“Syndicate Bank
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Moderator: Ladies and gentlemen good day, and welcome to the Syndicate Bank Q2 FY2020 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 the operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Mr.Chintan Shah from Elara Securities Private Limited. Thank you and over to you Sir!

Chintan Shah: Yes. Hello. Good afternoon everyone. On behalf of Elara Securities, we welcome you all to the Syndicate Bank Q2 results conference call. We have with us Syndicate Bank MD and CEO, Mr. Mrutyunjay Mahapatra, Executive Directors and Senior Management Team. I would like to request Sir to give a brief presentation on the results and thereafter, we can start the Q&A session. Thank you.

Mrutyunjay M: Thank you very much Chintan and welcome to all of you to this Q2 analyst call. We are very grateful that you could make time for our conference call. Today the senior management team is here, my senior colleague, Mr. Krishnan is there and all general managers who head different verticals are with me to answer your questions and to clarify any kind of issues or concerns that you might have. Let me open by telling that this quarter has been one of the quarters for which we have been waiting for a long time. In last 16 quarters, we have posted all round excellent performance in many areas. I will give brief highlights for maybe five to eight minutes and after that I will hand over to the host of the concall to arrange the questions. So that myself and my senior management team could answer them as they come up.

So first the profitability I think both on operating profit wise as well as considering the credit cost, which is showing sure signs of abating down. The bank reported a net profit of Rs.251 Crores for this current quarter, which is based on operating profit growth of 68% that is during this quarter Rs.956 Crores was our operating profit and this is vis-a-vis Rs.570 Crores operating profit in the September 2018 quarter. I will tell what have been the major regions for this but sufficed to say that this is propelled by very robust other income growth. The domestic NIM Y-o-Y basis has gone up by roughly around 39 basis points, but there is a slight reduction as compared to Q1, this is mainly because of the interest rate scenario that we are seeing in the market, but in spite of the clear cut interest rate reduction by roughly around 100 basis point by the regulators and by the market forces, our NIM has reduced only by 10 basis points.
Cost to income ratio which we are trying to contain for quite some time has also come down quite substantially both sequentially as well as Y-o-Y basis. The gross NPA ratio is another good story where we continue to attack our NPA, not only we have been able to contain fresh slippages to the most minimum in spite of the fact that there has been a few large slippages but in spite of that we have been able to contain it in such a manner that our NPA figures are today lower than March 2019 figures. The net NPA ratio although we have been able to keep below the RBI PCA threshold level of 6%, although there is slight increase in net NPA percentage from 5.96 to 5.98; however as we will try to analyze in course of my presentation, there are specific reasons for this why we did not provide aggressively on some of the NCLT and other accounts, which are waiting for resolution, which we could have provided and we could have brought it down to well below 5.9% but we have tried to keep it around 5.95% to 6%.

The provision coverage ratio again has gone down slightly from 69.02% in the last quarter to 68.64%; however, there is an improvement from 64.02% at the same date of last year and there is a clear 5% improvement in provision coverage ratio and this is again on the accelerated resolutions and OTS that we have seen during the current quarter, which has not only cleaned our balance sheet, but also has imparted much required momentum in terms of getting healthier assets to our books. In fact if you look standard asset provision, we have not been required to make more because our A and above assets have increased significantly.

The business level continued to show signs of growth. Our savings bank account opening rate and current account opening rate, which signifies new customer acquisition for lower cost fund mobilization and to take advantage of our rural and semi-urban franchise has gone up significantly. I will give you the numbers and in fact as compared to Q1, our Q2 numbers are significantly higher in terms of new savings bank accounts opened, new current accounts opened, new lockers deployed and new jewel loans in the retail segment that has been deployed and for the first time in many quarters apart from our rural and semi-urban branches, the urban branches and metropolitan branches have also shown growth which is again a very good indicator about the sustainability of our results and our growth story.

The retail term deposit in the total term deposit continued to be very strong. There is a small dip but this is because the overall growth in the term deposit has been at a high rate as compared to growth in the retail term deposit but it still remains much higher than the March level and much higher than the last September level.
The credit portfolio is continuing to grow in the MSME sector. In fact as we speak in the Q1 of this financial year, we opened total of 25571 MSME accounts as compared to the that in the July to September quarter, we opened 31636 accounts which represents a growth in number of new customers of 24% on Q-o-Q basis but the more delightful story is that the amount disbursed has grown by 34%. The net disbursement to MSME during the Q1 was Rs.2198 Crores and it has climbed up to Rs.2951 Crores.

The same story continues for the housing loan. During the current quarter, we have seen that the average number of housing loans that we are doing per month have climbed from roughly about 1200 to around 2400 and we are expecting that during the current quarter, we will be able to reach the figure of roughly about one per branch per month that is per month disbursement of housing loans, we are expecting that during the next two quarters will reach a figure of between 4000 to 4500 per month. So this is again another story which is contributing to our RAM as a percentage of total growth of the advances.

