South Indian Bank
Q2 FY2020 Earning Conference Call

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Management:	**Mr. V. G. Mathew - MD & CEO**
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	Ms. Chithra H. - Chief Financial Officer

Moderator: Good morning, ladies and gentlemen. Welcome to the South Indian Bank Q2 FY2020 Earnings Conference Call, hosted by Spark Capital Advisors Private limited. 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors India Private Limited. Thank you, and over to you Sir!

Abhinesh Vijayaraj: Thank you, Lizann. Good morning, everyone. On behalf of Spark Capital, I welcome you to the Q2 FY2020 earnings call of South Indian Bank. We have with us today the management team of South Indian Bank represented by the MD and CEO, Mr. V. G. Mathew; EVP Operations, Mr. Thomas Joseph; EVP Credit, Mr. Sivakumar; EVP Treasury, Mr. Reghunathan; and CFO, Ms. Chithra. I now request Mr. Mathew to take us through the highlights of 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 FY20 earnings conference call. We are joined by Mr. Thomas Joseph, EVP - Operations; Mr. G. Sivakumar, EVP - Credit; Mr. Reghunathan, EVP - Treasury as well as CFO, Ms. Chithra.

Let me take you through the key highlights of the operation and financial performance for this quarter. I am happy to state that the bank's performance in Q2 FY20 continues to be robust. The profit after tax rose from Rs. 70 Crores in Q2 FY19 to Rs. 84 Crores in this quarter, an increase of 20%.

As part of our stated strategy, we continue to expand our non-corporate portfolio, particularly in the segments of retail, MSME and Agri loans. We have also achieved a significant increase in the non-interest income, which contributed 30% of the total income. As on September 30, 2019, the total business of the bank stood at Rs. 1,46,857 Crores, an increase of 11%. Advances grew by 11% to Rs. 63,920 Crores, driven by continued robust growth in retail, MSME and Agri loan segments, while the corporate loan portfolio declined.

Retail loans grew by 20%, primarily driven by increase in our desired retail segments such as 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 this initiative, resulting in the overall growth in focus segments.

In tune with our strategy, the share of corporate loans declined from 35% as on September 2018 to 31% as of September 2019. We expect our overall advances to grow by 15% by the end of the current financial year. Deposits, excluding CDs, rose by 17% to Rs. 79,430 Crores. CASA deposits increased by 12% to Rs. 20,614 Crores. CASA ratio rose to 24.9% of the total deposits.

Our investment book rose by 13% to Rs. 20,972 Crores of which HTM category contributed Rs. 16,680 Crores while AFS contributed Rs. 4,292 Crores.

Gross NPA ratio improved to 4.92% as on September 2019 as against 4.96% as on June 2019. Net NPA ratio stood at 3.48%, a marginal increase of 7 basis points over June 2019.

Net interest income for the quarter stood at Rs. 584 Crores, registering a growth of 15%. Net interest margin was 2.69% in the quarter as against 2.61% in Q2 FY19. Other income for the quarter increased by 58% to Rs. 249 Crores. Our core transaction fees rose by 11% to Rs. 57 Crores, while treasury income increased from Rs. 13 Crores to Rs. 83 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 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 Rs. 411 Crores as against Rs. 310 Crores in Q2 FY19, an increase of 33%, driven by higher income and better cost efficiency. In Q2 FY20, the business per employee rose by 14% while business per branch rose by 11%. The cost-to-income ratio improved from 53.4% to 50.6% in Q2 FY20. 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.

Overall provisions increased by 50% to Rs. 306 Crores in Q2 FY20. These provisions included loan-loss provisions of Rs. 285 Crores. The provision coverage ratio stood at 48.1% as on September 2019 as against 45.1% as of June 2019.

In Q2 FY20, gross slippages amounted to Rs. 418 Crores, out of which Rs. 238 Crores was contributed by a single account from the textile sector. We had given a guidance of Rs. 1,000 Crores for the full year, out of which Rs.658 Crores have crystallized in the six months ended September 30, 2019. We expect additional slippages of not more than Rs. 500 Crores in H2 FY20.

We have been mentioning a few accounts which have seen stress and in which various resolution options are being explored or finalized. One is an HFC with exposure of Rs. 114 Crores; second is the real estate focused NBFC where our exposure is Rs. 68 Crores; another is a fitness-related company with exposure of Rs. 75 Crores; and the last one is in the irrigation sector with exposure of Rs. 50 Crores.

Our overall capital adequacy stands at 12.1%, while the core CRAR is at 9.6%. Including profits of the current year, core CRAR is at 9.9%. The bank has a wide geographical presence with 870 branches, 52 extension counters and nearly 1,400 ATMs.

To summarize, the bank continues its steady progress towards strong business growth with the focus areas, favorable loan mix and improved asset quality. We expect that this will enable us to deliver higher profits in the coming quarters. With this, we open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Hi Sir good morning and thanks for the opportunity. Sir, first question is on the slippages this quarter wherein you mentioned Rs. 238 Crores is from a single account. But if I recollect, in last quarter interaction you had said that there is no account which is above Rs. 100 Crores, which is in SMA-1 or SMA-2 category. So just wanted to understand your thought process on this. And I believe this textile account is not a new stress, this was in stress for the last six months at least, if not more than that.

