"South Indian Bank
Q3 FY2021 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the South Indian Bank Limited Conference Call Q3 FY2021 hosted by Antique Stock Broking 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. Sohail Halai from Antique Stock Broking. Thank you, and over to you, Sir!

Sohail Halai: Thank you, Nirav. On behalf of Antique Stock Broking, I welcome you all to Q3 FY2021 earnings conference call of South Indian Bank. Today, we have with us, Mr. Murali Ramakrishnan, MD, and CEO; Mr. Thomas Joseph, EVP, Operations; and Ms. Chithra, CFO; along with other senior members from the management team. Without further delay, I now hand over the call to Murali Sir for his opening remarks.

Murali Ramakrishnan: Thank you. A very good morning to all of you and thank you for joining us for the South Indian Bank's Q3 FY2021 Earnings Conference Call. We hope that you and your family are safe and healthy. I am joined by my colleagues, Mr. Thomas Joseph, EVP Operations; and Ms. Chithra H, CFO.

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

The Bank's operating performance continues to improve in Q3 FY2021.

The company reported net loss of Rs. 92 crores for Q3 FY2021 mainly due to cumulative interest reversal of Rs. 73 crore on proforma NPA and conservatively providing 100% on newly identified fraud cases with an additional provision of Rs. 67 crore during the quarter. As guided in my previous call, we will be selectively growing non-corporate book with focus on Agri, gold and MSME loans at the same time calibrate corporate book as we go along.

As on December 31, 2020, the total business for the bank stands at Rs. 1,45,139 crores.

Advances declined to Rs. 63,353 crores mainly due to de-growth in corporate loan portfolio and offset in part by 20% YoY growth in total gold loans of Rs. 8,823 crores, in tune with our strategy.

The share of corporate loans declined from 30% as on December 2019 to 24% as on December 2020.

Core Deposits, rose by 8% to Rs. 76,573 crores. CASA deposits increased by 9% to Rs. 23,332 crores. CASA ratio improved to 27.9% of the total deposits. Bulk and Certificate of Deposits declined by 51% in line with our strategy.

NRI Deposits which has been growing strongly, rose by 12% to Rs. 25,859 crores and contributes about 31% of total deposits. Low cost NRI Deposits grew by 18% to Rs. 7,903 crores.

Our investment was at Rs. 22,967 crores of which HTM category contributed Rs. 18,719 crores, while AFS contributed Rs. 4,172 crores.

Gross NPA ratio was 4.90% as on December 2020. Net NPA ratio improved by 47 basis points to 2.12% as on December 2020. In Q2-2021, we had given guidance of Rs. 1,400 crore slippages and Rs. 1,200 crores of restructuring for Q3 & Q4 of FY2021. Following the guidance, accounts not classified as NPA during the quarter due to the order of the Supreme Court was Rs. 1,379 crores and one-time restructuring stood at Rs. 44 crores. However, the Bank has provided Rs. 154 crore during the quarter in addition Rs. 22 crore provided in last quarter towards proforma NPA of Rs, 130 crore. The Bank also continue to hold Covid-19 related provisions of aggregating to Rs. 100 crores against standard assets. The above provisions of Rs. 275 crore towards standard assets is not considered in PCR calculations.

Net Interest income for the quarter was Rs. 596 crores. Net interest margin was 2.64% for quarter ended December 2020, as against 2.72% for quarter ended December 2019. Cumulative NIM for nine months ended was 2.74% as against 2.65% in December 2019

Other income for the quarter increased by 23% YoY to Rs. 270 crores. Our treasury income increased by 160% to Rs. 109 crores while core fee income decreased by 9% to Rs. 162 crores

Operating profit for the quarter was Rs. 377 crores as against Rs. 383 crores in Q3 FY2020.

The cost-to-income ratio for nine months ended December 2020 was 54.8%.

Overall provisions increased by 91% to Rs. 499 crores in Q3 FY2021. These provisions included loan loss provision of Rs. 272 crores and standard assets provisions of Rs. 155 crores. Including write-offs, the provision coverage ratio (PCR) continued to improve and stood at 72.0% at December 2020 as against 65.2% at September 2020. PCR excl w/off stands at 58% compared to 48% at Sep 2020 and 32% at Dec 2019.

Our overall capital adequacy improved to 14.5%, while the core CRAR was at 11.6%.

The bank has a wide geographical presence with 877 branches, 51 extension counters, and over 1,443 ATMs.

To summarize, the bank will continue the strategy of building low cost CASA book, focus on increasing gold loans, improve NRI share of deposits, improving cost efficiencies and 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. First question is from the line of Lalit Deo from Equirus. Please go ahead.

Lalit Deo: I have two questions on the asset quality. Sir, so in the presentation, it was mentioned that our overall slippage guidance for FY2021 is around Rs. 1,600 Crores, while the pro forma NPA as of 3Q FY2021 is Rs.1507 Crores. So is it fair to assume that the slippages in the fourth quarter will be limited to this? Or will there be any additional slippages?

