"South Indian Bank Q1 and FY '18-19 Earnings Conference Call"

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Moderator: Good Morning Ladies and Gentlemen, Welcome to the South Indian Bank Q1 and FY '18-19 Earnings Conference Call hosted by Motilal Oswal Securities Limited. This conference call may contain forward-looking statements about the bank, which are based on belief, opinions, and expectation of the bank as on the date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anirvan Sarkar from Motilal Oswal Securities Limited. Thank you and over to you, Sir.

Anirvan Sarkar: Thank you. Good Morning to all of you. It is a great pleasure to host Q1 and FY '18-19 conference call of South Indian Bank, and today we are joined from the management, Mr. V. G. Mathew, Managing Director and CEO of the bank; Mr. K. Thomas Joseph, EVP of Operations; Mr. G. Sivakumar, EVP of Credit; Mr. K. N. Raghunathan, EVP of Treasury; and Mr. C. P. Gireesh, CFO. I now hand over the call to Mr. Mathew for his opening remarks. Thank you and over to you, Sir.

V. G. Mathew: Thank you. A very Good Morning to all and thank you for joining us for Q1 of FY '18-19 earnings conference call. Let us discuss the key highlights of operational and financial performance now. As on June 30, 2018, total business for the bank stands at 1,28,652 crores, an increase of around 14% YOY. Advances grew by 19% YOY to 56,164 crores with growth drivers continues to be MSME loans, mortgage loans, agriculture advances, and auto loans. MSME grew by 21%, agriculture by 14.2%, mortgages by 66%, and auto loans by 31%. As for deposits, the increase was 10.2% YOY to Rs. 72,488 crores, and CASA of the bank increased by 1297 crores to 17,883 crores registering a growth of around 8%. CASA now stands at 24.67% of total deposits. Bank's net profit for the quarter was reported at Rs. 23.04 crores as against 101.47 crores for the same period last year. Pre-provisioning operating profit stood at 290 crores for the quarter. Other income was 146 crores for this quarter as compared to 219 crores in Q1 FY '18. The decline in other income was mainly due to the reduction in the Treasury trading profit by 73 crores during the current quarter as compared to Q1 of FY '18. Further, during the previous year, we had 80 crores of other income by way of sale of PSLC and one part of the sale was recognized in the first quarter. In the current quarter, there was no market for the same.

Net interest income stood at 494 crores for the quarter up from 461 crores for the corresponding quarter of last year witnessing a growth of 7%. NIMs for Q1 of this year is 2.60%. The decline in the net interest margin was mainly on account of the increase in the interest rates on the deposit front. We have already addressed the issue by increasing the MCLR by 25 basis points and since a substantial portion of the loans are carrying one-year MCLR, the reset happens in all of the next one year, and therefore, the benefit of this will really accrue in about six months' time.

There was also a decline of 9 basis points contributed by the interest reversal on NPS. The operating cost has increased by 23% YOY mainly on account of charging of the entire deferred expenditure towards gratuity liability amounting to Rs. 20 crores in the current quarter. The cost-to-income ratio has gone up this quarter mainly on account of the above charge of gratuity and the decline in other income on account of lower trading profit for this quarter. The provision for non-performing assets is 174 crores during the current quarter and we expect the credit cost of 1% for the whole financial year. In the current quarter, we had absorbed entire MTM provision on investment deferred as of the last year end amounting to 34 crores.

Our investment book stood at 18,870 crores of which HTM contributed 14,822 crores, AFS 4021 crores, and HFC 27 crores. Gross NPA stood at 4.54% versus 3.59% for Q4 of FY '18 and net NPA stood at 3.27% versus 2.60 for Q4 of FY '18. The NPA has increased due to slippages in the corporate and MSME book. The corporate slippages were around 308 crores and the MSME, other retail and Agri added together was around 298 crores. We would like to highlight that in the corporate slippage, we do not have any case of slippage in the large syndicated or consortium loans. The only large account in this particular quarter which has slipped is of Rs.105 crores for social infra project which is more on a technical ground of known possibility of non-achievement of the DCCO, and therefore, on the principle of inherent weakness, we have gone ahead and classified it as NPA. Similarly, the cashew sector in Kerala is particularly facing stress and although they have significant amount of receivables, both domestic as well as export, two accounts found it difficult to meet the cash flows on time, and therefore, we have decided to classify it as NPA again based on the principle of inherent weakness. This is adding up to 117 crores. One EPC contractor which had a restructured standard book of Rs. 22 Crores has also slipped and this is because of certain adverse observation on balance sheet by the statutory auditors and therefore again by the principle of inherent weakness, they have classified into account as NPA.

During the year, we expect a total accretion of NPAs to the extent of 600 to 700 crores going forward. In the normal situation, it will be 600 crores, but we have one medical College which is facing a legal challenge at the moment and depending on the outcome of the legal challenge, this account will become NPA or continue as standard. If it does not slip, it would be around 600 crores, otherwise it will be around 700 crores. We had a strong recovery performance all along. We used to recover around 350 to 400 crores in a year. This year with added retail and MSME accounts, which are actually quite recoverable, we expect the recovery target to be not less than 500 crores, therefore, there would be significant moderation in the NPA position towards the end of the year. Provision coverage ratio stood at 39.1%. Our capital adequacy stands at 12.2% for the quarter, the core CRAR is 10.1%. As on date, the total employee count stands at 7619. During the quarter, banks had opened four ATMs and one extension counter, we now have 855 branches, 56 extension counters, 1386 ATMs. During the quarter, we have won HUDCO Award for the best performing primary lending institution of HUDCO under Current Linked Subsidy Scheme and National Payment Excellence award 2017 for RuPay. With this, we open the floor for questions, if any.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Sonal Kohli from E&R Advisors. Please go ahead.

Sonal Kohli: Sir, I have two questions both pertaining to same topic, we have seen a significant addition in bad loans in the SME book, could you let us know what would be the contribution of the top 10 accounts to this SME bad loan addition? Secondly, the RBI came with the new guideline last quarter, so whatever stress one would have expected was in the last quarter, so what changed actually in this quarter or a sudden change in the SME bad loan book considering it would be spread across very large number of accounts?

V. G. Mathew: I do not have the data at this moment, but if we do on account in MSME immediately, I can only tell you that, it is reasonably spread and again about 100 crores of MSME accounts which took advantage of RBI dispensation of deferment, they came into the slippage this quarter. Going forward, that would definitely moderate because it is now already moderated to 50 crores. Now, if you see the distribution, trading firms accounted for 59 crores, textiles accounted for 38 crores, food processing accounted for 36 crores, professional services 20 crores, engineering 17 crores, metal products 16 crores, leather products 11 crores, contractors 10 crores, other manufacturing industry 13 crores, this is a rough breakup of the 226 crores.

