



# **South Indian Bank**

## **Q1 FY2020 Earning Conference Call**

**July 26, 2019**

**Analyst:** Mr. Pritesh Bumb - Prabhudas Lilladher Pvt. Ltd.

**Management:** Mr. V. G. Mathew - MD & CEO  
Mr. Thomas Joseph K. - Executive Vice President - Operations  
Mr. G. Sivakumar – Executive Vice President - Credit  
Mr. K. N. Reghunathan - Executive Vice President - Treasury  
Ms. Chithra H. - Chief Financial Officer



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Operator

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Good day, ladies and gentlemen, and welcome to the Q1 FY '20 Results Earnings Conference Call of South Indian Bank, hosted by Prabhudas Lilladher Pvt. Ltd.

Please note that this conference is being recorded. I now hand the conference over to Mr. Pritesh Bumb from Prabhudas Lilladher Pvt. Ltd. Thank you, and over to you, sir.

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Pritesh Bumb, Prabhudas Lilladher Pvt. Ltd.

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Hi, everyone. Thanks for joining in today. I will like to welcome the management of South Indian Bank for discussing their Q1 FY '20 performance and outlook of the bank. Without further ado, I would like to hand the call to the management for their opening remarks, followed by Q&A. Thanks. Over to you, sir.

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V. G. Mathew, The South Indian Bank Limited - MD, CEO & Director

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Thank you. A very good morning to all, and thank you for joining us for our Q1 FY '20 Earnings Conference call. We are joined by Mr. Thomas Joseph, EVP Operations; Mr. G. Sivakumar, EVP, Credit; Mr. K. Reghunathan, EVP, Treasury, as well as CFO, Ms. Chithra.

Let me take you through the key highlights of the operational and financial performance for this quarter. I am delighted to announce that the profit after tax rose from INR 23 crores in Q1 FY '19 to INR 73 crores in Q1 FY'20.

As mentioned in our previous investor interactions, we remain committed to our strategy of expansion in the retail, MSME and Agri business segments, increase the share of other income and a superior asset quality. As on June 30, 2019, the total business of the bank stands at INR 145,374 crores, an increase of 13%. Advances grew by 13% to INR 63,652 crores, driven by continued robust growth in retail, MSME and Agri bond segments, while corporate segment registered marginal growth of 3%.



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Retail growth of 25% was primarily driven by mortgages, auto loans and gold loans. Our data mining and analytics initiatives have rendered very encouraging results in increasing product per customer. We hired experienced employees in the last financial year towards these initiatives, resulting in overall growth in various focused segments. The share of corporate loans declined from 36% as on June 2018 to 32% as on June 2019, and we expect moderate growth in this segment going forward.

Deposits grew by 13% to INR 81,723 crores. CASA deposits increased by 10% to INR 19,719 crores. CASA ratio remained stable at 24% of the total deposits. Our investment book rose by 10% to INR 20,692 crores of which HTM category contributed INR 16,467 crores, while AFS contributed INR 4,213 crores and HFT was INR 12 crores.

Gross NPA ratio stood at 4.96% as on June 30, 2019, as against 4.92% as of March 2019, a marginal increase of 4 basis points. Net NPA ratio stood at 3.41% and it was improvement of 4 basis points as against March 2019.

Net interest income for the quarter stood at INR 536 crores rupees, registering a growth of 8%. Net interest margin was 2.53% in the current quarter as against 2.46% in Q4 FY '19.

Other income for the quarter increased by 25% to INR 182 crores. Our core transaction fees rose by 10% to INR 65 crores, while forex income increased by 46% to INR 13 crores.

We have already entered into multiple distribution tie-ups with leading insurance companies and are seeing strong traction in third-party sales.

As we continue to expand the retail and MSME verticals, we expect better momentum in the transaction fee and third-party income in the coming quarters.

Operating profit for the quarter was INR 318 crores, up against INR 270 crores in Q1 FY '19, an increase of 18%, driven by higher income and better cost efficiencies. In Q1 FY '20, the business per employee rose by 12%, while business per branch rose by 11%. The cost-to-income ratio improved from 57.9% to 55.7% Y-o-Y. We expect the improvement in the opex ratio to continue as we gain from operating leverage from our centralized operations, higher fee income and increasing productivity from existing branches.

Our provisions declined from INR 232 crores to INR 205 crores in Q1 FY '20. These provisions included loan-loss provisions of INR 184 crores. Including write-offs, the provision coverage ratio stood at 45.1% as of June 2019, vis-à-vis 42.5% as of March 2019.

Annualized credit cost for the quarter stood at 123 basis points, a decline of 8 basis points as against Q4 FY '19. We expect FY '20 credit cost to be in the range of 1% to 1.1%. Our overall



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capital adequacy stands at 12.2%, while the core CRAR is at 9.7%. The bank has a wide geographical presence with 870 branches, 53 extension counters and over 1,400 ATMs.

To summarize, the bank continues its steady progress towards strong business growth, favorable loan mix and improved asset quality. We expect that these measures will enable us to deliver higher profits in the coming quarters.

With this, we open the floor for questions.

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## Questions and Answers

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Operator

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Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Nitin Aggarwal from Motilal Oswal Securities.