Murali Ramakrishnan: Yes. So the pro forma NPA as at December 2020 is Rs.1507 Crores. This includes Rs.535 Crores towards 2 specific accounts, one of which is where there is resolution that has already happened, where we are expecting money to come back by end of January 2021 possibly, and other one is likely to get upgraded from NPA into restructure. From these two accounts, we are expecting a recovery / resolution of close to Rs.400 Crores. This also includes Rs.132 Crores of pro forma NPA, which we had declared in Q2 FY2021. So if you actually look at the actual increase, but for these 2, which got slipped into January, it is less than Rs. 1,000 Crores for this quarter, and we are expecting NPA for the next quarter to be close to about Rs.550 Crores. We expect that the overall number will probably be increasing by maybe Rs.100 Crores or so in NPA. As far as restructuring is concerned, between Q3 and Q4, we expect restructuring to be less than Rs. 1,000 Crores as against Rs. 1,200 Crores, which I presented in Q2 results.

Lalit Deo: Sir, on the restructuring assets like you have mentioned that you are planning to do a restructuring of around less than Rs. 1,000 Crores. So as of 3Q, we have done only Rs.44 Crores. So the remaining restructured assets, will this be mostly corporate loans? Or is it a combination of corporate, SME and retail loans?

Murali Ramakrishnan: As I said, out of 1 of the 2 big accounts where we are expecting upgrade to happen from NPA into restructuring is, obviously, a corporate account. Yes, the major share is from corporate, and next segment is some business loan and third one is from personal segment.

Lalit Deo: Sure. Sir, can you give us like the major sectors in the corporate, like which are the sectors from where you are seeing more restructuring?

Murali Ramakrishnan: See, it is running across various sectors. So frankly, with the COVID situation, as you know, it is very few segments, which have revived. So it is a mix of major segments. So I would not particularly say that a specific segment is going to be contributing. It is across different segments.

Lalit Deo: Thank you.

Moderator: Thank you very much. The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: I just require the couple of numbers. One was on the interest reversal side. What was the number you said, Sir, on the interest reversal side?

Murali Ramakrishnan: Rs.73 Crores.

Renish Bhuva: Rs.73 Crores. Okay and any number? I mean, what sort of margin impact we have seen because of interest reversal?

Murali Ramakrishnan: If you look at our numbers for Q2, the total income for Q2 was Rs.903 Crores, which included net interest income of Rs.663 Crores and other income of Rs.240 Crores. For Q3, net interest income is Rs.596 Crores and other income of Rs.270 Crores, adding up to Rs.867 Crores. So in net interest income, if you see, it has dropped from Rs.663 Crores to Rs.596 Crores, which is Rs.67 Crores drop. The impact of Net Interest Margin due to Interest reversal will be 11 BPS on a cumulative basis.

Renish Bhuva: So basically, should we consider this as a one-off quarter in terms of margin? Or what explains the maybe sharp drop in the yields? I mean it is largely because of the interest reversal.

Murali Ramakrishnan: Yes. As per the guidance given by me, for the fourth quarter, we are expecting another Rs.550 Crores of likely NPA, and there is Rs. 850 crore of restructuring. So obviously, if you are estimating NPA, there will be an interest reversal which will happen for such accounts, but we also believe that like the way we have worked this quarter, there will be definitely improvement in terms of our yield from the assets, which we will be building. So with that, we believe that the impact may not be as much as the reversal, which happens, it will be probably muted compared to that. So I would probably say that Q4, always, I look at Q3, Q4 together as a block because these are the two quarters just after the lockdown. So hopefully, by April, when the economy also starts reviving, we will be expecting asset growth to really kick off from there. This is in line with the strategy also which I had laid down. So as with our strategy, as we build our assets book, we believe that the traction in NII will start happening, but that certainly for Q4, you will see impact of interest reversal to the extent our pro forma NPA, which we are envisaging for Q4.

Renish Bhuva: Got it, Sir, and Sir, the next question on this fraud account provisioning, which is Rs.70 Crore, which is fully provided also. So Sir, if I recall, I mean, so once in a year, we have such sort of provisioning on the fraud account. I mean, every year, we have around 100, 150 sort of fraud accounts being identified and provided for. So Sir, since you have joined, what is the risk management practices we have changed to sort of get away with this fraud account, what is happening currently, which is actually hitting up our P&L significantly over the last two to three years?

