



“Union Bank of India Q2FY17 Earnings Conference Call”

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**MODERATOR: MR. MAHESH MB -- RESEARCH ANALYST, KOTAK
SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Union Bank of India Q2 FY17 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participants' 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. I now hand the conference over to Mahesh from Kotak Securities. Thank you, and over to you sir.

Mahesh MB: Good evening to all who have joined into this call to analyze the Q2FY17 Results of Union Bank. To discuss, we have with us, Mr. Arun Tiwari -- CMD of Union Bank, and along with him we have Mr. Vinod Kathuria; Mr. Raj Kamal Verma and Mr. Atul Kumar Goel who are the Executive Directors of the bank, as well as other members of the senior management.

We shall start the call with a disclaimer from the CFO, Mr. Kamath before we move on to Mr. Arun Tiwari for his opening remarks and the performance of the bank for the current quarter, post which we can open the floor for Q&A. Over to you, Mr. Kamath

Vivekanand H. Kamath: Good Day, Ladies and Gentlemen. I, on behalf of Union Bank of India welcome each one of you to this Investor Interface. Before I hand over to our Chairman and Managing Director Shri Arun Tiwari to address all present over here, 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 expectations. 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. Thank you.

I would now hand over to Mr. Arun Tiwari -- our Chairman and Managing Director, who is joined by our Executive Directors -- Shri Raj Kamal Verma; Shri Atul Kumar Goel and members of senior management. Over to you, sir.

Shri Arun Tiwari: Thank you, Vivek. Good Evening, Friends. It is my pleasure welcoming you all once again for the financial results of Union Bank of India for the quarter and half year ended 30th September 2016.

Let me give a quick overview: As you all are aware, the macros continue to be enigmatic with recovery though firming up, the pace and sectoral spread is not what we would like it to be. It very well reflects in banking sector prospects with the loan offtake being only gradual and recovery and upgradation sums up rather conservative. This has been the dominant narrative for the last couple of years.

Let me begin my remarks therefore with the heart of the matter – Asset Quality: We had indicated front-loaded mention in H1 FY17 with pace tapering off in subsequent half. Q2 slippages were at Rs.3,396 crores, of this some Rs.400 crores came from two accounts, and we had factored in for slippages during H2 FY17. Barring these two, the slippages were about 17% lower on the sequential basis and we are sanguine about this trend to continue in the

remaining two quarters. Recovery and upgradation stood at Rs.667 crores, that is 36% higher than Q1 of FY17. We have sold one NPA account of a meagre sum of Rs.19 crores to ARC which was fully provided. Therefore impact neutral on balance sheet. In ratio terms, gross NPA stood at 10.73% whereas the net NPA stood at 6.39%.

Let me share with you some more details on our efforts on improving asset quality: Most of the stress has been recognized and so our efforts are focused on resolution and recovery. If you look at our standard restructured accounts, the incremental slippages have been very conservative. Also, of the NPAs we are seeing traction of late with government efforts in unclogging infrastructure projects which account for a third of our standard restructured showing fruition.

I have ever maintained that many of the projects are NPAs because of the cash flow issue which are studded for a variety of reasons. We have constituted a new team of professionals internally namely Difficult Assets Recovery Team which we call DART to take a holistic approach for resolution of large ticket NPAs of Rs.50 crores and above. The idea is that these assets need a lot of systemic coordination say under JLF,S4A,SDR, or like. This team draws upon the varied experience across the verticals, say credit, legal, risk monitoring, recovery to build a concerted response for effective resolution. We are very sanguine about the DART team which has several accounts at different stages of resolution. The bank has had rather good quarter for treasury gain which is utilized to shore up in buffer. PCR ratio stood at 50.45%. The mobilized deposit to deploy in treasury operations for leveraging opportunity in GSec and bond market well. It was a conscious decision had we not mobilized those deposits, our name would have been a tad higher. We have continued our rebalancing efforts in the balance sheet pursuing capital light growth in focus area, Advances rose by 9.6% YoY while Deposits grew 9.3%; this is in line with our full year guidance of 9-10% growth in Advances and 6-7% growth in Deposits. Advances growth was led by Retail, Agri and MSME sectors which continue to grow double the headline rate, thereby raising the ramp share in domestic loan book to 55%, an increase of 4% points in a year.

