



“Union Bank Of India Q1 FY18
Earnings Conference Call”

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Union Bank of India Q1 FY2018 earnings conference call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Rakesh Kumar from Elara Securities Private Limited. Thank you and over to you Rakesh!

Rakesh Kumar: On behalf of Elara Capital, we would like to thank Union Bank of India for having given us the opportunity to host the call. We have on line Mr. Rajkiran Rai G., the Managing Director & CEO; Mr. Vinod Kathuria, the Executive Director; Mr. Raj Kamal Verma, Executive Director; Mr. Atul Kumar Goel, Executive Director and all other colleagues. Without much ado, I would like to hand over the call to Mr. Nitesh Ranjan, to give the disclosure and then we can start the call.

Nitesh Ranjan: Good evening ladies and gentlemen. Before I hand over to our Managing Director and Chief Executive Officer, I would like to submit that certain statements that may be made or discussed during this investor interaction may be forward-looking statements based on the current expectation. These statements involve 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 hand over to our Managing Director and Chief Executive Officer, who is joined by our Executive Directors and the senior management team. Over to you Sir! Thank you.

Rajkiran Rai G.: Good evening, everyone. I am Rajkiran Rai G., Managing Director & CEO of Union Bank of India. Along with me, Mr. Vinod Kathuria, our ED, Mr. Raj Kamal Verma, Mr. Atul Kumar Goel, EDs and my GM’s team is here. I have the pleasure and privilege of interacting with you on the occasion of Union Bank’s financials for April-June 2017 quarter. On behalf of the Union Bank of India and on my personal behalf please accept my heartiest welcome to our teleconference today. I am fully aware of the people’s expectations and my responsibility as I begin my remarks today. More than financials for Q1, which is already in public domain, I believe investor fraternity will be more interested in knowing the full import of leadership change at the helm of affair. What is the vision of new leadership, whether there is disruption, are any surprises down the road and questions like that.

Friends, it has been about 6 weeks since my joining as MD & CEO of this great organization. As I had opportunity to interact and engage my management team as well as staff in general. We could deep dive into issues affecting our performance vis-à-vis potential. I shall take the opportunity to share our mind in detail both in my opening remarks and later by taking your questions. However, for the sake of relevance, let me quickly take you through the financials for Q1 FY2018 and profitability. Net profit of the bank stood at 117 Crores for April-June quarter, which was 7.3% higher as compared

to 109 Crores for the quarter ended March 2017 that is sequential quarter. The cost to income ratio for the bank stood at 43.8% in quarter ended June 2017 compared to 44.3% for the quarter ended March 2017 and 48.3% a year ago.

Business growth: The gross advances have grown by 9.9% annually to 295175 Crores, which is in sync with our full year guidance of annual credit growth of around 8% to 10%. Of the loan mix, the RAM sector has now come on 55% share. On resources side, CASA ratio stood at 35.5% as of June 2017 as against 34.4% as of March 2017. Within CASA, savings growth was 27.6% on annual basis.

Asset quality: Gross NPA ratio rose to 12.6% as end June 2017 while net NPA ratio stood at 7.5%. Slippages stood at 4453 Crores. I shall share more details on asset quality later. We have seen some decisive advance in our collective battle against NPAs with regulator showing the way. Let me now move on to the qualitative aspects on my remarks today.

Union Bank is a differentiator among public sector bank. Even earlier as a competitor, I had positive impressions about Union Bank's core capabilities; a public sector lender known for its risk prudent approach, technology infrastructure and agile and young workforce. No surprises post liberalization when other public sector banks ceded market share to new generation private sector banks, Union Bank climbed up 5 notches in ranking of nationalized bank. Now having interacted with the stakeholders as MD & CEO, I must say that my earlier understanding of Union Bank was much understated. I have found a greater life force within this organization, which distinguishes this bank from other banks in India. I am not surprised why it continues to outshine others in winning industry awards and acknowledgments year after year.

Talking about strength, I am grateful to all my predecessors for investing into key capabilities particularly credit underwriting, digital channel efficiencies, marketing and sale, and more importantly employee morale, which is rock solid. Their foresight and ability to act ahead of time is underscored by the fact that we did so amid the difficulty is prevailing in economy and banking sector. This is not to say that everything is rosy. There are challenges of course, both the legacy issues like high stock of NPAs, relatively low provisioning cover, etc., as well as future issues for example need for growth capital as well as a competitive threat of digital disruption coming from nonbank entities.

