“South Indian Bank
Q2 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Banks' Q2 FY2021 Earnings Conference Call, hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Rohan Mandora from Equirus Securities. Thank you and over to you Sir!

Rohan Mandora: Thank you Janis. Good morning everyone. On behalf of Equirus Securities, I welcome you all to the 2Q FY2021 earnings conference call of South Indian Bank. We have with us today, the management team of South Indian Bank represented by Mr. Murali Ramakrishnan, MD and CEO, Mr. Thomas Joseph, EVP Operations, Mr. G. Sivakumar, EVP Credit, Mr. Reghunathan K N, EVP, Treasury and Ms. Chithra H, CFO. I now request MD Sir to take us through the highlights of the quarter gone by after which we can open the floor for Q&A. Over to you Sir!

Murali Ramakrishnan: Thank you. A very good morning to all of you, Thank you for joining us for the South Indian Bank Q2 FY2021 Earnings Conference Call. I am joined by my colleagues, Mr. Thomas Joseph, EVP Operations; Mr. G. Sivakumar, EVP Credit; Mr. K. N. Reghunathan, EVP Treasury; as well as our CFO, Ms. Chithra H. We hope that you and your family are safe and healthy.

Before we get into financial performance and our strategy, let me start with a personal note. This is my first interaction with all of you as the MD and CEO of South Indian Bank. Just to brief you on my background and experience. My career as a banker spans 32 years with significant experience in Retail and SME credit, risk and business analytics. It is an incredible honor and privilege for me to lead SIB, a bank that has built an enviable franchise with more than 91 years of faith. For building this great institution, I would like to thank all my predecessors.

The bank has witnessed various economic developments and cycles, including many epidemics as well as globalization of our economy over the past few decades. The strength of the bank lies in its legacy customer base, which has been growing year after year.

South Indian Bank has been at the forefront of adopting latest technology, be it first Kerala bank to implement Core Banking to rolling out cutting-edge SIB Mirror+ Mobile Application banking. Further, the customer base of over 6.5 million provides huge opportunity to upsell and cross-sell businesses. I understand that the bank has undertaken digitization of various processes, including onboarding of new clients, credit underwriting, etc. These and several new business initiatives and process changes are being implemented to support the growth, improve credit delivery and bring quality in underwriting standards. It is my endeavor that all these initiatives are taken forward with the new appropriate strategies guided by the eminent board, to leverage on opportunities and leverage the human resources so as to bring value to all stakeholders. I wish to share that the strategic initiatives underlined with the stated strategy of the bank will be shared with you at the appropriate time.

Now let me take you through the detailed financial performance of the bank during the second quarter of FY2021. We continue to appreciate the efforts of our employees who have shown strong resilience and ability to adapt to changing circumstances. Amid the continuing lockdowns, with the help of our in-house BCP team, we are able to keep 98% of our branches and our ATMs operational across the country, following all precautionary measures as per the respective guidelines. At August 31, 2020, loans under moratorium stands at about 26.1% of the total loans compared to 36.3% at June 30, 2020.Collection efficiency of the bank for the month of September 2020 was 80%.

As stated in our previous Q4 FY 2020 results conference call that we will be targeting to reach PCR of 60% in the next six months, following the outlook given in Q4 in FY 2019. We have reached a PCR of 65.2% as on September 2020.

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 continued to improve in Q2 FY 2021. We have achieved strong successes across our stated strategy of strengthening margins, moving towards a favorable asset mix, building CASA book and containing future slippages. The company reported profit after tax of Rs. 65 Crores for Q2 FY 2021. We continue to expand our non-corporate portfolio, particularly in the segments of gold, personal segment, business segment and agri loans, which now form 75% of the overall advances book.

As on September 30, 2020, the total business for the bank stands at Rs. 147,970 Crores. Advances grew by 2% year-on-year to Rs. 65,349 Crores, driven by continued robust growth in agri loans, which has grown 18%, business loan, which has grown by 12%, and personal segment which has grown by 4% despite degrowth in corporate loan book, in tune with our strategy.

The share of corporate loans declined from 31% as on September 2019 to 25% as on September 2020. Core deposits rose by 9% to Rs. 74,976 Crores. CASA deposits increased by 11.5% to Rs. 22,978. CASA ratio improved to 27.8% of the total deposits as compared to 24.9% at September 2019. Bulk and certificate of deposits declined by 45.6%, in line with our strategy.

Our investment was Rs. 22,015 Crores, of which HTM category contributed to Rs. 17,483 Crores while AFS contributed to Rs. 4,464 Crores. Gross NPA ratio improved to 4.87% as of September 2020, net NPA ratio improved by 50 basis points to 2.59% as of September 2020.

Net interest income for the quarter stood at Rs. 663 Crores, registering a growth of 13.5%. Net interest margin was 2.94% for the quarter ended September 2020 as against 2.69% in September 2019. Cumulative NIM for half year ended was 2.78% as against 2.61% in the first half of FY 2020.

Other income for the quarter was Rs. 240 Crores. Our other core fee income increased by 24% to Rs. 193 Crores, while treasury income decreased by 51% to Rs. 46 Crores.

Operating profit for the quarter was Rs. 414 Crores as against Rs. 411 Crores in Q2 FY 2020. In Q2 FY 2021, the cost income ratio was 53.9%.

Accounts not classified as NPA due to the order of Supreme Court is Rs. 136 Crores. However, the bank has provided Rs. 21 Crores during the quarter. The bank continues to hold COVID-19-related provisioning aggregating to Rs. 100.5 Crores against standard assets. The above provision of Rs. 100.5 Crores towards standard assets is not considered PCR calculation.

Overall provisions increased by 7% to Rs. 326 Crores in Q2 FY2021. These provisions include loan loss provision of Rs. 286 Crores, including write-off of the provision coverage ratio, continued to improve and stood at 65.2% as of September 2020 as against 58.8% as of June 2020.Considering the impact of COVID, we will endeavor to keep PCR around 60%.

In Q2 FY2021, fresh slippages amounted to Rs. 49 Crores, which are primarily contributed by business segment vertical. There were no slippages from corporate segment during the quarter.

Our overall capital adequacy stands at 13.9%, while the core CRAR is at 11.2%. The bank has a wide geographical presence with 875 branches, 51 extension counters and 1,438 ATMs.

