South Indian Bank
Q3 FY2020 Earning Conference Call

January 17, 2020

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

Moderator: Good morning, ladies and gentlemen. Welcome to the South Indian Bank Limited Q3 Earnings Conference Call. 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. Yuvraj Choudhary. Thank you, and over to you Sir!

Yuvraj Choudhary: Thank you, Aisha. Good morning, everyone. On behalf of Anand Rathi Securities, I welcome you to the 3Q 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, Yuvraj. A very good morning to all, and thank you for joining us for our Q3 FY2020 earnings conference call. As Yuvraj mentioned we have Mr. Thomas Joseph, EVP - Operations; Mr. G. Sivakumar, EVP - Credit; Mr. K.N. Reghunathan, EVP - Treasury as well as CFO, Ms. Chithra with us.

Let me take you through the key highlights of the operational and financial performance for this quarter. I am delighted to state that the bank's operating performance has shown further improvement in Q3 FY2020. We have achieved strong successes across our stated strategy of strengthening margins, moving towards a favourable loan mix and recognizing the last of the stress in our corporate loan book.

The profit after tax rose to Rs. 91 Crores in this quarter, an increase of 8%. We continue to expand our non-corporate portfolio particularly in segments of retail, gold, agri loans, which now forms 70% of the overall loan book. As of December 31, 2019, the total business of the bank stood at Rs. 150,208 Crores an increase of 9%. Advances grew by 9% to Rs. 65,334 Crores driven by continued robust growth in agri loans, retail and MSME segments, while the corporate loan portfolio has declined by 6.6%.

The share of corporate loans declined from 35% as of December 2018 to 30% as of December 2019. Retail loan grew by 18% primarily driven by increase in our desired segments such as mortgage, gold loans and auto loans. Deposits, excluding CDs, rose by 11% to Rs. 80,451 Crores. CASA deposits increased by 13% to Rs. 21,422 Crores. CASA ratio rose to 25.2% of the total deposits.

Our investment book rose by 11% to Rs. 21,024 Crores of which HTM category contributed Rs. 16,684 Crores while AFS contributed Rs. 4,340 Crores.

Gross NPA ratio remained stable at 4.96% as on December 2019. Net NPA ratio improved by 10 basis points to 3.44% during the quarter.

Net interest income for the quarter stood at Rs. 602 Crores, registering a growth of 16%. Net interest margin rose to 2.72% in the quarter as against 2.66% in Q3 FY2019. Other income for the quarter increased by 18% to Rs. 220 Crores. Our core transaction fees contributed Rs. 57 Crores while treasury income increased to Rs. 32 Crores.

We have already entered into multiple distribution tie-ups with leading insurance companies and are seeing strong traction in third-party sales. As we continue to expand the retail and MSME verticals, we expect better momentum in the transaction fee and third-party income in the coming quarters.

Operating profit for the quarter was Rs. 383 Crores as against Rs. 332 Crores in Q3 FY2019, an increase of 15%, driven by loan growth and better margins. In Q3 FY2020, the business per employee rose by 15% while business per branch rose by 11%. The cost-to-income ratio remains stable 53.4% in Q3 FY2020 as against Q3 FY2019. We expect further 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 28% to Rs. 261 Crores in Q3 FY2020. These provisions included loan-loss provisions of Rs. 203 Crores. Including write-offs, the provision coverage ratio continued to improve and stood at 50.4% as on December 2019 as against 48.1% as of September 2019.

In Q3 FY2020, gross slippages were Rs. 358 Crores, which were primarily contributed by corporate borrowers from the housing finance sector and the fitness related borrower, which were part of the watch list indicated in our Q2 results call. The NBFC account mentioned in the watch list has been sold out. The irrigation related account remains standard. We are confident that the fresh slippages will see a 30% to 35% decline in FY2020 vis-à-vis FY2019.

Our overall capital adequacy stands at 12.0%, while the core CRAR is at 9.6%. Including profits of the current year, core CRAR is at 10.1%. The bank has a wide geographical presence with 870 branches, 53 extension counters and over 1,400 ATMs.

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

With this, we open the floor for questions.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Prithvish Uppal from India Nivesh. Please go ahead.

Ravikant Bhat: Sir good morning. This is Ravikant here. Just one question on your other income. Was there any PSLC fees that you have booked or was there any recovery in written off account that was there in the quarter?

