately you would expect that a one year period would be adequate to adjust to the GST introduction which is the new normal.

Harshit Toshniwal: Hopefully there is no fundamental pain which remains.

Moderator: Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.

Melwyn Rego: I must first thank you for being taking the time off to have this interaction. I think the questions which were asked have clarified most of the doubts which you have nevertheless if there are still certain questions which you do have, my request is you can please send it across to Mr. Majumder or to our CFO Mr. Mohan Rao. So what I see is that the bank has adopted a conservative approach in front loading the impact of NCLT and of course all of you know that not only our bank all banks have been hit by on the treasury front both in terms of booking of capital gain and also taking a hit on the MTM basis.

So if I have to summarize, on treasury Rs. 700 crores hit has been taken and on NCLT Rs. 700 crores we have fast forwarded. So I will just leave it on this note and all I can say is that the bank has strong fundamental and we would be continuing our effort in growing our retail book, retail means RAM book with particular emphasize on home loan wherein last quarter we have grown by 24% on annualized basis. Thank you so much.

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