At the same time, the corporate story also continues in addition to NBFC and PSU and infra, we are seeing good growth. In fact during the last quarter, we acquired 10 new accounts, which contributed to net advances growth of roughly around Rs.5700 Crores and this story we are seeing that proposals are coming on table. So this is likely to continue and we are hoping that with the increased emphasis on shifting of loans from some of the NBFCs, which we have seen traction, we will be able to contain any kind of negative growth that we have seen in the MSME sector and we will grow better.

Going to little bit granularity in performance, the interest income despite MCLR reduction has increased to Rs.5407 Crores from Rs.5399 Crores. So that means we have been able to contain the interest income at the same level as one year back, although during this period, there has been a reduction in MCLR of roughly about 110 basis points, we have been able to contain it. Other income is again another great story. We have seen that the other income which was at Rs.490 Crores during the Q2 of last year, we have seen this at Rs.746 Crores, which is a 52% jump. Even we have done better sequentially also and we will give you the figures.

Interest expenses has reduced to Rs.3668 Crores from Rs.3827 Crores as I told in my opening remarks this is riding based on the component of the retail term deposit, which is constantly increasing over bulk term deposit and CASA percentage, which has seen a roughly 4% increase in the last one year and in fact as we speak the first six months of the current year, we acquired over 10 lakh accounts in the savings bank account and the savings bank account every Rs.1 Crore in savings bank account balance increase and corresponding decrease in bulk deposit contributes to the NIM to the extent of over 4% that is Rs.4 lakh.
So this has contributed significantly to interest expenses. In other words the financial efficiency of the bank is increasing very much. The net interest income has gone up by 11%. The operating expenses are flat despite the fact that we have undertaken massive customer engagement through branch ambience improvement. We are providing roughly around Rs.22 Crores per month for wage revision provision, and we also provided during Q1 about Rs.160 Crores for employee share purchase scheme which we granted as concession that was to be taken on the P&L, which we have taken.

Despite all these additional expenses, we have been able to contain our total noninterest or operating expenses, roughly at the same level. Last year at this point, it was Rs.1492 Crores, today it is Rs.1529 Crores. So provisions and contingencies as I told because we have been able to resolve it despite the delay in resolution of the NCLT cases, the provisioning requirement for nonperforming loans and stressed loans has declined considerably because as I told during the last conference call in the Q1 we took some aggressive provisioning to bring down our net NPA level below 6% level and this has resulted in some amount of relaxed provisioning kind of a requirement. So we have provided less and as I told due to all these things, our net profit is the best net profit in the last 16 quarters at Rs.251 Crores and I have given to the market a guidance of around Rs.900 Crores to Rs.1000 Crores of operating profit and around Rs.150 Crores to Rs.250 Crores of net profit per quarter going forward, and I am happy to report to all of you that we have been able to achieve that in good measure during this period.

On the capital front, I think we are doing again quite well. We remain well capitalized due to the aggressive provisioning that we made during the Q1, our capital adequacy that is CRAR level, it suits some amount of dip but again we are well on our way and in fact in June the capital adequacy was standing at 13.70%. It has improved to around 13.79% and this is much more than whatever are the regulatory prescriptions and as compared to September 2018 when it was 10.95%, it is clearly about 3% jump and this is in spite of the fact that we have provided fully as per regulatory norms in fact sometimes aggressively over whatever is required.

Now the treasury assets that is the investment assets saw a drop from Rs.81,463 Crores to Rs.71,857 Crores as all of you can guess this is because the treasury assets were getting replaced by loan assets which are higher yielding assets. So this rationalization was expected. We will give you yield on the investment portfolio, our yield on the investment portfolio has moved at par with the market forces and the other good story is that we have made good progress in priority sector advances. Our priority sector advances remained well above the regulatory requirement. In fact the priority sector pool is so good that during current quarter and in the previous quarter, we have made good money by selling priority
sector pools. We will be able to give you those figures. This is again another profitable avenue which is not available to many competitors, and even many competitors are deploying funds in the SIDBI and NABARD with a negative carry to meet their requirement and so this is again another avenue which we are wanting to explore and the last before I sign off and throw it open for question is that the NPA management continues to be strong. The daily recovery rate has today increased from roughly around Rs.15 Crores to Rs.18 Crores of recovery per day. Now we are seeing a run rate of about Rs.25 Crores to Rs.30 Crores per day and we propose to increase it further. The organizational restructuring in the form of creating a dedicated stress asset management vertical is showing results. We have deployed more and more people into business acquisition and recovery vertical. Of the new recruits roughly only about 25-30% have gone to brick-and-mortar banking, rest of them have been deployed in recovery as well as marketing so this is also showing that the current account and savings banks story that I told you where we are opening roughly 11 lakh or over 5 lakh accounts every quarter. This is because of current account and savings bank mobilizations and digitization of lead management system. Also we will see in the coming quarters more efficiency because the bank has completely changed to new version of core banking, new version of mobile banking in the last quarter. The social media leads from the… social media presence of the bank is adding to the lead generation as well as business generation. We are also resolving customer grievances faster. The ATM uptime has gone by very fast. We have rationalized the ATM expenditures by identifying ATMs which are not active during large part of the nights and this has resulted in savings of over Rs.50 Crores during the last quarter and we expect that by deploying rationalization of expenses while not compromising on ambience etc., we will be able to continue the growth story and will be able to continue to report good results in the quarters to come. So this is what I have to say. I will request our ED, Mr. Krishnan to tell a few words if I have left anything and CFO to add and after that we will take questions. Thank you very much.