Of Liabilities: We continue to see good accretion of CASA Deposits, within which Savings Deposits grew 23% on annualized basis. This heartening jump was due to one-off large government deposits normalizing which the Savings Account growth remain a robust 16% YoY following 15.3% in Q1 of FY17 and 8.9% in Q2 of FY16. The high cost deposit share remain at 1% which is down from 2.2% a year ago. This reflected in the declining cost of deposits which stood at 6.47% for Q2 of FY17. Yield on advances meanwhile stood at 8.95%, net interest income rose to 8.3% YoY in Q2 FY17. Core fee income rose 6.1% YoY in Q2 FY17. Accordingly, operating profit of the bank stood at Rs.1,819 crores in Q2 FY17, 12% higher than previous quarter. Net profit stood at Rs.176 crores in Q2 FY17, 5% higher than the previous quarter.

Let me also touch upon our HDR framework on which we have been working for about two years now....when I say HDR framework, we are talking about human capital, digitization and risk management practices. Let me take this opportunity to update you on this HDR capacity

building initiative we undertaken at the bank: The HDR framework entails focus under three core areas – Human Capital, Digital Banking and Risk Management. Several initiatives have been taken within umbrella of project “Utkarsh” and I am happy to share that the project has ushered a welcome shift in operating technology, redesigning several of our core processes and practices raising efficiencies. We have witnessed three-fourth reduction in turnaround time and near 50% jump in sales in select retail and MSME products in the pilot branches. Encouraged by the reserves in pilot, 274 branches, further 266 branches were brought under the new design during Q2 FY17. More details are already there in the ‘Presentation’ which we have shared on our website.

The bank has continued to be vibrant with the new Digital initiatives launching “Ucontrol”, an app to help customer monitor and control their credit card uses. The bank also launched Unified Payment Interface (UPI) during the quarter. Digital Channels now account for two-third of our transactions.

Most heartened is the spread of Mobile Banking. The Mobile Customer base has risen by over 2x; however, the transaction though mobile have risen by 5x implying better receptivity by the customers. The bank has been investing in predictive analytics capabilities wherein internal teams of analysts, they use models to generate actionable leads on sales opportunities. These leads are then shared with the marketing teams which bring it to fruition in more informed way. It is a kind of cultural change so far as public sector banks are concerned. We are known to serve walk-in customers but now armed with information our marketing professionals have shown promises upon for outbound shelves. Likewise, risk sensitivity has deepened across the rank and file with the staff pursuing Risk Adjusted Return on Capital (RAROC) and not just the business volumes. We have been very particular with the quality of exposure in our chosen area. This reflects in our risk weight being one of the lowest in the industry. CRAR rose by 44 basis points sequentially to 11.19%.

During the quarter, we have raised Rs.2,000 crores of debt capital and today we raise another Rs.1,000 crores of AT1capitals. Also, the board has approved raising of further Rs.3,500 crores of capital through mix of equity and debt route. We shall continue to weigh various options and ensure a buffer of at least 100 basis points above the minimum Tier-I requirement.

In conclusion, I would like to give our guidance on the key variables for the financial year 2016-17. The credit growth to be around 9-10% and deposit growth to be around 6-7%. CASA share to rise to 32%, domestic NIM for the last quarter for the year to be around 2.40%. Reduce amount of slippages by about 15% or so over the next two quarters. With expected recovery in the economy and continued rebalancing efforts at the bank end, we firmly believe that we will deliver on this guidance. Our competitive offering on interest rate should facilitate an increase in credit offtake. The bank is consistently adding new CASA accounts which should help in raising share of CASA deposits. Decline in cost of deposits along with various Digital initiatives will also facilitate in achieving margins. Further, continuous focus on recovery and upgradation will help in restructuring NPAs. As we witness traction in the rate of delinquencies, our greatest focus during rest of the year would be on resolution and recovery.