V.G. Mathew: Both were there. We had PSLC commission of 16 Crores, recovery on written off accounts 3 Crores, then interest on IT refund of 15 Crores.

Ravikant Bhat: Sir the total miscellaneous is 79 Crores and I think we still have some 30 Crores left in that?

K. Thomas Joseph: There were many small items like insurance commission charges, which we get for made in customer account, locker rent, variety of things.

Ravikant Bhat: Understood. Just quickly on the Tier I capital raise that you are doing, the AT1, I am sorry, the final pricing is what? I mean, is it 13.75%?

V.G. Mathew: No. The Board has approved issue of AT1 bonds up to 500 Crores including any greenshoe option, but beyond that no other decision is taken.

Ravikant Bhat: The pricing is yet to be decided?

V.G. Mathew: Exactly.

Ravikant Bhat: Thank you Sir. That's it, from my side.

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

Rohan Mandora: Good morning Sir. Thanks for the opportunity. Sir, wanted to understand with respect to the non-corporate growth, outside of the South region if could you share some colour on how that growth is shaping up, because the overall growth is negative in the non-south geographies primarily because of corporate I believe?

V.G. Mathew: Yes, the corporate book is typically parked in Mumbai, Delhi, Hyderabad is the largest part of it. So, all of them have declined apart from that all the areas including MSME and Retail, all components of that including mortgage loans they are all growing in line with the distribution of the branches. There is absolutely no divergence in terms of the growth in ex-Kerala areas.

Rohan Mandora: So, ex-South, the Retail and MSME would be growing close to 14% to 15%, would that be a fair assumption?

V.G. Mathew: Exactly. Everywhere it is growing in the same level, yes.

Rohan Mandora: In terms of the restructured book, which we are doing under MSME that number has gone up substantially in the nine months for the current year. So, how should we read into that restructuring like eventually do we expect material recoveries or what is the management's assessment on those portfolio?

V.G. Mathew: We mentioned in the last concall also 15% to 20% we expect slippage in that portfolio given the current environment otherwise many of them would have survived, but we are not very confident so that is the reason why we are mentioning 15% to 20% can slip and the only difference here is these are all companies where not only the primary securities are available but we have taken sizable collateral security whether it is in Kerala or outside Kerala, we have taken sizable amount of collateral security. So, at the end of the day, we find in such cases, there is always an orientation towards settlement, recoveries, etc.

Rohan Mandora: But Sir in terms of the cause of the stress that we are seeing if you could highlight in terms of what is the sectoral composition and what are the reasons why these entities are not able to service? What are your observations on the same?

V.G. Mathew: Basically these are all well spread across all the MSME sectors. Like for example, if you take Kerala it maybe more like we have got various areas like marine is there, cashew is there, so many sectors are there in Kerala and then of course outside Kerala if you look at it there could be some textiles in some cases, so various other, whole sectors of MSME so it is not as if any particular sector is finding a significant weakness, but overall economy not growing very well and we will expect some kind of a knock on effect on the MSME sector and it is reasonable to do that that is the reason why we believe that 15% to 20% slippages could happen in that sector otherwise at the moment, there are more stress visible.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jitendra Upadhyay from Bonanza Portfolio. Please go ahead. As there is no response from the current participant, I have muted the line. The next question is from the line of Jinesh Gopani from Gopani Securities. Please go ahead.

Jinesh Gopani: Good morning. Thank you for taking my question. I have two questions; one is in which companies we have tied up for insurance business, whether we are doing actuarial or general insurance?

V.G. Mathew: The tie up in the life side it is primarily we have got SBI Life, LIC, and Kotak Life. In the general side, we have got tie up with Bharti AXA, we have got tie up with Bajaj Allianz and also with New India Assurance.

Jinesh Gopani: Sir you have told for the next year our fresh slippages will be there at 32% to 35% and then 19%. So, what are the targets of gross NPA and net NPA for the next year?

V.G. Mathew: The levels absolutely will not increase from the 4.96%. That 4.96% we will never cross now.

Jinesh Gopani: Sir, what are the targets that you wish to achieve for the next year?

V.G. Mathew: For FY2021 what we are trying to do is to give a target of 800 Crores to 1000 Crores. We are assuming around 200 Crores to 250 Crores per quarter. That is the max. We are taking a very conservative view there, because of the restructured book that we are having at the moment and of course there will be recovery of more than 500 Crores per year.

Jinesh Gopani: Can we come to the dividend list next year?