V. G. Mathew: We are not looking at it that way because this was a project implementation. The project implementation itself is not over as yet. And there are 10,000 people working in the company and it has got a good turnover. And on that basis, we have gone ahead. And the moment we found that there is an issue, we have declared it as NPA and then moved ahead.

Jay Mundra: Okay. And Sir, this four stress account that you just highlighted, if I just total them up, that is around Rs. 300 Crores. And most of them will actually slip, there is no hope, I believe. So when you say for the next half, you are saying the slippages of Rs. 500 Crores. This is Rs. 500 Crores over and above this Rs. 300 Crores? Or this Rs. 500 Crores includes these Rs. 300 Crores?

V. G. Mathew: Yes. In the first place we may not look at Rs. 300 Crores. Chances are very, very strong at least for one or two of them to avoid falling into an NPA category. There may be resolutions which are working out without slipping into NPA. There could be management change; there could be significant infusion of external fund. So, that is a different calculation. We have done that exercise and we are of the view that Rs. 500 Crores is enough for the next two quarters and that number is also reckoning this into consideration.

Jay Mundra: Sure, Sir and Sir, have you signed any ICA apart from these four names that you just mentioned? Or HFC, you must have signed, real estate and fitness and irrigation, have the ICA been signed or just want to understand.

V. G. Mathew: Some of the cases, yes already signed. Other cases, it is in progress, I think it will get signed very shortly. Or it will slip either way, but in the case of HFC, etc., it is already signed, yes.

Jay Mundra: Sure, Sir. And just last two data keeping questions, Sir. First is RWA number and what is our repo rate linked home loan?

V. G. Mathew: Repo rate. Yes, actually repo rate was implemented from October 1, 2019 only. So as of now the exposure with repo-rate linked loans is very, very minuscule, just started off. We expect that going forward maybe around Rs. 1,000 Crores per quarter will be under EBR.

Jay Mundra: Sure, Sir. And this RWA number?

H. Chithra: 53,000.

Jai Mundra: Thank you, madam.

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

Rohan Mandora: Good morning. Thanks for the opportunity. Sir, wanted to understand like how are we seeing the recovery outlook and the overall outstanding NPA that we are having? Anything that we should budget in for the second half of the year or maybe early next year?

V. G. Mathew: No, we do have the guidance of Rs. 500 Crores to Rs. 600 Crores for the full year. We have done about Rs. 200 crores so far, and the remaining almost Rs. 400 Crores will be done in the next two quarters because significant movement is there on a number of accounts.

Rohan Mandora: Sir, this will primarily be from the corporate side or SME retail?

V. G. Mathew: No. The corporate side actually, particularly the syndicated corporate side, we are really not looking at any recovery at all. That is reality because that is not in line with the remaining part of our book where we take significant amount of collateral security, where the resolutions are much faster and we end up having a very good recovery record. In fact, even today including the corporate, our LGD is less than 25%.

Rohan Mandora: Got it. And Sir, like, what is the incremental provisioning requirement in the Rs. 1,000-odd Crores of the security receipt books for the second half of the year?

V. G. Mathew: No, that is not from second half, it is actually - yes, I mean, so far it is not there, up to September it is not there. So it can happen in March based on the December evaluation. So the worst case scenario is, I mean, it could be in the range of around Rs. 200 Crores. So I mean - because we also do not have any clear understanding on that even today because there are no serious resolutions that have taken place after the last evaluation and there is no reason why there should be a change. However, we will just leave it to the wisdom of the rating agencies concerned and we do not want to second guess that. So if the number comes, it should be around Rs. 200 Crores.

Rohan Mandora: Sure. And lastly, like in the Rs. 242 Crores of MSME restructuring that you have done during the quarter, like if you could share some color on how do we see the underlying assets? Like once they move out, are they likely to remain standard or there is more stress in those accounts and it is just...

V. G. Mathew: No, no, MSME restructuring accounts are high - very good quality assets and one or two accounts we have got some concerns, but otherwise, we have absolutely no problem with the rest of the accounts. And therefore, in our calculation, we are looking at a maximum slippage of 20%. And as I mentioned earlier, these are not like the syndicated debt. They all carry significant amount of collateral security. And these never had LGDs of more than 25% in the last three years if you look at it. So therefore, we are looking at a very nominal loss coming out of that, maybe just about 5%. And that much of provision is already there in that account, 5% provision is already there in the restructured book.

Rohan Mandora: Sure Sir. Thanks a lot.

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

Renish Bhuva: Hi Sir. Sir, a couple of questions. One is on the bulk deposit side. So just wanted to understand what is the real differentiation between the bulk deposit and the general deposit cost.

