"City Union Bank 1QFY22 Earnings Conference Call"

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MODERATOR: **MR. AJIT KUMAR – AMBIT CAPITAL**

Moderator: Ladies and gentlemen good day and welcome to the 1QFY22 Earnings Conference Call of City Union Bank hosted by Ambit Capital. 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 over the conference over to Mr.Ajit Kumar from Ambit Capital. Thank you and over to you sir.

Ajit Kumar: Good evening everyone. Welcome to 1QFY22 earnings call of City Union Bank. On this call we have Dr. N. Kamakodi –MDand CEO of the bank and Mr. V. Ramesh, – the CFO. Thank you, sir,for the opportunity of hosting you on this call. I would now like to hand over the call to Dr N. Kamakodi sir for his opening comments, post which we can open the floor for question. Over to you sir.

N.Kamakodi: Thank you Mr. Ajit Kumar. Good evening everyone. Hearty welcome to all of you for this con-call to discuss the financial results for the quarter ended 30thJune, 2021 of City Union Bank. Hope all of you and your family members are safe and following COVID safety norms of masking, social distancing, vaccination and all.

The board approved the unaudited results today and hope you all have the copies of the results and the presentations. As conveyed earlier we are having our annual general meeting on 19thAugust 2021 and we invite you all to participate online and provide your support. We shared with you all the following expectations for financial year '21-22 during our last con-call on 20thMay 2021 when we discussed the annual results.

Our outlook for the financial year 2021-22, we shared as follows;

- the credit growth for the year to be at mid to high single digit if the economic environment and the COVID second wave behaves like last year.
- Overall slippages to closing advances to be slightly below that of financial year of 2021.
- The slippages may be more front loaded with increased slippages in Q1 and Q2, financial year 2022.
- Recoveries to be impacted because of the lockdown, non-functioning of government registration department and also non-functioning of the courts and courts showing more sympathy towards defaulters rather than the banks.
- The gross and net NPA for the financial year 2022 to be a shade lower than financial year 2021 with a few quarterly spikes.
- Return on assets to reach a level of 1.50% towards the second half of financial year 2022-23.

Despite the COVID second wave the performance during the current period is almost in tune with the expectations we already shared with you during the last con-call.

The highlights of the quarterly performances are as follows;

- Deposits recorded the growth of 9% to Rs. 44,606 crores from 41,026 crores.
- Credit grew by 5% to Rs. 36,396 crores from 34,536 crores.
- Thus, business grew by 7% and presently stands at 81,001 crores.
- CASA deposits recorded the growth of 22% outsmarting the overall deposit growth to Rs. 12,299 from Rs. 10,098 crores. Hence the percentage of the CASA deposits improved to 28% in Q1 financial year '22 against 25% in the Q1 financial year '21.
- The growth in the operating profit for the Q1 financial year '22 versus Q1 financial year'21 was 8% and in absolute terms it stood at Rs. 383 crores against 356 crores in the last year first quarter.
- Net profit for the first quarter improved by 12% to Rs. 173 crores from first quarter financial year '22 against 154 crores in the first quarter financial year '21.
- Return on assets stood at 1.29% for the first quarter current financial year against 1.15% for the whole year of financial year 2021 and it is well on track for getting the ROA back to 1.5% trajectory in the next year as anticipated earlier.

  The credit growth achieved on 30thJune, 2021 vis-à-vis 30thJune '20 was 5% year-on-year basis. The growth came mainly from gold loan and the non-agri gold loan which has in fact doubled, we pushed the growth pedal only when the environment becomes conducive for other normal advances. We expect that there will not be any third wave at the same time we are cautious on that. We had a slippage of 482crores in the first quarter financial year '22 and slippages were front loaded in tune with our expectations shared on 28thMay, 2021. We feel it should be moderating going forward and we still expect overall slippages for financial year 2022 will be flattish or less than whatever we saw in financial year 2021. The recovery for the current quarter, Q1 financial year 22 was at 101 crores comprising of 82 crores in live account and 19 crores from the technically written off accounts as compared to the recovery during fourth quarter financial year 21 for 110 crores - 76 crores in Live and 34 crores technically written-off.

The lockdown because of the second wave also played some spoil sport. Courts are slowly coming back to the normal functioning. We expect the recoveries to improve in the second half. That's why we expect that the gross and net NPA to be better during the year end which once again is mainly because of our expectations on improvement in the legal procedure and recovery towards the second half of the current financial year. The gross and net NPA stands at 5.59% and 3.49% respectively against the 5.11% and 2.97% in the financial year 2021. As said the during our earlier con-calls we expect that the gross and net NPA should be a shade better for the financial year 31stMarch, 2021, once again considering the addition in the second half and also improvement of the recovery because of the improvement in the court processes particularly in taking possession and selling the properties through SARFAESI action.