S Krishnan:

Thank you Sir. I am Krishnan here. Very good afternoon to all the people who are on the concall. The MD has been covering extensively on the performance of the bank during the H1 more particularly on the Q2. I could only add that the growth story will be sustained. We are seeing a lot of upticks in each and every parameter. As far as the growth of the business is concerned particularly on net credit, yes we will be continuing both on the corporate sector and also on the retail, the bank has been able to show the market what we said we will be able to, as far as the quality of the advances means the rating wise it has improved a lot and our rating wise distribution shows a very healthy position of about 67% of my portfolio is A and the above rated, which has increased from 65% Q-on-Q that is the previous quarter. This is how it is, so combined with these the monitoring mechanism has also been strengthened so as to arrest the slippages or the (inaudible)21:58 quality of the assets and in the days to come, the bank will be able to reach the fruits of the control
mechanism, monitoring mechanisms, which have been put in place. Thank you. We will now take the questions and answers.

**U S Majumder:** Just I would like to mention only one line. I am CFO, U S Majumder here. See in respect of the cost to income ratio, we are seeing there is a constant concern so that has declined substantially and as our MD and ED have told that with the check on the quality of the assets and the check on the expenditures, which are controllable, we are controlling it to get an extent, we are seeing that their growth is limited. Then increase in previous income by various means, out cost to income ratio is also going to remain at a lower level and in respect of other NII our MD has already told that NII will remain at this level and NIM also will be whatever guidance we have given we will be continuing with that so that is all from our side. Thank you very much.

**Mrutyunjay M:** Okay. I think we have given the intro to the financial results. Now we are ready to take questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

**Sneha Ganatra:** Sir first question is despite of the Repo rate cut and the reductions in the MCLR, but still yields have inched up Q-on-Q, any reason to that. Second question is what is our exposure on the NCLT cases and how much provisions we are holding on the NCLT portfolio. Third is how is our total opex which has increased substantially in Q2 on Q-on-Q basis despite of the ESPS discount bank has given. Fourth question is your guidance on the asset quality front basically on the slippages and considering the new stress names which have been floating in the market, where do you see your SME 2 book above it and how do you see the recoveries and upgrade both from the NCLT as well as from the normal recoveries and upgrades, where do you expect gross and net NPA to be settling out?

**Mrutyunjay M:** Okay. I think you have asked on behalf of two or three people. Anyway I will give you answers. The reason why the Repo rate cut has not impacted us is that the MCLR-linked book and the Repo rate linked book, the Repo rate linked book has come into play from October 1, 2010. So we will see probably going forward, but we are expecting that we will be able to because we have also introduced a Repo-linked deposit also, and the savings bank deposit which was having a major component of our cost of deposit, we have been able to reduce in one bucket which is a major bucket about 0.25% there and so Repo rate cut, we have been able to contain the impact, but as I told you, there is a 10 basis point
lowering in the NIM in a sequential quarter basis, the NCLT figures I will give you in a moment, we have the figures.

S Krishnan: See NCLT we have got in NCLT list one first is referred to RBI, out of the Rs.3500, Rs.11 Crores is our exposure and the provision coverage is 84% and on second list, the provision coverage is 90%, so only 86% coverage is there.

Mrutyunjay M: And the total opex how we are able to contain, the net employee count has gone down a little because we have not recruited at the same rate as the natural attrition that has happened over the last one year. So this is one thing. Second thing as I told you, we have tried to contain various other operating expenses like the electricity charges etc., that has also included. The ESPS as you told, that is an employee cost and we are continuing to provide it. However the productivity has gone up that is why the operating cost to total income ratio has improved as a result of that. The guidance for slippage we are expecting to stay well within the slippage ratio that is our guidance is that during the whole year, the slippage will be 5% and on an annualized basis as on September, we have been able to contain it to 4.75%. So I think we are well on track. And our aim is that on a net-net basis, that is upgradation, recoveries minus fresh slippages and total whatever of the net of these figures, we should at the absolute level, our aim is to maintain the March 2019 figures as on March 2020 that is our aim. And individually accordingly budgeting has been done at all the operating unit levels and so this we will be able to and the recovery guidance, I will request our GM, Shyam ji to respond what is the recovery scenario?

Shyam: Good afternoon. Sir we have got separate SAM vertical as per RBI guidance and seven SAM branches throughout the India, all the major account Rs.5 Crores and above we have diverged to that SAM branches and these branches have headed by..

Mrutyunjay M: No. Please give the number. What is the… overall recoveries and what we are seeing?

Shyam: Overall recovery Q1, we were able to recover Rs.200 Crores and Q2 we had Rs.175 Crores. We are hopeful of getting these, Q3 and Q4 good recovery because of the NCLT cases something resolutions are delayed and third and fourth quarter we are expecting better recovery and we are working hard.

