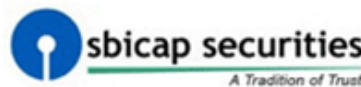




“South Indian Bank  
Q3 FY2019 Earning Conference Call”

January 21, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the South Indian Bank Q3 FY2019 earning conference call hosted by SBICAP Securities Limited. This conference call may contain forward-looking statements about the bank, which are based on the beliefs, opinion and expectation of the bank as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” 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. Avinash Singh from SBICAP Securities. Thank you and over to you Sir!

**Avinash Singh:** Thank you Janice. Good morning everyone. On behalf of SBICAP Securities, I welcome you to 3Q FY2019 earning 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 Ms. H. Chithra who is the Chief Financial Officer. Now I would like to hand over the call to Mr. Matthew for his opening remarks after which we will open the floor for Q&A. Over to you Mr. Matthew!

**V. G. Mathew:** Thank you. A very good morning to all and thank all you for joining us for our Q3 FY2019 earnings conference call. Let me take you through key highlights of operational and financial performance for Q3 and nine months of FY2019.

As on December 31, 2018 total business of the bank stood at Rs.137,729 Crores an increase of around 14.4% YoY. Advances grew by 14.5% YoY to Rs.60,064 Crores with growth drivers continuing to be MSME, mortgage loans, agriculture, and gold loans. Retail book grew by 29.4%. Under retail book, mortgage loans comprising of housing loans and LAP grew at 50.8%, auto loans grew at 30.1%, and total gold loans grew at 16.3%. Deposits grew by 14.03% YoY basis to Rs.77,665 Crores and CASA of the bank increased to Rs.18,905 Crores registering a growth of around 11.7%. CASA now stands at 24.34% of total deposits. Bank's net profit for the quarter was reported at Rs.84 Crores as against Rs.115 Crores for the same period last year.

Pre-provisioning operating profits stood at Rs.332 Crores for the quarter as against Rs.330 Crores in corresponding period last year. Other income was Rs.187 Crores for this quarter as compared to Rs.159 Crores in Q3 FY2018 showing a growth of 18%. Net interest income stood at Rs.520 Crores for the quarter up from Rs.509 Crores for the corresponding quarter of last year. NIM for Q3 of this year is 2.66% on quarterly basis and 2.62% on cumulative basis.

The operating cost has increased by 10.7% YoY. The cost income ratio stands at 54.68% as compared to 55.58% for Q2 FY2019. The provision for nonperforming assets is Rs.186 Crores

during the current quarter and we expect the credit cost to remain at around 1% for the whole financial year. Gross NPA stood at 4.88% vis-à-vis 4.61% for Q2 of FY2019 and net NPA stood at 3.54% versus 3.16% for the last quarter. The slippage ratio during the quarter was 1.09%. The high slippage was mainly on account of classification of exposure towards the IL&FS Group amounting to Rs.400 Crores and EPC contractor account amounting to Rs.104 Crores as NPA. As on quarter end, bank has a restructured book outstanding of Rs.200 Crores. During the quarter, bank had restructured the eligible accounts under RBI dispensation under natural calamity amounting to Rs.178 Crores pertaining to the recent flood affected districts of Kerala. There was no addition to other restructured book during the quarter.

Our investment book stood at Rs.18,926 Crores of which HTM contributed Rs.14,936 Crores and AFS Rs.3,988 Crores. Provision coverage ratio stood at 41.17%. Our capital adequacy stands at 11.81% for the quarter. The core CRAR is 9.71%. As on date, the total employee count stands at 7,855. During the quarter, bank had opened 12 ATMs and we now have 857 branches, 53 extension counters, 1407 ATMs. Banks had opened a representative office in Dubai during Q2 and it is helping the bank to consolidate the NRI base. With this, we open the floor for questions if any. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

**Nitin Aggarwal:** Good morning everyone. Sir my question is like we have seen certain one-off slippages this quarter, now 17% of our corporate profile like exposure is below investment grade, so is there any other account, which one need to be watchful of and what is outstanding SMA-2 number?

**V. G. Mathew:** What we have been mentioning is the problem all along has been in the large corporate space that is Rs.100 Crores and above and particularly where we had exposure to significant project execution risk, so that particular problem is completely over as far as we are concerned, so today we are not worried about any major corporate slippage going forward. In fact even IL&FS was a complete surprise for all of us like many other banks too, but otherwise we are completely done with the last corporate slippage problem and we can also see that from our exposure to the stress sectors today, so we know that if you look at the position say March 31, 2014 the total exposure to stress sectors was Rs.7,129 Crores. I am counting the entire exposure Rs.25 Crores and above and today that stands at Rs.2,099 Crores and we have got zero exposure in aviation, zero exposure in telecommunications and zero exposure in EPC contractors, so that is the kind of comfort that we are having today to say that we are completely out of this problem and what we need to now focus on is only the growth driven by MSME, agri, retail and mid corporate.