During the financial year 2021, we had restructured about 990 crores of MSME accounts and about 595 crores of non-MSME through COVID resolution framework. Apart from the above, prior to COVID we had restructured an amount of 242 crores under MSME and 22 crores under non-MSME. Thus, the percentage of restructured accounts outstanding as on 31st March, 2021 stood at 1,849 crores comprising of about 5% to closing advances. Originally restructuring window was getting closed within December and the final processes should have been completed by the 31st March 2021. But because of the second wave, on 5th May, 2021 RBI extended the restructuring deadline up to September '21 and also raised the threshold limit of restructuring to 50 crores from 25 crores. Based on our prior experience we are encouraging our eligible cases to use the dispensation considering the future uncertainty mainly from the COVID third wave whatever it is. We are in engagement with the customers and through the active engagement we are trying to encourage wherever the customer even has some iota of uncertainty or whatever it is. During Q1 financial year '22, we had restructured an amount of 83 crores towards MSME and about 103 crores towards non-MSME through COVID resolution framework 2.0. As on 30th June, 2021 the total restructured accounts outstanding is about 1,984 crores. Considering the uncertainty of third wave as I said earlier, we are following up with the eligible customers and encouraged them to use the regulatory dispensation. Though we are not seeing so much interest yet, we expect there could be another one to one and a quarter percentages depending upon the interest of the customers. Restructuring done in the earlier bad cycles and all, our experience in using the RBI dispensation had really helped us. Another thing what you have to remember is that these facilities are available only for those accounts which did not have SMA-2 or SMA 1 on 29th February, 2020. Considering the uncertainties of COVID third wave we are following up with the eligible customers. We had a reasonably good experiences in the previous regulatory dispensation. Through this restructuring we could save many accounts who could go through the difficult phases and all. The uncertainties of the COVID wave are there but we are taking all the steps to give the support to the regulatory dispensation which is available at this point of time. Just to give you an idea of that about 1,900 odd crores restructured about 400 crores advances which we restructured during the earlier part of the last year, we had given them 6 months of moratorium and repayment to start after the 6 months, considering whatever situation prevailing at that point of time. Our experience with that 400 crores which had started the repayment is reasonably good. The slippage from that is very miniscule and almost most of them are doing a good job and started repayment. Like that though there will be some elevated stress, we don't expect stress to be significantly higher in those restructured accounts are by and large reasonably performing on 29th February, 2020 which is pre-COVID cutoff date. We don't feel any surprise about that. We feel this would really help them going forward and this is what we have been maintaining right from the beginning. It is the time to help the customers to the extent possible and that is for that they are being consistently paying premium interest rate to us compared to the other banks. That's why we feel this is the way we have to handle this.

Regarding the SMA position, our SMA-2 position on 30th June stood at 3.16% which was about 2% on 31st March, 2021 and which is much below our usual pre-COVID band of 5% to 6% a few quarters back. Also we had couple of years when the level used to be at 12% also. Currently SMA-2 position stabilizing at about 3% to 3.25% which is also not very bad considering the situation at this particular point of time. The cost to income ratio for the first quarter stood at 40.46% compared to 41.43% for the year as a whole in financial year 2021. We had good opportunities to make profit in the treasury operations last year and that opportunity may not be available this year. The quantum of other income to be booked this year will be determined by the collection of technically written off accounts which will once again be determined by the court functioning which we expect to pick up only in the second half. In-between the cost to income ratio may inch up, so because of that overall factor there could be some incremental cost to income ratio. But we are waiting for the other income to balance from the recovery of technically written-off accounts. The net interest margin for the current quarter strands at 3.86%. If you had a chance to look into our last 50 to 60 quarters, till 2 years back we always used to be in the range of about 3.4% for 3.75% net interest margin. The net interest margin used to expand when the interest rate cycle goes up and contract when the interest rate cycle goes down. But in just earlier cycle even though the interest rate cycle started falling down, the margins did not the contract because there was supply side constraint particularly when most of the public sector banks were under the PCA framework and there was supply side issues on credit. Now the liquidity is currently over flooded in the market and the credit deposit ratio has also come down to around 80% to 82% bucket. That's why we are anticipating that for the current financial year net interest margin will remain in the range of 3.75% to 4%. We are currently, if you have seen, both our cost of deposits and yield on advances have almost come down equally in a parallel way. But because of the reduced CD ratio there is some amount of moderation of few basis points in terms of net interest margin. But this is what we expect between 3.75% to 4% for the current financial year. During the financial year 2020, we kept the profits at ROA of 1% and over above that we made COVID provision. For our financial year 2021 we declared a net profit with ROA of 1.15%. So, we in fact shared with you all that we should be reaching the level of 1.5% ROA in the second half of financial year 2023. I think we are on track on whatever we promised earlier. We also received questions from few analysts like you could have reversed the entire surplus COVID provision and put it for the NPA and increased your coverage ratio and things like that. All these things are basically, everything is in the open domain. These decisions we take depending upon the factors that are prevailing at this point of time. I think we will be completing that entire surplus COVID provision in the second quarter and after that the slippages should also reduce and the recoveries from the existing NPA should also increase so that we should be seeing things coming down, so we have kept some cushion for the next quarter per se. Our capital adequacy ratio currently stands at a 19.58%, of which the Tire I itself is about 18.51% for 30th June, 2021. It has improved mainly because a lot of gold loan, the incremental loans mainly had 0% risk weight because of the regulatory guideline. We are adequately capitalized and we don't foresee any capital requirement at the current year or maybe next year also. But as a practice we are always keeping shareholders permission with an enabling resolution passed in every year AGM. So that depending upon the prevailing conditions or any regulatory requirement or anything, if at all we need we can always go for an equity rising. So, right from 2013 onwards we are getting this shareholders' approval but we are not been using it for the past 7-8 years. Following that practice this year also in AGM we are asking for the shareholders' approval which we don't expect to use that but as a matter of abundant caution we are always keeping that regulatory permission on hand.