To summarize, the bank will continue the strategy of building low-cost CASA book, improve asset quality by focusing on building granular advances book through personal, agri and business segments. With this, we open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish Bhuva from ICIC Securities. Please go ahead.

Renish Bhuva: Congrats for good set of numbers. Couple of question, one is on the collection efficiency, which you highlighted is around 80% in September. So, this is including moratorium, or this is ex-moratorium book?

Murali Ramakrishnan: I will give you some more details on this. Basically the overall collection efficiency for the month of September was 80%, to be precise 79.92% in which if you look at the breakup of this, retail loans, which are basically housing loans, vehicle loans and mortgage loans and other personal loans, there we have a much better collection efficiency of 87%, 92%, 90% levels whereas other business loans is about 76% and corporate it is about 71% and the term loan is about, overall it is about 79.92%. So, this is basically on whatever has fallen due in the month of September 2020. This is for the total demand as against the collection for that month which has fallen due for September 2020 is about 80% cumulatively.

Renish Bhuva: Basically, since moratorium gets ended in August, so basically September demand will include overall total portfolio, right?

Murali Ramakrishnan: Correct.

Renish Bhuva: Sir, secondly in a press meet you highlighted some stress book analysis on your moratorium book. So, can you please throw some light from which segment you are expecting more stress coming out, versus these segment where you feel it is better placed in current scenario?

Murali Ramakrishnan: Good question. If you recall when the moratorium was started, we offered this facility to all our customers and about 56% of the customers in terms of value opted for moratorium. This figure came down to 36% at June end and through collection efforts by August end it was at about 26% of the portfolio. So, this 26% of our total advances book is amounting to Rs. 17,065 Crores. What I indicated was, out of this Rs. 17,065 Crores, we believe that over the next few quarters, spanning into even next year etc., we expect 10% of the book and this is basically an estimate because nobody knows when COVID will get lifted, when things will become normal, but we are making an intelligent estimate and we are saying that it will be about 10% of this book is likely to become NPA over a period of time and also we believe that out of this portfolio about Rs. 1,200 Crores worth of book is likely to be restructured. These numbers of Rs. 1,700 crores and Rs. 1,200 crores to some extent we have looked at while going through the book, which we have in corporate business and retail and we have estimated it based on the industry to which they belong to and if it is a retail or a personal segment loan, whether there have been any of the overdues in the past, based on those cost usually in post account, we estimate that about 10% of that is likely to become NPA over the next few quarters and 1,200 Crores will get restructured, of course the performance of restructured accounts, will be again dependent on how things pan out over a period of time. If we had to look at this Rs. 1,700 Crores, we have also further estimated that Rs. 1,400 Crores out of those Rs. 1,700 Crores they are likely to slip into NPA in the next two quarters that is Q3 and Q4 and if you were to look at what is the composition of that Rs. 1,400 Crores which is likely to become NPA in the next two quarters, we believe that in the area of corporate it is likely to be about Rs. 600 Crores and there will be personal segment of Rs. 350 Crores and in the area of business it is about Rs. 450 Crores. So, we expect that cumulatively Rs. 1,400 Crores are likely to slip in the next two quarters. If you look at the composition of the restructured of Rs. 1,200 Crores, it is about Rs. 275 Crores in corporate, Rs. 300 Crores in personal segment and about Rs. 625 Crores in business segment. Here I would like to mention that our categorization of corporate and business loans that has undergone a change based on the revised guidelines of SME. So, now we are categorizing anything which is below 25 Crores into business segment and anything which is above 25 Crores, we are classifying it as corporate. .

Renish Bhuva: Sir, just if I may allow just the last question on this part. So maybe what we are essentially highlighting is the business banking is sort of appears to be more vulnerable. So geographically, this is primarily from the Kerala book or this is spread across Pan-India? Or maybe concentrated in a couple of geographies, let us say, Maharashtra or Tamil Nadu, where this lockdown or the COVID cases are sort of higher than the other part of the India?

Murali Ramakrishnan: Instead of actually looking at geography, I think it is a good idea to look at, let me just take out whether I have a detail on geography itself. But just to give you some sense on business loan, see, due to COVID situation, you know that many of the businesses got impacted both on the supply side as well as on the demand side. So if you have to really look at the breakup of our business segment, the top 3 sectors where we have faced some kind of stress in the past is in the area of textile, food processing and trade, these are the subsegments where we have had delinquencies in the past, particularly in the business segment. COVID situation frankly has put the entire thing off-control. So we are closely monitoring them and we believe that if things become better, these segments, which are traditionally vulnerable, they probably will be showing some signs of coming back on track, but then obviously, it is anybody's guess as to when things will become better. But if you had to really look at geography-wise, let me just see if I have the data. Maybe I can share it with you once I calculate that and send it across to you.

Renish Bhuva: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Amit Dalal from Tata Investment. Please go ahead.

Amit Dalal: I have two questions when you say that you expect out of that your moratorium, only about Rs. 1,400 Crores to go into GNPA in the second quarter. Therefore, you have enough comfort on a granular level for the rest of the moratorium book's ability to start bearing interest and repayments and it seems like a very aggressive number to say that only less than 10% will perhaps or even 10% that will be affected and the rest will be able to pay because in the last three months, you did not have that spectacular an improvement in the moratorium book? The second question I have is when you speak to your other customers, besides the fact that there are business problems right now, the customers who are paying the interest and who are not really in any difficulty who are ex moratorium, do you see them on a more positive trend to this? Do you see a recovery in their activities in the manner in which they think that perhaps next year will be even better?

