"South Indian Bank's Q2 FY'19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the South Indian Bank's Q2 FY'19 Earnings Conference Call hosted by Spark Capital. This conference call may contain forward-looking statements about the bank, which are based on beliefs, opinions, and expectations of the bank as on date of this call. These statements are not the guarantees 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. NavinBabu from Spark Capital. Thank you and over to you, Sir.

NavinBabu: Thank you, Janice. Good morning, everyone. On behalf of Spark Capital I welcome you to 2Q FY'19 Earnings Conference Call of South Indian Bank. We have with us today the management team of South Indian Bank represented by Mr. V.G. Mathew -- Managing Director & CEO; Mr. K. Thomas Joseph – Executive Vice President, Operations; Mr. G. Sivakumar -- Executive Vice President, Credit; Mr. K. N. Reghunathan -- Executive Vice President, Treasury and Mrs. Chithra – who is the Chief Financial Officer. Now, I would like hand over the call to Mr. Mathew for his opening remarks; request Mr. Mathew to take us through the highlights for the quarter gone by after which we will open the floor for questions. Over to you, sir.

V.G. Mathew: Thank you. A Very Good Morning to all and thank you for joining us for our Q2 FY '19 earnings conference call. Let us discuss key highlights of Operational and Financial Performance: As on 30th September, 2018, total business for the bank stands at Rs.1,32,324 crores, an increase of around 13.2% YoY. Advances grew by 15% YoY to Rs.57,413 crores with growth drivers continuing to be Retail, Agriculture and MSME loans. Retail (excl gold) grew by 33.5%, MSME grew by 7.2% and Agriculture by 9.8% on YOY basis. The corporate advances, that is Rs. 25 crores and above stands at Rs.20,149 crores, retail advances including agriculture, MSME stands at Rs.37,264 crores as on September 30, 2018.

As for deposits, the increase was 11.6% YoY and the current figure stands at Rs.74,911 crores. The CASA of the bank increased to Rs.18,388 crores, registering a growth of 11.6%. Savings bank deposits grew by 13.5% from Rs.13,526 crores. Current account deposits grew from Rs.2959 crores to Rs.3031 crores. CASA now stands at 24.55% of total deposits. NRI deposits have increased by 14% from Rs.17,850 crores to Rs.20,425 crores on YoY basis. NRI deposits account for 27.3% of total deposits.

Bank's net profit for the quarter was reported at Rs.70 crores as against Rs.4.32 crores for Q2 FY'18. Pre-provisioning operating profits stood at Rs.310 crores for the quarter. Other income was Rs.158 crores for this quarter as compared to Rs.280 crores in Q2 FY 18. The reduction in the other income was mainly on account of lower trading profit from treasury book and lower demand for PSLC Certificate fees.

Our efforts on technology and transaction phase are moving in the right direction and we remain positive on momentum. Net interest income stood at Rs.506 crores for the quarter, up from Rs.503 crores for the corresponding quarter of last year, witnessing a growth of 1%. NIMs for Q2 of this year is 2.61%. The cost-to-income ratio stood at 55.58% for this quarter. Higher cost-to-income ratio was an account of decline in other income as explained earlier. In the current quarter, our investment book stood at Rs.18,607 crores, of which HTM contributed Rs.14,859 crores and AFS Rs.3748 crores.

Gross NPA for the bank stood at 4.61% vis-à-vis 4.54% for Q1 of FY19 and net NPA stood at 3.16% vis-à-vis 3.27% for Q1 of FY19. Provision coverage ratio stood at 41.86%. Our capital adequacy stands at 12.11% for the quarter. The core CRAR is 9.98%. As on date, the total employee count stands at 7718. During the quarter, bank has opened 9 ATMs and 2 branches. We now have 857 branches, 55 extension counters and 1395 ATMs.

During the quarter, we have won Runner-Up Award for Best MSME Bank instituted by Chamber of Indian Micro, Small and Medium Enterprises and CSR Award for Bank and NBFC instituted by Kerala Management Association for the contribution to higher education sector through our flagship program "SIB Scholar."

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. We will take the first question from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

Prakhar Agarwal: Sir, a couple of questions from my side. Of the overall book of around Rs.23,000 crores in Kerala, what is breakup between retail and SME? What is the impact of Kerala flood that we have seen this quarter?