Murali Ramakrishnan: Excellent question. So I would put it this way. See, fraud account which we had provided for this quarter, we had a choice of providing it over next four quarters. As you know, once we declare an account as fraud, we have a choice of providing it over four quarters, but we decided to take the full hit in this quarter itself for two of those accounts. That only has led to this amount which I had mentioned in my opening remarks. With respect to the changes which I am planning to do or which I have already started doing to really reduce the impact of fraud going forward, see, frauds, broadly, you can say that there are 2 kinds. One is credit frauds happening due to things happening in the account. Once the account start deteriorating, there are things which typically in counterparty does, which probably would fall into the definition of fraud as per Reserve Bank guideline. That makes the consortium of banks to declare an account as RFA, and then once an investigation happens, they then call it as fraud. So that is one thing which happens due to credit-related frauds, which keep happening. The second one is, of course, fraud related to the internal as well as customer frauds, which are more of retail in nature. I would say, first one is corporate in nature, where we are talking about deterioration is happening in the counterparty and therefore, counterparty doing things which are not ethically right. For that, one way to have a good control over that is by through an efficient asset monitoring. So therefore, we need to have a quality asset monitoring and I have definite plans of doing that, and we have already started strengthening them. This is basically to have an operations supervision on how each account will be behaving and having a closer look at how the account is behaving and whether the cash flows are indeed happening, whether the debtors are really moving in the right direction. Because this is where typically, I have seen in my experience some of us committing unethical practices. They have realized that some debtors not coming in, they can probably manage it for 1 or 2 quarters, and therefore, they do things which are not ethical, which is not generally noticed, and over a period, it deteriorates into irreconcilable situation. The only way to have operations supervision on that is to do good account monitoring. So that is one thing, which we are strengthening. The second one is to ensure that the quality of underwriting, where you look for abnormalities or discrepancies in the documents getting submitted. So you are having a good hold on what is getting misrepresented through cross-checks, etc. That comes through improving the competency in terms of quality underwriting. So we are taking definite steps in improving the quality of underwriting. In fact, as I am talking to you, we have just finished training of our entire SME team on sourcing and underwriting good quality proposals. Similarly, we have already, in half way through in terms of developing credit models prepared by consultants who are working closely with us in the retail as well as in SME area to ensure that the deals, which actually passed through the muster of quality underwriting, will only be approved and sanctioned and on-boarded. So once you spread out the balance sheet and P&L, which you get, and you can easily figure out what is being misrepresented because you can cross-check that through various other numbers, which has to correlate with each other. So it is a question of improving technology to have a better understanding of the transaction; two, to increase the competence of the team, which is looking at it; and third, sensitizing the entire team, which is involved both in sourcing and underwriting to look out for this. I think once the sensitization happens and people actually start applying this, my endeavor is that it will definitely help in identifying frauds much before they worsen, and also, we can probably eliminate them not on-boarding them in the first place. So these are some of the short to medium-term measures which I am taking, and other big thing, which I am planning to do is also that we are creating a separate operations division, which is distinct from sales, distinct from credit, distinct from risk, where operations will not obviously carry any of the sales target, we will be focusing only on what are the pre-disbursement conditions and how, whether all the terms and conditions have been met with before money gets disbursed. So all that checks, which we are expected to do, before we lend money or before we start looking at the repayments of the customer that will be done by an exclusive team, which does not carry any of these deliverables. So like the way it is done in some of the larger banks and investment banks, we are creating that division. So that will access a watchdog from not letting in anything which is not in the right way of doing things. So these are some of the measures, which I am taking.

Renish Bhuva: Right. So Sir, this redefined business operations, I mean, when it will be, get fully implemented and when we will see coming through from these initiatives, Sir from next year onwards?

Murali Ramakrishnan: We have already appointed a Head of Operations who is likely to join in the next couple of months, probably within a month or so, and obviously, the bank has been running for many years. So there is an operations activities and processes which are there. So it is just fine-tuning them to create a separate vertical under him. So once he joins, with the existing team, which is already involved in these operations, we will be clearly creating a retail asset operation, retail liability operations, which will ensure that as far as liabilities are concerned, all the KYC checks are done properly before on-boarded an account. As far as asset is concerned, all the pre-disbursement checks will be done and sensitization will happen to the business teams. All that will start happening simultaneously. So good progress is happening there, and I am sure that this is in tune with what I spelt out as my strategy. So from April onwards, we will start seeing impact of those changes, where we are doing business.

Renish Bhuva: Got it Sir. Thanks a lot for such a detailed explanation. That is it from my side, if I have any other questions, I will come back in the queue. Thank you.

Moderator: Thank you very much. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to have some comments from your side on the credit cost in the next quarter and the next year.

Murali Ramakrishnan: Yes. So credit cost, as I said, we are expecting, slippages of about, estimated slippages about Rs.550 Crores for Q4. So in all, we are talking about credit cost to be around 2.2% for the full year. That is what we are looking at.

Deepak Poddar: For FY2021?

Murali Ramakrishnan: That is right.

Deepak Poddar: So 2.2%, okay, and what about the next year?

Murali Ramakrishnan: Next year, see, there are a whole lot of changes, which we are doing. As you know, I have laid down a strategy of building retail book plan. So the composition of the business is going to change dramatically in the next year. So therefore, I would not hazard a guess now, but we would, definitely, manage the existing book of corporate business segment and whatever little we have done in the retail, and I feel that the slippage, which has been at about 2.2% plus, I would probably expect similar slippage from the existing book, but then whatever new book which we are going to add, we would want to add a quality book, so that, overall, the impact is less. I would not hazard a guess now because the composition of the book is going to be changing.

Deepak Poddar: That is it from my side. Thank you very much.

Moderator: Thank you very much. The next question is from the line of Utsav Gogirwar from B&K Securities. Please go ahead.

Jai Mundhra: This is Jai here. So Sir, first question, you are talking about the new hire as in Head of Operations. Any other hires that you can specify that you have hired and probably they are joining?

Murali Ramakrishnan: Yes. All the key lines, which I am talking about, whether it is unsecured loan, home loan, then analytics head, collections head, credit head, all these have been already recruited and given offer. So they are expected to join in the days and weeks to come, operations head as well.

Jai Mundhra: Now, Sir, question on asset quality if I look at the Slide 19, which says the collection efficiency at 89%. Just to understand this correctly, Sir, if this is broadly similar across SME, commercial, corporate or is there any variation in that 89%, roughly broadly, it will also help.