Murali Ramakrishnan: Okay. Let me take the first question. So if I have to reiterate your question, you are basically asking when I am saying that out of Rs. 17,065 Crores which is under the moratorium, we expect NPAs about 10% out of this portfolio, which might fall as NPA over the next few quarters and about Rs. 1,200 Crores of that will get restructured. This estimate, we have actually, as I said earlier, we have done segment-wise, and we believe that in the personal segment, we expect slippages of about Rs. 350 Crores and restructuring of Rs. 300 Crores. And on the business segment side, we expect slippages of about Rs. 450 Crores and restructuring of Rs. 625 Crores. This estimate we have made after looking at, as said earlier, about the default history of such customers and the way some of these business segments have got impacted, which have traditionally given us pain. So this is on one side. The other side, other leading question could be, out of the restructuring, do you expect anything to become NPA over a period of time? I think your guess is as good as my guess. We are hoping that things will become better in the environment. We generally have seen that in the past, wherever accounts get restructured, depending on how the economic situation takes a turn, about one-fourth of that is likely to become NPA over a period of time. So I do not want to give an assumption that the entire restructured portfolio, we will be able to service even in the days and months and years to come, we expect that some of them definitely would fall, to go down because we should remember that these segments are generally not very resourceful. So if there is a situation which is going to hurt them badly, they will definitely slip into NPA, even if we estimate the cash flows fairly well at the time of restructuring. Have I answered your question?

Amit Dalal: Sorry, so just to interject here again. I am more concerned that recognition of the probability of the moratorium book becoming NPA, is that a detailed process that you have at the branch level? I mean, I do not believe in just looking at it on a segment-wise you can come to a conclusion on the potential customer becoming NPA or not, it is a combination of various things for somebody to become NPA. So do you have a very, very granular and detailed process at the branch level for them to come back to you and tell you we expect this much to become out of moratorium in NPA?

Murali Ramakrishnan: Yes. If you ask me, when we estimate, obviously, we estimate not only taking in account the past behavior of the customer, obviously, we interact with the team, which is handling such customers to get to know the reality on the ground. So that is expected of us and that is what we have done.

Amit Dalal: The second is, I wanted to ask you about the ex moratorium book. Do you see that book showing a positive like the rest of the people are expecting that next two quarters and then perhaps even next year will be far better improvement? Do you see that much optimism on the ex moratorium customer?

Murali Ramakrishnan: In terms of the repayment behavior, et cetera, that is the estimate which we have done, therefore we are fairly optimistic that if things do not really become worse than what it is today we expect this behavior to continue. But if you ask me whether the opportunity for business growth, etc., is it going to be hugely different in the next two quarters and next year? We believe that the opportunity will be fairly tepid till this year, I mean till March. And next year, we expect that things will become slightly better, and in our workings, we are taking about 10% growth for the next year. So if obviously, things become better than what we are estimating, we believe that these things can probably change for better. But if things become worse than what it is, obviously, we will be revisiting. And see as a prudent lender, we keep revisiting some of this, whenever we come out with the quarterly results we go through our portfolio again as if we are looking at it fresh again. And whatever actions we need to take in terms of looking at how they will behave over the next few quarters, we will take appropriate actions. Wherever we need to cautiously provide for likely falling of those cases into NPA, we will do appropriate actions at that point of time.

Amit Dalal: Thank you.

Moderator: Thank you. The next question is from the line of Sreesankar Radhakrishnan from JBSN. Please go ahead.

Sreesankar R: Thanks for the update. A quick question from my side, sir. When you mentioned 26% of the portfolio is under moratorium. Within this 26%, these people might have opted for moratorium and my understanding is probably within that, some people might have paid 1 installment, some people might have paid two extra. Can we have an idea of how many of this portfolio has not yet seen a single installment have been paid and it is completely under moratorium?

Murali Ramakrishnan: See, this aspect of 1 installment, 2 installments actually made a lot of sense when we were estimating numbers of 36% for Q1 but if you actually look at September 1, 2020 , when the moratorium got lifted, now everything has fallen due. Whatever is the interest payable for working capital loans during the first six months as per the guideline, we need to create it as FITL and which has to be paid over the next seven installments. And wherever it is term loan, we need to do appropriate action. So now there is no point in talking about 1 installment, 2 installments because since the moratorium got lifted, everything is just voluntarily supposed to be paid by them. Therefore, we estimated how much is the collection to be done for the month of September, and that is where I have indicated to you in my earlier answer, that 80% of that got collected, in which, we are finding that about 90% kind of collection has happened in the retail areas and slightly lesser collection has happened in the area of business segment and corporate loan. So in our view, this aspect of even somebody had not paid at all during moratorium because likely they would not have paid because they wanted to conserve. But if that money had fallen due in September, if they paid fully, then it actually defies our assumption that if somebody had not paid, they would continue to default. Cumulatively when you looked at it, we feel that 90% collection especially in the retail area, home, LAP, etc., it seems to be a fairly good indicator that people have started honoring whatever is the commitment once the moratorium got lifted. So to answer your question, right now, I believe that by the end of August, whatever was lying in their account, whether it is catering to 1 EMI or 2 EMI, they have actually made use of that even while bringing down the moratorium percentages from 36% to 26% when we did a collection drive in the month of August. Wherever such amounts, which were lying in excess, were paid by the customer and that is the reason why we could bring it down to 26% from 36%.

Sreesankar R: Okay. So if I rephrase my question a bit further, Sir. As at August 31, how many of these customers have not paid even a single installment? Not how many, what value?

Murali Ramakrishnan: That is what I am saying. Based on Rs. 17,065 Crores, which is the moratorium book if you were to look at. The way to look at it what were the dues to be paid by them before February 29, when the moratorium was lifted, what were the dues to be paid by them during the period of moratorium? So, if you add these two, that is the total dues to be paid by them when the moratorium got lifted, okay? If you were to look at that, we estimated based on whatever collection we could do in September. I gave an indication about what percentage of such portfolio will become NPA, what percentage of such portfolio will get restructured, is precisely based on whether they paid at all their dues, which fell due in February 29 or the dues which were to be paid in the period of moratorium. So that adds up to Rs. 1,400 Crores is likely to become NPA in the next two quarters, and we are estimating Rs. 1,200 Crores to get restructured within the restructuring period, which has been indicated. So when I said 10% of Rs. 17,065 Crores will become bad, of which, Rs. 1,400 Crores we are reckoning in the next two quarters. We expect that Rs. 300 Crores, which is left out, will become NPA over the next financial year. That is the way we have looked at it.

Sreesankar R: Thank you. Really appreciate it.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Thanks for taking my question Sir. Firstly, first, of the Rs. 17,000-odd Crores, Sir what is the collection efficiency as seen in the month of September?

Murali Ramakrishnan: This was the same question asked sometime back. It is about 80% overall.

