"City Union Bank
4QFY2020 Earnings Conference Call"

June 18, 2020

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Moderator: Ladies and gentlemen, good day and a very warm welcome to the City Union Bank 4QFY2020 earnings conference call, hosted by Ambit Capital Private 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 to Mr. Ajit Kumar from Ambit Capital. Thank you and over to you Sir!

Ajit Kumar: Hello everyone, I welcome you all for 4QFY2020 earnings call of City Union Bank. On this call, we have Dr. N. Kamakodi, MD & CEO, and Mr. V. Ramesh, the CFO. Thank you Sir for the opportunity of hosting you on this call and over to you now for your opening remarks. Over to you, Sir!

N. Kamakodi: Good evening everyone. Hearty welcome to all of you for this conference call to discuss the audited financial results for the year and quarter ending March 31, 2020. We trust all of you are safe during this pandemic.

Our approved results were declared today and hope you all have the copies of results and also the presentation. We normally used to have the results during the end of May and that is about three-four weeks delay because of the pandemic. From the year end, I have been getting continuous calls on basically three things; 1) about the stability of deposits, 2) the effect on the COVID pandemic, and 3) on the latest RBI circular on the tenure of the MD and CEOs. I will try to cover as much as possible during this discussion along with our financial results.

When we started the financial year 2019-2020 we shared our expectation as follows, you remember. We expected our credit growth to be between 18% and 20% for the whole year, compared to the growth of 17% for the financial year 2018-2019. The slippage ratio to closing advances, we expected for the year to be between 1.75% and 2% for the whole year for financial year 2020.

We expected the ROA will be at 1.5% to 1.6%. We expected our net interest margin to come down as we were entering the decreasing interest rates scenario. We projected the cost-to-income ratio to be in the range of 42% to 44% and we also told there could be quarterly aberrations but overall annual figures should be expected on this line.

For the first three quarters, the performance was close to what we had anticipated in the year beginning. We shared the following figures in our conference call held on February 12, 2020 before the Covid outbreak and its disruptions.

For the first nine months, we have 12% growth in deposits year-to-year, 10% growth in advances, 11% growth in the business. The operating profit for the nine months grew by 12% to 1006 Crores. Net profit grew by 13% for nine months period to about 572 Crores.

Return on assets was at 1.61 %, net interest margin was at 3.99%, the cost to income ratio was 42.96% and slippage was at 2.48% annualized. By and large these numbers were closer to what we had anticipated.

Q1, Q2, and Q3 2020 started seeing slowdown when the credit growth or the banking system started slowing down to 12%, 9%, and 7% respectively and we used to record about 3% to 5% credit growth over and above that of the industry. Our credit growth rate also started moderating to 14%, 12% and 10% in Q1, Q2, Q3 respectively.

During Q3 results concall, we said we were not pushing for growth and when the trade off is between credit growth and the future asset quality, our vote is for the quality. We also said, we are putting our best efforts and leaving the results to the Almighty.

When we were discussing the Q3 results, COVID pandemic was somewhere in distant countries, and are not in the matters of our discussion then. None of us expected at that time that the pandemic was going to hit our country this way. Nature has proved once again that it is supreme.

We ended financial year 2020 with almost 5% credit growth and about 748 Crores, 2% over and above that of the December quarter position. Had the COVID not stepped we would have shown a few percentage more growth from our proposals under processes and proposes sanctions, but not disbursed.

We had expected about 800 Crores plus slippage for financial year 2020 with a slippage rate of 2% to closing advances for the whole year. Up to December 31, 2019 we had about 630 Crores slippage to NPA, but for COVID, we would have ended almost around or slightly above that number of 800 Crores or plus numbers. As we used to repeatedly discuss during the earlier conference calls, especially in Q2 and Q3, we used to have about 5% to 6% SMA-2 in our portfolio during the quarter end.

As we have repeatedly been stressing typically at an average of one-third of that SMA-2 or say 2% approximately used to slip every year into NPAs. Our SMA-2 position on December 2019 quarter was at 5.9%. A few accounts crossing 90 days in between the quarter end and regularizing on the quarter ends is also used to be not uncommon.

All our efforts for NPA recovery and collections, overdues used to reach peak level during the last two weeks of every quarter. During the beginning of 2019-2020 roughly we estimated that we may end the year with about 18% to 20% credit growth rate or approximately 40000 Crores loan book and a slippage of 2% of the closing advances.

We had a slippage as I told you 630 Crores up to December 2019. Till mid February we were expecting we will be closing the year with same around number or 800 Crores or 850 Crores that is 2.5% of the slippage to the closing advances, but we ended up with a slippage of 481 Crores for the fourth quarter financial year 2020 and about 1110 Crores for the financial year 2019-2020 which is about 3.21% of the closing advances as recovery collection cycle got broken down because of the lockdown.

In other words bulk of them would have remained the standard assets for 2020 but not for COVID but some of them could have turned NPAs during the current financial year 2020-2021. Because of COVID we had to recognize much of them upfront in the financial year 20198-2020 itself. In the first nine months of the year, we recovered about 341 Crores of NPA from 250 Crores of live account and 84 Crores technical write off accounts at an average of about 114 Crores per quarter from about 85 Crores from live accounts and 29 Crores from technically written off accounts per quarter.

For Q4 the amount to be recovered was 68 Crores which is about 40 Crores less than the average consisting of about 46 Crores from the live accounts and 22 Crores from the technically written off accounts.

As many SARFAESI auctions had to be cancelled and many OTA settlements got postponed due to the lockdown. We have given moratorium to all our customers. Our current overdues for February 29, 2020 stands at about 1.86% of the portfolio as detailed as below; the amount works out to be about 645 Crores.

Despite moratorium given to all, borrowers who have paid two or more installments comprised about 48% of the loan book. In fact, out of that 645 Crores we had SMA-0 of 175 Crores, SMA-1 of 348 Crores, and SMA-2 of about 122 Crores, totaling about 645 Crores.

