



## “Union Bank Q2 FY-23 Earnings Conference Call”

**October 20, 2022**

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**MR MEDA VENKATA BALASUBRAMANYAM – CHIEF GENERAL MANAGER (TREASURY &IB), UNION BANK OF INDIA**  
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**CONFERENCE CALL SERVICE PROVIDER:**



**Moderator:** Ladies and gentlemen good day and welcome to the Union Bank of India Earnings Conference Call for the period ended September 30<sup>th</sup>, 2022. hosted by Limited. The Bank is represented by the Managing Director and CEO – Ms A.Manimekhalai, Executive Directors – Shri. Nitesh Ranjan, Shri Rajneesh Karnatak, Shri Nidhu Saxena and other members of the top management.

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. Now hand the conference over to Mrs Ranjita Suresh – Assistant General Manager, Investor Relations. Thank you and over to you madam.

**Ranjita Suresh:** Good afternoon, ladies and gentlemen. I am Ranjita Suresh, Head of Investor Relations welcome you all for the Union Bank of India earning con-call for the period ended September 30<sup>th</sup>, 2022. The structure of the con-call shall include a brief opening statement by MD and CEO and then the floor will be open for interaction.

Before getting into the con-call, I'll read out the usual disclaimer statement. I would like to submit that certain statements that may be discussed during the investor interaction may be forward looking statements based on the current expectations. These statements involve a number of risks, uncertainties and other factors that cause the actual results to differ from the statements. Investors are therefore requested to check the information independently before making any investments or other decisions. With this I now request our MD and CEO for her opening remarks. Thank you. Over to you ma'am.

**A. Manimekhalai:** Good afternoon to all of you. At the outset let me wish you all a Happy Diwali.

Today we have come out with our results and coming to the Union Bank's business and financials for the quarter ended September 30 for FY2023. The Bank has continued to post strong financials as a total business has grown by 17.33% YoY. The total advances registered a growth of 21.92%. Within that the RAM sector has grown by 14.45% and domestic advances standing at 54.57% as against the corporate credit of 46%.

The total deposit has grown by 14.14% by YoY led by a CASA deposit growth of 9.42% YoY. The CASA ratio is standing at 35.63% as at September 30, 2022. The net interest income grew by 21.61% of YoY. The NII stood at Rs. 8,305 crores and the global NIM is 3.15% for the quarter ended FY2023. The operating profit of the Bank has improved by 8.29% YoY to Rs. 6,577 crores and the net profit is at Rs. 1,848 crores registering a growth of 21.07%.



MAT credit on this(Inaudible)income as well as the MAT credit. So, all this put together the (Inaudible) comes into whatever we have disclosed.

**Ashok Ajmera:** So, as a prudent measure you have taken, the MAT provision you have done but based on this final code judgement and these figures will be added in the profit of the Bank according to you, isn't it?

**Prafulla Kumar Samal:** Right, MAT we are contesting. There are different decisions, something in favor of the Bank, something against the Bank. So, that is there,that has gone to a larger bench of special bench of the tribunal. So, that itself will come as and when so there will not be much because we are paying MAT provision and taking MAT credit. So, much of things will not be there. Post that it will be nullified.

**Ashok Ajmera:** My second question is on this note #12 of the fraud account. Generally, all the Banks are giving the full numbers that how much was the profit this quarter, how much provided for, how much total provision has been made. Whereas in your case it is only has been given, has been provided for. So, in this quarter how much provision for the fraud accounts have been done beyond whatever has been carried forward about Rs. 1,100 crores something?

**Prafulla Kumar Samal:** What happens no when we declare any account in fraud soautomatically 100% provision is made. That is a defaultbut then as per our policy and whatever RBI has permitted the Bank, Bank has an option to carry forward the provision into four quarters and we do that whenever the fraud is there so these Rs. 1135 crores basically is carried forward.