Sonal Kohli: Sir, I wanted to ask you, were we surprised with this or we were expecting this kind of bad loan addition considering this RBI dispensation was supposed to come back and considering; if we were expecting it, why not talk about this in the previous calls and if you were not expecting it, what happened, how did it change, why are you confident that this will not happen again in the future quarters?

V. G. Mathew: There are two to three things, one of course as I mentioned, so far the main problem that we were facing was the large corporate slippage, that book has completely stabilized and as I mentioned the largest part of that particular book is very well rated, so therefore, this is the first quarter maybe in several quarters that we have seen that there is absolutely no slippage from the syndicated loans and the consortium advances, which are in the top of the corporate book. Now, as I mentioned the social infra project is the medical college in the making and the cashew accounts, actually as I mentioned in the case of social infra project, there is a DCCO issue, but even now it has not crystallized, so obviously there was time for the company to do that, but if you apply the principle of inherent weakness, we thought it would be more advisable to clean it up completely on that side and similarly with the cashew cases, actually the two accounts which have enough receivables from the domestic client as well as from abroad, but some of these things are getting delayed and it is a little difficult for us to ensure that they remain stable at all times and it is difficult for us to give any further support to them although the State Government and others are working on it, but then we thought it will be more appropriate that we should finish it off at this point. Similarly, about the EPC contract as I mentioned, on the record of recovery, there is no problem, but then our understanding is that it is NPA in another bank, and therefore, it appeared to us that the best thing is to make it NPA in our book also, straight and then avoid any further uncertainty about these accounts.

Sonal Kohli: Sir, what I wanted to ask you was that considering the SME contribution cannot be more than 25 crores in any account and obviously all the accounts which have gone bad for you would not be of 25 crores, this would be very widespread, it cannot be just three or four accounts, they may explain a portion of which, but even if you remove it, it will be very widespread, so what I wanted to understand was, what exactly changed this quarter because whatever RBI guidelines you are talking about, they should have come in force even in the last quarter, so my worry is not about the bad loan addition,. What I wanted to understand was why this quarter, why not last quarter and why was it not a part of your watch list or what exactly made you surprise about these bad loans?

V. G. Mathew: If you are talking about MSME slippage, we do not maintain a watch list for them because many of them are relatively smaller as it is, definitely less than say 20 crores in that kind of range and we do not maintain a watch list on them although we have an SMA report and in that sense we have a monetary mechanism about it, but in terms of a watch list maintenance, we do not do that. Now, MSME slippage as I mentioned, the question is about 100 crore part is very clear, I mean it is distributed among a large number of accounts that we will give you the total number of accounts adding up to the 226 crores separately, but otherwise there is nothing by which we can say that this is going to slip in this quarter or the next quarter, because whatever was to be taken by the record of recovery, every day our NPA recognition is on a system based daily recognition, and therefore, there is no interference of any variety, so whatever is becoming NPA becomes NPA and we deal with that and if there are cash flow problems, which some of the sectors are definitely facing to some extent, particularly migrating to the GST, there is definitely a pressure on them, which has caused this difficulty and going forward I am sure it will become much better.

Sonal Kohli: Thank you, Sir, this is very helpful, but I think everybody else on this call would have this question what makes you confident about the future, so if you can address it right away in terms of additional measures you have taken or the additional measure to handle the SME book after seeing this bad loan addition, this will give lot of confidence to all of us and I will appreciate your reply on that?

V. G. Mathew: There are two to three things that we have done. In the last three-and-a-half years, we were working on two areas, one is addressing the large corporate NPAs, which had created a very heavy burden on the bank, so systematically we were addressing that. Simultaneously, we were building up a retail book using our strength in the MSME, Agri and retail areas. Now, what kind of measures have been introduced for improving the credit underwriting as well as monitoring I can explain briefly. The entire credit processing in the bank, other than gold loan for all varieties including agriculture today is on a centralized platform. Now, this was not the case till a year back as far as the mid-corporate is concerned. Now, even the mid-corporate is fully on-boarded and similarly even the retail loans in the business segment, that is, even up to 2 crores, even those small accounts are all getting run only on a centralized platform.

Similarly, the corporate, mid-corporate, agriculture, everything is on a centralized platform, that is one side of it. Secondly, we have a very strong centralized monetary wing headed by a Joint General Manager and there is a recovery team which is headed by General Manager and these are the things that we have done additionally to ensure that the slippages are proactively controlled, and secondly, we also ensure that if slippages are there, we are able to recover that going forward. Now, in terms of collection, , in terms of reaching out to the companies and calling them on-time and putting it on a regular track for monitoring and recovering, is also being done on a centralized platform, so a lot of centralized initiatives have been introduced to ensure that the slippages are under control and whatever happens, we are able to deal with that proactively in time. The next part of it is when it comes to the committee approach instead of having individual sanction, all the sanctions in this portfolio is entirely on a committee based approach, so a lot more wisdom is going into the sanction rather than leaving it to regional heads and other individual executives with the power to sanction, so the sanctions have been withdrawn from the branches, sanctions have been withdrawn from the regional offices, sanctions have been brought to the centralized environment, and sanctions are being controlled by credit committees, so there is a significant amount of quality improvement that is possible on the centralized platform today, These are the efforts that we have made and I am very confident that these efforts will bring very consistent result going forward.

Sonal Kohli: Thank you, Sir, and can you reiterate what kind of bad loan addition you see in the SME book going forward during the year and is the worst behind us or would you expect one or two more quarters like this?

V. G. Mathew: There are two to three things that we find which are creating a little bit of problem, some of the companies which are very, very small have literally closed following the introduction of GST, some of them have closed their accounts and then moved out to other methods of sourcing finance. Now, as far as the other companies are concerned, they are in the process of getting onto the GST platform in a steady manner, so coming from the informal to the formal sector, they are trying to increase their on-book transaction that is a formal book transaction and then build a business more aligned with the GST regime, so that transition is going on. Definitely, there is certain amount of pressure coming because of that, but apart from all that, the economy today we believe, there are opportunities for many of them and we do not find across the sectors big problem other than in Kerala. We find only in the area of cashew and to a lower extent maybe in the Marine products, these are only two areas where we expect problems today, otherwise, we do not find a widespread difficulty in the MSME area, and therefore, we believe that the slippages will moderate, I am not talking about MSME alone, MSME and mid-corporate would be the areas in which we expect slippages going forward and not from the large corporate area, so there that is what I was mentioning, we would be looking at around 600 to 700 crores, one account is the one that would make a difference of 100 crores otherwise we are looking at around 600 crores going forward in all the three quarters.

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

Jai Mundhra: Sir, question on asset quality which has clearly disappointed, you mentioned there is no watch list for SME segment, so would it be possible for you to share what is the SMA0, 1, and 2 book for corporate and SME, so that would give some indication as to what is the level of the stress that we have?

V. G. Mathew: We do have that and it is certainly not a high number that I know, what is the percentage also we know very well, but at the same time these are returns which are submitted to RBI, so I am not very sure whether it is supposed to be given out, so that is only thing I am not sure about. Once there is clarity about it, we will definitely share it.

