"South Indian Bank
Q4 FY2019 Earning Conference Call"

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Moderator: Ladies and gentlemen, good morning and welcome to Q4 & FY19 Earnings Conference Call of South Indian Bank Limited hosted by IndiaNivesh Securities Limited. This conference call may contain forward-looking statements about the bank, which are based on the beliefs, opinion and expectations 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 phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Ravikant Bhat, Senior Analyst from IndiaNivesh Securities Limited. Thank you and over to you Mr. Bhat!

Ravikant Bhat: Thank you. Good morning to all of you. It is a great pleasure to host Q4 FY2019 earnings conference call of South Indian Bank. For the call, we have joined by Mr. V. G. Mathew, Managing Director & CEO of the Bank, Mr. K. Thomas Joseph, EVP - Operations, Mr. G. Sivakumar, EVP, Credit, Mr. K. N. Reghunathan, EVP, Treasury and Ms. H. Chithra, Chief Financial Officer. Now I hand over the call to Mr. Matthew, MD and & CEO of South Indian Bank for his opening remarks. Over to you Sir!

V. G. Mathew: Thank you. A very good morning to all and thanks you for joining us for our Q4 FY2019 earnings conference call. Before getting into operational and financial numbers for this quarter, I would like to highlight that our strategy to expand Retail, MSME and Agri business and increase the share of other income and improving our CASA is intact.

Now let me take you through key highlights of operational and financial performance for Q4 FY2019. As on March 31, 2019 total business for the bank stands at Rs.144,056 Crores an increase of around 13.3% Y-o-Y. Advances grew by 15.5% Y-o-Y to Rs.63,636 Crores with growth drivers continuing to be MSME, mortgage loans, agriculture advances, and auto loans. Retail loans grew by 33.9%, SME grew by 16.23% and agriculture by 9.52%. There was muted growth in corporate advances at about 4.88%. These growth figures clearly indicate the focus of expanding Retail, MSME and Agri loans portfolio.

Over the last four years bank has stayed away from various stressed sectors and on account of this, bank today have NIL exposure to sectors such as Aviation, Telecom, EPC contractors etc. The exposure to steel and thermal powers are very limited and are of good quality. With legacy problems for the large corporate sector under control and with strong growth in the retail and MSME sectors we are on the threshold of period of stable and risk-controlled growth and expansion. For FY2020 we are targeting advances growth of 18% to 20% where the focus will be again in Retail, MSME and Agri portfolio.

On the deposits front, the increase was 11.7% Y-o-Y to Rs.80,420 Crores, the CASA of the bank increased to Rs.19,467 Crores registering a growth of 13.6%, CASA now stands at 24.21% of total deposits, NRI deposits grew by 13.69% on Y-o-Y basis and NRI deposits contributes 26.66% of the total deposit.

Our investment book stood at Rs.19,525 Crores of which HTM contributed Rs.15,452 Crores and AFS Rs.3,873 Crores. Gross NPA stood at 4.92% as on March 31, 2019 vis-à-vis 4.88% for Q3 and net NPA stood at 3.45% vis-à-vis 3.54% for Q3. During the current quarter, corporate NPA of Rs.114 Crores occurred because of the failure of the borrower (which is Kerala based medical college) to get approval renewed from the regulatory authority. In the current quarter, non-corporate NPA is Rs. 250 Crores despite sharp spike in agri NPA of about Rs.100 Crores.

By this, cleanup of the large corporate book, which has been going on for the last four years has come to end. Going forward we will in all likelihood be able to stick to the guidance of Rs.250 Crores accretion in NPA per quarter. Bank showed a growth in strong recovery performance during the year and achieved the targeted level of Rs.500 Crores and going forward too the recovery and upgrades will be at Rs.500 Crores per annum.

Net interest income for the quarter was stable at Rs. 499 Crores as compared to Rs.492 Crores for the corresponding quarter last year. NII for FY2019 as a whole was Rs. 2020 Crores as compared to Rs.1966 Crores for FY2018. Other income for the quarter stood at Rs.236 Crores as compared to Rs.179 Crores in Q4 FY2019 registering a growth of 32%. Treasury could achieve a better profit during the Q4 as compared to that of last financial year. Further, our technology and transaction fee registered and whole-time high of Rs.120 Crores. As we scale up our efforts on retail and MSME banking, we expect growth momentum to continue in the transaction fee business. Other income for the full year stood at Rs. 726 Crores.

Operating profit for the quarter was Rs. 328 Crores as compared to Rs. 311 Crores in same quarter last year with a growth of 5%, operating profit for the whole year was Rs. 1,239 Crores, cost to income for Q4 FY2019 was 55.44% and for FY2019 as a whole was 54.88%. We believe going forward our cost-to-income ratio should come down as we get benefits of operating leverage from our centralized operations, high fee income and treasury income getting normalized.

Provisions other than tax for the quarter is Rs. 219 Crores as compared to Rs. 149 Crores in the same period last year. Provision coverage ratio improved to 42.46%, provisions for the full year stood at Rs. 858 Crores, credit cost for this quarter stood at 122 basis points and for full year it was 109 basis points and we expect the credit cost to be in the range of 1% to 1.10% for FY2020 considering the elevated provision requirements for the next few quarters. Bank’s net profit for the quarter was reported as Rs. 71 Crores while for the full year it was Rs. 248 Crores.

The Board of Directors have recommended a final dividend of Re. 0.25 per equity share subject to approval of the shareholders at the forthcoming AGM. Our capital adequacy stands at 12.61%

and the core CRAR is 9.97%. We recently raised Rs. 250 Crores in the form of Basel III compliant Tier 2 bonds.

We would also led to highlight that many new data analytics initiatives have been taken for increasing our MSME and retail book by mining our existing liability customer base and focused employees have been hired in the last financial year for growing this segment, which will lead to overall growth of advances in the retail and MSME sectors, which we believe is our core strength.

