



“Union Bank of India Q1 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Union Bank of India Q1 FY20 earnings conference call hosted by Elara Securities Private 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah from Elara Securities Private Limited. Thank you and over to you sir.

Chintan Shah: Good evening everyone. On behalf of Elara Capital, we welcome you all to the Union Bank Q1 results conference call. We have with us Union Bank's MD & CEO, Executive Directors, and senior management team. I would like to request CFO madam to read out disclosure statement, and thereafter, we would begin the call.

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

Rajkiran Rai G: Good evening. It is my pleasure and privilege to welcome you all to the Union Bank of India investor conference call on financial results for the quarter ended 30th June 2019. It was an interesting quarter intervened by general elections which saw a resounding mandate for incumbent government. Our electorate has ensured that India has firm political capital to take decisions at a time external environment is full of challenges. There is geopolitical concern around Middle East and trade war accentuating among the two largest economies of the world. Europe is also caught in Brexit-based uncertainty. These developments have taken toll on investment sentiments with global trade seen subdued going forward. The international monetary fund has thus revised its outlook for global growth including India which is seen somewhat resilient among emerging markets.

Coming to banking and finance, while credit growth is seen recovering, the broad-based demand is still some time away. There emerge a few concerns in non-banking space which call for concerted response from all stakeholders. The bank financials need to be appreciated in this context wherein recovery on large-ticket accounts got delayed while new challenges emerged.

Friends, I am happy to tell you that Union Bank continued to progress well along the direction we shared at the beginning of the quarter. Our domestic advances rose to 2.7% over last year

while share of RAM sector in loan book stood at 55%. The CASA share in deposits stood at 34% similar to large year. Average CASA, however, improved by 110 basis points to 34.4% which reflects in our cost structure. At operating level, net interest income stood at 2519 crores while fee income stood at 990 crores. It was 2626 crores and Rs. 1208 crores respectively during corresponding period last year. Of fee income, the treasury income stood at 345 crores, an increase of 19.8% over the last year. Yield on advances improved 30 basis points sequentially to 7.81% while the cost of deposit came down by 5 basis points to 5.61% from March 2019 quarter. Net interest margin stood at 2.12%. If we adjust for income accounted on stress book and earning assets in the denominator as has been reported by some of peer banks, our NIM stood at 2.36%. Cost to income ratio improved to 46.2% compared to 55.3% of previous quarter.

The bank noted an operating profit of 1887 crores during Q1. The provision stood at 1662 crores which resulted in a net profit of 225 crores during the Q1 as against 130 crores profit of previous year same quarter, an increase of 73%. The provision coverage ratio stood at 65.9% as of end of 30th June compared to 56.5% of previous year. There was a slippage of 3090 crores which is distributed across the loan book. Our recovery excluding NCLT stood at 479 crores as against 459 crores during Q1 of last year, an increase of 4.36% annually. Gross NPA stood at 15.18% while net NPA stood at 7.23% as compared to 16% and 8.7% of the corresponding quarter Q1 of the last year. Credit cost stood at 1.77% during Q1 in line with our guidance.

We are expecting good recovery from NCLT referred accounts this quarter which will reflect in better financials during Q2. This brings me to an update on strategic transformation initiatives being undertaken in the bank. There is an apparent shift in quality of underwriting through centralized structure. There are marked gains in service efficiencies as reflected in turnaround time. Today, 3/4th of our advances are processed through centralized structure.

Of our loan book, the rating mix has positively changed towards better rated exposure. This is much evident in incremental book. Likewise, our new structure on rural credit named Union Samruddhi Kendra's has shown good momentum in tapping rural market. The bank has taken several new initiatives in human resources management through introduction of job family and implementation of IT based performance management. We are simultaneously focused on improving customer experiences through additional services on IVR, availability of additional languages and services on mobile app, doorstep banking to senior citizens and differently enabled members of our society.

Friends, bank financials are reflective of overall developments in economy while government has begun its spending cycle post budget, the effects on overall activity will be visible going forward. It will take a couple of quarters before positive gains start reflecting in financials with the improved credit offtake and better loan servicing. Union Bank has created right kind of structures to support the growth aspirations.

Before I conclude, let me reiterate our guidance for the financial year 2019-20. Credit growth to be 9% to 11% and deposit growth to be between 7% and 9%. NIM of about 2.4%. Credit cost of 2.15% and PCR at around 68%. Cost to income of around 45% to 46%. Our endeavor will be to contain gross NPAs below 12% and net NPA below 6% by March 2020.