Meanwhile, we will continue to deepen structural transformation for building capabilities in the organization. Thank you so much.

With that I invite questions from my friends.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, you mentioned 15% decline in slippages. By that do you mean around Rs.7,000 crores of slippages which we have seen in the first half decline by 15% in the second half, is that a correct assessment?

Shri Arun Tiwari: No, Amit, every quarter I said.

Amit Premchandani: So the next quarter number should be 15% lower than this quarter and the fourth quarter number should be lower by 15% from Q3?

Shri Arun Tiwari: I did say in my initial briefing that two of the accounts which came just like that, so if you normalize that number, on that number we will be able to reduce 15% in each quarter.

Amit Premchandani: So we should take say Rs.2900 crores as a normalized number and you will be able to reduce it by 15% every quarter?

Shri Arun Tiwari: Correct.

Amit Premchandani: This quarter we have seen large SDRs, Rs.2,555 crores. Are these related to NPLs predominantly or these are standard accounts?

Shri Arun Tiwari: Standard.

Amit Premchandani: So Rs.2,500 crores of SDR is standard assets which are converted.

Shri Arun Tiwari: Exact amount of Rs.2,555 crores.

Amit Premchandani: Of Rs.4,679 crores outstanding SDR, what is the standard share?

Shri Arun Tiwari: All are standard.

Amit Premchandani: All 5/25 are also standard, right?

Shri Arun Tiwari: Yes.

- Amit Premchandani:** If I can ask you accounts kind of information, in Telecom, Rs.1,000 crores of SDR, which account the Telecom moved into SDR or if you can indicate, is it the tower infrastructure kind of asset or telecom operator?
- Shri Arun Tiwari:** Yes, tower infrastructure.
- Amit Premchandani:** The sector from which we have seen large slippages this quarter if you can guide us on that as well as Rs.1100-odd crores of restructured accounts which slipped if you can tell us which sector is from?
- Shri Arun Tiwari:** I am talking about the larger within that because there are a few smaller accounts also; Steel is there, Pharma is there, Paper is there, not that particular industry.
- Amit Premchandani:** Of the overall Rs.3,000-odd crores that has slipped, what would be the largest account – it will be three digit or it will be more than that?
- Shri Arun Tiwari:** The largest is if you ask me it is below Rs.400 crores.
- Amit Premchandani:** One account which was supposed to get upgraded this quarter from cement, has it been upgraded this quarter?
- Shri Arun Tiwari:** Yes.
- Amit Premchandani:** On the RAM side, the mortgage part of the Retail book, it is basically LAP, right?
- Shri Arun Tiwari:** Yes.
- Amit Premchandani:** So sir in the Retail segment, we have seen some although in decimal points around 20 basis points uptick in NPLs, are you seeing that in LAP or is it across the board?
- Shri Arun Tiwari:** It is across the board, in as much as LAP is concerned, account may get into for a short period because of some cash flow issues into NPA category, but ultimately money will come.
- Moderator:** Thank you. The next question is from Mahrukh Adajania from IDFC. Please go ahead.
- Mahrukh Adajania:** Just to clarify the two lumpy accounts that slipped, that was how much?
- Shri Arun Tiwari:** Rs.400 crores both together.
- Mahrukh Adajania:** But the size of the largest account is also Rs.400 crores individually?
- Shri Arun Tiwari:** Yes, you are right.
- Mahrukh Adajania:** You would have access to really other databases and you would have access to the accounts classification therefore of other banks. So where do you think you would have the maximum

gap with other banks like in steel, textiles, any such analysis or any such data you would be able to share with us?