V. G. Mathew: The Kerala advances are Rs.23,368 crores. Now this needs to be seen as a split between the business which are not affected in any manner by flood, such as gold loan, loan against deposits, staff loans, corporate exposures, etc., that is coming to Rs.10,030 crores, a precise number and Rs.17,194 crores is the advances in the 12 flood affected districts, of which Rs.10,000 crores cannot be affected by flood in any manner, so that leaves a balance of around Rs.7,000 crores. Now that balance must be split into two components. So, the more important thing is we have around 10% of the branches which are directly affected by the flood really in terms of the constituents getting affected. So, of the Rs.7,000 crores, Rs.700 crores is the number that can be broadly considered to be affected by flood. Now that needs to be seen as two components: One is the agriculture and rural businesses which are eligible for dispensation that is around Rs.500 crores and remaining Rs.200 crores are about launched in other areas, which do not carry any dispensation such as mobiloan, etc., We are talking about two numbers; Rs.500 crores and Rs.200 crores; Rs.500 crores is covered under dispensation. As of now some requests have come for availment of dispensation, that process is still on only. So from the regional heads view as well as the branch views, we get a perception that around 50% of this Rs.500 crores, that is around Rs.250 crores will come for restructuring, remaining Rs.250 crores will remain completely unaffected, because of the restructuring again this part will never slip into NPA. Of the Rs.200 crores, again by the same logic around say 50% will face a problem, that is our reading on the situation, so that is around Rs.100 crores, so that 100 crores as a worst-case scenario we are assuming likely to become NPA over the next two quarters. So we have given a guidance of around Rs.200 crores retail NPAs going forward, that is this quarter as well as next quarter. Instead of that Rs.200 crores as a worst-case scenario, we will put it as Rs.250 crores for Q3 and same Rs.250 crores for Q4 also. We try to validate the same data on a different basis, on the basis of SMA2. So when we look at the SMA2 data, what I was talking about as the Rs.5,000 crores on the agriculture and other size around Rs.2,000 crores which is coming into the mobiloan and other retail loans which are not eligible for any dispensation. Again, our SMA2 is around 4%. So even if you assume 5% as the SMA2, that is also coming of around Rs.100 crores and that Rs.100 crores in the worst-case scenario if all the SMA2 slip into NPA, then also the same number is coming, that is 100 crores which is what. So by two different methodologies we have tried to validate -- one is taking data from the field, one is on the basis of the SMA2 database available with us, and on that basis both of them more or less correspond to each other and therefore we are assuming that the worst-case scenario we will have Rs.50 crores addition to NPA on account of flood in Kerala during Q3 and during Q4.

Prakhar Agarwal: Any provision that you have made on the amount that we think that there will be some dispensation or we probably will make over a period of time on that as well?

V. G. Mathew: We will see at that time, because anyway it is a relatively small number that we are talking about and even now the dispensation request, we are telling our branches to proactively tell our customers to go for the dispensation where they expect the cash flow problem, but I think many of them are waiting for the festive season and overall the cash flow situation, possibly it is not as bad as what we have thought about and therefore we do not find a flood of proposal coming from them. So that is the reason why we have arrived at this conclusion and we are just waiting for more feedback from the field. So as we go along anyway the number is not going to be anything serious in terms of even the restructuring part.

Prakhar Agarwal: On this OPEX front also because of this Kerala flood, do we see some rise in OPEX also that because 10% of the branch were directly affected as you rightly said, so any increase in the OPEX number that we foresee or probably not?

V. G. Mathew: No, 10% of the branches affected means the customers of the branches were affected, like the branches in the rural areas of Kerala are only 10% for us and basically the branches were all open and functioning barring some 18 branches totally.

Management: …18 branches affected, of which three branches were seriously affected, otherwise totally 18 branches were affected. So if you are asking about the side effects that we need to spend for reviving those branches practically, one because there is an insurance coverage for almost all expense that will come on the capital expense side and operational expense may not be much because only in four branches we had to spend some money for real repairs, etc., otherwise everything was almost normal. ATMs of course there was some issue, but then ATMs are all covered under insurance and therefore we do not expect any major expense coming into that.

Prakhar Agarwal: Sir, what will be the basis impact because of this in terms of growth, how do we foresee that panning out?

V.G. Mathew: Actually, the Kerala business have grown a little faster than rest of India. It is a difficult prediction to make because we also have the compensating events of the festive season coming up and things like that, and again the second half of the year is generally much better in terms of advances. Therefore we do not really anticipate any serious slowdown in business, in fact, we are looking forward to 20% kind of growth in Q3 as well as Q4 on YoY basis.

Prakhar Agarwal: In terms of your IL&FS exposure, do we have some exposure towards that and what sort of provisions if at all we have made towards that?

V.G. Mathew: I have some constraint in talking about individual customers. We have declared in our filings with the exchange that we have exposure to infrastructure conglomerate and we have made a prudential provision. We are confident of the work that is going on around the improvement in governments as well as improvement in liquidity over there, but we have made a prudential provision of Rs.20 crores.

Moderator: Thank you. We would take the next question from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, just on this flood related issue you explained Rs.500 crores is the exposure which is flood affected, of which Rs.250 crores is going to be restructured. So what happens to the balance 50%, I mean, they would be nearing their scheduled repayment, so how should one thing about that the portion which will not be restructured?

V.G. Mathew: Entire Rs.500 crores is eligible for restructuring, absolutely no problem, but we do not expect those people to come, even this Rs.250 crores may not come, so today if you look at the proposal flow at the branches and in the regions which are affected by flood, it is very-very limited. So, many of the farmers and people who are having other income other than the particular crop that has failed may not come to us for any restructuring, they may not want anything at all. So the worst case scenario we are assuming around Rs.250 crores over there in terms of restructuring.