Thank you. Now we are open for questions.

Moderator:

Ladies and gentlemen, we will now begin the question & answer session. Anyone who wishes to ask a question may press '*' and 1 on their Touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will for a moment while the question queue assembles.

The first question is from the line of Ankit Chowdhary from B&K Securities. Please go ahead.

Ankit Chowdhary:

Firstly, on this NIM part. The NIMs have declined quarter on quarter. I understand the credit cost has declined, but what are the other reasons which led to the decline in the NIMs.

Rajkiran Rai G:

This time actually there was a good resource mobilization but then we could not increase our advances during the quarter. Our investments grew by almost 15,000 crores. So, the yield in investment is almost 100 basis points lower than the advances. So, this is one of the factors because now actually the credit offtake is happening. So, gradually these 15,000 crores with move to the loan book. Then I think the NIM will catch up. So, that is one of the major reasons.

Ankit Chowdhary:

The yield on funds has grown by 18 basis points and your cost of fund has grown by 18 basis points. It seems that CD ratio is the only reason. Is that so?

Rajkiran Rai G:

Yeah, CD ratio is the main reason.

Ankit Chowdhary:

Secondly, just wanted to understand what led to the higher slippages in the MSME sector this time?

Rajkiran Rai G:

We had some regulatory forbearance on MSME which was rolled back from January onwards. These are the 180-day cycle actually. So, during these 6 months, we saw slippage from those MSME accounts which got the benefits earlier because their NPA was pushed from 90 to 180 days and the reversal started happening from January. So, there were some elevated slippages which got the benefit earlier, but they slipped during these 6 months.

Ankit Chowdhary:

On the CET part, now the CET1 has gone below the benchmark. So, what are the measures we are taking for capital raise to improve the CET1?

- Rajkiran Rai G:** The benchmark is 8% for March '20. We have sufficient time to reach there. Right now, it is 7.375 but anyway we will have some capital raising plan, maybe after the Q2 results. Let us see. But at this point of time, we are above 7.375.
- Ankit Chowdhary:** What is the current status on Dewan. What are the things going out over there?
- Rajkiran Rai G:** Dewan is in a very advanced stage of submitting and discussing resolution plan, very close actually. Once that is done, I think we will put it out and let us see whether all stakeholders come together. IRDA has already agreed that insurance companies can sign the intercreditor agreement. So, we are waiting for the mutual funds to come to a consensus. If that happens, I think the resolution plan will be pushed. Even otherwise, when the resolution plan is put out, I think even the investors who are looking for taking over DHFL, they will be keen because they are trying to see at the quality of assets and the kind of categorization we are doing within the asset class and the kind of restructuring we are doing in this. After that, we will see a lot of investor interest. So, hopefully, once the plan is out in the domain, I think we will have better interest in this. So, we are confident that some resolution will happen.
- Ankit Chowdhary:** So, something can come up in 2nd quarter, the current quarter itself?
- Rajkiran Rai G:** Otherwise, it will slip to NPA this quarter. If you are not able to push through this management change before September, then we may have to classify it because actually June onwards, they have not paid the instalment. We have that issue and so we are trying to quicken the process.
- Ankit Chowdhary:** Sir, what is our SMA2 book, corporate?
- Rajkiran Rai G:** SMA2 corporate book is still small, it is 2596 crores.
- Ankit Chowdhary:** What is the total SMA book, sir?
- Rajkiran Rai G:** Slightly moved up 10,919 because of the retail and MSME SMA2. Even though it is not retail, in the slippage you would have seen, it is very low actually. The retail slippage in this quarter also was 297 crores but then they come to SMA2 very frequently. It is because of the repayment habit. So, major portion is retail out of this 10,919. Rs. 4628 crores is retail SMA2.
- Ankit Chowdhary:** What is our BB and below book? We have not provided the number.
- Rajkiran Rai G:** That is mentioned in slide #34.
- Moderator:** The next question is from the line of Marukh Adajania from IDFC. Please go ahead.
- Marukh Adajania:** There are so many parties to the DHFL resolution. There are bondholders, there are retail NCD holders, and getting their consent to a resolution plan is going to be a very time-involving process, right? Do you think you will be able to resolve the account in the time deadline that you have?

