



# “Union Bank of India’s Q2 FY’21 Earnings Conference Call”

**November 6, 2020**



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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 September 2020. The Bank is represented by:

The Managing Director & CEO – Shri Rajkiran Rai G.

Executive Directors – Shri Gopal Singh Gusain,

Shri Dinesh Kumar Garg,

Shri Birupaksha Mishra,

Shri Manas Ranjan Biswal, and other members of the top management.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touch tone phone. Please note that this conference is being recorded.

Now, I handover the call to Mr. Nitesh Ranjan – Chief General Manager-Strategy. Thanks and over to you Sir.

**Nitesh Ranjan:** Good evening, everyone. On this concall, we will have the opening statement by our M.D. and CEO and then the floor will be open for interaction.

However, before getting into the concall, let me read the 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.

You are also aware that Andhra Bank and Corporation Bank were amalgamated into Union Bank of India w.e.f. 1st April 2020. Accordingly, financials have been disclosed to stock exchanges. However, to facilitate our investor community, to have like-to-like comparison, the “Investor Presentation” is based on aggregating the audited or reviewed numbers of three banks for September ‘19 and March ‘20 and do not entail any adjustments.

With this, I now request our “M.D. and CEO for his Opening Remarks.” Thank you.

**Shri Rajkiran Rai G:** It is my pleasure and privilege to welcome you all to this concall to discuss financial results for the half year ended 30, September 2020. I trust all of you are in good health. The second quarter of the financial year has been encouraging for us with business getting back to the pre-COVID level helped by gradual unlocking of economic activity. Despite the macroeconomic challenges

across the globe, India seems to have been doing well. Demand resurgence is very much visible in many sectors. Economic indicators allude to a steady recovery in almost all sectors with some sector shooting above their previous year levels as well. Positive outcome from the implementation of Atmanirbhar Bharat, unlocking of the economy is evident in India's high frequency indicators, like sales of passenger vehicles, two wheelers, tractors, and also growth in rail side, cargo traffic, and E-Way bill. The GST collections, UPI transaction, Purchasing Managers Index, etc., indicate a month-on-month recovery in economic activities. There is also a strong demand seen during the festive season. However, the challenge is to ensure that the economic rebound continues in the next couple of quarters and beyond.

Speaking about the banking sector, credit growth remained lower at 5.26% YoY while deposit growth remained robust at 10.51% YoY in September 2020. However, the credit growth should be seen in sync with the support provided by banks to commercial sectors through investment route.

Going into "Union Bank Performance", I would like to give you a brief on where we stand in terms of "Amalgamation Process" before I get into the numbers: We have major developments on amalgamation front during the quarter. Having completed the financial harmonization during preceding two quarters, including loan provisions and employee benefit provisions, the focus during quarter-ended September 2020 was on organizational redesign and technology implementation. Our organization structure has been revamped in line with our strategic focus. Bank has initiated multiple projects aimed at realizing synergies, improving efficiency and digitization. Over 40 cost synergy initiatives are being pursued. Around 350 branches were identified for rationalization and 22 branches were rationalized successfully on pilot basis. Rationalization of around 160 ATMs is in concluding stage.

On "Technology Integration" front, significant progress has been made in core banking system migration. Two phases of migration for 525 branches, that is about 25% branches of Corporation Bank has already been concluded till date without changing the account number for customers. The e-Andhra Bank migration is all set to conclude in early Q4 of FY'21. We have already integrated applications like IMPS, ATM Switch, NEFT, debit cards and RTGS for both the banks.

Let me now share the "Highlights of Performance for the Quarter-ended September 2020." The operating profit for the quarter ended September '20 increased by 1.98% to Rs.4,735 crores compared to Rs.4,643 crores in the corresponding quarter of the previous year. This increase was supported by growth in net interest income by 6.05%, which stood that Rs.6,293 crores. NIM stood at 2.51 as compared to 2.52 in the corresponding quarter last year. Provisions aggregated to Rs.4,218 crores. Net profit of the bank stood at Rs.517 crores, 55.26% increase over the previous quarter. There was a net loss of Rs.995 crores a year ago.