Jai Mundra: How much duration is the window, I mean, this scheme of restructuring is applicable till when because this quarter there is no rise in the restructured book?

V.G. Mathew: Yes that is true, nothing has happened in this particular quarter as far as this is concerned and we are trying to finish it off by October 31, 2018. It is a very simple restructuring. If people wanted,, our template processing tender is ready, all what we need is to fill up a simple one page format and put it into the BPM, that is all, it can be done immediately, because parameters are all given by the SLBC and everything is very clearly laid down, but then the requests are not sort of, I mean, boring in kind of thing at the moment.

Jai Mundra: Because in the other banks which declared the results yesterday, they have already classified some of the Kerala related exposure as restructured. So I thought may be the scheme is up and running and bank would have classified or people would have availed the restructuring facility if applicable, so for our bank it would be finalized by October 31, 2018, right?

V.G. Mathew: If at all it is there. Yes, in any case the number that we are talking about is this. There is no flood of request coming to us at this moment. As I mentioned we got just about 10% branches in the rural areas in Kerala. Otherwise even the flood affected branches as Thomas was trying to explain some time back, there were just about 18 branches, of which only 3 closed.

Jai Mundra: Secondly on this infrastructure conglomerate, if you can sort of provide more color to the exposure that we have because the entity has a lot of other businesses like power, transportation, and the holding company, so if you can classify where is our exposure primarily is it to SPV or holding company or the transportation entity that would be much useful?

V.G. Mathew: As a policy, we have been avoiding all road, power, SPVs continuously for the last four years. So same policy applies everywhere here also.

Jai Mundra: Then where would be the exposure sir, if it is not in power and road and also not in conglomerate, then logically we should not have any exposure altogether?

V.G. Mathew: We did not say we have no exposure with the conglomerate, we said in the power and energy SPVs we have no exposure.

Jai Mundra: Sir, now we have provided more disclosure in terms of the loan book below Rs.100 crores and above Rs.100 crores and that data is useful. Just on this external rating, if we were to see loan book above Rs.100 crores, there is still 9% kind of exposure which is below investment grade. So would you be keeping this as a stress or watch list kind of a thing because you mentioned that the slippages guidance as far as retail and SME is concerned it is more or less similar, I mean, 200-250Crs, but you did not mention about how should we see this 9% of Rs.12,000-odd crores book?

V.G. Mathew: It was around 4-5% if I remember correctly last quarter. The modification is because of exposure to a particular conglomerate which is into infra, etc., So at this point of time we do not have any specific information by which we would like to give a very specific guidance on that. As far as the watch list is concerned, we have just one EPC contractor left in from our legacy book and that has shown some devolvement's of bank guarantees, etc., and therefore we have shown that exposure as already watch list because that is the beginning of problems sometimes in that EPC space. So we have already shown it as a watch list item and we have also made a provision of Rs.10 crores in that.

Moderator: Thank you. We will take the next question from the line of RenishBuva from ICICI Securities. Please go ahead.

RenishBuva: Sir, my question is on our margin. Despite having significantly lower slippages in the quarter, our margin still remains at 2.6%, so there is no significant interest reversal which might have impacted at the revenue side this quarter but still margin remains low. Even on the spread we are working on very thin spread of 2.3, 2.4 kind of a spread despite our retail book is growing significantly faster than the corporate book. So, what explains this, I mean, are we chasing growth at the cost of margin or is it the overall competition which is taking a hit on the asset yield?

V.G. Mathew: There are two components to it: On the liability side, our CASA ratio is an issue, in the sense like we wanted 30%, 10 regions of the 20 regions have already got 30% and above, the remaining 10 regions are still a laggard for us, we are working very hard with them. So we need to reach that 30% that is very important, that is one side of it. Second side, orientation towards security particularly in Kerala and South India, we were able to ask for getting additional security by way of collateral…I am not talking about the primary security, I am talking about additional collateral security by way of residential mortgages, etc., and in an environment in which our NPAs are 4.61% as we are working at containing it very cutely by recovering and also moving ahead with a significant improvement in the collection. So in that context, it is important not to change that approach immediately, that is the only thing. So not that we cannot do unsecured loans, not that we cannot do other things, we do not have the set up for this, we have set up for everything today, all the centralized setup is available, all monitoring capabilities available, but then we thought we can wait for a while more before we reduce our security orientation where it is available, we are not saying that we would do the same thing say in Delhi or Gujarat, we do not, but at the same time where there is an availability, let us do that for the time being until the position get corrected which of course is not a very long distance from now, so that is what we are looking at. As you said, of course, the NPA reversals, etc., were not there because large restructured portfolio is not there at all practically, so therefore that is not there much.

RenishBuva: So what I can understand is because we are focusing on the secured advances, that is why our asset deals are lower, that is by choice, that is what you meant sir?