V. G. Mathew: In today's context, there is not too much of a difference, very little difference is there, almost flat. Only thing is we are putting a lot of focus on that kind of deposits also because we want to remove our dependence on CDs almost altogether, that is the whole idea, because CDs used to be a very comfortable kind of purchase liability at one particular point of time, when we could raise CDs cheaper than retail deposits. So that we have learned during last year it would not work so we are back to our deposit mobilization campaign and as you have seen, it is growing by 17% today, and correspondingly, the CDs have come down.

Renish Bhuva: Okay. So basically this bulk deposit is in terms of the definition is above Rs. 2 Crores of deposits. That is what...

V. G. Mathew: That is right.

Renish Bhuva: But it would be from the retail customers. I mean, let us say, HNI customers.

V. G. Mathew: It is from our general – normally, of course, there is always a small component, maybe a state government or some department or something may have put maybe Rs. 100 Crores, etc. But that is all very, very small. But otherwise the real bulk deposit is actually coming from individual and firms and things like that in Kerala and elsewhere.

Renish Bhuva: Right. So just a follow up on that, so we are having our CD ratio around 77% wherein our closest peer is close to 83%, 84%. So I mean what is the strategy of improving the CD ratio? Of course, I mean, we must be focusing on the deposit mobilization as well. But is there a chance to, let us say, step up the credit portion and somehow cut deposit rate or just halt for some time on the deposit side? I mean, what is your strategy? What is your thought process?

V. G. Mathew: No, it is just not important to reduce the CD, the certificate of deposit, that was absolutely important for us because we have been bitten once and we certainly do not want to be in that space anymore in this way. So significant reduction in the CD was the first target that was to be done, that is done. Now what is happening is, now you must have noticed we are very serious about reducing our corporate exposure to 30%, already it has come down to 31% and we are very happy about that. And going forward, we will continue to do very well in our retail, MSME and Agri portfolios, which are all growing very steadily. The overall retail portfolio has grown by 20% and Agri has grown by 20% and MSME has grown by 16%, almost 17%. So we are very comfortable with that kind of a scenario and we have committed that by the end of the year we would have got a 15% growth. So obviously a lot of this money will get deployed also.

Renish Bhuva: Okay. Got it, Sir. Now Sir, the second question is on this external benchmark rate regime. So as you have highlighted earlier that our almost Rs. 1,000 Crores portfolio will get repriced or let us say, linked to repo in coming quarters? So are we thinking to link our SA rate to repo rate? Or...

V. G. Mathew: We need to look at all that at some point. Now today what is happening is, we look at our sanctions as we know going by the past quarter experience, we will be having around Rs. 1,000 Crores of Q1, that is - that micro small plus retail, around Rs. 1,000 Crores per quarter, and then fresh ones. And of course, there is if anybody wants migration to this that also will happen. There is no track record as of now to talk about, but then going forward then we will seriously look at our liability side and try to find out if some part of the CASA like other banks - some of the other banks have done it, whether we can really do that, we will do that also.

Renish Bhuva: Okay. Just a clarification on that, so I am assuming whatever incremental lending which is happening on the repo rate, we are adjusting the spread so that our margin does not get impacted at the initial disbursement?

V. G. Mathew: Right now that is only thing that we can do. Then of course if there are, I mean, market considerations or significant reductions in interest rate regime, then obviously...

Renish Bhuva: Okay. And Sir, if I may ask the last question. On the recovery side, so this quarter actually there is almost Rs. 444 Crores of reduction. So I mean, what is the write-off? And have we sold anything to ARC in this quarter?

V. G. Mathew: No, we have not but write-off is Rs. 351 Crores and recovery and upgrades together is Rs. 93 Crores.

Renish Bhuva: Rs.3 51 Crores of write-offs.

V. G. Mathew: Write-offs, because we have had 100% provided accounts we wrote-off, yes, and significant recoveries I expect in those accounts because many of them are very small retail accounts where we have got high amount of collateral security. And as I mentioned, the LGD was never more than 25%. So obviously, we expect a lot of recovery going forward in these accounts also.

Renish Bhuva: Sir I am assuming all this Rs. 351 Crores of write-off will be a seasoned book, say, more than three, four years old accounts.

V. G. Mathew: Definitely. Yes, almost. Yes, yes, almost all of it is for almost four years old.

Renish Bhuva: Okay Sir. Thank you so much Sir.

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

Bhavik Shah: Hi Sir. Sir, first question. Sir, the yields have picked up sharply Q-o-Q, Sir any color there as in what happened?

V. G. Mathew: Yes. I mean, obviously last quarter what is the problem if you ask me, last quarter as well as on March 31, 2019 also if you ask me, there were problems mainly emanating from a little heavy dependence on CDs and there the rates of course had moved unfavorably for us. And we knew that correction would happen and that is the reason why we mentioned about 10 to 15 basis points improvement would happen almost immediately. And on a stand-alone basis if you look at it, between the last and current quarter, there is an improvement of 16 basis points. So that correction has happened. That is the most important thing. Then of course on the loan side, we are definitely trying to hold on to a certain basic price line. I mean, we are insisting on a certain amount of pricing comfort here, that is also helping us.