Jai Mundhra: Sir, if you can sort of quantify what is the cashew exposure in total in our SME book and how much has already slipped?

V. G. Mathew: The slippage is in two accounts which are the larger ones, 117 crores, and two small MSME kind of accounts.

Jai Mundhra: What is the total loan book exposure to cashew segment?

V. G. Mathew: We will tell you.

Jai Mundhra: Sir, you have put a chart on corporate rating which is above 100 crore, what is the quantum of that book, and this less than BBB that I believe which is 5% is still standard, that does not include the NPA book here?

V. G. Mathew: No, it does not include the NPA book.

Jai Mundhra: This Slide 22, in total number what is the book exposure of large corporate which has above 100 crores?

V. G. Mathew: Above 100 crores, it was 52 accounts and 9041 crores.

Jai Mundhra: You see this 5% book, which is let us say roughly around 500 odd crores, you do not see any stress in less than BBB rated corporate here?

V. G. Mathew: As of now, we have not seen, we do talk to the promoters, we do talk to other banks. In fact, in today's situation if it is a consortium or syndicated debt, it is not just what our own recovery status that would be relevant, it would be very relevant whether the account is comfortable in other banks too so far, we constantly check all the information through **our sources** and other data and also by talking to the promoters and others, so far we have not been able to identify a concern on that.

Jai Mundhra: It would be safe to say that this book is not an SME bucket also, right, this is performing as good as other standard account, I mean this is not even in the stress?

V. G. Mathew: It is not in stress at all.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Looking at this kind of a stress in SME book, how do we see the overall growth, so are we now getting pretty cautious in this segment and over last one-year when we look at it, it is like growing at more than 20 odd percent, so would it be a conservative stance on the SME side and should we see the moderation in the growth in this segment?

V. G. Mathew: Rather than moderation, we would be looking at selection and higher quality in terms of processing and control, that is what we are trying. I think what is really required is 20% growth is certainly not a growth which onboard too much of risk because of the growth rate as such, but what we should be careful about it is, which we are doing also. If you ask me in terms of cashew, we have not done any serious exposures in the last three years except very, very selectively where the conduct is absolutely good, we know that all the records are fine, the export records are fine, so basically these are accounts with their particular vintage. These are the ones that have fallen, and therefore, we believe that our current standards of credit underwriting, processing, and also monitoring are good enough to ensure a reasonable stability at 20% growth without any doubt.

Kunal Shah: In terms of the internal ratings with respect to SME, how will that be distributed, the way we had given it in terms of the corporate, would it be possible to share it for the SME segment as well and from which bucket have we seen this kind of a slippage?

V. G. Mathew: Definitely, we will try to give that information above 5 crores separately, I know that the presentation carries only 25 crores and above that is the corporate book.

Kunal Shah: Yeah, so maybe overall in terms of the rating profile?

V. G. Mathew: We will do that because we have rating for all these accounts internal rating definitely we have and some of them external rating too, we will definitely share that information.

Kunal Shah: Sir, have we seen the downgrades in this SME segment before they actually slipped into GNPA. Were internally we saw the downgrade from one bucket to the other and then finally we saw…?

V. G. Mathew: There is SMA0, SMA1, SMA-2, that is what happens. Actually, in the case of the relatively smaller accounts, they are all basically SMA1, SMA-2 kind of scenario sometimes and when we try to keep on recovering and it is basically small cash flow issue for a large number of them, but when we are also little bit extra cautious and conservative, we do not accommodate them in any other manner by giving them additional loans and facilities, so our view is that it is better to maintain a very strict credit discipline in the MSME sector as we grow there, and therefore, if somebody gets into a cash flow problem, beyond a particular level, we will not be able to support, that is what happens there.

Kunal Shah: Lastly, in terms of this entire SR book, so today we are carrying almost 20% provisioning, so here we are confident maybe not requiring any further provisioning, is it doing well or further there may be some kind of an issue in terms of the book?

V. G. Mathew: The entire SR book may not be the most important part there, if you ask me the total value is 1311 crores is the face value and of that, what is really important is around 1009, some recovery in that maybe small like 950 crores or something, that is the one which represent a large amount of sell off that happened in FY '17, 1776 crores we sold out in FY '17. Now, that is the book on which the depreciation of 252 crores happened in last September, so today as I always highlight, that book carries more than 50% provision and one of the reasons why I think the value came down was that many of these accounts have got into the NCLT regime, IBC regime, therefore, there was RBI guidelines itself saying that 50% provision is required, so possibly the recovery value was considered very conservatively in that case, but as the resolution happens obviously there will be more comfort coming is what I believe, 50% is only there and we will know only when the external rating agency handled that, otherwise from the ARC we know that they believe that this particular 50% provision that we are having is good enough by any standards, but the external rating agencies decide what would be the number.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, just carrying forward the stressed account piece, it would be helpful if you could give us some color with respect to what is the outstanding loans in the SMA1, SMA-2, and SMA0 as well as in the next six months like what projects are there where the DCCO is expected, so basically the reason for that is in terms of the guidelines that we are giving in terms of the 600 crores of fresh slippages expected over next three quarters, how much of that could come from these books and what is our expectation from outside of this pools, just to get an understanding on that?

V. G. Mathew: SMA as I was mentioning, while we have the data and we have to submit it to RBI periodically, I am not sure whether it can be shared, that is only concern here, so if I can share it, I will be able to share it later, but if you ask me about the DCCO cases in the 600 crores that I am talking about, there is no DCCO case involved at all. In fact, I do not think we have any project where that is slipped. The only case where there was a DCCO issue, we have already made NPA.

Rohan Mandora: Sir, in the two cashew accounts as well as the social infra projects account which slipped in during the quarter, what would have been its internal rating at the end of say, March quarter?

V. G. Mathew: They had internal rating, one of them of course is a project under implementation, so obviously the rating does not have too much of meaning because it is a different rating, it is a project finance rating that is coming in there. It is all about whether the company is able to achieve the target and the company has been showing lot of progress, it is not as if there is no progress, but there are also certain legal issues, which we believe can create a problem. It is quite possible that they will even come out of it, so we really do not know, but in any case it is very difficult for us to accept that there is no inherent weakness at all at this point, and rather than carrying it on and again facing a problem later on, it is better to finish it off is what we thought, and then of course if there is an upgrade possibility, we will deal with that later.

Rohan Mandora: It is not possible to share the actual internal rating like SB BBB or SB BB plus, what we would have assigned to these accounts at the end of March quarter, would it be possible to share that?

V. G. Mathew: March quarter there may not be anything because it is on the basis of our audited balance sheet only we can do that, so obviously, what we are having is the previous rating or if it was below a particular rating, then there would be a six monthly rating for that. These are the two things that is available, we will share that data separately.

