



## “Union Bank of India Earnings Conference Call for period ended 30<sup>th</sup> September 2021”

**November 02, 2021**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Union Bank of India Earnings Conference Call for the period ended 30<sup>th</sup> September 2021. The bank is represented by the Managing Director and CEO, Shri Rajkiran Rai G; Executive Director, Shri Gopal Singh Gusain; Shri Manas Ranjan Biswal; Shri Nitesh Ranjan; Shri Rajneesh Karnatak; and other members of the top management. 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 Ms. Ranjita Suresh, Assistant General Manager, Investor Relations. Thank you and over to you ma’am.

**Ranjita Suresh:** Thank you Stephen. Good evening, everyone. I welcome you all to the Union Bank of India Earnings Conference Call for the period ended September 30th, 2021. The structure of the con call shall include a brief opening statement by MD & CEO and then the floor will be open for interaction. Before getting into the con call, I'll read out the usual disclaimer statement.

I would like to submit that certain statements that may be discussed during in investor interaction, maybe forward-looking statement based on the current expectation. 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. With this, I now request our MD & CEO for his opening remarks. Thank you, over to you sir.

**Rajkiran Rai G:** Good evening, everyone. It's a pleasure and privilege to meet you all for Union Bank of India financial results for the quarter and the half year ended September 2021.

India's economic recovery is showing strong momentum with the onset of festive season. The domestic demand is gaining strength, while supply conditions are recouping fast, buoyed by the robust performance of agricultural sector and revival in manufacturing and services, the strong activity augers well for the banking system. Recently, Moody's ratings agency has revised the outlook for the Indian banking system to stable from negative on the back of stabilizing asset quality and improved capital drive. This also affirms confidence in banking sector.

Coming to the Bank's business and financial for the quarter and half year ended September 30th, 2021.

Operating profit of the bank grew by 25.66% YoY and stood at Rs. 6,074 crores for Quarter 2 of the year '22. Net Interest Income registered a growth of 8.52% YoY and stood at Rs. 6,829 crores. The global NIMs stood at 2.95 for Q2. The net profits stood at Rs. 1,526 crores for this quarter against a net profit of Rs. 517 crores in the corresponding quarter of previous year, thus registering a growth of 195%.

In terms of business, the RAM sector noted 8.48% YoY growth raising its share in domestic loan book to 58.51%, and within RAM sector the retail advances have grown by 9.35% and agricultural advances have grown by 13.06%.

The liabilities side, the total deposits have grown by 3.15% year on year, led by low-cost CASA deposits, which grew 10.77% year on year. The CASA ratio thus stood at 37.16% as of 30 September 2021 as compared to 34.61% a year ago.

Of assets quality, the gross NPA ratio stood at 12.64%, as of 30<sup>th</sup> September '21 compared to 14.71% of the comparable quarter last year. The net NPA stood at 4.61%, which was 8 basis point lower sequentially.

On the capital front, the bank has raised Rs. 1,150 crores under Tier-2 bonds during the current quarter. The CRAR for the Q2 stood at 13.64% and CET-1 stood at 10.16%.

Thank you. Now I welcome the questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

**Mahrukh Adajania:** I have couple of questions. These write offs include only Dewan or there was some other write offs during the quarter as well? That's my first question.

**Rajkiran Rai G:** You wanted to know these write off of the first quarter has any particular...

**Mahrukh Adajania:** Yes.

**Rajkiran Rai G:** No, this is a general process actually, wherever we reach 100% provisions, we gradually write off, but then we balance in such a way so that the credit growth is not impacted, because moment we write off outstanding credit comes down to that extent. But this time we took a cautious decision to write off, generally we write off about Rs. 4,000-5,000 crores per quarter. This time we have taken a call to write off about Rs. 10,000 crores. These are various accounts, but where the 100% provision is made.

**Mahrukh Adajania:** Was DHFL written off and then subsequently recovered and is that part of this quarter's write off?

**Rajkiran Rai G:** DHFL was, maybe I'll answer that after checking, when it is written off, I need to check actually, but it is recovered as written off account only. That's why the recovery is in other income because it was written off account when the recovery came. I will check and confirm to you when it is written off.