However, given the foundation, we are better placed to address these challenges from a position of strength. Let me share a few things that we have decided to take on priority. Assets quality. While I observe that our NPAs, both stock as well as incremental slippages are not as high as other peers, our recoveries and upgradation need to rise faster. This is notwithstanding the high concentration of stress that there has been large ticket infrastructure sector including the public sector exposure like in telecom. These accounts need systemic coordination and we are right on the mark with specialized

cells like Difficult Asset Recovery Team. This team handles accounts above 50 Crores. This team is proving a vital cog in our asset resolution plan and their efforts have yielded positive by expediting resolutions at various stages. They are proactively following up the eligible accounts under insolvency and bankruptcy code for a quicker resolution.

I am more sanguine about strengthening the recovery efforts in relatively small ticket exposures. A good sum of NPAs has underlying mortgages and such borrowers are more amenable to sit on table and discuss the way out. For such accounts, special settlement schemes are devised where we are witnessing good response. Likewise we are leveraging digital in strengthening the monitoring efforts. We are developing an in-house app, which will help in real-time planning execution and monitoring of borrower wise recovery efforts. It will also strengthen systematic capturing of data on stressed accounts and borrowers to decide on right course of action. It would not only give easier access to the data bank, but also be helpful in upkeep of records.

As for provisioning cover, we are working to scale up it in a judicious way. We have done a rigorous simulation analysis on accounts under stress both large corporate as well as small ticket exposures in retail, agriculture and MSME. Our estimates point at a delinquency ratio of around 4% for the current fiscal. Of that a significant sum is frontloaded. We have also factored in rising demands due to aging of NPAs as well as accounts referred to NCLT. As of June 30, 2017, the total capital adequacy ratio stood at 12.01%. Common equity Tier 1 ratio stood at 7.73%, which is higher than the regulatory minimum of 6.75%. This is without considering the profit during the quarter. The bank has adequate capital for regulatory purposes. This we have achieved without sacrificing on growth and with a limited infusion from government thus far.

However, there is need to build capital war chest for realizing future growth opportunities. Our shareholders have approved Rs.4950 Crores of equity capital raising in FY2018, of which Rs.2000 Crores we have decided to raise in first tranche. We have also requested for Rs.1500 Crores infusion from government. Our focus will continue on managing growth of risk-weighted assets and improving the capital flow from profits.

Credit origination and underwriting. We shall continue to deepen our focus in small ticket exposures, which are retail, agriculture and MSME, the RAM sector. The difference however is more in origination and underwriting capability. We are focusing on two areas in particular, by strengthening our marketing and sales vertical, both in terms of manpower as well as digital capability. Then the collaboration, tie-ups with Fintech for tapping the new leads on retail as well as SME. These two are going to be important vehicle in our credit origination strategy going forward. Accordingly, a mass scale reskilling and reorientation exercise is underway wherein focus is on resetting the sales attitude and nurture leadership across hierarchies. The initiatives undertaken through the Project Utkarsh has visibly raised the competition among the field functionaries. It is heartening to see the staff

vocabulary shifting from business to profitability. For better underwriting, we are further centralizing the processing of retail and MSME advances.

For retail, the bank has centralized processing centers namely union loan points, which are being strengthened in terms of capabilities for handling leads from regular branches and also other channels. Accordingly, industrial finance branches will be handling all proposals above 100 Crores while mid corporate branches will handle advances in the range of 50 Crores to 100 Crores and proposals below 50 Crores will be handled by SARALs, these are our MSME back offices. The bank is also planning to establish new SARAL centers. Going forward, we shall automate certain type of retail and MSME loans with minimal manual intervention. Moreover, a clear segmentation of business is also being perused.

Resource Management: The bank aims for building a well-diversified retail-led liabilities profile. Accordingly, enhancing CASA share and retail term deposits will be our focus. We have taken a number of initiatives under the project Utkarsh and impact of CASA origination is significant. We would further scale up this exercise. Further treasury will be actively tapping the inter-temporal liquidity-based opportunities for making gains and smoothening the fund flows.

Leveraging digital: We have done well in digitalization thus far. With the ATM to branches ratio at 1.8 and two third of our transactions already under digital channels, there is a great digital base to scale forward. We have decided to pursue raising the incremental transaction share of digital to three fourth this year and progressively raise thereafter. Besides digital will be leveraged across different domains like origination, processing, monitoring, training, compliance, etc. To conclude, India offers a unique blend of macro stability and growth prospects.