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Nitin Kumar Aggarwal, Motilal Oswal Securities Limited

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Sir, a few questions. Firstly, like, in the earlier calls, you have talked about improving provision in coverage ratio to closer to 60%. Now most of those slippages have been in control. So how do you see the outlook for the slippages and as well the coverage ratio during FY '20?

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V. G. Mathew - MD, CEO & Director

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Yes. On a Y-o-Y basis, the provision coverage ratio has improved from 39% to 45%. So obviously, at least a similar improvement should be there going forward. So our target definitely is 65%. But we have mentioned that the credit cost is something like INR 200 crores every quarter. So that continues to be the position. And we also hope that the resolution of some of the stressed accounts



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would happen. And we definitely believe that we will be able to achieve our recovery targets of around INR 600 crores. Although we are saying INR 500 crores is the target, we should be able to do around INR 600 crores at least by the end of the year. So with all this, the provision coverage ratio will definitely show improvement.

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Nitin Kumar Aggarwal

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All right. And secondly, on the deposit concentration of that, concentration ratio has increased for FY '19, and the growth in bulk deposits remains especially higher than what it has been in the retail. So what is the differential in pricing between the 2 segments? And what steps are we taking to improve the retail deposit's growth?

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V. G. Mathew - MD, CEO & Director

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All the branches are today focusing also on retail deposits along with CASA and retail credit. Maybe for some time because of relatively muted growth on the asset side, we have not been forcing the branches to pursue the retail deposits so aggressively, but already that effort has started and there is significant traction on the ground for that. Also, during the current quarter, the Q1 of the current year compared to the Q4 of last year, the bulk deposit has come down by around 3%. So we are in the right direction.

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Nitin Kumar Aggarwal

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Okay. And, sir, the other is also on the treasury side, now this quarter we've reported a healthier treasury performance. And -- so how much are the pending MTM losses that we can reverse for the second quarter and have we transferred any securities to this segment this year?



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V. G. Mathew - MD, CEO & Director

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The AFS segment securities transfer has happened in the first quarter itself. And, presently, there is no NPL losses. From the bond side, it is there. And we have already returned back INR 1 crore during this quarter. And going forward, as we go, the AFS bond portfolio, rates are likely to come down, accordingly, the reverse can happen.

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Operator

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(Operator Instructions) The next question is from the line of Saket Kapoor from Kapoor and Company.

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Saket Kapoor

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Sir, firstly, if you could give me a breakup of investment under the 3 categories: AFS, HFT and HTM?

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V. G. Mathew - MD, CEO & Director

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HTM is for INR 16,467 crores. The AFS is INR 12,213 crores. And HFT is INR 12 crores.

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Saket Kapoor

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All right, sir. And, sir, for us to see the improvement in NIM, sir, what are the things that are needed to be done? And what should be the -- what should we be the way forward for the remaining



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part of this fiscal year? How well are we geared to meet that? And what are you guiding us for that?

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V. G. Mathew - MD, CEO & Director  
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So NIMs have shown a definite improvement during this quarter over the previous quarter. And going forward, what we are trying to do is to ensure that there is a slightly better pricing on the asset side. As far as the liability side is concerned, yes, there is a great focus on CASA, but I'm not trying to say that the CASA ratio is going to change dramatically over the remaining part of the year, but it is quite possible for us to commit the right pricing on the asset side. We are making a lot of efforts about it. We have centralized the process to make it geared towards that. And the last changes that we have implemented so far because that happens over a period of 1 year, sometimes, because of the base being 1 year MCLR. So we believe that all these efforts should lead to an improvement of around 10 to 15 basis points going forward to the end of the year.

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Saket Kapoor  
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Sir, for this year average, we should expect 2.85% our NIMs? In that vicinity?

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V. G. Mathew - MD, CEO & Director  
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No. Less than that. More like 2.70% - 2.75%.

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Saket Kapoor  
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And like what was the average for last year, sir, March '19?



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V. G. Mathew - MD, CEO & Director

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March 19, we ended at the 2.58%.

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Saket Kapoor

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Sir, looking at that, if you could give me the slippage and the recovery for this quarter, sir?

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V. G. Mathew - MD, CEO & Director

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Yes. We had INR 3,132 crores to open the quarter and first slippage was INR 241 crores. Recoveries, cash and upgradation, that is INR 87 crores. Write-offs were 132 crores and, therefore, the total direction is INR 219 crores. Therefore, we have INR 3,154 crores at the end of the year at the end -- at the of the quarter

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Saket Kapoor

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I missed the last part there. But how much has been the recovery, sir? Total recovery?

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V. G. Mathew - MD, CEO & Director

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Recoveries -- recovery by way of upgradation and cash recoveries, INR 87 crores.





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Saket Kapoor

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INR 87 crores only.

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V. G. Mathew - MD, CEO & Director

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Yes. Write-offs are INR 132 crores.

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Saket Kapoor

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Okay. And what is our target, sir? What are we exactly looking for the end of the year in terms of both the recovery and the slippage as well? Where likely are we there to end?