As on date the total employee count stands at 7,822 and during the quarter bank had opened 13 branches. We now have 870 branches, 53 extension counters and 1406 ATMs. 9 new branches were opened in Kerala and 4 were opened in South India ex-Kerala.

With this, we open the floor for questions if any.

Moderator: Thank you. 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 Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir good morning and thanks for the opportunity. Sir couple of questions first on asset quality, so this quarter we have seen that below BBB book has gone up from around Rs. 400 Crores last quarter to around Rs. 1000 Crores plus in this quarter so if you can explain what is your sense on this portion of the book and any Sir breakup here?

V. G. Mathew: In BBB and below that we are talking about Rs. 100 Crores and above, it is 8.8%, which is around Rs. 800 Crores, Rs.773 Crores to be precise. There are four accounts in that and all of them are not even in SME 0, all of them are standard, the largest among them is a multi-division company which belongs to a very strong and well-established group and already there is another rating which is BBB, but we have taken the lower one and I believe things will show remarkable improvement in the current financial year when the results are out, that is what I understand. Second is the road project, which again has been taken over by a new group may be couple of years back and again absolutely no SMA 0 issue even in this account. The third one is airport based in Kerala and absolutely no concerns on that, it has been commissioned and performing very well. Last one is hotel project involving in two three hotels belonging to a very well established and well recognized NBFC group in Kerala and absolutely no concerns on any of these accounts.

Jai Mundhra: Thanks for the clarification so these group even though they are below BBB and you believe this would be sustaining their standard classification is that correct Sir?

V. G. Mathew: Absolutely, I mean we have been watching these accounts on and there is not even SME 0 status for any of these for accounts.

Jai Mundhra: Sure and the first account that we mentioned multi-division company, BBB, is it like conglomerate infra to NBFC conglomerate?

V. G. Mathew: No, it is not that, it is a very well-established group and based out of Kolkata and manufacturing and very strong on that front. There is no concern about it.

Jai Mundhra: Sure Sir and Sir just one clarification, also now we have seen that the number of account where the ticket size is more than Rs.100 Crores has come down to Rs.300 Crores so total exposure is around Rs.12,000 Crores so how does this mean each individual account has become less than Rs.100 Crores right that is the way to look at it?

V. G. Mathew: I will be able to give you that separately, but I can only tell you this, I have absolutely no exposure to telecom, aviation, EPC contract in the standard asset book. Absolutely no exposure to any of these accounts this area. we only have one steel exposure which is a company which belongs to a group which had no default history in is entire existence and that is about all and if you are talking about road projects, we have not taken a single road projects in the last four years so we will stay away from all these things, so we believe we have a very clean portfolio coming up there.

Jai Mundhra: Lastly Sir if you can quantify the SME II, last quarter I believe it was around Rs.1890 Crores how has that moved?

V. G. Mathew: SME II has moved quite well for us so today stands at 1.71%, it was 7.38% in March 2016, 4.28% in March 2017 and 2.20% in March 2018. Today it stands at 1.71%.

Jai Mundhra: 1.17%?

V. G. Mathew: 1.71%.

Jai Mundhra: Thank you Sir. I will come back.

Moderator: Thank you. The next question is from the line of Chandra Govind from Ashmore Investment Advisors. Please go ahead.

Chandra Govind: Sir my question was regarding the yield on advances so when I compare last year MCLR rate and this year MCLR rate, there was almost an increase of 45 BPS, but when I look at the yield on advances, there was no improvement over the year so how one should look at these?

V. G. Mathew: That is a very important point. I mean of course there are two aspects, one side is that the MCLR does not get fully re-priced, all the changes do not get repriced immediately that is one part of it, but they should have been slightly better, transmission of that during this period, but it has not happened for one primary reason that is where the accounts are having significant amount of collateral security and very good rating, which is the case with lot of our accounts. We are not able to charge the kind of increase in the MCLR fully. We may have to compromise, so a part of it will be charged, part will not be fully charged because in the spread portion may come down that is one side. Secondly the growth is coming more on the MSME, retail side, as you will know it is growing at 34% and that is 29% of the book while the rest of it is growing at much smaller level so these are the two things that would definitely impact that.

Chandra Govind: Okay in that case NIM for the current quarter was 2.46%, so there should be no improvement in that case?

V. G. Mathew: We are working on improvement for various things for example today we are in a position to talk about not having to write down interest on the account of NPA, this has been a problem which we have been facing almost every quarter for the last four years, some unexpected large NPAs happen and that part is finished that is one part of the story. That is most important one I would say. Secondly, we are really working very hard on the CASA side the improvement must happen. Thirdly what we are trying to do, one more side that we have not talked about is what is happening on the liability side, we have been managing the gap between deposits and advances using purchase liabilities. Now the purchase liabilities used to be comfortable because we were able to get it at cost sometimes lower than retail deposit even that was the trend until substantial part in the last year and even part of this year. Today the position is that or at least in last six months the position is that, the costs would have increased by almost 40 to 50 basis points on the purchase liabilities that also has impacted, So all these things will get corrected and addressed differently as we go forward that is what we are trying to do. We are focusing on the retail deposits, I mean until if the liquidity position improves if the market and again the pricing comes back on the liability side on the purchase liabilities, I mean that is fine with us otherwise we need to really ensure that the purchase liabilities are limited as much as possible so that we are working on all these things simultaneously plus we are in position to now look at credit at a slightly lesser level of collateral etc., because the entire centralization of credit processing is completely over today right from agri to MSME to retail to corporate everything is on centralized platform and therefore today we have highest level of control and comfort on, on boarding and therefore we can take asset, which are not carrying the level of collaterals that we used to insist on earlier so these are all things which are going to help us in improving the NIM's.