International Monetary Fund forecast economic growth rising to 7.2% and 7.7% in FY2017-18 and FY2018-19 respectively. Twin deficits, current account and fiscal deficits are low. Rupee has been stable. In fact it has gained against major currencies buoyed by sustained investment flows and \$US 390 billion plus forex reserves. Markets endorsing India's economic promise are at lifetime high.

Coming to banking aggregates, with inflation cooling to target levels, interest rates have turned decisively southwards. Reserve Bank of India has affected a cumulative 200 basis points cut in policy repo rates since turn up cycle in 2015. Lower interest rates will give a fillip to investment demand as well as opportunity for smoothening consumption. Banks have a much cleaner balance sheet to date and are well-positioned to harness opportunities going forward. At Union Bank, we are seized of the near-term imperatives and taking appropriate steps to remain a winner organization. We are particularly focusing on three core areas, strengthening the balance sheet by raising PCR as well as CET1 ratio, second, strengthening credit origination and underwriting by leveraging digital and Fintech collaboration, third unlocking provisions blocked in existing NPA accounts by focused

recovery efforts. I will share some of the recent initiatives, which build on to a series of initiatives under the project Utkarsh. We are committed to transparency and good governance practices.

Let me conclude with sharing the guidance for FY2017-18. The credit growth to be around 8% to 10% and deposit growth to be around 7% to 8%. CASA share to remain at 35%. NIM to be around 2.25%. PCR to rise around 58%, delinquency to be around 4% and credit cost could be around 2% plus. Cost-to-income ratio to be between 46% and 48% considering the imminent wage revision. Our endeavour would be to contain gross NPAs below 13% by March 2018 given projected credit growth.

Thank you all for your patient hearing. Investor fraternity has been a vital force in raising performance bar and service standards across the spectrum. I look forward to actively engaging with you in shaping the future course of this great institution. Now you can share your feedback and queries. Thank you. Thank you very much.

- Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.
- Mahrukh Adajania:** Just a couple of questions. Firstly what is your view on M&A in the sector because there are multiple thoughts on this topic?
- Rajkiran Rai G.:** On M&A?
- Mahrukh Adajania:** On mergers and consolidation in the sector?
- Rajkiran Rai G.:** I think I am afraid I am not competent to comment on this because even though there is lot of media discussions going on, so there is nothing concrete with us as of now.
- Mahrukh Adajania:** Could you give some colour on slippages on the sector that contributed?
- Rajkiran Rai G.:** This quarter, the slippage was 4450 Crores it has come from the bigger accounts like the major five groups are there where the slippage is around 2000 Crores, so it is coming from EPC, one is on the food and beverages, one from power, one is telecom plus consumer goods and one is from the construction, so these are the major sectors, so it is across it is not one sector.
- Mahrukh Adajania:** What is the size of the largest account?
- Rajkiran Rai G.:** Nearly 1000 Crores.
- Mahrukh Adajania:** What was your agri slippage?

Rajkiran Rai G.: Agri slippage was 700 Crores.

Mahrukh Adajania: Would you know the figure for agri last quarter as in the fourth quarter?

Rajkiran Rai G.: Agri last quarter was 300 Crores.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Thanks for the opportunity. Taking from your initial remark, you said the bank would be more focusing on let us say small value accounts agri and MSME including retail, but if I see the NPA there, there also they are still high, so agri our NPA is around 9.4% and MSME is around 11.8%. So considering this let us say level what is the remedy and do you still feel confident of growing in these areas?

Rajkiran Rai G.: Agri maybe one-off jump in NPAs because of the loan waiver schemes being announced and many of the states may start paying us because this is being crystallized and by this quarter itself we are expecting certain payments coming from the state government, so agriculture NPAs will go down substantially. So anyway, as a sector, agriculture continues attracting the investment, so we will continue to do agriculture financing despite what is happening, so maybe this is a temporary phenomenon this quarter and next quarter, once the state government settles these dues, so the agriculture will be stabilizing. MSME NPAs, yes, there is some jump in NPAs in the last two, three quarters, but this will stabilize because MSME is a very potential area we cannot just lose sight of this, so we will improve our credit underwriting capabilities. I already mentioned about this. There is a lot of good MSME portfolio available we will do that, so our focus on this will not be missing just because there is NPA, which is mainly coming from certain legacy issues.