To sum up, almost things are progressing well and almost in tune with the expectations whatever we shared with you in the earlier con-call on 28th May 2021. We hope there won't be any third COVID wave; at the same time, we are keeping all the precautions whatever that is needed because that amount of uncertainty is always there. Starting from the 1st of March 2020 to currently in the past 16 months or so we almost had a 20% of our team members got infected by COVID and we had about four to five casualties in this period because of that. But overall, even though the infection rate and the mortality rates were higher this time both at the confidence level at the customer side and also at our side, things are much better compared to whatever we had during the COVID 1. At the same time there are uncertainties about the COVID third wave is getting discussed again and again but hopefully, let us hope for the best but at the same time prepare ourselves both mentally and whatever way possible. Gross and net NPA for the year end will be lower at the same time as said, there could be spike, I mean front-loaded during the first-half. So overall on all parameters including ROA and everything the things are very much going smoothly on the expected line. This is what I wanted to discuss with you all to start with. Now we can go for Q & A.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Firstly, on the re-structured book also you have already mentioned 5.5% of book. Could there be more in pipeline in terms of the restructuring?

N. Kamakodi: Basically, we had always been very liberal with by giving the regulatory forbearance to the people. We actively engage with our customers and encourage them to use that. As of now I don't have anything but the restructuring window is opened. My gut feeling says we may be adding about may be 1%-1.25% going forward, additional restructuring if at all it comes to.

Mona Khetan: I didn't get that 1%-1.50%?

N. Kamakodi: 1%-1.25%.

Mona Khetan: On the SMA that you mentioned, it stands at about in the range of 3%-3.25% much lower than what we had seen at pre-COVID. Could this be partly driven by the higher forbearance in terms of both ECLGS or restructuring that we have seen and once things normalize maybe 2 years down the line; could this number be back to 6% or so given the kind of segment you are in?

N. Kamakodi: That should be the logical thing to expect but one thing which we are able, clearly seeing is that many of the portion of the customers who typically used to pay only after their 70th day or 80th day and particularly the SMEs never got themselves involved in clearing with the daily overdue or daily arrears. They typically used to keep their accounts order only during the quarter end. That used to be the practice always. But after the COVID restructuring and other things were not permitted for the customers who were on SMA-2 or SMA 1 on 28th February 2020, I think people are now returning to the concept of daily collection and keeping the account in order and that discipline is definitely improving the system. My gut feeling is that even when this system normalizes, now also you have to understand everyone is paying their interest, which is also an indication that there is a sufficient cashflow and we feel when things stabilize in future, the SMA portion should be lower than whatever we saw during the pre-COVID period. Mainly because the increased discipline which we are seeing even at this stratum of the business because of certain forbearances and all, they have been told that they cannot avail because they did not maintain their account up to date on or before 28th February 2020.

Mona Khetan: Finally, I missed some of your early comments. Just to check on your ROA guidance, you had earlier said that ROA should normalize by the second half of fiscal year FY23. Do you continue to maintain that or would that be deferred because of what we have seen in the last couple of months?

N. Kamakodi: We are not deferring and I just said multiple times that we are on track. You can also see the ROA improving now and we are on track to have our ROA, touching 1.5% in the second half of financial year '22-23 as even earlier. Hopefully there is no third wave which derails the things.

Moderator: The next question is from the line of Jai Mundhra from B&K Securities.

Jai Mundhra: In terms of collection efficiency right so Tamil Nadu probably had slightly higher stricter mobility restrictions as compared to rest of India. If you can highlight that how things have been maybe in the month of July as compared to June in terms of collection efficiency?

N. Kamakodi: Things started getting relaxed after the 30th June. In fact, June is the month where you heard stricter norms per se. The SMA-2 numbers which we have given itself will be an indicator to you on how things have improved. In fact, when I attended the con-call on fourth quarter last year on 28th May, even I was on my last day of quarantine and we had infections at higher rate at that point of time and it's improving thereafter.