Mrutyunjay M: The NCLT to… straightway answer your questions so I think there are four or five accounts which are in pipeline. Of these we are expecting that Ruchi Soya, which will have P&L impact of roughly about Rs.140 Crores, Bhushan Power And Steel and Essar Steel, which will together give around Rs.1500 Crores are likely to be resolved during this quarter and if not definitely during the following quarter. So our expectation is that we will get roughly
around Rs.1750 Crores from the five accounts, which are in almost at the final stages of resolution and in the larger accounts, we have got a recovery of Rs.260 Crores but however total cash recovery during the quarter is Rs.1134 Crores which represents Rs.934 Crores in cash recovery and interest recovery of around Rs.200 Crores. So this is as compared to Q1 recovery of Rs.876 Crores that means if you take net-net, the recovery has accelerated from Rs.876 Crores during Q1 to Rs.1134 Crores during Q2 and the September 2019 cumulative target was Rs.1700 Crores and we have been able to achieve around Rs.1900 Crores against that, sorry above Rs.2010 Crores against that.

Sneha Ganatra: Yes. Sir now on the merger part where we are standing and when we expect swap ratio to be?

Mrutyunjay M: Actually we are sitting there. We are not standing.

Sneha Ganatra: Yes.

Mrutyunjay M: Just jokes apart, I think there are a lot of activities, which has happened as you know I think even honorable finance minister in her speech, she narrated the process just to jog your memories, it happens like this that government proposed or suggested a merger plan, we gave it to our respective boards. The broad debated it and after that we have told that the board has agreed for the proposed merger. Now then it goes to, it is made into a proposal, which goes into the alternate mechanism, which is a group of ministers, which is formed by Government of India, it has the commerce minister, it has the home minister and it has the finance minister. After it is rectified by the AM, it goes to the full cabinet. After the full cabinet rectified, there is a cooling in period of 60 days with the parliament and after that the government notifies the scheme of merger, but in preparation to that, we are already into financial due diligence, legal due diligence and other due diligence, there are about 30 integration committees, which have been formed of general managers of both the banks to find out the way forward, this is currently going on. So the last page of it is the financial due diligence based on which we will determine the valuation and the swap ratio.

Sneha Ganatra: Okay. Got it Sir.

Mrutyunjay M: Thank you.

Sneha Ganatra: Thank you.

Moderator: Thank you. The next question is from the line of Ashwini Ghongane from HSBC Asset Management. Please go ahead.
Ashwini G: Good evening Sir. First of all congratulations for the positive quarter. Ashwini from HSBC Asset Management.

Mrutyunjay M: How are you doing?

Ashwini G: Great Sir. Sir just a question. ED Sir had mentioned about the portfolio, the quality of the assets and everything. Just wanted to check which sector has contributed to the growth in the banks rated portfolio, sector?

Mrutyunjay M: We have the answer ready Srinivasa Rao. Our Head of Credit will answer that in the rated A and above category, I think if I paraphrase your answer, you wanted to know in the A and above category where exactly we are seeing growth?

Ashwini G: Sectors, yes, which sectors?

Srinivasa Rao: I am Srinivasa Rao, GM Credit here. We have seen much growth actually in four, five sectors. One is gas distribution Rs.1000 Crores we have seen, infrastructure around Rs.1500 Crores, NBFC AAA rated accounts we have seen around Rs.6000 Crores, EPC contracts also we have done Rs.2000 Crores, and in other sectors around Rs.1500 Crores we have done.

Mrutyunjay M: So Ashwini, net-net if you look at that NBFC is about 45%, others are around 55%.

Ashwini G: Correct. Thank you Sir. One more question. Due to yield reduction what is the reversal of investment provision in this quarter.

Mrutyunjay M: Due to yield reduction, I think Rs.72 Crores.

Ashwini G: Rs.72 Crores, okay.

Srinivasa Rao: Ashwini it is not showing there because there are set of (inaudible) 34:32 projects and that is why it is not (inaudible) 34:34

Ashwini G: Okay.

Mrutyunjay M: Rs.72 Crores is M2M right back, we had a security receipt SR, which we resolved, then we had to take a haircut for which we have provided Rs.140 Crores.

Ashwini G: Rs.130 Crores
Srinivasa Rao: Rs.108 Crores.

Mrutyunjay M: 80?


Ashwini G: Okay.

Mrutyunjay M: So there is a net negative of about Rs.36 Crores.

Ashwini G: 36 Crores, okay and do we have any MSME pull buy out from DHFL?

Mrutyunjay M: From DHFL?

Ashwini G: Yes.

Mrutyunjay M: We have not bought any MSME pools from DHFL.

Ashwini G: Okay and you have mentioned that interest rate reduction is the one reason for NIM decline in this quarter, but any others, Sir then why there is a decline in NIM in this quarter?

Mrutyunjay M: No. One is migration of assets from low rate to high rate. Generally highly rated assets because we have seen that the A and above has increased from 65-66%, 67% during the quarter. This also reduces NIM and of course this one has also contributed. London branch NIM has also come down because London branch as you know contributes roughly around I think 20% of our total assets and their NIM has come down because the NPA their has gone up slightly and nonaccruing loans have gone up substantially so that has also contributed. Okay Ashwini?

Ashwini G: Yes Sir. Thank you so much. Good day.