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V. G. Mathew - MD, CEO & Director

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The slippage, as we have mentioned earlier also is that around INR 250 crores per quarter. It's what we have mentioned earlier, also. We hope to remain within that. I won't say that every quarter it will be precisely that number. It could vary here and there. But finally, finally, we should be able to remain within the target of around INR 1,000 crores, which is around 50% of what used to be there in the last couple of years at least. So that is what we are looking at, and meanwhile, the recoveries should be at least INR 500 crores, INR 500 crores to INR 600 crores is what we are looking at

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Saket Kapoor

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And sir, which categories you think the recovery is likely to happen? And -- because, sir, what we are seeing there in the absence of any stimulus package from the government, how well will your



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targets will be realistic, sir. If things go the way they are today, how confident are you like in this scenario, the ones -- the targets which you have set out will be met?

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V. G. Mathew - MD, CEO & Director  
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Yes. If you're talking about the slippage, we believe that we are reasonable in that. We have taken up -- that we have with the slippage, then it can come down by 50% as compared to last 2 years. That is what we are looking at, which seems to be moderate, considering that our last corporate issues are by and large over. And when you look at the recoveries, the recoveries because we've got a significant budget in place today, and we are not talking about the very large cases today or the resolutions we'll have to go through, maybe IBC process and processes like that. We are talking about recoveries in agriculture, recoveries in MSME, we are talking about recoveries in personal loan. We have a better system and our recovery targets of INR 500 crores to INR 600 crores is definitely doable.

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Saket Kapoor  
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Sir, last question. In the segmental part, sir, have you find this corporate and the wholesale banking reporting losses of INR 70 crores. So how would you explain which -- any particular account that has gone bad. Can you give us the detail of SMAs, how many since SMAs are we -- additions have been there for this quarter?

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V. G. Mathew - MD, CEO & Director  
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Broadly the corporate loss has gone up because the growth is not there. And the higher provisions on account of the larger number of NPAs, which we had during the previous years, also contributed to that. So now, because of the reduced overall book size, the yield is also less, which disturbs the contribution. And it really is compensated by the increase in profits in the retail segment because of the higher growth there, lesser provisions and a better yield there.

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Saket Kapoor

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What should be your outlook, sir, for the remaining part of the year? Is it going to worsen up because since our -- or have we done with the provision and also, this is going to remain steady on quarter-over-quarter, how should we work out with a number in the corporate and the wholesale banking segments?

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V. G. Mathew - MD, CEO & Director

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So the corporate NPAs, I mean, that is -- the significant part of the NPA that we are holding today is coming from the corporate NPA. So obviously, those things -- the resolutions also will take some more time. That's the reason why we've said INR 200 crores would be the credit cost going forward every quarter. So there is no reduction. And again, the point that we must remember is that even with the improvement that has happened, even now, the provision coverage ratio is 45%. So we need to improve there also. So INR 200 crores of credit cost per quarter, we envisaged as we were always mentioning and it will continue.

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Saket Kapoor

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For the total? I could not get your last point, sir. What should we factor in for the year? And last year it was, I think so, INR 127 crore in totality. This year, we have already done INR 70 crore loss. So what should be the ballpark figure for the full year, sir?

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V. G. Mathew - MD, CEO & Director

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Overall, what we mentioned is the position. INR 200 crores of credit cost every quarter going forward.

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Operator

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The next question is from the line of Sachin Kasera from Lucky Investment Managers.

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Sachin Kasera

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Congratulations for improved numbers. My question was regarding the loan growth, what is the type of loan growth you think we can do? And do we have the capital to make the aspiration that we are looking for the financial year '20?

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V. G. Mathew - MD, CEO & Director

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Yes. The first part of it, that is the loan growth is very strong in the retail and pretty decent in the MSME and agri levels. We're talking about overall 25%, and 14% and 14% respectively. So these are comfortable levels. But on the corporate side, as we have always been mentioning, the growth will be muted. It grew Y-o-Y just about 3%. Going forward, also the current environment for us, the growth will be fairly muted. Overall therefore, the growth will be more like 15% to 18% for the year. Now the second part of the question, do we need capital? We might. And we have already taken the approval of the shareholders for a dilution of 30 crore shares, and also for raising 500 crores of bonds. I'm sure these efforts are quite enough to meet any requirements of the capital for the growth support going forward.

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Sachin Kasera

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Yes. But sir, today, our stock prices at 0.4x the book value. So at this juncture, do you think it will not be dilutive to the existing shareholder?

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V. G. Mathew - MD, CEO & Director

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Yes. We will look at all options, and we'll find out what is the best way of timely deal it. We have been able to maintain the growth. And also, year-end reasonable profit and also ploughed back a reasonable number over the last 2, 3 years -- 3, 4 years, and we believe we will continue to do that.

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Sachin Kasera

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Okay. And my next question is regarding the provision on those security receipts. What is the status on that? And does your credit cost of INR 200 crores per quarter include any more provisions we may have to do on our securities portfolio?

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V. G. Mathew - MD, CEO & Director

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No. It does not include. The INR 200 crores is the sum as in our view, more or less, is required for the stressed assets because we do not know when a particular resolution happens under an IBC. It can happen suddenly, and if there is a write-down, which we expect to be there then we have to do that. So obviously, there is certain amount of uncertainty about the credit cost going forward. So we have put INR 200 crores as the normal one and that will be needed every quarter. And that does not cover the possible and probable incidence of provision coming out of any dilution in the net asset to value deal, yes.

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Sachin Kasera

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So, sir, what is your sense, how much more will we need to provide most likely for the portfolio for a full year?