**Mahrukh Adajania:** Our exposure would be around Rs. 2,400-2,600 crores.

- Rajkiran Rai G:** On Dewan Housing?
- Mahrukh Adajania:** Yes.
- Rajkiran Rai G:** It was Rs. 3600 crores.
- Mahrukh Adajania:** The question is on margin, basically corrected because of slow loan growth, right?
- Rajkiran Rai G:** You're saying that net interest margins are lower because of the low credit growth?
- Mahrukh Adajania:** Yes.
- Rajkiran Rai G:** Like this may be partially correct when you talk of retail, but then if you talk about corporate credit today, the interest rates are so low, if you are pushing for corporate credit growth, particularly at the short end, actually like I don't think, the interest margins will improve. It will further come down.
- Mahrukh Adajania:** Basically, from here on we can expect margins to decline somewhat?
- Rajkiran Rai G:** May not be. I was talking about the present situation. Today if I push for corporate credit growth, the corporate credit today is at a very low rate. So that will actually squeeze the margins, if you go for aggressive corporate credit growth particularly short-term credit today. But, as you go along, now we are already seeing signs of interest rate firming up at the short end of the maturity curve. Like if you're looking at term repos or variable repos, we are already seeing the rates firming up and the indication from RBI also was almost similar because gradually they are going to suck the liquidity out of the system. The short-term interest rates, which have gone very low, are likely to firm up. As we go along interest rates will firm up and then the margins, actually we have given a projection that the net interest margins will be around 2.9% to 3%. And we are sticking to that. I think, we will not go below that, because there is another advantage. Our CASA has grown well, composition of Casa, which was 34% last year, now it is stable around 37% and the deposits what we are getting they're coming at much lower rates. The deposit rates don't get re-priced that fast, loans get re-priced very fast whether it is getting lower or higher.
- Mahrukh Adajania:** My last two questions are, firstly on total restructuring, you have given proper details about OTR-1 and OTR-2, that's very elaborate, but would there be any MSME restructuring over and about that? What will be the total restructuring including any past or current MSME restructuring?
- Rajkiran Rai G:** Actually, we have given you the details of restructuring 1.0 and 2.0, as per RBI guidelines. The details are already there in the presentation. Last time I had shared with you, that, there was a 2019 guidelines of MSME restructuring before the COVID came, there we have a restructuring of about Rs. 2,469 crores under MSME. That is specific to MSME, we have 2,469 under that.

- Mahrukh Adajania:** My last question is on operating expenses. So, has there been any, do we have any rough calculation of what will be the impact of new family pension norm?
- Rajkiran Rai G:** Actually, we have taken one time provision of a family pension of about Rs. 380 crores. This was on estimated basis, because the Reserve Bank has given the permission to spread it over 5 years. For this year, actually we estimated to be around Rs. 380 crores. Accordingly, should have waiting for March quarter, we have made a provision this quarter, because we had the comfort this quarter because of good recoveries and the provision write backs what we had. We have taken Rs. 380 crores and another Rs. 115 crores we have made provision for the NPS. Because, this New Pension Scheme, moving from 10% to 14%, we have made a one-time provision of Rs. 115 crores. Roughly Rs. 500 crores one time, employee cost is there in these numbers.
- Mahrukh Adajania:** What will be the total liability of these, the total shortfall? Estimated of course it has to be firmed up but according to your current estimates?
- Rajkiran Rai G:** It is 380x5.
- Mahrukh Adajania:** And 115 is absolutely one time.
- Rajkiran Rai G:** Actually, because up to now what should have been paid, so that we have made one-time hit and now onwards it will be paid monthly. And family pension anyway goes out of the pension fund only, so there is no expense to our book. We have to create a corpus and from the corpus this pension will be paid. So, this Rs. 380 crores will go to the corpus, pension fund corpus.
- Moderator:** The next question is from the line of Madhu Kela from MK Ventures, please go ahead.
- Madhu Kela:** I have two, three, questions. I hope I can take few minutes of the call. We calculated that you have provided roughly Rs.1.45 lakh crore in the last 5 years from 2015 till let's say '21 of the first half. I wanted to understand from you that, how much of this amount you think will get recovered, which is already been provided for and in what timeframe? Let's say if I take a three-year view 22, 23, how much of this money will come back?
- Rajkiran Rai G:** Difficult to give you estimate, but then looking at the progress of different recovery and the OTS going on, actually in the next 3 years at least 15% to 20% of that should come back according to our estimates. It is very difficult to predict. It depends on how we are good to because these are the accounts either written off, fully provided and at various stages of legal resolutions, but with the NARCL coming in some of the big accounts going there. We should expect that 15% to 20% of that should come back. Why I will say that is, you will see many quarters like this. This quarter, you had one big recovery which came back straight to the profit. Similar accounts we will see in many of the quarters going forward. These are the good times because already the books are cleaned, huge provisions are made. We should see this write back also happening. Ultimately if you take a longer time frame of 5 years, I say that about 30% should come back, at least 30%.