**Ashok Ajmera:** In this quarter how much has been provided for?

**Prafulla Kumar Samal:** This quarter it may not be much. I don't have the figures right now because it gets settled into the hedging provisions actually. So, therefore, right now I will not be able to tell you exactly how much. But then I will tell you Rs. 1,135 crores which we are carrying forward is basically, in this there are two major accounts. One is ILFS Tamil Nadu which is basically a large account, Rs. 650 crores are there which will be fully provided in the next quarter, December quarter it will be fully settled in our hedging provision. So, it is totally going to be wiped out. Similarly, another large account is there, so going ahead, i in the next December-March quarter it will be fully absorbed.

**Ashok Ajmera:** My next question is on the recovery. Onthe recovery front about the Rs. 10,000 crores of target, can we have a clear picture now in these two quarters whatever happened and now going forward in the remaining two quarters where do we stand and are we increasing this target of recovery and what is the status of the NARCL now going to,I mean I believe that nothing has been done up to 30<sup>th</sup>September 2022. But going forward how many accounts and how much amount is going there?

**A. Manimekhalai:** Ajemraji, the guidance is Rs.15,000 crores for recovery and as on date we have done Rs.8,900 crores we have already recovered. We are keeping the guidance to Rs.15,000 crores. Regarding NARCL Ashok will explain this.

**Ashok Chandra:** As of now there is a visibility of three accounts which is already there in the public domain which has been EoI has been given by the NARCL and these three accounts we are there in these three accounts, so there are other two accounts where our exposure is not there. These three accounts our exposure is around Rs.1,000 crores and we are likely to get around Rs.444 crores.

**Ashok Ajmera:** Out of Rs.1,000 crores you are going to get Rs.444 crores.

**Ashok Chandra:** Yes.

**Ashok Ajmera:** No, that is the total this thing or it is including the cash.

**Ashok Chandra:** This is the total.

**Ashok Ajmera:** This is the total amount which you are going to get in.

**Ashok Chandra:** Correct.

**Ashok Ajmera:** Now coming in on this credit side growth, our pension amount as we generally see as much higher than the amount actually disbursed, especially in the corporate books. I would like to just have a little picture of that how much during the quarter we have sanctioned and how much during the quarter we have disbursed, especially in the corporate book. Going forward what is our plan to achieve this growth of 12% of the advances?

**A. Manimekhalai:** As on date we have got about unavailed limit of about Rs. 21,000 crores. So, sanctions to disposal is almost like 60% to 70%. Going forward we will be able to reach the target that what we have given to the range of 10% to 12%. We will be able to achieve that kind of growth numbers.

**Prafulla Kumar Samal:** So, as madam said, we have got some unavailed limit of Rs. 21, 000 crores. Other than that, we have got sanction limits, put together we will have around Rs. 50,000 crores of portfolio which we have. Maybe some of them are under recommendation, some of them are (Inaudible)so put together it will 50,000 crores of pipeline we have. We have a kind of clear visibility of credit growth in the coming quarters.

**Moderator:** The next question is from the line of Jai Mundhra from B&K Securities.

**Jai Mundhra:** There was a recent RBI notification on new rating norms wherein RBI has mandated that the Bank's name should be clearly mentioned in the rating document of the rating agency to get the

rating benefit. So, (a) just wanted to understand ma'am what is the intent behind the RBI, behind this circular and how are we practice, what are the normal practice as of now?

**Ashok Chandra:** Yes, to respond basically this is for large exposure accounts. What RBI has observed that in large exposure accounts the rating if say if it is Rs. 7,000 crores rating it does not mention which are the Banks for which this rating is, this Rs. 7,000 crores total rating. There may be a multiple Banking account which has 10 to 15 Banks or a consortium account which is having 12Banks. There is a short-term rating and a long-term rating. To obviate this what RBI is now saying to the rating agencies and Banks is, that you mention the name of the Bank for which the rating is ascribed for the amount which is given. This is the basic intent of RBI.

**Jai Mundhra:** If you have let us say three facility and maybe multiple facility that rating has to be there for each of the facility or it would be at single Bank level?

**Ashok Chandra:** What happens is normally sometimes it happens that say Union Bank has given a term loan of Rs. 500 crores and a cash credit of Rs. 200 crores, right. So, Rs. 700 crores exposure is there in our account and now we sanction another Rs. 400 crores of a term loan, fresh term loan. If that Rs. 400 crores term loan, additional term loan is not reflecting in the rating now henceforth then it will be an issue. Immediately the auditors will also catch it and others will also come to know that this Rs. 400 crores which we have given fresh is not covered. So, this is the basic intent here.