Roshan Chutkey: No, not overall, only for the morat book?

Murali Ramakrishnan: In the month of September, whatever is to be falling due I mean, the recognition of a morat book and the recognition of a regular book for the dues which is falling due in September is same. There is no special thing which we looked at for morat book. In fact, when we looked at estimate of how much of that will become NPA, or how much of that will become restructured, that time we had a specific look at this morat book so that is why I indicated the percentages which can split into NPA and which can slip into restructuring. So for the month of September, see, I would be worried even if they have not opted for moratorium. But if they have not paid the September dues, I should be worried about that, too, right? Therefore, we look at whatever is due, which is supposed to be collected by the month of September, how much have we collected out of that? I think that is the way I look at it.

Roshan Chutkey: What about the average MSME loan ticket size? Why has it decreased?

Murali Ramakrishnan: Average MSME loan ticket size. Typically, MSME average ticket size, if you were to look at let me just take out the numbers for our bank. Let me just quickly take that out and probably answer you. Your question is what? Basically, you are asking average ticket loans that?

Roshan Chutkey: In average MSME loan ticket size, in June quarter has jumped up to Rs. 65 lakhs and again, has fallen back to Rs.49 lakhs. So what is happening here, I wanted to understand?

Murali Ramakrishnan: This was due to reclassification of Business loans with smaller ticket size (earlier classified as Retail) to MSME book. . Some of them has actually now moved into MSME loan book, depending on the definition, which is newly given for SME.

Roshan Chutkey: If anything, that should increase the ticket size, right?

Murali Ramakrishnan: Just to tell you, from the market, typically, MSME for large banks. If you have to look at the segment, which is typically let us say Rs. 100 Crores turnover and below as 1 segment and, let us say, Rs. 100 Crores to, let us say, Rs. 25 Crores which is the definition of SME, we were to look at the well-run banks typical average ticket would be close to a Rs. 1 Crores for customers who are below Rs. 100 Crores of topline and typical average ticket size would be about Rs. 8 Crores to Rs. 10 Crores for people who are Rs. 25 Crores and below. So this is a normal average. So whatever we are talking about is significantly lower than that. So it is an impact, to just to give you that comfort it is extremely granular.

Roshan Chutkey: Understand. But because of the change in definition, the ticket size should go up, right? I mean it should not come off?

Murali Ramakrishnan: No. It depends on the growth. Growth also of what we have done, right, and each of the segment also we have grown.

Roshan Chutkey: Right. So such a drastic change, how can you explain that? I mean, Rs. 65 lakhs becoming almost Rs. 50 lakhs? I mean even growth, incremental growth, whatever you have been chasing I mean, it is hard to understand this that is my point.

Murali Ramakrishnan: If I were to understand your question right you are asking the average ticket size as of September 30, 2020 in that is about Rs. 49.84 lakhs for MSME?

Roshan Chutkey: That is right. Sir, Slide #12.

Murali Ramakrishnan: Your question is why that average has come down from the earlier number of Rs. 65 lakhs, that is what you are referring?

Roshan Chutkey: Right.

Murali Ramakrishnan: I think I will have to dig details and come back to you on that. But I can tell you that MSME the total amount in Crores for MSME book after the classification is about Rs. 19,711 Crores. Number of customers, number of account is about 39,549 number of accounts so average ticket size loans which is about Rs.49.8 lakhs. This is the calculation I have. But change from the previous one I will have to get back on that.

Roshan Chutkey: I will appreciate it if you can just disclose what collection efficiencies for the morat book? I am sure you have looked at it before giving out these restructuring numbers and slippage estimates, if you can also talk about the collection efficiency about the morat book in specific for the month of September. That will be very useful.

Murali Ramakrishnan: That would be useful for you to estimate how much is likely to become NPA, or how much likely be restructured, right? That figure I am sharing with you.

Roshan Chutkey: Is it fair to assume then the rest of it is all paying in time?

Murali Ramakrishnan: Yes, yes, exactly.

Roshan Chutkey: So Rs. 1,700 Crores, plus Rs. 1,200 Crores is the problem book, the remaining whatever is all paid up?

Murali Ramakrishnan: Out of the Rs. 17,065 Crores which we are talking, but based on the current estimate, obviously.

Roshan Chutkey: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

Pritesh Bumb: Sir, I had two questions. First question is that what will be the trajectory of PCR from here on? Could you also guide on the provisions for the legacy book and the new NPA formation as you have guided? We have struggled with the lower PCR historically but now because of lower strategies we could ramp up the PCR now what will be the way going ahead what of a level of PCR you want to see and what provisions do you get? That is the first question.

Second question is, what is the view on capital raising given we have a lower buffer in terms of CET1? Bank is also planning to grow like 10% next year. So we will have to and given with commissions which may come from the new NPA formation, you could see some capital being required. So how do you want to take it forward for that? So these are my two questions.

Murali Ramakrishnan: To answer your first question, as you said rightly, PCR for this quarter, which is looking at about 65% clearly is because of the advantage, which is the derivative to the COVID situation of not classifying etc. But we have done our estimation based on for the next 2 quarters, assuming that our advances, we are not really projecting any growth. Taking that into account, I believe that PCR, including write-off, will be in the range of 60% to 63% for the next two quarters and it is expected to be in similar range for the next year so between 63% to 66%. That is the range which we are looking at for next full year. For PCR, excluding write-off, it is typically what has been looked at by analysts like you that used to be in the range of 39% for the Q1, which is currently at about 48%. But we believe that this 48% is clearly slightly one-off high number. So it is likely to be between 40% and 42% for the next two quarters and a similar range for the next full year, 41% to 43% kind of range for the next full year. So this is on the PCR. This is based on the fresh slippages, the recovery, which will happen out of gross NPA, all that and the cumulative provisioning, which we are looking at based on the numbers which I have spelt out earlier. We have taken those into account and we are estimating it to be like this. With respect to capital, yes, we have taken action in terms of getting the approval for raising equity, and once we are ready for in what form and what quantum we want to raise, we will get back to the market. We believe that the overall infusion will happen by raising funds maybe in two tranches. To start with, it will be a much smaller quantum and depending on how things pan out, will probably look at raising some more in the next year. Then we will again take it off on how things pan out because it is anybody's guess as to how future of COVID is going to be. So depending on that if there is a need for any further infusion of capital, we will take appropriate action at that time. Now the immediate need of the hour is to ensure that we are taking care of our capital, to take care of this provisioning impacts, etc., for that we will be hopefully late Q3 or maybe early Q4, we will be hitting the market for equity infusion.