- Madhu Kela:** That's the number which I was looking, you have Rs, 1,45,000 crores, let's say even 20% comes back, that will be roughly...
- Rajkiran Rai G:** Yes, so much of capital coming back.
- Madhu Kela:** Roughly 1000 crores capital which is equal to the market cap. What is your experience in the last 2, 3 years, whatever you are provided for or 100% written off, technical write off, how much of the typical recovery has come back in last three years?
- Rajkiran Rai G:** Yes Mr. Ashok.
- Management:** See, I will just take it forward. I think our MD Sir rightly pointed out everything and he has mentioned. The total exposure vis-à-vis half is MT-LT itself is around 500 accounts amounting to around Rs. 65,000 crores. This resolution definitely, I'm expecting that by 2022 or 22, 23, and the 23, 24 maximum two years span, definitely these resolutions are going to take place because generally if you take that 330 days resolution time period and some litigation also if you factor it, another 2 financial years, this entire resolutions are going to happen and now with NARCL coming in picture now, I think we have already identified a lot of accounts. Maybe in this quarter and going forward in the last quarter of this financial year we are expecting around 13,000 to 14,000 crores we will be able to shift in that NARCL. And realization-wise also in fact for the last three years if you see the realization, NCLT realization if you see, the average if I take for the last three years, it is in the range of around 30% to 35%. First year it was 40%, then subsequently it is coming down, but average realization very conservative if I take, around 25% to 30% realization definitely it is going to come. So, if you take that 60,000 which is already there in the NCLT, 25% minimum also if you take definitely a good number is going to come through that NCLT process. Other than that, NCLT also, I think lot of resolutions are happening outside IDC also like sales to ARPs at the consortium level, then NARCL. So, all those things put together, I see that this year definitely it is going to be a good year for our bank. Then 2022-2023 that also it will be a good rewarding year. So, going forward another 2-3 years definitely, I think whatever things are locked up, we will be in a position to unlock all those things.
- Rajkiran Rai G:** Further to supplement what Ashok said, on these (+) 60,000 crores plus which is in NCLT, our provision coverage is more than 95% and in the first six months our recovery from technical write-off is more than 2000 crores. Just to give you a color to what you mentioned. So, out of almost 10,000 crores recovery about 20% is coming from technical write-off accounts.
- Madhu Kela:** This is not exactly, my point is on, Mr. Ashok, I am sure you would agree with the sentiment in the real estate sector improving, specifically in the last six months that will aid to a recovery effort and also maybe the realization itself will improve from the written-off account. And that is why I wanted to understand, what is the two potential of this?
- Management:** Yes, I agree with you. Definitely I think Q3 and Q4 are definitely the realizations are going to high.

- Rajkiran Rai G:** I think specific question Mr. Madhu Kela asked when we look at this realization most of the realization comes because of the real estate value. I think we are not factored the appreciation in real estate. When we say 25%, 30%, we are very conservative actually. Because the real estate is picking up, we may see much better realization also, but then very difficult to predict now but then very fact that out of 7,000 crore slippage of June 2000 crores is recovered in the next three months. By September out of 7000, 2000 recovered by one simple notice. Because this is mostly mortgage bank loans. So, people are quickly paying actually. So, what you say is right actually, because the appreciation of the real estate market will see uptick in our recovery.
- Madhu Kela:** But if I may just give you a small suggestion from an investor perspective, if you can tell us that what will be the collateral value, maybe in the next quarter call, out of this 1,45,000 crores which is being provided for in the last five years, what will be the last estimated collateral value which you have? Then I think investors will be in a better position to take their own guess that how much will you be able to recover. I am sure you may have that number. I would request, at least you should discuss this number in the next quarter call.
- Rajkiran Rai G:** We will give that, sir.
- Madhu Kela:** Now coming back, you give a guidance of 15,000 crores for the slippage in the current year. Our first half slippage itself has been 13,794 crores in the first two quarters. Is there any change in the guidance? Do you expect that you will recover quite a lot which has slipped in the first two quarters?
- Rajkiran Rai G:** Actually, our guidance on the net basis will still stand because 13,700 includes 2,600 crores of Srei. If you exclude that the slippage is around 11,000 crores and 11,000 crores excluding Srei is the gross slippage of two quarters. As I already mentioned 2,000 crores of June slippage is already recovered. So, according to us, if you look at the first half slippage it is only 9,000 crores plus Srei. So, if you are taking 9,000 crores, so our slippage over the next half year, we don't expect that it will be more than 5,000 because looking at the way it is shaping up because even this quarter if you exclude Srei our slippage was hardly 4,000 crores. So, it is still moderating. Our collection efficiencies have reached almost 96% levels. So, we don't foresee much slippages going forward. The collections have been very robust, upgradations are happening. So, our net slippage for the year will still be between 14,000 to 15,000 crores.
- Madhu Kela:** This you are saying including Srei, or excluding Srei?
- Rajkiran Rai G:** Excluding Srei.
- Madhu Kela:** That will still be a fantastic number. Coming back to operating profit, of course we saw a big jump in this quarter from 5,300 to 6,074 crores. How do you see the trend will be over the next 4-6 quarter? Do you think we will be able to maintain this rate of around 6,000 crores operating profit per quarter?