**Nitin Aggarwal:** Sir on the SMA-2 number how that has moved over the similar timeframe?



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- V. G. Mathew:** SMA-2 I do not have a comparison, but presently what is there as SMA-2 I can tell you. It is advanced as total for the entire advances total that is Rs.5 Crores and above, which we report for SMA-2 it is 2.98%.
- Nitin Aggarwal:** This quarter you have seen some healthy reductions in the NPLs despite high slippages, so if you can give some colour on the reductions in terms of recoveries and upgrades?
- V. G. Mathew:** The breakup I will just mention. Our total addition was first slippage Rs. 652 Crores, an increase of seven therefore Rs.659 Crores and in terms of reduction cash recovery was Rs.37 Crores. Upgrades were Rs.120 Crores and write-offs were Rs. 218 Crores therefore the total deductions are Rs.375 Crores. I think what is more important is what we have been talking about as the recovery target. We said we would be able to do a recovery of Rs. 500 Crores and we are completely on track as far as that is concerned because we have only done Rs. 360 Crores of recovery and so the Rs. 500 Crores target will be fully met by the year end.
- Nitin Aggarwal:** The other question is on the proportion of loans that are linked to MCLR because our yield on advances has been quite stagnant, if I look like last three quarters the yield has barely moved from 9.6 to now 9.64 while MCLR has been moving up, so what is the outlook here?
- V. G. Mathew:** One problem about MCLR is most of the loans are priced at one year MCLR as the base therefore the immediate transmission does not take place when we increase the MCLR, therefore we would have at least an average of around six months period for getting the full benefit of the MCLR movement particularly upward movement, but the point is even MCLR is going to change and therefore as a ratio it may be changing, so let us see going forward how the pricing improves.
- Nitin Aggarwal:** Thanks so much Sir.
- Moderator:** Thank you. We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.
- Giriraj Daga:** Good morning team. One question on the provisioning side of it, are we expecting any incremental provisioning from the SR book?
- V. G. Mathew:** SR valuations take place every six months so this particular quarter there is nothing, but going forward on evaluation I think it is June and December so obviously based on December valuations they have to work out the net asset value. Based on that if there is a reduction we need to provide for it, but the point is the largest component of the SR book that is pertaining to our sell off of assets of Rs.1,776 Crores in March 2017 that carries a provision of more than 50%, so therefore we are hoping that it is not really needed, but at the same time it depends on the rating agencies and we will come to know about it towards the end of the current quarter based on the December evaluations.



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**Giriraj Daga:** My second question is the SMA-2 number what you gave 2.98% so it is something like Rs. 1,800 Crores an absolute number?

**V. G. Mathew:** That is Rs.1,896 Crores and SMA-2 for Rs.5 Crores and above is Rs. 965 Crores that is how it is.

**Giriraj Daga:** Rs. 965 Crores, but Sir is that number very large compared to our total net NPA also is about Rs.2,000 Crores and we have about additional Rs. 2,000 Crores of SMA-2 numbers running?

**V. G. Mathew:** We are not worried about the SMA-2, which is coming out of the retail side of the book. We are only worried about what was happening on the large corporate book even in the mid corporate if some accounts are running a little irregular it does not necessarily mean that it is a slippage. For example all the Kerala lending is on the basis of not only that it is fully secured, we have also taken additional security by way of land, building and all kinds of mortgages. Therefore, what I am saying is the stake of the borrower is a whole lot more than what we normally find. Therefore, we do not really expect anything like a conversion from SMA-2 to slippage to NPA in the case of the non-corporate sector. Non-corporate what I would like to highlight is the large corporate sector where there are also significant project execution risks where typically SMA-2 would eventually means that the account falls at some point or the other.

**Giriraj Daga:** Understood. Would you be able to give some kind of guidance on the credit cost for next year FY2020?

**V. G. Mathew:** We are trying to take a very conservative view at the moment because we know the provision coverage ratio continues to be only 41.2% and one more slight uncertainty is there because if it is a pure RBI based projections of provision we know exactly what is the provision that is coming in, but then we have some IBC accounts around Rs.500 Crores to Rs.600 Crores the resolutions of which we are not able to predict exactly when it will happen and with what kind of haircut. They are all carrying around 60% provision. What I am trying to say is there is certain amount of uncertainty about the timing as well as the quantum and therefore we are assuming that the credit cost will be slightly above 1%, so 1% to 1.1% or maximum 1.2%.

**Giriraj Daga:** Thanks a lot and all the best.

**Moderator:** Thank you. We take the next question from the line of Pranav Gupta from Birla Sun Life Insurance. Mr. Pranav Gupta your line is unmuted. You may please go ahead Sir.

**Pranav Gupta:** Continuing the previous question on provisioning given that you have a low coverage ratio and lot of provisions could be on account of any haircut they take on IBC and SR what kind of level of PCR you are comfortable with, what is your target PCR probably for FY2020 and secondly what is the provisioning you are holding on IL&FS account that slipped this quarter?