**Jai Mundhra:** Now after this circular gets implemented from March, in this case the rating document would have the clear detail of Union Bank in these three facilities, right? It would be facility wise or it would still be corporate level exposure?

**Rajneesh Karnatak:** Yes, it should be Bank wise total exposure. Further clarity is yet to come. Presently what we are presuming is Bank wise say State Bank has given to X company this much, Union Bank has given this much, Bank of Baroda has given this much, this kind of thing would be there. Another clarification which we are awaiting from RBI is with respect to whether though it will be kicking off from 1<sup>st</sup> April 2023 but there are certain ratings which will get due after 15 months as per RBI guidelines. So, will that happen, after the re-rating happens or do the Reserve Bank wants it to be effective in all ratings as on 1<sup>st</sup> April. That clarification is yet to come from RBI.

**Jai Mundhra:** On interest income this quarter; there is a very strong loan growth and there is a very strong interest income growth, interest income on loans. I just wanted to check so it has gone up from Rs. 12,000 crores to Rs. 13,800 crores. Is there any one off or is there any component which has come from NPA recovery and has now become a part of the interest on advances?

**A. Manimekhalai:** I was just telling you that about Rs. 700 crores has come from NPA recovery in this amount. In that Rs. 13,811 that you're seeing about Rs. 700 crores has come from NPA recovery.

**Jai Mundhra:** Rest is all business-as-usual right, in the normal interest?

**A. Manimekhalai:** Yes, absolutely.

**Jai Mundhra:** Ma'am in your guidance slide while we have done very well, it looks like either you have not updated the guidance or I'm not able to understand that advances growth so far is 21.9% and we are still maintaining like 10%-12% range. Do you see a very sharp deceleration in the business growth in the second half or how should we look at the advances growth and same as the GNPA number that you have put out?

**Rajneesh Karnatak:** No this is only a mathematical thing, situation which is there. The 20% growth of advance which we are seeing now is year-on-year. We are comparing it from September '21 to September '22. September '21 our advance was not elevated actually. The growth has happened post March actually it happened in March. The acceleration happened in December '21 then March '22, then June '22. Now it has been growing in the last three quarters. March '23 guidance we are keeping at 10 to 12 because our March '22 advance was elevated so it has already started picking up. The percentage growth in March '23 we are that is why keeping at a rate of 10% to 12% only.

**Jai Mundhra:** Our core CET1, Tier 1 number that you have put out, this includes the first half PAT or it does not include the first half PAT?

**Prafulla Kumar Samal:** No, that doesn't include the PAT.

**Jai Mundhra:** I missed that.

**Prafulla Kumar Samal:** It doesn't include the profit. Profit, quarterly profit we don't take.

**Jai Mundhra:** This is including or not including?

**A. Manimekhalai:** It is not including Jai.

**Moderator:** The next question is from the line of Nitin Aggarwal from Motilal Oswal.

**Nitin Aggarwal:** I'll take forward from this guidance side again. The first half growth is already 10%. So, when we look at by March of course there's an elevated advances number and we did see advances growth picking up last year in the second half. But over the March closing we are already up 10% and so which is where if you can indicate as to what sort of say some of these key operational numbers like margins, asset quality and advances growth; are we really looking for during FY23 because we are tracking significantly ahead?

**Rajneesh Karnatak:** As far as guidance is concerned, we are keeping the guidance at the same number. Reason being that is a lot of geopolitical and other issues which are there in the market. So, factoring that we are not changing the guidance at present.

**Moderator:** We will take the next question from the line of Anand Laddha from HDFC Mutual Fund.

**Anand Laddha:** Just wanted to understand our NII includes Rs. 700 crores of interest recovery from NPA. If I had to exclude the same then our NII is almost slagged this quarter on a Q-o-Q basis. So, just want to understand despite the RBI repo rate hike we haven't seen any margin improvement for us. If you can give some outlook on NIM side?