V.G. Mathew: When we take collateral security by way of residential mortgages, etc., they ask for a very fine pricing. So,at the moment it is happening. One more difficulty is everything is MCLR-linked. MCLR-linked pricing has a problem because all them are one-year MCLR typically and therefore even if you have done a reset at the beginning of the year, the effect will come only at the end of next year. This is the problem. So, while on the liability side, it is quickand immediate. Yes, of course, I have a feeling by Q3 we will see some difference but of course I do not want to give a specific guidance on that at the moment but I think as I mentioned like six months period is really required for the MCLR correction to kick in plus we are also increasing the MCLR, we have done that.

RenishBuva: Sorry to ask you again on that infra exposure. So as per notes to account, we have provided around Rs.20 crores on that account, right, sir?

V.G. Mathew: Right, absolutely.

RenishBuva: What percentage we have provided?

V.G. Mathew: It is a lump sum provision that we have made. In case there is any emergency happen to any of the accounts, that is the only thing, otherwise nothing more than that.

RenishBuva: Just one more clarification on that exposure. So single exposure or this is in bits and pieces to some of the subsidiaries like let us say …?

V.G. Mathew: We have no exposure to any of the SPVs.

RenishBuva: It is a lump sum loan which is there in the exposure side?

V.G. Mathew: Yes, relatively like maybe three years kind of loans.

Moderator: Thank you. We will take the next question from the line of Sri Shankar from PrabhudasLilladher. Please go ahead.

Sri Shankar: Sir, a couple of questions: Our cost-income ratio has been quitehigh. Where do we see this probably by the end of the year and what is the target that we have bringing it less than 50%?

V.G. Mathew: Yes, the immediate target is to bring it below 50% and there only one number is required, that is the contribution from the treasury, treasury gives us Rs.250 crores in a year roughly and then in a good year even the priority sector lending certificates used to give us Rs.100 crores. Now this year we have got just Rs.10 crores in the priority sector lending certificates and we have not got anything from the treasury for the last one year. So, we are just waiting for the turnaround. It is a good time maybe like now things will start improving. The moment that improves the contribution, comes down below 50%.

Sri Shankar: Sir, during the course of the query, that you mentioned your SMA outstanding is around 4% or so. This 4% is on what – is it the Rs.10,000 crores lending that you have from Rs.5-25 crores or above Rs.100 crores, can you be a bit more specific on it please?

V.G. Mathew: We have data on every item but then overall if you look at the total SMA-2 of the bank it is Rs.2,368 crores and the total advances were Rs.57,412, that means around 4.12% and even segmentally if you look at in that Rs.5 crores and above which is getting reported in the grill that is coming around 4.01%, that is about all. Essentially, I would say around 4% is the SMA-2 level.

Sri Shankar: 4% of the total advances or…?

V.G. Mathew: Of the total advances, total SMA, not Rs.5 crores and above which is reported, in their SMA-2 for over the entire advances is 4%.

Moderator: Thank you. We will take the next question from the line of Vinod Jayaram from ER Advisors. Please go ahead.

Vinod Jayaram: Sir, on the growth side, the growth has slowed down a bit especially when the banking industry is picking up and if I look at the breakup, it is mainly on the south ex-Kerala which is slower compared to the overall bank. So, what is the reason for this sir?

V.G. Mathew: Actually, south India ex-Kerala has not done very well, but there are proposals, again what happens in south India ex-Kerala is that some NBFCs and certain companies we have not permitted certain rights because pricing did not match, etc., So therefore that creates a small destabilization there. Again, lot of proposals are now in the pipeline in the various centers and typically the disbursements happen in Q3 and Q4 a lot more.

Vinod Jayaram: SMA-2 level you did mention it is close Rs.2,400 crores as of Q2. What was this number in Q1 sir?

V.G. Mathew: Something similar, I do not know exactly, around 4% is a good number.

Vinod Jayaram: The watch list which you are mentioning, the EPC, what is the exposure there and is it part of any of our restructured accounts or is it outside of that list sir?

V.G. Mathew: One account which is available in terms of restructured book and this one is an addition and this is Rs.104 crores, on which we have made a provision of Rs.10 crores.

Vinod Jayaram: Sir, on the fee, you did mention that we have not got the adequate amount of revenues from treasury and PSLC. But if I look at just the transaction days also, there has not been much growth. So the growth is definitely less than expectations especially after the tie-ups bybanks, etc., for distribution. So what are the measures being taken if you could just explain why the growth is subdued?

V.G. Mathew: The distribution of insurance companies we have a fairly ambitious target. Now, what we have got so far is not very high, but of course in terms of percentages there is a very high growth but that does not mean much because we are talking about a relatively small base. When it comes to other income it continues to be driven by that is technology part, that is what you call the ATM fees and things like that and also whatever income we are getting from various internet banking, mobile banking and all those things. So the distribution has not yet started, giving a lot of money while number of tie-ups have been made, personnel has been placed by the insurers and that integration work is going on quite well, but at the same time the results will take a little while longer is the perception but remaining part of this year we expect a certain amount of improvement.

Management: Normally this distribution income comes more in the second half, first half is normally a little subdued, we have made a lot of tie-up arrangement during the last financial year we were not able to capitalize fully in the first year, so the full impact of that will come in the second half of the current fiscal. We are looking forward to a substantial change in numbers in the next six months time.