Rajkiran Rai G: We are trying our best because it is in the best interest of everyone. Right now, there is no clarity for many of the stakeholders about the resolution plan. Once we have the resolution plan which can be coming maybe in a day or two, I think maybe the stakeholders then they may agree once they actually look at the plan. That is a hope actually. We are pushing for interregulator meetings also. Insurance regulator has already come on board actually. If the SEBI comes on board, then the mutual funds also may come on board. They are hinting that if the SEBI approves, they will come and sign the ICA, because in the given context, it is for everybody's advantage that we agree for a resolution plan. Otherwise, everybody will lose money. It is in the interest of everyone. So, once the resolution plan is put and once the regulator is on the same side, I think hopefully we should be able to quickly resolve.

Marukh Adajania: But is there any timeline for the first part of the resolution to be put?

Rajkiran Rai G: Yeah, actually we wanted it in the last week but then somehow certain discussion on some particular asset class got prolonged. So, I think it is any day now. Timelines are like to build consensus before the 3rd week of August, and once the consensus happens, I think the investors will be coming and even we are seriously thinking whether banks also can claim a stake, but then there is a loud thinking. If the investor is not coming because the management change is a must. So, what we did in Jet, we can do here also but anyway unlike Jet, this is a business we know better.

Marukh Adajania: Other than your SMA, what will be your standard stressed corporate loans? Because there are so many loans that have been downgraded. You have your SMA but outside SMA also, like DHFL and all are still standard. They are not even SMA.

Rajkiran Rai G: They are SMA now.

Marukh Adajania: But there will be many others that are standard, right?

Rajkiran Rai G: Maybe another case you can take is Sintex but for that, I don't see there is a stress in the corporate book as of now. The numbers are sometimes looking big because of these power companies which come to SMA0 and SMA1 because of these Discom payment issues but they go back. They will not slip actually but then they come. We don't put out those numbers because in SMA0 and SMA1, the movements are quite frequent. If you have access to CRILC data, you will see a lot of movement actually. But we put out SMA2 because this is actually 60 days default.

Marukh Adajania: But outside that, there will not be any standard....?

Rajkiran Rai G: Not much except the two names that we are discussing.

Marukh Adajania: The other thing that I wanted to check is that in terms of the June 7 circular, what is your amount that is already under resolution?

Rajkiran Rai G: There are 23 ICAs signed actually. As we go forward, we will tell you how much amount is involved in ICA. Most of them are already NPA accounts and the provisioning is happening. Maybe there are few accounts which are SMA2 or SMA1 we have assigned it.

That number I will give. You can go ahead with any other questions.

Moderator: We will take the next question from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: The SMA2 number for corporate book is about 2800 crores. Is that right?

Rajkiran Rai G: Corporate book is 2596.

Roshan Chutkey: And this comprises of just two accounts?

Rajkiran Rai G: No, this has many, many accounts.

Roshan Chutkey: DHFL and Sintex is a part of that?

Rajkiran Rai G: DHFL doesn't come under SMA2 as of now. It must be in SMA0.

Moderator: The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, I wanted to know on the resolution part. How much amount we are expecting on the recovery from the NCLT and overall recovery from the IBC cases?

Rajkiran Rai G: This year on the NCLT accounts, it is not only from the 1 and 2 lists actually from the overall NCLT because we have 26,000 crores portfolio under different NCLT stages. So, we are expecting 5000 odd crores of NPA to be settled. Out of that, the recoveries can be around 3200 crores.

Sneha Ganatra: What would be the run rate of the slippages we are expecting for the next 3 quarters?

Rajkiran Rai G: Slippage side, we are slightly overshoot in this quarter but overall, we are keeping it between 3 to 3.5 delinquency.

Sneha Ganatra: Credit cost would be around 2% plus, right?

Rajkiran Rai G: It is 2.15. In the first quarter, it is within the range actually. We expect that it will be within that 2.15.

Sneha Ganatra: The credit growth outlook for the FY20 would be? Because this time credit growth has been a little bit muted.