V.G. Mathew: We are paying dividend of course.

Jinesh Gopani: This year also we will pay dividend?

V.G. Mathew: We should. That decision is to be taken by the Board at the AGM, but definitely we never stop paying dividend.

Jinesh Gopani: Thank you Sir.

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

Drashti Shah: Sir, could you explain us the rationale behind growing our non-corporate book rather than conserving capital at this point of time till the time we do not complete our capital raise?

V.G. Mathew: We also generate significant amount of profit. Every year you would have noticed even in the worst period, we have put 200 Crores back into the business. So, the growth is definitely consistent with whatever we are generating internally in spite of providing significantly for the corporate problems over the last three, four years, we have been putting back money consistently into the business. It would not come down at all this year. It would be only improving. So, there would not be any difficulty about it. Apart from that we do not find any significant challenge in raising either additional Tier I or Tier II.

Drashti Shah: Sir till when can we conclude our capital raise then? How confident are we to conclude our capital raise and by when?

V.G. Mathew: We are fully confident. The work is already and the Board has given the permission yesterday and it will happen immediately.

Drashti Shah: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: Thanks for the opportunity. Sir, two questions; firstly, if you could some colour on the progress in the stressed accounts like though you mentioned about irrigation and the HFC, but the other stressed accounts that we have so what is the outlook on them and where are SMA-2 number now?

V.G. Mathew: SMA-2 number has improved vis-à-vis last quarter. So, I will just give you the details on that. I think the SMA-2 for the current quarter is 2.71% vis-à-vis 3.51% in the last quarter and the more important point that we would like to highlight is there is no SMA-2 accounts at all in the 100 Crores and above and in the 50 Crores and above there is just one account. That is about all.

Nitin Agarwal: About the stressed accounts, other stressed accounts that we used to specify?

V.G. Mathew: Basically, the problem, like what we are having at the moment in terms of stressed accounts, they are all about more of the MSME restructuring, the flood restructuring, those are the accounts that we are talking about. The restructured book is the one that carries some stress, but otherwise, like in the last list we had one account pertaining to irrigation that has become standard and in any case, we are talking about 50 Crores kind of thing and we should be able to deal with all that within the 800 Crores to 1000 Crores slippage that we are talking about in case any such slippage comes up.

Nitin Agarwal: So, that run rate will hold even for Q4 or the improvement will happen only from next fiscal?

V.G. Mathew: Even for Q4 that is what we are looking at.

Nitin Agarwal: Related to this, if you can give some colour on the fraud accounts that we have recognised this quarter?

V.G. Mathew: There is only one which is the major credit fraud. In the sense like it is a road asset, belonging to the very major group and I am sure taken way back maybe in 2012-2013 or something. We have not taken a single road project, EPC contractor or thermal power any of those accounts, telecom accounts, any of those accounts in the last five years. So this is one of those old accounts and which have already become NPA but I think there was some observation, I believe through the courts to carry out an enquiry and this enquiry I think it has been found that some money has been diverted it has to be made fraud account, so that is what we have done along with the other members of the consortium that is the larger one. Apart from that the rest are very small ones. There is nothing much in that.

Nitin Agarwal: Sir, the other thing is on the margins. Where do we think that the margins are going to be in FY2021? Last three, four quarters there have been some modest improvements there. How much room you think we have for further improving this?

V.G. Mathew: We talked about an improvement of 10 basis points to 15 basis points in Q1 when it was 2.53% or so, 2.53% or 2.56%, if I remember correctly, so therefore that has already happened. So we are at 2.72% on a standalone basis. We ought to maintain that that is the most important thing at the moment. I would not commit to an increase in the 2.72% level at the moment.

Nitin Agarwal: Thanks so much.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Good morning Sir. Congrats for a decent set of numbers. Sir, can you just give us a breakup of this deduction for the nine months? How much is because of write off and how much is because of upgradation and recovery? How do you see the full year number in that?

V.G. Mathew: We had slippages of 358 Crores and increase it has been growing so, so therefore 361 Crores is the total addition and the cash recovery is 45 Crores, upgrades are 54 Crores, ARC sale is around 17 Crores and therefore the total recovery and upgrades are coming to 116 Crores. Then we have the write off of 146 Crores, therefore the total reduction is 262 Crores. Therefore, we have a net-net position of 3,244 Crores.