- Rajkiran Rai G:** No, sir, we have given a guidance that our operating profit will stabilize around 5,000 crores per quarter till we see some good uptick in the credit growth, which we likely to accrue maybe end of Q3 and Q4. Till then our operating profit will stabilize around 5,000 crores. This time actually we had the advantage of Diwan Housing coming in, but then when we add 1,500 to the income about 500 one-time provisions also, we have taken above the line that is particularly for the pension and the new pension scheme. So, about 1000 crores, you can say that it's contributed by the Diwan Housing to the operating profit as of now. So, we can estimate that it will be around 5,000. But we will also see some divestment in subsidiaries in the coming quarters which is at an advanced stage which will be above this. And also, some of the settlements which are likely to happen will add value. Otherwise from the normal operations, our operating profit should stabilize 5,000 cores for the next two quarters, 5,000 per quarter.
- Madhu Kela:** My last question, when do you think we will be less than 2% net NPL, by which year, do you have any internal target or any aspiration to be by this time we should be less than 2% in net NPL?
- Rajkiran Rai G:** Our estimate is by March 2022 we should be close to 3.5 and 2022-2023 we should be like close to the number what you are mentioning.
- Moderator:** The next question is from the line of Jay Mundra from B&K securities. Please go ahead.
- Jay Mundra:** A couple of questions. First on restructuring. You have given phase one and phase two, and then MSME numbers that you have also called out separately. But is there any other erstwhile restructuring that were carrying? So, what is the total stock of standard restructured number? If you can help with that.
- Rajkiran Rai G:** This is all. Actually, these numbers whatever we have disclosed this is the restructured book, there is nothing else.
- Jay Mundra:** And the outstanding provision would be closer to 10% on all these numbers?
- Rajkiran Rai G:** Yes.
- Jay Mundra:** And second thing, how do you account for these slippages out of restructuring? Is this the 90 DPD or there is some regulation wherein you may have to downgrade the restructured account even if they are below 90 DPD? Is there some conservative accounting there?
- Rajkiran Rai G:** When it comes to retail and MSME, basically this restructuring is only elongation of repayment. There is no structuring of debt here actually. It is only simply giving them more time for repayment, that the restructuring which has happened. So here the 90 DPD works. What you are mentioning is some breach of covenant which can happen only in the corporate book. But we are not seeing that happening as of now on the corporate restructuring. That actually that NPA possibility comes if there is a breach of covenant.