Jai Mundhra: Your assessment of where are we in credit cost cycle. So you have given 2%-plus credit cost guidance, but do you see FY2019 also matter of how do you recognize this, so we are saying that we will be recognizing PCR also we will be raising the PCR also, but what is your broad assessment for FY2019 in terms of credit cost?

Rajkiran Rai G.: This year actually we have done some study. The aging provision is very high during this year whereas next year our aging provisions will come down substantially. So we are also expecting some major account resolutions during this year and next year also because the way the investor interest is coming the resolution may not be far off, so with all this credit cost next year should be substantially lower than this year, but it will not come to very low levels, but it should be less than this year for 2018-19.

- Jai Mundhra:** Just lastly you shared your growth and margins and credit cost kind of an outlook, but Sir in terms of ROE for FY2018-19 what would your internal goalpost, I am not asking for guidance, but what would be your internal target?
- Rajkiran Rai G.:** 2018-19 I am afraid because there is another sector, which is the power sector where there are issues, so like how it behaves will decide the course during 2018-19, so if you ask me 2019-20 I will be able to tell you because we already have that projection for three years, so by March 2020 definitely ROE will be 0.50.
- Jai Mundhra:** Thanks Sir! I will come back in the queue.
- Moderator:** Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** You just mentioned about investor interest in terms of resolution, so of the 12 IBC cases if you can share?
- Moderator:** As there is no response we move to the next question from the line of Adarsh Parasrampuria from Nomura.
- Adarsh Parasrampuria:** Just a question, your restructured book has come down and we see about 1100 Crores of that is a reduction, so can you talk about what was this reduction like there were some slippages, but the larger part of the...
- Rajkiran Rai G.:** It is not slippage, it got upgraded.
- Adarsh Parasrampuria:** Which sector have you seen the upgrade, what has happened there?
- Rajkiran Rai G.:** It was one of our accounts, which was port and defense-related.
- Adarsh Parasrampuria:** Have you done any other form of refinancing there or it is just an upgrade that has happened there?
- Rajkiran Rai G.:** It is upgrade in the normal course.
- Adarsh Parasrampuria:** You have given data for your 525, SDR and S4A, can you just talk about what is really standard in all of them what I mean by that is there will be overlaps of these books with the other parts either restructured book or NPA, so if you can give the number of what is really just standard because SDR will have an overlap with your restructured book you can just talk about that please?
- Rajkiran Rai G.:** In standard restructured book of 3857 Crores, 1867 Crores is the overlap.

Adarsh Parasrampuria: Sorry Sir can you just repeat that?

Rajkiran Rai G.: Out of 3857 Crores of standard restructured book 1867 Crores is the overlap in the standard 525, standard SDR and standard S4A. Overlap is 1867 Crores.

Adarsh Parasrampuria: If you can go to the other categories and talk about just the standard part, which is 525 and SDR please?

Rajkiran Rai G.: We have given the figures as 525 the standard part is 3448 Crores. Under SDR, the standard portion is 5862 cores. Under S4A the standard portion is 1939 Crores.

Adarsh Parasrampuria: So SDR 5600 Crores everything is standard is it?

Rajkiran Rai G.: Not everything there is NPAs in that also, but 5862 Crores is the standard portion as of today.

Nitesh Ranjan: I think if I can just add the slide 23 of the presentation, the details of the standard accounts in 525, SDR and S4A.

Adarsh Parasrampuria: No, I got that. I just wanted to know when you give your 525 and your presentation says it is 4233 Crores. I just wanted to know, is this all standard?

Rajkiran Rai G.: Yes, these are all standard.

Adarsh Parasrampuria: These are all standard is it?

Rajkiran Rai G.: Yes.

Adarsh Parasrampuria: Thank you.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from Antique. Please go ahead.

Nitin Agarwal: Tax rate for us this has been relatively higher, so what sort of tax rate are we looking at for the full year?

Rajkiran Rai G.: The tax is on account of DTA issue. Last time we have created more DTA, this time we have not created DTA because there is a benefit in the capital to the extent of 10% plus CET, so if you want today what is the number of whole of the year it will come around 22% of the OP.

Nitin Agarwal: For the full year?