Some of them could be the first set of causalities in the two to three quarters after lifting of moratorium, a few of them could reduce debt by selling noncore assets and will survive and we have already started the exercise. They will be COVID patients with comorbidities; they are the accounts to be watched.

As per the RBI guidelines dated April 17, 2020 for those accounts which are eligible for forbearance by keeping the accounts as stronger instead of classifying the same as nonperforming assets and they have to made a provision of 10% and all, 5% in March and 5% in June. This provision could be reversed if it is not needed at the end of the financial year 2021.

We had about close to 125 Crores, as I told you the SMA accounts which needed this forbearance. Keeping this in mind, we have decided to keep COVID provision over and above 1% of our ROA for the financial year 2019. So what we did was we made all the provisions and SAR. For the year we kept a target of ROA of 1% and we decided over and above that could be kept as the future provision. The bank has made a provision of about 125 Crores in total which includes about 102 Crores as COVID ad hoc provision, for accounts other than the accounts, which needed specific provisioning.

These 122 Crores, 123 Crores which were in SMA-2 they attract whatever 10% required that has already made fully. For nine months to nine months we had an operating profit growth of about

8%. As I told you regarding that 1% ROA, we decided to close the year with about 476 Crores of net profit and ended the year with a gross NPA of 4.09%, net NPA of 2.29%.and maintaining the coverage ratio of 65% plus.

Net interest margin is currently once again at about 3.98%, cost to income ratio is about 43.04%. To have that reduction and making higher provision for the COVID, we had to close the Q4 with about 95 Crores loss. So the quarterly comparison may not be of much use at this point of time and moreover the bank had already made paid interim dividend during the March quarter itself. So with that overall once again we closed the year with about 476 Crores of profit which is about 25%, 30% below the profit after tax what we declared the last year.

Let us spend some time on financial year 2020 and 2021 and beyond. As you all know the lockdown started on March 27, 2020. The partial lifting in stages started from June 8, 2020. Since the start of the lockdown till today our branches spoke to almost each and every borrower multiple times to understand the grass root level reality.

From our understanding it looks like the mood in the gross root is much better than what I had personally expected during the beginning of the lockdown. It is not that the customers are not affected, are not suffering from losses. It is reality that there is no portion of the economy which is not affected, but the confidence level at the grass root level is very encouraging. Only a small portion of our customer said they cannot sustain and they will have to exit the businesses.

The activity level in the economy is picking up. The value and volume of transactions are increasing closer to pre-COVID level. As you all know starting business from the lockdown has to cross multiple stages. In the first stage, actually when no activity happens and borrower has to take care of all the fixed expenditures and will be incurring the cash loss with no cash inflow, the stage II where the activity started partially with non-migrant laborers as you had seen many migrant laborers which were virtually running the factories have gone back home particularly in Odisha, Bihar and Northeast and things like that. Some follow for their old receivables and old receivables started making some small inflow, but there will be negative cash flow in the business.

The stage III when the activity levels improves, the production increases, the logistics of the goods also increases, cash flow reaches close to the neutral but not sufficient to take care of the bank interest and repayment. Then they go to the stage IV when the activity levels improves much better with cash surplus just sufficient to pay interest and finally when the activity level reaches almost near normal and market demand also reaches near normal pre-COVID stage then sufficient cash flow is made to pay the interest and other monthly repayments.

Up to the stage IV the handholding has to be done as you have seen the government and all have also declared schemes like moratorium or government guarantee and like that they are all needed to ensure that the businesses stay afloat till they reach a stage V and stage V is not less than four to six quarters away considering that peak level will be crossed in a couple of months or so, with not much deterioration from now. Still Mumbai, Chennai, Delhi and all are in lockdown and we are in stage II or stage III depending upon the company. Our people discussed with multiple customers, multiple times and checked who need moratorium, who will need government guarantee to COVID loans, who needs rescheduling of loans and who are all viable and who are all not and how things will move forward.

As you all know that you have a restructuring option for SME live now. There will definitely be a requirement of one final restructuring option when we are closer to the normal and when the moratorium is lifted. Our experience from the 2002-2003 slowdown or 2008 or 2014 teaches that proper understanding of the cash flows and proper alignment with the repayment terms will save most of the accounts.

We spoke about 1.86% of the exposure who has not yet cleared February 29 dues and they will be the first set of accounts, which may likely slip into the next two, three quarters. A few of them may survive depending upon the auction, but it is a tight call, we have to monitor closely. Then we conducted stress test with our other accounts who did not have any existing stress pre-COVID days but the industry or business could face long period of disturbances like hotels, restaurant, commercial real estate, lease rentals etc.

We have around 10% exposure to these sectors. We do not have much exposure to other sectors like unsecured personal credit card receivables and all who are expected to get a big stress during this period. Fortunately, we do not have much exposure in those lines. Based on the preliminary assessment without considering other Chinese for second wave of COVID etc., and all as per the prevailing market conditions and based on our discussion with the borrowers with the condition, ease out of lockdown etc., we expect that out of this 10%, 20% or in other words 2% of the total loan book will get into the stress and they will be vulnerable which have to be watched closely.

This could be further reduced if restructuring and government guarantees schemes are properly structured. Presently the textile sector is working with about 30% capacity will available local labors and it is expected to improve in the month of November, December once the labor situation eases. Iron and steel sector is already facing slowdown. So the way we looked into the overall aspect is that our slippage ratio for the financial year 2020-2021 could be in the range of 3.25% to 3.5% on had these risk conditions compared to about 3.21% for the financial year 202, which will be very well within our capacity to manage.

We anticipate that during the financial year 2021 from maybe about 300 Crores to 400 Crores from MSME accounts maybe structured based on the viabilities of the account and also in tune with the RBI guidelines issued from time to time. If RBI gives onetime restructuring for non-MSME accounts, we will do liberally looking into the viability of accounts, our experience in restructuring has been pretty good in the past. The better clarity will emerge only by the end of December. So whatever the slippage ratio we are expecting at this point of time is based on the current environment, our current discussions with the borrowers looking into their financial and other information which are available in the public domain about the opinion of the economy and various sectors and industry that way.

