"South Indian Bank Q4 FY-20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Bank 4Q FY '20 Results Conference Call, hosted by Spark Capital Advisors India Private Limited.

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As a reminder, all participants' 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhinesh Vijayaraj of Spark Capital. Thank you, and over to you, sir.

Abhinesh Vijayaraj: Thank you, Vikram. Good morning, everyone. On behalf of Spark Capital, I welcome you to the Q4 FY '20 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 very much. A very good morning to all of you and thank you for joining for the South Indian Bank Q4 FY '20 Earnings Conference Call. We hope that you and your family are safe and healthy. We would like to extend our gratitude to all the health care workers, sanitation workers, police and other essential service providers and everyone who has continued to work to keep our society functioning and meet our daily needs for their immense contribution.

I would like to appreciate the efforts of our employees who have shown strong resilience and the ability to adapt to changing circumstances. The health and well-being of our employees and customers and business continuity is of utmost importance to us. In order to ensure that no interruptions occur in any of the business activities, we have set up acute response team as part of business continuity plan.

The employees were given work from home facility as a safety measure with adequate IT infrastructure and enhanced cyber security measures. 98% of the branches and ATMs across the country remained operational during the lockdown period following all precautionary measures as per the guidelines.

When it comes to the moratorium, the bank followed an opt-out policy for availing loan moratorium. The loans under moratorium were approximately 36% of total loans. Bank's provision coverage ratio has improved markedly from 42.46% to 54.22% during the year.

While announcing the results for the Q4 of FY 2019, we have given a guidance of improving the PCR to 60% in a phased manner within a span of 12 months to 18 months. We have reached 54% of PCR in 12 months period. We have continued to focus on containing future slippages and improving recovery and upgrades to achieve our stated goal of reaching PCR of 60% in next 6 months.

Now 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 continues to be robust in Q4FY20. We have achieved strong successes across our stated strategies of strengthening margin improvement, moving towards a favorable loan mix and recognizing the last of the strength in our corporate loan book.

The bank reported profit after tax of Rs. 105 crores for FY '20. Excluding the one-off extraordinary provisions on SRs and for COVID-19, the profit after tax would have been Rs. 353 crores for the year, and Q4FY20 would have registered a net profit of Rs. 104 crores, excl. the extraordinary provisions on SR’s & for Covid-19.

We continued to expand our non-corporate portfolio, particularly in the segments of retail, gold and agri loans, which now form 71% of the overall loan book. As of 31st March, 2020, the total business for the bank stands at Rs. 148,558 crores. Advances grew by 3% to Rs. 65,524 crores, driven by continued robust growth in agri loans, retail and MSME segments, while the corporate loan portfolio declined.

Retail loans grew by 15%, primarily driven by increase in our desired segments such as mortgages, gold loans and auto loans. The share of corporate loans declined from 34% as of March 2019 to 29% as of March 2020.

Deposits, excluding CDs, rose by 10% to Rs. 80,700 crores. CASA deposits increased by 7% to Rs. 20,760 crores. CASA ratio is 25% of the total deposits. Gross NPA ratio remained stable at 4.98% as of March 2020. Net NPA ratio improved by 11 basis points to 3.34%. Net interest income for the quarter stood at Rs. 596 crores, registering a growth of 19%. Net interest margin rose to 2.67% in the quarter as against 2.46% in Q4 FY '19. On a cumulative basis, NIM increased from 2.58% to 2.66% during the year.

Other income for the quarter increased by 67% to Rs. 394 crores. Our core transaction fee contributed Rs. 65 crores, while treasury income increased to Rs. 226 crores. As mentioned in the earlier calls, we have completed 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. 533 crores as against Rs. 328 crores in Q4 FY '19, an increase of 63% driven by better margins and treasury income. In Q4 FY '20, the cost-to-income ratio improved to 51.1% against 55.4% in Q4 FY '19. The business per employees rose by 9%, while business per branch rose by 11%. We expect positive impact on OPEX ratio as we gain more from operating leverage from our centralized operations, higher fee income and increasing productivity from existing branches.

The bank has made COVID-19 related provisions of Rs. 76.5 crores against standard assets to strengthen the balance sheet. Based on RBI guidelines, the bank is required to make a provision of 10% in respect of all loans overdue as of March 1, where moratorium has been granted over 2 quarters. Loans that were overdue for more than 90 days as of March 31, but have not been classified as nonperforming, were Rs. 207 crores. Of these loans, the banks have made full 10% provision that is Rs. 20.7 crores in Q4.