Chandra Govind: Okay so in that case what is the internal target for FY2020 for the NIM's?

V. G. Mathew: Internal target is higher, but we should be looking at around say 15-20 basis points improvement during the year.

Chandra Govind: One data keeping questions, what was the actual number for SMA II in terms of growth?

V. G. Mathew: Rs.1,091 that is 46 accounts with Rs.444 Crores in the SMA II Rs.5 Crores and above, 46 accounts and Rs.444 Crores and less than Rs.5 Crores that is Rs.0 to Rs.5 Crores is 3264 accounts and Rs.647 Crores outstanding, total Rs.3310 accounts with Rs.1,091 Crores outstanding.

Chandra Govind: We do not have any SMA II account in 100 and above?

V. G. Mathew: No we do not have anything at all in Rs.100 Crores and above it is zero, Rs.50 Crores to Rs.100 Crores is also zero and Rs.25 Crores to Rs.50 Crores, it is two accounts with Rs.98 Crores and Rs.5 Crores to Rs.25 Crores is 44 accounts with Rs. 346 Crores.

Chandra Govind: And my last question on agri slippages was there any one-off?

V. G. Mathew: One plantation is only thing that I can say it is slightly on a one-off side, but that is not the point, but more than that I think it is something about some expectations of debt waiver and things like that because the interest servicing has to be happen in on March 31 typically and therefore I believe some of them certainly did not meet that commitment may be fairly deliberately expecting certain waivers and so therefore spiking this, there and even going by the trend during the last one month, we do not find any spike of this variety going forward.

Chandra Govind: Got it. Thank you.

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

Sapna Laha: Sir what is the equity raising plan this year?

V. G. Mathew: This year we would require additional funds. As we know that we have already raised some Rs.250 Crores of Tier II during the month of March and of course we have more approvals, we have more headroom to take more Tier II or even additional Tier 1 or QIP or any other option that is available to us, but we will need raise capital. Today the CRAR stands at 12.61, but we have planned growth of around 20% so obviously we will need some more money.

Sapna Laha: Sir can you give me the details of the medical college, which has slipped this quarter?

V. G. Mathew: Mentioned earlier also may be for the last one year we have been mentioning this is a very good dental college first, which is running very well for the last several years and then they also started a medical college, which is also running for the last four years, but then they are supposed to get yearly regulatory approvals until fifth year, so currently they have not been able to get the renewal done and there has been a concern about it for the last one year. So, we had given them the final date as March 31, 2019. If they are able to show that it is fine, otherwise we said we should be compelled to classify it as NPA because of the inherent risk, so we will see going forward whether they are able to get the licence.

Sapna Laha: Can you quantify some of this exposure to stressed companies like Reliance ADAG Group or something like this?

V. G. Mathew: We have no exposure.

Sapna Laha: No exposure to Reliance?

V. G. Mathew: No.

Sapna Laha: And for Essel group?

V. G. Mathew: No.

Sapna Laha: Thank you.

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

Sandeep Jain: Thanks for taking questions. Just continuing on the last question, on that medical group how much we have exposure?

V. G. Mathew: Rs.114 Crores, the whole thing is only that.

Sandeep Jain: Okay, you were the sole lender, or it is a consortium account?

V. G. Mathew: We are the sole lender. It is a long relationship. It was running very well, and we have got very large amount of primary security and also very large amount of collateral security by way of land right in the city of Trivandrum. We have absolutely no concern on recovering the money, it is not like syndicated debt problems that we have in encountering till now and they are also looking at various solutions.

Sandeep Jain: So, I remove the Rs.114 Crores odd on your gross addition this quarter, so it is somewhere around Rs.254 odd Crores in that you are saying that the agri slippages is there would be how much?

V. G. Mathew: Rs.100 Crores.

Sandeep Jain: So it may be somewhere around Rs.150 Crores odd, but you are giving guidance for the next quarters or next four quarters, quarterly guidance of slippages are somewhere around Rs.250 Crores odd right, so by what mean you give that kind of guidance of Rs.250 Crores odd slippages for the quarter coming for the quarterly slippages. If you were saying that Rs.100 Crores is Agri and Rs.114 Crores odd is the one-time kind of?

V. G. Mathew: Are you hinting that it is on the higher side?

Sandeep Jain: That is what I am saying that it is on the higher side. If you are saying that Rs.250 odd Crores is the one-time kind of and if again you are giving a Rs.250 Crores kind of guidance for the slippages, so are you seeing any inherent weakness from stressed account which is coming kind of?

V. G. Mathew: No, we are not seeing any inherent weakness. We are not seeing any major one-off or any of those things, but I think this is the indication that we had given earlier, we will see, let us see what happens in the Q1, Q2, Q3. We would rather at the moment stick to Rs.250 Crores maximum slippages and the Rs.500 Crores minimum upgrade and recovery.

Sandeep Jain: And from where this upgrade and recovery will come, any lumpy account kind of thing, can you?

V. G. Mathew: Unlike earlier now the kind of NPAs now which are coming up whether it is an Agri or MSME or in the mid corporate they are all recoverables and like syndicated debt or things like EPC contractors where we are not able to recover anything. Here it is not like that and a lot of the sole banking situation and we are pretty sure about how to go about it and a lot of work is going on, that is why we have been able to show the same, we had a target of Rs. 500 Crores and we have achieved that and the same thing will be happening going forward too.

Sandeep Jain: Thanks.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: Just few questions. One is if I just look the average SME loan per account that has gone up like 20% Q-o-Q, so what really happening there, is it we are actually taking more exposure to the same account because they are in stress or it is just one off kind what is happening there? It is on slide 12?