Rohan Mandora: Like last, Sir, we had recruited around 160 odd branch development officers in order to source CASA, cross sell, fee-based activities, but Sir if I see the traction and the fee income as well as on CASA, the growth has not been materially good, so even year-on-year the core fee income growth was almost flattish, so Sir if you could share how is that case progressing in terms of the fee income and other cross sell CASA?

V. G. Mathew: What you said is right, if you look at the numbers YOY, certainly it is not good and normally it is saying that 8% CASA growth is appreciated, but then on a sequential basis if you look at, I think the CASA quality grown by around 4%, on that again SA has grown by 6%, so obviously there is a lot of traction on the SA side and these business development officers are being deployed very effectively in many branches, of course the number is not very, very high, but these people will definitely define the kind of growth that is likely to happen in these areas. Only one problem is some of these initiatives are fairly new and it is definitely a fact that there is stabilization process that is going on because we did not have anything like a marketing kind of executives in the bank earlier, so obviously this is the first time that we are doing it, but there is a certain vertical available for that and people are really in the field and things will definitely improve from here on in those areas.

Rohan Mandora: Sir, when can we expect results from these initiatives, during FY '19 or FY '20?

V. G. Mathew: FY '19 itself we will definitely expect growth and by FY '20 I am sure it would be much, much better position coming out of that, but even in FY '19, we expect significant amount of growth coming on the liability side and on the cross-sell side.

Rohan Mandora: Sir, lastly what would be the cumulative provisioning on NCLT list 2 at the end of the quarter?

V. G. Mathew: NCLT list, there are only two accounts with us and we are required to have 50% provision and we have,

Rohan Mandora: Because we had one unsecured account, if I am not wrong, so there we would have taken provisioning?

V. G. Mathew: I will come back on that, but what I am having is at the moment there are only two NCLT accounts adding up to 336 crores and we are already carrying 50% provision as required. You were mentioning something about an unsecured account, where are you looking at in the same…

Rohan Mandora: Sir, it was mentioned in the previous con call that in NCLT list 2, we have one unsecured account where we had to take provisioning to 100%?

V. G. Mathew: That was not NCLT account, it was a Pharma packaging account, which was coming in divergences etc., it is not unsecured. RBI although has classified it as unsecured, actually it was carrying full security and we do not have a system of taking any exposure on unsecured basis except in the case of AAA accounts alone. There is no other case and that to on a very short-term basis, otherwise we do not take any unsecured loans at all, anyway that account is completely provided for and sold out also, maybe last December we have done all that.

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

Rimesh Bhuva: Sir, couple of data points, what is our total NCLT 1 and 2 exposures?

V. G. Mathew: We have only NCLT exposure of 336 crores, accounts which are already referred to NCLT. There are only two accounts left on our book that is 336 crores and 50% is already provided for on that.

Rimesh Bhuva: So this 336 crores are already NPA or these are standard account as on date?

V. G. Mathew: These accounts are absolute NPA, there is no standard account.

Rimesh Bhuva: Okay, and so you are saying this 336 is the total NCLT exposure you have, right?

V. G. Mathew: Exactly, because what has happened is in the 1776 crores that we sold out, there is a significant amount of NCLT account, so therefore we do not have, at that particular point of course, IBC was not involved, but subsequently this account is going to referred to under IBC and today what is in our book, they are having only two accounts which is 336 crores and they are NPAs for quite some time.

Rimesh Bhuva: Okay and 50% provided?

V. G. Mathew: Absolutely, that is required.

Rimesh Bhuva: Secondly, on SME part since we operate largely in Kerala for SME book, what kind of stress are you seeing in the SME portfolio per se, I mean is there a business overall has got impacted or there are few segments which is facing the issue and how we are protecting ourselves by keeping the slippages lower in that portfolio, I mean what is the broad strategy adopted by management to tackle with these SME issue?

V. G. Mathew: There are two things, one is even geographically it is not as if you know only, we are a Kerala processed MSME bank, as far as MSME is concerned, we are growing exactly in line with the branch distribution. For example, our Delhi region and Ludhiana branch etc. contribute significantly to MSME as some of the regions in Kerala too, but because we have about 10 regions in Kerala and more branches in Kerala, larger share definitely comes from Kerala as of today, but the point is that it is not only Kerala centric for MSME, but what are we doing about controlling the risk in that area. As I mentioned sometime back, the underwriting standards have been improved by stabilization process. Today, no branch manager can sanction any MSME loan, only gold loans can be sanctioned against gold security received in the branch, otherwise, even a farm loan he cannot sanction.

Rimesh Bhuva: So branch manager and regional manager are not having any sanctioning power, so it is also centralized?

V. G. Mathew: Absolutely centralized and again it is not that one individual is sanctioning, most of the sanctions are only through committees. Of course, for very, very small loans one individual executive may be given power if it is a centralized outfit and with the supervision on that, but otherwise it is all committee approach, so these are the two things in terms of underwriting, and second, at all times there is an orientation towards risk control by spreading the exposure. If you ask me whether a cashew account of 50 to 60 crores we will take today, we certainly will not take, so we are very clear about it. Today, what we are doing is if it comes, we will say that another like-minded bank will have to be there, we will pay may be 25 to 30 crores, this is another way of risk control. The third one is at all times we take a large amount of collateral security, our desire of course in the case of trade and areas where there is a higher perception of risk, we invariably insist on collateral security almost to the extent of 100%. These are definitely helping us and that is why Kerala-based accounts where we are able to get this kind of collateral security, even if the exposure is a little higher historically, we are not particularly worried about it because in terms of their skill in the business is a lot more and in terms of our recoverability, it is much more.

Rimesh Bhuva: Basically, when we say collateral, typically in trade what we accept as a collateral?

V. G. Mathew: When I talk about collateral, I am not talking about security assets, primary security is a business security that is all receivables or whatever it is their stocks. I am talking about collateral by the way of land, building, real estate, that variety, mortgage security.

Rimesh Bhuva: So when we say collateral in SME, we typically mean the land or may be physical asset…?

V. G. Mathew: It will be, like if it is a factory or it is a house, but there will be a collateral security beyond the primary security.

Rimesh Bhuva: The second security will be what 100% of the exposure or it will be slightly lower than?

V. G. Mathew: We would like to, but at the same time there are good connections with the bank for a long time, so obviously where the track record is very good, cash flows are very good such things obviously we are willing to reduce to maybe 50% to 70%, but typically in the case of trade accounts we do not do that.

Rimesh Bhuva: If someone has asked for CAPEX, we might accept 50 to 70, but if it is a purely trade then we might ask for 100% collateral?

V. G. Mathew: Exactly, that is the whole point.

Moderator: Thank you. The next question is from the line of Umang Shah from SAIF Partners. Please go ahead.

Umang Shah: Sir, could you give a breakup of the 308 crores slippage on the corporate side, you said 105 crores is the social infra project, 117 crores is cashew, what is the remaining?