Additionally, as a prudent measure, the bank has provided Rs. 55.7 crores to meet any future impact of the pandemic. The above total provision of Rs. 76.5 crores is not considered in NPA calculations. Overall provisions increased by 230% to Rs. 724 crores in Q4 FY '20. These provisions included loan loss provisions of Rs. 360 crores, provision towards MTM on security receipts of Rs. 255 crores and Rs. 76 crores of provision towards COVID-19 impact.

In Q4 FY '20, gross slippages amounted to Rs. 332 crores, which were primarily contributed by the NBFCs, food processing and engineering sectors. Our overall capital adequacy stands at 13.4%, while the core CRAR is at 10.79%. We had raised additional Tier 1 bonds amounting to Rs. 500 crores during the year.

The bank has a wide geographical presence with 875 branches, 54 extension counters and over 1,400 ATMs. To summarize, the bank continues to focus on strong business growth in the retail, agri and MSME sectors; favorable loan mix; and improved asset quality. The bank will closely monitor the impact of COVID on our business and defers the outlook closer to December 2020.

With this, we open the floor for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Amit Rane from B&K Securities. Please go ahead.

Amit Rane: I just wanted to understand our calculation methodology for our moratorium book. So have we included those customers who have paid even a single EMI in our moratorium calculation?

V. G. Mathew: Yes. We have included everyone. What we have done is we have offered moratorium to all the customers. Now out of the moratorium customers, which is coming to 36% of the total loan book, actually 34% of the customers have liability accounts where 1, 2 and more than 3 installments of the dues available as balances. We have not excluded that. When we say 36%, it is 36% of the people who have asked for the moratorium, and we have not eliminated anyone.

Amit Rane: Okay. This moratorium is as on which date?

V. G. Mathew: This is 31st March 2020 number, and the current number is also the same. It keeps on coming down. That is a different matter. Every day, something keeps on coming down. I think the number we have shown, I think is Rs. 932 crores. The moratorium extended is Rs. 23,862 crores, which is 36.41%.

Out of them, the SMA 0, 1 & 2, is coming to Rs. 932 crores, of which we have taken a standstill benefit of Rs. 207 crores, and we have made a provision of 10% upfront. The Rs. 932 crores number, including this Rs. 207 crores, keeps on coming down every day.

Amit Rane: Right. So what is the current number at?

V. G. Mathew: Rs. 912 crores or so.

Amit Rane: Okay. And sir, can you give the reason for why we have seen a drop in the current deposits on a QoQ basis?

V. G. Mathew: Basically, there were withdrawals in that period. Obviously, there is significant pressure on people, liquidity pressure on some of them. So they have done that. Plus when it comes to, Thomas, would you like to add?

Thomas Joseph: There were some high-balance government business accounts also during December, which maybe for COVID-related reasons they have withdrawn. That is one of the reasons. And in the business accounts also, because of low level of cash flows, there has been some withdrawals.

Amit Rane: Okay. Sir, finally, we have raised some Rs. 5 billion of Tier 1 capital. At what cost we have raised it?

V. G. Mathew: 13.75%.

Participant: Okay. And what is our CET1 number?

V. G. Mathew: 10.80%.

Participant: 10.80% is CET1?

V. G. Mathew: CET1 is 9.84%, that is core CRAR which is 10.79%.

Moderator: Thank you, sir. We have next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: I wanted to understand, in terms of the assessment of the potential stress that can come in after COVID, especially with respect to sectors like tourism, where Kerala has a good exposure. So what would be your exposure to the COVID-impacted sectors? And how and what is the feedback that we are getting from the customers? Because in case the provision does not pick up for, say, next 9 to 12 months, what is the outlook on the asset qualities on this basis?

V. G. Mathew: Yes, I will. This is an elaborate question. Anyway, I will mention it in 2, 3 steps. One is we must appreciate that we have practically very little unsecured loans in our entire portfolio. We follow a policy of having secured business and, in addition to that, each business is carrying significant amount of collateral security. That is one point we have to keep in mind, and then we have to remember that, like, we do not have practically anything like completely unsecured business, we do not have anything like the credit card receivables funding and all those things in our system.

Now the impacted sectors, according to us are the small NBFCs with exposures below Rs. 25 crores, and that number for the bank is Rs. 115 crores. And nobody has asked for SMA, what you call the standstill benefit in that account. There is no SMA 0, 1, 2 in that segment. Travel and tourism and resorts is Rs. 1,052 crores, and moratorium in that one is Rs. 631 crores.