**A. Manimekhalai:** NIM is almost 3.15% for this quarter and we have kept the guidance to 3%. The repo whatever the 190 basis points that RBI have given us, that has been factored into in our repo linked rate 190 basis points EBLR has been already passed on to the customers and to MCLR to the extent of 65% which has already been passed on and our yield on advances has also improved to 7.65% for this quarter and going forward we will see because this things came only in this quarter in the last 2 months of this quarter. Going forward we will see some increase in our interest on advances.

**Anand Laddha:** Ma'am, if I had to remove this Rs. 700 crores you indicated, which is the recovery of interest on return of asset, if I had to remove that because that's one off then our NIA growth has been almost like flat QoQ.

**Ashok Chandra:** Yes. In fact, if you see the last quarter the factoring of the interest recovery in the NPA, last quarter also it was Rs. 600 crores was there. So, every quarter if you see the recovery through the NPA account in the interest component, that is around Rs. 600 to 700 crores.

**A. Manimekhalai:** In September '21.

**Ashok Chandra:** So, September also you want, see, September '21 it was around Rs. 340 crores.

**Anand Laddha:** Okay. Same quarter last year was Rs. 640 crores. This quarter it is Rs. 700 crores.

**Ashok Chandra:** Yes. That component is constant. I think it is in the range of around Rs. 600 to 700 crores. That component will continue in the next quarter also. So, it is not one-off item. It is like your interest income on the standard assets also.

**Anand Laddha:** If you can give some, this quarter the slippages are quite low. If you can give some outlook for the full year slippages, how do you see that? Do you see this run rate of current quarter sustainable for us? And also if you can give some outlook on provision cost for us?

**A. Manimekhalai:** See the guidance is, you know, the slippages will be to the extent of 3%. That is what we want to keep it. 2% is what we want to keep, and this time the slippages were to the extent of

Rs.2,913 crores. And we are hopeful that we will be able to reduce this number going forward. The slippages what we are seeing is, you know, stresses what we are seeing is only in MSME book and retail. And retail slippages are not coming up. Only in MSME book and Agri we are seeing some slippages, which we will be able to reduce further.

**Anand Laddha:** And despite that you wanted to keep your guidance of 3%. I think you will end up this year with the 2% slippages run rate.

**A. Manimekhalai:** Yes. We hope to reach that number.

**Anand Laddha:** Okay. But this quarter the recovery and upgrades were higher than the slippages.

**A. Manimekhalai:** Yes.

**Anand Laddha:** Do you believe that this is sustainable for us? What sort of recovery upgrades we expect for the full year?

**A. Manimekhalai:** See, we were looking at Rs. 15,000 crores of, you know, upgradation and recovery for the whole year FY '23 and slippages to the tune of Rs. 13,000 crores. That was the guidance given. So, what we have done is for this H1 FY '23, we have done Rs. 8,900 crores of recovery and about Rs. 6,000 and odd crores of slippages. So, we will be able to reach the guidance that what we have given. My slippages will be below the recovery and upgradation, much below that.

**Anand Laddha:** And lastly, on the tax rate side, we are on the new tax regime or we are still in the old tax regime?

**A. Manimekhalai:** We are in the old regime only.

**Anand Laddha:** By when do you believe we will move to the new tax regime?

**Prafulla Kumar Samal:** Sir, we are reviewing that. Current year also our current year's liability is now going to be (Inaudible). We are also writing a lot of loans. So, we will remove this next year. This year we are moving to that tax regime, but our tax will be very, very minimum. Next year we will remove and let you know.

**Anand Laddha:** And, ma'am, for us this year first half if I see the loan growth, a bulk of the loan growth has come from the corporate sector. If you can give some color, which sector have the growth come in, demand has come in?

**A. Manimekhalai:** Yes. The, you know, RAM also has grown to an extent about 14.95%, and this has grown by 21%. The corporate book has grown by about 21%. You know, the growth has come in the

corporate sector with regard to infrastructure. Funding has happened on NBFCs. We have seen some growth on chemical. We have seen some growth in steel and pharma and cement also.

**Prafulla Kumar Samal:** Textile.

**A. Manimekhalai:** Textiles we have seen some growth.

**Anand Laddha:** Perfect. And do you believe that quarter-on-quarter from here on the growth will decelerate significantly?