It looks like we should be in a very much control in terms of monitoring this, but the recovery of NPA will get delayed as legal options like DRC and all will work with delays. The 10% reduction in the property value also cannot be overlooked. Hence the income from the write off recovery may be affected. As we have been stressed in the past many times our track record shows when we looked into the figures how the slippage behaved say in the last nine, ten years, we are able to recover about 70% of the slippages and only 30% of the slippage used to be the net write off. So in that way even this slippages may not be affecting us on a long run though there could be some amount of disturbance in the gross and net nonperforming ratios in between.

There are now instructions from the authorities not to charge customers on ATM usage, processing charges, penal charges and all, which are going to affect our other income stream also. The rate of interest for the government guaranteed COVID scheme is capped at about 9.25% which will affect the yield, by about a few basis points. We have about 1200 Crores to 1300 Crores eligible for borrowers to receive as a government guaranteed scheme. The profit made on treasury slightly appeared to be favorable. Overall there could be reduction in both operating profit and net profit for financial year 2020-2021, but we feel we should be able to handle the situation on the promote of it with minimum impact.

We have 16.76% of capital adequacy and less of preexisting issues. We are confident that we will be able to come out of this pandemic much healthier. The fact that we have not pushed for credit growth during the last year and all we are now with adequate capital. Our liquidity portion and all is also very good, we have published our liquidity ratios and all in our presentation. Though we feel with adequate capital buffer for potential cash top because of COVID pandemic, we are not averse to the idea of capital raising in case of need. We have also used to have an enabling resolution for going for QIP in our Annual General Body Meeting and the permission what we received last year is live now. That is something which we have been doing for some years now.

Overall, the calculation shows that the current level of capital adequacy is okay, but since we have a lot of unknown unknowns, for example the Chinese crisis and all, the war like situation and all were not expected even a couple of months, so we have to evaluate all the future potential losses and risk to take a call on that front.

To answer the questions, we discussed in the beginning on deposits front, we have a strong retail franchise. We do not have any certificate of deposits. We do not have any reliance on the corporate bulk deposits and all even the 2 Crores and above deposits hardly constitute about 10% of the total deposits. There is a low concentration, which only top depositors contributing around 9% of the total deposits.

On RBI discussions therefore on the governments and banks, the Reserve Bank of India discussion paper specifies a maximum tenure of 10 years for CEO, Wholetime Director for a person classified as a promoter or major shareholder and 15 consecutive years for a non-promoter category. My tenure got extended for three years from May 1, 2020. Since our bank does not have an identifiable promoter, God willing, my service of 15 years of MD and CEO of the bank will get completed on April 30, 2026 based on the draft circular it is now in the public domain.

To sum up based on the discussions with the customers and developments, post opening we are confident that we will be able to come out of the COVID issues without much problem and we will be ready for a normal growth subsequent to the normalcy. There will be some disturbance in the other income streams like income, technically written off NPA account, ATM fee account, loan processing fee, to some extent to treasury income also during this year.

The focus during the current financial year 2021 will be handhold the borrowers and ensure slippages at the minimum by providing proper support to government guaranteed schemes and COVID crisis credit scheme or restructuring and all. We at this point in time, for slippage for the financial year 2020-2021 should be between 3.25% and 3.5%. As I told you earlier the exact position will be visible only in December. This is based on all the information which are available at this point of time and based on the discussions with almost all the borrowers and understanding their operations and things like that.

The focus will be to strengthen the balance sheet rather than expanding P&L during the current financial year 2020. Next four to six quarters are going to be extremely crucial for the banking system in ensuring otherwise business units which are guarded from the damage caused by COVID-19 we have adequate capital and since with our grip in the portfolio we feel we should be coming out of this crisis with minimum impact.

Overall, as I told you once again, like we had about 9% growth in the operating profit level as a year as a whole and we had about 5% growth in the overall credit portfolio. The NPA slippage as I already told you we had incremental slippage of about and when we expected about 800-odd Crores during the year, we ended up making about 1150 Crores or so for the last year as a whole. The last quarter saw almost about 250 Crores or so over and above whatever we had expected.

Basically these slippages came from the SMA-2 accounts, which is a part of the 5.9% which we used to discuss the quarter end. Had the COVID not come probably most of these accounts would have slipped in the financial year, 2020-2021 so overall though there could be some amount of dent in the operating profit and net profit in the current year because of various quarters, and also because let us say the recovery mechanism will also not deliver expected results during the year because of the COVID pandemic and all, the normalcy is going to be not less than four to six quarters away, but since we are adequately capitalized and we are able to have a balanced understanding and overall health of the portfolio we feel, we should be able to tide over this crisis. So, next six quarters or so are going to be extremely crucial and we need to manage all these things with a total focus.

We are in touch with all the borrowers, trying to understand how things are moving on touch base basis. Overall, we are let us say much better now with lot of information post the lockdown and we are much confident than whatever the confidence level we have when the lockdown actually started. The lockdown in the last couple of months of March which typically used to be the last quarter situation, used to be the period when we used to engage overboard in terms of the arrears collection and the NPA recovery since that cycle got broken because of the lockdown people are not able to regularize the account otherwise, the things should not have happened as we had anticipated that during the year beginning. We saw things are happening as per the anticipation even till mid February when we discussed about the third quarter results, we did not have idea of what is there in store for us for let us say one month down the line. Probably these things are let us say not very many people have gone through these sorts of experiences in the past, so to start with things were a little bit what you call, even we can call it scary but once the lockdown started opening up slowly and the confidence level of the borrowers and people in the business, are giving us enough confidence that we will be coming out of the issue without much problems.

Very minuscule portion of the people said they will not be in a position to promote the problem because this period, make sure first of all done anything other thing. So, I am confident that on as was need basis we should be able to manage this particular situation though there could be some amount of dent in the profitability numbers and all. Overall, we feel we should be able to come out of this position with a much better health over the next four to six quarters.