- Rajkiran Rai G.:** Yes for full year.
- Nitin Agarwal:** However SMA2 advances moved quarter-on-quarter and how much is it in currency?
- Nitesh Ranjan:** SMA2 advances we shared last quarter. It was around 5.4% as of March it has come down to 5.1% and also in quantum terms from 16400 Crores in March it has come down to 15200 Crores.
- Nitin Agarwal:** There has not been a much decline in that way in SMA2 advances, now that you have given a 2% plus credit cost guidance, what sort of slippage numbers like are you looking at for the year given that SMA2 still stands pretty high?
- Atul Kumar Goel:** I think our MD & CEO says, in the initial remarks, he said that delinquency rate that we are looking for this year is around 4%.
- Nitin Agarwal:** Secondly you also talked about there is progress that you are seeing on the resolution front and via NCLT route, so now that the RBI has already advised banks to make 50% provisions do you think that there can be any scope of provisioning writeback as these resolutions go through or you can get the settlement will happen at even higher cuts?
- Rajkiran Rai G.:** Difficult call to take at this point of time. It depends on like what rate we are able to finalize I think it is too early, but like some writebacks will be there. Some writebacks will be there because the kind of offers we are seeing in few cases it is better than like what we had anticipated, so some unlocking of provisions may happen.
- Nitin Agarwal:** As the wage negotiation goes on, which is imminent, what would be the impact on our operating expenses because I understand though Union Bank has the youngest workforce amongst the larger banks, but that I think could be still some impact on the opex run rate?
- Rajkiran Rai G.:** Actually that is why our cost-to-income even though we are around 43% if you look our projections we have estimated around 48%, so it is basically because of the wage revision talks, which is on. Cost-to-income may move up to 48%.
- Nitin Agarwal:** Thanks so much Sir!
- Moderator:** Thank you. We will take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Just wanted to understand the metric thing. If you look at slippage ratio going forward, we are talking about a drastic fall in the slippages on a quarterly run rate basis what is giving us this confidence in terms of the reduction in the slippages going forward?

- Rajkiran Rai G.:** We have not told that there will be drastic fall because we said 4% delinquency for the whole year and we said it will be more frontloaded, frontloaded in the sense this quarter you have already seen a slippage of roughly 4500 Crores and like the first two quarters we will see some higher slippages and maybe it will go down in the last two quarters based on the data what I have today. So like many times assumptions go wrong, but based on whatever information available today this is a call we are taking, so delinquency ratio of 4% is not very low.
- Sangam Iyer:** If you look at the broader picture we are talking about around 12500 odd Crores of gross slippage here and of which 4500 Crores is already behind us in Q1, so we are talking about cumulative 8000 Crores over the next three, but maybe another 4500 Crores coming in Q2, so which essentially means that in second half we are talking about a very sharp fall on the quarterly run rate basis.
- Rajkiran Rai G.:** We have done account by account analysis after that we have arrived at that figure. Based on that, all the assessments are done, so assuming that things do not go totally out of our control this should be the figure.
- Sangam Iyer:** Second question would be on recoveries could you just touch upon in terms of where do you see the possibilities of recoveries and upgrades coming in other than any resolutions that we are hoping for, is there any large possibilities of recoveries happening?
- Rajkiran Rai G.:** Around 9000 Crores of small advances are also there in this NPA portfolio, so we are really focusing on that it is not that earlier we are not focused, but then more concentrated efforts are on this portfolio. We made a scheme up to 5-Crore settlement in the last board, which is more of nondiscretionary things, so the field can go and take a decision when the compromise offers are there, so we have given a very structured settlement scheme to this people and also we have developed a digital app for the recovery teams. We have created recovery teams everywhere particularly to handle the smaller advances, so I am anticipating there will be a good movement in this small sector because most of these are mortgage backed, so we are looking at a good momentum in these 9000 Crores of small portfolio and the larger ones actually you would have seen in the media also we have gone to NCLT in cases, which are not prescribed by RBI also where there are good chances that people may come forward. Wherever there is asset backing we are going to NCLT, so that they come forward and settle their dues.
- Sangam Iyer:** On the NCLT part of it, the top 12 accounts and also in the accounts that you are currently referring to NCLT what is the kind of provision that we currently carry?
- Rajkiran Rai G.:** That 11 cases of RBI like Reserve Bank mentioned 12 accounts out of that we have exposure in 11. Our exposure is 7420 Crores. Present coverage is 30%.
- Sangam Iyer:** 30% and on the accounts that we are referring to NCLT other than...