Again, when it comes to SMA, it is just Rs. 5 crores, and standstill benefit has been taken only on Rs. 4 crores. Professional services, which is Rs. 4,545 crores, that is where you have the hospitals, the medical colleges, educational institutions because they are all in various stages of reopening at the moment. And therefore, the moratorium there is Rs. 2,187 crores. But again, SMA 0, 1 is only Rs. 7 crores and standstill is just Rs. 3 crores.

Construction industry, Rs. 3,106 crores and moratorium is Rs. 1,157 crores and SMA balance of Rs. 51 crores, and the benefit has been taken only for Rs. 4 crores. Transport operated is very limited at Rs. 119 crores, and moratorium is only Rs. 24 crores, and SMA status as well as standstill are for just Rs. 2 crores each. Gems jewelry, Rs. 585 crores is the total exposure, Rs. 87 crores is the moratorium, and there is no SMA 0, 1, 2 or standstill. Commercial real estate is Rs. 1,086 crores.

There, the portfolio that has availed the moratorium is Rs. 345 crores, and there is no SMA 0, 1, 2 or standstill avail in these accounts. Textiles, Rs. 3,095 crores is the total exposure, Rs. 725 crores is the moratorium and SMA 0, 1, 2 status is Rs. 7 crores, and standstill is Rs. 4 crores. So that is the complete description of our accounts.

Rohan Mandora: Sure, sir. This was pretty helpful. And sir, just on the legacy book right now, as you are sitting, any accounts which we are posing will immediately slip in, say, next 2 to 3 quarters irrespective of the COVID situation panning out?

V. G. Mathew: We have taken a good look at some of the accounts, and they are I mean, otherwise, this quarter, the NPAs accretion would have been practically nil. But we have taken a hard look at all our portfolios to try to figure out if anyone is going to face additional pressure because of COVID. So those accounts we have already made NPA in this quarter. Now that is how the Rs. 332 crores coming in. Now to again answer your question very specifically, I am not able to say clearly about the one account.

I think we have been talking about this account because it is low-rated sometime back also. The exposure is large and, therefore, I would very much like to talk about it. It is Rs. 422 crores exposure, belonging to a very reputed and highly resourceful group operating out of Kolkata, running a business of cement and tire, substantially cement and maybe one-third of the business is tyre. They are, at the moment, BB rated. And we have taken that account.

And because they have taken the standstill benefit, we would like to flag that account as a potentially weak account, irrespective of their resource and capability. And they are planning to infuse significant amount of funds through certain fees, et cetera, but we have not seen the final resolution of that at the moment and, therefore, we have already marked the 10% provision for that account also. That is where we stand.

Moderator: Thank you, sir. We have next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, given the current situation, how do you see like we have been talking about Rs. 200 crores per quarter kind of a provision for next 4 quarters. Now given the change in scenario, how would you want to revise it?

V. G. Mathew: See, the number, if you are asking me about the COVID scenario, one most important thing that we need to remember is the staggering corporate slippages that we used to face repeatedly quarter-after-quarter, that business is getting virtually over barring the account which I am talking about today and which I have been flagging for some time now as weak accounts. I do not know they have made a resolution. They claim that it will never become NPA, et cetera.

That is a different matter, but as far as I am concerned, this is the number that we would like to talk about. Then if you take the Rs. 932 crores, this account alone is Rs. 422 crores. So the remaining accounts are coming to maybe around Rs. 500-odd crores, and even that will keep on coming down is our expectation. And that is the visibility of the account, which is stressed asset today. Every account which has asked for moratorium and within that which was on a DPD basis, has been flagged in this group.

And if they pay even one installment, automatically, it will become upgraded, but then we would like to take a conservative view. So this is the kind of slippage that can happen. So therefore, our general perception that our slippages were more like 1.5% of the total loan book of Rs. 65,500 crores. So that is the kind of number, 1.5% to 2% is the kind of number, that is around Rs. 1,000 crores to Rs. 1,300 crores maximum is the number that we are looking at for the whole year.

Deepak Poddar: So 1.5% to 2% of slippages we are looking at. So maybe in the closer to maybe Rs. 1,300 crores to Rs. 1,500 crores, right, earlier which we are targeting about Rs. 800 crores to Rs. 1,000 crores?

V. G. Mathew: Yes. I mean last year, we were very clear that we would be around Rs. 1,000 crores max. And perhaps we would have been very close to it, but then because of the COVID anyway, we have taken some of the accounts. Because they are all eligible for standstill. But then we decided that looking at the COVID scenario, their ability to come back will get restricted and, therefore, we wanted to treat them as NPA.