V. G. Mathew: So basically what we are saying is our desire is to do MSME advances of slightly higher nature, higher value obviously that is the way we are looking at it definitely and the average ticket size is certainly not on the higher side, we would like to see a reasonable improvement in the ticket size also. Of course today what is happening is a large number of business loans are also getting sanctioned that is less than Rs.2 Crores kind of loans that is also getting sanctioned, but then we are also looking at MSME loans which are may be in the range of Rs.10 Crores to Rs.15 Crores if it is well collateralized, if it is a non-group, it is already dealing with us in deposit base, so we have no problem in entertaining those cases as well.

Haresh Kapoor: So, what will be the average exposure that you are comfortable with, any thoughts there or is it open in terms of account?

V. G. Mathew: We are very comfortable in taking exposures on two levels, as I mentioned up to Rs.2 Crores business loans, which are basically on the basis of very parameterizable numbers, so it is very easy, in those cases we have absolutely no difficulty if the quality is coming up as a very superior one. The other one, we also have a portfolio of slightly larger MSME because we got about 200 branches, which are what we call green channel branches, which are specifically meant for developing MSME and mid corporate kind of business, so those branches obviously the current level is much higher. The capacity is much higher; therefore, these branches can maintain better relationship and on board slightly larger customers, so average ticket size will be more in the range of may be this 40, 45, 50 that kind of things depending on how many numbers are coming up on both sides.

Haresh Kapoor: How many of these clients will be you as a percentage been a sole lender, let us say last year compared to this year or anything?

V. G. Mathew: Mostly sole lenders.

Haresh Kapoor: Second part is if, I look at your service and trader kind of exposure the retail, entrepreneur that has fallen on a QoQ basis and you have seen pretty strong growth on the gold portfolio. As far as gold side, is it more on the agri gold and second on the services and traders why is that you have seen a degrowth, is anything else there?

V. G. Mathew: On the gold side, we are around 16% to 17% of the portfolio is collateralized with gold that is with Agri and MSME put together, if you look at it around 17%, if I remember correctly that is collateralized with gold. But as far as the other part is concerned that is the pure gold that is retail gold we are very focused on that because this is a portfolio, which has done very well for the bank and we would like to see that this is growing and we have been trying to see that there was a good traction in this, but last one or two years we have not been able to show a significant growth, but the focus is very much there on that and around 300 branches of the bank are typically placed in such areas where there is a lot of potential for such gold, so we believe that these branches should definitely focus on this and improve our gold loan portfolio.

Haresh Kapoor: And the services and traders' part that you have seen a decline is there any reason you have pulled back or what is happening there?

V. G. Mathew: Not exactly a pull back as such, because traders are important for us, but then one thing is very clear, the trade segment we are very particular, trade and what we call gold wholesalers, we are very particular that they should maintain high amount of collateral security, for example, gold it is 100%, for traders also it is more like 50% to 100% kind of collateral securities what we are looking at, so only if it is meeting these criteria we will be looking at those sanctions and with the centralized on-boarding, so obviously the parameters are not met it would not be sanctioned, so there will be a correction period that we expect, it will not be growing exactly like in the past because it is on a centralized platform where the decisions are taken by a committee, totally away from the sanctioning branches and regions.

Haresh Kapoor: Just last thing, you just talk about the geography or any other industry in particular where you are seeing lower portfolio and successes in trader's pool?

V. G. Mathew: Not really, in fact our portfolio growth is significantly in Kerala and Tamil Nadu. These areas we are doing quite well on that side, but otherwise other areas it is more like MSME, but traders yes it is important for us subject to meeting the collateral security requirements.

Haresh Kapoor: Sir last thing, on this other portfolio also there is some pretty strong growth, so what is the driver there?

V. G. Mathew: Yes, we have got institutions and all these professional services and all those things, they are all getting clubbed in that, this is what I understand that is we have got, say for example, if a school, all these things are coming up, it will get classified there and even the personal loans will get classified under that yes.

Haresh Kapoor: Okay Sir. Thank you and good luck Sir.

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

Nitin Agarwal: I have three questions, firstly the Agri slippage, which you mentioned an expectation of loan waivers that has happened, is this specific to any one state or you are seeing it across the states that you operated?

V. G. Mathew: We have only primarily, I mean, our Agri business is Kerala and Tamil Nadu, to a very limited extent in Karnataka, but otherwise it is primarily Kerala and Tamil Nadu and initially we were thinking, there would be some problem coming out of the flood and things like that, but then we were very willing to offer flood relief schemes. The schemes were made available to whoever was willing to take that, in fact, we had made a very special drive for that, but some people have not taken it saying that they would definitely be repaying on time the interest, servicing would be met, but the final position is that they have not met.

Nitin Agarwal: So, these agri slippages are coming in equally from Tamil Nadu and Kerala?

V. G. Mathew: It is almost across the geographies; I mean we are primarily for South India geography and I think there is not much of a difference that we find.

Nitin Agarwal: Secondly like this quarter we have added more branches than we typically have added in the past many quarters, so what is the outlook there and which region do we plan to expand in terms of branches further?

V. G. Mathew: Yes, around 9 branches are in Kerala and others are in South India, but typically in Andhra and that is one geography where we are very keen on growing because we got a lot of branches in the Telangana, but in the Andhra we do not have branches and we believe that it is a very important region for us. And similarly going forward the growth will be as we were always mentioning wherever the clusters exist, where we have larger potential like we find for example Ludhiana we are very happy about our branch presence, like that in some of the very well known industrial centres we would like to have a greater presence.

Nitin Agarwal: Lastly Sir when we guide on like the credit cost for FY2020, so what sort of provisioning coverage are we looking to achieve on our IL&FS exposure?

V. G. Mathew: IL&FS we have around 15% provision at the moment. We are still not very clear exactly how it is going to move because we do not have any full clarity about it, but then we would definitely like to take a higher level of provision there. We will do that as we go along.