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

Amit Singh: Thank you Sir. Thanks for this opportunity. Sir you mentioned about the slippage guidance of 5% that is roughly around Rs.10,000 Crores for this year. So Sir I mean where exactly do you see the incremental numbers to come from, I mean we do have large exposure to companies like Dewan and Religare. So what all have you factored in in this number?
Mrutyunjay M: See I will tell you because this is an analyst call, I can be a little more open, Religare honestly speaking the resolution plan is looking at a completely new management, so it is unlikely apart from deferment of the dues, it is unlikely to slip into NPA because it is a completely new management and the completely new plan and new financial is not required to be treated as NPA as per RBI guideline for one year, if completely change in management is there. So this is Religare. There are impending NPAs in some of the other sectors for which some of the NBFCs we are looking at accelerated provisions. We are also looking at some of the provision in some large other accounts. But at the same time as I told you, the slippage ratio will be contained because we will be resolving some of the existing ones, which will go out of this thing. This is gross slippage ratio, we are telling 5% which is about Rs.10000 Crores. Our regular run rate of you know if we look at the non-corporate segment, our corporate segment.…

Srinivasa Rao: Sir we have actually London branch is 180 is the domestic asset.

Mrutyunjay M: Yes. So anyway it is around Rs.9000 to Rs.10000 Crores, what I am telling is that our regular slippage in the corporate accounts, we are expecting around Rs.3000 to Rs.4000 Crores and another Rs.4000 to Rs.5000 because as I told you the incremental growth is happening 55%, 56% in then RAM sector and 44%, 45% which is the corporate sector. Now corporate sector if it picks up then the denominator will increase but the gross slippages will come from majorly through the NBFC sector. We are seeing one, government PSU, which is the PEC, which could account for some amount of stress but otherwise it is fairly well distributed.

Amit Singh: Sir sorry I just missed that part. You said the government account…

Mrutyunjay M: There is a government promoted account, there is STC and PEC so which has slipped into NPA already but we believe that maybe we will have to provide accelerated provision on that.

Amit Singh: Okay. So this account has already slipped in this quarter?

Mrutyunjay M: Yes. Not this quarter, quarter previous to last year.

Amit Singh: Okay. And Sir secondly apart from this slippages front Sir, you had mentioned about our credit cost guidance if I have heard you right, so what is that Sir?

Mrutyunjay M: See credit cost guidance right at the beginning of the year I told that my aim is to contain it at 2% because if I have Rs.2 lakh Crores of advances and if the credit cost I contain at 2% then I think my total credit cost on Rs.2 lakh Crores will be roughly around Rs.400 Crores
for the entire year. So that will give me sufficient headroom, because even after prudential
provisions and other things, I will be able to make sufficient amount of profit. So that 2%
guidance continues.

Amit Singh: Okay and Sir one more thing Sir, what is our exposure to the cases which are standard in
our books but we have signed ICA in those cases?

Mrutyunjay M: Do we have readymade figures?

Srinivasa Rao: Not all, Dewan is there.

Mrutyunjay M: We do not have the figure ready, what you are asking is that we have standard asset, but we
have signed ICA because it was a multiple banking arrangement and later in some places, it
has become stressed.

Amit Singh: Yes Sir.

Mrutyunjay M: Okay. we will get you that figure.

Amit Singh: Okay and Sir just few more question Sir. Firstly Sir what is our exposure to this Vodafone
to Idea Group?

Mrutyunjay M: We have zero exposure.

Amit Singh: Okay and Sir 3 Infra?

Mrutyunjay M: 3 Infra.

Amit Singh: Yes Sir.

Mrutyunjay M: Rs.600 Crores.

Amit Singh: Okay and Sir the Cox & Kings?

Mrutyunjay M: Cox & Kings nothing zero.

Amit Singh: Okay and Sir lastly Indiabulls Group?

Mrutyunjay M: Indiabulls Group total is how much, around Rs.1200 Crores.

Amit Singh: Okay. Thank you Sir.
Mrutyunjay M: Thank you very much.

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

Amit Singh: Thank you Sir. Thank you again. Sir just on this quarter slippages perspective Sir, where exactly have these slippages come from?

Mrutyunjay M: The slippages during the quarter?

Amit Singh: Yes Sir.

Mrutyunjay M: I request our, Shyam Ji.

Shyam: The agriculture, total slippage during the quarter has been Rs.2074 Crores out of which the total retail slippage is Rs.278 Crores, of which housing loan slippage is Rs.132 Crores, corporate slippage is Rs.905 Crores, MSME slippage is Rs.487 Crores and agriculture slippage is Rs.403 Crores.

Amit Singh: Sir in this corporate slippages of Rs.905 Crores, Sir any bigger names which you have seen in this quarter?

Mrutyunjay M: The major names are Sintex and Jet Airways. Sintex Rs.435 Crores, and Jet Airways Rs.166 Crores and Reliance Infra, is Rs.83 Crores.

Amit Singh: Okay and Sir we also have exposure to Reliance Home Finance and Rosa power so any update on that?

Mrutyunjay M: Rosa power I think is standard.

Amit Singh: Okay and Reliance Home Finance is also…?

Mrutyunjay M: Reliance Home Finance is also standard.