Vinod Jayaram: Our CET-1 is close to around 10% right now. So what are the plans there – would it be a constraint for the kind of growth which we are looking at for the current year and the next?

V.G. Mathew: Of course, at the moment, the immediate approval that we have received from the board yesterday is about in tier-II of Rs.500 crores which will be permissible, available and it will definitely see through the current year, but then we will of course be looking at opportunities separately beyond that also.

Moderator: Thank you. We will take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: I just wanted to understand on the growth outlook sir, when you say that the second half we are looking at around 18-20% plus kind of a growth, the ask rate is very-very steep in terms of the incremental quarterly growth coming in, so almost like Rs.3000-4000 crores. Can you help us around in terms of wherein we are seeing this kind of quantum jump coming through?

V.G. Mathew: Typically what happens is in Q3 and Q4 whatever work is done in terms of marketing, in terms of the proposals which have been tied up, some of them have already been sanctioned but there are various free disbursement conditions particularly when it comes to mortgages, we would have taken land or building, collateral securities, legal clearances and all those things are required. So all those things if you look at the sanctions that we are having and also the proposals in pipeline we believe that MSME also can pick up. So that is not what is required.

In the mid-corporate there are definitely opportunities …there are requirements coming from mid-corporate and slightly larger corporates also today and therefore we are pretty much confident on the corporate side of the book growing correctly, then MSME is the one where we have not done well so far this particular quarter, particularly that 7% growth is certainly not what we are looking at. So that is there proposals are there at the moment. So we believe that will correct the situation. As far as the pure retail is concerned, it is growing at 30, 33% without any problem and that will continue to do that.

Sangam Iyer: Actually when we say that 18% growth for the year, we are talking about adding almost Rs.9,000 crores in the second half which is quite steep given where we are coming from. So, given the situation normalizing in Kerala, etc., do we see that there is a pent up that would also be visible in this 8,000-9,000 crores of jump that we are talking about which should drive us towards that Rs.65,000 crores?

V.G. Mathew: Kerala also there are opportunities, outside Kerala there are opportunities, even in south ex-Kerala there are proposals which arecurrently running, we are getting proposals from allclients who were with us earlier and some of them are coming back, so obviously there are opportunities coming up. Definitely we are looking at, at least say 18% kind of growth in any case, were to have achieved last year, so we are very certain about it.

Sangam Iyer: Since you give a color for the 18% growth including predominantly corporates, mid to large who would be contributing in the second half, so the NIMs of 2.6% that we have currently, they would be coming under pressure given that incrementally the larger ticket sizes would be coming at a much lower rate as compared to the retail which is contributing so far in the first half?

V.G. Mathew: Actually that is not the case because the home loans, etc., are certainly not contributing significantly to the NIM. Particularly mid-corporate business outside Kerala that gives us slightly better NIM. We may not be having 100% collateral security in that area but the NIM contributing numbers actually will improve.

Sangam Iyer: So is there any target that you can share with us in terms of as at what rate one can look at given the kind of mix that we are looking to achieve over the next six months?

V.G. Mathew: The point is we believe that even the MCLR improvement should give us something like 15-20 basis points improvement, but then I do not want to give it as guidance at this point, but let us see what is happening in Q3 and Q4.

Sangam Iyer: Sir, regarding the slippages, you did mention that you are looking at around Rs.250 crores of slippage each quarter. That is at the gross level, right?

V.G. Mathew: Correct, only at the gross level because what we are looking at is a significant amount of recoveries because unlike earlier we have now got certain ways of retail or it is not corporate kind of NPAs where active recovery work is going on today. Earlier, we were compelled to sell out a whole lot of it and the larger ones obviously which are going into IBC, etc., we have no hope, but we have another significant ways of good quality NPAs with good quality security and therefore our recovery efforts are going on very well on that. Our expectation is that it should be better than this quarter because we have a guidance of Rs.500 crores and we will achieve that definitely.

Sangam Iyer: So sir, from recovery perspective, retail contributing to 60 70%, but predominantly when we are talking about large recovery coming in, if you could just elaborate a little bit more in terms of from where it will be coming through, which will restrict our incremental absolute increase in the gross NPA from here on?

V.G. Mathew: What we said is we would recover at least Rs.500 crores during this year and we have done just about Rs.30, 40 crores in Q1 and right now we have done about Rs.119 crores. So the remaining part of it, more than Rs.300 crores we have very sure plan of recovery in Q3 and Q4 and this recovery substantially will happen from the mid-corporate kind of accounts and also the retail, very-very small accounts are also there quite a lot, with that this particular recovery can definitely happen. Additionally, if some of the calls which are under IBC, if they get resolved, we will also get some number, but that is not the number that we are looking at, we are looking at the normal recovery that is coming in from our NPA base which is already there today.

Sangam Iyer: Finally, the credit cost number that you can share with us?