**V. G. Mathew:** What is the second part of the question?



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- Pranav Gupta:** Provisioning on IL&FS.
- V. G. Mathew:** As far as the comfortable PCR is concerned we need 65% to 70% that is what we are looking at. That 65% to 70% is unlikely to happen during the next year unless of course there is significant amount of recovery and resolutions happen. That is a different matter. We are not looking at that kind of scenario because we are not able to say clearly how the IBC process will get driven. Even on the SR provisioning the IBC process has a bearing because some of the accounts in the SR the larger accounts in the sell off that we have been mentioning it is also in the IBC and therefore how much money we are able to get in the IBC is also a factor or it is the major factor determining the provisioning that is likely to emerge, but as I mentioned 65% to 70% is the coverage that we are comfortable with that is the target that we are always looking at and that is unlikely to happen in FY2020 exactly, but we might require another three to six months to achieve that level. In respect to IL&FS, it is substandard, and we have provided 15%.
- Pranav Gupta:** 15%?
- V. G. Mathew:** 15% substandard asset.
- Pranav Gupta:** Secondly Sir talking about growth, so a bulk of your growth has come from the retail book currently as you have been saying what is your outlook on the SMEPs and when could we see growth upward of say 20% for South Indian Bank given that it is a focus area for the bank?
- V. G. Mathew:** Absolutely you are right. Basically, our focus is actually on retail, MSME and agri and MSME is very important because of the non-corporate book that is the largest chunk, but this quarter we have not done well essentially because of one particular system change that we have introduced. The entire agriculture and MSME underwriting that was happening in the regions and the branches have been completely migrated to centralized outfit, these are already happened in the case of the larger corporates ones, they have done it completely for the retail, but the mid corporate and agri were left out and that has been done during this financial year and whenever we migrate to the centralized platform it is typical that the growth becomes a little muted, so that phase we have to go through and I am sure now a lot of sanctions now that comfort has already come between CPC and the regional office and the branches because right now what is happening is the regional office has no role at all in any of these sanctions, which they were doing till last year, so this is one phase change, but then we have to go through that and that actually ensures quality and I believe those problems are getting over and even in the next quarter also we will find significant disbursements in both agri and MSME.
- Pranav Gupta:** So is it fair to assume that probably from next quarter or from the beginning of FY2019 we could see MSME growth per upwards of the total bank credit growth?

- V. G. Mathew:** Yes definitely. That is how we were always. Only this particular financial year we have a problem. Last couple of years we have grown around 18% to 20% in fact sometimes more than 20% in MSME and agri, so we will get back to that.
- Pranav Gupta:** Alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Gaurav Agrawal from ER Advisors. Please go ahead.
- Gaurav Agrawal:** Good morning Sir. Thank you for the opportunity. Sir I just wanted more clarity on the SMA-2 outstanding, which you mentioned as Rs.1,896 Crores, so can you provide some breakup how much is it in Rs.5 Crores to Rs.25 Crores bracket then Rs.25 Crores to Rs.100 Crores and Rs.100 Crores and above?
- V. G. Mathew:** Yes, I am talking about above Rs.25 Crores we have nine accounts and total exposure of Rs.412 Crores to be precise. Nine accounts and Rs.412 Crores and if you look at above Rs.100 Crores we have just one account with an exposure of Rs.123 Crores. I think I would highlight this particular aspect that is Rs.100 Crores and above, which used to be the biggest challenge for the bank that today has just one account even in SMA-2, which is Rs.123 Crores and it is an odd project and it has been like this for a long time, but they have always been able to ensure that the quality remains.
- Gaurav Agrawal:** Sir if I got you right so above Rs.25 Crores you mentioned nine accounts, which is Rs.412 Crores and this Rs.412 Crores would include Rs.123 Crores also, so Rs.25 Crores to Rs.100 Crores that will be Rs.400 Crores minus Rs.123 Crores, which will be Rs.270 Crores?
- V. G. Mathew:** I think they are separate.
- Gaurav Agrawal:** Rs.400 Crores plus Rs.123 Crores is above Rs.25 Crores is that right?
- V. G. Mathew:** Yes.
- Gaurav Agrawal:** Got it and Sir and secondly we had some 5:25 accounts flexi restructuring related account around Rs.300 Crores I am not really sure it was discussed two to three quarters before, so is it still there?
- V. G. Mathew:** It is very much there. It is a very large hospital run by a very strong Catholic institution. It is running very well. It is a very beautiful hospital, but we had to give them the benefit of extended repayment under the 525 dispensation.
- Gaurav Agrawal:** There is no overlap?