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V. G. Mathew - MD, CEO & Director

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In my view, basically, we are only talking about 1 particular tranche. Others are not giving any trouble at all. That particular tranche, which is sold out to March 2017 was INR 1,776 crores. Of which, about 10, 11 are large and all the rest are good cases where significant amount of collateral security is available, maybe in some case, more than 100%. So obviously it all depends on how efficiently the collection happens and all those things and how the rating agencies look at it. But then again, it would matter that issue is with the rating agencies and they review this portfolio every 6 months and, therefore, we are not able to say very precisely what will be the case. But we hope that doesn't happen.

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Operator

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The next question is from the line of Rohan Mandora from Equirus Securities.

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Rohan Mandora, Equirus Securities Private Limited

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Can we see -- around your retail products, we are seeing a 5% to 6% sequential growth in the last 2, 3 quarters. So I just wanted to understand, like, how is it (inaudible) power that we have across the segments? And secondly, if you could comment, within the MSME space, that who are -- we are having, how is the business environment and the liquidity situation?

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V. G. Mathew - MD, CEO & Director

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Yes. On the retail side, the growth is coming more -- I mean, our focus is also more on the home loans, mortgages and also, auto loans and gold. Now we have absolutely no difficulty, I mean, if gold grows significantly, and we are able to get a pricing in the range of around 10%. But we are not able to get that at the moment, it's the truth. We are short 10% when it comes to gold. And partially because this gold is also used for agri. So obviously, we are not getting a great pricing on



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that. As far as home loans and auto loans are concerned, they are not really highly supportive of NIM, but we are getting something very close to our MCLR. The MSME is giving it around -- giving us around 10.25% and yes, that is the best segment at the moment.

But as you are asking the second part of the question, yes, MSMEs are also very cautious because of the overall liquidity strain in the market. We are also a little careful about it, but there are enough opportunities for us to work with our traditional customers in Kerala and in South India as well as in some of the geographies where we have been working for a very long time, like Ahmedabad or Mumbai or Kolkata or Delhi. So these are the areas in which we are trying to do, and we are cautious about it, careful about it, and we are also serious about collecting collateral security in most of the cases.

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Rohan Mandora, Equirus Securities Private Limited, Research Division - Analyst

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And, sir, any watch-list that we have on the corporate side right now, where we can -- it could be within the next 12 months?

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V. G. Mathew - MD, CEO & Director

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At the moment, we have not mentioned 1 or 2 accounts in which they are talking about us having stress as they are also trying to -- i.e. their management is also trying to find resolutions, and we have been talking about those accounts. So that's about all. Otherwise, there is more specific watch list as such we are mentioning now.

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Operator

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The next question is from the line of Sapna Laha from Bajaj Holdings. Please go ahead.

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Sapna Laha



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Sir, you are guiding NIM's improvement to 2.7% to 2.75%. What will be the levers for the same?

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V. G. Mathew - MD, CEO & Director

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Basically, we need to achieve superior pricing on the loan side. That is the only thing. There are no other major levers because I do not expect the CASA ratio to change immediately.

And of course, one more advantage is, going forward, we hope that we don't have the kind of write-downs in interest income that kept on happening in the last several quarters.

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Sapna Laha

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Sir, when do you plan to raise equity?

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V. G. Mathew - MD, CEO & Director

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We would definitely need to do it during this year, maybe in the second half. We have not decided precisely what we would do. We have all the options available to us. The shareholders have given us approval for equity as well as Tier 2 bonds etc. So we will evaluate what's the best way of doing it.

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Sapna Laha

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Sir, Tier 2 bonds INR 500 crore approval, you have already raised INR 250 crores, right?

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V. G. Mathew - MD, CEO & Director

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We raised INR 250 crores at that particular point of time. But the pricing was certainly not the very best, and so obviously, we did not raise the remaining part, and that is already finished. But we have taken further approval this year for INR 500 crores.

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Sapna Laha

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Further for INR 500 crores?

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V. G. Mathew - MD, CEO & Director

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Yes. Yes. Right.

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Sapna Laha

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So it will be INR 500 crores plus INR 250 or only INR 500 crores?

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V. G. Mathew - MD, CEO & Director

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No, no. INR 250 crores is already lapsed because the AGM is already over now. So the previous one is already lapsed.

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Operator

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The next question is from the line of Rakesh Kumar from Elara Capital.

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Rakesh Kumar, Elara Securities (India) Private Limited

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2 questions. Firstly, on this moratorium, which was given post Kerala flood, what is the status on the same right now? And secondly, how the retail loan is doing there? And how the remittance business is doing there?

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V. G. Mathew - MD, CEO & Director

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The moratorium is currently available up to December 31.

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Rakesh Kumar, Elara Securities (India) Private Limited

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And thereafter? Now, like, is there any request -- what is happening on the loan side? So is there any request for the extension of the same?

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V. G. Mathew - MD, CEO & Director

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No, that is not there at the moment. There is an informal request that up to 31<sup>st</sup> December no corrective action should be taken. So that's about all. But apart from that, there is no other implications for that. In terms of loan request, yes, it is coming up reasonably. We are also careful. As I mentioned, everything is under centralized environment. So obviously, sanctions are being exercised with great care. What was the third part?



