"South Indian Bank Q2 FY2022 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY2022 Earnings Conference Call of South Indian Bank, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Pritesh Bumb from DAM Capital Advisors Limited. Thank you, and over to you, Sir!

Pritesh Bumb: Thank you, Rutuja. Good morning to all. On behalf of DAM Capital, I would like to welcome the management of South Indian Bank represented by Mr. Murali Ramakrishnan, MD and CEO and other senior management team of the Bank. We will quickly have opening remarks from the management followed by Q&A. I will now hand over the call to Mr. Ramakrishnan. Thank you and over to you, Sir!

Murali Ramakrishnan: Thank you. A very good morning to all of you and thank you for joining us for the South Indian Q2 FY2022 Earnings Conference Call.

We are joined by my colleagues, Mr. Thomas Joseph, Executive Vice President and Group Business Head, Sales; Mr. Anto George T, Head, HR and Admin; Mr. Sanchay Sinha, Head, Retail Liabilities & Branch Bankings; Mr. Leelanand, Head, Treasury; Ms. Chithra, CFO; and Ms. Minu Moonjely, GM, Credit.

We hope that you and your family are safe and healthy. We continue to appreciate the efforts of our employees who have shown strong resilience and the ability to adapt the changing circumstances. With the help of vaccination camps organized in our offices across the country about 96% of the staffs are vaccinated for COVID.

Coming to the macroeconomic factor, the Indian economy started gradually picking up alongside gradual easing of second wave of COVID restrictions since second half of June. The economic indicators like GST collections, IIP, etc., have gradually improved for the last two months. Further the inflation has remained within policy range and RBI continued to hold accommodative view. However, given our big presence in South India and there was a prolonged lockdown in some states the bank saw improvement in business activities from September 2021 onwards.

We are hopeful that a decline in new Coronavirus accelerated vaccination drive, improved customer and business confidence anticipated higher demand in the upcoming festive season among others will further enhance the pace of economic recovery in the coming months.

The bank has undertaken multiple transformation projects starting October 2020 and we are seeing traction in each one of them.

Let me give brief of the major shifts which has happened over last one year. We have brought in the concept of vertical asset structures with dedicated product expert heading the vertical. The full structure with dedicated team has been put in place by end of July 2021 and we have started seeing business gradual improving from September onwards.

The bank had launched few retail asset products in line with our stated retail products roadmap for the medium-term. Our strategy to improve profitability through quality credit by introducing unsecured retail business is showing a good traction.

The bank entered into a partnership with FPL Technologies to launch co-branded OneCard metal credit card. SIB OneCard comes with features such as lifetime validity with a zero joining and annual fee, 100% digital customer on-boarding process, instant issuance of reward point and easy redemption within the app, etc. Given digital banking being one of the focus areas for us, this next-generation credit card is the best product to offer to India's young population. The credit card was initially launched for employees, which has now been extended to our customer base of 65 lakhs. We have issued over 4,000 cards as we speak.

The bank has also launched another high-yielding preapproved personal loan. The personal loan is offered based on the imputed income and various times tested algorithms in tie up with credit bureau. The bank has seen initial success and disbursed over Rs. 100 Crores of personal loans for the month of September. We are launching other pre-approved asset products to augment growth and profitability in the coming quarters.

Coming to branch banking, we have revamped the branch banking structure by bringing in a layer of cluster heads to improve span of control and bring focus on strengthening liability franchise. Further we have identified dedicated vertical heads for branch banking and NR business, which has been instrumental in building strong growth in CASA ratio from 25% to 30.8%. The bank has also been empaneled as an agency bank by the Reserve Bank of India to undertake general banking business of Central and State Governments on behalf of the RBI. This will further augment our robust deposit base by tapping government business.

As far as sales mix is concerned, the bank was predominantly sourcing its business through branches. Recently we have started adding multiple sourcing channels including network of direct selling agency (DSA) and collaboration with fintechs to generate business. We have also launched our new CRM Next which has capability to track the leads end-to-end. This has helped us to track customers on all our digital assets including SIB Mirror+ mobile app and SIBerNet internet banking for better and customized product offering. The bank has also incorporated subsidiary after required regulatory approvals, which is being used to create a pool of direct sales team.

Towards building strong infrastructure for a digital bank, the bank has set up strong data science team with domain expertise to do analytics in the area of assets, liability and collections. A comprehensive framework to monitor the quality of asset portfolio is being implemented with specific focus on yearly delinquencies, collection efficiency, etc. Preapproved offers identified with low risk are also generated through use of analytics, and in collaboration with credit bureaus.

One of the key strengths of the bank is young and professional workforce. We have recruited over 1500 employees across various verticals and roles. The bank has also implemented online Learning Management System (LMS) for competency building of the employees. In order to motivate senior leadership, the bank has revamped its employee stock option plan and brought in the concept of talent pool to create bench for leadership roles.

In order to improve credit monitoring, we have set up robust credit recoveries group which tracks the early warning signals through rigorous credit monitoring exercise. The team also takes care of pre and post disbursement activities gaining better control over the entire loan cycle.

Recovery has been a key focus area of the bank. We have a decentralized collection structure with dedicated regional collection managers for each region. SARFAESI hub has been set up where preparation of approval notices is centralized for all regions, resulting in reduction in turn-around time (TAT) from 60 to 90 days to around 30 days.

The bank has achieved significant strides in digital banking backed by robust technology infrastructure and innovation. The share of digital transaction has been consistently growing quarter-on-quarter and stands at 92.1%. The mobile banking transactions volume has increased by 118% year-on-year to 46 million transactions and contributes about 96% of the total digital transaction volumes. We have been continuously ranked among top 10 digital banks by MietY index.