Thank you and I am open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Sir, fund raising, what lot of banks have reported despite our moratorium you have highlighted that 48% of the borrowers have actually paid two or more months of installment and SMA-2 availing the moratorium number has been low, what a lot of banks have reported and we are still reported fairly high delinquency number at about 480 Crores. 1) If you could help us understand the opening total SMA-2 book and how much of it slipped into NPA, how much of it got upgraded and we understand 125 Crores availed of moratorium? If you could just sort reconcile that math? 2) It is on our cost of deposits, for quite some time it remained quite sticky despite the fact that overall interest rates in the system have come down and if I look at our waterfall of interest rates offered most of the category barring one to three year is already down at about 5.5% to 5.75% so when does our cost of deposit start coming down and third question is on the savings account. What is the rate that we are offering right now and do we look at that number also reducing in line with most of the other banks have done? Those are my three questions.

N. Kamakodi: As I told you basically on SMA-2 number like 5.9% is what I told you earlier. I have given you the overdues on February 29, 2020 which is the reference date at this point of time. My total overdues for February 29, 2020 in terms of exposure currently are about 645 Crores.

Kashyap Jhaveri: Sir, this 125 Crores was the total SMA-2?

N. Kamakodi: Yes. This is the SMA-2 on let us say I am talking about February 29, 2020. I give you the point on this breakup and then you can make your own numbers. SMA-0 on February 29, 2020 is 175 Crores as on today. For February 29, 2020 SMA outstanding for SMA-1 is 348 Crores. For SMA-2 it is 122 Crores. So this 122 Crores we have to provide with 10%. Answering your question in the other way since all your question on SMA 2 will be 348 Crores.

Kashyap Jhaveri: So, if I look at as of December 2019 our total SMA-2 book was roughly about 2000 Crores.

N. Kamakodi: 5.5%, 6% , yes.

Kashyap Jhaveri: That came down to about 125 Crores as on February 29, 2020?

N. Kamakodi: Yes. You have 645 Crores of SMA-0, SMA-1 and SMA-2 as of 15.06.2020

Kashyap Jhaveri: So as of 2000 Crores about 1000 Crores cleared by dues and got cleared by dues and got out of SMA-2, about 480 Crores some of that, out of that 480 Crores slippage some would have slipped into NPLs?

N. Kamakodi: Repeat the question?

Kashyap Jhaveri: Sir, out of 2000 Crores, 1000 Crores cleared by dues and they became a normal standard account. Out of this 480 of slippages, some would have come from SMA2 number.

N. Kamakodi: Almost all that will be from that number.

Kashyap Jhaveri: There would be some addition and the residual number is about 125 Crores as on the February 29, 2020.

N. Kamakodi: Please understand this way. Say you had 5.9% or say 2000 Crores SMA-2 on December 31, 2019, out of that 2000 Crores, about 400 Crores odd have become NPA, about 600 Crores is in SMA list on February 29, 2020 now being declared. So, balance 1000 Crores has gone out of this SMA mismatch. Also understand one more this cycle used to happen on a continuous basis, had this breakdown has not happened, the recovery and collection would have happened during this once again, we would have reached this level that 250 Crores NPA whatever we had. That is a normal behavioral pattern, which you will be seeing.

Kashyap Jhaveri: Of this 480 Crores which slipped into NPL. What you are trying to say is that in a running course of business, you would have recovered out of this 480 Crores also and by March 31, 2020?

N. Kamakodi: No. I would not have been in a position to recover 480 Crores. I would have recovered about 200 Crores or 220 Crores.

Kashyap Jhaveri: That is what I am saying, you could have recovered part of that and you could have saved 800 Crores on slippage number.

N. Kamakodi: One more thing when the run rate is about 800 Crores to 900 Crores every year, let us say the additional slippage of 250 Crores from usual 200 cr per quarter would have become NPA for the first quarter, second quarter or third quarter in the financial year 2020-2021, so a couple of 100 Crores would have survived.

Kashyap Jhaveri: On the deposits cost side?

N. Kamakodi: Deposit cost side, basically we have already started reducing the rate of interest for the deposits. See the costs of deposits for the fourth quarter is at 6.07%, which reduced from about 10-basis point reduction happened. We have reduced further to about 5.5% and all once the maturity happened the reprising effect will be visible over the period of next two three quarters. For the savings bank we have for less than 1 lakhs the rate of interest is 3.5%.

Kashyap Jhaveri: When did this happen? When did you reduce the rates?

N. Kamakodi: It is from the first of April.

Kashyap Jhaveri: That is about 50-basis points reduction on less than 10 lakhs and about 25-basis reduction of more than 10 lakhs?

N. Kamakodi: Yes.

Kashyap Jhaveri: I will come back in the queue. Thank you.

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

Rohan Mandora: Thanks for the opportunity. Sir, I have a question on the guidance for the slippages that we have given at 3.25% to 3.5%. So we are typically having a normalized run rate of around close to 2% of the slippages and we are also talking about 2% slippages coming from the sectors, which has got into stress from COVID but otherwise they were performing. So, just trying to understand should we not have a minimum 4% kind of an expectation on slippages given the current situation vis-à-vis on 3.25% to 3.5%?

N. Kamakodi: You can probably reconcile the 3.5% to 4% like the survival rate from the restructuring and the other facilities which are given.

Rohan Mandora: Sir, secondly on the 250 Crores of additional slippages that has happened in 4Q, which we are talking about if COVID would not have happened, these accounts would have been recovered to standard. So, just to understand these account would have slipped before February or did they slip actually February?

N. Kamakodi: As I told you when we have SMA-2 number say 5% to 5.5% or 5.5% to 6% range, in between the quarter it is not uncommon to see accounts which are crossing 90-days, they pay and settle their accounts and come back to the normalcy before the end of the quarter.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Thank you for taking my question. Firstly on the moratorium just wanted to clarity on that. You have mentioned about two or more months comprise 48% of the exposure, can you please run us through as to what was the actual moratorium claims and how are the repayments happening out there, would appreciate your comments on that?