Murali Ramakrishnan: Yes. Actually, it is broadly, see, if you look at, one trend which I just want to spell out is that if you recall in the last Q2 call, I mentioned about retail being particularly better than the business and other segments. So, and also one thing which we noticed is that whenever it is falling due in a month, for that month, the recovery is on an average about 80% to 85%, but then 1 month from then and 2 months from then, we are seeing that recovery percentage is as a high as 95% plus for many of the products. So, but if you really ask me how much is the percentage in each of the segments, I mean, just to give you some indication, housing is around 93%, mortgage is 91%, vehicle is about 94%, corporate is at about 91%, business is about 88% and others are at about 79%. So overall, it is about 89.5% is what we are seeing. This used to be 92% for last year Q2. So it is a drop of about 2.5% or so.

Jai Mundhra: Right, Sir. So the second follow-up, Sir, is, so the collection is in the 89%. So in a way, as of December, the total overdue book, right, SMA-0, 1, 2 is around 10.5%, 11%, right?

Murali Ramakrishnan: You see, what happens is, as it is a very dynamic book, I think it is important to understand what we are doing to manage SMA-1 and 2 book. Your question is a valid question. So spell out exactly what we are doing to control this book. See, as I am talking to you, every week we take stock of what is happening in SMA-0, SMA-1, SMA-2 book of the entire portfolio, both in the corporate and retail side. So the way SMA-1 and SMA-2 will get built up is through the slippages from SMA-0, and any recovery happening in SMA-2 will get upgraded to SMA-1. Similarly, if more recovery happens, then it will fall in SMA-0, and if any deterioration happens, it slips into NPA. So what we are clearly concerned about is how much of slippages will happen from SMA-2 to the NPA book that we have looked at all the individual segments, and we are estimating that it is likely to be about Rs.550 Crores for Q4, and historically, what we are seeing in restructured book is because that is another area where today, restructured book could be in SMA-1, SMA-2, it could be any of those, and therefore, there is, one another thing which we should be concerned about is, how much a restructured book will not actually behave the way we are restructuring, how much of that will slip into NPA. So this is another area, which can impact your overall NPA percentage. So what we have seen is historically, it has been at about, I mean, earlier days, I am saying it was slightly at about higher level about 30%, 40%, but last 2, 3 years, we are seeing it will be close to 25% to 30% range. This time, after I joined, the way I am going about restructuring is to really look at each of the cases with the cash flows, with the business model. So we are indeed restructuring only those cases which we probably believe will behave, but having said that, obviously, environment is something which you cannot have control on. Therefore, we are expecting slippages to anywhere between 25% and 30% to happen even from the restructured book. So overall, the estimate which we are giving for Q4 is Rs.550 Crores towards NPA and about Rs.850 Crores of restructuring is likely to happen. We have not done too much of restructuring as of Q3 end. So restructuring book, which I had estimated Rs. 1,200 Crores by end of Q2 call, I am expecting a bulk of that about Rs.850 Crores to be done by Q4.

Jai Mundhra: All right. So I think the way to understand is 11% overdue book, Rs.550 Crores, let us say, which is 1% of the total loan book may slip and Rs.900 Crores, which is, let us say, additional 1.5% may get restructured. The rest will not change bucket, right? That is the understanding that they may remain overdue, but probably will not slip.

Murali Ramakrishnan: Yes, correct, correct. Yes.

Jai Mundhra: Okay. Okay. Yes. So that is that, and just a clarification, Sir. So the way to understand March 2021 number of Rs.1600 Crores is the gross number, right? I mean, as you have said, that Rs.400 Crores recovery, this is net of that number in a way?

Murali Ramakrishnan: Yes. For the full year of Q3, Q4, put together. You are talking about the NPA guidance, which I had given from the moratorium book, right?

Jai Mundhra: Right.

Murali Ramakrishnan: Yes. So that takes care of it Rs.400 Crores. Not Rs.400 Crores of recovery, it is about Rs.285 Crores of recovery and Rs.115 Crores of upgrade from NPA to restructuring.

Jai Mundhra: Okay, Sir, and just last 2 things, Sir. If you can specify the sector of these 2 probable restructuring and probable resolution and the fraud account.

Murali Ramakrishnan: You are wanting to; sorry I did not understand your question. You want to know the names of the accounts.

Jai Mundhra: Names, no Sir. Sector will also help.

Murali Ramakrishnan: Sector, okay. The one which we are expecting the resolution to happen by January is East-based Company, and it is in cement business and the one which is getting upgraded from this thing is retail.

Jai Mundhra: The fraud account is the jewelry account?

Murali Ramakrishnan: No. Fraud account is large infra.

Jai Mundhra: Right, Sir, and the last thing, Sir, restructuring, is there any, what is the interest accounting? I mean do we keep accruing interest on restructuring. Or is there any, I mean, we do not accrue the interest on restructuring, so that was the last one.

Murali Ramakrishnan: The way restructuring will be done is, whichever is the interest overdue, we will do it as FITL, and then we expect them to pay as per the revised repayment structure, and it will then follow regular criteria. I mean if it does not get paid, then it will get slipped into bucket, and then it will become NPA if it across the 90 days.

Jai Mundhra: In a way, it will keep accruing, but if they do not pay, you will create an FITL, so provisioning is adjusted.

Murali Ramakrishnan: Yes. Once we restructure, we need to provide immediately as per, 10% as per the COVID provisioning norm. So that will happen. Then we will keep monitoring the account as per the revised cash flows, which were envisaged in the revised repayment structure, and then it will follow the regular bucket movement, SMA-0, SMA-1 and 2, etc., and we will keep providing as per the bucket movements.

Jai Mundhra: Great Sir. Thank you and all the best.