Coming to "Business" deposit growth stood at 3.98% YoY. CASA share stood at 34.61%. The gross advances grew by 1.87% YoY and stood at Rs.6,21,062 crores. Retail advances registered

annual growth of 7.8% while MSME registered a growth of 2.9% compared to a negative annual growth during the preceding quarter. Gross NPA, net NPA ratio declined to 14.71 and 4.13 respectively. Provision coverage ratio increased to 83.16% while credit cost stood at 2.29%. The CRAR for the Q2 stood at 12.38, registering an improvement of 76 basis points quarter-on-quarter from 11.62. CET ratio is now at 8.91%.

On “Digital” front, during the quarter, bank initiated a pilot program for end-to-end digital lending of pre-approved personal loans. This is an analytics-based offering and based on encouraging response, we received during the pilot, the offering will be gradually expanded to multiple locations. Further, bank has also started analytics-based offering in various other areas like home loan takeover, working capital limit enhancement based on sales, home loan, top up based on repayment pattern, etc.,

Though uncertainties remain, however, with encouraging trend of revival in business sentiment, we have the following guidance for the year: Deposit growth between 8% to 10%. Advances growth between 4% to 6%. CASA ratio to be in the range of 35% to 36%. NIM to remain steady around 2.5% to 2.6%. Delinquency around 2.5% to 3%. Restructuring of 2% to 3% with downward by us. The credit cost of 2.5% to 3% range.

This is what I wanted to share with you in brief. And now we are open for interaction and your feedback. Thank you.

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

**Mahrukh Adajania:** So, what would be your collection efficiency in September and then maybe in October?

**Shri Rajkiran Rai G:** Our September collection efficiency was around 75%. But it will improve now, because we do very soft calls at this point of time. We are not into aggressive recovery mode.

**Mahrukh Adajania:** So that means of the total book, 25% of loans have not paid? That is correct na?

**Shri Rajkiran Rai G:** See, actually it is based on a lot of logics what we put into the system. It is not indicative because if you look at my SMA-2, it is only 1.7% of the book. So, if you say collection efficiency of 75%, like you will project that will become NPA, that is not true actually, because SMA-2 is around 1.7%. So, collection efficiency is like broad this thing because we also have amalgamation now -- Andhra and Corporation. The data quality issues are also there. So, like because since we have done assessment, it is coming around 75% but then do not conclude that the other 25% is stress book.

**Mahrukh Adajania:** Sir, what would be your SMA-zero plus one plus two, all the three combined or just the SMA-zero plus one?

**Shri Rajkiran Rai G:** We generally do not give that number. I think we are giving only SMA-2 number; SMA-2 is around Rs.11,000 crores.

**Mahrukh Adajania:** And my second question was on restructuring. Of course, you mentioned that it will be 2% to 3%. But if you give some color in terms of corporate restructuring, retail restructuring and within corporate between large and mid corporate and standalone and multiple banking?

**Shri Rajkiran Rai G:** Yes, I think we have worked out certain numbers. These are very broad estimates. We are expecting on the maximum side about Rs.16,000 crores of restructuring to happen. Out of that Rs.7,000 crores is expected to be from the corporate book. These are very broad numbers at this point of time. The clarity is there are 12 accounts in the corporate side amounting to about Rs.3,600 crores where the restructuring process has started, where there is application and all that. This is what is very clearly on our books even though we expect 7,000, right now only Rs.3,600 crores the restructuring process has started. On the MSME book, about Rs.5,000 crores we expect that it can be restructured, but up to now about Rs.500 crores has been done. So, like next two to three months, we will have a fair idea how much it will happen. On the retail book, we have put a number of about Rs.4,000 crores which is likely to be restructured, but the number wise, restructuring is even below Rs.100 crores as of now. So, we are not very sure how much of the retail will get restructured, it can be much lesser number, but broadly based on our feedback, the ground level connect, and some assessments what we have, we expect that on the maximum end, it can be about Rs.16,000 crores. I think that answers all your doubts on the restructuring.

**Mahrukh Adajania:** And in terms of large corporate, how many proposals would you have received in terms of multiple banking arrangements?

**Shri Rajkiran Rai G:** Out of Rs.3,600 crores, only three accounts are above Rs.100 crores.

**Mahrukh Adajania:** On this ex-gratia scheme, in terms of interest on interest that you have credited to borrower accounts, so, even those borrowers who paid on time, have got this credit. I just wanted to know whether these borrowers who paid on time had to apply or you did it on your own?