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Rakesh Kumar, Elara Securities (India) Private Limited  
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Sir, retail loan growth in the Kerala state and remittance.  
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V. G. Mathew - MD, CEO & Director  
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Remittance, you would like to talk about? So fairly -- I mean there is a small moderation in that. But at the same time, the fact remains that our total portfolio, the total NRI deposits, they continue to be almost 27% of the total deposits, both are growing, deposits, NRI deposits as well as regular deposits are growing steadily. And since, we are able to maintain the preponderance of NRI deposits in the same manner as earlier.  
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Operator  
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The next question is from the line of Jai Mundhra from B&K Securities.  
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Jai Mundhra, Batlivala & Karani Securities India Pvt. Ltd.  
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First question is, sir, you hinted about the weak accounts, some of them, which are being talked about in the media. Can you sort of quantify the exposure there?  
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V. G. Mathew - MD, CEO & Director  
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In housing finance company, I think we had indicated something like INR 150 crores kind of exposure, yes. That's about all.

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Jai Mundhra, Batlivala & Karani Securities India Pvt. Ltd.

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That is only one account, right?

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V. G. Mathew - MD, CEO & Director

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It is. Yes.

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Operator

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The next question is from the line of Kunal Shah from Edelweiss Securities.

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Kunal Shah, Edelweiss Securities Ltd.

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So on the corporate book, when we look at BBB and less than BBB, that's sort of like 27% plus. So how do we see the behaviour of that in terms of these hindered advances? Do we see any risk out there because that proportion is quite higher? So -- and if any colour if you can give in terms of which sectors would this be concentrated in?

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V. G. Mathew - MD, CEO & Director



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Sure, we think we can do that. I think it's around 8% is what I recollect that is less than BBB. And the more important thing about that is none of those accounts, there is no account which is above INR 100 crores, which is in either SMA-1 or SMA-2.

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Kunal Shah, Edelweiss Securities Ltd.

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Okay. But in terms of the sectors, if you can say at least for our...

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V. G. Mathew - MD, CEO & Director

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Sectors, the sectors are typically one, of course, is an NBFC -- is an HFC, one. Maybe others are textile, manufacturing, and hospitality. Yes, these are the areas.

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Kunal Shah, Edelweiss Securities Ltd.

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And the other 20%, which is there in BBB?

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V. G. Mathew - MD, CEO & Director

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BBB, again, as I mentioned, the INR 100 crores and above, we don't have a single issue about those cases. And we can also give you some details about, okay, the BB external rating accounts, I think, it is a diversified industry, another one is an airport, the third one is in the hospitality. None of these cases, we expect any problems at all. And others are, as I mentioned, yes, there is one HFC. I think they are trying to resolve the problem. And others are, as mentioned, the textile and other sectors.



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Kunal Shah, Edelweiss Securities Ltd.

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Okay. And sorry, if -- I don't know if that was answered. But what's the SMA-2 portfolio as of now? What is the proportion in SMA-2?

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V. G. Mathew - MD, CEO & Director

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Yes, I think it is -- that increased slightly as compared to last year, hiking from 1.7%, it has gone to 2.65%.

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Kunal Shah, Edelweiss Securities Ltd.

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2.65% is the SMA-2, overall.

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V. G. Mathew - MD, CEO & Director

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SMA-2, overall SMA-2.

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Kunal Shah, Edelweiss Securities Ltd.

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Okay. And in terms of retail, when I look at it, it's like LAP which has grown from almost INR 3,000-odd crores to INR 4,100 crores in one year. But at the same point in time, maybe the business loans are slightly off. Now so this entire LAP, so what is the profile of the customers. I think on the business side, you highlighted on the SME, we are slightly maybe conservative, but the LAP is growing by more than 50-odd percent. So what would be the...



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V. G. Mathew - MD, CEO & Director  
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The LAP loans are significantly sourced from existing customers, number one. Number two, the entire sourcing is done by our own staff. Our outsourced arrangement for sourcing, is in a very, very preliminary stage, and we are extremely careful about the business that is coming through the DSA. That's very, very limited assets today and the rejection rates are also very high in that area. We have still escalated little bit little better. And on an exploratory mode, it will continue for some more time. But our branch network is being used for sourcing both LAP as well as business loans. So we believe that the quality will be quite fine, but at the same time, we were always, in particular, that once the home loan and LAP reach the same level, the growth will be, again, an integrated growth same level, not LAP growing significantly and home loans growing less, that is not the plan. So going forward, it will be a balanced, integrated growth in the entire mortgage portfolio.

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Kunal Shah, Edelweiss Securities Ltd.  
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But in terms of the profile of the customer, sir, what would be the average ticket size in LAP? And what would be the average ticket size in business loans?

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V. G. Mathew - MD, CEO & Director  
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Yes, ticket size in the housing loan, which is around INR 25 lakhs. LAP is around INR 38 lakhs. Okay.

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Kunal Shah, Edelweiss Securities Ltd.  
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Okay. And business loans would be?



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V. G. Mathew - MD, CEO & Director

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Business loans is INR 37 lakhs.

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Kunal Shah, Edelweiss Securities Ltd.

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Okay. Okay. And this business loans would be more or less unsecured?

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V. G. Mathew - MD, CEO & Director

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No, there is nothing unsecured with us. Everything is secured. And only thing is the level of collateral, we may not insist, like this is more on a parameterized basis and, therefore, only if certain cash flow start definitely displayed in very authentic documentation, they are eligible for a business loan. But the collateral security requirement is not -- I mean, entirely avoided. The only thing is we may not be insisting on a 100% collateral security or even an 80% collateral security in this case, which otherwise typically we are looking for.