- Jay Mundra:** Secondly, you have given the SMA 2 number which is currency data. If you have the number handy for the entire bank, including below 5-crore ticket size also?
- Nitesh Ranjan:** SME 2 is 14,344 crores, SMA 1 is 7,543. Below 5 is 4,983.
- Management:** SMA 2 we have disclosed 5 crore, and above which is 0.8% and all SMA 2 without any filling or floor is around 2.3%. Compared to last quarter I think we have shared; it was around 3.6%.
- Rajkiran Rai G:** SMA 2 book is 2.3, without any limits, all accounts including.
- Jay Mundra:** And the last thing, it looks like we have added the 1H PAT in CET 1, just wanted to double-check that.
- Rajkiran Rai G:** Yes. Actually, last time also I shared this that we are going to like, there is deferred tax assets to the extent of 14,000 crores which gets reduced from our equity and CET 1 and book value. So, we had taken a call that will reverse it. So, last time we reversed about (+) 500 plus crores. This time we have reversed about 823 crores. So, this 823 crores actually like when we reverse, so that gets reduced from that deduction. So, it gets added to the CET. In addition to that about 400 odd crores of fraud provision which was getting reduced from the equity CET 1 actually, so that we made full provision during this quarter and knocked it out. So, these two put together adds about 1,250 crores to the CET 1, that is why it is that level.
- Jay Mundra:** Just to understand this, how does this work, that you have a stock of DTA above a certain threshold, it gets reduced from net worth and as you utilize that the amount becomes successively lower and hence capital gets released.
- Rajkiran Rai G:** Actually, that gets debited to my profit actually like when I reverse it. See, DTA if you have to reduce, we have to make provision from profit actually, because this is a bit complicated structure we create, this was created when we were making very huge provisions earlier and we were incurring losses because of our provisions were made more than our operating profits also. So, there is a way of creating DTA. Now, since we are deciding that we are to move to the new tax regime in the one-to-two-year timeframe so, this actually DTA adjustment will entail a loss of about 5,000 crores is our rough estimate. So, we decided that about 2,500 crores we will knock out this year and about 2,500 crores next year. So, by March 2023 we will be prepared to move to the new tax regime. So, that is our strategy. And meanwhile when I am reducing this deferred tax, as you are right, because beyond a point it gets reduced from the net worth. So, that actually comes down, the deduction part comes down. So, this time it has come down by these 823 crores. Plus, actually this fraud provision differed also gets reduced from the net worth. So, this quarter since we had the cushion, so this 400 odd crores of fraud provision, we have made full provision. So, this is returned back to net worth now, both the things. So, about 1,260 crores gets added to net worth.

- Moderator:** The next question is from the line of Prabal Gandhi from Antique Stock Broking. Please go ahead.
- Prabal Gandhi:** The first question is on the NPL provision. Even if I reduce for Srei and even if I reduce for the 4 billion that you mentioned, even then the credit cost provisions are quite high at 28-29 billion. What is the reason there?
- Nitesh Ranjan:** There is a normal ageing provision plus the provision for the NPA during the quarter.
- Prabal Gandhi:** Any estimate of how much aging provisions are left to be done for this year?
- Nitesh Ranjan:** Maybe for the rest of the year ageing provision will be close to around 60 basis points.
- Management:** And 3,200 crores ageing provision.
- Nitesh Ranjan:** At the point of credit cost on account of the ageing provision.
- Rajkiran Rai G:** That is the two quarters, next two quarters, that is the ageing provision.
- Prabal Gandhi:** That is 3,200 crores.
- Rajkiran Rai G:** Roughly. This can vary a bit.
- Prabal Gandhi:** On Srei we made 15% for this quarter?
- Rajkiran Rai G:** Srei we made 65, we were 30, so we made another 35%.
- Management:** I think these are one of the reasons you see higher provision because this was a standard asset and we had kept 30% provision in that. Now this quarter it has slipped to NPA, and that 30% standard provision has also come here and additional 35% also we have made, so 65% provision we have made in the NPA account. So, that is the reason I think you are observing that provision number is high.
- Management:** Earlier 30% was in standard asset provision.
- Prabal Gandhi:** Also, you mentioned the 4 billion in the last participant question that was also included in the provisioning, right?
- Rajkiran Rai G:** That was the deferred provision on frauds, so that also came in this quarter, so we made the full provision of 400 odd crores, yes. So that's why, actually this credit cost doesn't necessarily relate to the present slippage.
- Prabal Gandhi:** Secondly on the recovery and upgrade expectation for the second half.