Amit Singh: Okay Sir.

Moderator: Thank you. The next question is from the line of Nishant Rungta from Premji Invest. Please go ahead.
Nishant Runhta: Thank you so much Mr. Mahapatra for taking my questions. Hi Sir. Just wanted some more color on the asset quality for the system as a whole Sir and some of the counters in fact just wanted to get your views on what would be the number of NBFC accounts which may be in SME 1 and 2 for you and if I may take that liberty to extrapolate it for the system as a whole and say that these may be SME 1 and 2 for the system as well?

Mrutyunjay M: No. I think since you have asked a generalistic question, I will give you an answer like that. See it is like this I believe that the sector which is creating the problem is the construction and the larger of the housing loan that is kind of Rs.2 Crores and above segment. But most of the NBFCs are keeping them very liquid by selling pools aggressively, so across the board, whether it is a AA or AAA I am seeing that 65-75% of the NBFCs have contracted their balance sheets whether you call it Indiabull whether you call it other finance, whether you call it Edelweiss, whether you call it Piramal, whether you call, whoever it is, so they are originating to sell. What is happening in general is that pool purchases in the market have gone up. So the liquidity they are trying to preserve by selling pools as soon as it is visible. Second thing what is happening is that after RBI in the credit policy previous to the last policy announced that on-lending for priority sector that is for agriculture loans, housing loans and MSME loans will also be treated. We are seeing a large number of traction there so that is also infusing liquidity into the market. The third thing that is happening is that large number of these NBFCs which were having large corporate construction accounts, are now willing to credit enhance them and give it to banks who are willing to take. So I am seeing some amount of the so-called stress because what has happen is that the asset liability mismatch, which created the current problem in the NBFC sector was because of the last mile funding that they have done to the commercial real estate sector, these projects did not get complete and they also could not get sold. So as a result a one-year asset was in effect got converted into a three-year asset or a five-year asset. This is typically three-year and five-year assets are for the banks to hold, it is not for the NBFCs whose liability side is preponderant with CPs and short term deposits and only the term loan is roughly about maybe 20-25%, rest are all CPs and market borrowings. So that has created the mismatch and that is creating the problem. So because this first loss guarantee of the Government of India because pool purchase velocity has come up because of the on-lending program picking up so I believe that A and above category NBFCs will be able to sustain themselves. But the BBB and the A-, we could see some amount of stress. So this is my general overview of this. In our portfolio, we are not seeing any stress at all, all NBFCs are servicing, whatever NBFCs were to go bad or what we have seen, the IL&FS, The DHFL the Religare Invest or the Reliance Group Companies, all of them were kind of there four quarters back, the stress kind of showed up. The other things we are not showing, we are seeing some contraction, we are seeing some request for pool purchase, we are seeing in fact newer NBFCs coming with capital adequacy of 30%, 28% like that and
telling and based on that they have got either a A+ or AA rating, coming back to us and requesting for finance, so I am not seeing any stress in our book and in general in the NBFC book of other banks.

Nishant Rungta: So absolutely no name, which would be SME-1 and 2 other than the names which are in the …

Mrutyunjay M: SME-1 and 2, we do not have any NBFCs which is SME 1.

Mrutyunjay M: Understood. DHFL?

Mrutyunjay M: DHFL is a SME 2 that I have already told.

Nishant Rungta: But when do names such as Reliance Home Finance or the other NBFCs in the ADAG Group, they slip into…

Mrutyunjay M: You want them to slip or… see there are two Reliance Home Finance has not slipped. But Reliance Finance has slipped, Reliance Commercial has slipped. Now we initially negotiated that can we substitute it with the pools, the quality of pool that we got was not up to our expectation, so we could not concluded but nevertheless this process is going on. When Mr. Jayakumar was in position that time, the BOB Capital market and myself and we did take the lead and in fact I met the ADAG promoter as well as senior executives. So that is going on whether we can completely process it as a basket case and take haircut and make the exit or we recoup part of it through pool purchase and take the rest to resolution that is yet to be seen, but the Reliance Commercial as an NBFC it has already slipped. Reliance Home Finance we are not seeing it slipping.

Nishant Rungta: Sure. Reliance Commercial Finance slipped in Q2 I believe right Sir?

Mrutyunjay M: Yes. It has slipped.

Nishant Rungta: Understood. And Sir what would be your concentration in the real estate develop of portfolio and how are the SME figures tracking there, any view on that?

Mrutyunjay M: Our real estate is quite manageable and there is no stress there, but actual figures I will request either the CFO or Head of Credit to provide.

Nishant Rungta: From the system perspective do you believe there is enough…?
Mrutyunjay M: System perspective I think there will be some because last year when I met a large number of real estate developers, they were very sanguine they will come, in fact last month I met a large number of private equity investors who are playing in this field and who are finding good opportunity so what will happen in my mind is that the commercial real estate piece of the equity will get passed onto private equity and the resultant cash flow will get deployed in affordable housing where we are seeing good housing growth.

Nishant Rungta: Understood Sir.

Srinivasa Rao: CRE we are having Rs.6500 Crores exposure.