The bank has been forefront for its strong digital capabilities. This has been further strengthened by launching critical IT system including loan origination system in collaboration with Nucleus, Experian retail credit model, integrated treasury system with a host of forex products, robust collection system with capability to assess collection efficiencies of agents, CRM Next platform with 360-degree view of the customer, our new SIB Mirror+ mobile app for ease and convenience of the customers.

We are having good progress in the transformation journey and are hopeful that with conducive economic environment we have been able to grow in the coming quarters economies, if the headwinds of economy subside.

Let me take you through the key highlights of the operational and financial performance for this quarter.

The total business for the bank stands at Rs. 145,149 Crores as at September 30, 2021.

Advances were stable at Rs. 58,309 crores. We have continued to grow our gold loan portfolio registering growth of 11% YoY to Rs. 9,470 crores as at September 30, 2021.

The Bank continues to calibrate and churn corporate portfolio with better rated corporates. The share of A & above rated corporates in large corporate book (Rs. 100 Crores & above) improved from 56% at June 2021 to 75% at September 2021. During the quarter, we have also launched pre-approved personal loans and achieved disbursements of Rs. 100 crores personal loans in the month of Sep 2021 and SME has also registered disbursement of over Rs. 300 crores in September 2021.

Retail Deposits, rose by 10% YoY to Rs. 82,402 crores. CASA deposits increased by 17% YoY to Rs. 26,773 crores, predominantly due to continued improvement in our SA business which grew by 18% YoY to Rs. 22,403 crores. CASA ratio continued to improve and reached 30.8% of the total deposits. Bulk Deposits declined by 41% YoY to Rs. 4,437 crores in line with our strategy.

NRI Deposits, which has been growing steadily, rose by 6% YoY to Rs. 26,823 crores and contributes about 31% of total deposits. Low cost NRI Deposits grew by 6% YoY to Rs. 8,187 crores. The Bank saw a robust growth of 29% YoY in our NRI Remittance business during the quarter.

Our investment book was at Rs. 23,056 crores of which HTM category contributed Rs. 17,302 crores, while AFS contributed Rs. 5,681 crores.

The Bank witnessed slippages of Rs. 531 crores during Q2-2022, which were in line with the guidance given for FY2022. Personal and business segments continued to feel the impact of the covid. The Bank had restructured Rs. 579 crores worth of loans under OTR 2 framework, of which, Business segment is Rs. 348 crores, personal segment is Rs.176 crores and Corporate is Rs. 55 crores.

Following the unlocking and lifting of the second wave covid restrictions, the Bank saw improvement in the collection efficiency. The overall collection efficiency for the month of July, August and September 2021 was 88.3%, 108.0% and 91.4% respectively.

Gross NPA ratio improved by 137 bps from 8.02% as at June 30, 2021 to 6.55% as at September 30, 2021. During the quarter, the Bank sold Rs. 1,049 crores worth of loans to ARCs and was able to recover / upgrade Rs. 277 crores worth of NPAs. The Net NPA ratio improved by 120 bps from 5.05% as at June 30, 2021 to 3.85% as at September 30, 2021.

Net Interest income for the quarter was Rs. 527 crores. Net interest margin was 2.52% for Q2-2022 compared to 2.55% for Q1-2022. The decline in the margin was predominantly due to reversal of interest on account of NPA slippages of Rs. 46 crores.

Non-interest income decreased to Rs. 99 crores. As per the RBI direction, provisions for depreciation on investments amounting to Rs. 176 crores for Q2-FY22 has been shown under 'other income' in the profit and loss account, which was originally classified under 'provisions and contingencies'. Further, amount recovered from written off accounts of Rs. 58 crores was reclassified under 'provisions and contingencies' against previous year classification under 'other income'. However, our core fee income increased by 27% YoY to Rs. 117 crores and 'Other income' increased by 7% YoY to Rs. 98 crores.

The said revised accounting norm has impacted our PPOP which stands at Rs. 112 crores for Q2 FY22. Excluding the said amendments, operating profit would have been Rs. 346 crores.

Overall provisions increased by 19% YoY to Rs. 362 crores in Q2 FY22. These provisions include Rs. 269 crorse towards NPA and NPI and standard assets provisions of Rs. 55 crores. As a prudent measure the Bank has made an additional provision of Rs 160 crores which resulted in improved PCR from 60.11% as at June 30, 2021 to 65.02% as at September 30, 2021. Had this additional provision of Rs 160 crores not been provided, the net loss of the Bank would be Rs 27 crores.

PCR excluding write off improved to 43.9% as at September 30, 2021 compared to 39.0% as at June 30, 2021.

Our overall capital adequacy ratio improved to 15.74% as at September 30, 2021 compared to 15.47% as at June 30, 2021, while the Tier I ratio stands at 12.77% as at September 30, 2021.

We believe that our strong and diversified franchise large distribution network, structural changes to bring about growth, infusion of talent and technology capabilities with improved tools will provide us ability to leverage opportunities for profitable growth in the coming quarters, with the headwinds in the economy tapering.

With this, we open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, just if you could help us to understand we have not seen any increase in number of branches, but during this quarter the number of employees has been increased and we are in the hiring mode. So, you could help us to understand what the rationale behind this new hiring is and what sort of business activities this segment is going to pick up?