That is what we have done in this quarter. Rs. 332 crores we have taken out. So it is a good treatment that we have done. So from the present weak accounts, this is the actual position that we have described now. So I would continue to think that about 2% is a very good number for us and, on that basis, we should work and that would be maximum around Rs. 1,000 crores to Rs. 1,300 crores kind of number is the max. That is what I am talking about.

Deepak Poddar: So sir, in terms of provision outlook or a credit cost outlook like Rs. 200 crores per quarter, so how do you see that basically? Because the increase in your slippage is kind of marginal, right?

V. G. Mathew: It will. From the Rs. 200 crores that we were looking at, it may become Rs. 250 crores.

Deepak Poddar: And how do you see your growth outlook panning out? Like we at all are seeing growth panning out or it is difficult to kind of comment right now?

V. G. Mathew: We are finding growth opportunities. For example, gold definitely is growing across the regions. That is one area where people will leave money. Thankfully, we have our presence. We have a portfolio. We are growing there. Gold is already 12% of the total loan book. We are stably growing there. In the agri, the rural sector, we do not have too much of a problem. Our agri portfolio seems to be folding up very well. So obviously, that is one area where, again, the crop season begin and, obviously, they will need money, and the markets are opening up. So definitely, we will find reasonable traction there.

MSME is one area where, okay, in March in Q4, definitely, we took a step back because even the sanctions, which we had already run in the system, we decided that we would require a recalibration in the COVID scenario. So therefore, there has been a definite slowdown in MSME. But I am sure as it opens up, there will be some opportunities there also.

Then the pure retail, obviously, including gold, there will be opportunities, and people will continue to buy homes, continue to buy vehicles. Only thing is we are not looking at 25%, 30% kind of growth that we had registered sometime back in those areas. Again, it will come down to maybe more like 10% to 15%. That is the kind of growth that we have seen in these sectors earlier also.

So maybe more like 10% to 15% is the growth in these sectors. What normally pulls down the overall growth is the de-growth from the corporate business. So I think the corporate business has come down well below the targets that we had set for ourselves as 30%. We are at around 28% kind of thing. And if you look at the large corporate portfolio, that is more than Rs. 100 crores, 2014 it was Rs. 11,000 crores plus. Today, we are talking about Rs. 6,500 crores. So we have done that recalibration. Going forward, we may not require to do that.

Therefore, when somebody repays and he wants further facilities, we can definitely reinstate the limits. That is something we have deliberately avoided last one year because the desire was to bring down the Rs. 100 crores and above portfolio significantly. So that we have done also. So now that, that recalibration has happened, that sector will not pull down the growth, overall growth. That is what I believe. So we then look at something like growth rate between 10% and 15% for the overall portfolio.

Moderator: Thank you, sir. We have next question from the line of **Krishnan P. from India Advisory**. Please go ahead.

Krishnan P.: When I look at the metrics in the investor presentation, I think they are all very good, CASA growth, growth in PCR, cost to income, degrowth in loan book. But there has been a significant shareholder wealth erosion over the last few years. So my first query is, what is the bank's growth aspirations and vision over a 3-year period in our own growth and further enhancement and performance metrics that can restore the erosion in bank's value?

V. G. Mathew: Nice that you raised that point. Our aspirations are very clear. We always wanted to grow 20% plus in the loan book without any problem. And we were on that kind of a path, very close to that path. Only issue that came up was our desire to control the corporate loan book. A large corporate based or syndicated loans base kind of growth, we do not want again. We are very clear about it. So that is the portfolio, which will be very closely watched, supervised and controlled.

Therefore, the growth has to happen from the MSME, from the agri, from the retail. And pure retail today is 32.32% of the loan book, and it is growing. And similarly, the entire centralization is over in the bank, every single data point is available today, is working beautifully, and the structural changes that we wanted everywhere in the credit vertical, everything has taken place.

There is a very good marketing outfit, which is working very well. And with all these things, we should be able to grow normally continuously. And that is what we are looking forward to because the correction that we were looking for in the corporate sector has already happened. That is one side.

Secondly, the kind of NPA pressures that we have faced over a period of time, that is completely getting behind us today. So with that, we are talking about a scenario in which we have a very, very robust platform for growth and expansion. And of course, COVID has created an uncertainty today. That is fine, but it will go away. I am very sure our growth targets of 20% plus will definitely work out without any problem.

Krishnan P.: Okay. The second query which I have is, I also do find that I think treasury income is a very key driver for us, but I think without treasury income, the bank will incur an operating loss. So is there a strategy to reduce dependence on the treasury income to drive profits? And please correct me if I am wrong.