Bhavik Shah: Okay. Sir, what would be the NIMs target approx given that incremental home loans could be on benchmark linked and most of our incremental lending in retail book is through home loans only? Do we see...?

V. G. Mathew: See, our home loans are also, I mean, to some extent compensated by our other mortgages also. It is not it is all just the home loan. Of the Rs. 10,000 Crores portfolio, roughly, of the mortgages, 50% is home loans and 50% is mortgages. So obviously, there is certain amount of compensation that happens on that. And we do not expect any serious change to the NIM position that happens because of external benchmarking.

Bhavik Shah: What do we have NIM target, around two-point...?

V. G. Mathew: Yes, around 2.7 are what we were looking at, 2.70 going forward, yes. 2.7 for the full year.

Bhavik Shah: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life. Please go ahead.

Pranav Gupta: Yes. Good morning Sir. Sir, just a couple of questions. Firstly, if I remember, last quarter, if I remember correctly, you have stated that your exposure to HFC was around Rs. 150 Crores. Has there been any increment on the NCD side at least?

V. G. Mathew: No - yes, that is why I mean, on NCD side also we have the exposure and that continues. And if you take those, particularly after correcting for the provisions held on the treasury side, it would be in that range, yes. Correct, you are right.

Pranav Gupta: The reduction is mainly due to the provision created right?

V. G. Mathew: Pardon me?

Pranav Gupta: Sir, you are saying that the reduction in the amount is mainly due to the provisions which has been created?

V. G. Mathew: No, on the credit side it was always Rs. 114 Crores, even last quarter and now or maybe what is coming from the treasury minus its provision, yes.

Pranav Gupta: Okay. And Sir, if you could give us some color on how the SMA-2 book has been because last quarter we had seen a spike. Have any of these four accounts which you have mentioned earlier fallen into SMA-2 or SMA-1? How is it projected there overall?

V. G. Mathew: Yes, one or two issues are there. For example, the HFC is already B-rated, so is the case with the NBFC, if I remember correctly. These two are B-rated accounts. And - so those indications are there. In terms of SMA, I will just mention SMA-2 position. Yes, one of them is - in fact, two of them are in the SMA-2 numbers, Rs. 50 Crores to Rs. 100 Crores. If you look at it, we have in the listing of the SMA-2, these two accounts are figuring out, yes. Out of the four accounts, two are in the B rating and two are in the SMA-2.

Pranav Gupta: Okay. And if you could give us a sense on the MSME restructuring that you have done. You said that 20% of that at maximum we expect to be slipped but what kind of account? are the borrowers coming forth and asking for the dispensation or I mean, what is the major reason why the dispensation has been given to these funds, whether it is a liquidity issue or it is a cash flow issue or whether both are issue?

V. G. Mathew: Yes. Basically, yes. I mean both are issues. Basically, typically there is a cash flow issue for them. Some of them, particularly one of them is a marine exporter; he has got some issues about the bills not getting realized on time. And so typical issues of that variety are coming for almost all of them which we believe are fairly temporary except in one or two accounts, and that is the reason why we said around 20% slippage possibility is very much there.

Pranav Gupta: Okay. And just one last question. The overall coverage, we are still relatively much lower. And in a worst-case scenario, if I were to assume that you have to also originally provide on the SR, as you have stated earlier. What kind of probables are we looking at…?

V. G. Mathew: Yes, our target is at least 52% by the end of this year and 62% by the end of the next year.

Pranav Gupta: But that will be including technical write-offs, right?

V. G. Mathew: Yes, that is true. But then we must also look at the fact that our LGD is less than 25%. And again the point is that the mix is definitely now going in our favor. It is all I mean already 69% of the loan book is MSME, Agri and retail. And the corporate book which was giving us so much of hell all this while, that is slowly now, it is coming down significantly, particularly syndicated debt is absolutely out of danger today.

Pranav Gupta: Right. So this 52% and 62% guidance will not include any provision on an SR, is that a fair assumption?

V. G. Mathew: Yes. SR provision is not part of the scheme. Otherwise our SRs are already carrying Rs. 252 Crores of provision, but that does not get accounted for the credit provision, yes.

Pranav Gupta: Okay Sir. Great. Thank you so much. I will join back in the queue.

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

Prakhar Agarwal: Hi Sir, this is Prakhar. Just a couple of questions. One is in terms of rating profile, so when I look at your corporate rating profile, there is a decline when you look at from an external rating perspective. First, a large part of decline is because of the slippage that we have seen? Or there is something else related to it? And the second part is when you look at internal rating that has been gone up by 4% points, has risen up to around up to 17.5%. And any reason why as to there is so much of material divergence between these two ratings?