N. Kamakodi: Basically the signal from the regulator is very clear that we cannot discriminate between the borrowers for giving the moratorium. Then whether you go for opt in or opt out all these things were discussed and finally we decided to ensure that everybody is getting less benefit, because when we gave that nobody knew what was in store. At the same time, we informed the borrowers if all they wanted to pay, because if they do not pay it will be paid later and all some of them perhaps are waiting for the Supreme Court judgment to come. Let us say what will be the interest for the interest rates, whether there will be total waiver of interest and all, all these things are being discussed. So, basically overall for the business level, even though so many numbers are coming, about 40% to 50% is perhaps the average moratorium in terms of everything put together and ours is around 50%.

Gaurav Jani: If I understand correctly, you had given an opt out versus an opt in, right and on that two months meaning May and June 48% of the customers have paid up, is that a simplified way to look at it?

N. Kamakodi: No. What we said is that if you want to pay (or) if you do not want to pay, it will be capitalized as per RBI norm when the moratorium ends. So these are all the people who decided to pay.

Gaurav Jani: So that two months could have been say March, April, May or June is what you mean?

N. Kamakodi: If they do not pay for March how can they pay for June?

Gaurav Jani: So that is not possible.

N. Kamakodi: Yes.

Gaurav Jani: On the credit guarantee scheme MSME credit guarantee scheme. What is approved till now and how is the progress and at what rate probably are we lending on that?

N. Kamakodi: We are lending at 9.25%. The available let us say the eligibility comes to about 1200 Crores to 1300 Crores. We have released sanctions almost for 850 Crores.

Gaurav Jani: Sir, lastly if I may squeeze in just on the outlook on the restructuring scheme that the government has extended, right now about 300 Crores roughly is about under that how much would you anticipate for FY2021?

N. Kamakodi: In fact, if I talk about that number we expect for the MSME another 300 Crores to 400 Crores over the period of next three quarters.

Gaurav Jani: Thank you. I will probably join back in the queue.

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

Krishnan P.S.: Thank you very much. Good evening to you. Just wanted to understand what is your current borrowing mix and what is the weighted average cost of borrowing for as ending March 2020?

N. Kamakodi: By and large, we are not into wholesale borrowing at all. Our cost of funds for the fourth quarter currently stands at 5.03%.

Krishnan P.S.: In terms of your lending what is secured versus unsecured? Do you have any percentage of unsecured lending?

N. Kamakodi: Close to zero, 1% to 2% or maximum 1% or something like that. We are not into the unsecured segment at all.

Krishnan P.S.: In terms of write offs, what have you observed for the write offs for FY2020 as compared to FY2019?

N. Kamakodi: We normally go for a lot of technical write offs to make use for the benefits in the taxation. As I told you during the discussion if you had a chance to look into our ten-year figure, if 100 Crores slips, we are able to recover about 70% as we are fully secured.

Moderator: Thank you. The next question is from Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Thank you for the opportunity. Sir in your moratorium some of the other banks, other peer banks they have mentioned around 60% to 80% moratorium in digital banking segment. So, do you think that this 48% actually can or 52% actually can go up in let us say in months going ahead? That is question number one. Second is this 1200 Crores eligible for ECGS quantum that that looks very small considering we have a very large portion into MSME, those who by definition would qualify, so any comment there? Thanks.

N. Kamakodi: Your question on whether the moratorium will increase it depends on let us say to what extent the disturbances in the lockdown and disturbances in the businesses continue. For example, the Chennai and all we did not expect which created some issues so you might have observed for everyone the percentage people started coming down drastically every month end. So, it also depends on whether the moratorium is lifted in August or it is further extended and the chances of further extension cannot be ruled out if this type of lockdown situation continues. So, basically as is for the condition, we do not want to pressure, we will definitely be there. I cannot say that moratorium percentage will not increase and all but what we can definitely say is that this uncertainty is definitely which we have to keep in mind. This is for the moratorium. So, the moratorium percentage currently stands at this particular point of time so we gave option to the borrower whether they want to pay and all close to 50% of them have paid on their own. This is what has happened. Answering your question on the conditions which are made by the so many things, for example the quantum who are let us say eligible for this is about one-third of our portfolio which is about the same, 13000 Crores of which we removed ineligible borrowers. In our portfolio close to about 9500-odd Crores borrower is eligible further and total amount which is eligible for that is coming to about let us say 1863 of which the persons who opted for this and all, after reducing this it comes to about the figure what I told you that 1200 Crores.

Jai Mundra: But Sir, one-third was by definition was eligible of which you made your own filter and only 1800?

N. Kamakodi: Finally 25% of the borrowers have been sanctioned. Whether they use it or not it is depending their wish.

Jai Mundra: Do not you think this scheme could help you if you, can be used for making benefits for customers and the bank as an handholding for at least next 12 to 18 months.

N. Kamakodi: Absolutely. There is no second opinion about that. We have been encouraging all and if you have a chance to listen to our earlier concall and all, even the restructuring which was given originally this facilities we are encouraging our borrowers whoever are eligible to take this and we are also giving then sanctions if they request and to what extent they use for example, the 50% of the people who are already let us say paying even during the lockdown they might not be interested in taking this. So, it is finally left with the individual borrower to take this and we are not stopping anyone from taking. Everyone who is eligible as per the definition, this being a government sponsored scheme following the rules, the conditions of both letter and spirit is very important and anybody who satisfies those criteria we are giving them.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Funds. Please go ahead.

Abhijeet Vara: Thank you for taking my questions Sir. Sir first question is on borrowings. Borrowing seems to have gone up, can you please help me understand what is the reason? You already have a good credit?

N. Kamakodi: We got some LTRO which is a three-year money which we got it 400 Crores we received, then whenever we have the arbitrage opportunity, SIDBI refinance we received, depending upon and these are all things which we give depending upon the arbitrage opportunity available or depending upon the need.