- Rajkiran Rai G:** Actually, the first half, we had given a projection of 13,000 crores of recovery upgradation for the full year, so we have had about 10,000 crores in the first 6 months, so we have increased our target. So, we are planning at least another 6000 crores of recovery upgradation in the next 6 months. So, the recovery and upgradation target for the full year is about 16,000.
- Prabal Gandhi:** And this also includes the upgrades and recoveries?
- Rajkiran Rai G:** Yes, it includes upgrades and recoveries.
- Prabal Gandhi:** On the NARCL, how much will be transferred in the first phase?
- Rajkiran Rai G:** NARCL, last time we made roughly 8000 crores is math. But then now the advantage is even the accounts which have declared as fraud also can be transferred, so we are identifying the next set of accounts also. So, we think that this year we should be able to transfer about 12,000 crores.
- Prabal Gandhi:** This is in both the phases, phase one and phase two, 12,000 crores?
- Rajkiran Rai G:** Phase one, phase two is already identified. I think, yes, phase one and phase two. This will be the phase three before March. The fraud accounts and other items, there had to because of processed. Actually, we have processed the first lot even the second lot. have not factored earlier because these guidelines have come subsequently. That the monster in our bank is. That is a thing.
- Management:** Fraud accounts were not factored earlier because these guidelines have come subsequently, so that amount in our bank itself is around 12,000 crores. That is the thing MD sir is telling.
- Prabal Gandhi:** Just last question on the MSME side, how much stress are you seeing now and on MSME restructuring, how much do you expect some slip?
- Rajkiran Rai G:** We are not seeing much slippage in MSMEs now. It is stabilizing and the collection efficiency also substantially has gone up. This quarter we saw slippage of 1,526 crores from them MSME book actually. It includes the slippage from the restructured book also. So, like roughly, if you look at the restructure book of 5,000 crores of MSME, yes from the 1.0 and 2.0, about 10% has flipped from that book, from the resolution 1.0 resolution. 2.0 roughly if you're taking it that is 5000 crores, about 10% has slipped from that book and which has gone to NPA now.
- Prabal Gandhi:** And any further expectation, how much the incremental slippage can be from this book?
- Rajkiran Rai G:** It's difficult to estimate. In MSME we feel that the worst is over. The numbers are moderating. We are looking at the numbers presently. The run rate should come down substantially because last quarter we saw 1500 and maybe as we go forward, it will be substantially less than this for the next two quarters.

- Moderator:** The next question is from the line of Rishikesh Oza from Robocapital.
- Rishikesh Oza:** My first question is that our GPOP is on a good track. Just wanted to know if you are maintaining a guidance on 12,000 to 13000 crores of provision for this year.
- Rajkiran Rai G:** You are talking of the credit cost.
- Rishikesh Oza:** Yes, credit cost.
- Rajkiran Rai G:** Actually, since the profitability is good, so we are trying because we have a net NPA which is slightly higher than the peer banks. So, our strategy is to reach a net NPA level of below 3% as early as possible. We may do some aggressive provisioning on the NPA accounts, more than what is the regulatory required because we have a cushion of the operating profit now and the aging provisions are coming down substantially. This is not necessarily because of the regulatory requirement. It is because of our strategy to increase the provision on NPA and bring the net NPA down faster.
- Rishikesh Oza:** Are we maintaining within 12 to 13 for this whole year? Because we've already taken like around 3500 and 3700 for Q1 and Q2?
- Rajkiran Oza:** That number we are likely to maintain. So, if there is a one-off income coming in the next two quarters then we may increase our provision otherwise this number should stand.
- Rishikesh Oza:** My second question is that you have reversed around 1400 crores of DPI for the H1 and you're saying you will be doing 2500 for this year, FY22.
- Rajkiran Rai G:** Yes, roughly.
- Rishikesh Oza:** So roughly around 1100 crores more will be debited for the next two quarters like for the H2 I am saying, correct?
- Rajkiran Rai G:** Yes.
- Moderator:** The next question is from the line of Himanshu Taluja from Motilal Oswal.
- Himanshu Taluja:** Most of the question has been answered, just one data DPI, what is your DHFL recovery during the quarter and if you can further give in terms of what was the cash recovery and in terms of the bond recovery?
- Management:** Total recovery was 1650 crores. So, in that 700 crores from the cash and the remaining 954crores was from the mort.

**Himanshu Taluja:** How do you see that trend in terms of the growth because our business growth has been muted. So, any credit growth expectations where you see in the next few quarters?

**Rajkiran Rai G:** Actually, see the RAM sector we are okay. I think the growth will further pick up, particularly retail space, agricultural space and to extent MSME space. The problem is the corporate book which is really pulling us down. The problem is basically if you are focusing on corporate credit at this point of time particularly at the shorter end because which is actually the market. So, you have to compromise on margins and the interest rates are really funnily low. So, like that is a difficult market to operate because that will shrink our net interest margins and the interest income. Like we just hope that the Reserve Bank steps taken on variable repo and term repos that they're doing where the short-term rates are stabilizing around 4%. So going forward we will also participate in this market as the rates are firming up. Like maybe the credit growth will be back. On the long-term credit, we have a good pipeline, actually rubbish pipeline but somehow that utilization levels are not there. We have line of produce of more than 30000 crores not used. We have more than 20000 crores of sanctions which are like at various stages of documentation which has to be disbursed. We have a very robust pipeline now where in principle sanctions are given. My expectation is that corporate credit by the end of the year for us also should touch about 6% growth rates. Accordingly, we have revised our credit growth number to 6% to 8% range.