Murali Ramakrishnan: See if you understand the strategy we have actually moved away from the branch based sourcing to the vertical based sourcing for assets. That is one and second, in the distribution side, we have brought in the layer of cluster heads between branch manager and regional head. The way we have organized now is sort of eight to nine branches will be reporting to cluster head and in turn cluster heads is reporting to regional heads. This is a structure on the liability and distribution side. On the vertical asset structure, we have a business head under whom there will be zonal head, there will be regional head and then there will be SMs and RMs which is of course different for each of these business lines. So the number of people whom we have added need not necessarily be for opening up new branches. These are basically to fill in the slots which are required for reaching the desired liability and asset business structure. Further, hiring is done to fill in the vacancies which arise out of the relocation of people from branches into verticals as well as people who retire and resign. I think the overall hiring has happened and also as I read in my opening remarks, we have created lot of support divisions for example Credit Middle Office Group (CMOG) has been brought in, we have brought in data analytics team, we have brought in marketing team, we have brought in operations which has been separately moved as a control group and we have beefed up credit structure. So all these teams have been beefed up with manpower, so that these control groups and the support functions are in tune with whatever business strategy which we are articulating. So these extra resources that we have hired are not necessarily for any new branches. Of course we reoriented our branches through consolidation of some branches and any license which gets released out of that we go and open branches in the location where we are not represented, that way we have been opening some five to ten branches at every quarter. But the overall strategy of the branch is not to really go fill out on brick-and-mortar but going into digital way because the banking is going to move from brick-and-mortar into digital that is going to be the future of banking. In tune with that we have opened up full digital branch also and also for these asset products we are actually moving towards digitizing the entire loan process through Nucleus platform. We are also looking at evaluating the SME platform. We have also brought in complete fulfilling happening through digital for personal loan and credit card. So all these initiatives are done with an aim to ready the bank for the future of banking which is going to be completely digital. So the conventional theory of recruiting people to go and fill up branches that is not going to be seem at least for some time.

Bajrang Bafna: My second question is that if we see the consolidation that was happening post you came in and in this COVID period, we have seen sizable consolidation of balance sheet that has happened where we have not grown our loan book and lot of calibration has happened, and we have moved to a lot of AAA or maybe A-rated plus corporates in this timeframe. There is profile has been they do to a great extent for the bank. But moving into now we are seeing there is some amount of pickup which is visible and we are not visualizing any sort of third wave which is in our way and lot of other smaller banks or the NBFCs are also talking about the growth to pickup in this segment. So how we are going to place ourselves maybe in next six months or the next year where we are seeing the loan book to grow because unless and otherwise that happened the operating metrics will be pretty difficult for the bank to improve and since now we have increased the cost by hiring new people so we need some sort of business to justify this cost increases. Thank you.

Murali Ramakrishnan: Very good question. I will answer it in two, three parts. First of all, I want to tell you that as you rightly said, we have done lot of consolidation basically correcting the portfolio quality by bringing in good quality clients across our business lines not necessarily in the corporate portfolio alone but across the business lines. Just to give you a data, from April till two days back of this month actually we have disbursed more than Rs. 10,000 Crores which is actually in tune with the target which I had set for myself. So while you might be seeing the degrowth in the book happening primarily due to three reasons, one is the book which is turning out to the NPA and getting written-off where we have taken full provisions, then bank-induced exits which happened and there are some customer-induced exits due to low rates prevailing the market. So all these have been leading to something like Rs. 2,000 Crores to Rs. 3,000 Crores of dip happening every quarter due to the combination of this. If you look at book as of June 30, 2021 end we are down only by 10 Crores. The Rs. 2,000 Crores which we are regularly seeing a quarter-on-quarter dip due to repayment due to the said reasons, we have compensated with a good quality book which is coming in. With this Rs. 10,000 Crores of new disbursement and overall book of about Rs. 58,000 crores, the bank has added one fifth of high quality book which is going to get better as we ramp up our business. The basis for new high quality book is our revamped credit structure, collection mechanism, data analytics, and all those support functions we talked about. Further, we have seen disbursements across product segments including personal loan, SMEs, gold and corporates. The said structure and processes were broadly coming in place by July and we have started seeing traction happening from mid-August onwards. As I am talking to you we are already seeing some traction happening in this quarter so I am very hopeful that with the way we have organized ourselves we are going to definitely see good growth happening across all credit segment but I am very clear that I am going to be doing only quality growth. Between quality and growth, I will prefer quality definitely because I cannot afford to have any dip in my quality of the book for which we might need to forego little bit of growth and I am fine with that. We need to definitely do all the right actions for the short-term to ensure that we clearly reorient our balance sheet and P&L for positioning it for much better way and exploit the market opportunities in the quarters to come. So while I do that I will strengthen all the other key infrastructure required for running a good bank in terms of improving our collection, strengthen recovery mechanism through legal recourse, improve operations by ensuring that there is no conflict of interest and manpower training. So we are putting all those very fundamental blocks which are required for creating a good institution which is what I am trying to derive at.

Bajrang Bafna: Thank you Sir for that elaborative answer and in terms of asset quality we have seen that last two quarters as you have highlighted in the last concall also is going to be a bit of on the higher side in this quarter so thankfully it has come lower than our expectation but going into second half how are you seeing now in terms of asset quality the things are going to look like, what is it?

Murali Ramakrishnan: It will be I think I do not want to really double guess because really none of us know that what will happen two, three months down the line. If you recall then we were all talking in February, March perspective we never anticipated COVID second wave would happen while I do not want any mishaps to happen but having said that we will continue to maintain slippages guidance of

Rs. 2,300 – 2,500 Crores for the year but I believe that we will be hearing on under-promising and over delivering.

Bajrang Bafna: Thank you very much Sir and best of luck.

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

Jay Mundra: Thank you for the opportunity. Congratulations on detailed disclosure. I also wanted to check Sir two three things one on asset quality if you can give the recovery and upgrade and write-off separately for this quarter. Sir on this entire ARC transaction, I think this is what leading to this negative in the other income thing because you have made a treasury profit and there is a forex profit also, but the treasury plus forex is visible because you have had a large hit on investment depreciation and it looks like you did mainly from ARC sales. So if you can maybe you can tie these things together then what was the ARC transaction how much and what have you got there?