Mrutyunjay M: CRE is Rs.6500 which is less than 5% of our total books and

Srinivasa Rao: 2.32%

Mrutyunjay M: Yes and lease rent discounting is there but that is fully secured and hardly I think 1% of the LRD portfolio is stressed.

Nishant Rungta: Understood Sir and Sir within the telecom accounts do you have any SME 1 and 2 right now?

Mrutyunjay M: Do not have any telecom exposure except that Aircel thing where we will have to take a deep deep cut and RCom.

Nishant Rungta: Understood Sir. Sir any views on the Essel Group, what is the progress there, any resolution in sight…?

Mrutyunjay M: We do not have any exposure. But I will talk to you offline on what are my views.

Nishant Rungta: Understood Sir. And Sir any exposure to Uttam Galva do you have right, which is being serviced by ArcelorMittal and is there any update on that?

Mrutyunjay M: So ArcelorMittal we have some exposure if you look at HPCL-Mittal we have some exposure there, but on the steel sector you want or the group as a whole?

Nishant Rungta: No Sir. On Uttam Galva, do you have any…?

Mrutyunjay M: Only Rs.35 Crores
Nishant Rungta: And it is being serviced Sir on time at the moment because one of the peer banks did highlight that ArcelorMittal has stopped servicing Uttam Galva loan and…?

Mrutyunjay M: That was part of the entire packages is not it?

Nishant Rungta: Part of that loan was still outstanding and was being serviced by Arcelor on a quarterly basis is what something that we understood from one of the banks.

Mrutyunjay M: I do not have current information but I will give it to you.

Nishant Rungta: Sir, thank you so much.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Securities Private Limited. Please go ahead.

Rakesh Kumar: Thank you Sir for taking the time out. Sir just a few questions like if you see the…

Moderator: Sorry to interrupt Mr. Kumar. Sir your voice is not clear.

Rakesh Kumar: Is it fine now?

Moderator: A little bit.

Mrutyunjay M: Yes. I think it is better. There is no tea cup near you?

Rakesh Kumar: Yes. Sir just a few questions like on the industry data, like we see lot of volatility in the numbers on the monthly basis, in the NBFC and HFC numbers, credit deployment number so what is exactly happening there?

Mrutyunjay M: No. You are seeing volatility in the market prices of these stocks or…?

Rakesh Kumar: No Sir. Sir the credit deployment being done by banks in NBFC and HFC..

Mrutyunjay M: No this is, I think if you take over a long period of time, what happened was that after the IL&FS crisis, and the CP renewal not happening, the NBFC sector… kind of net credit to NBFC sector shrunk for about let us say a little over one quarter, let us say about two quarters and suddenly, the facilitators and the systemic important nature of the NBFCs started getting reasserted both by the regulators as well as by the government and by the leading banks. So the NBFC the first vote of call for them were the pool sales and through pool sales, they were trying to recoup whatever liquidity that was required and they were
shrinking their balance sheet so whatever repayment was coming out of their assets that was not getting redeployed so the bank credit lines will not getting drawn. Now what has happened is that the growth in the economy which has become a concern now has again propelled NBFC as a major instrument in bring back economic growth. So as a result again in the banking sector, we are now – in my bank at least, we were never in fact when NBFC sector was being taken into the caution list or watch list by many of the banks, in our bank we have always considered NBFC as an opportunity because in Syndicate we believe that that we know this sector quite well, we have been traditionally very comfortable with this sector, very comfortable with some of the promoters groups. We have in fact additional appraisal skills to do some of the pool purchases and some of additional due diligence so we have been always open to the sector but to your question why in the banking sector we are seeing it as I told you because that the base went down during the two quarters, following the IL&FS crisis, and later on due to DHFL phenomenon, I think the deployment when down the velocity now it is picking up and that is why you are seeing this uptick.

Rakesh Kumar: Got it Sir. Secondly just intuitively I was thinking correct me if I am wrong, like if banking system has provided so much of support to NBFC and there is a bit of support from the regulator also, so with all that interventions keeping in mind, now is there a possibility of further one large account slipping on?

Mrutyunjay M: I do not know, I think you have some account in mind, I do not have liberty to mention it. There are a couple of names which are going in the market, but those names which you have mentioning all the banks as a whole and banks individually have subjected them to additional due diligence. Now capital adequacy and many of those names they have gone for accelerated rating review and rating agencies of all colors, right from CRISIL to ICRA to CARE, everybody has reaffirmed this and some of these analysts I have spoken to me individually, from their angle as to what exactly could go wrong. Now additionally I think because of the public hue and cry Reserve Bank of India has also accelerated their inspections cycle of NBFCs. So to my mind there is no cause of concern but we cannot let our guards down.

Rakesh Kumar: Got it. Sir do we see any stress in auto ancillary sectors right now?

