

“Union Bank of India
Q2 FY2019 Results Conference Call”

October 29, 2018

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Moderator: Ladies and gentlemen, good day, and welcome to the Union Bank's Q2 FY2019 Earning Conference Call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Rakesh Kumar from Elara Securities. Over to you and thank you Sir!

Rakesh Kumar: Thanks, Janice. Good evening, everyone. Firstly, at the outset, I would like to thank Union Bank management to having given us opportunity to host the call.

We have on the call, Mr. Rajkiran Rai G., Managing Director and Chief Executive Officer; Mr. Raj Kamal Verma, Executive Director; Mr. Atul Kumar Goel, Executive Director; Mr. Gopal Singh Gusain, Executive Director; and other senior management team on the call.

I would like to request CFO, Sir, to read the disclosure statement, and thereafter, we can start with a brief presentation, and lastly, Q&A session.

I would like to hand over the call to the CFO, Sir.

B. Sreenivasa Rao: Good evening, everyone. Before getting into the con call, I will read out the usual disclaimer statement. We would like to submit that certain statements that may be discussed during the investor interaction maybe forward-looking statements based on the current expectations. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ from the statements. Investors are, therefore, requested to check the information independently before making any investment or other decisions.

I would now handover to our MD and CEO, who is joined by executive directors and senior management team. Over to you, Sir!

Rajkiran Rai G: Good evening. It is a pleasure and privilege to welcome you all on second quarter financial results of Union Bank of India for the financial year 2018-2019. Your analysis and feedback makes important input in shaping our business. On behalf of Union Bank and my personal behalf, please accept my gratitude for the same.

Dear friends, I have structured my remarks in three sections. Firstly, I will begin with an overview of developments in milieu, which will set the context for business and financial to be covered in the next section. It will be followed by an update on structural initiatives being undertaken, which will lead to concluding of remarks with the guidance for the remainder of the year.

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Macro overview. It has been really happening quarter with microeconomic positives nearly outweighed by rising concerns in financial markets. Firstly, GDP growth numbers for first quarter signaled recovery gaining hold across sectors, with demand side high-frequency indicators showing consumption and investment both gaining pace in the second quarter. On the other hand, financial markets witnessed a sharp reversal of prospects with reassessment of asset liability mismatches, during liquidity concerns around the NBFCs. External sector challenges in terms of crude and currency did not help their cause either. Encouragingly, the resemblance of normalcy returning on external front, but I hope would soon start reflecting in financial flows.

Coming to banking sector, banking aggregates noticed smart uptick, though sectoral deployment of credit remains uneven. Resolution of stressed assets took some definitive advance with a few big-ticket exposures leading to conclusion.

Speaking of business and financials of Union Bank, I am happy to share that the Bank made strong gains on asset quality, closing the quarter with lower stressed assets both in absolute terms as well as ratio terms. It is result of lower slippages, which declined 43% sequentially to Rs.2667 Crores, while recovery and upgradation total stood at Rs.1615 Crores. Of the recoveries, Rs.111 Crores came off accounts resolved through NCLT. Bank has written off Rs.1868 Crores during the quarter. We have sold 2 accounts ARCs amounting to Rs.400 Crores.

Accordingly, gross NPA and net NPA as ratio to advance stood at 15.7% and 8.4% respectively. Business growth was as per our guidance. Credit grew 2.8%, while deposits rose 3.4% on annual basis as of end September 2018. On average basis, however, credit growth stood at 5.9% while deposit growth stood at 7.2% implying steady momentum during first half of financial year 2018/19. CASA share stood at 35.3% while RAM sector share and loan stood at 54.2%. The Bank opened 16,000,00 new customer accounts during the quarter, which bolstered our liability franchise.

Speaking of financials, the net interest income rose 7.5% year-on-year to Rs.2,494 Crores. Meanwhile, other income declined on account of mark-to-market losses in the wake of rising yields. Equity market volatility too culminated in lower treasury gains. Operating expense's growth remained contained meanwhile. Operating profit stood at Rs.1,772 Crores, while net profit stood at Rs.139 Crores. The provisioning coverage ratio rose to 57.7% as of end September 2018.