V. G. Mathew: Yes, I mean I will answer that part of the question first. That is our internal rating is substantially data-driven. That is only the financials are given the maximum weightage and very little weightage is given to or override is given to say promoter-related comforts or group comforts and things like that because we wanted to maintain a particularly consolidated approach for some more time. So we did not want to recalibrate it at least in the last two, three years. We have been continuing with that arrangement and in fact, we have only tightened some of the norms. So that mapping… direct mapping will not happen, although this is definitely more conservative than external rating. Now when it comes to the external rating, one of the accounts have become NPA coming out of that, so automatically there is some improvement in the above-rated accounts. Otherwise, I can mention which are the accounts which are - I mean, which are coming in that BBB and below cases. So the BBB above the Rs. 100 Crores exposure, BBB and below-rated one is a hotel project, Rs. 101 Crores and another one is a highway, Rs. 129 Crores. And these two accounts certainly will not become NPA. And one of the accounts - the other one is an HFC, which we already talked about Rs. 114 Crores, that is already B-rated and some resolution plans are underway at the moment.

Prakhar Agarwal: Sir, despite the rise that we have seen in our internal rating and being more conservative, we have not revised any sort of slippages guidance that we have been seeing. Any particular reasons because… why we are so confident that despite this sort of rise in at least internal rating portfolio BBB and below, we are confident that we will be able to maintain our asset quality going forward as well?

V. G. Mathew: Yes. Because those accounts - there are many issues, as I mentioned. Any individual accounts, when we look at it, we do not find any area of concern as far as 100% above which is concerned. And whatever is there is already mentioned. We have already mentioned which are the accounts in which we have got a concern, so beyond that there are no concerns.

Prakhar Agarwal: Okay. Secondly, in terms of your moratorium at least on non-MSME side, that is valid till March 2020, I believe. So we have not assumed while saying that looking to around Rs. 1,000 Crores of slippages, we have not factored any amount of slippages that might come through from this Rs. 350 odd Crores of pool that we have right now left?

V. G. Mathew: We have considered. And within that we know, I mean, we are only having a concern at the moment about one particular account. Even that I mean current indications are that they are trying to find a solution and things may improve. Otherwise, that is only one marine account where we have a discomfort. But then they seem to be having a lot of receivables and they believe that these receivables maybe realized well within March. So we are just watching that. But at the same time, we have factored that into our consideration, yes.

Prakhar Agarwal: Okay. Sir despite the dispensation being till March 2020, we have assumed some sort of stabilization account?

V. G. Mathew: One account we have assumed, yes. That is correct.

Prakhar Agarwal: Sir, what is the ticket size that we define over here for business loans?

H. Chithra: In fact, the business loan segment concurs as Sivakumar Sir was saying, the - I mean, we have discarded from contractors and all, which has been matured and got reduced from the portfolio. So there are small, small contractors where they do bill discounting there.

Prakhar Agarwal: Just some idea in terms of ticket size for this sort of segment that we have set.

V. G. Mathew: The overall business loan in the retail book, the ticket size is very low at around less than Rs. 2 Crores, that is the ticket size coming up. But what EVP Credit was mentioning it, some of these relatively small site contractors, who are having only the discounting facility, they will be having this kind of relatively small exposures, Rs. 1 Crores or Rs. 2 Crores, etc., which are getting covered in this, that also has been reduced significantly because the return is very, very low. And if the retail assets get built up, naturally we would like to get out of this kind of unremunerative businesses so that the NIM also improves significantly.

Prakhar Agarwal: Okay sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. Sir, you have been maintaining around 1%, 1.1% credit cost for FY2020. Now given the current scenario, do you want to revise that, any outlook on that?

V. G. Mathew: Not necessarily because we were looking at around Rs. 200 Crores of addition every quarter, and that by and large will fold. This quarter it is on the higher side but last quarter it was much smaller. And going forward also, it may not be exactly even in the two quarters coming up.

Deepak Poddar: Okay. Now so this Rs.200 Crores per quarter provision is what you are targeting?

V. G. Mathew: Exactly, exactly. So Rs. 800 Crores will be the minimum provision for the credit cost.

Deepak Poddar: Okay. So that is what - so I think in the first half, you have already done Rs. 500 Crores of provisioning, right?

V. G. Mathew: True. Fine. Because we also did something more as we know the provision coverage ratio is definitely not up to the mark. We wanted to somehow or other reach 50% at the earliest. So this quarter also we have put more money into some of the accounts where some resolutions are expected, and we believe that there could be some haircut, so we have put more money into those accounts and grew the provision coverage ratio significantly during this quarter.

Deepak Poddar: Okay. So basically that means that Rs. 300 Crores of provisioning in the second half is what you might be targeting, right?

V. G. Mathew: Yes.

Deepak Poddar: Okay. Understood. Fair enough. So overall little on the medium-term basis, a 1% kind of ROA, is that something that we are kind of targeting?

V. G. Mathew: No. ROA is depressed only by the provision. And this elevated provision has to continue for another four to five quarters, and then we are out of this completely. And one particular quarter, you would find that even now we can look at the operating profit you are talking about Rs. 411 Crores of operating profit.