V. G. Mathew: One is the contractor, it is not exactly a large EPC contractor, but relatively it is a sole banking relationship out of Karnataka for a long time it has been with us, but again they have orders and everything, but at the same time going by the experience of some of the contractors, we were of the opinion that this cannot be sustained for too long, and therefore, we decided or maybe purely going by the record of the recovery it may be standard, but then the fact remains that there is an inherent weakness, so we have decided to make it NPA. Another one is an EPC contract, which is a very large South based EPC contractor which was restructured deeply several years back and several banks are involved in that also and there part of the loan, a substantial part of the loan had already been converted into equity and lying in the Treasury book, but then there are apparently some adverse notice by the auditors, statutory auditors or the company and again my understanding is that the account is NPA in another bank, so again it was felt that it is really not very advisable to continue it and of course if things really improve and if they are able to cure everything, we have no problem, so that is 22 crores and there are various trade accounts put together some 31 crores, only one account is involved in the trade.

Umang Shah: Could you give a similar breakup of the 298 crores on the SME slippage?

V. G. Mathew: MSME is 226 crs, agri is 11 crores, and all other retails put together including mortgages, education loan, all put together it is 61 crores.

Umang Shah: Could you give a breakup of the 226 crores?

V. G. Mathew: Trading firms are 59 crores, textiles 38 crores, food processing 36 crores, professional services 20 crores, engineering 17 crores, metal products 16 crores, leather products 11 crores, contractors 10 crores, other manufacturing industry 13 crores, other service sector 6 crores.

Umang Shah: What kind of a recovery do we see from this 226 crores?

V. G. Mathew: Over a period of time, that is what I was trying to mention. We have been recovering every year around 350 to 400 crores, and this year the opportunity is a little higher because the slippages are not from the large corporate that used to be earlier where there are practically no recovery opportunities except through IBC and things like that, but here because there is a significant recovery opportunity, that is why I am mentioning that I am very confident that at least 500 crores will come back, so I would assume that at least about 50% of these accounts, the money can be recovered.

Umang Shah: Sir, previously you had given guidance of FY '19 slippages being 600 crores, total provisioning being 600 crores, we have got a slippage of 600 crores in the Q1 itself and the provision of 220 crores which is annualized giving 900-950 crores, so how do we derive confidence from the fact that these one-offs will not occur in the future?

V. G. Mathew: Correct, there are two things that we need to look at, the 1% credit cost I think we are roughly on target because 174 crores is the credit loss if you ask me this quarter, so 174 of course I believe it is slightly on the higher side, but I am sure in another quarter it will be slightly on the lower side too, so basically 1% of the credit and 600 crores we will be able to maintain. It is a reasonable confidence that all of us are having here, so that issue is not worrying. Now, the other question is what we were talking about around 600 crores of slippage for the entire year, but we have it in the Q1 itself, but what is generally not advised in any of our guidance or conversation is that, there is a strong recovery platform which is what we always keep for ourselves as the questions, so there is a strong recovery that happens in terms of, so therefore in terms of total value of NPA there is a benefit for us and similarly on the profit side also there is benefit because there is significant recovery that is going into the P&L account, so these are the two numbers which we keep to ourselves and we do not really give any guidance on that, so that is a cushion that is available to us for managing the situation, so in this particular case maybe around 300 crores is because of slightly aggressive posturing that we have done because I know that it is difficult to sustain their standard quality without any doubt at all because of the inherent weaknesses involved in some of these accounts, so we felt it is absolutely good if you do not only go by the recovery record, but more by the inherent weakness part of it, so that claims of that book also substantially.

Now, as I mentioned, we have a reasonable view that 600 to 700 crores would be the slippages going forward in the next three quarters even assuming that a little bit of pressure which we have seen in this quarter will continue through the year, position can improve also, but we are not taking that kind of a very optimistic view, we are taking a relatively moderate view on that, and therefore, we are mentioning that 200 crores plus would be the slippage and only one account where we have a doubt whether it will be able to succeed in the legal challenge, if it succeeds this is actually a very strongly running medical institution. Obviously, it should be able to succeed, but then if it does not succeed then that is about 100 crores plus, so that is the number that is mentioned 600 or 700.

Umang Shah: So only 226 crores SME which are still there, these have been from pre-2014 books or have they been from the recent books?

V. G. Mathew: All the larger ones are definitely from pre-2014, there is no doubt about it. Very small ones I really cannot say, I do not want to say, my hunch and others are also generally mentioning that it maybe of that vintage, except maybe we have one or two accounts, that is what in the corporate. We had one 30 crore exposure, which is I will say a very quick mortality case obviously. There is possibility of an upgrade also on that, but at the moment I will call it a quick mortality case, but otherwise I am not seeing any serious problems coming from the accounts which are particularly done through centralized platform and on the committee approach.

Umang Shah: On the advances front, our advances are growing at 18%-19%, our capital adequacy is around 12% and the price right now does not allow us for a good QIP, so what is your sense, will you wait for the QIP, will you compromise on growth going forward, how do you see this risk mitigation further?

V. G. Mathew: There are multiple opportunities, we will explore everything, of course there is always some room for Tier-2, that is also available, but we will look at all opportunities, I mean only thing is the Board has not taken a decision on the exact way of going about it, therefore, I am constrained in discussing that.

Umang Shah: Sir, final question on the yields front, do we see any pressure on the yield on advances because our NIMs seem to have gotten compressed?

V. G. Mathew: We do have pressure on the NIMs because what has happened is on the liability side, we have paid something like 20 to 25 basis points during the year and we have only done that on the asset side just now, maybe this month 5 basis points and last month 20 basis points, so what we are talking about is what is done on the liability side is passed on the asset side, but that transmission will take at least a lag of six months, because these are all typically one-year MCLR kind of reset, so which means real benefit of that will kick in only in about six months' time.

Umang Shah: My question was more on the line of we are growing at faster rates in the home loan, mortgages, and auto loan, so are yields lower than the other products?

V. G. Mathew: That also I will have to mention, not only there even in the case of MSME or so, today there is always an orientation towards security and safety, there is no questions about it. We are putting an extra emphasis on that and we are willing to compromise on the pricing a little bit for that reason and again the market competition is also heavy for very high quality assets, that is what is going on at the moment.

Moderator: Thank you. The next question is from the line of Sri Shankar from Prabhudas Lilladher Private Limited. Please go ahead.

Sri Shankar: Sir, my first question is regarding the slippages that we have had this quarter, do you think that you will end up with the any particular LGD, Loss Given Default, on these assets or is there anything unsecured or you think that it is fully covered including the corporate?

V. G. Mathew: That is where the difference is coming because this time the slippage is certainly not from the last corporate book and even the 105 crores which is the largest institution based medical college, so I do not expect any serious recovery issues there. They will definitely find a solution to deal with it, so we are pretty much hopeful that it will not lead to any problem and again I want to highlight that there is no business which is unsecured in the bank except very, very minor areas, otherwise all the businesses is fully secured and also additionally secured with collateral security of land, building, etc., so the LGD cannot be high.