**Shri Rajkiran Rai G:** It is already credited.

**Mahrukh Adajania:** So you did not wait for them to apply, right, you just credited it?

**Shri Rajkiran Rai G:** Yes, all eligible accounts have been credited already.

**Moderator:** Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global. Please go ahead.

**Ashok Ajmera:** Sir, one concern is on the NIM, I mean the NIM of our bank has been comparatively lower, and now also I think it is from 2.5 to 2.51, and your target is also not much encouraging, I mean,

from 2.5 to 2.6. So one is on that how we can increase our NIM which will ultimately strengthen the overall profitability of the bank?

**Shri Rajkiran Rai G:** See, one thing is the NIM estimation varies from bank-to-bank, we should understand. You would have seen, particularly on the collection, recovery in NPA accounts, some of the banks take it to interest income. So that their NIMs maybe another 20, 30 basis points higher than what we show. We do not book it as interest income. We straightaway reduce the NPA actually. So there is accounting difference which like maybe has to be balanced somewhere. And then there is another way of looking at NIM, like it is on the earning assets on total book. My 2.5 is on total book actually. But if you take NIM on only earning assets, which some of the bank show, if these two things are factored, our NIM also will be between 2.8 to 2.9. So you can just compare the top five, six banks that like look at these two things, how they account for recovery, whether they book it as interest income or they reduce NPAs. And the second thing is whether they calculate on the total book or only on earning assets. If you do that...

**Ashok Ajmera:** As long as you are comfortable, sir, no issue on that. I just wanted to draw this point, because we want to see Union Bank among the top-2 banks, not five, six banks.

**Shri Rajkiran Rai G:** But then comparably, if you look at that, we may be also showing 2.8, 2.9, but then we are on a very conservative side. So 2.5 2.6 is not bad, comparable, because many people report 2.8. So people think it is lower, but it is actually not lower. That is one thing. Second, see, like the whole industry is going to work on a lower margin businesses now. So the competition is quite high, and the margins will be lower. Only we have to look at volumes now. That is the future actually. We are to work on volumes.

**Ashok Ajmera:** My second question is on again on the same which Mahrukh raised that collection efficiency, where you said it is 75%? I just want to know that interest on the working capital which was there for the six months of moratorium, how much amount of that interest was there, and out of that how many corporates have opted for 31st March 2021, I mean, are they paying monthly, regularly. And whether this amount comes in your demand when you calculate efficiency ratio?

**Shri Rajkiran Rai G:** I did not want to go to that detail. Actually, when I said 75%, this is what exactly hits us, because a lot of requests of corporates for FITL for converting it to maybe from March, they are all in the process actually. So that is why actually this collection efficiency number since everybody is giving, we gave that. By the end of October, we will be able to give you a correct number because I think we should be also reaching close to 90%, 92% collection efficiencies looking at the stress book what we have. But then at this point of time, because it is all database, I cannot give you a different number from what my computer gives. So, that is why we said 75% but then, yes, during this month of October, all these work of shifting that interest demand to March and all that, work is going on.

**Ashok Ajmera:** Sir, at that time, any communication from you will help because if you compare the largest bank, the efficiency collection ratio is 97%. That is why we are concerned about it. Maybe because of

different methods are being adopted or the data are not properly collected or that, but communication may be later after 10-days or 15-days in this regard if it is permissible, I mean, will definitely help us, these are our concerns actually?

**Shri Rajkiran Rai G:** Definitely. Thank you.

**Ashok Ajmera:** Sir, coming to this advanced growth, 4% to 6% growth, what kind of growth you are looking at because this growth target again seems to be a little lower even in spite of the bad times as compared to some of the other banks, where it is 7% to 8%. So, here, your focus is going to be not much on the corporate. That is why the growth is less or you are concentrating more on retail and housing loans and other things. What are the plans for this advances growth?

**Shri Rajkiran Rai G:** Actually we are very active in corporate credit, actually we may be one of the banks which is actively sanctioning, we have a very good sanction pipeline on corporate credit including infra. But then that offtake is likely to happen by Q3, Q4 only... mostly Q4. But then we are not losing our focus on corporate credit, that will continue to be there. The retail book actually is growing between 7% and 8% as of now. And like you should also factor in that we went through three way amalgamation. So the first quarter actually like COVID plus amalgamation, the growth was not up to the expected level but the second quarter we have picked up. As we go forward, I think we should be reaching at least 6% credit growth level, but it will come both from retail and corporate book. They are not like slowing down on corporate.