Abhijeet Vara: Second question is on SME benchmark loan. Now that the debtor has been going down so much, and significant portion of our book might be on rate, how do you think NIMs will get impacted because of such a situation? You did explain on the other aspect but if you could explain on the disinvestment marked loans? It will be helpful.

N. Kamakodi: Basically how it works is we are not very active in the retail loan per se. So our maximum activity is already there only on the micro and small which are eligible for the external benchmark rating, small and medium, if at all there is let us say for example 50-basis point reduction in the REPO rate there could be a potential 10-basis point, maybe 5 to 10 basis points reduction in the overall NIM. Except during the last interest rates cycle we have always seen whenever the interest rates is increasing or margins expand or whenever the interest rates decreases our margins contract and during only in the last interest rates cycle it has not happened this way which we are in a strange manner and this is what is the calculation shows and this is what we have been seeing.

Abhijeet Vara: Sir, what portion of the book will be under this extended spot basis?

N. Kamakodi: It comes to about 20%.

Abhijeet Vara: Just one last question, if I can squeeze in. Sir, do you think PCR has to be taken up considering the uncertain scenario, which we have on 65% to higher numbers, or you are comfortable?

N. Kamakodi: That is what I told that our calculations and our track record shows whenever there is 100 Crores slippage, we are able to take about 70 Crores we are able to recover. This is one part. Second part kindly remember in this quarter we have put about 100 Crores additional provision which has not been used for your reducing your net NPA or whatever it is. The net loss in the fourth quarter came let us say purely because of that, otherwise, we could have had some profit. So, we decided that we will be having, let us start with 1% ROA for the year as a whole and over and above that which we will be getting back for the provision so about 100-odd Crores has been already provided for expected future short because of the COVID in the financial year, kindly remember that point for the financial year 2021.

Abhijeet Vara: Which is not including in the PCR?

N. Kamakodi: This is not included in PCR. This is not included in the net NPA calculation. This particular 100 Crores is totally kept out of the entire calculation per se. They will be used depending upon the requirements. This is very important point if I have not stressed that or communicated that properly I want to again say that that 100 Crores incremental provision which is given is not the part of net NPA calculation, it is not the part of any provision coverage calculations and all. They are pure COVID ad hoc to provisions which are kept aside.

Abhijeet Vara: Thank you. I will get back in the question queue. Thank you.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities.. Please go ahead.

Darpin Shah: Sir thanks for the opportunity. Sir, again coming to this moratorium number, you mentioned 48% has paid two or more installments. This 48% is the value or it is by number of borrowers?

N. Kamakodi: It is by the exposure, value.

Darpin Shah: It is by value. One more thing over previous quarters in the concall, you have been highlighting that there are two, three accounts, which are at borderline. And I guess a couple of them were from educational institutions also. So, if you can provide some color on them as well?

N. Kamakodi: That particular residential institution paid about 8 Crores in the third quarter and they have not upgraded in the previous quarter itself. They also received some money from the government in the current quarter, so whether they will become NPA or not it depends on the future and we also have some provision for them.

Darpin Shah: That is it from my end. Thank you.

Moderator: Thank you. The next question is from the line of Mayank Kumar from Star Union Daichi License Service. Please go ahead.

Mayank Kumar: Most of my questions have been answered. Just one thing 45% customers have paid two or more EMIs and now it is almost three and a half months, from March 1, 2020 do we have numbers, the customers who have paid three months EMI?

N. Kamakodi: Till May I think it comes to about 35% to 38% something like that. About 38% have paid even the May 31, due. It maybe 39% or so.

Mayank Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Amit Jain from Axis Capital. Please go ahead.

Amit Jain: Thanks for taking my question. I had a question on the moratorium. Sir, this 48% could you just give us a flavor of what type of customers are these? Are these like SME customers or Agri customers? What is the nature of these customers?

N. Kamakodi: Here agri customers normally their payment season will not cross now because they have the repayment cycle along which is tied up with the crop cycle. So, these are all MSMEs, all other loans including whatever small housing loans we have, whatever other portfolio per se.

Amit Jain: Sir can you give some segment wise break up of this 48% for example say how much was MSME and how much was housing or it is uniform all across?

N. Kamakodi: It is by and large uniform across all sector.

Amit Jain: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nishant Rungta from Premji Invest. Please go ahead.

Nishant Rungta: Sir thank you. I was just trying to reconcile a couple of statements that you had made in the opening remarks. One was the while getting in touch with your customers you understood that the things are not as part as we all think they are and the confidence is pretty okay there, but then you also made a statement that if RBI were to permit you onetime restructuring you would use that extensively with six months moratorium in place, what do you think this is warranted to restructure loans extensively at this stage and are things are bad as you believe that it warrants a restructuring?

N. Kamakodi: For example, certain sectors need them. When the lockdown is lifted and interest rates come back on track and we discussed during the six stages, the length of each stage changes for the individual industry. Say for certain industries he will come fast quickly to the normalcy say for example, the general expectation is that the textile sector will revive and probably come back to normalcy along with the Diwali demand, but if you take a hotel industry per se, or if you take a transportation industry per se, hotel industry and all probably is expected to have may be even after the moratorium is lifted by and large, they will be starting their occupancy rate from 10% and getting back to 70% to 80% normally in which they operate, it is going to take a few more months and few more quarters. Similarly like after six months of moratorium that in the entire interest payment is also going to get capitalized. So, basically some fine tuning of let us say cash flow, profitability and the repayment schemes do not think this way for example, it is not that for six months they have not paid anything so there is no due, so from 7th they will be able to reach, they will require let us say some time to it could be even finer readjustment of their cash flow and their repayment requirement to the banks. So definitely let us say every business will need this readjustment otherwise, let us say, the business will be viable, it will be having cash flow, everything would be good, since the cash flow is not tallying with the schedule which has been agreed pre-COVID days you may have to destroy that industry which is not warranted.