Sri Shankar: Second is with regard to your write-off or provisions on your SR, in the provision what is the amount that you have provided for any depreciation value of security receipt?

V. G. Mathew: Total amount I can mention, but I think the more important one is what happened with that 252 crores which happened with the portfolio of 1776 crores that we sold out in March 2017, so totally face value is 1311 crores and HGM provision is 265 crores, and therefore, the current market value is 1046 crores.

Sri Shankar: In this quarter, how much we have provided, Sir?

V. G. Mathew: This quarter is 4 crores.

Sri Shankar: Sir, you expect the slippages what has happened in most of the corporate slippages where you would have a high amount of Loss Given Default is already taken care in the earlier slippages etc., so in the current slippages and going forward also, I would suspect that you are fairly well covered in the terms of security?

V. G. Mathew: Absolutely, that is one small silver line in this particular otherwise bad situation which I agree, 600 crores slippage is not what is something we appreciate it, but at the same time this slippage is far superior to what would have happened in an EPC contractor where we have 200 crores exposure or something, this is totally different, these are all not only carrying significant amount of real primary security, for example, like you finance a medical college means, we are financing building and equipment which is already there and then we are talking about taking other comforts by way of personal guarantee for very important people, etc., so there is definitely a lot more comfort in terms of recoverability.

Sri Shankar: This means that probably there is scope of recovery of these things also?

V. G. Mathew: Absolutely.

Sri Shankar: My final question is Sir, in one of the conference calls, one of the Managing Director of a different bank had opined that in many cases the security that he has seen for the various corporate lending, the security that they hold are overvalued and in our case have we seen any chance that the valuation has been overvalued in the sense that actual security value is much lower than what is being shown in the books of the bank, have you faced any kind of a problem like this?

V. G. Mathew: Certainly not, it is the system is that it has to be valued by a branch executive, it has to be valued by an expert, and then we need to look at distress sale value and then only any credit process happens on that and if any overvaluation situation ever arises, there are significant accountability issues for the individual concerned and we are very, very clear about enforcing that all the time. We are pretty much sure that such cases are very, very few.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Firstly, Sir, some clarity on the slippages number, I am looking at corporate slippage of about 308 crores and the ex-corporate is about 298, so of the corporate am I understanding this correctly, one is the decisive account of 105 crores, 117 crores would be the cashew, and one EPC of 22 crores and the remaining trading, is it correct?

V. G. Mathew: No, trading is 31 crores and there is another contractor account, it is not exactly an EPC contractor but relatively mid-level kind of a contractor of 33 crores.

Gaurav Jani: Sir, next is if I can have the breakup of the deductions given in your slide in the presentation, it amounts to about 37 crores in the GNPA reductions, so can you give the breakup of that?

V. G. Mathew: It is cash recovery of 13 crores and upgrades of 24 crores. It is very small compared to what we have been, Q1 typically it is like that, we are not able to do much in Q1, but we will achieve 500 crores.

Gaurav Jani: So no write-offs you mean this quarter?

V. G. Mathew: This time we have not done any, typically write-off is done only when we sell assets to ARC, in that context typically it comes, but there are no such cases in this particular quarter.

Gaurav Jani: Sir, certain qualitative questions from my side, if I look at Slide 23, 95% of the last corporate advances you mentioned, there is one section which focuses on that and the other on the total corporate book, is that correct, the second section is on the total corporate book, right?

V. G. Mathew: Yeah, one is on corporate book, the other is on 100 crores and above, that is the large corporate which used to be a problem area for the bank, so what we are trying to highlight is the problems there we believe are over, in this particular quarter we do not have any problem.

Gaurav Jani: Sir, appreciate the information, just a certain clarity so as of now of the MSME, SME and corporate, what percentage is externally rated and what was it probably a year back?

V. G. Mathew: We will give you that data separately off-line.

Gaurav Jani: Sir, last question from my side, of the total slippages of about 600 crores, so what percentage would have originated from Kerala?

V. G. Mathew: Yes, in this particular corporate slippage barring the EPC and the contracting accounts, social infra, cashew, and trade are from Kerala.

Gaurav Jani: Okay, so around 200 odd crores?

V. G. Mathew: Yeah.

Gaurav Jani: From the ex-corporate book, Sir, about 300 crores?

V. G. Mathew: Sorry, the social infra is not from Kerala, it is in Kanyakumari, which is in Tamil Nadu, so only cashew is from Kerala including the trading from outside and social infra is also from outside.

Gaurav Jani: From the ex-corporate slippage Sir, how much would be from Kerala, what I mean is the MSME of 226 and the education and all of 61?

V. G. Mathew: Yeah, this is more or less in line with the distribution, the same way as the branch distribution both growth as well as NPA are almost in line with the branch distribution, so Kerala will be accounting for maybe around 45% or like that.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Life Insurance. Please go ahead.

Roshan Chutkey: Sir, how much of the cashew exposure do we have on our books?

V. G. Mathew: 415 crores of which 42% is NPA, NPAs are 174 crores.

Roshan Chutkey: What about the rest, are they in the SMA bucket, are they current?

V. G. Mathew: They are standard and as I mentioned we know that cashew is a stress sector, therefore we have gone about it very systematically although the State Government is doing a lot of work about supporting this, we felt that the receivables may not get realized in time and we may not be able to also support by giving any additional finance, so therefore, we have made NPA in these accounts, our other accounts are absolutely fine as of today.

Roshan Chutkey: How much is the absolute interest reversal this quarter?

V. G. Mathew: 18 crores.

Roshan Chutkey: How many standard accounts do we have in our books which are NPA with other banks now?

V. G. Mathew: There is none, it cannot be, that is the problem today. We had to go out of the way and they can account NPA only for that reason.

Roshan Chutkey: Which is the contractor account you said?

V. G. Mathew: It is a large EPC contractor where of course our exposure is in the loan book not very high, but in the Treasury book it is a very high exposure, because it was not converted into equity earlier and they are showing now negative aftermarket.

Roshan Chutkey: How many of the MSME accounts of 226 crores slippages that we saw this quarter, how many of them are less than 2 crore cases and how many 2 to 45 crores cases?

V. G. Mathew: I will have to give it separately.

Roshan Chutkey: Just this question again less than BBB cases for us, what gives you the confidence that they would not slip any further?

V. G. Mathew: Yeah, because these are our internal rating and our internal rating takes into consideration a lot of factors and if you look at external rating, the level comes down by 50% roughly, but then our rating system, we take various parameters and then take a fairly conservative view on that and that helps us in ensuring that on-boarding is done correctly, so we are maintaining that, but if you look at the external rating of the same account, then the percentage comes down by half, instead of 18% I think it is around 9%.