**A. Manimekhalai:** Yes. But our guidance says that we want to keep our corporate books at 40, RAM at 55.

**Moderator:** Thank you. The next question is from the line of M. B. Mahesh from Kotak. Please go ahead.

**M. B. Mahesh:** I have two questions, ma'am. One is, there has been a sharp jump again in the international loan book. If you can just kind of give us some color, what is the nature of these exposures that you are taking today, and whether they have some linkages back to Indian corporate out there?

**A. Manimekhalai:** You are talking about the, you know, our overseas business. There has been a sharp jump in the advances in the overseas book. That is the question. Yes. That is what. Bala, my IB – Chief General Manager is replying to your question.

**M. V. Balasubramanyam:** Mahesh, this is basically, we didn't offset any of the like Indian or like that we don't have any differentiation. Basically, these are syndicated loans, and much of the new factors are from the banks basically to talk one of the prime banks we have given the majority of that. Of course, there are one or two India-based companies also ECB loans they have given during this particular half year.

**M. B. Mahesh:** Sir, these exposures that you take, how, what is the kind of duration that you typically take on these loans?

**M. V. Balasubramanyam:** Yes. On an average, we are taking around 3 years, not beyond 3 years. We have requests at around 5 years also, but we are not taking that.

**M. B. Mahesh:** Average payout is 3 years.

**M. V. Balasubramanyam:** Yes. Average payout is 3 years.

**M. B. Mahesh:** Ma'am, second question to you. There is about Rs. 1,500 crores provision on standard assets this quarter. What is that pertaining to?

**Prafulla Kumar Samal:** Sir, these are relating to standard asset provision mostly relating to certain large corporate accounts where there are some delay in resolution plan implementation because there are accounts in multiple banks. These accounts there are exposure in multiple banks, and as per the

RBI circular which says that when there is a default and the bank has to put in place a resolution plan. So, basically these are certain large accounts which we have done as per the RBI guidelines.

**M. B. Mahesh:** So, you mean to say that these are NPAs currently in your books or these could potentially become an NPA?

**Prafulla Kumar Samal:** No, no, there is no NPA. There is no NPA.

**Ashok Chandra:** But just to clarify, all these accounts are either consortium account or multiple accounts, and they are getting the 7 June 2019 circular wherein there is in out of SMA in the CRILC. So, that is where the RBI observation was to make provision in these accounts, and these are all common industry accounts where other banks are also there.

**M. B. Mahesh:** But that number seems to be fairly large, right? Because if you are saying it's -

**Ashok Chandra:** No, entire part is not for those accounts. So, this entire provisioning is not for those accounts. There is a normal standard provisioning also .25, .4, 1% also, and some COD provisioning also where the infrastructure projects where we extend the COD. We want 2 year. We have to make 5% provision. So, all these combined together is this figure of Rs. 1,400 crores.

**M. B. Mahesh:** And my final question, wage settlement, do you start making provisions from next quarter? How, what is the thinking behind that?

**A. Manimekhalai:** November, no, December quarter we will start making provisions.

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

**Suraj Das:** Most of the questions have been answered. Only couple of question. In your DTA book, what would be the total outstanding accumulated losses, if you can give us the figure?

**A. Manimekhalai:** DTA accumulated loss.

**Prafulla Kumar Samal:** As of now our accumulated before tax balance is Rs. 10,335 crores.

**Suraj Das:** Rs. 10,000 crore is the total DTA book. What would be the accumulated losses, total accumulated losses?

**Prafulla Kumar Samal:** No, we don't create any DTA on accumulated losses. This is not an accumulated losses. Basically, the difference comes from all of the provisioning because whatever bad debt provisioning we made in our book, everything is not available for income tax. That's the reason they are difference come. We don't create any DTA on losses.