Deepak Poddar: Right.

V. G. Mathew: And we have put away a large amount of that money into various provisions and that is where we stand at this particular level of pack. So obviously that will suddenly change the moment the large corporate problems are completely resolved and the provision is slightly tipping over, which is a very, very finite time now.

Deepak Poddar: Okay. So elevated provision you mentioned will continue for another three to four quarters, right?

V. G. Mathew: Yes, some three - maybe more like four quarters, yes.

Deepak Poddar: Okay, four quarters. So what is the steady state provisioning you are looking at?

V. G. Mathew: Yes, that would be - no, for the moment, what we are talking about is Rs. 250 Crores of NPA addition every quarter. And we are not likely to change that guidance going forward for some more time until we find that the NPA accretion really comes down to our targeted level of Rs.150 Crores, that is our targeted level. We believe that Rs. 150 Crores is more like a reasonable NPA accretion per quarter once we are through with this complete corporate problem. So we are not adding any further problems in the corporate side. We have completely stayed away in the last three, four years and the benefits are coming in today. And the retail is coming up very steadily and therefore, we expect that around Rs. 150 Crores would be the steady accretion at some particular point of time soon, but we will talk about it only after we realize that. Meanwhile, the provisions will continue Rs. 200 Crores per quarter, for another four quarters. After that, it will come down by straight away 50%.

Deepak Poddar: Okay. Rs. 100 Crores is stable...

V. G. Mathew: It will come down to - I mean that is our expectation. Definitely, we are looking at Rs. 400 Crores to Rs. 500 Crores maximum credit cost.

Deepak Poddar: Understood. Fair enough. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Hi Sir. Good morning. Sir, two questions. First, on the asset quality front, could you just repeat what is the total number of accounts on which you have signed the ICA? And what would be the total quantum? I am looking only at the stressed -- sorry, non-NPLs, the standard accounts?

V. G. Mathew: Yes, sure. We already mentioned that. We mentioned that - yes, one is that HFC, Rs. 114 Crores we have signed the ICA. Then we have signed ICA in respect of the irrigation sector company, which is an exposure of Rs. 50 Crores. Then, we have two more accounts where, of course, we have not signed ICA and the work is still going on, that is one is a fitness company where we have about Rs. 75 Crores and one is a real estate-focused NBFC, which is Rs. 68 Crores.

Nilanjan Karfa: Right, right. And Sir, you talked about this Rs. 250 Crores kind of accretion that you are looking at on NPLs. Why is this happening? I mean I think you alluded to cash flow issues in many of these corporates, but how would you look at this cash flow shortage? Is it related to leverage? Or is it related to the overall business slowdown?

V. G. Mathew: No, there are two factors in fact I mentioned about the cash flow shortage only in the context of MSME restructuring, because that is an established issue because some of them, for example, the export bills are not being realized on time, some of the exports are not taking place, they are getting delayed, inspection agencies are taking a little longer. A lot of issues are coming up like that, so we are able to pinpoint those problems and we are willing to hear them some time according to the dispensation which is available today. The other side if you are looking at the large corporate space, substantially our exposure today is only to some of the NBFCs, and they are all highly rated NBFCs. And we do not find any problems or any of those things in those NBFCs; we are doing quite well in those areas. So we are talking about out of the total last corporate book Rs. 5,147 Crores is coming only from NBFCs and HFCs put together. And there are 15 such accounts and three are AAA, eight are AA, one is A and one account, of course, is B, which I mentioned and there are three BBB accounts adding up to just Rs. 470 crores, which are all Kerala-based NBFCs, with whom we have long-standing relationships. And hopefully that we have taken significant amount of collateral security also by way of land, building, etc. So we are absolutely comfortable about that portfolio. Barring that the other portfolios are very, very limited and there are no cash flow issues or stress anyone is talking about.

Nilanjan Karfa: Right, Sir. So this rating profile that you just talked about, it is your internal rating profile. Is that…

V. G. Mathew: No, these are external ratings.

Nilanjan Karfa: Okay. So to an earlier question, would this…the way we have shown internal and external, would NBFCs be the largest proportion of assets which is why there is a significant difference between external and internal?

V. G. Mathew: Not quite. In fact, in the AAA account, there is no serious divergence. Only with the AA account where there could be some divergence that could be there. And otherwise, there is no serious divergence on the NBFC side. They are all just the same. But in other cases, there could be some small differences coming up, yes. Because we do not go by any override, it is only pure financial case.

Nilanjan Karfa: Sure, sure. And the second part of question, Sir, is related to this external benchmark. Now I know we all realize I mean repo rate is probably not going to stay here for long. But on the way up Sir, how are you looking at maybe educating your customer or maybe reducing your interest rate risk on a bucket-wise basis? What is the policy that you have thought about?

V. G. Mathew: Yes, that is something that we are a little concerned about because at the moment it is very favorable to the customers but when the cycle changes, yes, we are telling the customers upfront very, very clearly this is an external benchmark. It has been to repo rate which has changed every quarter, which is likely to change every quarter.