V. G. Mathew: Treasury income is I mean if we are running a Rs. 21,000 crores kind of a book, if you wanted to book something, we booked. The idea was very clear, book the profit and use it for bringing up the provision coverage ratio. This is one number which we were committed to improving to 60% within a period of 18 months when we announced the Q4 of last year. It was a pretty low number at 42%. We said, this we will correct. So we have gone down that path very, very strict. That is what we have done.

So that is the only reason why we have used an opportunity to take out something for the treasury, that is all. Otherwise, the treasury continues to give us between Rs. 150 crores to Rs. 250 crores. In a good year, it will give us Rs. 250 crores. In a bad year, it may go down to as little as Rs. 150 crores. That also depends on, again, how the equity markets behave because there also the depreciation can come significantly.

So now that there is a certain opportunity for booking a little bit of profit in the treasury in the declining interest rate scenario, definitely, we have taken advantage of that and nothing more than that is there in that. It is not, we are not definitely overly dependent on treasury at all.

Krishnan P.: Okay. One final question from my end. If it is possible, do you think you can share with us the cumulative data of last 5-year provisions created? And what was recovered and what was the absolute cumulative write-offs based on the provisions?

V. G. Mathew: We can give you that data. Maybe we will do it offline because I do not have it readily with me exactly how much is the write-off. The provisions, of course, I mean, the data is available. We will note down, and our Mr. Vijith will get back to you.

Moderator: Thank you, sir. We have next question from the line of Sapna Laha from Bajaj Holdings. Please go ahead.

Sapna Laha: Sir, what is your equity raising plan going ahead?

V. G. Mathew: Yes. Our CRAR is 13.4% as of now. I agree that you would think that it is not a particularly good number. But the fact is, last 5 years, we have managed with shoestring capital. And this may be the largest, the best CRAR in the last 5 or 6 years. Even in 2014, I think it was well below 13%. So that is the position. And there is enough capital right now, if the growth is only going to be 10% to 15%. And I would not like to give a particularly bullish growth number at this point of time, although our desire is always to grow at least 20% plus.

But then in the current environment, I am not able to give a clear idea that this growth is going to be well above 15% at the moment and, therefore, there may not be any immediate need for capital. And obviously, there are opportunities available, depending on the market perception. Obviously, at this current pricing, it is a little inconvenient to raise additional money immediately. But definitely, we are looking at all opportunities. And we believe that the perceptions also will definitely change.

Sapna Laha: So with this 10% to 15% growth, this 13% capital ratio, it will be sufficient for how many months?

V. G. Mathew: It will take a growth of 10% to 15% without any problem for a year, without any problem.

Sapna Laha: For a year?

V. G. Mathew: Yes, for a year, definitely. But I am not saying that we are ruling out every capital raising opportunity. No. That is not the plan. Definitely and this is not the best way of working also. That we know. We have been doing it like this, but we will definitely look at opportunities. And as the market improves, definitely we will look at the opportunities. Multiple opportunities are and we will definitely look at that.

Sapna Laha: And is there any plan to raise Tier 2 capital?

V. G. Mathew: Not at the moment. We will look at all options. And preferably, it would have been much better if we are going for a proper QIP. That is the right thing to do. Anyway but we will see. But we will look at all opportunities as it emerges.

Sapna Laha: And what is the succession plan right now?

V. G. Mathew: It is completely on track. Recommendations have gone to Reserve Bank of India for two names according to the rules, and we are absolutely confident that the approvals will come well in time because we are completely on track on that in terms of getting the recommendation. So all that is completely on track. Absolutely no difficulty on that.

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

Jai Mundhra: I have a couple of questions. So first on moratorium data. So you said this data is as of March 31st, is it correct?

V. G. Mathew: This data is as of today.

Jai Mundhra: So Rs. 23,862 crores number is as of June, let us say, 25th. Is this correct?

V. G. Mathew: Yes.

Jai Mundhra: Okay. So now, sir, just to understand how it has been trending, so if you can qualitatively tell us what was the peak and then how it has trended? Or it has remained more or less similar in April, May or June?

V. G. Mathew: So that is the whole point. We offered it to everyone because that is the rule of the RBI, and it is an opt-out scheme that we have offered. So obviously, the number to begin with, immediately, large number of people would opt for it because that is the safest thing to do. So it was something like around 50% kind of number. That today stands at 36.41%, and that is what it is.

Jai Mundhra: And sir, how do I read this number, current balance of SMA 0, 1, 2? So this is Rs. 932 crores, of which, let us say, those who have taken standstill benefit is Rs. 200 crores. So rest are basically SMA 0 plus 1. Is that the understanding?