- Rajkiran Rai G.:** Actually my provision coverage is close to 45%, 50% already. We are picking up accounts where I have a good provision coverage.
- Sangam Iyer:** Finally how is the SR book correctly?
- Rajkiran Rai G.:** 1086 Crores.
- Sangam Iyer:** Just wanted to understand the mechanism here. If the assets that have been sold in SR, if any other bank refers those to NCLT how would the procedure be for provisioning for us in that case?
- Rajkiran Rai G.:** Provisioning actually we need to examine the ARC because they hold these assets they become a part of NCLT proceedings. On the SR front actually because actually most of these SRs are greatly provided for, so I do not think there will be a major hit from going to NCLT I do not think because NCLT every year we keep on adding provisions and investment value, what will be the book value, Saha SR?
- Nitesh Ranjan:** Right now it is 827.88 Crores.
- Rajkiran Rai G.:** Book value, so there maybe some provisioning requirement there.
- Nitesh Ranjan:** We are already providing as if there were advances?
- Rajkiran Rai G.:** Yes.
- Moderator:** Thank you. We have the next question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.
- Mahrukh Adajania:** I just wanted to check, sorry to harp on the same thing, but as you had mentioned the agri slippage is around 700 Crores then you also give agri NPA in the presentation and that is 35 billion.
- Rajkiran Rai G.:** That is the total NPA in that sector.
- Mahrukh Adajania:** That is correct Sir and Sir in 4Q I think that figure was 22.5 billion, the agri or...
- Rajkiran Rai G.:** Correct.
- Mahrukh Adajania:** Increase is around 13 billion means 35 billion minus 22 billion, but the slippage is only 700 crores?
- Rajkiran Rai G.:** I think that the base figure maybe wrong we will just check and come back.
- Mahrukh Adajania:** Thank you.

- Nitesh Ranjan:** We will provide the information.
- Rajkiran Rai G.:** Yes I will provide the information it maybe arithmetic error.
- Moderator:** Thank you. We have the next question from the line of Manish Agarwal from PhillipCapital. Please go ahead.
- Manish Agarwal:** Just a clarification. Out of your SMA2 book is there any overlap with any of the stress book, which you mentioned like restructured or 525, SDR?
- Rajkiran Rai G.:** Most of these accounts maybe in SMA2 also.
- Manish Agarwal:** So can you quantify if you have those numbers readily available with you?
- Rajkiran Rai G.:** No, we do not have that right now, but there is a great overlap between these standard restructured under different schemes and SMA2.
- Manish Agarwal:** Second question is on the margins. Now is there any interest writeback in this quarter, any significant amount?
- Rajkiran Rai G.:** About 250 Crores.
- Manish Agarwal:** So how do you see your margins because there has been quite a bit sharp decline in the margins in this quarter and just your comment on that? Secondly if you can give some data point regarding what part of your loan book is under MCLR?
- Rajkiran Rai G.:** NIM we have given a guidance of 2.25% for the whole year.
- Manish Agarwal:** Will you reach that 2.25%?
- Rajkiran Rai G.:** Yes. I will answer your other question also because that is the part of the answer. 54% of my advanced portfolio is under MCLR today. Now the transmission in the advances has been very fast the reduction of rates, so my yield on advances has come down substantially whereas transmission in deposit is always a bit slow, so That is why the NIM is hit, but then going forward the rates are slowly stabilizing, so I am seeing advantage and slight improvement in NIM because we have already cut our deposit rates also in the last ALCO. So NIM I will stand by that 2.25% figure for the full year.
- Manish Agarwal:** Fair enough. Third question is about your NCLT cases. Now 12 cases are with NCLT and most of them would be in public domain, so in your understanding do you think that there can be few cases, which will go for liquidation?