Sachin Kasera: For the full year at the beginning of the year, you had guided upgradation and recovery would be in excess of 500 Crores. Can you tell us what is the picture for the nine months and how is it looking?

V.G. Mathew: The total number will be around 300 Crores. We should be able to achieve and we are trying our best because lot of things, particularly slightly larger value cases we have initiated a lot of action in terms of selling of the landed property. So that is where the question is how much you want to realise? You are saying we want to maximise that is where the debate comes up. So, if those things happen, of course, 500 Crores is absolutely no problem.

Sachin Kasera: For the nine months, we have 300 Crores number and we are trying to achieve the maximum number of closer to 500 Crores in Q4?

V.G. Mathew: Exactly.

Sachin Kasera: Secondly for the next year, you mentioned that the slippage would come down from 1200 Crores to 1250 Crores this year between 850 Crores and 1000 Crores. How do we see the upgradation and recovery next year? Secondly, what is the type of provision coverage number we can look for next year?

V.G. Mathew: I will answer the last one because that is a very critical number we were always looking at. So, we have crossed the 50% threshold. That is the most important thing for us. We want to reach 60%. That we will achieve. 60% we will achieve by 2021 March by all means. It could be better than that, but we are trying to achieve and reach 60% and that is quite doable because what we have seen is even 9.2% improvement is there already compared to last year so there we know that kind of improvement is definitely possible. So, 60% we will definitely achieve. In terms of the recovery, we obviously the internal targets are certainly not 500 Crores it is definitely more than that. So, we will definitely try to maximise, but what we would definitely mention on a conservative side is still around 500 Crores to 600 Crores.

Sachin Kasera: Sir my question was more in terms of the provisions that we have to take it in the P&L in FY2021 vis-à-vis the provisions that we are going to make for FY2020?

V.G. Mathew: The provisions should also be higher because we need to reach 60%. So, we are expecting around 200 Crores of provision for some more time to continue may be for the whole year.

Sachin Kasera: Next year also we should look at 800 Crores plus or minus is the provision number?

V.G. Mathew: Exactly 800 Crores, yes.

Sachin Kasera: Sir, any sense in terms of if you see you have given on slide #32, the slippage pans across all the four segments, on the corporate side you mentioned this is the peak and you should go back down now. In case of retail, agri and MSME last two quarters there has been especially agri and SME there has been an improvement, so do we hope to sustain these or is it that in Q4 and Q1 we are going to start to see increasing of slippage ratio in agri, SME and retail?

V.G. Mathew: MSME, retail, etc., we are really not expecting any serious change. In agri alone I do not want to commit at this particular point of time because there is always a tendency to have a slightly elevated level in March because of the interest servicing requirements in the agri sector, some of the interest servicing are only one-year base. So, obviously that can create a bit of a problem. So that is the reason why we are still very conservative in our estimates of what would be the overall provisions and the slippage levels.

Sachin Kasera: Sir, this ratio has improved to 70:30, corporate versus non-corporate, next two years will this ratio further improve to say 80:20 or 75:25? How do you see this ratio going forward?

V.G. Mathew: Our commitment to the Board was that we would bring it down to 30%. That was the main commitment that we had made and that we have achieved now. This year we are supposed to reach 30%, which we have already achieved. Now on an ideal situation it can go to say 25:75 but even 30:70 is absolutely comfortable as far as the Board is concerned and our strategy decision was precisely that on 30:70 kind of a scenario with a distributed kind of corporate portfolio, so the problem was from the large corporate portfolio which was as I mentioned earlier around 11,000 Crores plus that was there in 2014. That number today is approximately 7300 Crores. Instead of growing at 15%, 20%, 25% on that portfolio, we are actually degrowing on that portfolio that is 100 Crores and above. Now that we have brought it down, significantly and we have also avoided all supersensitive sectors like telecom, aviation, everything, EPC contractors, thermal power, all these things are not there in the book we believe that that is quite cleaned up and even at 30%:70% kind of scenario is also quite fine, but on an ideal level, yes 25:75 would be very good.

Sachin Kasera: Sir just one last question, you mentioned regarding two accounts, one in irrigation and one in NBFC, which have now become standard, can you just tell us what is the level of exposure to these two accounts?

V.G. Mathew: One has already solved out. That is the NBFC and so that is not in our book at all then what we are talking about is the irrigation account, we got around 50 Crores.

Sachin Kasera: That is the exposure?