V.G. Mathew: We were looking at Rs.150 crores per quarter and it is around that number as of today. I cannot put exact number on is about the resolution that would happen in some of the IBC accounts. We have some IBC accounts still in our books and I do carry 50% provision on that. But the issue is when it is going to be resolved? Is it going to be resolved in the next quarter or after that? And then what is the exact resolution value? How much more I will have to make, 20, 30%? I really do not have a complete fix on that, that is my problem today. Something like 1% credit cost, that should remain.

Moderator: Thank you. We will take the next question from the line of Ashwini Agarwalfrom Ashmore. Please go ahead.

Ashwini Agarwal: This is Ashwini Agarwal. If I look at your Slide 22 which talks about the movement in the credit rating of your various loans, and I link it up to your earlier comment, the increase in the sub-BBB categories only on account of this particular large infrastructure conglomerate or is there something more to it?

V.G. Mathew: The account which this particular conglomerate plus one account which we have shown in the watch list, that also has contributed to that.

Ashwini Agarwal: Sir, the other thing was that if I heard you right, you had mentioned that your additional slippage per quarter over the next two quarters is going to be Rs.250 crores or so, but that would be from the SMA and the retail category. So, would slippage from corporate be over and above that or is this your aggregate slippage guidance?

V.G. Mathew: When we were talking about this Rs.200 crores and also Rs.250 crores, we were really not counting any corporate slippages, I am talking about small corporate from Rs.25, 30, 35 crores, something slips also does not matter to us much, it will all be accommodated within this if it happens from that variety, nothing is very clearly visible at the moment but we have certainly not counted what you call the large corporate funds, that is even this Rs.104 crores which I have shown in the watch list is not counted in this.

Ashwini Agarwal: So, when we spoke at end of the first quarter and when you said that for the rest of the year expect Rs.600 crores of slippage, that was ex the large corporates?

V.G. Mathew: Yes, because large corporate in any case we thought we had come to the end of the cycle, we did not have any further problems, even this particular company which we have now shown under the watch list was at least A-rated definitely. So that is the reason why we were really not looking at any slippage and otherwise if you look at it, we do not have any aviation, we do not have any telecom, we do not have anything like steel at the moment. So we have completely stayed away from all these things. There are EPC contractors which we have added. We have some old projects which are sometimes SMA-2, but then what we thought would slip has already slipped. So therefore we are assuming that the portfolio that is Rs.100 crores and above portfolio which gave us a very difficult time over the last three years the problem from that side has come to an end.

Ashwini Agarwal: Sir, that is still 9.3% of Rs.12,700 crores book, right. So that still gives you roughly Rs.1,000 crores pool which is in some ways stress looking at certain external credit rating parameter?

V.G. Mathew: Yes, that is right in that sense, but our experience so far is that they have been more or less holding barring of course recent development but otherwise all other cases we never had any problem as such. So it was reasonable to assume and even now it is reasonable to assume than that book can hold barring the watch list account which you are talking about.

Moderator: Thank you. We will take the next question from the line of Dhaval Gala from DSP Mutual Fund. Please go ahead.

Dhaval Gala: Just a couple of clarifications: One, on the conglomerate exposure if it were to become an NPA in the next quarter, would we be required to make additional provision? Second question is on

Slide #12. You give your average ticket size per account on SMA which is about Rs.30 lakhs. I just wanted to know whether it is incremental or on the overall portfolio at this point of time?

V.G. Mathew: First part of course we are assuming that the one that is going on around that is pretty much strong and there may not be any problem, that is the perception we had even in the board meeting yesterday. If it slips, of course, one we have made is only a prudential provision, I cannot say that we would not require any further provision. The average ticket size of the SMA book is the current average.

Dhaval Gala: But on the incremental disbursements made or on the entire portfolio?

V.G. Mathew: Entire portfolio.

Dhaval Gala: Sir, in that case I have a follow up; if I divide that number by your SMA book over the last maybe 10, 12 quarters, the live account number comes down to about Rs.44,000 versus maybe Rs.60,000, 65,000 in 2Q FY'17. So has the number of live SMA accounts coming down, is that a trend that you are seeing in your portfolio?

V.G. Mathew: I do not know about the reclassification issues in that. Our DGM IR will come back to you specifically on that.

Moderator: Thank you. We will take the next question from the line of SaikiranPulavarthi from RW Investment Advisors. Please go ahead.

SaikiranPulavarthi: Two questions: In the last three, four years, we have done substantial investment from the retail. We can see the growth. If you can just elaborate what kind of profitability especially on the retail book is going on at this point of time and how do you see this panning out for the next two, three years that will be really helpful? The second question on the gold loans, what we have seen in certain gold finance companies are going at a cost of base and we are having inherent strength in that segment, do you foresee a scenario that gold loan book can grow faster that too when the gold prices are moving up? The third question is on the corporates. In one of your earlier comments, you mentioned that we are at the far end of the corporate credit cycle. I believe based on your own experience, do you foresee a scenario where you would like to grow the corporate loan book that too when the risk/reward ratios are favorable?