Murali Ramakrishnan: First, of all, I want to appreciate your incisive understanding because this is something which actually I look forward to some good analysts. I must thank you that you have really seen the numbers and I wish to place my appreciation because this is something which people miss it and they generally tend to look at the final number. So just to give you sense of what actually we have done in terms of ARC. See we have done three transactions of ARC in this quarter and sold about 29 accounts. We have cleaned up gross NPA of Rs. 1,049 Crores on which we had held a provisions of Rs. 561 Crores so net NPA of these accounts sold was Rs. 488 Crores. We have got a sales contribution of Rs. 578 Crores, of which we have received a cash of Rs. 94 Crores and Rs. 484 Crores worth of Security Receipts (SRs). Further, we have made a provision of about Rs. 142 Crores towards SRs. The segment wise breakup of this gross NPA of Rs. 1,049 Crores is Corporate of about Rs. 900 Crores and B segment of about Rs. 149 Crores. So this is the detail on the ARC and we have done actually there are three transactions of which two transactions were with multiple accounts and third one is a pure cash transaction of only one account. This provision of Rs. 142 Crores is adjusted from the treasury income. That is the reason why our total income appears to be showing as a drop, whereas it is not really so.

Jay Mundra: Then you can highlight Sir how much was the recovery and upgrade and how much was the write-off including this or maybe excluding this?

Murali Ramakrishnan: The total advances as at Sep 30, 2021 was Rs. 58,309 Crores, opening GNPA was Rs. 4,677 Crores, fresh slippages in this quarter of Rs. 531 Crores, recovery/upgrade was Rs. 282 Crores and ARC sale was about Rs. 1,050 Crores so we entered with a GNPA closing of Rs. 3,880 Crores which is about 6.65% of our advances book.

Jay Mundra: Sir just to reconfirm the recovery and upgrade including cash recovery was 282 Crores?

Murali Ramakrishnan: Yes. From the NPA accounts we have also recovered some fully written-off accounts. Just to give you sense that the overall collection what we have done in the first half of FY22 is what we have done for the full year of last year. In fact, we have actually upped our target for the year for the team. We had initially given 2 times the last year target and now we have updated even further. So we have actually the team is clearly shaping up, very well and I am pretty hopeful that with good collection and recovery we can confidently go and build quality asset book.

Jay Mundra: When you say collection efficiency at 91% for September month, the number looks slightly lower right, because we thought that everything would normalize?

Murali Ramakrishnan: You are right. It is slightly lower. I think we need to up that and if you look at August collection efficiency, we have done more than 108% whereas for September it is little lower. These aberrations will keep happening in the month and we will correct it.

Jay Mundra: What should be the normalized number I mean I understand it cannot go back to let us say 99 but what could be the number?

Murali Ramakrishnan: If I were to really articulate the way I look at the whole collection is, there are two distinct ways of doing collection, one is the retail collection, the other one is the non-retail collection. Retail collection typically in all the large banks and all the retail banks happens through collection agencies and nonretail generally happens through employees who are doing door-to-door business. In this bank we have hardly had any agencies for doing retail collection in the past. We have actually put in place team of collection agents just about few months back and we have also beefed up with some of the best agencies who are doing excellent work for many of the large banks in the country. We have recently taken a collection and recovery Head who has just taken a possession just about the month and he has got a rich retail SME collection and business experience, so with him coming in, lot of traction are seeing in the way retail collection is happening. Now we are just seeing very small output from this team which has been set up, going forward we will definitely see lot of ramp up happening in collection front. As far as SME and of course non-retail collection it happens through employees. I have been doing a weekly review of recovery in collection where we look at SMA0, SMA1, SMA2 and NPAs and that is something which is continuing even today that is the reason while we are able to do very well in the collection and the recovery front. We will definitely start seeing good traction happening in retail collection also. Particularly in retail collection if I were to look at the component which is giving us the headache is in the LAP and home loan, which traditionally use to be very decent for many large banks. So we will definitely need to correct that and we need to speed up collection so that we are able to manage it well. But, if you look at collection efficiencies product wise housing loan for July was 100.3%, for August 99.7%, for September 102.8%, vehicle loan 99.9% for July, 100% for August and 101% for September. Mortgage is 103.6% for July, 97% for August and 102.9% for September so they are all now falling in place. Now it is a question of going and cleaning that up and our retail book is not a very large book. I think with the way now things are put in place we will be able to see good traction happening in the business volume.

Jay Mundra: Sir just last two things one is you had mentioned that you will be retaining your 2400 Crores, 2500 Crores of gross slippages estimate that you had at the beginning of the year is that right?

Murali Ramakrishnan: Yes.

Jay Mundra: Secondly Sir if you can also highlight the recovery how should one look at recovery and also the provisioning requirement because historically your ARC sales have not I mean they have given a shock in terms of maybe after one year, two year down the line when they are coming for MTM so while you have had and if I look at it now you have 50% provisioning on ARC book but what is your sense would this require some more provisioning as we go along or how should one look at the recovery upgrade and the provisioning line item? Thank you.

Murali Ramakrishnan: You are right and it has been the experience of many other banks also in the industry. ARCs for various reasons have not been able to live up to the expectations of the lenders, but quite honestly if you look at last one and a half years I think they are also operating the same ecosystem which we are all operating and we know how much of ecosystem was supporting or not supporting the collection and recovery. Many of the courts where we did not have people to take calls etc., many of the restrictions were there in terms of movement etc. So I think there is a bit of consolidation happening even amongst ARCs. We are also not too happy with the way things have happened in the past. If you look at 85:15 structure, they also take part in the SRs and many of them their capital and all is fairly limited so they are probably over promised and under delivered all the time. So we are quite conscious of the past history of ARC that is the reason why we are also proactively looking at how we can accelerate the provisioning so that they are not seeing too much of fluctuation going forward but if indeed the collection improves which is what I am hoping. They are also very carefully looking at before they commit any sale value, they look at the feasibility of collecting money from each of those underlying accounts so all that rigor is now going into them also before they purchase the pool so I think it is going to be definitely a partnership which we need to work with them to ensure that both of us meet up with our expectation. So we will have to take it as it comes, as of now and anyway we will be sharing with you as we go along how we are performing in that so we will only take the right action to ensure that we do not slip on those.