Our capital-light growth reflects a decline of risk-weighted assets during the quarter. The RWA to advance in ratio stood at 87.3% as of September 30 as against 93.6% a year ago. Capital adequacy ratio stood at 11.55%, within which Common Equity Tier 1 stood at 7.54%. The Bank has shareholders' approval for raising Rs.7,400 Crores during this financial year.

This brings me to the third section of my remarks, an update on structural transformation initiatives. You may recall that in my previous interactions, I had talked about centralization of credit

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underwriting to select transit, to improve quality of assets as well as freeing the front transit of cross-sell and upsell. We have set a target of 80% credit processing to be centralized through select 200 centers, specializing in corporate, emerging corporate, MSMEs, retail and letters of credit. I am happy to share that we have achieved 74% centralization of credit as of end September 2018. There are 8 specialized branches focusing on large corporates, 23 mid-corporate branches, 45 SARALs, which are SME-focused processing units and retail-focused 73 Union Loan Points and agriculture focusing 19 unions under the Kendra.

On sourcing of new business, a total of 63 fully functional teams or specialized sales personnel are pursuing institutional business in a focused approach. We have formed a specialized setup on monitoring integrated approach, both people led and then technology enabled. Early results are reflecting in lower slippages as well as sequential tapering of Early Warning Signal and SME portfolio. The early warning system developed in-house identifies stressed even 3 months before an account surface as SME, thus giving us 6 months space to work for resolution. The Bank is adding new capacities for collections and we will launch it soon.

Some of our HR initiatives, especially the development of leadership pipeline have come to fruition and we are finding good results on redeployment. Encouraged by response, the Bank is broadening its ambit by introducing the concept of job families. Put simply, the whole workforce will be groomed in such a way that they develop functional expertise in few domains while having broad understanding of others. The benefit of it is that the Bank can use the trained resources for the purposes they have acquired specialization. It will levy on the paradigm of learning on the job.

Friends, we are stepping into our thunder years soon, and accordingly, the whole Bank is gearing up to make it memorable one. We have planned a series of initiatives, both customer-centric as well as internal in synergy our goal for the year, and we're updating as we go along. We see credit demand improving, benefiting of gathering momentum in the economy. Union Bank is ready with the distinct structures and process to harvest the increased flow of our business with better efficiency.

Let me conclude by sharing our guidance for the remaining of the financial year. We expect deposit growing at 8% to 10%, while advance growth to be around 7% to 8%; NIM to be around 2.25% for the quarter ended March 2019; cost-to-income ratio in the range of 46% to 48%; provision coverage ratio to be around 60% as of end of March 2019; delinquency to be around 3.5% and credit cost to be around 2.25%, to contain gross NPAs below 12% and net NPAs below 6% by March 2019.

Thank you. Now we are open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. We will take the first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

- Mahrukh Adajania:** Sir, how much portfolio have you bought from NBFC in October -- the HFCs, I mean?
- Rajkiran Rai G:** Up to now we have sanctioned Rs.2500 Crores.
- Mahrukh Adajania:** On portfolio buy out?
- Rajkiran Rai G:** We have planned to go up to Rs.5000 Crores.
- Mahrukh Adajania:** Oh, but you have already bought Rs. 2500 or it is just sanctioned?
- Rajkiran Rai G:** We already bought.
- Mahrukh Adajania:** Already bought. Okay. Sir, in Essar Steel what is your provisioning, how much would you recover going by the current rates whatever is in the media?
- Rajkiran Rai G:** Actually on the outstanding book it is about 65% on Essar, on outstanding book.
- Mahrukh Adajania:** Essar Steel?
- Rajkiran Rai G:** Yes correct.
- Mahrukh Adajania:** Okay Sir.
- Rajkiran Rai G:** One minute. It is 50% madam. Sorry, overall it is 65%. Essar is 50%.
- Mahrukh Adajania:** 50% and Sir how much of in general in the second half what is the amount of recoveries you are expecting from NCLT?
- Rajkiran Rai G:** NCLT. Actually it can be close to Rs.3500 to Rs.4000 Crores for our bank.
- Mahrukh Adajania:** What will be the write-back?
- Rajkiran Rai G:** Write-back, actually I think I think we expect only in the Essar, other cases I do not see, Uttam Galva is one case actually that way where we have received full recovery in October not factored in the second quarter results. So, put together write-back can be close to around Rs.1000 to Rs.1200 Crores, write-back, on the provision side.
- Mahrukh Adajania:** How much?
- Rajkiran Rai G:** Rs.1000 to Rs.1200 Crores.