Mrutyunjay M: Auto ancillary sector, see again I have gone and spoken during the recent outreach program, we have spoken to a number of dealers and in fact to one of your friends I told that the auto ancillary and auto sector to judge the sectoral slow down only basis of new car sales is wrong because the auto ancillary sector caters to the requirement of the original equipment manufacturers as well as the replacement and repair segment. So the car sales should be taken as new cars plus used car sales because when we asked the question to some of the
auto dealers, what they told us is that see the high segment cars that is cars costing above 10 lakhs, there is some slow down, but the cars between 5 and 10 lakhs the waiting list continued to be four to six weeks so that means and the first car ownership which is typically either an upgrade from a two wheeler or because the affordability has certainly go up because of demographic like paternal property sale or because suddenly the guy got married and both of them have now sufficient disposable income to buy a new car. There we are not seeing any slow down. So the auto ancillary segment except that some of them Maruti and all have reported a 16% slow down but this is not in the number of cars, it is more on the value cars, so I think the auto ancillary sector we have limited exposure but as I watched this market because people keep on asking this question I do not see that there is slow down in the auto ancillary.

Rakesh Kumar: And Sir has the net DTA come down, like CET number has gone up extensively, CET has gone up so just thinking why the CET has gone up?

Mrutyunjay M: CET has gone up because we have done it notional calculation, there is a profit.

Srinivasa Rao: Because our profit during this quarter, Rs.251 Crores that has got added and no impact on DTA calculation in this CET in this quarter.

Mrutyunjay M: We have in fact provided for our operating profit after whatever eligible provision, we have provided I think we have made a tax provision of Rs.90 Crores or something.

Srinivasa Rao: Rs.66 Crores.

Mrutyunjay M: Rs.66 Crores we have provided so there is no..

Srinivasa Rao: Net profit was taken for CET 1 that is why it has gone up.

Rakesh Kumar: Okay and thank you Sir.

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

Amit Singh: Thank you Sir. Thanks for this opportunity again. Firstly Sir on the Essar Steel case Sir, recently one of the bank reported that the Arcelor Group has defaulted in Uttam Galva, so Sir is there any, I mean does this issue raise the question of eligibility on this Arcelor Group on this Essar Steel transaction?
Mrutyunjay M: No actually we do not know one of your previous colleagues asked this question also. We will examine whether default in Uttam Galva is in anyway running into the Supreme Court judgment in the matter.

Amit Singh: Okay Sir when do we expect the final hearing to be in the Essar Steel case?

Mrutyunjay M: See we are expecting that it should have been held in the last quarter of last financial year, but we do not know because this is an evolving law and in fact during our discussions with the Corporate Affairs Ministry, the Secretary Corporate Affairs himself told that this is an evolving law and they are trying to bring in legislation to remove the road blocks. One is that clogging of the courts because of all accounts going to NCLT irrespective of value. Second is that the mandatory period even if it has been increased from 270 to 330 days, even then we are not seeing, they are also talking to different codes and the judicial authorities to bring some amount of unanimity in terms of approaching disposal of NCLT cases. So that is the way it is. We will have to watch and see.

Amit Singh: Okay. And Sir secondly Sir if you could give the number, I mean what is the outstanding exposure to the RADAG Group I mean the standard exposure.

Mrutyunjay M: Will give you just one second. We have a total exposure of Rs.2932 Crores, NPA is Rs.2215 Crores, standard is Rs.717 Crores.

Amit Singh: Okay and Sir where exactly this Rs.717 Crores is situated?

Mrutyunjay M: This Rs.717 our Reliance Home Finance is Rs.405 Crores, ROSA is Rs.298 Crores.

Amit Singh: Okay. And Sir lastly Sir you mentioned about the accounts STC and PEC, actually I could not hear that properly Sir if you could give the full name of the entity which you said as..

Mrutyunjay M: State trading corporation and project export corporation, so these are the two commerce department promoted entities, STC, MMTC and PEC were the three flagship companies to channelize project exports, mineral and metal exports and commodities export. So the State Trading Corporation and the PEC have both become sick and become NPS in our book on STC we have received, we had an outstanding up from the banking system of roughly around Rs.1695 Crores. We have already received the upfront payment of Rs.1100 Crores. They have given us real estate worth around Rs.400 Crores which is prime real estate we are in the process of disposing. Now say there is a proposal that there will be some transfer of funds between surplus funds from STC and other commerce department entities to PEC, and PEC has a banking system outstanding of around Rs.1400 to Rs.1500 Crores and this will be resolved during the remaining two quarters. They are being warmed up.
Amit Singh: So Sir you mentioned about the Rs.1695 Crores that is outstanding to the banking system and not to our banks specifically?

Mrutyunjay M: Not to our bank.

Amit Singh: Okay. Sir what would be exposure to our banks Sir?

Mrutyunjay M: Our bank was Rs.600 Crores.

Amit Singh: Rs.600 Crores this is in STC and what is in PEC Sir?

Mrutyunjay M: PEC is around Rs.500 Crores.

Amit Singh: Okay Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I will now hand the conference over to Mr.Chintan Shah for his closing comments.

Chintan Shah: Okay. Thank you everyone for joining the call. On behalf of Elara Securities limited, we thank you for joining the call and we thank the management for taking their time out. That is it. Thank you.

Mrutyunjay M: Thank you very much and we thank Elara Securities for organizing it so well. As usual every quarter we take your support. This was the limited window of about an hour in which we did question and answer but even then we are open. If you have any questions please mail it to us, we will be only too happy to answer. Thank you very much.

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