Jay Mundra: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

Vibha Batra: Thank you for taking my question. My question is again on this ARC sale. You said that gross value was Rs. 1,049 crores we already had provision of Rs. 561 crores but still you made Rs. 144 Crores provision so if you test value is already Rs. 488 Crores and you received Rs. 578 Crores what is this Rs. 144 Crores provision on contract?

Murali Ramakrishnan: It is an additional provision which we are taking this is exactly what I had answered in my earlier questions just to be under considerable side.

Vibha Batra: But when typically ARC in way of taking with a fair value the transaction as per that fair value was Rs. 578 Crores and you are carrying Rs. 488 Crores despite that you took additional provision?

Murali Ramakrishnan: Normally the provision on SRs as you rightly said it is all based on the net asset value declared by ARC; however, for the SR investments made after March 31, 2018 the provision for SR is done assuming that the loans notionally continue in the books of the bank as if they are continuing in the books and if they deteriorate and move into the next bucket corresponding provisioning we need to keep.

Vibha Batra: One last question is the cash that you received on one account Rs. 94 Crores what kind of a haircut was that and was there one account?

Murali Ramakrishnan: Sorry what was your question?

Vibha Batra: We received cash on one account you said, you received Rs. 94 Crores?

Murali Ramakrishnan: No. It is at about 15% of total sale consideration of Rs. 578 Crores from ARC which we talked about.

Vibha Batra: So the current book of NPAs that you have what is your sense on recoverability from gross NPLs, not over one year say over lifetime?

Murali Ramakrishnan: It is a very difficult question to answer. I can only talk about how well we are doing in the recovery and collection as against the targets which we are keeping it for ourselves. My goal for 2024 March as stated in my strategy document is to bring down gross NPA levels to the range of 2.5% to 3%. So that can happen in my view based on three initiatives, one is clearly we will have to keep adding good quality portfolio so that our denominator with the good quality portfolio will keep adding up which will obviously bring down as a percentage of stressed asset, number two we will have to continue to do resolution of our NPA cases either by going in for a settlement or legal recourse or any of those various measures which we have and we need to constantly do a good collection in the SMA1, SMA2 book so that they do not slip into future NPA. And the last one, over last 1.5 years we all had the disadvantage of economy not being very supportive. There are lot of headwinds in terms of improving your denominator by way of sourcing more and more new cases. With things coming onboard with whatever we are seeing as traction from mid-July onwards we expect the growth to happen in the asset side and with our emphasis on quality assets we believe that denominator will be with a good quality assets coming into the book and with denominator getting cleaned up through various measures, overall GNPA management will keep happening and we will kick start every quarter and see how to manage it so that we are able to get good recovery, at the same time we are able to meet up with the expectations which have secured for ourselves.

Vibha Batra: You are getting something used to be on negative outlook and stressed assets they have given stressed assets at 14% by adding gross NPLs?

Murali Ramakrishnan: You should recognize that both the rating agencies have maintained their ratings because they also saw lot of merit in the way the bank has been putting its strategy in place and the way the bank is going about transforming its various functions and divisions and therefore they are quite happy with the fact that their structures are in place and right action is happening. So they are continuously keeping watch on the developments. See, all said and done, they are still not out of the problem, as I am saying this year also we are expecting Rs. 2,300 Crores of slippages to happen. Last quarter we had slippages of Rs. 800 plus Crores. However, this quarter we are talking about Rs. 500 plus Crores of slippages though it is lower than previous quarter but still it is a high amount. I do not expect them to be lenient towards this they will continue to maintain status quo and this is fair also and that is right.

Vibha Batra: Do you have guidance for future credit growth over till March 2022?

Murali Ramakrishnan: I do not want to give any guidance for credit growth because it is purely dependent on how and when the market is reviving and what kind of quality is present in the market. We do not want to grow for the sake of growing. We want to really grow by acquiring good quality assets because I do not have the room to go and just increase my asset base. I need to grow a good job of putting in right cases and build quality portfolio.

Vibha Batra: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Duby Rex, an Individual Investor. Please go ahead.

Duby Rex: Sir it has been three quarters since we have disclosed the vision 2024 strategy document are we still in track and what is your feedback on it? Are you happy with the progress?