- Mahrukh Adajania:** Rs.1200 Crores. Sir, anything recovered in Q2?
- Rajkiran Rai G:** No.
- Mahrukh Adajania:** Nothing?
- Rajkiran Rai G:** No, nothing.
- Mahrukh Adajania:** Sir, my last question is on the power resolution. There is a court hearing in the Supreme Court, but after the Supreme Court thing there is not much talk about resolution going ahead, right? So what is the scene on power resolutions now? Those 11 cases of which 7 power assets were going to see new buyers?
- Rajkiran Rai G:** Yes actually there were two to three cases where there were buyers where I think one case our Bank has given the approval also, but then all the lenders I think it is taking sometime actually, approval. So we have not seen the money even though we have approved.
- Mahrukh Adajania:** But not a single case has been resolved right Sir?
- Rajkiran Rai G:** No, not as of now.
- Mahrukh Adajania:** Thank you so much. Thanks.
- Moderator:** Thank you. We would take the next question from the line of Jay Mundra from B&K Securities. Please go ahead.
- Jay Mundra:** Thanks for the opportunity. Sir, firstly on, if you can share the movement of SMA-2. So last quarter, we had an SMA-2, particularly in corporate, was somewhere around Rs.1,500 Crores. And this quarter, we have seen corporate slippages of around Rs.1,200 Crores. So just wanted to understand this Rs.1,200 Crores is a subset of that Rs.1,500 Crores? Or how should we read that?
- Rajkiran Rai G:** Partially yes actually, but then this has moved up slightly, but then we analyze, actually like I was also surprised when the numbers went up. It is like Punjab FCI exposure also is coming into us, say around Rs.900 Crores so this numbers are fluctuating a bit, but then right now the corporate SMA-2 is around Rs.2500, it has moved up slightly, but then we do not see any stress in these accounts. So slippage also it came partially from SMA-2, partially came from outside also. Not fully from that, but then this is not any indicative of the fresh slippages. At this point of time, it has become very small, actually most of this SMA-2s are technically.
- Jay Mundra:** Sure and what is the total SMA-2 number Sir. Last quarter it was around Rs.10100 Crores?

- Rajkiran Rai G:** It is around the same number even now, same number, but the corporate has moved up a bit.
- Jay Mundra:** Secondly Sir we have more disclosure on the rating profile, just wanted to understand, the base of this rating profile is it gross loan or this net loan?
- Rajkiran Rai G:** Gross.
- Jay Mundra:** That is gross right?
- Rajkiran Rai G:** Gross. That is gross.
- Jay Mundra:** Okay, then Sir if you can share the number in terms of absolute number of that base that would help because if it is gross number then it will not be comparable with the net advances or as a percentage of residual stress?
- Rajkiran Rai G:** Right. I can give you the number also.
- B. Sreenivasa Rao:** We have given the percentage in the presentation. So we are making two slides, one for the total NBFC and another for the HFC.
- Jay Mundra:** No Sir. The total overall one?
- Rajkiran Rai G:** That is rating profile, is like gross number, you have to know...
- Gopal Singh Gusain:** That is the breakup of Rs.318000 of gross advances of that of the rated pool corporate advances that is the distribution.
- Rajkiran Rai G:** What is the rated pool he is asking?
- B. Sreenivasa Rao:** If you take out unrated you will get the number. We will give you that information.
- Gopal Singh Gusain:** Gross number is Rs.150000.
- Jay Mundra:** Okay.
- Gopal Singh Gusain:** That is the distribution of Rs.150000 of corporate loan.
- Rajkiran Rai G:** This was the corporate book.
- Jay Mundra:** Okay. Sure Sir. Last question on this restructuring books because the increase is mainly due to Kerala floods is it?