V.G. Mathew: That is the total exposure.

Sachin Kasera: Thank you very much Sir.

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

Bhavik Shah: Thanks for the opportunity. Sir, I needed just two clarifications. Sir, the irrigation account is a standard account. It is not an SMA?

V.G. Mathew: It is standard, yes.

Bhavik Shah: Sir, the NBFC account that we sold this quarter what would be the probably haircut that we took on the account?

V.G. Mathew: It is 15-85 kind of a transaction, very low haircut, yes.

Bhavik Shah: So, this was an all cash deal?

V.G. Mathew: No, it was a 15:85 structure, 15:85 structure means we have to provide as if the account is in our book. So, we have done that because there is certain amount of uncertainty in terms of whether it will remain standard, not standard. So, we wanted to get it out of our books.

Bhavik Shah: Sir, you mentioned that you will be taking your PCR including written off accounts to 60% next year?

V.G. Mathew: Absolutely.

Bhavik Shah: If we exclude the written off account, the specific PCR target would be approximately what?

V.G. Mathew: We have an LGD of 24% including corporate and if you look at a scenario of the retail side, it is just about 14%, not corporate participants it is just about 14%, so anything like a PCR of 30% is absolutely fine for us, but anyway we obviously want to maintain a target of 60% that we will definitely achieve and this will give us something like 40% plus in any case and that is very, very comfortable.

Bhavik Shah: Sir, we have 7 300 Crores of large corporate, I just wanted to have a broad understanding of which sectors would this be? I understand they would not be in the telecom, EPC, as you just mentioned?

V.G. Mathew: We have no exposure with telecom. We have no exposure to EPC nor entertainment, no aviation, I mean these sectors are not there, one fairly larger sector would be NBFCs and there our total exposure is 6.89% of our total loan book and we can go up to 15% but we are absolutely clear that we wanted to maintain it at this level and there also our exposures are very well rated mostly AA, and AAA accounts, so we are very comfortable on that side. All others are various sectors I mean, all manufacturing, some major hospitals and things like that where we are absolutely well placed.

Bhavik Shah: Sir, what would be our growth target for next year?

V.G. Mathew: Growth for the next year again, we always wanted to grow more than 18% to 20% at all times. Our problem is about the economy, if the economy growing only at 4.5%, 5% then we have to be careful about it so, the underwriting standards will always get tightened, because it is centralised processing environment. The moment any weakness is noticed in the economy or in a sector, immediately the rules get tightened, so obviously sanctions will not happen. So, it is not as if marketing efforts are not there, marketing efforts are there, but sanctions will not happen. So, that is where the small challenge is coming. So, there is very well defined risk control architecture here, so it has to work according to that only, so in the preferred sectors, we are growing very well. Of course, we would have loved to see a growth of 20% even in MSME which is very important for our growth. 25% of our book is MSME. That has not happened so far. So that also would go to around 20% is what we believe. Ideally we want 20% growth in MSME. 21% is already there for agri that we would continue to see that and in the retail we have grown only 17.8% this quarter on a YOY basis. There we would also like to see 20%. So, finally, finally even if the corporate book does not grow at that level, it is only growing at around 8% to 10% we still will be achieving 80% to 20% growth. That is all India.

Bhavik Shah: Sir, in corporate the run down has been done, I mean I understand we would not be taking exposures to stressed sectors, but do I assume that we would not be taking any corporate exposure going forward, as in there will be some outlook?

V.G. Mathew: That is certainly not the case. It is not as if all the corporate sector is bad altogether. We have a very strong infrastructure for managing that. A very well defined large corporate group in the bank, headed by the country head, all that is there, but the problem is, as I mentioned, we are extremely selective. So it is opportunity based. So, if any particular sector opens up and there is stability, yes we will very much go in for that, but then we are very clear that some large syndicated accounts, which created a lot of problems in the past for us, we may not be very keen to participate in those things, and in any case, our desire is to participate to the extent of state roads in any syndication rather than 100 Crores, 200 Crores, 300 Crores, so those things are ruled out. There would not be any 300 Crores exposure, there would not be any 200 Crores exposure, except select groups. So, we will not be able to participate in such things. So, around 50 Crores, 60 Crores, in a very risk controlled manner if we can get opportunities we will definitely look for that, we are constantly looking for that.

Bhavik Shah: Sir, we have three fraud accounts this quarter?