Jai Mundhra: If you can highlight what was your collection efficiency may be for the month of...?

N. Kamakodi: The collection efficiencies measure which is normally looked into when the postdated cheque and the term loan collections happen. Since our thing is mostly on the CC account and only one-third exposure to the term loan, we give you that SMA-2 figure.

Jai Mundhra: Because earlier we were sharing so I was just checking?

N. Kamakodi: We never shared the collection efficiency, kindly remember. That was only we shared what proportion of the advances had paid up to what month of that due.

Jai Mundhra: So same thing if you have maybe ?

N. Kamakodi: Yes, that's the same thing. The SMA-2 number itself will be an indication for you.

Jai Mundhra: Would that be because as you said from July onwards things have started to improve. Is there marked improvement from June level, I mean this 3.3% to 3.5% number. That would be June number, right?

N. Kamakodi: Yes. See the issue is like say the band you have seen from 1.99 to 3.2 which is hardly a moment of less than 2% in a span of 3 months. It's basically you look at the big picture and move forward.

Jai Mundhra: In terms of your new customer, if you divide your customers into two portion; one is those who are already delaying payments. So, let's say they are in SMA 0-1-2. andd there is another set of customers which has zero DPD and standard. Are you seeing that at least the new customers are not getting into a delinquent bucket and there may be some customers who are already delinquent, they may be finding it difficult to get out of the delinquent bucket?

N. Kamakodi: As far as it doesn't normally happen that way. What we typically see is that say about 90% of them will be current. About 3%-3.5% whatever we discussed these in SMA-2 which will boil down to another 4%-5% in the SMA 1 and you will be having maybe 10% of the people moving to, they will be in SMA-2 in the month of June and suddenly coming back to the normal in July and all. These sort of things you normally see here. It's not that one stays in the same bucket. That's why I have given you a clear indication on what is going to be your annual slippage. With it you will be in a position to make your own calculations.

Jai Mundhra: If I were to just back calculate that first quarter has been reasonably heavy. It looks like barring maybe 2Q things will become very normal in terms of slippages, right? So there has to be a reason that at least the problem at this point of time maybe is only SMA 1-2. I mean is that the way ?

N. Kamakodi: The issue is, as you rightly said you had tighter norms during the month of May and June. Now things are to greater extent are coming back to the normalcy. As I told earlier, you have few sectors like the public transport, like Omni buses and things like that or your hotels and tourism related items and all; these sectors have not come out of the shock yet. They are not yet fully operational and some of them, they have reduced their outstanding by selling their non-core assets. And some are asking for the restructuring or already got restructured. All these people are in / will be in stressed category till things normalizes. Apart from that, other sectors of whatever 5%-6% which are moving from one segment to another segment, depending upon the restructuring are done. Some amount of disruptions in the cashflow will be there but this time in most of the manufacturing because the migrant workers did not go home and at many places, all the manufacturing were allowed to function and this activity did not become zero for some time unlike what happened in the last time. There are few segments which are affected, continued to get affected from the first wave and few segments which got affected in the first wave but are doing reasonably better this time.

Jai Mundhra: The next question is on ROA trajectory, as of now you are around 1.29 and this quarter as you said slippages have been front-loaded. Next quarter also you are indicating there could be elevated slippages and then it should taper. But in the next quarter you are going to write back whatever is the residual provisioning. So, I am saying from 1.3% ROA why would there be so much time before you reach 1.5% for the next four, I mean you are saying that from five quarter hence we will reach to 1.5%. Why will not things normalize quicker?

N. Kamakodi: It's not a five quarter, it is four quarter. Even if you take it in your way, improving ROA by 5 basis points, quarter-by-quarter is not an easy joke, I want to make it very clear. If increasing RoA is like just shifting gear in the car; every bank should be having 1.5% ROA by now. You have to do tapasya to take ROA by every basis point above 1. You agree with me or not?

Jai Mundhra: I agree.

N. Kamakodi: It's not just pulling your excel spreadsheet.

Jai Mundhra: And just on MSME restructured, so RBI regulations says if they pay 20% then you can reverse half of the provisions but the tagging of an account as restructured; when will it become a standard- I mean without restructuring tag? Or that will remain till the entire tenure gets over?

N. Kamakodi: Basically 2 years if they had performed as per the restructuring term, they will be losing the tag but there is another tag on that. Even after that if anytime in future till those accounts are totally closed; say for example after 5 years that particular account slips into NPA, the provisioning norms will be completely changed and they will be considered as NPA, I mean from the date of restructuring and so the incremental provisioning you have to make as per that aging.

Jai Mundhra: But that un-tagging will only happen till the loan gets over, right?

N. Kamakodi: No. 2 years from the date of restructuring you can normalize I mean all the other things can be done. They will not be disclosed as restructuring in the regulatory filing and things like that.

Jai Mundhra: If you have given 1-year moratorium then after that 1-year moratorium window if they perform for 2 years then they will be untagged?