Nishant Rungta: Thank you so much. All the best to you.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Thanks a lot Sir. Sir, what will be the overall SMA-0, SMA-1, SMA-2 book is it 6.5 Crores or is the figure really higher?

N. Kamakodi: This figure is based on the RBI definition that no demand will raise after the March 1, 2020. So, if you keep that that way this is this year.

Anand Dama: It is not for this benefit then basically the SMA-0, SMA-1, SMA-2?

N. Kamakodi: That is the morale one. What do you mean by that moratorium?

Anand Dama: Sir, secondly is the staff cost. In fact, this quarter we have seen a reduction in our staff expenses, so what was the reason one, and secondly you are also part of the IBA regulations, so you have not taken any wage hike provisions?

N. Kamakodi: Even though I am in the management committee of Indian Bank Association and I was also the Honorary Secretary of Indian Bank Association for the team and I am in the management committee of IBA for the past almost six years, fortunately I have not part of wage settlement of IBA. We have our own settlement with our own union.

Anand Dama: But I think you follow that settlement, right?

N. Kamakodi: No we do not follow that settlement. Ours is a different settlement altogether. It will have some similarity with the Indian Bank Association but the timelines and due dates are totally different and we have not authorized IBA to negotiate. We negotiate with our own Association Union on a bipartite basis, I mean one to one basis and we are not part of that industry level settlement per se, number one. Number two, the reason for the reduction in the salary is that during the beginning of the year, we projected certain what you call provisions to be made on the employee benefits like leave encashment, and things like that which are on estimation basis, but when the actuarial calculations actually happened, they said, we had surplus provision of about 15 Crores to 20 Crores or so which we had to reverse.

Anand Dama: Sir, your other expenses also seems to be on a higher side at about 170 Crores versus 150 Crores so was there anything else?

N. Kamakodi: That 15% typically is the run rate.

Anand Dama: Lastly, what is the ROA expectation particularly in FY2021 now that we had 1% ROA in FY2020, which is one of the lowest at least in the last 14, 15 years. So what do you expect in FY2021.

N. Kamakodi: Basically FY2020-2021 is not going to be a year when everyone is going to calculate these numbers. It is going to be a year when we have to save the customers and we have to save the accounts and we have to save the businesses and the way things have happened in the last couple of years, and all, it is not the period when all these ratios are coming for discussions and all, so I do not want to let us say project anything for ROA, and all at the current juncture, if I get a better clarity and if I come to a conclusion that things, we have crossed that, once again we will be giving you back my guidance's and all. This is the time when, as you have seen for the entire industry almost 50%, 60% moratorium had been there, you have to people are saving their life sitting inside their home and nobody knows what is in store for everyone, a lot of uncertainties even beyond this we are happy to see people are now getting ready to do the businesses and all, during this period our concentration will be more to ensure we are properly managing the portfolio, protecting the strength of the portfolio, making sure those viable customers are properly given adequate support to come out of those issues and no projections for all these things now.

Anand Dama: Thank you.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Sunidhi Securities. Please go ahead.

Prashant Kumar: Thanks for such the detailed presentation on impact of COVID-19. My question is on asset quality the run rate on retain of quarterly wise return of was around Rs.60 Crores to Rs.70 Crores each quarter. But this quarter we have seen around the hike of Rs.200-odd Crores I mean, is there any large chunky account or it is a spread across the sector, could you please verify?

N. Kamakodi: See this write-off whatever we are writing off is basically a balance sheet exercise which are technically writing of technically for let us say taxation provisions and these sort of thing. This is not the write off in the sense. We normally let us say we are writing off expecting that no more recovery from this and all only because of this technical realization we are doing for quite some time. We also recover subsequently not less than at an average of say 70% and which are to that extent we are able to postpone let us say we pay the tax only when we receive money on them that is we do not confuse this Rs.200 Crores as what you call write-off what we make thinking that no money will come here. This is purely balance sheet exercise particularly for tax plan.

Prashant Kumar: Other one on credit growth side outperform 3% to 5% of banking sector what I mean I think that gold and agri will be resilient during this pandemic situation so on this base, what is your expectation on H1 and H2 of FY2022 if you could give some guidance?

N. Kamakodi: Basically, two things are going to be there one is how much loan we are giving for this government guaranteed scheme that increment alone is virtually risk-free, earning 9.25% or whatever it is, which comes to about 3% to 4% of our portfolio and when the moratorium ends that unpaid interest will also become FITL, further interest term loan so basically is this is what you are seeing without doing anything but these are all not the real business growth which let us say which we want that is business growth improve. Let us wait for sometimes I do not know whether you know, development are all the Chennai branches closed for 10 days from tomorrow like that there are lots of restrictions and lots of let us say pandemic is creating, lot of disturbances in the normal way of affecting even adding let us say even fear on the public and all particularly from the banker side because as the banker when you sit in the branch more and more people come and you get contracted easier and all this thing that so you are also hearing that you are going to have a sharp recession this year and it will recover only during the next year so there are many macroeconomic phenomenon, which are going to play this round and fortunately as you said that the agriculture normal monsoon is expected and agriculture is expected to be only major sector which is expected to grow in this region. So let us say I do not expect we will be having double digit growth and all this year let us see how things pan out as the move forward.

Prashant Kumar: Thank you Sir. That is it from my side.

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

Krishna P.S.: Thank you Sir. I think my queries have been addressed. We can move onto the next question. Thank you.

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

Rohan Mandora: Sir just on this Rs.1000 Crores SMA 2, which got upgraded during the quarter. So just wanted to get some sense on how is split between what was the status in terms of actually SMA0, SMA1, SMA2 upgrade happened, any color if that is available?

N. Kamakodi: The issue is your clock stopped on let us say February 28, 2020, if you pay till February 28, 2020 all your sins are washed off, you understand what I mean?

Rohan Mandora: In case any payment was received in March and account is in moratorium then that would have been used to normalize account.

N. Kamakodi: The concept of SMA-0,SMA-1, SMA-2 let us say perhaps put on abeyance from the March 1, 2020 anybody who has made receivable up to February 29, 2020 may are supposed to be current today even if they have taken moratorium for January, February, and March.