V. G. Mathew: Exactly. They are SMA 0, 1, 2 balances, and only Rs. 207 crores required standstill benefit to keep it as standard on 31st March, 2020.

Jai Mundhra: Okay. And now, again, on this slide, wherein corporate SMA 0, 1, 2 balance is Rs. 469 crores, but there is no standstill. And in question to one of the earlier questions, you had mentioned that Kolkata-based conglomerate, they are under standstill. So how do I reconcile this?

V. G. Mathew: They are not under standstill. They do not require standstill on 31st March.

Jai Mundhra: But still you have made provision of 10%?

V. G. Mathew: I am just making it very transparent because this question, I am sure, many of you would have asked last quarter also or maybe even before that because company's ratings had come down. And so obviously, we are very clear that we wanted to flag that and also provide 10%. That is what we have done. It does not require standstill on 31st March.

Jai Mundhra: Correct. And if I look at the corporate rating, right, so corporate external rating above Rs. 100 crores below BB and below is around Rs. 650 crores, roughly, 10% of Rs. 6,500 crores?

V. G. Mathew: Right.

Jai Mundhra: This Rs. 432 crores is, of course, there, right, in Rs. 650 crores?

V. G. Mathew: Yes. I will give you absolute data if you want more about it. But yes, everything is included. Yes. So we are talking about this cement-tire conglomerate Rs. 422 crores. Then there is a hotel project belonging to one of the leading gold NBFCs of Kerala, that is Rs. 109 crores, absolutely no question of slippage.

Then there is a food processing company dealing with the bank for maybe last 25 years. That is around Rs. 78 crores balance as of now. So all these numbers are adding up to around Rs. 609 crores. That is the one that is less than BBB rating.

Jai Mundhra: Sure. And there is no irrigation account here now?

V. G. Mathew: That is a very small amount. I think how much is the exposure, maybe around Rs. 38 crores or something?

Management: Rs. 38 crores.

V. G. Mathew: Around Rs. 38 crores. So it is not coming into this.

Jai Mundhra: Okay. And secondly, sir, if you can give because you mentioned the gold loan is one focus area, and I believe this is the right strategy also, but what is the total gold loan of the bank? Because you have given separately retail, agri and SME, but what is the total gold loan of the bank?

V. G. Mathew: Total is around 12%. I will just give you the amount. Gold loan total is Rs. 7,816 crores.

Jai Mundhra: And how it has?

V. G. Mathew: It has grown YoY 26%.

Jai Mundhra: Sure, sir. And the last question, sir. So if you can elaborate your decision to step down, that would be much helpful?

V. G. Mathew: Yes. Because my contract is getting over on 30th September. That is the most important thing.

Jai Mundhra: You can renew, right?

V. G. Mathew: Yes. But I think I have told this forum also earlier that I would not be there beyond two terms. And I believe a bank with 33 years of average age should not be led by somebody who is more than 66. So I think that is the only thing. So it is perfect. And so that is a right timing, and we are getting a particularly good hand for handling this job and, therefore, it is a very good opportunity for the bank to move ahead on the succession plan.

Jai Mundhra: Yes. And sir, if possible because if someone outsider comes to this bank, there is a lot of opportunity for cleanup. Frankly speaking, your PCR, the way analysts would articulate is specific PCR is the lowest, which is in 30s. So if I mean is that a possibility that even an outsider can come and become MD, CEO?

V. G. Mathew: Yes, it is a possibility, definitely a possibility.

Moderator: Thank you, sir. We have next question from the line of Sreesankar Radhakrishnan from JBSN. Please go ahead.

Sreesankar R: Sir, my question is, our basic problem or increased problem has been the high level of slippages in the corporate loan book, and most of the corporate loan book has been pretty unsecured to a certain extent. So have we seeing any recovery on that? I am asking about in terms of the large corporate loans that we have. What is the loan loss we had in the corporate that we have? And if you can share the same thing for retail, that would be great.

V. G. Mathew: Yes. So it is very obvious. We are not carrying a slide on that at the moment, but it is very, very obvious that if you look at it, our corporate journey started in the year 2010, and it continued up to calendar year 2014 fully. So we are talking about some 5 years of significant corporate growth. And it is very, very obvious that a lot of it have become NPA, and we have transferred a whole lot of it into ARC. We have written off a whole lot of it.

So if you look at the whole NPA scenario, around 75% of the NPAs are coming only from the corporate book, and large corporate book, in fact, not even from the corporate book, only from the large corporate book. So that is the position. And in terms of recovery, if you are asking me about that, unfortunately, the recovery in areas like EPC contractors, et cetera, are very, very negligible. It is a reality.