- Rajkiran Rai G:** First quarter generally is a dull quarter because the offtake will not be there much actually but then I think we retained that target of 9% to 11%.
- Sneha Ganatra:** Outlook on the margins?
- Rajkiran Rai G:** 2.4 actually. The first quarter generally is a bit slow for us. We will look at a NIM of 2.4 during the year.
- Sneha Ganatra:** When you are giving a guidance of the delinquency of 3% to 3.5%, you are including whatever the stress which are hearing in the current scenario?
- Rajkiran Rai G:** In this, I have not factored DHFL, to admit, because if that happens, that is beyond this but for that, yes, everything is factored in.
- Sneha Ganatra:** What is the exposure of the DHFL?
- Rajkiran Rai G:** DHFL my exposure is, fund based can be around 2500, non-fund included around 2700.
- Sneha Ganatra:** Any exposure to Indiabulls Group?
- Rajkiran Rai G:** We have, but we don't see any problem there. It is almost similar kind of exposure but we are not seeing any problem there.
- Sneha Ganatra:** In the power sector, are we seeing some sort of a resolution considering what is going on in the DISCOMs as of now?
- Rajkiran Rai G:** I think there are two approvals which have already happened. GMR Chhattisgarh and Korba where the approvals have already happened and GMR Chhattisgarh, even the documentation is done. These are the two accounts which will I think go out of NPA book in this quarter.
- Moderator:** We have a follow-up question from the line of Ankit Chowdhary from B&K Securities. Please go ahead.
- Ankit Chowdhary:** Sir, on the recoveries, we are seeing that from the NCLT, there would be 2300 crores of recoveries.
- Rajkiran Rai G:** 3200 recoveries dealing with about 5000 crores.
- Ankit Chowdhary:** So, what is the overall recoveries we are expecting for the year?
- Rajkiran Rai G:** Our internal recovery mechanism is aiming at a recovery of about 6000 crores plus the NCLT. Without NCLT, we should be hitting about 6000 crores of recoveries. It has not happened in the 1st quarter. The 1st quarter recovery upgradation is around 770 crores. Generally, we shoot above 1000, I think it can reach up to 1500 per quarter. We still keep that number; we will be

reaching around 6000 crores of recovery. There are a lot of compromises and other things have happened, like we have given a generalized scheme up to 50 crores for compromised settlements. So, a lot of traction is being built. It is all online settlements now. Maybe this quarter onwards, we will see that numbers really improving. Overall, NCLT plus our recoveries should be in the range of 8000 to 9000 crores this year.

Ankit Chowdhary: Sir, in the previous question, you have mentioned that GMR Chhattisgarh and Korba could go out of the NPA during this quarter. So, wanted to know what is the exposure we have and how much we have provided on the same?

Rajkiran Rai G: Korba, our exposure is 272 crores, and the provision held is 68. So, I have a gap of about 97 crores to make provision now as per the settlement. There is no write-back, actually it is minus 97. Whereas GMR Chhattisgarh, exposure is almost 500 crores. The provision held is almost 200 crores. There is a write-back of about 12 crores. The provision is adequate there.

Ankit Chowdhary: Sir, what is the exposure we have in Sintex?

Rajkiran Rai G: Around 300-350 crores.

Ankit Chowdhary: In the Lodha Group, we have exposure over there?

Rajkiran Rai G: Lodha, we have some small exposure. Right now, I may not have the number and then they are in different entities actually. Maybe offline you can take the number. Not a very big exposure. Don't know the exact number but it is a very small exposure.

Ankit Chowdhary: Do we have exposure to Cox & Kings?

Rajkiran Rai G: No.

Ankit Chowdhary: Anything on the Radius Developers?

Rajkiran Rai G: We have a small LRD which is below 200.

Ankit Chowdhary: Sir, the depreciation provision has gone up. We assume that it could be basically downgrade of this DHFL, RADG, and other accounts, right?

Rajkiran Rai G: Depreciation provision or the investment book?

Ankit Chowdhary: We have some investment exposure over there.

Rajkiran Rai G: It is basically some of the debt converting to equity, I think that is maybe the reason. The investment book depreciation is DISCOM bonds (UDAY bonds).

Ankit Chowdhary: So, we do not have exposure in let us DHFL and RADG in any form of investments?