Moderator: Thank you very much. The next question is from the line of Sreesankar from InCred. Please go ahead.

Sreesankar: I have a couple of questions. The first question is, thanks for the guidance for March 2021, but at the same time, I do not know whether you answered this question earlier, what is our SMA-0 plus 1 plus 2, our total outstanding today as at December? And I am sure that SMA-2 will have, because of the current guidelines, it may have more than 90 days also life in SMA-2. So what is your total? Can you give a breakup?

Murali Ramakrishnan: No, we can broadly say that, as I said in my earlier reply, SMA-1, and SMA-0, 1 and 2 and NPA, is looked at as a dynamic book, which we keep reviewing every week. So if I give a number also, it is a number as of, let us say, December 31, for which I have already told how much is the NPA, how much is the likely restructuring and what is the provision NPA, which we are carrying and also the provision, which were made towards those pro forma NPAs. So it is a dynamic number. Therefore, I would probably say that the COVID restructuring, what we have done is only Rs.44 Crores as of Q3 end, which we will probably be doing about Rs.850 Crores in Q4, and pro forma NPA as of Q3 end is about Rs. 1,507 Crores, which includes that Rs.535 Crores of 2 accounts, where we are expecting recovery/upgrade of Rs.400 Crores and additional proforma NPA of about Rs.550 Crores. So if I were to really say from SMA-1 and 2 book, what will happen to those book in terms of having an impact in provisioning is something which I am giving guidance for. I think that should be good enough to sort of understand where we are, right?

Sreesankar: Okay, and see, Sir, you have bit the bullet this quarter by taking a large amount of provisioning, thereby probably reported a loss. Do you think that this ethical reaction, to me, it is only a book entry, which should have happened long back? Do you think it will impact your liabilities account, Sir?

Murali Ramakrishnan: Fraud account where you have taken a full hit, you are asking whether it should have been done long back. Is that what you said in your question?

Sreesankar: No, no, no. The entire provisioning, our PCR has been extremely low when compared to the peers in the market. So that was one issue, which has got addressed to a great extent, but my question is, do you think that this is going to have an impact on your liability customers? Because a loss from the bank is probably not something that customers probably would not have taken care. So have you addressed it with your large liability customers? And do you think that our deposit growth of 8% or so is reflection of continued trust. So now that is not going to be an issue going forward?

Murali Ramakrishnan: No. See, look at it this way. This COVID, I mean, if you want to really look at, probably my answer will be a little longer, and so you need to have patience for hearing me out. The year which ended, is an unprecedented situation, where the entire banking system was going through lockdown situation where customers were asked not to make any payment during that period, and depending on each bank's announcement, x number of customers opted for moratorium, and we also offered it to everybody and about 56% of our customers chose to avail moratorium, and this got lifted in August end, and therefore, then this is the first quarter after the moratorium got lifted because in the Q2 quarter, we had only 1 month of recovery happening. So that is the reason why we gave upfront to what we estimate from our assessment of the book which we are carrying. We gave an estimate of how much is likely to deteriorate over the next 2 quarters and over the subsequent quarters. I had mentioned clearly that 10%, which is about Rs. 1,700 Crores. We said that Rs. 1,400

Crores of that will likely become NPA in Q3, Q4 itself, and then we expect another Rs. 1,200 Crores to be restructuring. So this announcement has been made very clear, and we have been transparent in telling that and after that, we have seen our deposit growth. So, and our deposit growth is not something, which has happened now. I think we have a terrific franchise of retail deposit base for decades, and the customers of this bank has been extremely loyal to this bank, and we are very thankful to them, and we are very fortunate to have a very stable franchise of retail deposits, and what we have done over there is also to reduce the impact of bulk deposits suddenly moving out and creating a fluctuation in our deposit base. We have consciously de-grown our large corporate, I mean, large deposit book, and despite de-growing happening there, overall, our deposit continue to show growth. This is one side. The second side is on the CASA, where you can very clearly see that our savings account deposit is going up and that has led to overall CASA growth. I would tend to think that by making it very transparent and clear, I think the credibility of the institution definitely gets built as we keep coming up more and more in terms of what we actually are doing and what we are actually doing to improve our franchise and improve our brand positioning. This will only help more and more customers to start putting more and more deposits is my reading of the situation. So I would tend to think that the more we are closer to what we are announcing in the sense that based on our estimates, the more we stick to that, I think, we will be definitely building a lot more trust with our stakeholders, and deposit holders are indeed one of our strong pillars of this bank. So, we are expecting things can only improve going forward.

Sreesankar: Thank you very much Sir.

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

Rohan Mandora: Sir, I just wanted to get a sense on the pro forma NPAs that we are having, what is the provisioning that we have created against those?

Murali Ramakrishnan: 15%. Like in NPA, which we carry 15% for year 1, we have provided 15% on that, and we have also done the interest reversal for the entire pro forma NPA cases.

Rohan Mandora: This 15% is part of the Rs.225 Crores COVID provision that we are carrying? Or is it part of the provision there?

Murali Ramakrishnan: No, it would not come under the PCR. This is part of the Rs.225 Crores which you talked.

Rohan Mandora: Rs.225 Crores. Okay.

Murali Ramakrishnan: We were calling that COVID provision. In Q1 and Q2, we were talking about COVID provisioning across the banking. So it continues to be proved under that because still we cannot call them as NPA. Therefore, we cannot put it under provision of NPA, so it is a pro forma NPA provisioning, which is added to sort of COVID provisioning.