**Ashok Ajmera:** One is sir, on the capital adequacy ratio of 12.38%. So, there you do not find any concern that this also needs to be strengthened because you are going for the corporate including infra or maybe construction loans and other thing you will be needing more capital because the risk weightage will be higher in some of these loans. So, what are the plans for that and how are you looking at it, are you comfortable at this level?

**Shri Rajkiran Rai G:** The plans for this year up to March we are okay. We are raising some capital. See, tier-2 bonds we raised Rs.1,000 crores Now, another Rs.1,000 crores we are planning to raise. Tier-1 bonds we may be raising another Rs.2,000 crores shortly. So, on that side we will be doing. On the equity side, looking at the market conditions, we may be like planning something in the Q4, like, we have taken the necessary approvals but then it will depend on the Q3 performance and then Q4 we will plan. And you are right, we need growth capital. But that will happen during next year.

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

**Jai Mundhra:** I have a couple of questions. First is on collection efficiency again, and as you mentioned that, there is a bit of a difference in the calculation of margins across banks. And you rightly pointed out to a very large difference in the accounting both in numerator as well as denominator. Do

you suspect any kind of a such difference in collection efficiency because 75% and 95% or 97% is a huge difference, so any comments there?

**Shri Rajkiran Rai G:** See, a lot of focus was on moratorium. You remember? At that time I was telling do not focus on moratorium, that will go away. Now today nobody is talking of moratorium. That number, there is a lot of difference where there in moratorium numbers. Ultimately things are back to normalcy today. Now actually see, today, I am sitting like midway through Q3 now. So even though I am not able to disclose, but then we are all like in the mid way of Q3 now. We have a better sense of number. So, this collection efficiency based on the logic put like that data has come and it shows that 75% of the installments in September are collected. But then there are a lot of gray areas. So maybe like we are working on that. But without proper numbers, I cannot disclose anything now. So this is what is thrown out. But then I do not think that because collection efficiency of 75%, the remaining 25% will become NPA, that is a wrong assumption, because my SMA-2 book is still 1.7% only.

**Jai Mundhra:** Just to get this understanding, correct, so, let us say the way you are saying that after September month, demand raised, 75% has been collected in September or till now, I mean...

**Shri Rajkiran Rai G:** No, not till now, it is like maybe till first week of October. Generally what happened no, like it happens with some lag also, some collection and particularly on the certain accounts restructuring and all that, they are under process, some large accounts. So because these are all computer-driven, and for me the data comes from three different servers, because I also have Andhra and Corporation which is not integrated as of now. So the data quality also issues will be there. So that is why do not get carried away by this number.

**Jai Mundhra:** No, so I am asking sir, if let us say if you were to draw that number today or maybe at the end of October, people would have been even with a lag, right, then this number would be how much, I mean I understand that there would be some usual delay because people are coming out of moratorium, but...?

**Shri Rajkiran Rai G:** Because see, the stress book generally goes around 10%. So like that mean 90% gets collected. So these will now be different. The stress book can be anything between 10%, 11%, 12% generally, right. That include SMA-zero. When I say SMA-zero because generally we do not put out SMA-zero number because the data is yet to stabilize. But then SMA-1 and SMA-2 numbers are quite low even now. And the logic which is built into the system on recognition and all that have to be fine-tuned now. So, I think the collection efficiencies ultimately will reach 90% levels.

**Jai Mundhra:** Right. Okay. And sir, within this 75% collection efficiency, is there a, let's say, maybe retail is paying as good as, let's say, any broad trend in retail, corporate, SME?

**Rajkiran Rai G.:** Agriculture throws up about 50% collection efficiency. Corporate book shows about 84% collection efficiency, like that, like sector wise if you go. But then see, this is the first time we are

taking out the data, because everybody has spoken about it so we also found out the number. But then I will not vouch by the correctness of this number. So, sector wise if you look at, it is throwing up a very different number. MSME also is quite low.