- V. G. Mathew:** No there is no overlap. It is totally different.
- Gaurav Agrawal:** Sir last question how is the environment for the SMEs, two quarters back we reported a very big entity number, so what was the situation then and how is it now as compared to two quarters back, any qualitative input would be very helpful?
- V. G. Mathew:** Please come again.
- Gaurav Agrawal:** SME slippages two quarters back we reported?
- V. G. Mathew:** In Q1 we had a larger slippage.
- Gaurav Agrawal:** What was the environment then and how is the environment now here?
- V. G. Mathew:** Let me explain by one sector alone if you look at it, it was fundamentally the cashew industry that created the problem and many of them were very good accounts, but the point is the industry in Kerala has failed more than 75%, so therefore we had our own share of around 40% to 44% and of course we had already stopped lending to cashew sector for some time and therefore we do not have any more problems coming out of that and that is the only exception that is there, otherwise typically what happens in the trade segments there would be some NPAs and as I was mentioning we typically have a significant amount of collateral security by way of land, building and everything and therefore it does not really create much of a problem that is the case. Even in the case of cashew also we will be able to recover large amount of our exposure.
- Gaurav Agrawal:** Sir how is the slippage guidance for Q4 and for FY2020 since that all the big accounts are already slipped?
- V. G. Mathew:** I would have taken a very optimistic view, but any way because of the dispensations that are available, etc., I would say that it will be more like say Rs.200 Crores to Rs.250 Crores per quarter maximum. Rs.250 Crores would be the maximum.
- Gaurav Agrawal:** Great Sir. Thank you so much and all the best.
- V. G. Mathew:** We will also be doing a recovery of at least Rs.600 Crores by our traditional means and if we get any more recovery through resolution of IBC accounts that would be an additional benefit.
- Gaurav Agrawal:** Got it Sir. All the best Sir. Thank you.
- Moderator:** Thank you. We take the next question from the line of M B Mahesh from Kotak Securities. Please go ahead.
- M B Mahesh:** Good morning Sir. Just a few questions. On the IL&FS exposure that you have taken this quarter could you just give us a bit more clarity as to how you have approached this account?



- V. G. Mathew:** This is the 2008 exposure to begin with and I think we had slightly more than Rs.500 Crores to Rs.600 Crores at some point. We have restricted everything other than AAA or AA NBFC kind of exposure that is the policy that the bank is running, so that is coming to Rs.220 Crores. To be precise, it is Rs.420 Crores in two companies. Rs.20 Crores I think is a nonfund exposure and therefore not crystallized, so the remaining Rs.400 Crores we have made NPA and provided for the 15%.
- M B Mahesh:** The exposure that you had was only at the IL&FS Financial Services?
- V. G. Mathew:** We have IL&FS and ITNL.
- M B Mahesh:** You had ITNL right?
- V. G. Mathew:** Yes ITNL was the original relationship that we were having.
- M B Mahesh:** This account had slipped into NPA or you just made it as an NPA?
- V. G. Mathew:** No it has slipped into NPA.
- M B Mahesh:** Both of them?
- V. G. Mathew:** Both of them.
- M B Mahesh:** The other clarification is when you look at the progress in Kerala post the floods as we speak today how are things on the ground?
- V. G. Mathew:** On the whole we would not see anything like a slow down as such, but then at the same time I do not want to say that lot of rebuilding activities happening and therefore credit offtake is very high I would not say that, but at the same time one can expect near normalcy now onwards in terms of credit expansion as far as agriculture and MSME is concerned.
- M B Mahesh:** My question was more in terms of the asset quality when you are looking at the portfolio let us say in the June quarter and then after the September quarter and now in the December quarter how has been the progress of Kerala especially in the mid market loans or the retail loans?
- V. G. Mathew:** We had a problem substantially only in the cashew sector, which is not economic by the flood, so therefore if you want to know specifically about what is the impact of the flood, we have restructured Rs.178 Crores under the flood and that has been recurred in the statements also it has come out Rs.178 Crores is the restructured component comprising agriculture, MSME, education loans and home loans, these are the four components, which are permitted to be restructured and that is adding up to Rs.178 Crores and there are no increased slippages coming out of that.



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**M B Mahesh:** So if you were to ignore this Rs.178 Crores you said that what was in June quarter and whatever is in December quarter things are normal?

**V. G. Mathew:** Right, in fact what happens is, some of these people because they have an avenue for deferment, they have sort that, and that is good in a way, but apart from that as we are always mentioning our exposure to the rural side of Kerala is very limited just about 10% and therefore all of them have not been affected by flood also that is what we have been mentioning and I think we had indicated something like Rs.200 Crores, Rs.250 Crores would be the restructured component. We are well within that expectation.

**M B Mahesh:** Final question, this balance, which is there in the SMA-2 account, would you use MSME dispensation kind of complete the underlying risk, which is sitting there or you think that you will just kind of keep it there as the SMA-2 itself?

**V. G. Mathew:** Our policy is really not going out of the way to accommodate, but if anybody seeks an accommodation under the MSME dispensation, we do permit that, so at the moment I think our MSME dispensation would be around Rs.92 Crores, total MSME dispensation.

**M B Mahesh:** Thanks a lot.

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

**Kunal Shah:** Firstly in terms of the overall agri slippages during the quarter, it has hardly been Rs.3 Crores, so if you can just let us know may be what is the overall NPL on the agri outstanding as of now and what would be your outlook in terms of the overall agri portfolio?

**V. G. Mathew:** Agri which is always relatively low risk portfolio for us as you may be aware around 35% of it is collateralized with gold, so post Kerala floods we were a little concerned if any of them particularly the ones who are directly affected by the flood would have a serious concern, but that part anyway we have done, we have taken care through the restructuring in all eligible cases and where people really sought our help. So, if I mentioned the breakup of the flood relief, the dispensation that we have permitted, the agri part is again not very high. So the agricultural loans, the total restructured component is Rs.46 Crores that is the restructured component, MSME is around Rs.118 Crores and that is how it is and housing loans are 13, 14 and educational loans around a crore that is how Rs.178 Crores is coming up.