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Operator

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The next question is from the line of Pranav Gupta from Birla Sun Life.

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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited





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Yes. So most of my questions have already been answered. But if we -- so last quarter, I remember, you highlighted there were 4 major accounts in the BB and below book. So could you give us some colour on how these are performing and what does the -- what are you seeing there in that book?

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V. G. Mathew - MD, CEO & Director  
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Yes, they are performing in the sense like, if you look at the conducted account that is as of now there are no issues. But definitely, we have an issue with one housing finance company. And I believe there are resolutions, which are being considered by the management. And in other cases, typically, we are still awaiting what is the development. But some of these cases, which I mentioned earlier, we don't find any problem at all. For example, the diversified industry, the airport, the hospitality, we don't expect any problems of any variety at all. Other places, we are very carefully watching the situation.

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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited  
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Okay. And any other turnkey accounts, around even if INR 40 crores, INR 50 crores kind of exposures in the BB and below book that you would like to highlight?

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V. G. Mathew - MD, CEO & Director  
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Yes. I mean INR 50 crores, I can't give in the detailed accounts as such, but we are careful about the whole environment today. We are carefully watching all of them. We have an early warning system that is running. We are carefully looking at all the details, trying to engage with the promoters, try to figure out if there are any problems and how to resolve it. So that is the position as of now.

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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited



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So -- and just to go back to previous participant's question. You've highlighted some kind of stress which you're seeing in retail loans because of the dispensation, which is there in Kerala. And we haven't seen any such spike in slippages strategies. So I mean, what -- I mean, if you could just highlight what is happening on the ground there? How is the borrower behaviour?  
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V. G. Mathew - MD, CEO & Director  
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Yes, there is some difficulty. For example, last quarter, in the Agri, we found peak in the slippages. And sometime back, we had faced the significant slippage in the cashew industry. Now what has happened is, agri, we have able to more or less contain. As far as the cashew sector is concerned, almost 40% of our accounts became NPA, and we are very, very careful that we don't get into that unless the particular company is exceptionally good. So that is what we are trying to do there. And we don't expect any significant spike coming out of that.  
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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited  
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So fair to assume that we're not seeing any incremental stress in the agri because of the dispensation?  
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V. G. Mathew - MD, CEO & Director  
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Yes.  
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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited  
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In your retail, rather retail loans, no specific borrower behaviour issues.

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V. G. Mathew - MD, CEO & Director

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We are not saying that we environment is the very best at the moment. There are -- I mean, indications of stress in certain various areas, and therefore, we are very careful, and we are carefully watching the space also. And we only hope that we are able to remain within that INR 250 crores guidance, that is INR 1,000 crores in this particular year. We want to bring down our fresh slippages to INR 1,000 crores in this year from something like INR 1,800 crores to INR 1,900 crores which was there earlier. So that is all what we are trying to do, and we believe with the kind of stress that we are seeing, both in the retail and corporate book, we should be able to remain within that. That is what we are trying to say.

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Pranav Gupta, Aditya Birla Sun Life Insurance Company Limited

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Right. Right. And sir, just last -- one last question, if you could give some colour as to what has led to the increase in SMA, whether it's coming from corporate, retail, SME, what segment?

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V. G. Mathew - MD, CEO & Director

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Yes, I can give some breakup, I can tell you which areas have come up, which -- yes. So SMA-2 has increased from 1.71% to 2.65%. And say SMA-2 less than INR 5 crores. That is around 4,762 accounts that is contributing around INR 400 crores below INR 5 crores, SMA-2 above INR 5 crores is INR 200 crores that is how the INR 600 crores increase has happened. So it is -- but if you ask me, more than INR 100 crores, there is no change. There were no cases last quarter. Also, it is not there in this quarter also. INR 50 to 100 crores, just about 1 account, and I think that is a road project that I think that is getting resolved.

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Operator



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The next question is form the line of Rusmik Oza from Kotak Securities.

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Rusmik Oza

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Sir, in terms of absolute amount, can you just quantify what is the amount required in terms of equity to fund future growth of the company or the bank?

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V. G. Mathew - MD, CEO & Director

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So we are growing at -- I mean 15% to 18%. And -- and if the kind of credit cost that we are talking about is not there, there is no requirement of capital. But we know-- I mean, INR 200 crores of credit cost is there every quarter. And so the drawback would be typically what used to be the case. I mean if you see historically, we have been putting around INR 200 crores back into the business. We thought something similar might happen in this year also. Then we will definitely have the opportunity of placing Tier 2 if it is good enough. And then, we will also look at Tier 1, if the position improves a little bit. And we will look at all options.

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Rusmik Oza

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Okay. And second question, sir, you said you have this 1 housing finance company under the BB and lower category. What could be the exposure to this housing finance company, sir?

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V. G. Mathew - MD, CEO & Director

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I mentioned about INR 150 crores.



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Rusmik Oza  
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INR 150 crores. Okay. Okay. And lastly, sir, you have certain loans which are under moratorium in Kerala that are living in the moratorium until 31st December. Can you quantify the size of these loans in terms of actual amount -- absolute amount?