Shri Arun Tiwari: No, I think Mahrukh, the difference maybe that in one bank it became NPA in Q1, in next bank it became in Q2, that is the only differentiator.

Mahrukh Adajania: So the Cement account that got upgraded, that is part of upgrade, right, because upgrade has gone up substantially, the amount ...?

Shri Arun Tiwari: That is right.

Mahrukh Adajania: Where do you see recoveries moving to?

Shri Arun Tiwari: Mahrukh, what we have done, two plus two four persons of the rank of general managers are pressed into the services of recovery. One of the airlines failed because the same management try to run the full fare airline and a budget airline. Similarly, when it comes to recovery also, you need a different kind of a strategy, different kind of a mindset to recover the smaller accounts and the large accounts. So this DART which we have put in place, people drawing from entire India, they are meant only for accounts Rs.50 crores and above. Smaller accounts, there are a different kind of team. Even about 700 or 800 people team indifferent regions have been created to recover those smaller accounts, where you do not need much of the specialization, it is just getting in touch with the borrower on a consistent basis and recover it.

Mahrukh Adajania: Sir, your AFS duration has come down substantially which is not bad given the rising global yields, but how was that managed in one quarter?

Shri Arun Tiwari: Mahrukh, to book profit, we have sold some long-dated securities from AFS.

Prakhar: This is Prakhar from Edelweiss. Just a couple of questions from my side: Can you give some sense on your SMA-II and SMA-I accounts?

Shri Arun Tiwari: SMA-II stands at Rs.18,781 crores which constitute about 7.6% of my loan book.

Prakhar: Actually gone on a sequential basis by around Rs.2,000-odd crores?

Shri Arun Tiwari: Yes, just about Rs.2,000-odd crores.

Prakhar: What is the SR outstanding at our books as of now?

Shri Arun Tiwari: Cumulative amount is Rs.670 crores, within that SR is I think Rs.578 or so crores.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

- Sameer Bhise:** Just one question to reconfirm the entire SDR is standard, standard and none of it is restructured?
- Shri Arun Tiwari:** SDR, there are restructured accounts, around Rs.1900 crores.
- Sameer Bhise:** So of the Rs.4679 crores, around Rs.1900 crores is restructured?
- Shri Arun Tiwari:** Yes.
- Sameer Bhise:** Any overlap with 5/25, are they all standard, standard?
- Shri Arun Tiwari:** Absolutely standard-standard.
- Moderator:** Thank you. The next question is from Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** I just have one question; based on our experience over last one or two cycles, what is general amount of recovery after account has turned NPA, just a ballpark number as a percentage of the NPA outstanding if I were to kind of estimate that what would be the recovery on gross sense, NPA over next 3-4-5-years, then that number would be helpful as a guidance?
- Shri Arun Tiwari:** Total NPA should be about 5%. One more thing, if you look at any banks this stress portfolio or NPA portfolio, most of it is coming from the core sector which is stress sector. I am pretty sure the kind of actions in a concerted manner being taken by the regulator and the ministry. Things are looking better and the most stress portfolio was of Steel. If I look for last 3-4-months, they have been EBITDA-positivity in all the Steel accounts.
- Vaibhav Badjatya:** But what I was actually asking for is not that the recovery in a year or so. Suppose if Rs.1,000 crores account has turned NPA just as an example, then based on our historical experience on an average, till the time the account is sorted out, what we would have recovered suppose Rs.200 crores or Rs.300 crores or Rs.500 crores, whether it would be 20%, 30%, 50%?
- Shri Arun Tiwari:** It is very industry-specific and the reasons it has got into NPA.
- Management:** But if you take that as a one portfolio about 50-60% we will be recovering over a cycle of two to three years.
- Moderator:** Thank you. The next question is from Gaurav Agarwal from PNR Advisors. Please go ahead.
- Gaurav Agarwal:** Sir, just wanted to check this Discom and Air India exposure into restructured standard books. Is there anything left there now?
- Shri Arun Tiwari:** Nothing.