- Suraj Das:** But you would be having some accumulated losses on your book, right, even if you don't have DTA on that, but you still have some accumulated losses on your book, right?
- Prafulla Kumar Samal:** That is there. But we will take very conservatively. So, it is now around Rs. 3,000 crores of accumulated losses are still there to set up against our absolute income on a conservative basis.
- Suraj Das:** Rs. 3,000 crore that is you were saying?
- Prafulla Kumar Samal:** Rs. 2,900 crores.
- Suraj Das:** Understood. And now in the ECLGS book, which is roughly around 16 billion, so what would be the GNP or delinquency here in this book on the ECLGS?
- A. Manimekhalai:** 3.5% is the NPA. Our ECLGS book 3.5% is the NPA, and same amount at the stress also.
- Suraj Das:** And the last question from my side would be on the restructured book. So, you have given restructuring 1.0 and 2.0 figures. Is there any other restructuring number which is pertaining to previous earlier MSME scheme or CDR, SDR or anything outside these two numbers?
- A. Manimekhalai:** No. RF1 and RF2 numbers we have given. This is only restructured book that we have got. And onetime restructuring also under COVID, that also we have given you. There the gross advances, the percentages to gross advances is 2.6%.
- Suraj Das:** So, this Rs. 20,000 crores, this is the total restructured book for the bank.
- A. Manimekhalai:** Yes.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.
- Rishikesh Oza:** Sir, only one question from my side. Please indicate on the tax rate for H2 FY '23.
- Prafulla Kumar Samal:** FY '23 is normal tax rate. We are in the normal tax regime.
- Moderator:** The next question is from the line of Rakesh Kumar from Systematix Shares. Please go ahead.
- Rakesh Kumar:** Just two questions I have. Firstly, if I see the domestic investment book, you know, the yield has gone up by around 10 bps, 10, 11 bps, and in the first half or maybe from the June to September also the movement is just around 15 bps. We are holding the duration of around .5years on the SLR side, and the majority of the investment book would be SLR itself around 90% plus. So, why that, you know, we have seen in the market that, you know, yield movement is pretty sharp on the shorter end. Why our yield has gone up by just around 13, 14bps? So, what is the reason behind it?

**Management:** These are all short end duration Treasury bills which don't have any much impact on the yield movement. Our portfolio 60% consists of the Treasury bills. That is why the duration is very low. So, impact on the short end curve though moved up, but Treasury bill yields have not gone up such an extent. That is why we are not having much impact on the MTM portfolio as well as on the interest rate yield curve.

**Rakesh Kumar:** No, sir, I was not referring to the MTM losses. That would certainly not be there if it is FRB or if it is a Treasury bill. I was referring to the yield movement in the system, and our yield movement on the domestic book is just around 10, 13 bps, though the yield movement in the system is much, much higher. So, if you see the 364 days T bill, it has gone up by around 50, 55 bps in this quarter itself. So, why our yield movement is not reflecting what is happening in the system, because if the duration is so low, we would have churned the book also?

**Management:** Yes. These Treasury bills are 91 days and 180 days. The majority of our 60% of the portfolio is Treasury bills. So, it has got matured and it has been replenished with the new 91 days T bill. So, the impact will be 15 to 20 bps only.

**Rakesh Kumar:** Sir, the next question I had on this slide #16 that has given on a corporate loan rating, so we have Double B and below of around 11%. So, out of this 11%, what would be the number of, you know, percentage of loan which are actually not rated, like some of the government SEBs and all? And what is the remaining portion?

**A. Manimekhalai:** This 11% of the Double B and below are mostly MSME loans, and this is all covered under the CGTMSE. So, you cannot say that, you know, there are not unrated ones.

**Rakesh Kumar:** These are rated, but rated Double B and below and are covered under the CGTMSE.

**A. Manimekhalai:** CGTMSE, yes.

**Rakesh Kumar:** All, all loans?

**A. Manimekhalai:** Yes. Some portion must be the personal loans also, but these are all loans that we give to salaried employees or where the account is with the bank itself for quite some time. And this is through an SEP journey that we have given these personal loans. But majority almost 90% of the Double B and below are MSME loans only.

**Moderator:** As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

**A. Manimekhalai:** Thank you everyone for the insightful discussions. We are grateful to the analysts and the investor fraternity for their continued support and feedback that helps us to take informed decisions in our journey towards efficiency and profitability. Once again, wishing you all happy Diwali. Thank you all of you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Union Bank of India, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.