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V. G. Mathew - MD, CEO & Director  
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Yes. The standard restructured generally that is all normal, that is not related to the natural calamity, that is -- it was INR 57 crores on the 31/3/2018 and INR 21 crores last quarter. It is remaining as INR 21 crores. Natural calamity, we had INR 161 crores last quarter. It has become INR 164 crores. Then MSME dispensation, what was INR 32 crores has become INR 107 crores, and therefore, yes, so the total restructure is INR 292 crores. So your question is more about the calamity dispensation that is INR 164 crores is the number.

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Rusmik Oza  
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Okay. And lastly, sir, I know this housing Finance company said you had exposure to INR 150 crores. Have you provided any dynamic provisioning till date for this INR 150 crores?

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V. G. Mathew - MD, CEO & Director  
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It is being serviced. It is regular. We have, so far, no issues on that.

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Operator



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The next question is from the line of Sachin Kasera from Lucky Investment Managers.

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Sachin Kasera

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Sir, regarding that security receipts, you mentioned that every 6 months the rating agencies do a review. So when was the last review done and when it is due next time?

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V. G. Mathew - MD, CEO & Director

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It was done. It was done in June and December.

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Sachin Kasera

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Okay. So when you go for the next quarter, we'll come to know what was the update from this current rating review in the month of June?

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V. G. Mathew - MD, CEO & Director

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Absolutely. Absolutely. We are also, I mean, very keenly following up that, yes.

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Sachin Kasera



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Okay. Secondly, you mentioned, sir, a couple of accounts in the corporates also which are under stress. So this guidance of INR 1,000 crores slippage builds into possible stress that could come from this 2, 3 accounts in corporate or that is not building in that?

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V. G. Mathew - MD, CEO & Director

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No, it was not intended to be built because we had seen a scenario in which the corporate book was almost completely clean and in fact, therefore, we were not even looking at this when we said INR 1,000 crores. But then you always thought, I mean INR 1,000 crores is a conservative kind of number so that in case there is a problem in any of these unexpected accounts maybe a creditor mid-corporate, which should be able to cover within that. That was our understanding at all times. And we still hope we should be able to remain within that.

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Sachin Kasera

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Sure. And sir, second question was regarding the cost-to-income ratio. How much improvement - you mentioned that it should improve going forward. So next 2, 3 quarters, what is the type of improvement we can see in the cost-to-income ratio?

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V. G. Mathew - MD, CEO & Director

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On the cost side, we are well controlled. In fact, even on pure bank basis also, if you compare, you would find that our cost per employee is not an issue. The problem is about the income side. So 2 components are there. One, of course, I mean, the net interest margin itself -- I'm not trying to say that CASA will improve significantly, immediately. That is a fairly long-term process. What would otherwise decide is the quarter-to-quarter movement or the yearly movement would be the other core fee income and also the treasury income. So treasury, I hope, going forward, in the current environment, the treasury should be able to give us a reasonable return. And more importantly, that should not give us any surprises on the negative side in terms of the provisioning. So these are the 2 things that we are looking at.



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Sachin Kasera

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Sir, on this transaction fees, we saw continuous trend improving from INR 60 crores to INR 85 crores. This quarter, it has become INR 65 crores. Anything too specific in update why sudden drop of INR 20 crores this quarter?

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Company Representative

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Transaction fee is basically the processing fee and the related charges we collect in the loan side. So loans normally, the growth in the Q1 is a little moderated. Normally how it happens is the sequential growth; in Q2, it picks up; Q3, it picks up really; and Q4, it peaks. So again, the next year it comes on. So the decrease is only because of that. If you look at the investor presentation of last year, you find the same pattern of growth from Q1, Q1, Q3, Q4, and it is in Q1 again. So there's nothing unusual. It's only a normal.

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Sachin Kasera

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Okay. And sir, this 65% target for PCR, you hope to achieve in next 8 quarters -- 7 to 8 quarters?

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V. G. Mathew - MD, CEO & Director

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Yes. I think, yes. Definitely, that's the best way to say and I hope. It all depends on how some of the resolutions would happen and how the NPAs can come down. Because the other opportunities for sell-out and all those things are very, very limited today.

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Sachin Kasera

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Okay. Sir, just one last question regarding our expectations on ROA and ROE. You mentioned that the NIMs can only improve slightly because of pricing and not much for because of cost of fund reduction, CASA is a long-term strategy. So in that case, how do we start, at least achieving a 1% ROA and 11%, 12% ROE over the next 5 to 6 quarters? Does it mean that we need to then improve the NIMs further, say, to around 3.2% to 3.3%.? Can you just tell a little bit about that from a medium-term perspective?

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V. G. Mathew - MD, CEO & Director

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You are absolutely right about your view on that. Only thing is we thought we should talk about those things a little later. We have achieved a certain amount of loan size, which was very critical to the bank. If you want to maintain a credit cost of say, INR 200 crores per quarter, you need to have income from that. So INR 60,000 - 65,000 crores of loan book was a very critical number. So we have achieved that level today. So therefore, we expect that we can be a little bit stricter about the pricing going forward. And of course, there are other areas also like that now today, we are fully centralized in terms of credit sanction. And therefore, we can relax the emphasis on collateral security, which we have been maintaining for a very long time, but then the pricing can be superior slightly. So these are all avenues which are available. And we will roll it out in a very calibrated and careful manner because the environment also we need to take into factor. That is what we are trying to do today.