- Rajkiran Rai G:** When I gave the number, it includes the investment book also. I said about 2500 crores fund based which includes about 250 crores of investment book also.
- Moderator:** The next question is from the line of Shreya Shivani from CLSA. Please go ahead.
- Shreya Shivani:** I just wanted the outstanding ARC receipt number for 1Q.
- Rajkiran Rai G:** Security receipts?
- Shreya Shivani:** Yeah, correct.
- Rajkiran Rai G:** Receipts are around 915 crores.
- Moderator:** We have a follow-up question from the line of Marukh Adajania from IDFC. Please go ahead.
- Marukh Adajania:** Sir, I just wanted to re-clarify what is your exposure to the Reliance ADAG group?
- Rajkiran Rai G:** I think last time also, similar question came up. In ADAG group, our exposure is on Reliance Naval and RCom. These are the major exposures we had which are already treated as NPA. Infra, our exposure is 127. Reliance Home Finance, it is I think below 100. Capital, we don't have. I think it is some 9 crores of investment or something like that.
- Marukh Adajania:** You have not lent to the promoter in any capacity?
- Rajkiran Rai G:** No, that we don't do.
- Marukh Adajania:** To the Essel group of companies including Zee, Dish, promoter companies....
- Rajkiran Rai G:** We have Essel Group exposure, but they are between 200 and 300 crores. I will give you the number. Not very major but then, yes, we have exposure.
- Moderator:** The next question is from the line of Pritesh Bumb from Prabhu Das Lilladher. Please go ahead.
- Pritesh Bumb:** Sir, just wanted to check our philosophy on the coverage ratio because our net NPA is now at about 7.23 and if say DHFL and all they fall, that could put pressure on your provisions, we may go into loss again, and again there is a PCA framework. Tier 1 also can come down. How do you look at it? If you have on the provisioning side, what is the philosophy there?
- Rajkiran Rai G:** On the negative side when we look at it, yes, these are the accounts which can pull us down, but other positive side is the Essar definitely is going to happen in Q2. Because the parliament also has done the amendment, so I think the legal process is almost complete now. I think we can see this recovery in the month of August or max September. So, that is going to give me a substantial cushion. As I already said, NCLT process itself about 5000 crores of gross NPA

will come down resulting in about 3200 crores of recovery. These are the accounts which are very close to resolution which we listed. All these accounts if they materialize, there is 1300 crores of write-back happening. So, I think that should be able to take care of Dewan Housing in the worst case scenario. That is our call. Otherwise also, this year our ROA projection of 0.2 which actually is looking at something like 900 to 1000 crores of profit for the year gives us sufficient cushion because even if it slips, it is a 15% provision in the beginning. I think we should be able to take care of that. I think it should not push us to losses.

Pritesh Bumb: Second was basically on this treasury gains. It looks like quite lower, what we are also witnessing in other PSU banks. Generally, the treasury gains are much lower than what we anticipated, maybe because of the yields falling down, but when we see there is no large treasury gains from the Gsec side, there will be some bond side also problems. But then, treasury gains is not that much. What is the gains which we can expect in Q2, maybe if not in Q1?

Rajkiran Rai G: Yeah, Q1, about 385 crores was the treasury gain from this. Actually, it is much higher than the last quarter, maybe because the investment book also is not that big, but if the same situation continues, maybe we will look at about 450 to 500 crores in this quarter looking at the July trend. Like the running numbers what we see, it can be higher than that also but then I think it seems safe to assume 450 to 500 crores of treasury gains in this quarter provided that things continue more or less the same.

Pritesh Bumb: Also, will we be sitting on some M-to-M gains which we have not put it in our provision side. Anything on that as well so that you are also pushing at provisions?

Rajkiran Rai G: We have not factored that. Yes, that also may be a possibility.

Moderator: The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Sir, just a few questions. Firstly on the power sector. There is a lot of talk that has been there that resolution is going to take place but there has been a bit of delay because of several reasons. And again, we are getting to know that there are some resolutions that might happen. So, just wanted to understand how these things will progress overall for the power sector, not about just one or two accounts.

Rajkiran Rai G: The power sector as it is, the problem is well recognized and the provisioning's have happened. The resolution part actually is progressing a bit slow. Now, some of the cases have hit NCLT and some are in ICA. Let us see. Some of the resolutions which we wanted outside NCLT can happen. That process has started. But then, having seen last 2 years, they are not very confident that this will happen but the two accounts the way it has happened, because Adani came in, in both these accounts, it happened. So, let us see. I am also not very clear how it will shape up but then, anyway, recognition and provisioning side is happening. So, not

much risk left in this book as of now. If the resolutions happen, then it will be a write-back to us.

Rakesh Kumar: So, overall on the private power sector side, what is the total outstanding that we have and how much we are provided on the entire book which is NPA?

Rajkiran Rai G: On the total power exposure of 24,600 crores, PSU is 8484. That is all safe actually. It is about 16,139 to the non-PSUs. Out of that, 14,600 is for the generation. Out of that, 6512 is already NPA. So, the provisioning level here can be around 56%.