N. Kamakodi: Yes, and you can reverse that surplus standard asset provision whatever you are making on that restructuring, after the 2 years of functioning.

Moderator: The next question is from the line of Akshay Ashok from Dalal & Broacha Stock Broking.

Akshay Ashok: I just wanted to know the reason why our provisioning have gone down on a q-o-q basis? Is it because of more restructuring? What is the reason? Because I see the numbers and it has gone down on a q-o-q basis around sequentially. What is the main reason for this?

N. Kamakodi: See basically we had taken about 83 crores from whatever we kept for the COVID. So, this provision was made in the last year itself and that's why it looks lower for you. P&L impact is taken already.

Akshay Ashok: You are seeing situation improving so that's why you have reduced it.

N. Kamakodi: Yes, sort of.

Moderator: The next question is from the line of Prabal Gandhi from Antique Limited.

Prabal Gandhi: On the cost of deposits or cost of fund, how much low can it go from here?

N. Kamakodi: It's very difficult to completely predict per se. We could clearly see about 10 basis point reduction between the fourth quarter and this quarter and we don't expect any major interest rate reduction going forward as it has been clearly told. And looks like you have reached almost the bottom of the rate cycle as given by the Monetary Policy Committee today. Because of the lag effect you may at the best have maybe another 15-20 basis points going forward which will be the bottom most point in this cycle. Already whatever we are seeing is the historical low in our cost of deposit front.

Prabal Gandhi: These 15 basis points will be on the basis of re-pricing and not on the deposit cut that we can initiate from.

N. Kamakodi: Exactly.

Prabal Gandhi: How much was the interest reversal for the current quarter?

N. Kamakodi: 20 crores.

Prabal Gandhi: Even if I adjust for that our yield on advances has dropped from around 10.42 quite sharply?

N. Kamakodi: Yes, in fact I have told you both cost of funds and yield on funds are parallely coming down for the last four to five quarters.

Prabal Gandhi: But any specific reason why the yield on advances, is that because of the repricing or are we disbursing on?

N. Kamakodi: No, the entire growth has come from the gold loan which is being given at say 8.5%-9% and things like that.

Prabal Gandhi: From the ECLGS portfolio around 5%-6% of our book is on the ECLGS. Are we seeing any signs of stress build up here?

N. Kamakodi: No, it's nothing unusual. That's what I told you, in fact I was discussing with you all during the quarter results. We have started seeing at the overall exposure of the accounts which have taken ECLGS showing reduction in the overall outstanding. And in fact, the total exposure on 31st March, 2021 was about 1,960 crores and that is about 10 crores reduction in the portfolio as a whole. In fact, somebody asked, how they will get normalized and all, we told we will be taking that as a part of working capital assessment, when we assess the next year working capital requirement and things like that. That requirement has by and large gone.

Prabal Gandhi: From June onwards the repayment would have to start?

N. Kamakodi: Yes.

Prabal Gandhi: Are we seeing any slippages from there or any stress?

N. Kamakodi: There is no undue slippage from this portfolio.

Prabal Gandhi: One of the peers recently reported that around 2% of the ECLGS book saw a slippage. That is why I was asking.

N. Kamakodi: Already the overall book slippage itself in the last year was about 3%. The 2%-3% slippage from this portfolio need not be looked as some additional stress whatever it is.

Prabal Gandhi: Just a technical question. So, in case there is a stress on the ECLGS portfolio, how much is guaranteed by the government and how will that mechanism work in case there is a NPA gain?

N. Kamakodi: 75% is the guarantee given. I mean how that mechanism works is whenever we disperse a loan on ECLGS scheme that entire data has to be given in the portal. With all the detail, the portal takes up the data. Suppose for example we declare one particular account as NPA, we once again upload that in that portal. 75% of the portion of that ECLGS portal is immediately credited to our account and balance 25% after all the recovery efforts are completed.

Prabal Gandhi: Suppose there is 10 crores outstanding and we give 2 crores of ECLGS so 75% of 2 crores will be credited to us and balance will be related as the recoveries?

N. Kamakodi: Exactly.

Prabal Gandhi: How much COVID buffer are we holding?

N. Kamakodi: Currently about Rs. 55 to 60 crores is the additional provision we have.

Prabal Gandhi: And this is excluding the restructuring provision?

N. Kamakodi: Yes.

Moderator: The next question is from the line of V. Srinath from Bellwether Capital Private Limited.

V. Srinath: Just wanted to find out the gold loan, non-agri gold loan book numbers have been really encouraging even after the RBI reduced LTV for the product back to pre-COVID levels. Just want to understand what is driving this book? Is it a liability cross sell or is it largely brand sourcing and given that it's such a granular product how are we sourcing this kind of volume of customers?