V.G. Mathew: Only one is important, which is a road project where as I mentioned some time back. It belongs to a very important group, but then I think there was a court ordered investigation and I think some diversion has been found out and therefore it has to be classified as fraud, that consortium and again I want to highlight we have not taken a single road project in the last five years.

Bhavik Shah: Sir, I just wanted to know which sectors are the other two from?

V.G. Mathew: Textile and FMCG.

Bhavik Shah: Sir, are they very big for the system?

V.G. Mathew: No, they are not very big for the system, not at all.

Bhavik Shah: Sir, one more thing on succession planning, I assume October 20, post that is there a scope for renewal of term?

V.G. Mathew: That I think the decision has not been taken yet by the Board, but as I always mention, there would not be any challenge on that at all. It will be very well taken care of.

Bhavik Shah: Sir, one last thing, on divergence as the RBI audit be done?

V.G. Mathew: Yes, audit is over quite some time back and obviously we have no divergence.

Bhavik Shah: Thanks a lot Sir. That is it from my side.

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

Pranav Gupta: Good morning Sir. Just two questions from my side. So, firstly you are going ahead and raising AT1, if you would help us understand what is the rationale for not raising equity that will help?

V.G. Mathew: The Board felt that this is not the most appropriate time for dilution and of course, again it is our perception that our equity pricing and all will definitely see a rerating now that we are coming out of this large corporate problems which has been hobbling the bank for the last four, five years so we have seen the last of it and therefore the perceptions will definitely start improving and so therefore with an improved perception, we should go with the dilution process, so that our existing shareholders do not get into disadvantage and additional Tier I is a doable exercise that is what we have seen.

Pranav Gupta: Sir, but given that margins are not improving from here on, why put additional pressure on your P&L to take a hit on interest?

V.G. Mathew: But the point is it is not a static scenario. Obviously, it is leveraged many times. That is one. Secondly, it is definitely hard to see that the CASA, etc., improves to that extent, so that you know the interest burden does not become obvious on our balance sheet. We will work very hard on those things.

Pranav Gupta: Just one clarification, is there no reportable divergence or is there no divergence at all, if you can?

V.G. Mathew: I do not remember anywhere there is no meaningful divergence of any variety.

Pranav Gupta: Thank you so much.

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

Sri Karthik: Sir, I wanted to check what has been the impact of couple of these issues on cooperative banks on our liabilities? Have you benefited by it or has there been absolutely no impact?

V.G. Mathew: We do not find any impact of any variety, anything at all, yes.

Sri Karthik: But generally our sense speaking to customers do you see them overtly worried about given high ticket deposits into the banks particularly smaller banks?

V.G. Mathew: Our deposits franchise is growing steadily across the geographies although Kerala is a very primary geography for us. It is growing steadily across the country, across branches, in the same manner and as you all know we do not pay anything more than the peer banks. There may be one bracket alone, we maybe maintaining a 5-basis points differential. That is the only thing that we are doing otherwise, there is absolutely no extra interest rate that we pay and everything is growing, our deposits are growing, our core deposits are growing, CASA is growing, NRI deposits are growing.

Sri Karthik: Sir, the second question is on your expectation towards MSME. You seem to be very, very positive in terms of your expectations on growth etc., is the optimism coming from the fact that your customer segment that you have is actually demonstrating better in terms of revenue momentum, cash flows that you can see into your accounts or is it a general expectation on the macro recovery?

V.G. Mathew: No, in fact the expectation on the macro recovery is certainly not very high at the moment. We mentioned that also. That is one of the reasons why the MSME is not growing at 20%. It is growing only at 14% for that reason because as I mentioned sometime back the underwriting rules are immediately changed in the centralized environment. The moment there is perception of additional risk in any particular segment. So, obviously the sanctions do not get done, but as far as the bank is concerned, our overall approach is definitely in favour of the MSME because that is an important sector for us. So, it is 25% of the loan book of the bank and we would definitely see that sector growing steadily, but that does not mean that we will take additional risk in that sector or if the cash flows are not visible or the documentation is not available correctly or the securities are not available, we are not impressed with that account at all.

Sri Karthik: Because in a lot of situation, the problem which these MSMEs is facing is a business viability itself is under question, so while some of the near term stressed numbers might be okay, but the arbitrage that they used to enjoy and just because there were a few inefficiencies in the system, they were surviving, I think, a lot of those are getting challenged and disruptive. Are you not worried for the customer base?