**Kunal Shah:** What is the break up of Rs.2900 Crores of GNPL, if you can just give me the broader breakup?

**V. G. Mathew:** Out of Rs.2930 Crores, Rs.1897 Crores is corporate that is anything above Rs.25 Crores then the remaining Rs.1033 is the retail slippage within that agriculture is only Rs.107 Crores, MSME Rs.751 Crores and personal segment is Rs.175 Crores.



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- Kunal Shah:** Okay, so retail Rs.175 Crores, agri you said Rs.107 Crores?
- V. G. Mathew:** Rs.107 Crores correct. MSME I mentioned was Rs.751 Crores.
- Kunal Shah:** Okay and as per our classification whatever is there and say less than BBB, so as per our internal rating it is almost 17%, 18% of the book, so would that be largely of corporate slippage if you look at it Rs. 1900 Crores, would major part of it would have what classified as GNPL?
- V. G. Mathew:** The internal rating is very, very regress and strict. Now what I have been mentioning that significant portion of our MSME lending is on the basis of additional collateral security, I am not talking about the primary security, but in terms of additional collateral security by way of land and building typically mortgages of that variety; however, that does not lead to a rating comfort and does not give us any additional benefit in terms of rating as such as far as borrower rating is concerned, only in the facility rating we have a small advantage, so in terms of the borrower rating it is a very regress rating in which this kind of security comfort is not really factored in, therefore what happens is typically many of these midcorporates and the MSMEs in Kerala and/or some part of Tamil Nadu. We have an extensive relationship with them, we know they are very safe and we have their properties mortgaged to us substantially and even if their rating comfort is not very high we still support them and our experience has not been negative as far as the below BBB component is concerned where we have taken significant amount of collateral security and also taken into consideration the long-term relationship of the clients with us.
- Kunal Shah:** But in terms of the risks so when we look at it Rs.1900 Crores of GNPL in above Rs.25 Crores on almost like Rs.23000 Crores of a book, right in terms of above Rs.25 Crores, so that is almost like 8.5%?
- V. G. Mathew:** 25 Crores and above?
- Kunal Shah:** No Sir, overall Rs.25 Crores and above, the loan book size is Rs.23000 Crores out of Rs.60000 Crores.
- V. G. Mathew:** Correct.
- Kunal Shah:** And out of that Rs.1900 Crores is GNPL and when we look at it 17% is less than BBB, but we are saying even within this less than BBB even though it is like 17% as compared to that of 8%, 9% recognized, on the balance we are not seeing anything, which would be there in the watch list or a potential stress or something of that sort?
- V. G. Mathew:** I understood I mean that is where we need to look at, where the slippages were coming every year may be barring Q1 of this year, every quarter the slippage has been seriously elevated by the exposure in the large corporate sector that is more than Rs.100 Crores and that to where we have taken project execution risk, so that part of the book is what has gone completely cleaned up. We

never had a serious problem with Rs.25 Crores to Rs.100 Crores that space particularly the Kerala based lending or south based lending we never had any serious issue and many of the regions used to be 0.1%, 0.2% maximum barring the cashew problems that we faced in Q1, so typically up to Rs.100 Crores is a sweet spot for us actually Rs.25 Crores to Rs.100 Crores it has always done very well for us, a good educational institution, a good medical college, a good hospital, good hotel project or a good jewelry company with significant amount of collateral security by way of land, building, etc., mortgage to us has always been a good exposure for us with practically no risk at all.

So the problem was coming from the large corporate that is Rs. 100 Crores and above typically and that too where the top-end corporates where we had taken large amount of project execution risk, what I was trying to highlight is that part of the business is completely cleaned up today and that is where the comfort is coming, that is why I mentioned these are the cases where we do not have any exposure at all in those sectors.

**Kunal Shah:** One road project Rs. 123 Crores which is in SMA.

**V. G. Mathew:** Exactly and that also belongs to a large group, of course many of them do belong to larger group, but this particular group at least is having interest in airports and things like that and obviously I do not think it is going to fall as such and it has been SMA-2 for a long time, but because of the NHAI payment release and issues like that, but otherwise the more important fact is that the major stress sectors today we do not have any exposure at all. So that is where I wanted to highlight aviation is zero, telecom is zero and power generation if you look at it power exposure today is just Rs.165 Crores as against Rs.1809 Crores in FY2014 and EPC contractor which use to Rs.2211 Crores is zero today and road projects which was Rs.791 Crores is worth half of that today Rs.341 Crores including the ones below Rs.100 Crores. So that is where the comfort is coming that is why we are saying that we are done with this and the Rs.25 Crores to Rs.100 Crores space if at all these is any slippage that will largely accommodated well within the kind of slippage guidance that we are giving today.

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

**Jai Mundhra:** Sir on this restructuring Rs.178 Crores, is it the facility wise or borrower wise and is there any more which would be coming in Q4 and was there any slippages due to Kerala floods in this quarter?

**V. G. Mathew:** No Kerala Floods basically wherever it is affecting the agri and MSME and wherever the people needed any support we have already extended by way of restructuring, we did not have any further problems coming out of that, you would have also noticed that the slippage as such in the MSME and agri are relatively quite low in this quarter.