B. Sreenivasa Rao: Yes, that is on account of otherwise there is no case of restructuring because this was the reason of increase in restructuring book.

Jay Mundra: Thank you so much. I will come back in the queue. Thank you.

Moderator: Thank you. We will take the question from the line of Adarsh T from Nomura. Please go ahead.

Adarsh T: Sir, a question on your coverage and CET1 and how you plan to grow right, the 7%, 8% loan growth number. Sir, your coverage in the last 2 quarters you have reported profit, but it is still slack at about numbers at about 50-odd percent, and which means that it will need to go up, and when that happens, it eats into the capital ratios, and you are still guiding to a 7%, 8% loan growth. So if you can explain where, because most banks talk about taking the coverage without written off accounts to 60%, 65% at least if not more. So when that happens at our NPA base, certainly, we could have some quarters of loss that we may end up reporting. And in that context, the CET1 still is 7.5%, so why even grow at 7%, 8%?

Rajkiran Rai G: Okay. On the capital side, we are expecting some capitalization mostly this quarter or maybe the last quarter, so we are in discussion with the government. Because, you are right that we need some growth capital now, plus then there is a Basel III requirement coming up of another 0.625. We need to be CET1 particularly at 8%. So we have a gap there, and we are very hopeful that we may get some idea of kind of capital we are getting. So with that, assumption, we are planning 7% to 8% growth. And maybe, like this quarter itself we will like get an idea on how much capital we are getting as one part. And on the NPA provisioning side, yes, we are slightly behind curve compared to peers. But then if you look at the tangible BCR, we are already at 50%. And this is close to most of the peers. And gradually, it will move up. Actually, if you see, gradually, we are increasing this coverage and we may have some more comfort when these NCLT resolutions are happening. Some unlocking of provisions will further help us to increase this provision. We will gradually build up this provision. Yes, there is a gap, but then I don't think we may have to incur losses to cover the provisions. That may not be the requirement, because the resolutions are taking its own time, so next 3, 4 quarters, I think we should be able to match all other peer banks on the tangible BCR side.

Adarsh T: What kind of capital are you expecting?

Rajkiran Rai G: Actually, our requirement, like we have disclosed, that we can raise up to Rs.7,400 Crores of capital. Out of that, Rs.6,800 Crores can be the CET1 capital. This is what we have taken the approval and put. It actually, like when we plan, we keep a cushion of 1% over the regulatory minimum. But then, we do not expect that kind of capital will come. But then we are expecting a decent capitalization for about 10% growth and for meeting that 8% minimum. So I cannot disclose the number as of now. But I can safely say that we will get capital to meet that 8% requirement and for a growth of about 10%.