- Gaurav Agarwal:** So at the end of Q1 it was Rs.578 crores and it is zero in this quarter which means some part must have converted to bonds, right?
- Shri Arun Tiwari:** Yes, that is right.
- Gaurav Agarwal:** On this S4A portion, I think all of these is standard-standard, right... Rs.275 crores?
- Shri Arun Tiwari:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** What is the outlook on the credit cost guidance?
- Management:** For the current year we are looking at somewhere around 1.5-1.6% on credit cost which is compared to around 1.7% last year and going into FY18 it should come further down to around 1.5%.
- Sneha Ganatra:** How do you see the recoveries and upgrades? Where do you see your gross NPA settling for FY17?
- Shri Arun Tiwari:** As we said, going forward, of that normalized number, slippages will be 15% less each quarter. Recovery part should be about 10% or so of the portfolio. I answered this for somebody else also about 5-10-minutes back, if economy improves, NPA of most of the banks is the larger part is coming from the core sector. I am sure if we have to attain that 7.6% growth in GDP, it cannot ever without core sector being fixed. I am pretty bullish that sooner this core sector would be fixed and if the core sector is fixed, the recovery would be at a much faster pace and so on the writing back of the provisions.
- Sneha Ganatra:** So it would be a fair assumption that your net slippages would be at zero considering the slippages as well as the recoveries and upgradations happening?
- Shri Arun Tiwari:** No, that will be little too far-fetched. Sneha, we are making an assumption if economy picks up and me and you we have been expecting economy to recover for last 1.5-2-years, yes, if it picks up, of course, why not, but some, no, it will be little too far-fetched assumption.
- Sneha Ganatra:** But could you say where you expect your gross NPA to be settling for FY17 considering the 10% credit growth?
- Management:** We have spoken about the 10% credit growth and also that the rate of slippage will come down 15% every quarter. Secondly, on the recovery side, whatever we have seen in the first half, the second half will be 10-15% higher than that, that is the basic we are working on.
- Moderator:** Thank you. The next question is from the line of Nilanjan from Jefferies. Please go ahead.

- Nilanjan:** Sir, when I look at the split of NPA between the Retail, Agri, MSE and Medium and Large, how has been the recovery in Q2 and how do you expect recoveries to pan out in each of these sectors?
- Shri Arun Tiwari:** Nilanjan, the entire portfolio has been segregated into different kind of industries, different level of loans and there are separate teams for each and everything. The large ticket loans, they need more concerted efforts, we have to put in people who know the recovery whereas the Retail part is concerned, it is simple, if you get in touch with the customer once, twice, thrice, money comes back. The easiest example will be our credit card dues. If it becomes overdue and unfortunately it becomes NPA, somebody had not touched base. So I am pretty sure this will be all pervasive, the recovery in number of accounts would be much greater than Retail, amount would be much-much lesser, but will take shorter time period, whereas in the large critical accounts, it will take little longish but the recovery amount will be more.
- Nilanjan:** Could you help me with actual recovery plus upgrades in all of these segments?
- Shri Arun Tiwari:** I do not have Retail, Agri, MSME numbers of recovery. If you can send me an e-mail, I will reply then.
- Nilanjan:** Was there any slippage out of those 5/25 standard accounts?
- Shri Arun Tiwari:** No.
- Moderator:** Thank you. The next question is from Prakhar Sharma from CLSA. Please go ahead.
- Prakhar Sharma:** Sir, a couple of questions: One, basically on the investment book you mentioned that there was large treasury gains which you have booked and now the duration of the book has come off. But the AFS book has also increased substantially. Is it because of the transfers or you have basically added more to the book at the shorter duration?
- Shri Arun Tiwari:** We have added more to the book at the shorter duration.
- Prakhar Sharma:** Is it because the loan demand is weak in terms of deploying funds because short duration will also means probably an active spread and you were running with reasonable buffer on SLR?
- Shri Arun Tiwari:** We all prepared for making a kill at times. If you see, Rs.15-16-17,000 crores of deposits we mopped up deposits. There were two reasons: One, that FCNR (b) redemption and two such time that happens, why not to make some treasury gains on that?
- Prakhar Sharma:** How much would be your FCNR(b) deposits?
- Shri Arun Tiwari:** 617 million.
- Prakhar Sharma:** On the LAP book, could you discuss in terms of based on the reported Housing Loan book, what percentage of that would be LAP and what customer segment are you working with?