Nitin Agarwal: Thank you much Sir.

Moderator: Thank you. The next question is from the line of Tanubhav Vashist from Sharekhan. Please go ahead.

Tanubhav Vashist: Good morning everyone. Thank you for taking my question. My first question was, if you finalize the point, we were talking about net interest margin, so you said you are looking internally for an improvement of 15 to 20 basis points, so that is from the current quarter of 2.46% or is it from 2.65%?

V. G. Mathew: Yes, in fact, it was always from the 2.65%, you are absolutely right about it, 2.65% plus 15 is 2.80% is what we are looking at, that is what I said internal targets are a little different while today I am only talking about 15 basis points from where we stand that is a conservative way of looking at it, but definitely that is not the internal target, what you said is right.

Tanubhav Vashist: Going through the segment results provided by the company, so in the retail banking segment the profitability from around Rs.109 Crores in December 2018 quarter has come down to Rs.73 Crores, which is a significant fall and that has impacted the overall profitability through, so any specific reason why the retail banking segments has done poorly this time around?

V. G. Mathew: No, the retail-banking segment has not done poorly at all it has grown quite well. We will give you separately. Agri slippage I believe is the one contributing to it, but we will come to you and give you separately because that one is done differently, we will do that, we will come to you separately on that.

Tanubhav Vashist: Thank you. That is from my side. Thank you.

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. Sir I just want one data point, what is the average cost of the Tier 2 bonds that we have raised recently?

V. G. Mathew: 11.75% semi annual.

Amit Rane: Sir can you share your outlook on ROEs for next two years?

V. G. Mathew: I would rather talk about the ROA part, leverage of course as you know is pretty good for us so it is a derived number, the ROE, so I would rather talk about the ROA. Now the ROA is pretty low today because of the very large amount of credit loss that we have to provide for, that is what is happening today. Now I do not expect a significant improvement in the provisioning going forward too. I am very confident on the slippage part, but I am not confident of the exact nature of provisioning that is required going forward. Of course, I am very well aware of the fact that we have only 42.46% of provision coverage ratio, which should move to at least 60% plus at the earliest so obviously that is the reason why we have been talking about credit provisioning of something like Rs. 200 Crores every quarter, so that is the number that is going to happen therefore, it will be around 1% to 1.1% credit cost depending upon the advances level, average advances level, so that is what it is.

Amit Rane: Sure Sir. Thanks a lot.

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

Pranav Gupta: My questions have been answered.

Moderator: Thank you. The next question is from the line of Dr. Allen Baby from Gems Wealth. Please go ahead.

Allen Baby: Good morning. Thank you for the opportunity. Sir I actually got two questions, one question has been partially answered, so it is inline with the broad analysis why our profitability has been low despite growth in the business is because of primarily on the pricing of a book that actually translate to the income and other reason is in high elevated cost income structure, so when I see your presentation, I think 47% has become 55%, so can you hear us through that?

V. G. Mathew: When it comes to cost income ratio typically it used to be an income side issue and not on the cost side because finally the income gets affected by the treasury performance. This is what happens typically like unfortunately last one year if you look at it, barring this quarter we have not been able to do very well on the treasury side because of the relatively flat market position, so that alone will took the cost to income ratio from 47% to 54%.. Having said that, I must also admit the fact that the cost structure also has increased a little bit because the employee cost has gone up, disproportionately I would say slightly because of the gratuity incidence and also the DA and all those things and also the need to talk of the pension fund, so with all these things overall staff cost is also on the higher side and staff cost is the largest cost for us, so obviously these are the numbers which have impacted the cost income ratio and with a steady performance from the treasury and even a normal return, normal NIM environment we should be able to achieve a cost income ratio, which is around 54 or even slightly less than that.

Allen Baby: Thank you for that and on the primary part, do we have any structural pricing issue with the book, it is probably a large chunk of fixed rate assets or something like that?

V. G. Mathew: That is not there, but it is all about, I told you structurally if it is there yes, I would say that, one or two small things are there, that is the retail loans we want to work on the strong belief that we want to be a retail-banking powerhouse. When we embarked on that mission, we were quite aware of the fact that the high-quality retail assets will obviously be NIM negative and therefore the liability side, CASA side has to improve simultaneously. This is what we were working on, what was the plan on which the whole structures was built. The fact remains that CASA has been growing and growing better than the deposits and CASA ratio has improved from sub 20 to 24 plus today and it may improve to around 25 during the course of the year, that is what we are looking at, but if you look at the CASA growth, it is around say 13%, 14%. While the retail loans are growing at 34% and retail loans are no longer a small number, it is a 29% of the book, so obviously some more improvement has to happen on the CASA side that is one side. Secondly, it is not about the structural part of the loan book, but it is more about a mindset, for example, we are extremely cautious on the risk side today for two reasons. One is we are just coming out of the biggest problem that we were facing all along that was the large corporate NPA and we have cleaned up that book and we can also see from the SMA-2 numbers and things like that or even rating numbers that we are really on a strong footing on that side, but then we are extremely careful that the MSME, the agri, the retail that should remain just as high quality as it used to be earlier, so therefore there is always an orientation to us in a higher collateral security etc., which immediately impacts on the pricing. This is what is happening, so now that we are on a completely centralized platform, now that we are quite, well controlled on the risk side and we have a lot of analytics information coming in everyday and there are vertical heads who are supposed to follow up each one of these things and we have a very strong credit monitoring and recovery department and also a credit collection hub, which is running very effectively we believe that we can start a little bit more aggressive on the underwriting side and therefore we can look at a slightly better pricing, this is what we are working on.

Allen Baby: Thank you so much Sir for the very detailed answer. I think it would rather help every investor now to know these two points. Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Thank you so much. Just a couple of questions, on slide number 45, the active debit cards have fallen sequentially from 4.3 to 3.8, why would that be? 4.3 million to 3.8 million?