V.G. Mathew: We are sensitive about all these parameters. The only thing is we will get into the rule book. That is all what happens. It is a constant evaluation that is going on from the credit vertical, from the risk management vertical, so constantly there is a dialogue and evaluation. That is what happens. So, obviously sometimes what happens is we have MSME growing better than what we are growing today, so obviously it depends on the environment. The environment is not good, obviously it will not grow that much, but the critical point is our lending is not on the basis of only primary security. Our lending is also on the basis of significant amount of collateral security. In Kerala if you are talking about a trader, it has to be 100% primary security then only it is going to work and the collateral security is by way of land, building, residential property, etc., etc., then only the paper moves.

Sri Karthik: Sir, a last bit on capital, while I understand the CET1 ratios are still okay and the comfort levels there could be closer to 12%. On the leverage bit what is the comfortable leverage that you would want to operate at?

V.G. Mathew: Leverage is a little on the higher side for us because we have a gold loan portfolio, which is significant and obviously it is zero risk weight. So leverage is traditionally little higher on our bank, but we are very comfortable about it even today, 12% is quite fine for us. Only thing is with the reasonable amount of growth coming in and there is an opportunity, if it is there, we would like to be a little better capitalized than this. That is the only thing. We know how much is the claw back likely to happen plus we need some more particularly on the CET1 side so therefore we would like to see that some more additional Tier I is raised. That is about all.

Sri Karthik: Sir, would a 12x leverage be comfortable, 14x leverage be comfortable. Have you had any discussions along those lines?

V.G. Mathew: In the sense indirectly yes. We know our ROA is relatively low and the slightly higher leverage obviously gives us a better ROE that is always there, but I am sure I mean what we are looking at is not only our own comfort, our Board is comfortable with 12%. For example, CRAR, but if you look at the peer banks, there is a comparison separately, so we are meeting all the regulations, we are meeting the Board requirements, till we may come into an adverse position, just because peer banks are having a better capitalisation. So it is better to be there and now that all our other problems are getting over, this is the time we start looking at all these opportunities.

Sri Karthik: Great Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Manvardhan Ved from Laurel Investments. Please go ahead.

Manvardhan Ved: Good morning Sir. Sir, just wanted to understand your QoQ why is the profitability on the retail side substantially lower?

H. Chithra: On the retail side, yield is slightly lower than Q2 for various reasons. Otherwise, interest rate is coming down, so naturally there will be demand from the customer and that is the basic reason of profitability coming down in retail portfolio on a QoQ basis.

Manvardhan Ved: Do we see this trend continuing or is there some stability?

H. Chithra: It can have a stability going forward. The downward trend may not continue.

Manvardhan Ved: Thank you.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi from Haitong Securities. Please go ahead.

Saikiran Pulavarthi: Just a couple of questions on the liability franchise. I think in the last two quarters, you have seen some movement, at some point of time, if I look at your cost of deposits the margins have seen some sort of a moderation, while your yields are moving up, just want to understand what are those things which are working on the liability side for you and how do you look going forward?

V.G. Mathew: Liability side, the most important thing is we would like to reduce the bulk deposits to the extent possible, but that does not mean that we will not look at that all. It is an important portfolio for us, so we will definitely look at that also, but that is one way which the liability franchise can be improved a little bit, then the CASA is the main pillar. It has reached 25.2% at the moment. Our target of course is better than that but I would not be able to give a commitment on that exactly of where we target at the moment. We definitely intent to maintain this and that is the most important thing at the moment.

Saikiran Pulavarthi: But any initiative to starting to yield results for you? What are the things because maybe reduced competition or may be the risk averseness in the market, so people are happy to deal with you? What is that helping you at this moment Sir, if you can elaborate that will be really helpful?

V.G. Mathew: For example, if you look at some of the regions in Kerala, they have already crossed their 30% mark which is the internal target for CASA. So, obviously a lot of people are putting a lot of money with us and that is primarily because of that additional relationship that we are having. That is one side of it. Second side, there is a significant amount of deepening that is going on because of the analytics and the data, which is available for the stabilised environment today and there are significant verticalization that have taken place so there are people responsible for CASA, people responsible for trusts and associations and all those things, people responsible for government business separately, so there are so many verticals today which are all focused on the CASA type and similarly there is a vertical which is running on the term deposit side or on the recurring deposit side, so there are campaigns running continuously, there are people who are monitoring that steadily and there are efforts to mine on the basis of the database that we are having. For example, wherever we find that our customers are still maintaining deposits elsewhere we try to get them back over here. So these are the efforts that is all going on, which is definitely helping us quite a lot.