- Shri Arun Tiwari:** About 60% of our Home Loan portfolio falls under priority sector.
- Prakhar Sharma:** But that could also include LAP also, right, because LAP is ...?
- Shri Arun Tiwari:** No, LAP is not included in that, a) and b), whatever is beyond that, I think average ticket size is about Rs.40 lakhs.
- Prakhar Sharma:** Sir, on the proposals or the discussions that are on between the banks and the RBI regarding the S4A regime, if you could just help us understand what have banks pitched in and what could we expect or where is basically the negotiation at this point of time, just some insights whether your comfort...
- Shri Arun Tiwari:** Let me tell you one thing; regulator never negotiates, they carry you out and then decide, but one thing is sure, if you remember in the last credit policy, governor did say about S4A that they are tweaking it. First and foremost is that anything above Rs.500 crores. There are accounts which are below Rs.500 crores. Two, it was relating to cash flow. Present cash flow cannot service it. If it were able to service, there was no question of any restructuring. If there are 15-lenders, 20-lenders, 90-days resolution is not at all possible. That is what IBA has asked about 180 or 210-days for end-to-end resolution, because 90-days they ask, there should be forensic audit also, not possible. Under this dispensation, I have to make more provision than making it NPA. So there was nothing for the lender to this restructuring under S4A. On many fora, different occasions, different times, different people at reserve bank, these things have been discussed.
- Prakhar Sharma:** But just one thing like every quarter even in terms of the high slippages which now we are expecting to decline, but close to about 1% or 1.25% of the loan book is becoming NPL and practically speaking the NPL or the slippages number is still at the 3Q levels, it has not come off 3Q of last year. Why is the portfolio showing as much stress...are you seeing underlying economic numbers also weak at least for your portfolio or is it specific to your portfolio, there are segments where you are seeing some stress?
- Shri Arun Tiwari:** I would put it this way; all fresh accretion of NPAs is not to one particular industry or not to one particular geography, it is all pervasive, it is mix and match of all kinds; it has Retail, it has MSME, it has Agriculture, it has got Mid-Corporate, but propensity of large accounts guiding into NPA has decreased substantially. I will just put it this way; lot of MSMEs or MSE, which were suppliers to large corporates, they are feeling pain. If these large corporates get back to the track, these MSMEs will also be back on track maybe with a lag of three months.
- Moderator:** Thank you. The next question is from Nitin Agarwal from Antique Stock Broking. Please go ahead.
- Nitin Agarwal:** On one hand, we are looking for a 15% sequential decline in slippages, but we are still guiding for 1.5% in credit cost for the next fiscal, very similar to 1.7% what we are seeing in this year.

So are we looking for any increase in coverage ratio because that is one metric I think which we have been maintaining so far?

Management: Hedging will also be there because the credit cost will depend on the hedging cost because the accounts which have been serviced as on date, we have to make more provision in the year to come, so credit cost will remain more or less we have told 1.6%.

Nitin Agarwal: So this quarter, of the total NPL related provision, how much is the hedging related provisions?

Management: I think around 60% to 65% is hedging related, but the fact remains that over the next two quarters this hedging related provisions will be much lesser than what has happened in this quarter and that is why I say that credit cost for the full year will be around 1.6%.

Nitin Agarwal: Can I have the GNPL distribution across sub-standard doubtful and the like?

Management: We can share it offline.