- Jai Mundhra:** So there are no meaningful slippages, which is due to Kerala floods right?
- V. G. Mathew:** Exactly that is true.
- Jai Mundhra:** And this restructuring of Rs. 178 Crores, is it facility wise or borrower wise or only this is the carved out portion of the facility?
- V. G. Mathew:** This is the carved out portion because this is what the dispensation is all about, the irregular portion or the interest dues that are coming in etc.
- Jai Mundhra:** And can you just briefly touch upon the restructuring terms, would there be moratorium this Rs.178 Crores this would be repayable after how many quarters and what is the total affected portfolio?
- K. Thomas Joseph:** So, there is a moratorium of one year or two years depending upon the intensity and the sector and there is a repayment period of two to four years and the total portfolio I think we were mentioning as around Rs.700 odd Crores I think it has reached the maybe Rs. 900 Crores.
- Jai Mundhra:** And is there any more which could come in Q4 or this is -- the window has already closed?
- K. Thomas Joseph:** Window is already closed, correct.
- Jai Mundhra:** Sure Sir, and second and the last question is on gold loan. So now for after long quarters we have seen this quarter there is a quarter-on-quarter sharp uptick, so what are the drivers, and can we now see sort of a sustainable growth in this portfolio?
- V. G. Mathew:** There are two parts to that question one is of course there is a lot of focus on gold loan today and we have been trying to revive that portfolio based on granular exposures rather than large exposures quite a lot and that is actually giving a lot of traction today. In addition to that we have also purchased the gold loan portfolio of Rs. 537 Crores.
- Jai Mundhra:** That is in this quarter?
- V. G. Mathew:** In this quarter.
- Jai Mundhra:** So what are the economics there, how does it work, this buying out portfolio would be sort of what...?
- V. G. Mathew:** It is the reasonable pricing because in this particular scenario because of maybe NBFC constraints, there is a certain amount of pricing comfort, otherwise we would not have got into that because this opportunity was there all the time but we had not taken because the pricing was not at all meaningful to us maybe what is offered is maybe less than 8% etc., is how use to us, but

right now the position is slightly better and it makes economic sense to us because it is in line with whatever we are able to collect on an individual basis.

**Jai Mundhra:** Agreed Sir and if I may ask one question sir, if I may ask one more?

**V. G. Mathew:** Sure.

**Jai Mundhra:** Sir just on retail growth which is 29% is there any differential between the growth in Kerala and outside Kerala or would it be largely more or less similar?

**V. G. Mathew:** It is more or less in line with the branch network because every branch of the bank is today allowed to participate in the current process because they are able to do retail business like for example if you ask some of the branches in some parts of the country that they should do large mid corporate, or only MSME it may not work out well today, we are telling them that they can do business loans, they can do home loans, auto loans, LAP, anything so therefore there is a large amount of participation from all the branches across the country so mostly the growth is coming in line with the branch distribution and we want to continue that emphasis going forward.

**Jai Mundhra:** Sure Sir thanks so much, I will come back in the queue.

**Moderator:** Thank you. We would take the next question from the line of Thanubhav from Sharekhan. Please go ahead.

**Thanubhav:** My question is largely on the guidance given on the earlier con call. Earlier we were talking about loan growth of around 20% from FY2020 onwards; however, this quarter the loan growth was around 14.5% this has always been around 5%. So what kind of factors are we seeing that are going to change going forward that would propel up the loan growth to 20%?

**V. G. Mathew:** Yes, basically the retail is completely impact that is more than 30% growth is here in most of the retail sectors that way we are not concerned about that field at all. We will have consistent growth coming in there. All the structures needed for that are being put in place are already in place so that way there is no concern about it. The concern this particular quarter is only about agri and MSME and I explained the reason for that, the reason is only the migration of the entire sanction process to the processing centers mid corporate processing center in Cochin and we had to do that and we were waiting for a time to implement that because we wanted to do that after fully stabilizing the growth pattern on the retail side because if you do not have that also coming in if you suddenly start centralization of that we will have a significant deceleration in the business and that is the reason why we wanted the retail to completely stabilize and then take up the MSME and agri also therefore we are very particular about the quality that is absolutely important for us so we have tackled that now, but we have to go through way little bit of a pain period when this stabilizes. so that is now underway and typically in Q4, we do quite well that is

also there let us see what how we end the financial year, but otherwise we want to remain on target as far as 20% is concerned.

**Thanubhav:** And Sir my last question is on the margin. Earlier you have given a guidance of 2.8% by March 2019 quarter would you like to give any guidance for FY2020 and that will be my last question. Thank you and all the best.

**V. G. Mathew:** Yes thank you. And in fact we, I am really looking at, at least 2.85 and there are some reasons for believing that it is doable because going forward this kind of significant slippage and consequent write-down of interest etc., will not be there at all. So otherwise every quarter some color comes out of write-down also. So that would not be there going forward that is one advantage. Secondly, we are hoping that the CASA will start improving we are working on that quite a lot and then lastly, we are also trying to see that whether the pricing can improve particularly when we go on a fully centralized platform with a slightly lower emphasis on collateral security, which is today very, very high.