Rohan Mandora: Sure, Sir, and in terms of like incrementally, after, say, the current financial year, when we enter to next year and going ahead, as a provisioning policy or incremental slippages, would we be broadly calling what the RBI is doing or like some banks are doing where they are looking at the LGDs from those slippages and then making adequate provision upfront? So will we like to change that policy? Or as of now, we are thinking of continuing with the RBI provisioning guidelines in FY2022 onwards?

Murali Ramakrishnan: Yes, we will be following regulatory guideline on them, and in our estimate, if we firmly believe that recovery from a particular account is going to be worsen, we will go ahead and provide more. Like what I had indicated earlier, in the fraud account also, we had a choice of providing it over 4 quarters. So we did not go by regulatory requirements. We wanted to provide fully, so that we are taking care of that. I mean one of the reasons, which also prompts us to be very prudent on that is to improve our PCR, which this is one of the areas where the bank traditionally has been having issues. So we want to address that head on.

Rohan Mandora: Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Sharvari Joshi from Trivikram Consultants. Please go ahead.

Sharvari Joshi: So my question is regarding the loan book. So this quarter, there has been a decline as you mentioned in your commentary that mainly due to the corporate book decline. So I just wanted to get the sense of how to look at the loan book going forward for, say, FY2021 and 2022? And what segments do you think would be the drivers for growth for the future?

Murali Ramakrishnan: This has been spelt out in detail in my strategy document, which is there in our site also. So as a stated strategy, we are going to be growing our retail, MSME, SME and agri book, and we will have a calibrated growth of our corporate book. So where we have given in each of these product lines, how much delta we are growing in terms of book has been clearly worked out, and we have stated that in our strategy document. I suggest that you have a look at that, and I am sure, if you still have any questions on that, I will be happy to take. Right now, I am not carrying the strategy document with me, but I can broadly tell you that we are looking at, for the year 1, which I am saying as starting with April 2021 to March 2022, and then if you compare that with the subsequent years, the growth which we are envisaging in asset is going to be gradual. We are not expecting post-COVID to be having a huge revival. Therefore, we are looking at a moderate growth in all our chosen area of growth for the year 1 and then it will increase further to year 2, and then it will probably be more in year 3. This is also in tune with what I believe is the assimilation of the changed practices amongst the employee base of our organization. So as they get used to the new way of doing things, I am sure the traction on growth of these products will also happen more easily than in the year 1. So that is how we are looking at, by way of directionally for the next 3 years. So we have clearly laid down our, the list of products to be launched in the 3 phases. First phase from April 1 and second phase starting with October, and third phase from April 1, 2022, and clearly, these timelines also we will be choosing carefully depending on how well the changes are assimilated by the employees of the organization. So with these new products and with the revised change of processes and the credit models, etc., which I talked about in my earlier reply, we believe that we will be getting traction as we go along in growth of each of these product lines.

Sharvari Joshi: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: So just two questions from my side. First is that historically, we have seen your bank raising equity capital at really discount to book as well and discount to the share prices as well, and that is a big hurdle in terms of long-term creation of wealth for the existing shareholders. So just wanted to understand your views on this policy because this kind of creates a catch-22 situation for the existing shareholders, basically to put in more money or to dilute themselves at a substantially lower price. So just wanted to hear your views going forward, under your management, what would be the policy? Secondly, on the credit size side, just wanted to understand the changes that in your credit assessment team, wherever capability to judge, whether quality of the accounts can be substantially improved. Because this is the key here, from a longer-term perspective, what matters is the quality of the lending, and just wanted to understand what changes you have done to improve that?