- Adarsh T:** Sir, the only problem with that is you are keeping diluting at a very bad valuation, right? So the issue is that your market cap today is Rs.8,000 Crores, and it gets quite tough right, even if you get Rs.3,000 Crores, Rs.4,000 Crores of capital, it will be 50% dilution at current prices. So why not just cut growth, take less capital, right? That is the best option that you may have.
- Rajkiran Rai G:** That is an option, but we will see. At this point of time, like there is a trend, but then as we go along like looking, see, once the government decides the capitalization and if the share prices are at the same level, then we can look at it. But then we expect that prices may be at more reasonable levels when the capitalization comes.
- Adarsh T:** Thanks a lot.
- Moderator:** Thank you. We would take the next question from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** Sir, first question is what is the IL&FS exposure and how much provision we have done?
- B. Sreenivasa Rao:** Madam, actually, we are having the total exposure of around Rs.1,093 Crores. And as on date, all the account are standard because we have the major exposure of one of the SPV of the IL&FS Group, no direct exposure, much exposure in the company. 817 Crores is the exposure on the power SPV of the IL&FS. And that is standard paying time, no provision we have made, all the account our standard.
- Sneha Ganatra:** Okay. Second question is, during the quarter, there was a huge write-off. Considering the past trend, anything to look into? Or how we see the trend of the write-off going forward?
- Rajkiran Rai G:** It is a very normal thing. Actually, it is a balancing thing. Because we had 100% provision accounts, so we just to, as a cleaning measure, keep the book clean. There is no other thing. It is a very normal thing for us just to clean the book.
- Sneha Ganatra:** Okay. And what is the slippages guidance for the next 2 quarters?
- Rajkiran Rai G:** I think, see, overall, we are still maintaining a guidance of 3.5 on the slippages. I think we should be able to manage that.
- Sneha Ganatra:** Okay. When you are mentioning your margins at 2.5, would we like to see the rationale that margins would be good, because current quarter where margins are being under pressure?
- Rajkiran Rai G:** 2.25, not 2.5 madam. 2.25.
- Sneha Ganatra:** Yes. 2.25.

- Rajkiran Rai G:** Yes. See, if you look at the first half-year, we are already at 2.22. And if you look at the system, now today, the pricing power is back with the banks. So we are consistently doing it, even the last quarter onward. It is already showing up. So I think 2.25 should not be issue when the full year comes, because most of these loans are priced as per there is pricing now, close to list price.
- Sneha Ganatra:** Okay. And the last question is on the fee income side. Have we taken them off the initiative to grow more amount of the fee income as this quarter has been slightly dipped?
- Rajkiran Rai G:** Yes. We have taken initiatives, actually. But then, see, fee income mostly come from the non-fund based limits. So if you have seen actually these LCs, business had slowed down a bit because of internationally also and domestically also. I think now, it will start taking off. I think we have seen that plateauing, so I think now we will see an improvement.
- Sneha Ganatra:** And just last question on NBFC, are we continuously lending on the NBFC? Or is there any sectoral gap we have kept for our bank also?
- Rajkiran Rai G:** There are sectoral gaps, but we have a space for lending to NBFC. But at this point of time, we have slowed down on the direct credit to NBFC, because we need to assess 2 things. The asset liability mismatches, which may be there in their books, and plus kind of the riskier assets they hold in their books. So that assessment is going on before we take the further credit call. But we are going ahead with a portfolio purchases, because this is done after a proper scrutiny. These are mostly mortgage-backed. So this time, we have planned that we will buy up to Rs.5,000 Crores of portfolio in this quarter.
- Sneha Ganatra:** Thank you.
- Moderator:** Thank you. Next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.
- M.B. Mahesh:** Good afternoon Sir. Just a reconfirmation of the previous question. You said the IL&FS exposure that you have is approximately about Rs.1,093 Crores, of which Rs.817 Crores is your exposure to the power subsidiaries?
- Rajkiran Rai G:** Yes.
- M.B. Mahesh:** And this asset currently is repaying on time, there is absolutely no issues at the plant?
- Rajkiran Rai G:** No issues.
- M.B. Mahesh:** Okay. And of the balance, which is roughly about Rs.200-odd Crores, what is the kind of exposure out there?