Murali Ramakrishnan: Yes, let me give you a little bit of a context here. Vision 2024 document was formulated in the month of September last year and we presented it in December 2020, so when this was formulated in the midst of COVID-1, COVID-2 was not anticipated at all and clearly whatever had happened in April and May 2021, obviously no one would have foreseen so whatever we have spelt out as a strategy document was of course taking in to account the actions needed at that point of time with the various metrics on which the bank's performance will be measured. So we have put our own wish list of where we want to be right in the end of March 2024 and we also stated that we will drive profitability growth through quality credit, using 6C strategy which includes CASA, Capital Adequacy, Cost to Income Ratio, Competency Building, Compliance, and Customer Focus. I am happy to say that in each one of this we have shown good progress. The capital adequacy has improved and are in the comfortable range of about 15.7%. Clearly, my goal is to really be on par with some of the best run banks of looking at 18% capital adequacy which is what we are targeting though our strategy document talks about comfortable range of 16% or something like that. So with respect to CASA we have clearly seen a track from 25% level to 30.8%. We are now improving the franchise of NR, TASC, government and retail, these are the four channels by which we are increasing our CASA and with our restrategizing the customer target segment which we want to really reorient. With this we knew that with the more and more new asset customer is getting on-boarded and with the way our retail liability is going to be geared up for sourcing more and more of CASA, with more and more of doing cross sell identifying good quality customers to be on-boarded and getting more and more salary mandate working with corporates and through an ecosystem where we tap all their potential business opportunities etc., So with all that I am hoping that to achieve our CASA target of 35% before March 2024. As far as competency building, we have completely mapped our leadership team consisting of top 60 employees of the bank and we are working at a team to bring out our best without any boundaries and all of them are really passionate about bringing about this transformation in the bank. As far as middle level and lower level of management is concerned there is a whole lot of initiatives which are taking to build their competencies both in functional as well as in the soft side through building our e-learning modules and we are now acquiring our learning management system with which we will be able to make our employees learn in their own leisure time and really accreting them with lot of skills with which we believe that a big efficiency and productivity improvement will happen. As far as customer focus is concerned whole lot of initiatives we have taken on the technology side and we continue to feature among the top 10 banks in the MeitY digital index and more than 92% of our transaction happen through digital tools. So with all these I believe that customer focus, customer convenience, all this has really given lot of importance and as far as cost to income this is one area where I must say that we are still to do lot of work. This is primarily due to two areas one is income which definitely has to come from more and more of asset build up happening with more and more of better margin business coming in and we see with a market also supporting us for growth now market supporting us for growth clearly suffered with COVID which you had started seeing traction now with which that will improve, as far as high yield product is concerned I mentioned about how we have made traction with now gold loan, credit card, PL with which we will be definitely looking at without compromising on quality. Third thing is as far as cost is concerned, we have brought in lot of efficiencies in many areas but as far as the employee cost is concerned because of the IBA settlement which happened, we clearly need to follow whatever is the settlement which happen and that impact is something which I need to carry it in my books and I have no choice on that so that is something which will definitely hitting us on this much more than what we are originally envisaged but given that what it is we need to see how we can work on other areas so that the ratio is brought down. As far as these employees benefit is concerned you must have heard about the recent guideline where family pension thing which was talked about where regulators have given a concession for all the instructions which take the delta hit over five years but we did not want to take it for five years we want to draw it for it completely in seven quarters. We want to complete everything by March 2023 itself. So wherever it is possible for us to do the accelerated provision, we are taking those accelerated provision also. So the way I look at cost to income becoming better, and better is by improving the income on one side and being completely efficient of the cost side by constantly working on and we get that income constantly renegotiating with vendors bringing a lot of efficiencies etc., and also doing lot of sourcing through digital. Sourcing cost for a digital sourcing is obviously far lower than an employee cost. So with all this we believe that even cost to income will be brought under control though it is a little longer journey but we will take it and as far as compliance is concerned clearly I have articulate that we have zero tolerance across and then something which we are going full hog we are not compromising. Clearly we are seeing that in terms of the good mortality etc., coming down. We are also seeing very less number of cyber frauds etc., happening so I think all these are moving in the right track. So one word whatever strategy which we set out to do in all the areas we are seeing good traction happening. I think the team is doing a great job and the team is motivated to really bring about the change. I am quite confident that we will be there. Of course, while doing all that how do we fundamentally correct some of the issues which are playing in the bank that is something, which we are clearly addressing it by taking selective actions every quarter towards that only this PCR improvement, gross NPA management as well as the CASA growth and all other things, cost of funds continuously being brought down by efficiently deploying our resources and going and tapping all low cost resources etc., all that is being put in place. Thank you.

Duby Rex: Thank you. Sir, regarding hiring, most of the hiring done or the trend continues?

Murali Ramakrishnan: We have done whatever is required for hiring for the various verticals and business groups, we have done the hiring, there is a little bit more hiring which we need to do on the control especially on the credit side, now with the traction happening in the number of applications which are getting particularly in the business segment, etc., we believe that we need to equip the team with lot more resources that is something which we are doing, so we are increasing clerical number of resources for some of the key control fronts like collections, credit, legal, these are some of the areas where we are recruiting now. Otherwise, business side, more or less we have done, most of the other recruitments will anyway happen through DSA which is essentially for sourcing.

Duby Rex: Thank you.

Moderator: Thank you. The next question is from the line of Prabal Gandhi from Antique Limited. Please go ahead.

Prabal Gandhi: Thank you for the opportunity. On the slippages side, we have seen higher slippages moving from the agriculture side so if you could explain that?

Murali Ramakrishnan: See, if you look at the overall slippages, it is very small amount, so we are not really concerned about it, but to answer your question these are all basically the KCC. As per the RBI provisions, the agriculture account is treated NPA when the farmer fails to pay dues within two crop seasons which is almost 730 days. This overdues was basically due to the floods which happened in Kerala. Many of them got hit badly due to consecutive havoc due to natural calamities, etc., but having said that I think there is a good effort being put in by the team down to go and recover some cases. As I am talking to you, Q2 we have seen good traction happening. Frankly, I was anticipating much more slippages there, but the team was able to actually bring it down. So, the good news is that we have seen traction happening, even the collections from those accounts, but the flip side is that they got really impacted due to floods and consecutive natural calamities happening in Kerala particularly and these are the largest regions where we have done a lot of or more than 50% of our sourcing, clearly this is something which is impacting us. But if you look at whether it is really worrying me, because in the overall scheme of things it is not very large.

Prabal Gandhi: Sir on the coverage ratio, what would be the appropriate coverage?