- Jai Mundhra:** Right. MSME would be lower than 75%, right?
- Rajkiran Rai G.:** Yes, it will be lower than 75%.
- Jai Mundhra:** Right. Okay. And just last two questions, one on these three accounts where we have got more than Rs. 100 crores exposure. If you can name the sector of these three accounts, where you have already got the restructuring in place?
- Rajkiran Rai G.:** I think you are already aware, because generally we don't discuss individual accounts, I think maybe you are aware of this.
- Jai Mundhra:** Okay, no worries. And last question is on Slide 9. So, wherein we have given the COVID support. So, first is COVID emergency line of credit, this is, I believe, this was a scheme when it was announced just after the COVID and so these numbers are additive, so should I add, are these all different or the CELC is same as ECLGS? I mean, 7,000 looks different, right.
- Rajkiran Rai G.:** They are different. Actually the first one was the scheme announced by the individual banks, a 10% credit line for the corporates, before this guarantee credit line was announced. And this is applicable for all corporates. So, whereas the fourth one, the guarantee line of credit was applicable for one section of the customer. So both these things are open. So like they are different schemes altogether.
- Jai Mundhra:** Right. And this personal loan scheme is also for your government employees, right, it is not for everyone?
- Rajkiran Rai G.:** No, it is mostly our housing loan and other people we give that top-up line. This was an immediate reaction to the COVID, immediately the lockdown was there, so this relief was given much before this guarantee line of credit was announced.
- Jai Mundhra:** And the last question, sorry sir. So on this next slide, Slide 10, where we have given a rating mix, so 18% which is below BB and below but, I mean, you would have spoken to most of the, let's say, about Rs. 500 crores ticket size account and then you would have arrived at Rs. 7,000 crores kind of a restructuring number, right? I mean, because this 18% looks a bit higher, but you would have been monitoring all this portfolio as well, right, because I suspect a lot of restructuring requests probably from BB or BBB.
- Rajkiran Rai G.:** Yes, restructuring request is coming from, see this ratings basically is not a very good indicator now, like we get a restructuring request from a AA, A customer also, whereas a BB customer doesn't need a restructuring. Because like particularly as the lawyer end the ratings generally are dependent, because February onwards there was a lockdown and all that, some rating impact has

happened in some small medium accounts. So it is very difficult to draw a conclusion and link restructuring to rating. So yes, let us not try to link that.

**Moderator:** Thank you. The next question is from the line of Jayant Kharote from Credit Suisse. Please go ahead.

**Jayant Kharote:** Sir, I wanted to understand, in our MSME book there has been slight jump in the reported NPA number. So can you explain from Rs. 15,000 crores to Rs. 21,000 crores, that's quite a large jump.

**Rajkiran Rai G.:** No, actually you are comparing the last quarter's presentation, right?

**Jayant Kharote:** Yes.

**Rajkiran Rai G.:** And there actually it was not MSME, it was MSE only, micro and small. This time we have clubbed it as MSME sector as a whole. That's why you are seeing the difference.

**Jayant Kharote:** Okay. And sir, on slippage and credit cost guidance, how do you estimate the next two quarters versus the FY 2022? I mean, how much of provisioning does the management intend to upfront versus some of the peers that have done like that?

**Rajkiran Rai G.:** See, about Rs. 1,187 crores of provision we are holding for likely slippages for the next quarter. This is not NPA provision, these are COVID related provisions. We already had about Rs. 600-odd crores of provision as of previous quarter. In addition to that, I have done about Rs. 422 crores of provision for the slippages which would have happened in September, but because of the court ruling we didn't mark it as NPA. And then about Rs. 150 crores of provision we have done for the probable interest reversal on like slippages which would have otherwise happened in September. So, that way we have sufficiently cushioned ourselves for the kind of slippages which are likely to happen. So, in addition to that, we already have a sense of the operating profit what we are likely to make in the next two quarters. And in addition to that, we are expecting roughly Rs. 1,400 crores recovery, which is mostly write-back in one of the NCLT accounts, which is close to resolution. So, with all that cushion built in, I think we have sufficient cover for the probable slippages which are likely to happen in the next two quarters. So, this Rs. 1,187 crores is something which we are carrying for the slippages during this quarter, once the court ruling comes, when the NPA recognition happens, we will absorb that.

**Jayant Kharote:** And sir, next year?

**Rajkiran Rai G.:** Next year Q4, see most of the things will happen in Q3. Actually, by December we will have a fair colour of the slippage, because that moratorium got over in August. Like whatever accounts which are to slip, they will slip before December. And on the corporate side, we are not seeing much stress.