- Rajkiran Rai G:** There is small one road project, one to the parent company. It is all Rs.75 Crores, Rs.80 Crores that kind of exposures, both fund-based and non-fund-based.
- M.B. Mahesh:** Would you have any number on what would be your Holdco exposures that you are sitting with?
- Rajkiran Rai G:** Holdco exposure is Rs.75 Crores, and their financial services is another Rs.75 Crores.
- M.B. Mahesh:** At the Holdco's in both these places?
- Rajkiran Rai G:** Yes.
- M.B. Mahesh:** So total together is about Rs.150 Crores, which is actually?
- Rajkiran Rai G:** Yes. That is all.
- M.B. Mahesh:** Okay. And second question, of this Rs.1,220 Crores of slippages that you reported on the corporate side this quarter, what are the major sectors that you have reported around that?
- Rajkiran Rai G:** Major sector is, it is construction, EPC and real estate.
- M.B. Mahesh:** Okay. Any numbers around this?
- B. Sreenivasa Rao:** Any, no big number. If you ask me, I'm not giving the NIM. But the highest the exposure is Rs.150 Crores.
- M.B. Mahesh:** Okay. And your total exposure that you have towards the real estate side?
- B. Sreenivasa Rao:** Total exposure to the real estate? Just a minute.
- M.B. Mahesh:** It is okay. And my last question is, Sir, we have started to hear a fair amount of action in the distressed asset market where people have started to? Distressed assets. Just wanted to understand, when we speak to them, they seem to be indicating that banks are a lot more open in selling assets today. Just wanted to understand on a cash basis, what has been your experience so far? And how do you see it moving if the NCLT cases resolution takes much longer than what was expected?
- Rajkiran Rai G:** Yes. Actually, like, this interest comes in particular assets, so it is not like there is not a wide ranging offer, it is coming on particular account, particularly basis. We also sold one asset in the last quarter where we did full cash down actually. So that kind of offers we are exploring. And yes, actually, few foreign banks are also behind these buyouts now. Like this is happening actually. It is happening. And when it comes, we assess, and like one account we settled in this quarter.

- M.B. Mahesh:** Sir, and just to clarify, the marquee asset, which is sitting on the steel side, there has been a fair amount of transaction, which has happened on the distressed side. Any reason why are you not participating given the fact that most of these transactions allows the bank to participate on the upside as well? Why are you still holding back? Given the fact that you have an option of recovering that money back at the current value and possibility of getting an upside as well, why are you still hesitant to sell these assets today?
- Rajkiran Rai G:** We have not seen these kind of offer what you are talking about, because we are also exploring these. Only one bank has taken a decision to sell, but the offer, which came from the company, is substantially higher than what offer they were looking at. And that transaction is not completed as of today. So we are also watching this. But then, like, there is no uptick available here.
- M.B. Mahesh:** Okay. And barring the steel side, on some of the other places, you are saying that the activity is still not meaningful?
- Rajkiran Rai G:** It is there. It is there. Actually, activity is there. We have been one transaction. There are 2, 3 discussions taking place with them, but not the big one like steel. But then these are in specific sectors where these actions are happening. One has happened on like hospitals side, actually like the healthcare side. One has also happened on the telecom network side. So like, we have seen these transactions. Out of that one transaction we received the cash in Q2, and few transactions, we make it in Q3. These are happening.
- M.B. Mahesh:** Sorry. And one last question, if you look at your portfolio of assets, which is sitting on the corporate/SME side, how much do you think can you sell in the next couple of quarters?
- Rajkiran Rai G:** Sell to the ARCs?
- M.B. Mahesh:** Yes. Sell to ARCs or these banks, the international banks, which are lot more active these days?
- B. Sreenivasa Rao:** Yes. We have actually thought of that. Actually, we are very choosy for 2 reasons. One is basically, upside you are talking about, that we're not getting upside without the upfront, we found that the offer have moderated here, that there is transaction issues, okay, of which we will have 2 offers, such kind of disposal and such a very, very long assets. And we've got a lot of recovery coming in and now we are able to respond to these very funding. That is reason why we have to get conservative in terms of how we negotiated the buyers, one. 2, with respect to the second question that you have put forward, as of this quarter, I mean, December quarter, we have lined up almost Rs.650 Crores of the assets that we propose to sell. And going forward, depending upon the discussions we may have there, we may decide the number. And most of the discussions we have, we look at a very win-win transaction structure for us and where we are getting upfront a good amount of money, then going for Essar and looking for upside as we give huge discounts to ARCs.