Murali Ramakrishnan: We are talking about a PCR excluding write off we are currently about 43%. Quite honestly this is something where I do not want to give a guidance, but my endeavor is to take it to 50% level but I do not want to commit a timeline by which I will do, because this is purely dependent on how well the market is going to be responding and how well the opportunity for business is going to happen and so if I keep adding more and more of good quality cases, and if the market is conducive, then we may not see too many slippages happening in which case our provisions can come down. So, as I am talking to you, if you ask me, my wish is to take it to 50%.

Prabal Gandhi: But if you could have the segment wise PCR so that we have a better understanding of the mix?

Murali Ramakrishnan: We don't have breakup handy, maybe we can probably give you after the call.

Prabal Gandhi: Sir, just last one question you shared your disbursements of Rs. 10,000 Crores in the first half of this year, which I am sure 20% of the starting book, but if I compare across segments, we have seen a decline across every segment, whether it is retail, whether it is business loan, so if you can share the disbursement breakup also, where we have a decline in loan outstanding in this because the repayments pressure seems to be quite strong for us? What I was asking that the disbursement in numbers that you shared were around 10000 Crores for the first half, so if I compare it on the original loan book, the starting loan book, it comes to around 20%. But across the segments, we have seen a decline in loan outstanding so, if you can share the disbursements breakup across segments then we can have a better view of where the growth is going to flow in from?

Murali Ramakrishnan: I will tell you where the growth is. Basically if you look at even this, growth which you are talking about is primarily has happened with a little bit of traction started happening from July onwards, because the entire team was set in place by the end of Q1 so to that extent the ramp up has happened. The growth has come predominantly in the last one and a half months of activity.

As I am talking to you retail anyway numbers we shared we have touched about 100 Crores of personal loan per month, mainly in the month of September and we are talking about credit card etc., being very small number, so corporate is where predominantly we have been sourcing A and above kind of rated cases and there we are also seeing some good opportunity in very short-term products where you are looking at a AAA kind of institution, which is looking at let us say Rs. 500 Crores of Bills Discounting for 90 days, 120 days, 180 days etc., and it is a repeat business that is something which is helping us also to source a better quality case with potential for earning and as a bank we still continue to carry surplus. You know our CD ratio is quite low so therefore we still have surplus. So, we are clearly looking at opportunities to deploy the funds.. Credit wise it is making our standards and delta profitability wise it will be giving us. So, predominant this thing has happened from corporate, gold, business segment these are the top three segments.

Prabal Gandhi: Sir, and since you mentioned about the surplus money that you are having, can you share your outlook on margins in the medium term and the near term?

Murali Ramakrishnan: See, frankly the margins in the market today is extremely low. Market is actually following predatory pricing. We are looking at SMEs being offered at 7%, 7.5%, corporates are asking for rates of 5%, 5.5% and 6% so if we are expecting margins to improve I think even the larger banks by virtue of their book size being very large, the incremental business in margins probably may not be making noise at all. So therefore for a bank of our size, etc., clearly margin is something which is going to suffer for some time. So, I am not really keen to give a big guidance because today we are not in a stage where sensible pricing is happening. So, I will continue to earn whatever 2.6%-2.7% kind of margin because retail, which I am doing currently at let us say 12%, 13%, 14% is a better quality but the delta which we started through retail is a very small portion considering the overall book size. So, unless you really see market helping us to really ramp retail in a big way to reach comparable book size then you will see overall margins going much better. But as of now my margins are clearly on the lower side, primarily because of retail just started showing some traction and we are looking to build a good quality asset though it may be a very short-term kind of product, but we want to ensure that quality does not suffer. That is where it is.

Prabal Gandhi: Thank you Sir. All the best.

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

Saket Kapoor: Thank you Sir. Namaskar Sir. Thank you for the opportunity. Sir, as you have explained that a lot of effort has to be put to rationalize much more of our cost, operating cost or so, what should be the trajectory going forward because if we compare your other operating expenses they are not commiserative to our income, meaning they have gone up, disproportionate to what the income has been? So how would you explain this and going forward what should be the trajectory on the other operating expenses?

Murali Ramakrishnan: Cost income ratio for better run bank are at a level of 45% and below. There is change in accounting for provision for depreciation on investment and recoveries of written off accounts. Further, the Bank has agreed to accelerate the impact of Family Pension Scheme and provide it in the next seven quarters instead of 60 quarters which the regulators have given us. If you back calculate before the said adjustments than we would have been at about 53%. So, whether it is 53% I am comfortable? I am not comfortable. Obviously I want to bring it down below 50% and I want to bring it down below 45%. That can happen only when the denominator also starts going up. How will denominator go up, only when the market becomes conducive for you to do more and more assets business, which is what we have started seeing traction in the last one and a half months. So, I think, we need to have patience to ensure that we need to keep building good quality assets which will start improving our overall income and we also need to tap all the opportunities which are there, and we continue to rationalize our costs, by bringing in more and more efficiency. So, we have also added manpower, we have also added a few lateral resources, we have also taken the hit of the IBA negotiations, etc., all that has started reflecting only this year. So, with all that your cost is clearly appearing to be on the higher side compared to the potential of income which otherwise in a normal year we have seen a proportionate increase in income happening, now due to the current situation due to our own situation. We were also cautious in not wanting to grow just for the sake of growing, we want to first get the infrastructure right so that we do not err on the quality again. Therefore, that is the kind of restructuring required about five to six months to put in place. Once we put that in place and with people taking position, etc., we had about one and a half to two months in this quarter to start showing some results, which is now what we are seeing. So, I will be happy if I can bring it down to sub-50 ASAP and my goal is to bring it below 45% over a period of time.

Saket Kapoor: Sir on the slippage front, you have told that this year also we are anticipating 2100 to 2400 in totality, out of which 1300 is what we have provided for the first half? That is what the guidance should be Sir?