V.G. Mathew: I will start with the gold loan first. Gold, what you said is absolutely right. What is currently going on is now is not the growth rate that we want. We are very-very serious about it. Around 150 branches of the bank are most ideally placed for this and they were doing a lot of gold loans and only at some particular point of time because of some isolated problem with some repledged gold, there was a kind of exit from that portfolio. So we are definitely trying to rebuild that and I think there is an opportune time that is coming up. We are hoping that we will be able to improve that performance. As far as the corporate book is concerned, yes, we are definitely looking at opportunities. For example, a lot of large corporates book we had to sort of make NPA and also sell out. So that portfolio has come down significantly. Definitely for the banks size and capability it can definitely grow a little bit more. Only thing is our principles continue to be the same that is we stay away from stress sectors. We are willing to take fairly large exposures with certain groups which have never defaulted in their history and also in highly rated accounts. So we will look for that. Of course, our risk appetite will be a little longer obviously. So, that will be very well calibrated. When it comes to the retail growth, the growth is coming up quite well and we are happy about what is going on in the mortgage space, in the auto loan space and various other business loans, etc.. Only thing is we need to do a lot more work on many other ancillary opportunities like for example some of the unsecured loans also we can look at with the kind of capability that we have built up in the retail side, therefore, the profitability also can improve going forward, that is the plan, but then the whole exercise is done in a very careful and calibrated manner keeping the risk element in mind all the time.

SaikiranPulavarthi: Sir, if you can explain what is the current level of profitability in the retail – it is below the overall ROE levels, I would like to understand whether it is sub-1% ROE because it is sub-scale and it is expected to improveforward?

V.G. Mathew: I do not carry the data at the moment, but my sense is definitely it is almost equally distributed… I am talking about the pure retail that is the mortgages, etc., but in the case of mortgages and auto loans maybe the pricing is a little less but at the same time there are business loans where the pricing is little superior. Therefore, net-net the retail portfolio will give a profitability which is something similar to the MSME and also the mid-corporate, it may not be very different but of course we will validate correctly and then come back on that.

SaikiranPulavarthi: One final data keeping question: I think the employee expenses has seen a very steep hike in terms of the growth rate on YoY basis. Can you explain what is the reason behind it?

Management: There was some gratuity revision that has happened during the six months time plus there was the IBA therefore the salary revision which is expected to come shortly. We had already started providing from last November. So that also has predominantly come to 12-months time. That is the basic reason why there is a growth in the staff expenses.

SaikiranPulavarthi: So there is no one-off at this run rate, I think you expect this run rate to continue?

V.G. Mathew: One-off is over actually… the gratuity part is already over, we have already fully provided for the gratuity increase that is mandated and as far as the salary increase is concerned, 12% we are putting as the provision and we do not expect salary revision to be anything more than that number under any circumstances.

Moderator: Thank you. We will take the next question from the line of NilanjanKarfa from Jefferies. Please go ahead.

NilanjanKarfa: A similar kind of a question to an earlier on the SME ticket sizes and reconciling that with the SME growth. I think if you can reconcile a data whether we are talking of the same series or not, because then there will be inconsistency between the various numbers that we have put out on the loan book as well as the ticket sizes, that will be useful? Secondly, in that same vein, if we look at the breakup of the loan book for example, right more than Rs.100 crores is like Rs.12,700 and if we classify the corporate book as Rs.20,000-odd plus which basically implies greater than Rs.25 crores which is just about 2,000-odd crores which is probably getting classified as an SMA in a very high ticket size and then if we look at the average ticket size, that is only about Rs.31 crores, so again very hard to predict from outside but looks like very large lumpy accounts are sitting in the SMA book and practically the tail is actually very-very small, so just wanted to get some clarification on that as well? A related question is if we can talk about how the pricing power has been holding on the SMA book over the last four to six odd quarters, are you facing a lot of problem doing growth which is also less credit risk prone?

V.G. Mathew: One of course the data point DGM IR will come back specifically on that, that part we will take care. On the SMA book pricing, issue is the Kerala based and in fact Tamil Nadu based, these are the two geographies in which we really ask for and people are willing to give us collateral security by way of residential mortgage, land, etc., This is a thing that has been continuing for several decades and we continue to derive some advantages in terms of security comfort and also maybe protection from NPA, etc., and therefore when you take all these things the problem is that the pricing is very-very fine there. We have to perhaps with that for the time being because our corporates problems are all substantially recognized, I do not think there is anything much coming up anymore but the provision cycle has to be there for some more time, that is about all. So in that sense we are at a level at which we can start reviewing that policy. So some of the areas where we are insisting on getting 50-100% collateral security or sometimes even more than 100% where base on the balance sheet, the quality of the promoter and the relationship, we can look at reduced collateral security and improved pricing. That is what we should be doing and this is an area which we have been internally discussing for sometime but it takes some more time because maybe we will wait for this NPA cycle to really settle completely that I think you should be seeing in the next one year in any case.

NilanjanKarfa: Sir, just want to get a clarity, are you seeing structurally the returns or the ROEs or IRR of the SME portfolio kind of shrink over the last year or so?