Moderator: Thank you. The next question is from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Sir, as a fairly long-term shareholder now of South Indian Bank, it seems like one quarter seems a long time in the life of South Indian Bank, just about two months ago we had fairly decent guidance for FY '19 being the clean year and we are moving ahead from our past problems, we had NIMs of 2.9, NPA was meant to have peaked, provision would have been 600 crores a year, ROA of 1% FY '19 at some point, 1000 crores PAT, it just seems to me that all of this guidance just in terms of two months ago just seems fantasy now, so do you have anything to say to shareholders with that sort of mindset?

V. G. Mathew: Basically, that 1% credit cost remains, there is no doubt about it. Then in terms of NPA accretion whatever we have mentioned now coupled with the recovery of around 500 crores is the number that we need to look at, and therefore, we again all along the pressure that has been building on the banks extremely heavily was for the large corporate syndicated loan book, that has actually stopped and that is the most important positive that we are seeing today, but one more other thing happened, like for example Priority Sector Lending Certificates was a very major opportunity for us last year and we could get about 80 crores by selling off and this year we got even more Priority Sector to sell off, but then there is no market at all for that. Similarly, the Treasury could not make anything at all and on the other hand mark-to-market provision became very heavy on some of the Treasury exposure including and if you see contractor's case where there was no mark-to-market last year, it was positive and this year it is significantly negative, so these are the things which have really upset the calculations. Then of course, this particular quarter's profit is affected by various other numbers which I have mentioned already.

Gautam Bahal: Sir, I think Treasury we all understand is out of your control in some case, but…

V. G. Mathew: Sometime later it will come back also that is what we believe, I think sometime later it may come back also in Treasury.

Gautam Bahal: For example, fee and transaction income not growing is also a bit worrying because we were on a run rate of 25% up to last quarter if I remember, right?

V. G. Mathew: That was all actually affected by the availability of PSLC income last year, which suddenly vanished completely. We were looking at something like 100 crores plus going by the previous experience, so on that we have got nothing, so what I am trying to say is that distorts the picture, but if you look at other individual areas, okay it may not be that great, but Forex has also grown a little bit. If you look at transaction income, it has gone up, all those individual components when we look at they have gone up, but then one large piece like the PSLC has really brought a negative color to that.

Gautam Bahal: Sir, this ROA of 1% that we are all looking to get to, is that realistic at all in some quarters in FY '19 or do you think this NPA issue that is this new SME slippage that has come in now will just make that impossible this year in some quarter annualizing?

V. G. Mathew: That is why, I never mentioned it is for the year, it was always for the particular quarter in the year and I also said that there are only two components which are volatile in that, that is the availability of Treasury profit which is not a small one because 250 crores we net in a year, so that is one number. Second is the PSLC phase, I do not know whether the market will change tomorrow. There was a reasonable expectation that these things will continue in the normal manner because we were only going by average standard experience in the past, but that has been completely negated, so therefore that is the only component that is creating the problem, so I should not say that without having any clarity on either of these numbers today as things improve and if there is more visibility about these things, I will again go back to same argument.

Gautam Bahal: Sir, the NIMs of 2.6% this quarter, full-year when the MCLR comes in, can you give me a guidance of what the full-year NIM is likely to be, will it be more on 2.8% or is it going to be around 2.6-2.7%?

V. G. Mathew: No, in fact that is why we are trying to pass on the 25 basis points, although I agree that there is always a pressure for high-quality business which is all what we are looking at today, but at the same time, we based on our service quality, our efficiency, our quick delivery etc., we should be able to pass on this 25 basis points increase that we have done in the last month, if that kicks in the next six months, the full effect of the increase kicks in for six months, then we should be able to come back to something like 2.8% without any problem.

Moderator: Thank you. The next question is from the line of Rajat Sethiya from Vridhi Capital. Please go ahead.

Rajat Sethiya: Sir, very similar to previous participant, basically why do not we provide all of our stressed assets in one, why are we taking so much of time, why is that one quarter we see higher provisioning, other quarter we see lower provisioning, why cannot we just provide simply in one-year. So all of the stress that we see, it gives very confusing signal to the shareholders or the prospective shareholders?

V. G. Mathew: No, what happens is we cannot do that, I mean there is no way because today what is thrown by the system is this, I do not touch that, this is a daily recognition of NPA which is purely system driven except in the case of large corporate. In the case of large corporate, of course we are seeing the account every day, we are trying to figure out whether there is a problem or not, so those scales are meant separately. Others are done on a pure portfolio basis, so many of this relatively smaller people, I am talking about MSME, Agri, and other retail, I mean there will be slippage, but there will be upgrades too, so today that upgrade part is not visible at all in this quarter, that is the only problem, but if the upgrade was visible we would have appreciated that it is also going down and coming back. We cannot upfront that and then say, for example, wherever we could upfront we have done that where we know we have been carrying some stress and we felt it may not be sustainable in spite of the fact that the promoter is making a lot of effort, they have receivables which may be delayed only a little bit, but then they have decided that we will make it NPA, that is what we have done actually.

Rajat Sethiya: Sir, basically you are saying despite giving loans to some people, you do not have the understanding whether the account can actually turn into an NPA in the coming quarter or so, I mean it has been more than three years?

V. G. Mathew: We are talking about where it is distributed, if it is above 5 crores there is a separate monitoring for those accounts. There is another monitoring for 1 crore and above, but then there are relatively smaller accounts where that kind of monitoring is not done, what is being done is for the collection center they will be calling and talking to them and then if there is still that is before the default they are informed, then post-default up to 45 days the calls are made by the collection center. Subsequently, it is passed onto the regional offices and the particular branches for personal pursuit. It is not as if this people do not want to pay or they want to close their business, it is not like that. There what happens is it is a question of dealing with them on a regular basis and collecting the money, so individual cases at the actual level we can follow up in relatively small cases. There is a system-based follow-up that is running and the branches and the regional office function is precisely that.

Rajat Sethiya: Sir, just a follow up on this, you are again guiding for some 600 to 700 crores of slippages in the next three quarters, like the previous participant also said that couples of months ago I was expecting something else, so this takes the total slippages for the year to around 1200 to 1300 crores, we know about the first quarter, where are you seeing the incremental slippages to come from, SME, retail, corporate in the coming quarters?

V. G. Mathew: As I mentioned, the large corporate syndicated that part of it, it is more than 94%-95% at least investment-grade and around 74% or so is A and above rated, so we are not expecting anything like a slippage in that area, but then in that relatively smaller corporate that is 25 crores to 100 crores in that space, there are some accounts in which it is possible that they can get into cash flow problems, and therefore, we are looking at on a portfolio basis. Individual account wise if you look at it, I mean only one account I mentioned that is the only case where we know there can be a problem because we are following it up on a very regular basis. Other accounts, the problems are not something which is already on record or I mean it is unmanageable or any of those things.

Rajat Sethiya: So, is it the corporate side that you expect?