Murali Ramakrishnan: Yes. We continue to hold that guidance though we have actually seen lesser in Q2 compared to what we had envisaged. We had envisaged Rs. 650 Crores. We ended with Rs. 530 Crores.

Saket Kapoor: Second half also similar numbers only we are expecting at least?

Murali Ramakrishnan: If you ask me 10 times also, I will say the same thing. We are giving guidance of Rs. 2,300 – 2,500 Crores for the full year. We do not want to over promise and under deliver. We will try our best to bring it down, but I do not want you to reckon that this stage.

Saket Kapoor: Sir, taking into account that since the pain is not out of the system, meaning, how long will be this wait for your shareholders who have entrusted. I can understand that you have a herculean task of such cleaning out the realigning things then looking at costs and then creating profit, it is we are at the bottom to receive anything if you take the structure, it is first your business then your customers, then your staff and whatever would be left after that would be attributable to your shareholders? So to sum it up Sir, what kind of journey are your investors looking going forward? You have given a timeline of…

Murali Ramakrishnan: Frankly it is a very good question and you must totally acknowledge that whatever we are trying to do is basically to build institution which can work very efficiently over a period of time. See, as equity investor we are willing to take the risk, so your question of how long do I take the risk, depends on your risk appetite. So, if you are asking me as a person who is driving this institution, what is my goal, my goal is to turn it around and build an institution which has got all the right ingredient so that it can continue to produce lot of profits over a long period of time. But when an institution has been set up in certain way and it has been delivering profits for sometime but due to various other things when it is going through down phase precisely we are talking at a stage when it has changing the bottom, when it is seeing the bottom and the market is also not helping us because economy has also not been doing well for the last one and a half years and particularly this bank has seen the natural calamities hitting the bank consecutively year after year, therefore this state where 50% of the branches are present has not seen a normal year for more than four, five years now. So you are talking about an institution it has not seen a normal year, for four to five years because of which lot of things have happened in the portfolio, now a person trying to come here over last one year trying to pick the basic building blocks and put them in place and starting to accelerate the engine and carrying it forward to arrive at a speed of what anybody would expect is going to take some time. Now I really cannot answer your question how long you need to wait my idea is not to make you wait for long my idea is to not to make you wait at all but it is not something which is going to happen in one day or one month or one quarter or one year it is a journey because if anything which can happen in one day one quarter you can also go down to this one day and one quarter that is not something which you are trying to create here if I want to just show some that the thing is you can go and distribute the money and you can show asset growth and then you are happy about the NPA coming down because percentage wise it will be coming down but then it will create lot of thing for many, many quarters to come. Therefore, I do not want to take shortcut here I want to really put up good building blocks now I think you have been patient enough till now just endure for some more time I am sure you will not repent. That much I can tell you.

Saket Kapoor: We can understand your detailed point on the same so we hope that your thought process and the steps which you are taking do bring all the changes. What we are seeing currently is that the key players technological players like PayTM and all they might be turning out to the competitors and also they would be the people who would be looking for franchisers like you to take your credit liability and create that use the technologies of and going with lending and all in that way so going forward any tie up or anything of that where you can leverage your book and create that partnership with leading institutions or with the tech players as has been the case in other geographies of the world so any thought process on that or we are proportionate within the traditional view?

Murali Ramakrishnan: See, we had made good headwinds already. You are perfectly right. I appreciate your understanding that this is exactly the way forward. We should not really look at Fintechs as competition. We should look at Fintechs as partners. Towards that we have already started associating with the Fintech for our gold loan and we are as I am talking to you we are exploring couple of such opportunities where they are wanting to tie up with people so that we can leverage on their technology capabilities and we can use our distribution spend. Currently, obviously I cannot reveal any of those names etc., because it is all in very, very, initial stages so as we go along if you ask me whether we are thinking on those lines, we are not only thinking we had made good headway of those lines, whether this is something which is needed to be done obviously it needs to be done and if clearly bank is not shying away from thinking that this is the way to go move forward the entire digital growth in fact elaborative thing we talked about how we are how we are executing ourselves through technology assets which we are building across is essentially to make sure that the bank is well invested in technology products to be ready for appraising the digital ecosystems is going to come in. So for that definitely tie up with Fintechs are must and as I am talking to you we are also finalized for vendor-dealer financing, partnership with the Fintech through which everything will be done through the platform, similarly for retail LOS, end-to-end the thing will happen through a platform so once we create the platform, once we have the credit models in place then it is your imagination to do and clearly design your risk appetite and you can tie up with anybody because you know that even if they source, jump, you can get them rejected because your credit system is strong so once we build the capacity then it is for them to the sky is the limit you can actually go and tie up with anybody and everybody of course depending on whether their culture and risk appetite matches with yours.

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

Murali Ramakrishnan: First of all, I want to thank all the analysts who are taking part and we are still going through very tough time so please take care of your health. Second thing is I am very happy to see lot of good quality questions, not really going by the optical of the numbers but really wanted to get into details of what the management is trying to do and where management is seeing traction happening and how management is wanting to bring more changes and such questions I think is very, very encouraging. I am very, very happy to really be giving explanations for those questions. I will really encourage more and more such questions to come rather than some optical questions which is actually not helping any institution also to correct themselves in the right way because just to give answers they might do something which may not really be good for the institutions. I am very glad that some of the questions were really intrusive and it is hard, after doing some homework and that is something which is really appreciates. I continue to reiterate that we will be as transparent and we will share whatever we think should be shared with you and wherever we believe that is something which is going to happen in our reasonable judgment we are reiterating them and wherever we believe that we assess something but it is not happening in the right way we will be open to coming and sharing with you in all faithful and honest disclosure. I will continue to be engaging with you and once again thank all of you for taking your timeout and helping us to elaborate and explain these numbers. Thanks a lot. Take care of yourself.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.