- Rajkiran Rai G.:** There will be few cases yes.
- Manish Agarwal:** So in that case do you think your 2% credit cost guidance and the decline of credit cost guidance for FY2019 holds?
- Rajkiran Rai G.:** Actually they will go for 100% provisioning next April only because assuming that most of that admitting of NCLT happened in this month July and August, so this will be taking nine months, so it should go to the next April quarter, but by that time anyway we will have a provisioning of 60%, 65% in most of these accounts and it should not be a major challenge because this will be very few accounts.
- Manish Agarwal:** So in your understanding how many account do you think can go for liquidation out of 12?
- Rajkiran Rai G.:** Very difficult to predict.
- Manish Agarwal:** Thank you Sir!
- Moderator:** Thank you. We will take the next question from the line of Nishant Shah from Macquarie. Please go ahead.
- Nishant Shah:** Just following up on this NCLT question. You mentioned that you have about 11 cases with a total exposure of 7420 Crores and on that you have about 30% coverage is that correct, so basically RBI has asked you to make 50% origins for anything and just refer to the NCLT, so this 20% shortfall about 1400 Crores or so, do we assume that you will take this like in Q2 or like amortize it over the next three quarters does it to be taken?
- Rajkiran Rai G.:** Yes, this is actually; RBI permits me to take it to the next three quarters.
- Nishant Shah:** This is not yet taken and like this 2% credit cost guidance that you have that factors in this thing as well?
- Rajkiran Rai G.:** That is fully factored into that.
- Nishant Shah:** That is it from me.
- Moderator:** Thank you. We will take the next question from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.
- Prakash:** This is Prakash from Edelweiss. Just couple of questions. Sir, we have seen few banks making a move on saving rates our thought process on the same are we thinking on those lines or still not?

- Rajkiran Rai G.:** Ultimate call will be taken by ALCO, but we are examining this. We are looking at different scenarios, so maybe we will take call by this month end.
- Prakash:** Anything on non-core asset sales that we are expecting during this year?
- Rajkiran Rai G.:** No, no. Nothing in this year.
- Prakash:** What is our exposure to top 50 NPAs and coverage on that if you could say a little more?
- Rajkiran Rai G.:** It must be close to 17000 Crores to 18000 Crores. Exact figure we will give you. Right now we do not have.
- Nitesh Ranjan:** Coverage is somewhere close to that 40%, 45%.
- Prakash:** 40%, 45%?
- Rajkiran Rai G.:** Yes.
- Prakash:** Last question is on slippages. How much of slippages that we have seen this quarter from SDR?
- Rajkiran Rai G.:** There are no slippages from SDR accounts.
- Prakash:** Just can I have an outstanding number of SRs, that number?
- Rajkiran Rai G.:** 1086 Crores.
- Prakash Sharma:** Thank you so much Sir!
- Moderator:** Thank you. We will take the next question from the line of M. B. Mahesh from Kotak Securities. Please go ahead.
- M. B. Mahesh:** Just in continuation to the previous question and also for Mahrukh. If you go to slide 23 and you again compare it with the previous year fourth quarter numbers the numbers are just **(inaudible 40:52)** in any of the file. For example, if you say that there has been no slippages from the SDR book last quarter we ended at 4282 Crores. We have added about 2100 Crores, but we still have 4233 Crores. In 525 there has been an additional 369 Crores, but we do not see any change in the outstanding number. How do you explain all this?
- Nitesh Ranjan:** I think two accounts, which were in 525, they have moved to SDR and one account has moved to S4A, so just to avoid that there is no duplication we have not reported a number at both the places.

- M. B. Mahesh:** But quantum is reasonably high is it?
- Nitesh Ranjan:** Yes. So three accounts that is what I am telling. Three accounts have moved from one category to another.
- M. B. Mahesh:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Thank you for the followup. Can you just give us some outlook in terms of where do you see your gross and net NPA by the end of this financial year?
- Rajkiran Rai G.:** Gross we said it will be below 13% and net NPA I am looking at 6%.
- Sangam Iyer:** Full year how much is the recovery and upgrades that you said, sorry I just missed that number? What is the amount of, in absolute terms what is the kind of recovery and upgrades that you are looking at?
- Rajkiran Rai G.:** 4000 Crores.
- Sangam Iyer:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Thank you for the opportunity. In the power sector you kind of alluded that the FY2019 there might be some pressure, so of the 18000 Crore of power sector loans excluding the funds, which are already NPL how large can be the pressure and how many of them have not yet signed PPAs?
- Rajkiran Rai G.:** It is very difficult to give the figure, but when you look at these numbers there are public sector entities also in these, so the stress will come from basically the coal-based it is around 11000 Crores exposure.
- Amit Premchandani:** All of it is private sector?
- Rajkiran Rai G.:** Yes, this 11000 Crores is private.
- Amit Premchandani:** Most of them have started operation or is still yet to start operations?
- Nitesh Ranjan:** I think around 2000 Crores is under construction, otherwise everything is functional.