N. Kamakodi: See this had been our breadwinner for decades up to probably may be late 90's or so when we started getting into the SME and the other larger loans. As I told you earlier, we always keep the active gold loan whenever we don't have anything else to do in our rural, semi-urban and select urban branches. Since, we have not yet fully pressed the growth pedal across other branches almost all the branches, the fundamental thing what you need to make your branch marketing effort is that the communication at the location, particular town or village or a catchment area that you are giving gold loan and you will be attending the customers coming for a gold loan in 10 minutes or 15 minutes or whatever it is. Once you make that thing automatically, basically it is a competition to the moneylenders and probably some co-operative societies and maybe at some places even the gold loan NBFCs.

V. Srinath: The ROA of this product, you had historically said that it's a touch below what the bank normally makes but given the current yield situations has that kind of improved? Very qualitatively how are the ROAs in gold loans as we see it currently?

N. Kamakodi: The average yield for agri and non-agri will be about say 9% which is a very decent return particularly with very low NPA at this point of time. And when we don't have confidence to do any SME credit or anything because of the prevailing situation, this is the best you can expect at this point of time.

Moderator: The next question is from the line of Dhaval Gada from DSP Mutual Fund.

Dhaval Gada: Just following up on that ECLGS question; you mentioned that the stress is about 2%-3%. If I just see the number, last quarter we had close to 2,000 crores disbursement so which means about 10,000 crores would be the total loan exposure. If I calculate about 2% that turns out to about 200 to 300 crores depending on the ratio? Is the understanding correct that in the last 2-3 quarters we would have seen 200-300 crores slippage from ECLGS?

N. Kamakodi: No, not exactly. Around Rs.94 crs of exposure slipped to NPA where we have extended ECLGS to the tune of Rs.17.50 crs.

Dhaval Gada: Going forward since you gave a ROA guidance for second half of next year. Directionally from the third quarter and more into FY23 should we expect the normalized slippage run rate which used to be earlier 200 odd crores per quarter kind of level to come back or it would be still elevated? The reason I ask this is and the previous question as well is because ECLGS the real impact will be visible from the third quarter of this yearwhen principal repayment will start. So that's where my question is?

N. Kamakodi: Please understand, only the principal repayment of the ECLGS portion starts after 1-year or 2-year depending upon the case. If they are not restructured the other term loan repayment things they continue as such. You understand what I am trying to say?

Dhaval Gada: Yes.

N. Kamakodi: And the ECLGS portion is hardly about to 10% to 20% of their overall borrowing and their repayment schedule of the ECLGS portion is basically very minuscule compared to the overall repayment schedule. But to answer your first question on how do we expect, Our prayers and our expectation is almost similar to whatever you said at the beginning. That's from the third and fourth quarter slippage should normalize. Don't think that it is driven by the repayment of the ECLGS and all.

Dhaval Gada: Just one final point on the credit growth you talked about as you get more comfortable you will start opening up. And given the fact that Tamil Nadu is still not fully opened up, it's still under part lockdown. So, when do you see the buying being ready to accelerate on this front? Would it be end of the year, somewhere start of next year? Because the reason I asked again is pre-pandemic as well there was some growth slowdown that was visible and then we have seen last 1-1.5 year in a similar trajectory. Just directionally when do you see growth coming back?

N. Kamakodi: See last year, towards the end of the third and fourth quarter the activity level came back to a normalcy as if there was no tomorrow. Over 90% of the borrowers and all they could record even a shade more turnovers in financial year 2020-21 compared to whatever they recorded in the financial year 2019-20 despite having COVID lockdown in the first 3-4 months of the financial year 2020-21. Like that we are keeping our eyes and ears open to the grass root level. If we see things is stabilizing and also the risk of further COVID waves and results on lockdown's get eliminated and all, we will ascertain whether we should be in a position to shift before the year- we will get that clarity post to Diwali.

Moderator: The next question is from the line of Kishnan ASV from HDFC Securities.

Kishnan ASV: I just want to understand what has the bank been able to do which has helped raise the SA productivity at the branches so sharply in the last three quarters because for a very long time the SA productivity at the branch was roughly in the 8 to 10 crores range. Now suddenly if it has shot up and for three sustained quarters it's gone nearly to the 12-13 crores, so I just want you to understand especially at a time when we had the pandemic going so there is no way that the branch officials can go out and seek the deposits. What has actually changed? Is it the open architecture initiatives or is there something else that has happened at a branch level which has allowed you to source so much better?

N. Kamakodi: It is a combination of factors. After introduction of video KYC and the automatic opening of account the balance remained in the accounts which got opened through video KYC were higher than the accounts which are normally getting opened in the branches. Another point basically is that when our credit growth is on the higher side, naturally we need more deposits and that will come from Term deposit portion rather than savings account. When the overall credit growth on the lower side, naturally there is no need for increasing the term deposit portion which is also indirectly helping to see the percentage of SA increasing further.

Kishnan ASV: I was actually asking about the absolute soft point being a branch.

N. Kamakodi: That's 15% to 20% of growth is something which normally happens and that has continued to happen. Another 2%-3% extra growth is happening because of the video KYC and things like that.