V. G. Mathew: In our case corporate means 25 crores and above is corporate, it is more like a mid-corporate kind of thing. There also what we are trying to do today is we are certainly not going to 100 crores in all cases. What we are trying to do is in moderating that and then taking smaller exposure, controlling it as I was mentioning through various efforts of centralization and centralized control, system-based control, so all that we are doing, so there of course there should not be any serious problem coming up at all, but in the larger portfolio because we have a good base of MSME, we have got a good base of Agri, we have got a good base of other retail, there can be problems there, but then there will be recoveries also.

Rajat Sethiya: Sir, what has changed in just two months that you know suddenly guidance has also increased a lot?

V. G. Mathew: What we are trying to do is to see that it is a little conservative and with experience of the MSME slippage particularly because the Government also has given a leeway of around 100 crores in these accounts, so that also has colored the picture a little bit, so we thought if such things continue there can be a bit of a problem and that also has been taken care of, so that is why we have put a very moderate kind of estimate going forward.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir, it is just a continuation of the questions being asked earlier by participants, last time when we had a call on May 15th till then we had the visibility that the overall slippages could be 600 crores only, so what actually changed in the last one month wherein you know suddenly there was this sharp uptick in the overall slippages coming through, especially even from corporate accounts which are in the non-large category and SME where we were very confident that things are very good and not much issues on the cash flows etc. coming through, at least in the first half of Q1 things were not visible at least to slip like this, so what actually changed in the last one month resulting in the full-year slippage expectation coming in the first quarter itself?

V. G. Mathew: I will not say that anything much has changed significantly, but one thing is very clear, today there is no tolerance for anything like inherent weakness in the system, so any account be it even 5 crores or 10 crores, if there is a perception of inherent weakness that is made NPA first. If recoveries are coming in, we will see later, but first the account is made NPA so that I would say, that is actually very consistent with the current regulatory environment, that is what we are trying to do there completely and then MSME slippage we need to subtract about 100 crores which stays only out of the pushback from the dispensation that is coming in, so that has really colored almost 50% of MSME slippage given by the Government which we have to necessarily comply with in the case of companies who are seeking such dispensation.

Sangam Iyer: But Sir, the MSME dispensation say of 100 crores which came through, these were for the last quarter dispensation, right, so this quarter also we have given dispensation of I think 60 odd crores?

V. G. Mathew: I think it has come down to 50 crores.

Sangam Iyer: So, would it mean that this 50 crores is also going to slip, I mean I am just trying to understand that dispensation even because of a certain factor, had it not been given it would have slipped last quarter itself then, is that the right way to look at that?

V. G. Mathew: I do not know, because what I am saying is I should not say that about the companies who are seeking that dispensation, but at the same time the experience is not very positive, it is not a fully positive experience, there is slippage coming out of that, but maybe from the 50 crores it may not be that much is what I perceive, but anyway it is only when we look at transaction, the volumes, I have told that this would be slightly better, but again we are assuming that this dispensation cases maybe weak cases basically.

Sangam Iyer: Sir, one more thing, last quarter we did mention that almost 21% of the corporate book is BBB and minus or below, the experience with your peer etc. has been that the BBB minus is the one that has usually seen a larger slippages coming through, so far in the commentary we did mention that they are still standard, very much standard assets so far, but having said that given that these are all BBB minus kind of a stature when you give a guidance of 600 crores, what is the percentage of slippage that you are factoring in from this BBB minus category?

V. G. Mathew: I mean it is not from the BBB minus category specifically. As I mentioned, it is BBB minus for us, but it is not by the external rating. By external rating, it is around 9% is the number.

Sangam Iyer: Correct, 9% of the overall book?

V. G. Mathew: Overall, corporate book, that is 25 crores and above.

Sangam Iyer: Right, but last quarter it was around 21%, last quarter con call you had mentioned that?

V. G. Mathew: Exactly that also carries the same external rating only this time we are explaining that when you say 18% that is the internal rating of the bank and if you look at the third-party rating it is 9% at the moment, so there is significant quality about the, it is not as if we have put it as BBB and minus and therefore it is weak, because they are already carrying an external rating which is superior to that, that is 9% of that.

Sangam Iyer: The balance 9% which is let us say closer to around 1800 odd crores for you, which would be under the BBB minus, so you are factoring only a very marginal component of that actually having a potential of slipping here, because that has not been the experience with other banks where BBB minus typically falls under the watch list and slips down, so I am just trying to get more granular on the 600 crores incremental guidance that we still have?

V. G. Mathew: The 600 crores are on the basis of our analysis of the accounts and we have whatever cases, wherever there is visibility of stress, we had to necessarily make it NPA, we decided to do that, we have done that clean up on that side. Now, the accounts which are there, which are going into SMA-2 or which are having cash flow issues, we have considered that and many of them are arguing that they will be able to come out of it, but at the same time we are taking a view that some of them may not come out and that is the way we have worked out these numbers.

Sangam Iyer: So what percentage of your book would be SMA-2, currently?

V. G. Mathew: That data is the one that I have not shared, I will find out whether it can be shared then we will share, it is not a very high number that is the only thing I can mention.

Sangam Iyer: Sir, coming to the recovery of 500 crores that we are guiding for the next three quarters, could you throw some light from where is the visibility of this 500 crores coming through, any particular sectors or any particular accounts which has slipped where you are getting that?

V. G. Mathew: We have empirical evidence of last three years, last three years if you look at it the recovery would have been in the range of around 350 crores maybe slightly more at some quarters etc. Now, that was the time when the NPAs were certainly not this high, one thing. Second, the NPAs were largely from the large corporate sector where practically nothing can be done by our own recovery department, so today what we are talking about is the MSME slippage, Agri slippage, or other retail slippage, all relatively small corporate slippage, these are cases where there is an action that can be taken by the bank and there can be result coming out of that, which is the much more controllable thing, and we are not talking again about doubling the numbers from 350 to 700, we are saying it is only 500 crores because there is a target given to the team before this particular event of default etc. before that in beginning of the year this is the target given to them, that is number I am talking about.

Sangam Iyer: Sir, just a final clarification, when we said that the full impact of the 25 basis points increase in MCLR would come through in the next six months' time, here the NIMs guidance of 2.8 that we see, what should be the exit rate as compared to the 2.85 average for the year that we had guided earlier?

V. G. Mathew: Absolutely, because I am not saying that it will happen immediately, because there is a slack of six months in any case because many of the resets will happen only towards, some of them will happen only in the last quarter, some of them have already started happening that is true, but it would be more appropriate to consider it as the exit one rather than exactly on six months today.

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

V. G. Mathew: Thank you very much for your very active participation. There are some areas where you have asked for more clarifications, definitely our Investor Relations Department will definitely respond to all those things and any other clarification anytime we are open to give and give all the data also off-line, so thank you very much for the participation. Have a nice day!

Moderator: Thank you. Ladies and Gentlemen, on behalf of Motilal Oswal Securities Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.