Murali Ramakrishnan: Yes, both are good questions. The first one is this I have articulated a few times in the past also. So we are quite conscious of the fact that when we raise capital, naturally we, there is this apprehension about the dilution of the existing shareholders' interest. Therefore, we are quite conscious of that. At the same time, we also need to look at the institution requirements and look at the other stakeholders' requirement. Therefore, we will be weighing between these two, and then we will choose to raise certain amount, which would help the institution to make the balance sheet stronger. Therefore, in the first tranche of whatever amount we are planning to raise, we are quite consciously choosing not too huge an amount, but a reasonably safer amount to ensure that the institution balance sheet is strengthened, and as we see traction happening in our strategy in the coming years starting with, let us say, April 1, 2021, and if we believe that we are going in the right traction, that is when we will probably raise the balance, a portion of the tranche one, which we are talking about. So we are quite conscious about the dilution aspect, which you talked about, and therefore, it is to take care of the institution's strength that we are doing this, and I believe that as existing shareholders, I am sure all of them would be interested in taking the institution to the higher level of performance, which will happen with making up of capital and with traction happening in the strategies which we have spelt out very clearly. So therefore, it is in no way jeopardizing the interest of the existing stakeholders who have waited this long for making returns in investing this stock. I think it is a question of watching it carefully and tracking the traction of this institution in, the way I am envisaging the transformation to happen, and I believe that if we do the things as envisage and if we stick to what we believe are the right things to do for building the institutional strength, I am sure there is much to gain for existing shareholders to stay invested. I will limit here, as far as the capital question is concerned. With respect to your second question, I think it is a very important question, and this is something, which is very fundamental to the strategy, which I am spelling out. As you are right, because this institution has actually suffered from provisioning need due to lumpy corporate exposures, which we had in the past and also due to some of those accounts declared as fraud because of various things, which I spelt out in my earlier reply. This has impacted the provisioning of the institution. So though at the operating profit level, the institution has been generating decent amount of operating income, but always the bottom line suffered due to provisioning impact. So to improve that, the way, turnaround happened, where I have had the fortune of doing two-three such turnarounds in my earlier stint in other organizations, it is, there are two things should be taken care. One is how do you manage the existing book, how do you churn the existing book into a high-quality book, for which you need a stronger credit and stronger sourcing skill. So we are going to be focusing upon improving the sourcing skill of our employees, and we are going to be strengthening the way we credit underwrite, which is what I am planning to do both in the areas of retail, SME, MSME, through building credit models with expert's advice, where our business acumen will be put in to ensure that we have the model, which can reasonably predict what is the likely default rate for the book, which you are creating, and we will definitely closely monitor the traction happening in each of this through vintage curves, etc., which we will be drawing through our analytics division to track how well the book is growing. One thing is to say that wait for the delinquency to happen before we start correcting. The other one is to take proactive actions. Once we start to see the trend line of vintage curve, we can start acting much before, it reflects in delinquency going up. So by taking proactive action and with the basing up of credit skills through models as well as training our employees and with analytics capability, I believe that we are doing all the right things to bring traction in the quality of books will be created, but it is a journey because you cannot just make the existing book to suddenly become clean. It must have journey, which will happen as we keep building more and more retail book and more and more MSME book, where the granulation of deals will happen, and we are growing in corporate in a selective way. So that lumpiness and the concentration does not affect our portfolio. So this is a journey which we will be undertaking, and I believe that with the clear milestones laid down for year 1, year 2, year 3, the way we have put in our strategy document, and if we get the act right, I am sure we will be looking at the clean book going forward, in the period which we have envisaged.

Vaibhav Badjatya: So on the corporate, obviously we look at retail and MSME, but on the corporate side, you are not thinking to kind of start again afresh with good credit assessment capability and start corporate lending, that is not on your radar at all?

Murali Ramakrishnan: No. It is in my radar. So there are two things which we will be doing in the corporate side. One is the portfolio which we are carrying today, there are obviously set of corporate book, where we have got good experience, where the repayments have been very good, and we have seen even the down cycles, they have done very well. So we will continue to nurture those accounts, and we will obviously be conscious of the total exposure, which we will take on such group, but we will definitely be staying with them, and we will be definitely supporting them through incremental lending, which will happen. As far as the other segments, we will be preselecting the set of corporates who we want to have a relationship with. In the sense that we will use the externally available rating mechanism as well as the databases, which are available today in the market, like Probe 42 or those kinds of packages that are available. We will be able to preselect the set of corporate customers who we want to target, and this will be approached through the 20 regions which we have across the country, and we will have a separate vertical created for this created by one of the talented employees within the bank to drive this business. I mean like the way retail business will be run with the experts who understand the specific retail businesses, we are going to have National Head for driving gold, SME, MSME business and corporate business. So these set of corporate customers, who we are preselecting, will definitely be approached by this team, which is spread across the country to take exposure, but having said that, we will be conscious of how much exposure do we want to take in each of them. We will be conscious about the industry risk which we are carrying. So all this will be clearly supplemented with the capabilities built in the risk. So that the book which we are creating will be behaving the way we are envisaging. So clearly, we are not neglecting that. In fact, in my strategy document also, as you can see, there is a growth which we are putting across even in corporate book, and that will be with a good corporate book, replacing the deteriorating corporate.

Vaibhav Badjatya: That is it from my side, and thanks for the elaborate answer.

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

Saket Kapoor: Sir, firstly about this provisioning part, Sir. As per the percentage, you mentioned about 70%, 74%. Are we now having the adequate provision ratio? Or what is our target going forward, depending upon the nature of the book?

Murali Ramakrishnan: Yes. See, for this to be spelt out, let me say two specific things. One is the provision coverage ratio does not take into account the provision, which we have made towards pro forma NPA, and pro forma NPA, as you know, we have provided 15% of the pro forma NPA, which is about Rs.1507 Crores for this quarter, which we are expecting actually to be Rs. 1,107 Crores due to Rs.400 Crores of likely recovery and upgrade. With another Rs.550 Crores getting added in Q4, hopefully, by then, if Supreme Court comes with a ruling saying that it can be declared as NPA, then all this provisioning will go towards actual NPA provisioning, but since we are providing only 15% positively towards COVID provisioning towards this pro forma NPA, clearly, this 15% is lower than the provision coverage ratio, which we are talking both of 72%. So there will be a dip in the PCR, but we are wanting to ensure that this will not dip below 60% by Q4, even if the Supreme Court order comes says that we need to declare all this as NPA. We would want to ensure that PCR does not fall below 60%.

Saket Kapoor: Sir, you spoke about one cement player in the eastern region, their account sour and that is getting restructured the next month. What is the quantum of provision we have made for that account?

Murali Ramakrishnan: So both accounts are NPA today, which is about Rs.535 Crores? 15% of that is made of provision.

Saket Kapoor: Both mean that there are 2 players? In the East, the cement part, I am talking about.