Kishnan ASV: I just missed your comments on credit costs. If you could just just repeat what you've mentioned on the credit cost and how long before they begin to normalize.

N. Kamakodi: I am not giving any guidance on the credit cost per se keeping in view of the present covid situation. What I have given is that year as a whole the total incremental slippages will be slightly better than whatever we saw in the last financial year and it will be front loaded. On recovery front the Court’s are just to come back to the normalcy and we are not seeing the results, so that we expect a better recovery in the second half of the current financial year resulting in gross and net NPA at the year end will be a shade lower i.e I mean almost flat. They fared better than whatever we saw during financial year 2020-21. The other a mathematical calculation is left to you.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura.

Nilanjan Karfa: I just wanted to follow up on Dhaval’s question earlier and that was related to the ECLGS customer versus a non ECLGS customer. Could you highlight I mean I understand the customers in ECLGS would be from divergent sectors but still as an aggregate do you see higher credit limit utilization for ECLGS customer compared to the non ECLGS customer? And at a certain point I'm assuming there'll be a certain tipping point. I mean if they are utilizing higher it might mean that they are actually the credit profile is weaker, so any color on those lines if you can highlight.

N. Kamakodi: Generally in CC accounts every year, the borrowers are eligible to get an enhancement in the range of 10% to 15% on their existing limit which is based on the last year turnover and we are considering the same after taking into consideration of their account operations, nature of business, relationship with the bank, etc. Since we have extended ECLGS during pandemic, we are going to consider the same as enhancement towards working capital. In other words, they are not eligible for the regular enhancement as expressed above going forward. Suppose, if they need further enhancement which will be considered after taking into consideration of the existing CC exposure along with ECLGS outstanding.

Nilanjan Karfa: You have basically mentioned 500 crores is like an overlap of ECLGS and restructure, right? So, if that 500 is like 2500 crores exposure roughly?

N. Kamakodi: No, 500 crores I'm talking is the exposure which include in the total outstanding. **Nilanjan Karfa:** So basically, out of the 2000 crores restructured you have 500 which is also is ECLGS portfolio.

N. Kamakodi: Yes.

Nilanjan Karfa: So, 100 crores is like an ECLGS and therefore 500 is the exposure?

N. Kamakodi: Exactly.

Nilanjan Karfa: Good that you asked this question, I took it for granted and explained.

Moderator: The next question is from the line of Sri Karthik from Investec Capital.

Sri Karthik: So, I have a couple of questions. From a growth perspective the MSME sector has been struggling for almost 5-6 years now since day one. Do you think generally as we normalize and get back to a regular way a 15%-20% growth from the MSME sector can be quite sustainable from here on? That is one, second is if you could use some qualitative comment in terms of asset quality performance between manufacturing units and service units especially lodges, education institutes, restaurants etc. which are probably had a tougher time, so these two are the questions.

N. Kamakodi: You're first question is on sustainability of MSME and the second question is on the service sector and the manufacturing. See the MSME sector from the demonetization time onwards it apparently looked it is going through some amount of flips and fall. It is going through a period of reorganization, those set of MSME's who are just the thriving on the taxes levied they are facing the music now and they are getting eliminated. From the year 2004 to 2014, the credit growth was almost three times as the GDP growth and you also had higher inflation and the sector growth rate for what do you call 17%-18% and all were quite normal for a few years in that period. Also at that point of time there were discussions that the banking sector growth rates together itself will get into single digit for multiple reasons. One, lower inflation is settling in, number two the corporates will be driven to bond market because of the Compliance of many conditions on the bank borrowing. . And the third factor was that the capital availability for public sector banks were getting lower and that's why their contribution will start lowering which will be an opportunity for the private sector banks.

Over all we may not be seeing once again that 20% growth / 18% of growth and all are going to be very tough. So the growth will come to the single digits and probably we should be stabilizing somewhere between 10% to 15% and also like say getting our ROE above 15% , so that the returned earning itself will take care of the capital requirement. I am not talking about today or tomorrow or day after tomorrow but, I'm talking for a period of let's say 10 years down the line or whatever it is. But during that period definitely the growth from these sectors will be sustainable but it will not be 20%-25% as you are expecting. This is on your first two questions, on second question, yes. Currently the service sector is more affected as compared to the manufacturing sector be it your hotels, be it your restaurants, be it your tourist and the passenger car transport, be it your education all these sectors have not yet come back to the normalcy. It will take a few more quarters to see them back on track.

Sri Karthik: We are cumulative exposure to such services sectors which are impacted?

N. Kamakodi: It comes to about 6% to 7%. We discussed about it a couple of quarters back that the hotels, the restaurants, the school and the bus transport and things like that which have not yet come back to the normalcy.

Sri Karthik: So, in our restructure book is it fair to assume that a large majority of it is constituted by the services sector?