**Jayant Kharote:** Okay. So, would you expect your credit cost to come to 2%, 2.5% next year?

**Rajkiran Rai G.:** For 2021-2022?

**Jayant Kharote:** Yes.

**Rajkiran Rai G.:** 2021-2022 I think it will be much lower than that. Because, see, all the ageing provisions are happening. If you look at my provision coverage, it has reached 83%. So, the only unpredictable thing for us now is how much of NPA will happen in Q3 and Q4, how much COVID impact will be there and all that, that is the only unpredictable thing. Once that numbers are there, then we will project for 2021-2022. If it is according to our estimates, then the next year the credit cost according to me can be something between 1.5 to 2.2.

**Jayant Kharote:** Fair point. Sir, MSME collection number what did you say, what was the collection number in MSME book?

**Rajkiran Rai G.:** MSME collection was 62.

**Moderator:** Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global. Please go ahead.

**Ashok Ajmera:** Sir, again, I mean, dwelling upon our collection only, when we say that the agriculture collection efficiency was 50% and MSME was 62%, corporate 85%, it means it is giving a fairly good indication that, yes, it may be around 74%, 75% overall or 72% to 75%. So, sir, I mean, in spite of all this, whatever explanation has been given, is it not required to revisit again into this number? Because we feel, personally, the way we look at it, because we are also in touch with the market and the corporates and the people, even project finance consultants and corporate advisors and helping them in restructuring other thing, that the situation was not that bad that the collection efficiency has to be only 75%. So I think either maybe some recording, some procedural lapse or something, why is it different than...

**Rajkiran Rai G.:** Actually there was another bank which was on TV today, they also said about 67.

**Ashok Ajmera:** But in case of Union Bank of India, see, the collection efficiency has been ranging from 97%, I have not heard about the 62%, because today itself we had two other banks coming.

**Rajkiran Rai G.:** I heard 67 actually one of them saying, yes.

**Ashok Ajmera:** So, anyway I mean this is just one point which is again coming again back to our mind. And secondly, sir when you when you say that now you are open up for the advanced growth even in the infrastructure and maybe to some extent I think good quality construction companies or real-estate companies, there has to be some more aggressive capital raising plan, because I feel that even with this Rs. 1,000 crores and now this Rs. 2,000 crores, and the ratio being about 12.56 something, still there will be some pressure because some of them will be more risk weighted advances. So, on that also some more, I think, thinking should go and, I mean, if you can just give some color on that.

- Rajkiran Rai G.:** See, I fully agree with you that the capital should be better. But then you should also understand, see, we just went through amalgamation, where huge harmonization provisions had to be made. We absorbed it in March month and some in June. So, we are just out of that. Actually now we are consolidating. And see, the market also has to understand that at this point of time just out of amalgamation people are watching this. So at this point of time, with the kind of valuations what I have, it is not a point to get aggressive on capital raising. Maybe like once the market realizes that our books are cleaned, we have sufficiently provided for the legacy book, there is no damage by amalgamation and when the market start realizing that, at that point of time it is suitable to hit the market. I think maybe like we will be doing more damage at this point of time by raising equity than getting benefit to anyone. So let us wait actually, see only unpredictable in the system today item is, how much of slippage is because of COVID. See, ultimately this collection efficiency, moratorium, everything will reflect only in that actually, how much slippage in December. Once we have that number, the system will have absolute clarity.
- Ashok Ajmera:** You are right, sir, because you have picked up very finest of the officers from the Andhra Bank and Corporation Bank, and have put them into very high positions in the bank. So definitely, with the combination of Union Bank, old and experienced staff, and these people, the bank will definitely perform much better than what it was in the first quarter or maybe second quarter. Anyway, thank you very much for giving me this opportunity.
- Moderator:** Thank you. The next question is from the line of Abhijeet from Kotak Securities. Please go ahead.
- Abhijeet Sakhare:** Just two, three questions. The SMA-2 number that you said includes everything, right, like retail, SME?
- Rajkiran Rai G.:** Yes, includes everything.
- Abhijeet Sakhare:** Below Rs. 5 crores?
- Rajkiran Rai G.:** Everything. We can give the breakup of that also.
- Abhijeet Sakhare:** Sure, that would be helpful. And just a related question is, if you can tell us over the last two quarters what share of the loan book would not have paid anything so far?
- Management** I think that number will be difficult to say at this point of time, because we have not done that analysis.
- Rajkiran Rai G.:** You want to ask that March to September what our book has not paid anything? Like practically they were in full moratorium?
- Abhijeet Sakhare:** Exactly. So you have given the restructuring number, which is Rs. 16,000 crores. So against this number how does that number look like?