**Thanubhav:** Okay Sir. Thank you.

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

**Rohan Mandora:** Sir as I understand Rs.537 Crores of gold loans were purchased in this quarter so we adjust for that in the outstanding sequentially the gold loan portfolio has seen a considerable decline?

**V. G. Mathew:** No 537 Crores is what I mentioned.

**Rohan Mandora:** And previous quarter it was Rs. 1494 Crores and this quarter it is Rs. 1840 Crores.

**V. G. Mathew:** There are three components to gold loan i.e. agri gold then there is MSME gold and finally the pure that is gold loan which is given to individuals which is not related to either agriculture loan or MSME loan. So therefore if you add all those things and then see the numbers, we will know that there is no decline at all.

**Rohan Mandora:** And Sir on the home loan portfolio what are the incremental yields that we make and what is the average yield on that. Sir if you may share incremental yields on the corporate rate level as the SME portfolios?

**V. G. Mathew:** Yes, so if you look at the yield on housing loans, it is now coming to 9.23%

**Rohan Mandora:** And Sir how was it last quarter Sir, if you could share a comparison Sir Q-on-Q?

- V. G. Mathew:** I do not have last quarter with me but I have the last month. MSME is 10.90% and housing loan is 9.23% these are the main things that you asked and I think agricultural loans are around 10.44%.
- Rohan Mandora:** It is a corporate?
- V. G. Mathew:** Corporate I do not have a breakup immediately I have the retail portfolio and MSME with me, corporate obviously has been particularly the Rs.100 Crores type of corporate has been a very low eroding portfolio for us, which has of course thankfully now stabilized quite a lot.
- Rohan Mandora:** And Sir any thought process on the capital gain for the Tier I monitories in the near-term?
- V. G. Mathew:** Yes of course now immediately what we are doing is a Tier II bonds that is around Rs.500 Crores approval is available with us and we will definitely go ahead and complete that exercise shortly, but I am sure the next year definitely we will need capital raising and we will be going about with that tiers.
- Rohan Mandora:** Thanks a lot Sir.
- Moderator:** Thank you. Next question is from the line of Sapna Laha from Bajaj Holdings. Please go ahead.
- Sapna Laha:** Sir was capital raising plans since your capital adequacy ratio moved below 12%?
- V. G. Mathew:** Right but you are right absolutely in fact we need to do that immediately of course Rs.500 Crores of Tier II will come and I am sure at the end of the year like every year in the past, we would be able to pull some money back in to the business from the net profit and then we will definitely be going for equity raising in the next year definitely.
- Sapna Laha:** In financial year 2020 year?
- V. G. Mathew:** Yes, definitely we will be doing that.
- Sapna Laha:** Okay Sir thank you. That is it from me.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.
- Sachin Kasera:** Just one question you mentioned that the trouble sector exposure has come down from Rs.7000 Crores to 2000 Crores so this remaining 2000 which is a trouble sector there you are quite confident in terms of the type of coverage you have or in terms of the type of groups which are there that there will be no major slippage from there?



**V. G. Mathew:** Yes, I am very confident because if you look at it the DISCOMs Rs.165 Crores remaining as against the Rs.1800 Crores that you are having this is main Kerala and maybe a little bit in Mumbai hardly anything we do not have any problems at all. We have no issues about it and if you talk about roads we have Rs.341 Crores exposure is there only one is above Rs.100 Crores maybe some three, four other small projects are there. At the moment, they are not giving any trouble and wherever we have seen over a period of time whatever road projects we were having and where they have run into problem they have all become NPA holiday and that has finished that part. Port, we have an exposure of just Rs.245 Crores we have absolutely no risk on that at the moment. We have evaluated that we have no issue on that. Metals, now we have only very, very reliable group exposures there. Nothing else at all in the metal space and that too maybe belonging to the best of the companies in that space.

**Sachin Kasera:** Sir second question is regarding CASA, you did mention in one of the previous queries that you would look to increase the CASA to try and improve the NIMs. So can you give us some sense on what are the key initiatives we are taking and what are the targets for improving CASA for FY2020 and 2021?

**V. G. Mathew:** Yes the target was always 30% CASA ratio in every region of the bank. Thankfully at least ten regions we have got 20 regions in the bank out of that 10 regions are already having more than 30%. In fact two regions Kannur and Calicut they have got CASA ratio above 50% but the point is there are 10 other regions who have not been able to measure up to this level and that is where our focus is today and of course, we are even looking at a little bit of differential pricing also for some select high value cases, but otherwise the real focus is on changing the mindset telling everyone to work on this and involving every staff member in the process and not just the marketing executives, but every staff member because of his or her local connections, they should be able to help us in getting CASA. These are the areas in which we are really focusing and from a sub 20 level we have reached at this 24.4 today and of course, I know that we have to really reach 30% which is our target all along.

**Sachin Kasera:** Sir what is your sense how many years will it take to you to reach to 30% from where we are today?

**V. G. Mathew:** Yes, but going by what has happened in 10 regions I can assume that maybe in a year, year and a half people should come up at least significant at least another 2% differential should come up immediately that is what we are looking at.