And on the other hand, if you look at accounts like a steel account, which is now under resolution, I think, which requires only an approval from one of the High Courts or Supreme Court, there, actually, it is sold out to an ARC. There, the settlement of this account alone will bring down the provisions by something like Rs. 50 crores, Rs. 60 crores.

So such opportunities are there. And similarly, from some of the accounts, which are otherwise I mean in the case of EPC contractors and projects like that, we may not get in a recovery, but on the book, at the moment, we have got a couple of road projects, for example, which are NPA more than Rs. 100 crores each. I am very sure that they were annuity projects. Once we are able to force a settlement with the promoter as well as the NHAI, there can be significant recoveries coming out of that.

Sreesankar R: Sir, if I extrapolate slightly more on this, in your large corporate book as well as on SRs, there is a large amount of what you call construction companies plus everything which has gone in, which, at every point of time, every six months when the revaluation gets done probably is valued downwards because the value is depreciated. So we have seen a significant write-off coming from it, provisioning coming from it also. I am trying to understand, to what extent we will have to continue to keep providing for it on the asset?

If I am not mistaken, you had done a bouquet of assets sold to ARC. That included, in some cases, assets which have strong backing, asset-backed securities. So I would expect probably, unlike in the large corporate book, not to see huge loan loss defaults on the assets. So can we have some color on it? Because when you are doing a provision, even your slide, that Rs. 255-odd crores or whatever it is, provision written down on SRs, it does not tell you account-by-account. I am trying to understand how much is left in SRs to get written off.

V. G. Mathew: Yes. There is only one SR book which is significant. All others are very, very unimportant because those numbers are very small. Some of them have been sold at 50%. So there is no issue at all. There is no deflation in value that is possible. The one that stands out is the one that is sold out in March 2017, Rs. 1,776 crores, that portfolio today carries 63% provision coverage. So I would say that is a very, very important number. Anything above 60% is the one that we are looking at as a comfortable provision coverage.

So on the loan book, we know we have to reach 60%. Yes, we are at 54.4% at the moment. So some more provisions we have to do, that we will do in the next 6 months, and it may go to 65% by the end of the year. But on the SR book, which is the most volatile component that has created problems in September 2017, it has created problems now, that is now carrying 63% provision coverage ratio plus. So that is a very important number because a few resolutions under the IBC, it contains very large numbers in the IBC resolution. A few resolutions can definitely give us value.

Similarly, we have made 100% provision in a Bombay-based infrastructure development conglomerate. For their subsidiary, Rs. 200 crores, we have made 100% provision. By any reckoning, even going by the statements made by the government-approved board of that company, they are talking about a recovery of around 50%.

So that write-back will definitely happen over a period of time. But we have made the provision now because it is important to build up the provision coverage ratio, and we will definitely get the benefits in the future. That is what it is.

Sreesankar R: Okay. Sir, again, I am sorry to be on this subject again. But when you say 63% PCR, this is obviously, these assets have been sold at a discount after a haircut. And the haircut is also taken in this PCR?

V. G. Mathew: Yes. Everything is taken because obviously, that provision is taken upfront, 33% was there, I think, to begin with. So now it is 63%.

Sreesankar R: And this includes those annuity projects, et cetera?

V. G. Mathew: No, this does not include. The annuity projects are on our book. There is if you go by a consultant's view, we may get 90% to 100% recovery in one of them. We are not building any of those things into our presentations because that is optimistic kind of an environment, and we do not want to present that. There maybe I mean, obviously, that is where the benefit is going to come to the bank because we have an NPA book, both on the book as well as on the SR side, and we have been making significant provisions in all these areas, and the results will come in the future. That is precisely the case.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, firstly, if you could give our size of the book that is being referred to the cases pertaining to IBC, sir?

V. G. Mathew: Yes, sure. I will just give the data. Just a moment.

Saket Kapoor: And sir, here, we have also mentioned that our PCR is currently 54%. And we are envisaging 60%for the next year?

V. G. Mathew: Yes. We have committed to that actually. We said very clearly, at 42.42% was there, we said it will become 60% within 18 months. So that is why we have done 54% right now because if you have to achieve 50%, then you need to do another 5%, 6% in the next 2 quarters. And so that is what we have done right now. We have provided significantly and completely on track.

Now coming to answer your IBC-initiated account question, we have one major account on our book, that is Rs. 226 crores exposure. We are having a provision of 50% on that. That is under IBC process, long delayed, no resolution seen. This is referred by the consortium of the banks.

Saket Kapoor: Which sector it is, sir, pertaining to?