- Rajkiran Rai G.:** That number, I think we have not worked out at this point of time. We will see actually, like we will try to take that out. Because actually like we have a very mixed portfolio, out of this six months moratorium there are many accounts which paid one instalment, two instalment, some people paid full, some people didn't pay anything. So we will work out, we will try to share that number at least in the next this thing. But right now I don't have that number.
- Abhijeet Sakhare:** Sir, the Rs. 11,000 crores SMA-2 number includes the slippages that are deferred to the next quarter, right, about Rs. 3,000 crores, Rs. 4,000 crores?
- Rajkiran Rai G.:** SMA-2, yes, it will have that number also. We can give the breakup.
- Management:** So retail is around Rs. 2,700 crores out of the 1.77% of SMA-2, agriculture is around Rs. 3,000 crores, MSME is around Rs. 3,700 crores, and remaining is corporate, very small amount, less than Rs. 2,000 crores.
- Abhijeet Sakhare:** Sure. And sir, I missed a comment around a few accounts that you mentioned which are above Rs. 100 crores going for restructuring, if you could just mention about that and the sectors which are sectors for these accounts?
- Rajkiran Rai G.:** I think because these are broadly known news actually. See what I mentioned, as of now, from the corporate book, there are 12 accounts which are under various stages of discussion for restructuring, amounting to roughly Rs. 3,600 crores. Since they wanted to know what size, out of these actual they are mostly smaller accounts, only two or three accounts are above Rs. 100 crores, that is one large one actually, others are like below Rs. 500 crores you can say.
- Abhijeet Sakhare:** And the sector for this one is, the large one?
- Rajkiran Rai G.:** That will straightaway indicate the account. You are broadly aware.
- Abhijeet Sakhare:** Okay. All right, fair enough. And sir, on the employee cost when do we expect the normalization? And what that number will look like?
- Rajkiran Rai G.:** I think we are very stable. This quarter numbers are going to be stable throughout. See, in March actually, because of certain additional provisioning because of the pension and all that, harmonization related, there was a spurt, otherwise Q1 and Q2, our employee numbers are very stable, establishment cost, operating cost is very stable.
- Abhijeet Sakhare:** This is the run rate to work with?
- Rajkiran Rai G.:** Yes, this is going to be stable now.
- Abhijeet Sakhare:** Okay. And sir, just finally a question on the restructuring estimate. You are saying that the merger process is still going on and there could be some data related challenges. So in that context, is there a upside risk to this restructuring number that you are giving us? Because if you are not fully sure

about how the merged numbers or collection numbers are looking like, especially in the retail and the smaller ticket loans? That will be all. Thank you so much.

**Rajkiran Rai G.:**

Yes. We have no risk in that because the NPA harmonization was done, checked by the auditors for all the accounts during March itself, so that is already taken care. So, I was telling the data issue basically on the collection efficiency side, because actually when we collect this collection efficiency, it is like a logic we build in the system and try to take the data from three different servers. So that is where some challenges come, because when agriculture says 50% collection efficiency, it puts me down. So I don't believe agriculture collection efficiency is 50%, it can be much higher, but then maybe the way we look at that data in different banks, that's what I was trying to indicate. I am not trying to project on NPA and all that, NPA recognition and harmonization of provision is done and dusted, in March itself we have done everything. And the auditors have certified that all the accounts are checked, and all the accounts have normalized. I don't see any upside risk like data integration and all that, no.

**Abhijeet Sakhare:**

Got it. Sir, sorry, one final one. What is the full year's estimate for recovery and upgrades? Thank you so much.

**Rajkiran Rai G.:**

Actually, like we still stick to that number, we have put a number of Rs. 15,000 crores for recovery upgradation, out of that Rs. 5,000 crores we said it will come from NCLT and Rs. 10,000 crores from normal recovery. But then the NCLT, nothing much has happened but we expect some actions during the Q3 and Q4, but it may not be Rs. 5,000 crores, it may be slightly down. On the recovery upgradation side on the other account apart from NCLT, I think the past two quarters we have done about Rs. 4,000 crores, so we expect another Rs. 6,000 crores to happen. So that Rs. 10,000 crores is online, Rs. 5,000 crores of NCLT, let us see how it will shape up. At least one account I am very sure where we expect about Rs. 1,400 crores to Rs. 1,500 crores of recovery. One steel account is there which is close to settlement.