Pritesh Bumb: Sir, the follow-up on the first question. You said a similar range for this year and next year as well to reach this type of provision coverage we had on about Rs. 200 Crores type of a provision each quarter. So in that view, will it be same trajectory of Rs. 200 Crores per quarter? Or do you see something a little lower or maybe higher in terms of provision on the P&L side?

Murali Ramakrishnan: If you were to really look at fresh slippages, for this quarter and for the Q1, it has been obviously at a much lower level because of this morat, which was there. So that is likely to become high for Q3 and Q4. So depending on that, obviously, the provision will also appropriately be done for that. Therefore, we expect the 65%, which is currently, will be probably going down to 60% to 62% and at a PCR, excluding write-off rates, will be about 40% to 42% kind of level. So next year, we believe that the fresh slippages, hopefully, cumulatively, it will be far lower than what we are estimating for this full year and therefore, it is expected to be sustained in those ranges.

Pritesh Bumb: Thank you.

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

Jai Mundhra: Congratulations on your appointment, Sir. I have a couple of questions. First is on collection efficiency. So when you said you had 80% collection efficiency for September, could this include appropriation from customers, which had paid the money in March and subsequently opted for moratorium? Hence, if you see purely duly received for the month of September could it be lower than 80%? So first on collection efficiency this 80% number, would it also include the collection, which you had got in the month of March because some people would have deposited the money in March and then subsequently have opted for moratorium?

Murali Ramakrishnan: If you look at, moratorium as a percentage has come down from 56% to 36% to 26% by June end and by August end. So whatever has been paid, etc., that has all been accounted. Whatever I am saying as month of September collection is whatever has fallen due in the month of September, of which we have collected about 80% of the amount which has fallen due in month of September.

Jai Mundhra: This was collected in the month of September only, not the previous appropriation, right?

Murali Ramakrishnan: Yes. It is a collection made on the amount, which has fallen due for the month of September collected from those customers.

Jai Mundhra: Second question is, Sir, on retail, when you say if I heard it correctly, you said retail collection efficiency is 87% and we have around 37% of the retail portfolio, not paying for the month of September, right? So how does this tally?

Murali Ramakrishnan: Sorry. Where did you get the 37%, sorry?

Jai Mundhra: The 37% is, Sir, Rs. 5,497 Crores, which is the personal loan, which is still under moratorium, Slide 42.

Murali Ramakrishnan: What I said earlier was Rs. 14,798 Crores is the personal segment loan, of which Rs. 5,497 Crores opted for moratorium as on August 31, which is about 37% of the personal segment book. So your question is this collection percentage, which I talked about, for each product segment, they are in the range of 85% to 90%. Like, for example, mortgage loan is about 87.5%, vehicle loan is about 93%, housing loan is about 91%. So that is the collection which we made for the month of September from these segments, other personal loan, it is about 85%. So being that what it is, when we estimated NPA and restructuring, as I said earlier, we looked at whether such customers have exhibited defaults in the past ever, whether they were in any of the bucket dues, etc. Either they will become NPA in the next two quarters or they will become restructured and probably recover over the next couple of years. So that is about Rs. 650 Crores.

Jai Mundhra: No, that is understood, Sir. Only mathematically, 37% of the people are not paying and 90% of the money you are receiving. That is not possible, until unless you are counting the arrears also in 87% or 90%? Or what is the gap there? Sorry, so what is the gap?

Murali Ramakrishnan: No. That 37% of the people have opted for moratorium and the people who opted for moratorium, if you look at many of them they were conserving money for emergency so many of them were opting for moratorium, not because they were stressed. They were actually conserving and as and many of them, if you look at, 56% has become 36% and then 26%, because of people who have also not wanting to pay higher interest because at the end of the day this interest on interest issue, which is being raised now, this has been a concern for a very shrewd borrower. He would have thought about it even then. So they started paying. That is the reason why it came down to 36% and subsequently 26%.

Jai Mundhra: Right. So 37% of the portfolio did not pay for September that is right?

Murali Ramakrishnan: No. 37% of the personal loan book was under moratorium as of August end.

Jai Mundhra: Meaning what? They did not pay?

Murali Ramakrishnan: Out of Rs. 17,065 Crores, which is lying in the moratorium book as of August end, Rs. 5,497 Crores were from personal segment.

Jai Mundhra: Yes. So what does it mean, Sir? So that they have not paid for the month of September, right?

Murali Ramakrishnan: No. It is August end I am saying.

Jai Mundhra: But you have written September end, Sir?

Murali Ramakrishnan: Moratorium got lifted in August end?

Jai Mundhra: So what does it mean that 5,000?

Murali Ramakrishnan: I am giving the figures as of August end.

Jai Mundhra: But you have written September.

Murali Ramakrishnan: If I were to reiterate, maybe there is an understanding gap. What I am saying again, let me reiterate. Out of Rs. 65,349 Crores, which is our total advances book, personal loan contributes Rs. 14,798 Crores, of which Rs. 5,497 Crores was under moratorium as of August end, which is about 37.1%. Now if you were to look at for the month of September, the dues of all the people who are supposed to be paying their dues and people who have opted for, let us say, moratorium, even amongst unseen business segment, etc., who have got FITL, etc., which was allowed to be paid over 7 installments starting from September to March of 2021. If you were to look at total amount to be collected for the month of September, segment-wise, if you were to look at, that is the ratio which I read about, where we are cumulatively talking about 80% collection, of which mortgage, etc., is at about 87% to 92% 90% level and corporate, etc., is about 73%, 75%, 78% level. Total it is about 80% level.

Jai Mundhra: Understood, Sir. So this 26% number is as of August end, right?

Murali Ramakrishnan: Yes, yes, correct.

Jai Mundhra: Because the presentation says September end?

Murali Ramakrishnan: Though results are as of September end, but all of you know that moratorium got lifted by August end. So whatever moratorium book anybody is talking about clearly has to be as of August end because there is no moratorium at all in September.