Moderator: Thank you. The next question is from Sohail Halai from Motilal Oswal Securities. Please go ahead.

Sohail Halai: Just wanted to understand what is driving strong growth in Infra loan and Construction on a sequential basis?

Shri Arun Tiwari: Working capital requirements, #1 and #2 is if you are talking about Infra, it has been restructured under whatever scheme, if it comes for additional funding, it has got to be done. Under Infra, the Solar Renewable is coming quite a lot. Even in the Road sector, if you look from 6.5 Kms per day and now it has crossed 30 Kms a day.

Sohail Halai: So just to clarify, basically in terms of 5/25 and SDR, only 1900 is something that is restructured, rest all are standard, standard, right?

Shri Arun Tiwari: Yes.

Sohail Halai: What is your outlook on return ratios...ROA and ROE going forward?

Management: Domestic margin will be around 2.4% for the Q4 and credit cost around 1.5% for the full year.

Moderator: Thank you. The next question is from the line of Shashin Upadhyay from ICICI Securities. Please go ahead.

Shashin Upadhyay: The margin guidance that we have given at 2.4%. Would it entail what kind of overall yields which are currently indicated as 7.72% for the quarter?

- Shri Arun Tiwari:** I think one factor which will lead to the margin increase from current level to 2.4% would be that 35% of our term deposit as of end September are maturing in the next six months and those are at contracted rate of around 7.5-7.8% while the present deposit inflow that is happening is at much lower rate around 100-150 basis points lower than that. So that is one of the key factors which will support in the margin expansion. Also that secondly if you see the rate of delinquency is coming down sequentially, so the kind of interest reversal which used to happen, that amount will also be little lower.
- Shashin Upadhyay:** If you could indicate, based on the current product rate, what will be the overall loan yields outstanding as well as if you were to assume a constant state for FY17?
- Management:** Right now, we are somewhere around 8.95%, so maybe another 5 to 7 basis points fall maybe there, not more than that.
- Moderator:** Thank you. The next question is from Kaitav Shah from SBI CAP Securities. Please go ahead.
- Kaitav Shah:** Sir, the question was on CASA. SA has done clearly very well. So what are the drivers?
- Shri Arun Tiwari:** We opened about 25 lakhs accounts in CASA, #1; #2, I did touch in my brief remarks to begin with, the transformation which is happening, all the new accounts which are being opened, the average deposit in them is much higher than other accounts.
- Kaitav Shah:** What are the targets?
- Shri Arun Tiwari:** CASA would be about 32%.
- Moderator:** Thank you. The next question is from the Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Sarvesh Gupta:** Sir, what should be the ideal loss in case of the slippages and the NPA that we are seeing right now given that there are many large accounts which are set in the last few quarters?
- Management:** The ballpark number could be somewhere around 15-20% in terms of LGD.
- Sarvesh Gupta:** So given this, what kind of PCR should we target?
- Management:** For this year, we are moving from 50.5% to around 55%, but next year it could be a movement from 55% to 60% level.
- Sarvesh Gupta:** So in the H2 of this year, we will be increasing the PCR from 50% to 55%, is it?
- Management:** Right.
- Moderator:** Thank you. The next question is from Ravi Singh from Ambit Capital. Please go ahead.