**Moderator:**

Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead

**Mahrukh Adajania:**

Sir, on the collection efficiency you mentioned about FITL, could you please run through it again, one of the reasons...

**Rajkiran Rai G.:**

Mahrukh, I will connect to you and explain to you. Actually, FITL amount is small, like what is getting deferred, but because of that the system will show that account is not collected. Suppose if it is Rs. 100 crores account and if there is a Rs. 1 crore of interest which has to be deferred to March, and before September if I have not marked it as a FITL account which is to be collected in March, the whole account will be shown as amount to be collected, like it is under default kind of a thing, because the demand is raised they have not paid. So, that kind of thing. So, that's why, unless I really study, I would not like to comment on that, it is a broad indication. There are various reasons why this collection efficiency can be lower. Actually see, another 10% to 15% collection efficiency would have improved by October end, we will just check that and come back, offline

we will connect on this and we will explain to you exactly how it happened, because I also didn't have much time to really analyse.

**Mahrukh Adajania:**

Got it. Sir, and my other question was on the MSME scheme, ECLGS. Now, what do you think would have been the end use by the borrowers? What did most borrowers take up the loan for?

**Rajkiran Rai G.:**

Actually, it was meant as a sustenance at that point of time. See, what happened in March, there was a sudden lockdown, even maintaining a unit, like paying certain bills, paying salaries and all that, that was the issue. And many of the people whom we spoke to, they had a problem in the receivable collections, because they supplied to various companies and there were delays. So I actually this money was used for that, so that they can restart the businesses. But then most of them are stable now, actually what we see is MSMEs actually like we are not seeing much restructuring request also. Units which are closed, or which are like practically where there is no viability, they will slip and all that, we are seeing that number. But other MSMEs are back to normal. So this money has really saved these MSMEs who are otherwise good.

**Moderator:**

Thank you. Well, ladies and gentlemen, that seemed to be the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Rajkiran Rai G.:**

Thank you. Actually, I think the numbers you would have gone through. I think the bank has published well in Q1 and Q2 post amalgamation. If you look at our operating profits, net interest income, the kind of provisioning we have done aggressively, I think it indicates a very, very stable book as of now. At 83% provisioning coverage there is not much left actually as of now to provide. So, next two quarters we will try to cover up the remaining provision required. So books are very stable, earning is very stable, the growth also is very visible. And we are very aggressive, and the sanction pipeline is also very good. So we expect to that as we go forward the cost has stabilized and we have a lot of cost synergies also because of amalgamation, which will play out. So that's one thing.

The only unpredictable thing in front of us, as I mentioned, that what will be the slippage in December. Maybe in another two months we will have an excellent clarity on that, because whatever moratorium impact and collection efficiencies, everything will play out in December. And I made the statement many times, because we are totally connected to the ground, talking to people, understanding the situation, things are not as bad as it is made out to be, things will be very stable. And we are very confident that the restructuring numbers what we are projecting is on much higher side, it will be much lower than that. On the NPA side also what projections we have done, I don't think there is any chance of going beyond that.

So I think accordingly you can work on your numbers and we will be happy to do any clarifications required. And don't get unduly carried away by these collection efficiency number, banks have different ways. It is like your moratorium numbers we saw in September. And we have also clearly put out what was our slippage in September. So to give you abundant clarity like about Rs. 4,200 crores of slippage would have happened, but for the court ruling. And we also said that more than

Rs. 400 crores of that Rs. 4,200 crores is already collected. Plus, we also made it very clear that whatever provision at the level of 15% required for the slippage is already done, including about Rs. 150 crores of provision for the probable interest reversal ultimately this account slip. So that way we have sufficiently covered that. Like even if a portion of that slips during this Q3, so we have already made provision. So further slippages during this quarter we, I think it should be within our projections.

So with that, I think maybe we have reached a very stable level. So, we just hope that Q3 numbers play out as per our projections. With that, I think we will reach a very, very stable level. And on the capital raising, we have plans. So, like as per the projections we are stable up to March, but then Q4 we may be looking, depending on the market condition for some capital raising. But otherwise definitely next year we plan for capital raising.

Thank you. Thank you for all the participation and all your questions. Thank you so much.

**Moderator:**

Thank you. On behalf of Union Bank of India, this concludes this conference. Thank you for joining. You may now disconnect your lines.