Murali Ramakrishnan: I talked about 2 accounts. One is the cement player, the other one is retail, no. I talked about 2 corporates. 2 corporates, put together, the total exposure is Rs.535 Crores, in which we are expecting Rs.400 Crores reversal to happen by recovering Rs.285 Crores by way of cash and Rs.115 Crores by way of upgrade from NPA into restructuring. Today, they are NPA. One of them will get upgraded to restructuring.

Saket Kapoor: Sir, you have articulated the vision document for 2024 in your earlier conversation with investors and analysts, and to be just the speaker you spoke about keeping the faith for investor community. Sir, how confident do you feel, Sir since you have already mentioned that you could be called as a specialist in turning around cases. If you could give example, how you have in past turned around the assignment. So that would give us more confidence that in this case, also, there can be light at the end of the tunnel. Just to have an understanding, Sir, that if we take the stock price performance, the result performance in all parameters, South Indian Bank is at the bottom of the pyramid, and it is only, whenever the results are being declared, it is adding to our worries. You might be doing prudent things right now for, so that the path can be cleared, but as of now, it is the period of pain for us, and on top of that, you are looking for capital raising. Sir, if you could give some color, Sir, in soothing our nerves that you will be working the talk, Sir. So that would suffice our anxiety.

Murali Ramakrishnan: Sir. You will have seen me walk, to really estimate whether I am walking the talk. So I can only say that you need to have patience to stay with whatever I have articulated. I think I am articulating right from beginning in a way which I feel what is the path I am taking, and I am not giving any 10000 feet view. I am giving you the ground view of how I am planning to do all these things. So I hope that should give you sufficient understanding that this is not something, which I am just talking from thin air, it is out of experience of having handled such things in the past. I mean I would only urge you to refer to my profile and I have worked for organizations, which are in very reputed organizations, where obviously you must deliver to reach the levels which I had done. Therefore, I would only want you to make your own judgment about it because there is no point in me trying to convince you saying that I am good. I mean you need to really convince yourself. At the end of the day, that is the one which is going to help you to smoothen your nerves. Whatever I can do I can only say, articulate, and I can be more transparent, and I can probably discuss the nitty-gritty's and any questions you have, probably, I can try to answer to the best of my ability. After that to really see whether it is going to reflect in action, you will have to sail through the whole, my only thing is you have probably been staying with this institution for long, stay for some more time and see what actually happens.

Saket Kapoor: Right, and on the capital raising part, Sir, you would like to throw some light anything in the annual or planning.

Murali Ramakrishnan: Yes. This is something which I have articulated many times. I mean, we have plans to raise capital. We have got approvals from the Board, and we are looking at the quantum and timing, depending on how the whole thing is panning out because see just in this few months, few days of this quarter, we have seen 5-6 banks coming out with the results, and I am sure there are a few more in the pipeline. So it clearly depends all the, any existing investors, etc., they will also be looking at how they would want to allocate capital to which kind of companies. I am sure those discussions will also be happening through the potential investors. We are doing our best to present the institution's view and how we are getting traction in each of those areas, which I spelt out. So we are in touch with potential investors, and we will take the appropriate action when it is right for doing it.

Saket Kapoor: Thank you Sir. Thank you and all the best Sir.

Moderator: Thank you very much. The next question is from the line of Anuj from 3M Investments. Please go ahead.

Anuj: My question is on capital raise, again. I think the timing and the quantum; I think you are the best judge to decide what is a good time. My question is really on the mode of capital raise. I think one of the previous speakers also asked on this. See, typically, the South-based banks have a peculiar way of raising capital for long. My question to you is, are you willing to evaluate different modes and optimize the way you raise capital? And have you gone through the various things and you are willing to accommodate a different mode or the same old mode because it seems that, that is a suboptimal mode, just your thoughts on that.

Murali Ramakrishnan: Can you, please, elaborate? I did not understand. When you say suboptimal mode, what exactly do you mean?

Anuj: Yes. See, it seems that the right issue way of raising capital, which has been very typical of the old private sector banks, has been the preferred mode, and there could be various modes of raising capital, right? So my question is, are you really open to look at the other modes, which could seem, so this could be just a, which could seem to be more optimal way of raising capital. I think one of the previous speakers also had the question on the same part. So are you willing to explore other modes of raising capital other than right issue?

Murali Ramakrishnan: Yes, of course. We are, that is why I talk about other stakeholders also. So one is definitely our present investors who are critical stakeholders, but we also need to look at other stakeholders, and therefore, we are pretty open in exploring various ways of raise, and we are guided by our merchant banker also on this issue, that is why I am saying decision on timing and quantum and even the mode, we will take at the appropriate time. We are not married or tied to any way of raising, and I appreciate that it is nothing to do with what has been done by others, etc. We will do what is right for our institution, and we will take it at the right time, and we will not hesitate to take even unthreaded path if it really deserves for this organization.

Anuj: Alright, that answers my question. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. Sohail Halai for closing comments.

Sohail Halai: Yes. Thank you, Murali Sir, for the time and opportunity to host the call and giving a detailed insight. Sir, before we end the call, would you like to add any closing remarks?

Murali Ramakrishnan: I once again wish all of you all the very best and this is an unprecedented situation in terms of what the economy is going through and what we are all going through in our own workspace and personal life. So I wish all of you take extreme care of yourself and all the very best, and I really enjoy conversing with all of you, and I wish to state that we will do our best in being as much transparent and as open to all of you, and I will be more than happy to get into detailing of anything which you would want to hear from us. Thank you so much.

Moderator: Thank you very much. On behalf of Antique Stock Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.