Saikiran Pulavarthi: Thanks. Second question is on the slide #20, what you have on the rating profile of the corporate loan book, if I look at BBB and below actually is seeing an increase so just want to understand, of course, I do understand that less than BBB is coming down from 8.3% to 3% while BBB has increased from probably 14.5% as of March to 26.5% as of December. Are you worried at this point of time with this deterioration on the rating profile? How do you see this?

V.G. Mathew: No, we are not at all worried about the rating profile because we know these accounts, which are the accounts that they are slightly lower rated, but then all those accounts for example, there is a road project there, which has been with us for more than seven, eight years. So, obviously every time, there would be some problem or the other, but then it has never come into a default situation or even an SMA situation at all for us then we talked about one account, which is of course the irrigation system account, another account which is restructured account, you have 21 Crores, so obviously he cannot get a rating, a good rating at all, but we cannot accelerate the account, we cannot do anything about it, so we are just continuing there, but we do not have a problem coming out of these accounts. That is the most important thing. That is what we are looking at very carefully and that is the reason why today we are saying that we have no concerns on any of these accounts and in any case, all the larger accounts are all very well rated.

Saikiran Pulavarthi: One final last question if I look at your branch network broadly in the last three years has been more or less at 900 levels, do you have any thoughts of increasing that going forward, any thoughts?

V.G. Mathew: We do have actually. Yes, what we have been doing is a lot of rationalisation also has been happening and another thing that we are doing is instead of opening up a full-fledged branch, we are trying to open only extension counters, part-time outfits so that the cost is really coming down and not only that we are able to assess the potential in a particular locality and then convert into the branch full scale branch if there is an aim that has been coming out of that. So we are very sensitive about that aspect. So, that is one of the reasons why we are not seeing a significant change in the network, but along with that I would say that there are certain geographies which we are focusing on at the moment for branch expansion, for example, coastal Andhra we do not have many branches, we are working on that, even in the Northeast what we are having is a very limited presence, one branch in many of the states, we would like to see some more traction that side. Then in some of the other industrial clusters we do have a branch in many of those places, but we would like to see maybe one or two branches in each one of them. So these are all areas on which we are working on.

Saikiran Pulavarthi: Great. Thanks a lot Sir. That is really helpful.

Moderator: Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: Thank you for the opportunity. My question is about asset quality on the MSME. We had seen the slippages are coming down and at the same time our restructuring in MSME is on a higher side, if we calculate as a percentage of advances it is coming to 3.5%. So, once this scheme gets over in April 2020 what is your outlook on the MSME slippages in Q1 of next year?

V.G. Mathew: From the restructured book, we are looking at 15% to 20% slippage. Although I cannot say specifically that I am getting a feedback from a specific account that there has to be something to be done about it, but that is not the case, but overall our sense is that around 15% to 20% slippage we should expect. So that is about all. Otherwise, many of the restructured accounts, particularly Kerala based accounts, the Tamil Nadu based accounts they are all very safe accounts, because there is a lot of stake for them. Their entire collateral security is also with the bank and in the event of any failure our loss also is going to be very, very minimal.

Amit Rane: Sir, can you provide similar number for the Kerala floods restructuring? How much slippage can we expect from 180 Crores?

V.G. Mathew: The problems are really not there so much because we are not encountering anything significant at the moment. They are able to service. They are able to manage. Now we will see in March whether there is any more difficulty they are facing. So far, people are saying, our Regional Heads are confirming that there is no serious issues with many of these borrowers, we will try and evaluate this a little bit in March when the actual repayment comes, all of them are saying that there is no real problem at the moment, but we are mentally prepared for maybe 15% to 20% kind of slippages all over and that is one of the reasons why we are still taking a very conservative view for the next year saying that it will be 200 Crores to 250 Crores per quarter. So that is the reason for that.

Amit Rane: Thanks a lot.

Moderator: Thank you. As there are no further questions, I will now like to hand over the conference to Mr. Yuvraj Choudhary for closing comments.

Yuvraj Choudhary: On behalf of Anand Rathi Securities that concludes today's conference call. Thank you for joining us.

Moderator: Thank you. On behalf of Anand Rathi Shares and Stock Brokers Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.