V. G. Mathew: At the end of the year, we have been doing a lot of replacement of old magnetic cards to EMV chip cards, so what happens there is many old customers who are not using these card for quite sometime, we have not given them substitute card unless they ask for that, so there is a gap now, so we are waiting for the request and may be over a period of time it will gradually increased now, this has come because of that.

Saurabh Dhole: Okay and on your number of employees there is a sequential fall and there was a reduction in the total number of employees during the quarter, is it primarily because of retirements?

V. G. Mathew: Yes, there is a slight mismatch, new people will be joining very shortly, some batches are already running in a institute where the probationers are completing their training and when they all on-boarded they are still on a different platform then that also will get corrected.

Saurabh Dhole: I am just coming back to the corporate slippage that educational institution how well are we covered from there?

V. G. Mathew: We are extremely well covered because the primary security itself will be more than twice the loan amount, because it is a medical college and dental college,

Saurabh Dhole: Do we have any land banks?

V. G. Mathew: We have got the institutions, properties, everything including the land, building, the machinery everything is available to us that is one side of it, apart from that we have got primary collateral security by way of land and completely free sizable vacant land right in the city of Trivandrum, which is also very close to the value of the loan itself on a very conservative basis.

Saurabh Dhole: All securities, which you include, have cover of two times?

V. G. Mathew: More than two times.

Saurabh Dhole: But off late it seems some of the banks, who had land banks recovered from some of the builders, the plan is to devalue those on their books and bring it down to zero over a course of three, four quarters, but do you think you will also have to do this once you get charge, once you get possession of this land bank?

V. G. Mathew: We do not think so. In fact, we have also been encouraging him off lately to dispose of this land and square up the loan straight, which he can do, but I think there are also hoping that they would be getting the license to continue that is number one. Number two, I think there are some people who are interested in joining him and taking over the college, so some these discussions are going on at the moment. We are not looking at loss scenario at all here.

Saurabh Dhole: Just one last question. I do not know if you have already discussed it, but there is in a very sudden rise in the gold loan book in the last one year especially in the last Q3 and Q4, sharp surge in gold loan, so any reason for that?

V. G. Mathew: There was also a purchase of gold loan because when the NBFCs were facing liquidity issues, they were willing to sell it at a price, which was acceptable to us, so we have taken certain purchase portfolio as we have mentioned in the last quarter that is the only one change.

Saurabh Dhole: And how big was that book?

V. G. Mathew: I can mention that. That is the entire purchase portfolio not only just gold, all together it is around Rs.1000 Crores today.

Saurabh Dhole: And this is just one NBFC?

V. G. Mathew: No, it is not one NBFC. It is from people who are very well known to us and where we are very sure about the portfolio that we have purchased, it was Rs.1300 Crores total and I am not talking about gold it was also gold plus small amount of LAP and housing loan that is all, but that is today only Rs.1000 Crores, Rs.300 Crores has already repaid.

Saurabh Dhole: Gold plus LAP all this amounts to about Rs.1000 Crores?

V. G. Mathew: Yes.

Saurabh Dhole: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Vinayak Kanvinde from Silver Arch Capital Partners. Please go ahead.

Vinayak Kanvinde: I have two questions. One is on if you could throw some light if you have already talked about it earlier, on the SMA to advances, I just wanted to understand what is the overall percentages of these advances as a percentage to of the total advances that you have?

V. G. Mathew: It is 1.71.

Vinayak Kanvinde: How has this trend been for the last eight quarters?

V. G. Mathew: I will just read out one minute. Our SMA 2 portfolio was 5.95% on March 31, 2015, it was 7.38% in March 2016, it became 4.28% in March 2017 and became 2.20% in March 2018 and now it has come down to 1.71%.

Vinayak Kanvinde: So, breakup of this largely pertains to which segment, all SME predominantly or agri predominantly?

V. G. Mathew: One thing I can tell you is, I can give you one breakup that is above Rs.100 Crores, for example the large corporate loans it is 0, Rs.50 Crores to Rs.100 Crores also it is zero, Rs.25 Crores to Rs.50 Crores there are only two accounts with balance of Rs.98 Crores, Rs.5 Crores to Rs.25 Crores which is what we called the typical MSME plus the mid corporate, there are only 44 accounts with the balance of Rs. 346 Crores, now less than Rs.5 Crores that is where the larger distributed numbers are coming that is 3264 accounts covering Rs.647 Crores.

Vinayak Kanvinde: One more followup question with respect to you touch upon, while earlier in terms of return on assets, if you look at the trend of return on assets from 2017 which was the strongest at around 0.7, now this quarter we have down to about 0.3% plus between 0.3% and 0.4%. On a yearly basis, we are in the range of 0.43%, 0.45%, how long would it be before you reach respectable numbers of 0.75% to anywhere close to 1% on the return on assets?

V. G. Mathew: It all depends only on one number. As far as operating profit is concerned, it will consistently improve, we have no doubt in it and that has been the trend barring this year when the treasury contribution came down significantly, but we believe it is our one off kind of a situation, treasury also will come back to a normal contribution of around Rs. 250 Crores to the annual balance sheet. This has been the case earlier and it will come back to that. Once it does as far as operating profit is concerned there will be a decent growth at all times. What we are not able to help is the provisioning part, so provisioning is coming to there was a time and the total loan loss provision used to be just about Rs.100 Crores, Rs.120 Crores even in 2011, 2012 that was the position, today we are talking about Rs. 1000 Crores and that is why the difference is coming. So, if you just assume that this heavy provisioning has to continue for a few more quarters until the provision coverage ratio improves to something like 60% then the ROA will just start improving even today if you remove the provision automatically the ROE improves.