**Moderator:** The next question is from the line of Ashok Ajmera from Ajcon Global Services.

**Ashok Ajmera:** Most of my questions have been answered but still a few data points and some more information. You said about the huge write-off and the recovery for reducing the NPA number of 10,714 crores. What was actually the thought suddenly in this quarter only because it is an exceptional number of write-offs. So, number one how many number of accounts have been written off and how many of them were more than 100 crores?

**Rajkiran Rai G:** I think I may not have that much detail but I'll tell you, see if you observe us for the last few quarters, we are generally writing off about 4000-5000 crores every quarter. That we do regularly because that's the only way to bring down the gross NPA below 10, that is a strategy that we should bring the gross NPA to the single digits. By way of recording and all that some certain things that are happening but then we need to write-off where the accounts are fully provided, as a strategy every bank does it. Why we moderate it is because when we write off it goes out of your credit outstanding also because your credit growth gets affected. That's why banks are bit conservative in writing off but this quarter we sought because we are planning that this time this should come below 13%, so we took a call to write-off bigger amount. But then this happens not in very small accounts, this happen in larger corporate exposures where we are full 100%. So, like maybe offline we'll share how many number of accounts and all that right now, we may not have.

- Ashok Ajmera:** It's okay. So, when we are talking about the gross NPA, so now this NARPL will come very handy because the entire 12,000 crores will go off the gross NPA.
- Rajkiran Rai G:** May not to because some are written-off. So, like about half yes, it may reduce my gross NPA by another 1%.
- Ashok Ajmera:** Yes. That will be a measure this thing in percentage and in absolute terms also. If the number of 12,000 that you are estimating for the entire year including now the fraud accounts also can be transferred. Say roughly if about 20% maybe the valuation comes around that. So you will get around like accordingly 2400 crores of total credit out of that 15% at 360 crores will come in the real cash which in any case will be income. This bond which will come which is a guaranteed government guaranteed bond will that also be considered as a full income, if it is written-off in full income then if it is provided for then reduction in the provision, is that correct? The entire 2400 or 3000 crores odd benefit we are going to get in the next two quarters?
- Rajkiran Rai G:** We are not very sure how RBI will look at it at this point of time. Yes, cash part there is no doubt. It will be booked as income but as the bond part whether we have to continue the full provision or not, there is not much clarity on that. We are permitted to write-back the provision because we have full government guaranteed, yes definitely. That will be above our estimates what we are giving now but then I have my own doubts whether Reserve Bank will permit it actually. They may advise us to continue the provision. We don't know at this point of time, the question is not answered by the regulator as of now.
- Ashok Ajmera:** What treatment has been given to that Piramal bond of 10 years which is a private bond which you must have taken in the security, you've taken the market price of Rs. 79 rupees and then provided Rs. 21 in that bond or what treatment has been given to the DHFL recovery, the portion of the bond from the Piramal?
- Rajkiran Rai G:** Because the Piramal is an AA rated bond issue, it is a fresh bond nothing to do with the DHFL. It is issued by the Piramal and the full value is counted. Why there is a discount on that?
- Ashok Ajmera:** Because the valuation was...
- Rajkiran Rai G:** It's just like any other bond, today if I take a bond of any other business group which is AA rated, I take it at the face value.
- Ashok Ajmera:** I'm not sure, face value, you will have to take the either the market value or the whatever the haircut is to be given.
- Rajkiran Rai G:** Why haircut, it's an AA rated account. It's a new issuance of the bond.