- Amit Premchandani:** This quarter has seen lot of SDR, are this proposal for SDR or actually there has been telecom SDR of 800 Crores?
- Rajkiran Rai G.:** Telecom? You are talking telecom SDR?
- Amit Premchandani:** Yes, 787 Crores figure that is there at slide 23, is it a proposal only or actually SDR has happened?
- Nitish Ranjan:** It is on the basis of the referenced cost. It may come, because it is a figure, which we have given to you on the basis of we, have invoked SDR actually amount has to come.
- Amit Premchandani:** So it has not yet become converted into an SDR right it is just a proposal, right?
- Rajkiran Rai G.:** Yes.
- Amit Premchandani:** In terms of an NCLT cases, the 11 cases that you are involved in, do you see loss given default that close to 50%, or say close to 70% and which are the sectors will have kind of higher loss given default and which are the sectors will have lower loss given default?
- Rajkiran Rai G.:** There are two EPC companies in this I think two or three, so these companies, it will be bit difficult because they will have receivables, which are under arbitration, so this may take longer time, so looking at NCLT proceedings, which is very quick, so it may take a higher provisioning in these cases, but other cases according to me should be close to 50%.
- Amit Premchandani:** Just to understand in terms of your thought process of banks in terms of preference would you like same management to continue or you would like a different management or senior management after the NCLT process?
- Rajkiran Rai G.:** It is case to case. Actually, it is very difficult to make a general remark. Every corporate like we need to deal separately and it will be case to case there will be few cases change of management, few cases same management may continue, but it is very difficult to make a general remark on this.
- Amit Premchandani:** Just to understand, in terms of appointments say IRP etc., banks have taken a very correct method of not using the lowest cost bidder for appointing an IRP to have taken into account the experience, etc., and appointed very qualified IRPs for these cases. Now, when NCLT bids come some of the promoters who do not want to leave the company may actually give impractical bids because anyway they may say that they will pay the entire amount by 2040, so whether you will look at the actual bid amount generally or the practicality of the bid?
- Rajkiran Rai G.:** Actually, we have developed the model to assess all kind of offers, so it is not like that simple. There is a model like we will follow, which will assess because the offers will come differently because no

two offers will be similar it is not cash down offers basically. There will be some restructuring, there will be some equity, there will be some like convertible debentures, there will be various kind of offers, so everything will be assessed with the value what it brings in and then we will take a call. It is at a very senior level decisions will be taken and like as you mentioned the kind of IRP we brought in also are the big five, six groups, so we will have a very good validation of all the offers, so it is not that easy that promoter can come in and take it away, so we will work it out.

Amit Premchandani: So it will not be the highest offer winning...

Rajkiran Rai G.: No, it will not be like auction process it will be a more complicated process where there will be structuring of these loans. It is a very complicated process and they will evolve a model. We have already discussed on these issues where we can come to a realistic assessment of the different offers being received.

Amit Premchandani: In terms of some of the companies have listed shares, so in terms of when you take a haircut obviously the value of the equity you cannot decide, but generally how do you deal with equity?

Rajkiran Rai G.: Equity, there is a standard procedure to value this equity. If it is not listed then there is a concept of book value or we may take it at Rs.1. Different ways of assessing each debt, accordingly the provisions will be made.

Amit Premchandani: In terms of listed equity, will the promoter still maintain his own shares, how does it happen generally?

Rajkiran Rai G.: Actually, if you look at these cases particularly on the SDR, most of the cases we have already converted 51%. We already hold 51% and like the promoter whatever he has in most of the cases it is pledged with us, so it is only the public share, which is in the outside domain, which is outside. Otherwise, I think promoter does not carry much share in these cases. Very few cases they may have some share left with them.

Amit Premchandani: Generally from perspective understanding if there is a promoter change generally you would like to see your equity coming in to the project or the company if there is a promoter change?

Rajkiran Rai G.: Yes, promoter change, definitely, they will buy out at least 51% equity ideally at a valuation what we are thinking as right that will go to reduce our liabilities.

Amit Premchandani: Thank you Sir! That is it from my side.

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



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Rakesh Kumar: Sir, as there is no question now could we conclude the conference call?

Rajkiran Rai G.: Thank you Mr. Rakesh. Thank you.

Rakesh Kumar: Thanks a lot to the bank's management for offering us the opportunity to host the call and taking their time out for giving the insights and the result and thanks to all the participants for taking the time out to participate in the call. Thanks everybody.

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