N. Kamakodi: Definitely it is a majority, one of the large majorities to greater extent it will be there in that segment. But remember all of them had perfect business model, perfect cash-flow and perfect repayment up to 29th February 2020 and wherever we are confident about the promoter we have to support them till things come back to normalcy.

Sri Karthik: Simply back calculating this to looks like 40%-50% of this book seems to be restructured?

N. Kamakodi: Yes, you're almost correct in your estimate.

Moderator: The next question is from the line of Gaurav Jani from Centrum Broking.

Gaurav Jani: Just one question on the recovery side, what steps are we going take to support ensure that the restrictions or lockdowns the standard portfolio at least pays up on time and recoveries don't get hampered so that incremental slippages could be much lower?

N. Kamakodi: Even our branch managers and executives are in close touch with the borrower by borrower, so the branch managers are estimating both from the arrears list and also the discussion on each and every borrower like whether he has any issue, whether his cash-flow is sustainable. If at all have any problem whether it is temporary or permanent, what about the track record of that person whether he is fully trustworthy or not, so if the problems are temporary, we go for the restructuring. If the problems are permanent, we are engaging with the borrower to sell their other collateral and ask them to reduce the outstanding, so that the existing business will be sustainable to take care of their cashflows. . The major thing what we are doing is to insist the borrower to reduce the outstanding in tune with the business opportunities which is happening to a greater extent and particularly the COVID wave has given a lot of sense to the eternally optimistic businessman. So, they are also discussing with that to ensure the outstanding is reduced and brought back to the sustainable level by selling their collaterals.

Moderator: The next question is from the line of Kahsyap Javeri from Emkay Investment.

Kashyap Javeri: Just one data point I wanted, have you disclosed the number of interest income reversals for the quarter?

N. Kamakodi: Somebody asked that and I'm told it is 20 crores. It is nothing but 480 crores one quarter interest.

Moderator: The next question is from the line of Jai Mundhra from B&K Securities.

Jai Mundhra: Two things, one you just mentioned about this ECLGS study that you did that at the period as per March 2021 the balance at customer ID level was lower and can you tell the amount because it looks like, it would be interesting to understand that the ECLGS outstanding is around 1960 crores as of last quarter but what is the absolute amount at customer level?

N. Kamakodi: See even between 31stMarch, 2021 and 30thJune, 2021 at aggregate level the overall outstanding is 10 crores less.

Jai Mundhra: I just wanted to check, does it actually correlate to 5X or this is slightly different number? Is the outstanding 5X of disbursement or that could be a very different number?

N. Kamakodi: No, this is basically the outstanding of those borrowers who received their ECLGS.

Jai Mundhra: 1960 is the ECLGS disbursement, right?

N. Kamakodi: Yes.

Jai Mundhra: I just wanted to understand that ratio if it is 5X, it looks like it could be more than 5X because he has other facility also even though he has repaid.

N. Kamakodi: Basically, it is the aggregate number, some customer would have paid more, some customer would have paid less. I looked into those customers whose outstanding was lower.

Jai Mundhra: The second thing is on your gold loan, so you have seen 100% growth and there has been an LTV change but going forward what kind of a gold loan book can growth I mean approximately?

N. Kamakodi: It's the same, this year we also anticipate about 2,000 to 2,500 crores incremental disbursement.

Jai Mundhra: The last question, on your entire loan book of SME, if you were to bifurcate between B2B customer and B2C customer, just a ballpark range, how much of your SME customer would fit into B2B segment wherein they would be part of a larger value chain? How much could be B2C customer facing kind of a thing?

N. Kamakodi: You can see that the entire retail trade comes in that segment. But coming to the manufacturing side of the MSME, 75% of them will be B2B approximately my guess / estimate.

Jai Mundhra: So entire trader both retail and wholesale will be B2C.

N. Kamakodi: No, wholesale will be a B2B, retail will be B2C. On manufacturing side maximum will be to B2B.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments. Over to you sir.

N. Kamakodi: Thank you all for attending this conference particularly. I think I have tried to answer your question as much as possible because I now understand, we take certain things for granted but it is being understood in a different way. That's why the discussion anyway. All the data points and anymore discussion you want to have you can always get in touch with us. The contact point is given, Mr. Jayaraman whose contact details are in the presentation. Once again just to sum up things are almost on track on whatever we discussed during the fourth quarter earlier con-call. Hopefully we expect on one side the uncertainty of the COVID third wave is there but we hope and pray the impact should not be bad because the vaccination and all have improved and things like that. But it is one uncertainty still it is there before everyone in the world. Hopefully, by god's grace let us hope the things will get better. I once again request all of you to follow the COVID appropriate behavior like masking, washing hands, not getting into the crowd, vaccination and things like that. Once again, we are always available for answering your queries. And as I told the Annual General Body Meeting is scheduled on 19th August, I request all of you, if possible, join through the online mode. Once again thank you all for the opportunity and thanks to Ambit and Mr. Ajith Kumar for organizing this con-call.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining. You may now disconnect your lines.