Rohan Mandora: I was trying like that would include a good number of customers who would have also made two or three EMIs within March itself 1000 numbers seems to be a big number in terms of roll back to normal?

N. Kamakodi: It happens normally. Let us say there is general misconception when somebody gets into SMA he will fail immediately and all. For some cases it used to take years for some cases they may get upgraded and they may be current always, you will see the flow between one category to another category depending upon on which stage these people are there.

Rohan Mandora: Sure and Sir just one more thing some clarification here in case somebody is availing an emergency line of credit through government scheme will in case there is requirement as a request from them for a restructuring as well under MSME scheme so would that be eligible for both of them or will they have to opt for one of the two?

N. Kamakodi: It is available at this point of time. Only thing is that the band has to look into the maximum permissible bank finance, cash flow things and all, maximum what do you call benefit could be given on the extending the repayment terms. If some power is not eligible for extra credit the choice is obviously will be to give extended tenure which will reduce his payment pressure.

Rohan Mandora: Sure and Sir in terms of accounts that we have done restructuring have we incurred any NPV losses on these accounts in terms of restructuring losses?

N. Kamakodi: Typically in every restructuring you will be having about 10% or so minimum provisions every time.

Rohan Mandora: Sir it is a provision only but any losses in terms of NPV assessment when you are doing a restricting on a working capital loan, it would be TCE product how does that restructuring work and what kind of losses would be there on that in case of term loan if there is interest reduction and there could be a clear loss action we may have to take?

N. Kamakodi: Yes whatever the difference in NPV you have to provide and keep it with you. If they have paid as per the restructured terms you can get that back to your P&L, if they have not able to pay as per the revised terms and become NPA you can use this NPV provision whatever have you given for the NPA.

Rohan Mandora: Sir typically NPV losses would be lesser than 10% where we have good collateral security?

N. Kamakodi: The collateral will not play a role in NPV calculation for the restructured portfolio, the provision amount will be purely based on the NPV difference in the NPV.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. The next question is from the line of Arash Arethna from India Infoline. Please go ahead.

Arash Arethna: Thanks for taking my question. I just wanted a clarification on the MSME credit guarantee numbers how you reached from Rs.9500 Crores to Rs.1200 Crores that is all?

N. Kamakodi: See 20% of the outstanding amount minus those who have opted or whatever.

Arash Arethna: Sir minus those who have opted?

N. Kamakodi: Yes let us say for example totally advances figure of Rs.34724 Crores of which the SME works out about Rs.13265 Crores of which less than Rs.25 Crores as per the rule who are eligible is about Rs.9316 Crores on that Rs.9316 Crores 20% is eligible which works to about Rs.1863 Crores in that amount and some of that total amount that could finally come out is around this Rs.1800 Crores number some of them would have not have applied, some of them let us say, basically the maximum amount that can be given is your Rs.1863 Crores.

Arash Arethna: Got it Sir. Thanks.

Moderator: Thank you. We have one last question queue, the last question is from Amit Jain from Axis Capital. Please go ahead.

Amit Jain: Thanks a lot. Sir I just wanted some color on your branch addition and hiring plans since FY2021 is going to be a weak on the operating income so what plans do you have on branches and how do you plan to curtail your cost or could we see a spike in cost income ratio?

N. Kamakodi: Basically let us say one thing on income front particularly other income is going to have adverse impact as I discussed during my discussion. On the cost front we have already started discussing for reduction in the rent, some amount of reduction has already come regarding this decision on let us say normally our previous year run rate have been about 50 branches per year, most of which will be opening closer to the yearend or during the fourth quarter. We will take call on how to proceed on this front towards November, December are come.

Amit Jain: Sir could you give us what was the employee strength as on date?

N. Kamakodi: About 5741 to be precise.

Amit Jain: Thanks a lot Sir.

Moderator: Thank you very much that was the last question in queue.

N. Kamakodi: Based on the questions, I want to make it very clear that we have made about whatever figure that has come is after making about Rs.100 Crores additional provision which is not part of your provision coverage ratio or NPA calculation. We feel the total incremental slippage for the financial year 2020-2021 on this condition against let us say it could be about let us say 3.25%-3.5% and all compare to about 3.1%-3.2% very well within our capacity to manage and take it forward though there could be some around of variations here and there in terms of the income we are very confident that since we are adequately capitalized and normally our recovery rate from the NPA accounts are about 70% even though there could be aberrations in the P&L of the current financial year I hope the next four to six quarters are going to be crucial on all these things, but we are pretty confident that we will able to come out of this particular issue much healthier and much stronger as we come out of this issue. It looks like we will be able to manage the current scenario not growing too much as in fact helped us with good capital adequacy ratio though we may be in a position to manage this without going for any additional capital infusion, we are not averse to that fact and we will keep evaluating on an ongoing basis. If at all required we will look into otherwise we will be in a position to take it forward without much issue.

Thanks for coming to this conference. Some of you might have got disappointed on that number and all. Remember the asset quality issue whatever that had happened now is not very, very different from what are being there because the COVID had only accelerated by them one or two quarters. Since we do not have any thing for the quarter and all, all these things they are not something which are abnormal and we are confident of managing this and I do not see any major variation or concern in the asset quality because of whatever you have seen. It has happened environment which were beyond our control if this has not happened we would have perhaps completed the financial year with almost closer to the number whatever we suggested during the year beginning. Yes it is a difficult quarter and this difficulty in the environment is expected at least for the next four to six quarter. I hope things would be alright and I wish all of you stay safe at your home following all the norms given by the government and all because the number of cases that are coming out of big cities like Chennai, Mumbai and Delhi are matter of concern. We hope things will get sorted out quickly and the country will be coming out of all issues and the economy will come back to the rails as quick as possible and once again thank you all for participating. Thank you, Ambit for giving this opportunity. Over to Ambit!

Moderator: Thank you very much. On behalf of Ambit Capital that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.