V.G. Mathew: Not very specifically, but then some of the takeover accounts have been maybe slightly on a finer pricing to begin with, so that is #1. Second problem is that MCLR issue. Although we have increased the MCLR, the benefit will kick in only after six months at least. So this is where one small problem is coming. So in the last one year certainly look at MCLR has been increasing but no benefit has kicked in and on the liability side yes, it is going up immediately.

So, this is an issue there. That is why I said I may not see specifically about what would happen in Q3 and Q4 but let us see what happens. We should look at an improvement in Q3 and Q4.

NilanjanKarfa: Can I stretch this equation fast, let us say we take the MCLR with the lag effect whatever MCLR high come through, will it now increase competition with some of the larger pan India players therefore because they would have raised their MCLR lot lesser or do you foresee that your relationships are so strong that you will not lose those business?

V.G. Mathew: Going to other banks, that is not expected in any manner significantly but our takeover capabilities sometimes are also dependent on pricing. But then in the current environment, even with our level of MCLR which is there today, it is possible to look at takeovers without any problem, it is possible. We may not be getting too much of risk premium over the MCLR but MCLR I think is a reasonably priced one at the moment.

Moderator: Thank you. We will take the next question from the line of Drashti Shah from Investec Capital. Please go ahead.

Drashti Shah: Sir, on Slide #22, you have given SIB internal rating and your below BBB book is 20.8% which has been declining since a year now. Sir, what is the historical trend of slippages from this book?

V.G. Mathew: This is the total corporate book. The slippages have been really higher on the Rs.100 crores and above historically but even that has now come down to a very stable portfolio and as far as the Rs.25 crores and above except in those cases where like for example last one year we have problems with the cashew industry in Kerala, we also had one or two cases of gold accounts turning bad. These are the cases where if you look at the NPA level it has increased because some of these are fairly sizeable exposures compared to the average ticket size. So these are the only things that have created major change. Otherwise the slippages are reasonably good and it is more in line with what is currently being seen. In the current quarter, whatever slippage ratio that we have shown, that appears to be a fairly expected kind of trend. Of course, we are trying to improve upon that also by very proactive monitoring but otherwise there is no trend which shows that there will be an accelerated slippage from here in this particular portfolio.

Drashti Shah: Sir, you have mentioned that your SMA2 book is Rs.2,368 crores and that is not part of the watch list. So is it that you do not expect that book to slip or you have good collateral against that book or?

V.G. Mathew: This is actually a distribution from the smallest account to the largest, all of them are involved in this. Now if you look at the large corporate that is Rs.100 crores and above there are only four accounts with total of Rs.488 crores and that is all visible accounts, and one way or the other we have talked about those accounts, it is there. Now, the Rs.25 crores and above total also including the above is around eight accounts which is Rs.732 crores. So what I am trying to say is the remaining part of this accounts which are all few lakhs to Rs.25 crores kind of thing, I mean, there is nothing like watch list that we are maintaining, we are carefully watching that and the slippages that we are talking about like the Rs.200 crores kind of slippage that we are talking about emanates as a result of all these things barring the large corporate. One clarification is that the one account which has come into the watch list with a large corporate is also part of the SMA2, it is not different.

Drashti Shah: But out of the SMA2 you only expect Rs.200 crores in the watch list and you expect that to slip, not the entire amount?

V.G. Mathew: No, SMA2 entire amount, we certainly do not expect any slippage out of that, that is the comment only.

Drashti Shah: Sir, any NIM guidance that you would like to give?

V.G. Mathew: As we mentioned, we are looking at some benefit coming out of the increase in the MCLR over the last six months, that is supposed to give us a benefit of around 15 to 20 basis points actually, but that benefits so far has not kicked in, so that is where we are just cautious and careful about giving guidance on that. So we said we will wait for Q3 and Q4, but from the increase in the MCLR, we should be able to get around 15 to 20 basis points improvement normally.

Drashti Shah: The CASA growth has been 12% for this year, it is still very low. Why is not the CASA growth kicking in and what are we doing for it to increase?

V.G. Mathew: CASA growth is fairly good in about 50% of the regions, out of the 20 regions, 10 regions are growing reasonably well and their CASA ratio is already above 30%, but the remaining 10 regions we have a problem, it is also about getting more current accounts, using our POS machines and getting more savings bank accounts using our products on various technology products as well as the loan products and then also very focused marketing in terms of CASA group, which is working in the centralized marketing and processing center. So lot of work is going on around it, but I would say that we have more distance to cover as far as the CASA growth is concerned. I agree that this particular growth rate of 11.54% is not what we are looking at.

Moderator: Thank you. Ladies and gentlemen, this seems to be the last question for today. I would now like to hand the conference over to Mr. NavinBabu for his closing comments.

NavinBabu: Thank you, Janice. On behalf of Spark Capital, I thank the investor community for dialing in to today's call. I would also like to thank specifically the South Indian Bank management team for taking time out of the busy schedule and patiently answering all our questions. Good day and thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Spark Capital, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.