- Management:** There are two things, one is the provisions we have to take and second is the change of management is yes, so it is not a DHFL bond. So both the factors put together the entire provision has to be taken back.
- Ashok Ajmera:** My just last question is that in the SMA 2 less than 5 crores, there is a large number of accounts and the amount is also large. So, have you formed any kind of strategy of reaching those because I believe that many of them must be the small borrower for SMA 2 below 5 crores. What kind of strategy you have adopted and have it implemented and what kind of results it is giving because so as to we have some idea about the future of the SMA 2 to below 5 crores?
- Rajkiran Rai G:** Actually, I don't know which chart you're referring to. The SMA 2, above 5 crores is only 0.79.
- Ashok Ajmera:** I am talking below 5 crores.
- Rajkiran Rai G:** So below 5 crores naturally lot of this SME and the retail accounts will be there. So, we have a good strategy. Actually, we have a call centre and FOA system. Actually, basically we have devised like we can explain you but then we have devised a very good system of follow up. The recoveries are almost like the collection efficiency has reached almost 96% levels now. We don't expect that this will slip. We have a very good collection mechanism and the amount is quite small, actually it is not that big but number of accounts are huge, spread over various places. But we have very good mechanism of follow-up and this thing including our branches plus call centres plus some outsource the agency also for calling on the customer.
- Moderator:** The next question is from the line of Dixit Doshi from Whitestone Advisors.
- Dixit Doshi:** Just one thing wanted to understand, when you say that in the first half our recovery and upgradation is almost 13,000-14,000 crores, I assume you are including the write-offs also, the actual recovery or the upgradation of the...
- Rajkiran Rai G:** We said it is 10,000. The recovery and upgradation is 10,000 in the first half, about 8000 crores of actual cash recoveries plus upgradations to some course of recovery in write-off accounts, that is a 10,000 crores of recovery in the first half. Write-off is not included in that.
- Dixit Doshi:** Recovery and upgradation is around 10,000 crores and write-offs of around 15,000 crores.
- Rajkiran Rai G:** Write-off, yes in the first half about 15,000.
- Dixit Doshi:** Now my second question is regarding this NARCL, so obviously most of these accounts are already written-off and our NPA from many years, so how things will change once it is moved to NARCL, the amounts are not recovered in the books of the banks then what will change once it is moved to NARCL? I mean how the recovery will change.

**Rajkiran Rai G:** Its a limited point you are mentioning but I should give you a brief background; actually see why we thought of NARCL as an institution because actually when we were resolving these big accounts many accounts many accounts we saw that there is a potential of higher value but through this process of a liquidation or NCLT, we are not able to give the value which actually otherwise these assets to deserved. Our simple process of legal process of NCLT is not maximizing the value. We thought that should be alternate mechanism to get a better value. That's why we thought of NARCL and the main advantage of NARCL is a debt aggregation. Today one of the problems we face is there is a multiple creditor system and like taking a decision it becomes very difficult. In NARCL that is going to get aggregated at one level. There is one decision making authority which can take any call on a resolution of asset. Another thing we are enabling NARCL with the resolution company, what we call IDR like debt resolution company which is going to have people from the private sector. We are enabling them with incentives so that they can go to the market and do the value maximization for the SS because what we see, whatever we could resolve in larger SS we have done. The remaining accounts are slightly complicated and they have to be dealt differently. Otherwise through these NCLT process they will get into liquidation and we'll get only scrap value. We have seen some of the companies where our debt is 10,000 crores going at a scrap value of 500-600 crores. That should not happen. So that is why this is created. We should understand the purpose behind it. Yes, short term gains is something which we look at but then this has got a much long-term play.

**Dixit Doshi:** Just one last question, in the last quarter we have this one-off like Srei Infra, is there any big account where you see that may flip into NPA over next six months?

**Rajkiran Rai G:** Hopefully, no.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint we take that as the last question. I now hand the conference over to the management for closing comments. Over to you sir.

**Rajkiran Rai G:** Thank you. Thank you for participating in this conference. We have actually initiated a lot of digital initiatives because like some of the questions which were coming on the recovery side and all that. So particularly we are into era of operation excellence. We have started a lot of digital projects. We are investing heavily on this and it will result in lot of improvement in technology, elimination of redundancies and also like on improving the compliance and also the amalgamation is complete now. We are seeing the synergy benefits accruing actually. As we go along like we will see these operational efficiencies and synergy benefits adding to the bottom line of the bank.

I will conclude with the guidance for the year. We feel for the deposit and advances growth will be in the range of 6% to 8% by the end of the year. The CASA ratio for the bank should be settling around 36% to 37% during this year. The net interest margin, we are maintaining the guidance of 2.9% to 3%. The credit cost to be around 2%, delinquency ratio on net basis as I already explained should be around 2.5%. With this I conclude my remarks. I'm very grateful to





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the analyst community and investor fraternity for their support and feedback. That helps us take informed decision in our journey towards efficiency and profitability. Thank you so much and very Happy Diwali to everyone.

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