Jai Mundhra: But moratorium, it could be deemed moratorium because Supreme Court has said it has deemed moratorium now?

Murali Ramakrishnan: Come again, sorry?

Jai Mundhra: Anyway, so you are clear that this 26% number is as of August end, right?

Murali Ramakrishnan: Absolutely.

Jai Mundhra: Right. That helps us. Sir, on large corporate side, when you say Rs. 600-odd Crores that are clearly at risk and may probably slip and would slip, it looks like that this is I mean, you have a I mean, BB and below book, which is, of course, the below investment grade. That book within the Rs. 100 Crores ticket size and above is around Rs. 670 Crores. So it looks like this should be a subsegment I mean the Rs. 600 Crores slippages that you are estimating should largely be from BBB and below book? Or you are estimating or I mean I am just saying that are you underestimating or no in the sense that it should flow from Rs. 670 Crores only? Would that be right assumption?

Murali Ramakrishnan: Yes. Good question. The total Rs. 100 crores plus book is about Rs. 4,791 Crores as of September end. In which, if you were to look at composition, AAA is about 22.4%, AA is about 37.4%, A is 6.2%, BBB is 20.1% and below BBB is 14.0% But if you were to really look at the amount appearing in below BBB book, these is basically 1 account belonging to the cement industry. This account is based out of Kolkata and there is a very high possibility of resolution happening, , there is a resolution which is already being worked out. In fact, all it is a consortium banking and all the banks who are part of this consortium, they are seeing a very high possibility of resolution happening. In fact, if things go as per plan, it should get resolved by November end, where, we do not estimate this account of Rs. 439 Crores. We believe that the hit will be far lower than that based on the resolution which we are talking about. But however, we are reckoning the entire amount as under stress. Similarly, if you were to look at the other account, here again, it is a retail entity. And here again, there is a resolution which is already there and it is just getting stuck because of some litigation, and this is also likely to get resolved. So frankly, we do not really foresee problem in this account too. There is an account, which is a Kerala-based large NBFC group., We absolutely expect nothing to happen in this. Entire money will be paid. It is a Gold loan NBFC and we believe that there would not be any impact on this at all. So therefore, if you were to look at below BBB book, which is a concern, which is right concern from your side, we just want to say that we have closely looked at each of these accounts and we believe that there is a very high resolution possibility in 1 of the 3 accounts, 1 complete resolution and 1 we will be closely monitoring.

Jai Mundhra: Right. Sir, if you have the quantum of this retail entity, which is stuck in the litigation, I mean, our exposure and the Kerala-based NBFC group where you have I believe the exposure is a part of some other business in the gold loans NBFC, right

Murali Ramakrishnan: No. There are two accounts of Rs. 115 Crores each. One Rs. 115 Crores is in the retail industry. One Rs. 115 Crores is on large NBFC player who has got a Hotel project. It is not NBFC, which is defaulting. It is belonging to a large NBFC group. They have built a hotel and that hotel is what is shown here as below BBB external rating. Just want to reiterate that, there is no default in these accounts.

Jai Mundhra: The collection efficiency for the month of September is 80%, and you are suggesting that Rs. 3,000 Crores is roughly 15%, 16% of the Rs. 17,065 Crores. So this way, you are saying that 80% of the people are anyway paying and 20%, which are not paying, most of them could slip, and that is how you are building this Rs. 2,900 Crores. Is that the way to look at it?

Murali Ramakrishnan: No. See, we cannot say that somebody has not paid for 1 month we should reckon them as NPA. I mean, obviously, a lot of recovery happens also in subsequent months. So when we look at estimation for NPA and restructuring, it is not just about 1-month behavior. We need to look at to which industry do they belong to, whether they have moved into SMA-0, 1, 2 in the past. If it is a retail account, whether they have slipped into any of the buckets in the past and how frequently are they showing such behavior, all those are obviously factored when we estimate how much is likely to fall as NPA. In fact, that is the reason why we are saying, though we are saying that 10% is what will fall as NPA over next few quarters, we are reckoning that Rs. 1,400 Crores of that will become NPA in next 2 quarters, maybe. That is based on our detailed understanding of what is happening. But obviously, all these are based on the estimates of what is likely to happen in Q3 and Q4 and how COVID situation pans out and how it will impact the various businesses of our customers but we believe that we have done some homework and we are saying that this is what we are estimating at this juncture. Clearly, as and when we come out with our third quarter results, that time again we will have a relook at all of this. And if there is a revision to be done either ways, whether it is positive or negative, we will disclose that also at that point in time.

Jai Mundhra: Right. Sir, the question is where I was coming from is Rs. 17,065 Crores in exit moratorium. You said the collection efficiency is broadly same as the total portfolio of the book, which is 80%. Is that what you meant when someone asked that what is the collection efficiency in the moratorium book? You said it is broadly similar to the overall bank level. It is around 80%.

Murali Ramakrishnan: I just want to reiterate. See, once the month of September comes, the distinction of a moratorium account and non-moratorium account, we should be concerned about what out of them is likely to become restructured or likely to become NPA. So I am sharing with you what our estimate based on the understanding of various accounts that are forming part of these business lines. Now out of the total amount, which has fallen due for the month of September, which is both from accounts which have sought moratorium and those accounts which have not sought moratorium, we believe that the percentage collection is which I am sharing with you is based on the dues. After August, my approach is not going to be any different for a moratorium or a non-moratorium account. I need to be concerned about both of them. If they default, we need to either do restructuring or we need to categorize them as NPA. So therefore, we have had a look at both of them and we believe that out of the moratorium, what is likely to fall as NPA, what is likely to become restructured, is something which I am sharing. So that is based on the estimate of the moratorium book and the industry to which they belong to and their past behavior, etc., so that is a distinction I want to make it. I mean, beyond a point, I think it is overkill to really say how much is the specific collection efficiency. We have factored that only in the estimation of what is likely to become NPA from the morat book. I read out also the percentages in various business lines we have. What percentage of that book is likely to become NPA, what percentage of the book is likely to be restructured, even that percentages I have read out in one of the answers. So I think what we believe is that we have done that work and we have disclosed what we have done.