There was a question on the ICA. Actually, we have signed 23 ICAs and amounting to almost 12,000 crores. Out of that, 17 are existing NPAs. Six accounts amounting to about 5400 crores are standard accounts as of now.

Moderator: There is a follow-up question from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: Sir, these 6 accounts where you are about to sign ICAs, the exposure is more than 2000 crores to the system and its SMA account?

Rajkiran Rai G: Half of it is 1 account. The rest you would have understood what it is.

Roshan Chutkey: The power sector recognition if you can just repeat that, sir? I missed the numbers.

Rajkiran Rai G: In the power sector, non-PSU exposure is 16,100 crores kind of thing. Out of that, 6512 is NPA.

Roshan Chutkey: And what about the rest?

Rajkiran Rai G: Others are standard actually and they are basically where the DISCOM payments are happening, but then at a slower pace, but then they are all okay. So, 6512 is NPA and 56% is the provision coverage on these accounts.

Roshan Chutkey: Remaining 10,000 crores, you are comfortable?

Rajkiran Rai G: Yes.

Roshan Chutkey: And it is not a part of your SMA at all?

Rajkiran Rai G: It can be in SMA also because they are all depending on DISCOM and anybody depending on DISCOM, 1 month 2 months are very normal delays. But then they are okay. They are there for the last 2 years like that.

Roshan Chutkey: What is our exposure to McNally?

Rajkiran Rai G: McNally was 120 crores.

Roshan Chutkey: It is an NPA already for us?

Rajkiran Rai G: McNally, yes, already NPA.

Somebody asked about Essel exposure. Essel exposure is 725 crores, but that includes some of the SPVs, road projects, and all that. As of now, there is no issue in that. It is not direct exposure to the Essel. It is as a group as a whole. So, it has some road projects also within that.

Moderator: The next question is a follow-up question from the line of Pritesh Bumb from Prabhu Das Lilladher. Please go ahead.

Pritesh Bumb: Sir, just wanted to check what is there in this Other Retail Assets which has grown by about 46%, and in the last 2 years, it has almost doubled in terms of loan book from 8000 crores to 16,000 crores?

Rajkiran Rai G: Portfolio buyout this quarter we have not done much. What exactly you want in that?

Pritesh Bumb: Sir, there is some 16,000 crores in composition of retail assets. That is about 27.8% of the retail. If you see the composition of retail assets, there is some others component which has grown very substantially quarter-on-quarter also and year-on-year also and it has been growing for some time now or some quarters.

Rajkiran Rai G: Portfolio buyout is a strategy and we are not seeing any stress in this book. This actually has both MSME and retail. Retail, mostly it will be mortgage and housing loans.

Pritesh Bumb: But what I wanted to understand is there is housing and mortgage separately classified. So, it will fall in that as well, right? You mentioned buyout separately. Is that way?

Rajkiran Rai G: I think these data given is not very complete, it's a bit confusing.

Pritesh Bumb: Sir, I will take it offline. Second question was on the capital raise where your CET is almost like 8%, and though tier-1 is okay, but have you asked the government for any capital?

Rajkiran Rai G: As of now, no. We have not approached the government yet because we are definitely looking at raising some capital on our own. We will wait for Q2 results because Q2 is supposed to be a bit of testing times. Hopefully, if we are sailing through Q2, I think Q3 we are definitely looking at some capital raising.

On the portfolio buyout, they have not put out any number. What they say is this Others of 27% includes our portfolio buyout. Out of that, what is the portfolio we have not mentioned. In retail, it is 1920 crores of portfolio buyout which is included in Other Retail.