- Rajkiran Rai G:** We are doing only cash deals, actually. Mahesh, you were asking for the related exposure? It is Rs.6,701 Crores total exposure to real estate.
- M.B. Mahesh:** Okay. And how comfortable are you on this exposure, Sir, as we speak today?
- B. Sreenivasa Rao:** I think we have not seen much estate as on date. What I told you is only one account?
- Rajkiran Rai G:** See, it will be LRD.
- B. Sreenivasa Rao:** It will be mostly lease rental.
- M.B. Mahesh:** And how much would be the LRD of that Rs.67 million?
- B. Sreenivasa Rao:** Maybe around 40% yes.
- M.B. Mahesh:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Parth Gutka from Motilal Oswal Financial Services.
- Parth Gutka:** Thanks a lot for the opportunity. Quarter-on-quarter, agricultural NPAs are going up, and now it's like 7.62% of the total agri book. So can we just highlight, throw some light on as from which state are we seeing, and what type of loans are these? Are these KC or tractor loans?
- Rajkiran Rai G:** Agriculture NPAs, which?
- B. Sreenivasa Rao:** It is Maharashtra.
- Rajkiran Rai G:** It is coming from 3 major states, Maharashtra, UP and Karnataka. Now I think it has started coming from Rajasthan also. It is mostly the election and election-related states like these, that where the issues are coming up. So mostly the NPAs are coming from those places. And this is coming from mostly the small loans, with the cross loans and that kind of thing.
- Parth Gutka:** Thanks a lot Sir.
- Moderator:** Thank you. We would take the next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.
- Kashyap Jhaveri:** Thank you very much Sir for the opportunity. Just wanted to check, did we have any interest income write-back during the quarter on any recoveries or upgradations?
- Rajkiran Rai G:** No.

- Kashyap Jhaveri:** So this number is a normalized NII number for the quarter?
- Rajkiran Rai G:** We had interest reversals actually. But with regards to NPA, the reversals are generally slightly on the higher side. We had nearly Rs.240 Crores of interest reversal in this quarter.
- Kashyap Jhaveri:** Thank you very much Sir. That is the only question I have.
- 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 for the opportunity. Sir, first question is, what was our exposure to Uttam Galva, where we have recovered 100%?
- B. Sreenivasa Rao:** It was 444.
- Amit Singh:** Okay. And Sir, secondly, where you said we have done Rs.25 billion of portfolio buyout, so Sir, what is the spread that we have made on this portfolio buyout?
- Rajkiran Rai G:** Should we disclose this? But it is a good spread. It is a good spread. I think specifically, it may not be in quarterly report. But we have built a good spread.
- B. Sreenivasa Rao:** Whatever we were giving to the NBFC it is better than that.
- Amit Singh:** Okay, Sir. And Sir, secondly, what is our security received portfolio now?
- Rajkiran Rai G:** 970 Crores.
- Amit Singh:** And Sir what is our SME zero and one number?
- Rajkiran Rai G:** I think, yes, SMA-2, we have already disclosed. Offline you can talk to Mr. Nitish.
- B. Sreenivasa Rao:** It is 10770 SMA-2.
- Amit Singh:** Thank you Sir.
- Moderator:** Thank you.
- Rakesh Kumar:** Yes, sir, Rakesh here. Just one question. This quarter, sir, like upgradation and recovery numbers were quite high. So if you compare with the Q1 numbers where we had some, Bhushan and Electrosteel, so this kind of cases were not there this time. So what is the sustainability of these 2 numbers going ahead?