Jai Mundhra: Last question, Sir in your BSE release, the point #10, sir, if you can elaborate what is this, Sir? The Indian Parliament has approved the code on Social Security, which impacts the contributions of the company towards PF and Gratuity?

Murali Ramakrishnan: Sorry. Sorry, I did not get your question again. Please repeat.

Jai Mundhra: Sir, the point 10 on Social Security in our BSE release that says that contribution by the company towards Provident Fund and Gratuity there could be some impact. If you can explain, Sir, what is the change and how are you approaching this issue? Have you made any communications?

Thomas Joseph K: See, the final guidelines as to the numbers, etc., is still not declared by the government. So since the rule is already proclaimed, we have made a note on that. Otherwise numbers are all not declared by the government itself.

Moderator: Thank you. The next question is from the line of Tejas Parekh from Citibank. Please go ahead.

Tejas Parekh: My questions have been answered.

Moderator: Thank you. The next question is from the line of Krishnan P.S from India Advisory. Please go ahead.

Krishnan P.S: Thank you. I have two questions. I think one of them has been answered. I think from a shareholders' perspective, value perspective, do you feel it will be good for the bank to explore a strategic partnership with a large financial services firm that does not have a banking license or maybe even consider a merger with a large financial services firm or other private sector bank? I will be interested to know your views about it.

Murali Ramakrishnan: No. Frankly, I have no views on this. We believe that this bank is a 91-year-old bank, which has had great vintage and it has seen ups and downs over the several decades of its existence. There is a great franchise value to this brand. We are very well entrenched in Southern part of India, and we have a great franchise in Kerala. We have a very great franchise in NRI base. We also believe that this bank in terms of corporate governance, etc., is one of the best which I can definitely say. With all this, I believe that the share price is definitely a concern. But then we believe that if we focus on our core activity of doing all the right things and steer the bank in the right direction, we believe that market will definitely look at the performance and it will correct itself. So we really do not foresee that to be a reason for looking at merger or any of those because we believe that this bank enjoys a tremendous reputation and franchise value.

Krishnan P.S: That’s it from my end. Thank you.

Moderator: Thank you. The next question is from the line of Swanand Samant from Chanakya Capital. Please go ahead.

Swanand Samant: Sir, my question is on moratorium again. So in the June quarter during the conference call, it was around Rs. 23,000 Crores. So at that time, the comfort was there that which was 36%. So the comfort was there that 21% of the morat people have enough balances to pay all 3 EMIs, 5% have balance to pay 2 or 3 EMIs and 8% have balance to pay 1 EMI. So the stress was only that 2%, which comes about Rs. 500 Crores. So what has changed so drastically in the next 3 months, the estimate has gone from Rs. 500 Crores to around Rs. 1,700 Crores kind of expected stress?

Murali Ramakrishnan: I just want to remind you that moratorium period was from March to August. So it is about, 6 months. So if somebody had only 1 EMI or 2 EMI, it is only to indicate that these people it is not that they have absolutely no money, and therefore, they have sought moratorium. I think the effort that time was to say that people are actually conserving money because they do not know how long it will go, how much the impact is going to be. So just to give a sense of whether these customers are indeed completely high and dry or do they have some liquidity, and they have sought moratorium just to ensure that they have some money for emergency. So that was the indication given to say that 1 EMI, 2 EMI, 3 EMIs. But the way I look at it is as of June end, 36% of the cases, which were under moratorium, and when the drive was happening for collecting recovery from these customers, which actually led to this 36% becoming 26%, is obviously due to some of them who might have had a cash would have paid that and they would have also mobilized some more to ensure that there is no delay or default. Some people would have continued to pay partially, and they would have remained unpaid for the other months. So all that cumulative adds up to 26% of the book under moratorium as of August end and out of that, which is lying, is what we have done estimation in terms of collection, which we have done for the month of September and what is likely to fall as NPA or restructured for the periods going forward. So just to reiterate, if at all anything which has happened, I think it is a collection, which has actually happened from bringing it down from 36% to 26%, which is a good reduction, even by focusing on collection purely for the month that it happened, fairly well in for the month of August so by the end of August, we brought it down to 26%. That has happened due to collection drive which has happened during that period. So there is nothing which has drastically gone wrong or right.

Swanand Samant: Thank you.

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

Pranav Gupta: Most of my questions have been answered. Just one question so this estimation that we have done of customers that might slip or might require restructuring from the moratorium pool, have we interacted with these customers? And if we have, what are the reasons we are citing for not paying up right now? Is it solely that business has been affected on a temporary basis? Or is this a permanent loss of income that they are sighting? Why I am asking this question is because the feeling is that this cycle could be much different than real cycle because if a customer is facing temporary loss of cash flow they can very well pay up once things normalize? That is something I am trying to understand.

Murali Ramakrishnan: Right. I think it is a good question. Two things I just want to mention. If you ask me personally, whether I have visited any of these customers, the answer is no because I took charge on October 1. Clearly due to COVID, travel itself has become extremely restricted. So I have not visited any of the customers. However, when we were estimating the behavior of specific counterparty cases, etc., we have taken a feedback from the regional heads and the branches who are actually dealing with these customers, plus the collection team, which is actually handling these customers on a regular basis. Their inputs have been taken and the estimates have been made. So obviously, with respect to feedback from customers as to what is affecting them, we can probably say that it obviously depends on the industry to which they belong to and whether it is individual customer or a business segment. Obviously, the impact of COVID is very different for different sets of customers. But typically, what we are seeing is in the business segment where the collection definitely efficiency is lower relatively compared to individual segment, it has clearly happened due to some of the businesses having impact on supply getting interrupted due to the various situations. Some of them are impacted because of demand going down. Some of them got impacted because the working capital cycle has gone up. And many of the people who are particularly in the large corporate side who are part of construction, infrastructure, EPC, those kind of segments, they have all obviously been impacted because there is no major work which is currently happening and even for the works which they have done, their payments, etc., are getting delayed. So the impact of COVID definitely is very different for different sets of businesses. As far as individual is concerned, we believe that going by the collection efficiency, it is not definitely a bad performance at all in terms of 90% of the people paying just after coming out of moratorium. I think it is a fairly good indication. But obviously in terms of how the whole thing will pan out in the next few quarters and next year, we are also closely watching and hopefully, if things become better, maybe some of us will also travel to get to understand firsthand about what is happening with those customers. Today, obviously, we are restricted in traveling. Therefore, to that extent, we are going by our branch and regional offices who are interacting with them and our collection team is directly engaging with these customers for recovering money.