- Pritesh Bumb:** That is this quarter we bought or total?
- Rajkiran Rai G:** No, this is the previous, accumulative up to now. And this quarter, we have not done any portfolio buyout.
- Moderator:** The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.
- Rakesh Kumar:** Just one small query, sir. The DISCOMs are not getting into their purchase of power, they will be getting the LCs and all. So, how sustainable this thing is? Would not that impact their performance even more?
- Rajkiran Rai G:** DISCOMs have to buy power, there is no other way. At the central government level, there is a good appreciation of this problem and there is a lot of pressure being built on the state governments and DISCOMs to open LCs and to pay these people on time and all that. Somehow, the state governments are not listening and the DISCOMs are also not behaving. But anyway, they need to buy the power from these people, there is no other way. I think it is only the tightening from the governments that can help us. At this point of time, we are stuck actually. But then, there are a lot of meetings happening in the power ministry also on these issues. We are trying to put pressure through them. Let us see. Because we have to live in this environment, we have no other way.
- Moderator:** The next question is a follow-up question from the line of Marukh Adajania from IDFC. Please go ahead.
- Marukh Adajania:** I just wanted one clarity. Do you have exposure to Vodafone Idea and Coffee Day?
- Rajkiran Rai G:** No.
- Moderator:** The next question is from the line of Chintan Shah from Elara Capital. Please go ahead.
- Chintan Shah:** I had one question on the Mudra loan exposure. What would be our total Mudra loan exposure and NPA percentage on that?
- Rajkiran Rai G:** Mudra is around 7000 crores. NPA is around 9%.
- Chintan Shah:** One more thing on the MSME slippages. The slippages in MSME have increased from 11.53% to 13.4% during the quarter. Any color on that?
- Rajkiran Rai G:** MSME slippages were slightly elevated during these 6 months – the Q4 of last year and Q1 of this year. I think this should start moderating now. This is basically because of the forbearance given earlier by RBI to the accounts which could not really pay the instalments and they slipped. I think this should moderate.

Chintan Shah: Are we seeing any concerns on the retail portfolio? In any of the vehicle finance or automobile or unsecured lending, any stress seen in that area?

Rajkiran Rai G: For us, our major retail portfolio is mostly mortgage based – retail and mortgage loans. We are not very strong on vehicle loan and personal loan. If you look at the composition also, it is very small actually. I think the stress even if it is coming, it will come from the personal loan first. In our case, even the personal loans are mostly the PSUs where the salary linkages are there and that kind of thing. We are not very strong in doing personal loan to the private companies, we are not that strong. I don't think for our book there will be any problem on the retail book.

Moderator: Sir, we just have one question from Saikiran from Haitong Securities.

Sai Kiran Pulavarthi: On the liquidity at the system level, when we look at the PSU banks, they are sitting with very high liquidity but what are the thoughts at your end in terms of the CD ratios for the bank as well as for the PSU banks and how do you look at it? The second question is, how are you looking at lending to the NBFCs considering there is a certain demand coming from that sector? However, the risk aversion is there on the banking sector side.

Rajkiran Rai G: On the liquidity side, you are right. There is a lot of comfort actually. We also are surplus and my investment book has gone up by 15,000 crores if you see in this quarter. So, there is sufficient liquidity. That is exactly the reason we brought the MCLR down on the short end. Actually, we have made it very competitive for the overnight and 1 month and 3 months MCLR because there is some window to lend. There is some demand at that segment. So, we will see some offtake happening in the short-term loans. That is what we are driving.

Regarding NBFCs, there is a class of NBFCs where there is no risk and we have lent actually. You would have seen in our book that lending to NBFCs has gone up a bit actually because these are the NBFCs which are beyond any doubt, so continuing our lending to these NBFCs. There is good demand. As the things settle down, I think there will be even the second level and third level NBFCs will start getting activated, but at this point of time, we are restricting our lending to the top-line NBFCs.

Sai Kiran Pulavarthi: Because now the MCLR of your bank is competitive versus lot of other banks, what is the kind of corporate credit you are comfortable with?

Rajkiran Rai G: We are looking at the short term now because we have sufficient liquidity and we need to place at least 10,000 to 15,000 crores quickly. So, we are looking at the short end and because there is some demand there. But then, they are at close to 1-month MCLR kind of thing, so we are looking at that. This is coming from some top corporates and also some of the top PSUs. That is where we are trying to play as of now.

Long term, yes, it will come from the Infra demand. The good construction companies and particularly these HAM projects and some of the gas distribution companies and all that, there

are some sanctions happening now. It will take time but then, yes, there will be some offtake in the Q3 and Q4. This is at the non-fund based level now because they are taking guarantees and LCs now.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you sir.

Rajkiran Rai G: Thank you for all the questions. I hope we were able to clarify. This quarter has been like transformative that way with a lot of changes happening and for us also, it was a bit dull quarter because Q1 generally is a bit dull. At this time, there were election related activities at the branch level and a lot of transfers, movements, and all that. We hope that the projections whatever we have given, we will be able to see that kind of traction in Q2, Q3, and Q4. Thank you for all the cooperation. Going forward, we will see a lot of action on the NPA recovery side. That is my expectation.

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