- Rajkiran Rai G:** This quarter, I can assure you the numbers will be similar or better because already, we have seen recovery of Uttam Galva and others. But then otherwise, also, overall, it is a continuous effort on the recovery side. Sir, I will tell you, on the retail credit, if you look at the pool of NPA, despite the slippages, my gross NPA number on the retail is lower than what I had in June 30. So that gives you the indication kind of recovery efforts going on. So I think this number should be sustainable. If you do not like any big settlement should be a bonus on these numbers. Rs.1,000 Crores, Rs.2,500 Crores of recovery upgradation operation should be a new normal for us.
- Rakesh:** Okay. And which segment these are coming from basically, like these are agri, these are SME?
- Rajkiran Rai G:** It is coming from all the sections. It is coming from retail, MSME, because there is lot of focused attention on recovery, the teams have created a lot of data, we have developed a recovery app actually, it is on the mobile. So there is a better tracking and monitoring, and it has taken some time to stabilize. But now most of these mortgage-based securities we're able to take position, there is good support from the government, particularly with the specific instruction to the district magistrates to cooperate with the banks for taking possession of the property. All these things are helping getting this recovery.
- Rakesh:** Thanks Sir.
- Moderator:** Thank you. We will take the next question from the line of Akash Nehnani from Macquarie. Please go ahead.
- Akash Nehnani:** Sir, just one question. Can you please repeat the deposit and credit guidance for the year?
- B. Sreenivasa Rao:** Credit guidance is for 7% to 8%. And deposit guidance, we have given is 8% to 10%.
- Akash Nehnani:** Thank you. That is it from my side.
- Moderator:** Thank you. We would take the next question from the line of Pritesh Banb from Prabhudas Lilladher. Please go ahead.
- Pritesh Banb:** Sir just wanted to check the recovery where does it fall in our P&L is it in the recovery from NPAs and other income or in the interest income?
- Rajkiran Rai G:** No, these are pure NPA recoveries, which went to reduce NPA. Wherever the recovery has fallen into like the written off cases, this is given separately.
- Pritesh Banb:** So both are not...

- Rajkiran Rai G:** That is separately, anyway. It is not included in this number. This recovery and upgradation is a pure balancing number for NPA.
- Pritesh Banb:** Absolutely, Sir. What I am asking is when the money comes in, how do you show it in the P&L? Is it recovery from NPAs or you book interest also in the...
- B. Sreenivasa Rao:** There maybe some cases, because if we are getting the recoveries, some part maybe go to the impact also. If we have recovered from the written off account also, that will go to the other income. We have also booked around Rs.100 Crores in this particular quarter recovery from the write off account; it is in other income, not the interest income.
- Rajkiran Rai G:** To answer your question specifically, the interest income booked on NPA recoveries is not the substantial this quarter.
- Pritesh Banb:** Okay so that means as last quarter we have seen 274 Crores?
- Rajkiran Rai G:** Yes, that kind of things are not there this quarter.
- Pritesh Banb:** Okay so these are the two accounts, which have been recovered this quarter right?
- Rajkiran Rai G:** No that is in the Q3. That is not factored in. There you would see some interest recoveries you are right.
- B. Sreenivasa Rao:** Normally if you see the figure upgradation, upgradation is 407, upgradation when we are getting recovery a part of the definitely will be booked with the interest but not substantial.
- Pritesh Banb:** Just to ask a these two or three accounts are written off in the books or still a part of it should come?
- Rajkiran Rai G:** Which one?
- Pritesh Banb:** The Uttam Galva and others?
- Rajkiran Rai G:** No they are not written off they had a normal provisioning so that provisioning write back will get some amount of interest we will book in Q3.
- Pritesh Banb:** Thank you.
- Moderator:** Thank you. We would take the next question from the line of Amit Singh from B&K Securities. Please go ahead.

- Amit Singh:** Sir how much of our book is linked to MCLR and how much is fixed?
- Rajkiran Rai G:** MCLR is almost 70% now.
- Amit Singh:** Sir what is our SME I book if you can share?
- Rajkiran Rai G:** No SME 0 and SME I we are not disclosed still now, there is actually lot of technical things are coming because of non-renewal also so which gets renewed bit late so this numbers are not very steady so we are not disclosing once we stabilize we start declaring, only SME II we are declaring and it is around 10,000 Crores.
- Amit Singh:** Thank you.
- Moderator:** Thank you. Well ladies and gentlemen that seems to be the last question for today. I would now like to hand conference over to the management for their closing comments.
- Rajkiran Rai G:** Thank you very much. Thank you very much. Like every time interaction with you is always like very it is a good learning experience for us. So thank you so much for your active participation. We look forward that the performance what we have shown in this quarter, it is a very, very normal quarter. So I think this kind of steady performance we foresee for the next few quarters. So with that, I think we will cover up on the provision side also. So thank you. Thank you so much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Elara Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.