Pranav Gupta: Sir, just as a follow-up. Obviously, I understand that it is not possible for people to travel due to restrictions. I just wanted to understand that especially in the retail segment, are customers giving us indications or indications for collections saying that as things start to pick up we will be in a position to repay? Again why I am asking this is because maybe you could see a slippage now, but say 6 months down the line, obviously, assuming things improve, maybe they are in a position to start repaying and they get upgraded. That is just something I am trying to get a sense or a hang around.

Murali Ramakrishnan: Your voice is not too clear.

Pranav Gupta: I am asking that the customers who are not paying today may be in a position to pay say 6 months later, right? So maybe they slip now in this quarter or the next quarter, in Q3 or Q4. But say, if they see an upturn in business or upturn in their financial situation, they might pay up and get upgraded. Is that sort of a sense, which is coming to your collection people on the ground right now? Or is it too early to comment?

Murali Ramakrishnan: Frankly, I mean, it is too early to comment, we have just come out of the moratorium and we are still in the thick of COVID situation becoming worse in Kerala as well as in states like Maharashtra, etc., and Tamil Nadu. See, we have actually lot of our concentration of businesses in Kerala and next to Kerala, it is Tamil Nadu. So we have 10 of our 20 regions based out of Kerala and if you have been noticing, Kerala of late things have actually a little bit worsened and the COVID situation is indeed becoming worse than what it used to be in early days. So we are not getting the sense that customers are optimistic today. They are obviously in the midst of what is happening. So therefore, when we estimated, we are estimating that, yes, things can be hurting them and therefore, we are estimating that they are likely to be that side want to restructure it wherever restructuring is an option. Where we are already seeing that cash flows are clearly not there, and they are definitely going to be defaulting, we have reckoned them as likely NPA for the next two quarters. So just to answer you, whether there is an early indication of whether the people are feeling that things can become better, and they will be able to pay in 3 to 6 months' time? As of now, we are not getting that sense. But as and when we get such signals, definitely this whole exercise, we will have to keep redoing it as per me every quarter. We will have to look at it afresh to see what is coming out of bad situation, what is getting into bad situation. I think we need to it is a one-off situation for all of us. I mean we have never faced this in our entire 3, 4 decades of our experience as bankers. So all of us are together to see what actually is going to pan out.

Pranav Gupta: Thank you.

Moderator: Thank you. We take the next question from the line of Nilanjan Karfa from IDFC Securities. Please go ahead.

Nilanjan Karfa: Good morning. Thank you for the opportunity. Sir, just a question our bank is roughly 45-55 ratio in terms of term loan and working capital. So I just want to understand how much capitalization have we done on the working loan side?

Murali Ramakrishnan: Sorry, what is your question? Your voice is not too clear. Come again, what is the capitalization on?

Nilanjan Karfa: On the working capital side, Sir.

Murali Ramakrishnan: You are asking what is the exposure on the working capital side is that the question?

Nilanjan Karfa: No, no. Working capital is almost 55% of the book roughly, if I understand? What I wanted to understand is while you have given a collection efficiency of 80% on the term loans, how should we look at the working capital loans?

Murali Ramakrishnan: For the working capital set of accounts, if you recall, as per the guidelines, we can, cumulatively, whatever is interest payable during the moratorium period, you can categorize them as FITL and that has to be collected over the next 7 months till March 2021.

Nilanjan Karfa: Correct, that was my question, Sir, yes.

Murali Ramakrishnan: If you were to look at what is the demand made on those specific category, the demand made was about Rs. 38 Crores for the working capital we have. Of which, we had collected about Rs. 26 Crores out of Rs. 38 Crores, so which is about 68% in the FITL side as of October 12

Nilanjan Karfa: Sir, my question was of this 80% collection efficiency, which we have disclosed, the denominator is quite clear, which is the total demand for the month, irrespective of moratorium or non-moratorium. What is the numerator? I mean, could you segregate, if somebody has sort of prepaid something or somebody who has taken a moratorium and has now cleaned up his entire overdues, would you have a sense of that because that kind of changes fundamentally what percentage of customers have actually paid and not?

Murali Ramakrishnan: Against the demand made. So if the demand made let us say, for the month of September, whatever is the demand made, let us say, if Rs. X is the demand made and if they have paid Rs. A., it is A/X. That is the collection efficiency, which we always talk about

Nilanjan Karfa: My point is, let us say there is a customer who has taken a 6-month interest holiday, right? In the September, he will pay his regular dues, I mean, which is accruing for 3 months maybe or monthly basis, depending on the customer.

Murali Ramakrishnan: Correct.

Nilanjan Karfa: Right?

Murali Ramakrishnan: No, that we will take plus if he is opting for moratorium, if he has opted for moratorium and if he wants to avail the dispensation which is given, then the interest due, which has fallen for the last 6 months, will then be converted into FITL, and he will have to pay 1/7th of that FITL for the month of September.

Nilanjan Karfa: I am talking about the term loans now, Sir, not on the working capital lines.

Murali Ramakrishnan: Okay. So the whole tenure will be extended by 6 months. That is what the guideline says.

Nilanjan Karfa: Right. My question was this. Let us say, I am a home loan customer, Sir. So let us say, my monthly interest payment was, let us say, Rs. 100. So 6 months I have not paid. September, I will pay Rs. 100, right? So denominator is 100, right? Now if I end up paying Rs. 300, it will therefore optically inflate your collection efficiency number?

Murali Ramakrishnan: We will only take Rs. 100. Whatever was the due, which is rightfully paid by September, if that is Rs. 100, and if he had paid Rs. 100, it will be 100 on numerator, 100 on denominator.

Nilanjan Karfa: Thank you.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Mr. Rohan Mandora for his closing comments.

Rohan Mandora: Thanks, Janis. We thank the management of South Indian Bank for allowing us to host the call and all the participants for joining. We can end the call. Thank you.

Moderator: Thank you. On behalf of Equirus Securities that concludes this conference. Thank you all for joining. You may now disconnect your lines.