V. G. Mathew: This is EPC contract, Delhi-based, very famous EPC contracting group. And yes, with a lot of assets, of course. That is an advantage in this. Now again, on the book the accounts referred by other lenders, operational creditors, et cetera, under IBC, there is not a single account which is not NPA. All of them are, of course, NPA and carrying provision. So we have an infrastructure and development company out of Bombay, which is under government administration; we have a housing finance company, again, out of Bombay; we have an EPC contractor out of Kolkata, which are the 3 large advances.

Others are very unimportant, Rs. 3 crores, Rs. 10 crores, etc. So this is where we stand in terms of IBC, references made by external people. And that number is coming to Rs. 494 crores. So the Rs. 226 crores, which is there, referred by the consortium originally and by us and then the Rs. 494 crores, which subsequently came from other areas. And incidentally, this infrastructure development company, we are having 50% provision, and in other cases also, we are having reasonably good provisions. Yes.

Saket Kapoor: So Rs. 226 crores and Rs. 494 crores, that sum total to Rs. 720 crores being the part of IBC?

V. G. Mathew: Correct. I am not saying that all of them have been admitted, et cetera. Yes. I am only giving you the complete list. Yes.

Saket Kapoor: Sir, what is your message to your investors? When things have only deteriorated from every quarter, if we take from Q1 to Q4, so what is the way forward for a small-sized bank like ours? And what is the future that we hold for South Indian Bank going forward?

V. G. Mathew: Now when you said parameters have deteriorated, we also need to see the context. The context is very simple. The problems of the large corporate loans, which we had decided to embark on as a part of strategy for building up the book in the 2010 to 2014 period, we have corrected that course. But these NPAs and you also very well are aware that the entire operating environment has changed in the last 3, 4 years. And in this environment, the recoveries in these cases plus the resolutions, et cetera, are very, very tardy. That is precisely what is happening. But the provisions are very, very fast. So we are doing that.

We have done that. We have done that cleanup substantially. And we are only talking about the cleanup on one side, but the real side what we are missing out is the growth that has been happening on the retail, agriculture and MSME portfolios consistently. We have been generating enough money to make or meet all the provisions every quarter till now. And in this quarter alone, we had a problem of multiple incidences of provision and impacting our profitability.

And every year, we have been putting back close to Rs. 200 crores, around Rs. 200 crores back in the business every year. And we are not dependent on external capital for our growth that we have been showing so far. So now that these problems are all getting over, basically, I mean, we are in a reasonably well placed position to move forward. And our move-forward at all times is in the areas of retail, agriculture and MSME. We have demonstrated that we can grow beyond 20%.

So we have absolutely no doubt about that part. And we have been careful with our CAPEX at all times, and so we know how to manage that very well. So that is the position. And we believe that we have a very sound and stable future, and we also are pretty much confident that one or two weak points, which repeatedly came up in the investors' mind like having a lower provision coverage ratio, that is getting addressed fully today.

Saket Kapoor: Sir, a very small point about this NPA part of Rs. 360 crores, how many accounts constituted to this Rs. 360 crores addition?

V. G. Mathew: Not Rs. 360 crores. If I remember correct, Rs. 332 crores. Rs. 332 crores maybe is the addition. Yes, Rs. 332 crores is the accounts. Yes. So there are from the corporate side, the slippages are, corporate means, for us, anything above Rs. 25 crores is corporate. That is about Rs. 110 crores. Retail, that is below Rs. 25 crores, that is Rs. 221 crores. Anything more you would like to know, I can tell you.

And NBFC account is around Rs. 55 crores; food processing is Rs. 28 crores; engineering is Rs. 27 crores. And that is how the corporate slippage of Rs. 110 crores adds up. As far as agriculture is concerned, it is about Rs. 10 crores. MSME, it is coming from trading firms Rs. 47 crores; basic metals, Rs. 18 crores; food processing, Rs. 10 crores; professional services, Rs. 7 crores; road and road projects, Rs. 6 crores; tourism, hotels, et cetera, Rs. 4 crores; textiles, Rs. 9 crores; other services, Rs. 18 crores; other industries Rs. 5 crores.

Personal segment Rs. 87 crores; housing is Rs. 14 crores; ODAP is around Rs. 64 crores; education is Rs. 2 crores; vehicle loan is Rs. 3 crores; other personal loans are Rs. 4 crores.

Moderator: Thank you very much, sir. Owing to paucity of time, that was the last question. On behalf of Spark Capital Advisors, that concludes today's conference call. Thank you for joining with us, and you may now disconnect your lines.