Nilanjan Karfa: Sir, that is part of educating, but internally, how would you kind of reduce your interest rate risk on buckets and not even aware which buckets would face the highest amount of risk?

V. G. Mathew: Look, there the way of doing it is to also look at the liability side linked to it, which as I mentioned, some time back, we have considered it, but we have certainly not taken a final view on that.

Nilanjan Karfa: Right, Sir. And related to this, have you seen your existing customers coming back for switching into this product? Or are you actively discouraging it?

V. G. Mathew: No, we are not discouraging. In fact, we have sent out letters to the customers. But then so far I mean whatever available information does not give us any indication what is likely to be the request level coming in.

Nilanjan Karfa: Right. Okay. That is very helpful Sir. Thank you.

Moderator: Thank you. The next question is from the line of Prashasti Shah from Investec. Please go ahead.

Prashasti Shah: All my questions have been answered. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: Hi Sir. Sir, I wanted to understand how we are looking at our capital levels. CET1 ratio is at 9.7% with respect to the growth and PCR target, is it sufficient?

V. G. Mathew: No, obviously, we will raise additional capital and we have got approval for both Tier 2 as well as Tier 1 capital that all the approvals are in place from the board as well as from the shareholders. And we are evaluating all the opportunities as of now. We will definitely infuse capital here.

Bhavik Shah: And Sir, what is the loan mix target do we expect for retail SME, corporate 30% as you mentioned?

V. G. Mathew: Yes. Today, the retail, pure retail is already 30%. It will continue. We have already reached the level that we had targeted. And MSME is 24% and agri is 15% as of now. This mix is good for us, and corporate is just about 31%. It will go down to 30% and the share will be taken. We prefer MSME, but it may be either MSME or retail. The retail is actually doing quite well but MSME has in terms of relationship value wise that is so much more important for us. We are pushing for more MSME. So MSME will be more than 25% anyway, that is the plan here.

Bhavik Shah: Okay. And Sir, my last question, Sir with respect to the IBA-linked wage revision, what is the assumed hike that we have taken?

V. G. Mathew: We assumed a 12%. 12% in our - in fact, we have already factored in 12%, yes.

Bhavik Shah: And Sir, one data piece driven question. Sir, SMA-2 this quarter would be… SMA-2?

V. G. Mathew: Yes?

Bhavik Shah: What will be the absolute amount for this quarter?

V. G. Mathew: SMA-2 is 3.5%.

Bhavik Shah: And Sir, which states will be contributing to the MSME restructuring that we did this quarter? Is it a state-specific issue?

V. G. Mathew: We can give you a breakup state-wise. But if you look at it, mostly if you link it to flood or anything, that is a very, very nominal number. Kerala flood I think has led to a small amount of MSME restructuring, very nominal. But otherwise, it is in line with the business distribution. For example, we have it from Tamil Nadu. We have it from Karnataka. We have also from Gujarat as well as Delhi regions, yes.

Bhavik Shah: Okay. So that is it from my side.

Moderator: Thank you. We will move on to the next question. That is from the line of Rakesh Kumar from Elara capital. Please go ahead.

Rakesh Kumar: Firstly, Sir, this bulk deposit thing, what is the average tenure that we have, Sir?

V. G. Mathew: Around two years. One to two years.

Rakesh Kumar: Okay. So like, we have seen in the last one year there has been quite good growth we have seen from Rs. 7,000 Crores to Rs. 10,500 Crores. So where are we deploying this, like on the credit side, like, in which bucket we are deploying this?

V. G. Mathew: No. The deployment of the - I mean it goes into loan and also it has gone for reducing the CDs. CDs have come down by more than Rs. 3,500 Crores, if I remember correctly.

Rakesh Kumar: See, like, if I see the March end ALM number like deposit average maturity has gone up. And then the loan advances average maturity has actually slightly gone up, but it is much lesser than the deposit average maturity. So that is from where I am coming on this question.

K N Reghunathan: In March, CD was around Rs. 6,800 Crores, it has come down to Rs. 3,500 Crores now, so there is a dip of around Rs. 3,200 Crores CDs around - during the quarter against bulk deposit growth of about Rs. 3,500 Crores. So almost the entire growth in bulk deposit is to offset the CD position. So it has almost come down to the equal amount. And both the CDs and the bulk deposits are predominantly one year. CDs were taken for three to six months and the standard deposits are more than six months up to one year, two years. So there is a slight movement from the maturity period from - when those CDs are off and the deposit comes in.

Rakesh Kumar: Yes. Sure, sure. So what I was thinking that we had that number below BBB. That number we used to have around 22% in March 2018. So just wanted to know that from that number what is the slippage that we have seen so far like?