**Sachin Kasera:** And just last question regarding capital raise you mentioned that at some point of time in FY2020, you will have to look at a capital raise, but today Sir our prices is at significant discount to the book value so we would be comfortable at some point of time to even diluted at a below book level or at that point of time we may look more in terms of slowing down rather than dilute back below book value.

- V. G. Mathew:** We are not looking at slowdown. What we are looking at is actually going ahead and raising capital, but we are also hoping that the market will also be able to appreciate the changes that have been brought in, now what we are saying is I mean whatever has been bothering us all along that is completely over is behind us completely. So we are not worried about that part otherwise every quarter one or the other large NPA with significant collateral damage by way of writing down of interest and all kinds of things particularly, the large restructured cases all those things have been bothering us and affecting our plans completely, but that is all over, completely over for us and therefore with that comfort and also with additional comfort that retail is growing very well, we believe that there will be a different perception going forward.
- Sachin Kasera:** And then Sir the last question the way you have targets for slippage recovery, CASA, are we having any medium-term outlook in terms of the type of ROA and ROE you want to achieve say in FY2020 and 2021?
- V. G. Mathew:** No our board mandated the ROA is 1 and our internal calculations we were talking about some 1.14 that is the number that we are targeting and working on but that is it is not actually our operating profit is not good but the provisioning is an issue today and that will start moderating only after 2020 because I am sure the provision coverage ratio being what it is today and looking at the recovery prospects particularly we are not very sure exactly how IBC process is going to deliver us recoveries in the next couple of quarters. So depending on all that, the provision coverage ratio improvement take some more time and therefore the ROA also cannot improve immediately but then we are quite sensitive about it at all times which is we know that we are working well below our own board-mandated targets.
- Sachin Kasera:** So do you think that Q4 FY2020 you could look in terms of closer to 1% ROA on a run rate basis, is that something achievable you think?
- V. G. Mathew:** Yes I mean like on a very good quarter at least on a standalone basis, we may be very close to it pressure I would not say that for the year we will be getting it, it is very unlikely.
- Sachin Kasera:** Sure thank you very much Sir. All the best.
- Moderator:** Thank you. Next question is from the line of Siji Phillip from Axis Securities. Please go ahead.
- Siji Phillip:** Just wanted your outlook on the traction in our retail book since that is going to be our focus area. So going forward how do you expect the growth to pan out in that segment?
- V. G. Mathew:** Retail growth is we are targeting a growth of more than 30%.
- Siji Phillip:** And could you give a guidance on the NIMs over the next couple of quarters?

- V. G. Mathew:** NIM our expectation was that it would improve by about 10 to 15 basis points even in this quarter there is a small improvement on a standalone basis, 6 basis points and at the same time there is a write-down which has impacted maybe 3, 4 basis points would have been impacted by the write-down also. So something like at 10 basis points improvement is visible. So I am sure 10 to 15 basis points improvement is likely to happen going forward.
- Siji Phillip:** Sir this will be you expect that will be in the over the next three, four quarters.
- V. G. Mathew:** Pardon me.
- Siji Phillip:** This would be over the next two, three quarters as and how do you...?
- V. G. Mathew:** Yes, this two, three quarters this kind of improvement should definitely happen even in the next quarter there should be an improvement.
- Siji Phillip:** That is all from my side. Thank you.
- Moderator:** Thank you. Next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.
- Gaurav Jani:** Just on the provisioning front, I assume we would have provided something on the ILFS exposure last quarter right or is it entirely this quarter only?
- V. G. Mathew:** No we have provided Rs.20 Crores last quarter remaining Rs.40 Crores now.
- Gaurav Jani:** Where I was coming from is Sir the depression in the PCR this quarter so even if you take the write-offs of about Rs.220 Crores, the NPA provisioning is still lower, so any color on that, why is it so low?
- V. G. Mathew:** Essentially because, for example a 100% prevailed account is written-off that of course we are counting back that is there, but what I am trying to say is the addition of NPA whenever it is Rs.500, 600 Crores NPAs get added they are only carrying 15% provision that is where the issue is coming while the settlements earlier I am not talking about it now in this particular quarter, but the settlements earlier when we have done sell off of close to Rs.2000 Crores to ARPs that took away a lot of well-provided accounts and that is the only way we could have sold it and that was important for us at that time in terms of cleaning up. So that is one component that is there for example the Rs.1776 Crores that is sold out is carrying already 50% of share. So that benefit is not coming to this book that is the main component.
- Gaurav Jani:** So Sir this quarter did not see any investment provisioning as per what you have mentioned?
- V. G. Mathew:** Investment provisioning addition was not much, it was not much, only one particular account it was there I think I am sure it is already, it is not much in it, it is not much.



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**Gaurav Jani:** So last question, any sale to where I see this quarter.

**V. G. Mathew:** No.

**Gaurav Jani:** Thank you so much.

**Moderator:** Thank you. Well ladies and gentlemen this was the last question for today, I would now like to hand the conference over to the management for their closing comments.

**V. G. Mathew:** Thank you very much for the participation. Thank you all.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of SBI Cap Securities Limited, we conclude today's conference. Thank you all for joining us, you may disconnect your lines now.