Vinayak Kanvinde: Right, but then it chicken and egg situation, because the provisions just keep happening so my question is therefore are we above the hump in terms of having the provisions because your run rate continues to be maintained 250 is what you are guiding for right, the provisions for FY2020 as well?

V. G. Mathew: That is we are talking about the NPA that is NPAs will come in around 250 and with the kind of recoveries which are coming in, we are talking about Rs.500 Crores attrition in a year it was much more than Rs. 1000 Crores every year, it is the first, we are talking about Rs. 1600 Crores in 2016, Rs. 1700 Crores in 2017, Rs. 1800 Crores in 2018, this is the kind of numbers that has been coming in, it will all go down now going forward, so the corporate path is over, so therefore the recognition is over, now what is not over, is about the provisioning part, so that we will have to continue for a very short period now that we have almost reached the end of it.

Vinayak Kanvinde: Just one last question if I may squeeze, on the slide #21, this may be a housekeeping question, you have less than Rs. 5 Crores to more than Rs. 100 Crores breakup or given on number and value, the average on each category comes much lower than the advances number, so does that imply most of these are two, three or four year vintages which therefore are giving the average numbers, is that fair you can say?

V. G. Mathew: Please give us a moment. Could you explain the last part of the questions, we are on the slide #21?

Vinayak Kanvinde: Basically, if I look at more than Rs.100 Crores on Rs. 12000 Crores advances basically 314 accounts you have, so on an average this is much lower it is like Rs.15 Crores, Rs.18 Crores probably is the average, so just wanted to ask whether because these advances are given one, two, three years ago and therefore they have fallen off and therefore the average is lower, is that how it was because the same case of Rs. 2500 Crores and Rs. 525 Crores as well, so that was the first question. Second question if I may ask on the this slide is, there is a sharp decrease in the number of accounts between December and March from 381 Crores, I am talking about more than Rs.100 Crores, from 381 Crores to 340 Crores?

V. G. Mathew: That is true. One of the things that we are doing is the only portfolio which has been giving some trouble seriously was the Rs.100 Crores and above portfolio, there has been very sustained effort and bringing down the individual exposures, now I am not exactly saying that this is the average ticket size is exactly correct that I will not comment that at the moment, what I can tell you is the top accounts if you see there, we had exposures as big as Rs.300 Crores, Rs.400 Crores in certain cases or slightly more than that in some cases where we have been able to bring it down to more than 50% of that or may be closer to Rs.150 Crores today, so there is a sustained effort that has been going on in terms of reducing the exposure in these accounts that is there that is going on very regularly and that is also helping us quite a lot and the more important thing is what you can see is over the last year and if you take several years back also this portfolio has not been growing significantly. In fact, actually there are repayments coming in we are just about filling in that portion may be diversifying into another account in the same sector that kind of thing, but otherwise we are not giving money to the same people quite a lot that is that we have been trying to do in that sector number wise we will once again check and tell you the exact position.

Vinayak Kanvinde: Thanks. No more questions.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Aetna Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity and my apologies in advance for some of the comments and questions that I am going to make. It is more my frustration on misplaced faith in the management and assessment of the management performance. You have been talking of your performance, now the first thing is your preprovision operating profit that has fallen from Rs.1480 Crores to Rs.1240 Crores this year, which is irrespective of NPAs Rs.250 Crores, this fall is quite a lot. You have the lowest ROA in spite of no real NPA problems now and therefore you are not talking of ROA target, two years ago you had said that you would do 1% plus ROA. Your NIM is lowest at 2.4% amongst all private banks and you have the lowest CASA and lowest lending yields, you borrowed Tier 2 capital at 11.75% and you are lending at 9% I mean I really do not know what is your plan to improve the functioning of the bank. Thank you.

V. G. Mathew: To come to the first point that is operating profit, operating profit between the two years, the difference is Rs. 242 Crores precisely. Now the explanation is treasury, which had Rs.180 Crores last year has contributed Rs. 120 Crores this year. There is a decline of Rs. 60 Crores. We had a sell off priority sector lending loans that is about Rs. 89 Crores income we could get last year, we were definitely looking at even now priority sector loans to sell, but the market is not available for that therefore it has come down to Rs. 32 Crores there is a decline of Rs.57 Crores in that. Other one offs were around Rs. 86 Crores last year, this year it is only Rs. 25 Crores there is a difference of Rs. 61 Crores, so on the income side, there is a decline of Rs. 178 Crores and on staff cost there is an increase of Rs. 108 Crores around, some of which is as I mentioned sometime back slightly on the higher side and because of incidence of higher gratuity, filling up of some of the pension funds because of the interest rate difference, so the total divergence can be easily explained by these two numbers. Now on each one of them we are seeing an improvement and we are working on it. Treasury, this year is definitely expected to do much better than last year because interest rate scenario is definitely more positive for treasury part of it. Priority sector lending certificate is an opportunity available, we are ready for that but then it all depends on the market, we are not sure about it, but instead of that at least on the income side, we are expecting significant gains to come from the insurance for which we have done many tie-ups and all those things are giving a better traction on the ground. We have done that in the last one year and there is definitely improvement on the life insurance side, it is giving us improvement there, our technology and technology based products are giving us higher income that we have mentioned and similarly we are also expecting some interest on the IT refunds during this year. As far as the staff cost is concerned, we believe this kind of one offs are not coming, therefore we believe that the operating profit will continue to increase in a normal manner that is the first part of it. Now the second part as far as the ROA is concerned.

Tushar Sarda: None of the other banks have seen a fall in operating profit, yours is the only banks, which has seen 20% fall in operating profit, when you are trying to justify with all this reason?