V. G. Mathew: The slippage typically is colored only by the large corporate part of it. Otherwise, the general slippage is not really from BBB or the below-rated accounts specifically. It is more if you look at SMA-2 accounts, yes, where it has certain amount of linkage one can find out, but otherwise it is not from the rating perspective because some of these slightly lower rated in account and carrying very high degree of collateral security, they are family run businesses, there is no problem in those accounts. But on the other hand when it comes to the large corporate yes there is a linkage, we find that from the SMA-2 book - in SMA-1, SMA-2 book, it slips to NPA. Those things are all just getting over today for us.

Rakesh Kumar: Okay.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: Yes, all my questions have been answered. Thanks.

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

Renish Bhuva: Sir, just a small clarification. So you have highlighted that the SR-related provision could be Rs. 200 Crores even if it comes and you are…on the other end, you are guiding for a total provision of Rs. 300 Crores, which is I am assuming would be NP-related. So if that SR-related provision comes, then the total provision would be around Rs. 500 Crores? Is it?

V. G. Mathew: That provision would be around?

Renish Bhuva: Rs. 500 Crore. I mean this Rs. 200 Crores, which is SR-related plus the Rs. 300 Crores towards NPA.

V. G. Mathew: It is the SR-related provision. There is an uncertainty about whether the provision will come in the first place because there are no serious changes in the complexion of the assets as of now. Because they are largely IBC accounts, there is no resolution. One account we were expecting a resolution in the last quarter that has not happened. So really we do not know whether there is any need for any revaluation of that, that is one thing. Secondly, if it happens along with that the resolution happens and, of course, the provision complexion also will change depending upon how this money has been received and what settlement is agreed upon. So there is no clarity about it as of now. I am assuming going by the past that around Rs. 200 Crores may come in the worst case scenario.

Renish Bhuva: All right. And that will be over and above the Rs. 300 Crores?

V. G. Mathew: Beyond that provision, yes.

Renish Bhuva: Okay. And Sir just last question on, again, so sorry to asking - repeating question on the rating profile side. So in PPT, so one is the external rating? And one is the internal rating? But in the headline it says the advances above Rs. 100 Crore for both the ratings. So is there any overlap between these two ratings? Or how do we read this?

V. G. Mathew: They are both Rs. 100 Crores and above only. One is internal, one is external just that.

Renish Bhuva: For the same set of accounts?

V. G. Mathew: For the same set of accounts. So my recommendation is - I mean we do maintain a certain amount of rigor in terms of internal rating because there is a board policy and the risk management policy by which because of the problems that we faced in some of the sectors, we would like to take a conservative view and therefore, the rigor is a little higher on that. So my recommendation is please go more by the external rating rather than by the internal rating. Internal rating is for our purposes but we are declaring it because it is an official data available with us so we are declaring it but that is essentially, I mean, on-boarding typically and also for depending on certain monitoring aspects.

Renish Bhuva: Got it. And Sir just a follow-up on that. So basically if I go by the external ratings, what BBB and below is somewhere close to 30%. So this is including the current NPA pool? Or this is excluding the current NPA pool?

V. G. Mathew: This is excluding the NPA pool. This is only the standard assets

Renish Bhuva: This is only for standard assets?

V. G. Mathew: Yes. There could be some default accounts B accounts, B-rated accounts also could be there in that which I mentioned some time back.

Renish Bhuva: Okay. So basically it includes watch list but not the NPA?

V. G. Mathew: Yes, exactly NPAs are not there, correct, but watch list is definitely covered.

Renish Bhuva: Okay. Thank you so much Sir.

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

Rohan Mandora: Sir, I wanted to understand your strategy going ahead on the investment book because the modified duration has increased versus March. And as the interest rates have come down, do we look to reduce that going ahead? Or would you like to maintain the modified duration?

V. G. Mathew: The MD of our trading book is around 3.57.

Rohan Mandora: Right. This is an increase from 2-point something in March?

V. G. Mathew: Yes, that is, we were having a view that it is coming down slightly higher duration securities were tightening the trading board.

Rohan Mandora: Okay. Sir, from herein also, do we expect the interest rates to move down materially?

V. G. Mathew: Interest rates are likely to move down but some external factors are also to be taken care. So that is why we are not moving very high above that. But March - during March and all that, we were having a view that there was not much expectation of the sudden move downwards. And after March only this move has started. So we are along with the market only.

Renish Bhuva: Got it, Sir. And Sir, in the initial remarks you had mentioned about increasing traction, products per customer so like, what is the current product per customer that we are having? And how has it improved in the last one year?

V. G. Mathew: More than three. Yes, more than three for the prime customers at the moment. Definitely it has to go up to 4.5-5 are what we are looking at, and that definitely we will have for the prime customers only. I am not talking about the rest of the customers, only prime customers we are tracking at this particular point of time because the retail as it pushes up, obviously, more and more products per customer will happen. But at the moment, we are focusing on the prime customer base.

Renish Bhuva: Okay. And this prime customer base, what would be the quantum of these prime customer base?

V. G. Mathew: Around 20% of the total customer base would be prime customer base. That is how it is.

Renish Bhuva: Sure Sir. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Spark Capital Advisors (India) Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.