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Sachin Kasera

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And sir, for the full year, at least, we will see what 100 basis point improvement in CASA ratio or even that looks challenging?

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V. G. Mathew - MD, CEO & Director

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It looks a little challenging; the 100 basis points is a little challenging for the year because the deposit also we would like to grow significantly this year. Our focus is also on lot of retail deposits rather than depending on the treasury going forward.

So the base also changes. That is what I was trying to say, the ratio becomes -- even if we grow, you have to grow much faster to reach that level.

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Operator

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The next question is from the line of Amit Singh from B&K Securities.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.

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Sir, in the last call, we had mentioned about a Kolkata-based multidivisional company. But some of the banks have indicated that they have downgraded a Kolkata-based multi-division company?

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V. G. Mathew - MD, CEO & Director

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We don't have a downgrade at all. And the account that we are talking about is likely to get further improvement in the rating in a very short while because the financials have improved. And some of the other important initiatives, which they were planning to roll out, they are all progressing quite well with good, demonstrable milestones achieved.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.



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Okay. Perfect. And sir, secondly, sir, on the restructuring part, how much are we expecting to slip from the Kerala floods as well as MSME dispensation. So how much of that we are expecting is going to slip in the coming quarters?

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V. G. Mathew - MD, CEO & Director  
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We can't put a number on that because if you look at the overall credit quality in Kerala, it was always pretty good, barring 1 incident or 1 fraud that happened in large account, we never had a serious problem in Kerala. And also, the cashew was one exceptional case. So we are assuming that maybe around 30% would slip because we are not able to precisely put a number on that. Going by the earlier experience, we should not really see this problem at all. But we are assuming that in the changed environment, maybe around, say, 30% would slip.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.  
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Okay. So sir, how much are we going to be and in how much are we expecting to get restructured in the next quarter?

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V. G. Mathew - MD, CEO & Director  
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So see, what happens is some restructuring will happen. But at the same time, some of them will also get into NPA, the current ones, because we are also looking at the servicing. So net-net, there maybe not be any significant change because what has happened.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.  
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Okay. And sir, secondly, on our AFS duration, if we see it has gone up significantly, and it is now at 2.8. Sir, what are our views there, sir, from the duration of AFS book?

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V. G. Mathew - MD, CEO & Director  
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2.84 duration is not that really high considering the expected rate demand in the market. And generally, the global rates are moving downward and the economic growth is to be looked into. We are expecting 1 or 2 more rate cuts during the year. So accordingly that AFS duration is slightly increased as per our calculations.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.  
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Okay. And sir, just going back to the previous question, again, sir, of that multi-divisional company in Kolkata. So sir, what kind business they are in exactly?

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Company Representative  
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They are into, I think, cement and tire business.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.  
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And sir, this last question sir, on the debit card side, sir, we've been seeing the downward trend in the number of active debit card users. So is the number correct, I mean...?



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Thomas Joseph K. - EVP (Operations)

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Yes. And overall, we have done recoding of the cards because the magnetic stripe cards are to be replaced by the EMV cards, so that replacement also has happened. There were lot of cards, which were not been used. If you look at the national numbers also, there is somewhat 10% to 11% dip in the number, and there is almost same number of -- same level of dip in transactions of around 10% to 11%. So these are the basic reasons why, but this dip will be compensated by the normal collection of charges based on actual usage going forward.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.

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Okay. So Sir, you are seeing that this number is going to settle somewhere around the number which has come down around EUR 2.7 million? Or there could be a further dip in this number?

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Thomas Joseph K. - EVP (Operations)

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So it does not dip further, it will improve actually.

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V. G. Mathew - MD, CEO & Director

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It will improve. But we continue to believe that some of these customers, possibly, our engagement also was not good enough. So we need to work on that. There's a process at the moment that is running in the Retail Banking division looking at all these things.

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Amit Kumar Singh, Batlivala & Karani Securities India Pvt. Ltd.

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Okay. And sir, just last question. Sir, what is our total number of savings account customers.

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V. G. Mathew - MD, CEO & Director

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Total customers are 6 million.

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Operator

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The next question is from the line of Sharvari Joshi from Trivikram Consultants.

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Sharvari Joshi

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My question is regarding the advance growth. So this quarter, it has been quite low if you compare it to last 5, 6 quarters. And also in the last call, we have spoken about some 18% to 20% growth in advances. So how should we look at that going forward?

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V. G. Mathew - MD, CEO & Director

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Yes. Actually, we have grown in the areas of focus quite well. And including mortgages, we are at 25%. In MSME, we have grown by 14% and in agri by 14%. So these are all the most important growth segments for us. And on the corporate side, we have grown by only 3%. Corporate side is 32% of the book. So obviously, the overall growth is a little muted. So that is what we mentioned also, like going forward to in the current scenario, we believe that we will be focusing more on the retail, MSME and Agri and gold side. And therefore, the growth will be something like between 15% and 18%.

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Operator

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

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V. G. Mathew - MD, CEO & Director

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So thank you all for participating in this con call. And in case you need any further clarification on any points, you are always welcome to raise those issues and our CFM department and Investor Relations department will be in touch with you for that. Thank you.

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