V. G. Mathew: Now we are giving you the explanation of what happened.

Tushar Sarda: You can give explanation but the fact is I have figures of all the banks in front of me and nowhere I have seen 20% fall in operating profits, you are not even talking of the NPAs or the provisioning part, so at the operating level itself the performance is down by 20% which is really difficult to justify whatever means you want to say and these are the growth in the balance sheet, deposits have grown from Rs.72000 Crores to Rs.80000 Crores in spite of that PPOP has fallen by 20%.

V. G. Mathew: That is what I mentioned the PPOP has been impacted only by certain things, which are one off, related to this year

Tushar Sarda: You have to appreciate 20% is a huge fall, it is not even flat, actually degrowth.

V. G. Mathew: We appreciate that that is one of the reasons why we mentioned that at the outset itself, it is there and we are also explaining why it is so and why we are expecting that the position will improve going forward.

Tushar Sarda: Okay.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: Lastly from my end I think just on the margin side, if you could just give some colour how we are in terms of FY2020, we have been kind of targeting a higher number than what we are reporting, so what is the expectations there for FY2020?

V. G. Mathew: On the NIM as we mentioned we are working on three, four areas. One of course is even on the purer credit side whether now that we are having a fully centralized platform and we are fully on a committee based approach whether we can take slightly less collateralized kind of loans as compared to what we have been doing today, for example as we mentioned in the case of many areas, many of the traders and segments like that we are insisting on 100% collateral security, so instead of that we may be looking at a lower value going forward that is one side and we have the capacity to manage that kind of the portfolio because of the centralization that is available for the entire underwriting one side, second because of the collection hub that is functional, the recovery and monitoring department which is able to now reach out to many of the customers very easily, so we are in a position to look at this in a slightly more relaxed manner as unlike what we have been doing earlier that is one side of it. Second side as we have said on the liability side, it is important that we do not depend on purchase liabilities to the extent that we are dependent upon this year and that alone has created a 50-basis change as far as the purchase liabilities are concerned, so that we are try to reduce by going in for more retail loans that is one. Thirdly, the CASA ratio we are trying to improve. CASA growth is even today at a reasonably respectable rate of 24%. We are trying to improve that also. So, with these things we expect there will be improvement in the margin. The other side is that which is a benefit that is likely to approve to us that is the large NPAs which you are coming up earlier, which impacted the interest by way of write downs will not be there going forward.

Haresh Kapoor: Sir just after doing this maths that is just mentioned on these variables, what would be the range that FY2020 would setup like?

V. G. Mathew: We are looking at least 15 to 20-basis points improvement.

Haresh Kapoor: From the total number of 2.4, from which number are you looking at 15-basis change?

V. G. Mathew: Today in any case because it is not very correctly talk about 2.65, so we should be talking about 2.5 and may be another 15-basis therefore we are talking about 2.65.

Haresh Kapoor: 2.65 for the entire year that is FY2020?

V. G. Mathew: That is what we are looking at.

Haresh Kapoor: Thank you Sir. Good luck.

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

Pranav Gupta: Just for clarification, you said you borrowed two bonds at 11.75 right?

V. G. Mathew: Our borrowing is for the Tier 2 bond.

Pranav Gupta: Tier 2 at 11.75 semiannually?

V. G. Mathew: Yes.

Pranav Gupta: Thank you.

V. G. Mathew: It is Tier 2 bonds basically comprising Tier 2 bonds not for funding the liability, basically for shoring up capital.

Pranav Gupta: Thank you.

Moderator: Thank you. The next question is from the line of CG Philip from AXA Securities. Please go ahead.

CG Philip: Good morning Sir. I had this question what kind of retail loan book growth that we could see in the next couple of years and could we chosen by which particular segment?

V. G. Mathew: The retail growth will continue to be more than 30%. Retail will grow at more than 30%, which is 29% of the book today it will grow at more than 30%, MSME will grow at around 20% and agri will grow at around 15% to 20% because the last two centralized was agri and therefore we are expecting there will be some more lag before the full swing comes in, so the target growth rate otherwise is around 20%, so agri which is around 14% of the book will grow at around 15% to 20% and the mid corporate that is Rs. 25 Crores to Rs.100 Crores that also will grow at around 20% while the top syndicated debt etc., there may not be any growth at all in fact there could be repayments.

CG Philip: Thank you Sir.

Moderator: Thank you. The next question is from the line of Neha Ganatra from Neha Ganatra from Shubham Ventures. Please go ahead.

Neha Ganatra: On the outstanding security receipts and how much provision you have provided as of now or any further provisions you need to provide?

V. G. Mathew: SRs are 1285 in terms of book value, provisions are Rs. 279 Crores and net asset value therefore is Rs.1006 Crores. We had an incidence of high provision of around Rs. 250 Crores on one tranche, what we sold out in March 2017, Rs.1776 Crores which we sold out in 2017 we had incidence of higher provision in September 2017. Now we are not sure it is already carrying more than 50% provision is available on that portfolio, but still because there are certain IBC accounts in that and where the resolution pattern is not fully clear to us, what exactly would be the position on that we are not clear at the moment. The worst-case scenario is the incidence of provision on that.

Neha Ganatra: Normally we are planning to provide also on that side?

V. G. Mathew: We have to provide for the entire one, if there is an incidence, but we are very keenly watching, we are viewing that portfolio, we are also trying to understand from the rating agencies who are evaluated, how they look at it and we will accordingly make provision, there is no other way, whatever provision is there, that is what we have made in September 2017, we will do that if it is required.

Neha Ganatra: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. V.A. Mathew for closing comments.

V. G. Mathew: Thank you very much. Thank you very much for your active participation. We hope we have explained the position clearly. In case there are any further clarification that is required, please contact us specifically the CFO or DGM, Investor Relations. Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraints we could not take further questions and hence we conclude the call. On behalf of South Indian Bank and IndiaNivesh Securities that concludes this conference. Thank you all for joining us. You may disconnect your lines.