- Ravi Singh:** Sir, I just wanted to clarify one comment which you made in your opening remarks, did you say you like to target ratio of 100 basis points above the minimum regulatory requirements and does that mean that Tier-1 ratio which is currently at 8.6%, you like to have it closer to 9.25% by this year end?
- Shri Arun Tiwari:** Yes, you are right, that is the statement I made. Even today our board has given us permission to raise another Rs.3,500 crores. Plans are on for the remaining five months of this financial year.
- Ravi Singh:** What would be the route of capital planning in terms of QIP, rights issue?
- Shri Arun Tiwari:** We are keeping those options open wherever we save money.
- Moderator:** Thank you. The next question is from the Nilanjan from Jefferies. Please go ahead.
- Nilanjan:** A couple of questions on the restructured side sir. How much of this Rs.5,600 crores is currently under moratorium?
- Management:** I think this year around Rs.500 crores is coming out of moratorium, FY18 and all, Rs.1,000 crores is coming out of moratorium.
- Nilanjan:** The slippages that we saw about Rs.1,196 crores, is it like that all of them came out of moratorium?
- Shri Arun Tiwari:** This Rs.1,196 crores, not that they came out of the moratorium period so they went burst.
- Nilanjan:** If I look at the Q1 number, let us say the Textiles account was Rs.396 crores and now it is Rs.494 crores, it seems there has been about Rs.100-odd crores more disbursement probably to existing in restructured accounts. So where do we adjust it in our movement of restructured assets?
- Shri Arun Tiwari:** I need to get some more information on that and we can discuss this offline.
- Nilanjan:** Last quarter we said Rs.218 crores is stalled projects; we did not give out this number... I do not exactly remember what we discussed about this in the last quarter but what is the number right now and which are the stalled projects?
- Management:** We have around Rs.1,400 crores exposure to stalled projects, right, and these are largely into power and the road.
- Nilanjan:** They continue to be in the same state?
- Management:** Right.

- Nilanjan:** The Road Projects is probably still around hovering in that Rs.700-odd crores. Do you expect because of the changes that the RBI and government are bringing this could move out of the portfolio pretty soon, would that be a fair assessment?
- Shri Arun Tiwari:** I think so.
- Nilanjan:** In what period of time, do you expect this to happen?
- Management:** Maybe kind of 18-24-months from today.
- Moderator:** Thank you. The next question is from the Tushar Sarda from Athena Investments. Please go ahead.
- Tushar Sarda:** I wanted to reconfirm the provision that you will make in the second half. So you already made Rs.3,000 crores in the first half. If you say credit cost is 1.7, then it could be around only Rs.1,500 crores of provision, is that correct?
- Management:** It will be around that number because this is not something we give guidance for, but the one thing I said earlier that the credit cost on account of seasoning which has happened in the first half will be much lower in the second half of this year. The large part of the credit in second half will come on account of the fresh slippages.
- Tushar Sarda:** How much fresh slippages do you expect?
- Management:** From the level of slippages which happen in Q2, 15% of decline we will see in each of the quarters remaining of the current year.
- Moderator:** Thank you. The next question is from Abhishek Sahoo from Citi Group. Please go ahead.
- Abhishek Sahoo:** Sir, my question pertains to your Micro and Small segment that you lend to. If I look at your NPLs in that segment, they have consistently been inching up over the last few quarters and your growth rate in that segment also remains one of the highest, about 22%. So I just wanted to understand in terms of risk mitigation, are there any changes that you have made in that segment?
- Shri Arun Tiwari:** First of all, I would just like to bring more clarity here because we do not share that number in terms of bifurcation of SME into the industry part or the services part. So even the loan growth which is happening in case of ours for the MSME sector, it is more into the services of the SME and the industry sector. Actually, the industry sector of ours is growing almost in low single digit and the entire growth is happening largely from the services. Also, the NPLs which we are seeing in the MSME, largely the medium part, is happening in the industry loan, not in the services loan, services loan, fresh accretion is much lower than the industry part of MSME.
- Abhishek Sahoo:** So, would you expect that over the next one or two quarters, the NPA levels in this particular segment would peak out?

Shri Arun Tiwari: Yes, definitely, this trend which I shared with you, we are seeing this trend almost for the last 4-to-6 quarters in MSME services industry and I do not think there is any trigger right now which kind of alter the trend.

Moderator: Thank you very much. Ladies and Gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Shri Arun Tiwari: Much grateful, thank you so much. We as ever try to put the most questions which are asked during these kinds of conference calls to the best possible ability, and the clarifications. If any of them, there still have some questions to answer, you can always ask, send us an e-mail and we will respond to that.

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