2QFY2021 Earnings Conference Call"

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ANALYST: **MR. AJIT KUMAR- AMBIT CAPITAL**

MANAGEMENT: **DR. N. KAMAKODI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CITY UNION BANK**

MR. V. RAMESH– CHIEF FINANCIAL OFFICER – CITY UNION BANK

MR. JAYARAMAN KRITHIVASAN – CHIEF RISK OFFICER - CITY UNION BANK

MR. GANESHAN – AGM RISK MANAGEMENT - CITY UNION BANK

MR. MOHAN – SENIOR GENERAL MANAGER – CREDIT – CITY UNION BANK

Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank 2QFY2021 Post Results Analyst Conference Call 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 the conference over to Mr. Ajit Kumar from Ambit Capital. Thank you and over to you, Sir.

Ajit Kumar: Good evening everyone. Welcome to 2QFY2021 Earnings Call of City Union Bank. On this call, we have Dr. N. Kamakodi, MD & CEO of the bank, 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 concall to discuss the reviewed Financial results the quarter / half year ended 30.09.2020.

The Board approved the results today and hope you all have the copies of results and presentations.

Recently, on 31st October, 2020 we celebrated our 117th Foundation day. On this memorable occasion we thank all our customers and stakeholders for their continued support and patronage. We also thank you for the confidence reposed on us.

On the management side, Sri. S. Bernard, Director & Chartered Accountant retired on 19.08.2020 on completion of 70 years. We place our sincere gratitude to Sri. S. Bernard for his valuable guidance during his tenure.

Two of our senior Executives, Sri. R. Venkatasubramanian, CGM and Sri. K. P. Sridhar, SGM retired during June 2020. Based on the exercise of succession planning, three of our GMs got elevated as Senior General Manager – Sri. V. Ramesh, CFO, Mr. S. Mohan in-charge of credit and Sri. K. Maharajan in-charge of Audit & inspection. Further, seven of the Executive in DGM cadre has been elevated to General Manager cadre w.e.f 01.09.2020.

The highlights of financial performance for Q2 FY 21 / H1 FY 2021 are as follows:

- ✓ Deposits increased by 2% to Rs.41,421 cr from Rs.40,451 cr (Y-o-Y)
- ✓ Advances improved by 6% from Rs.33,279 cr to Rs.35,437 cr
- ✓ Operating profit of Rs.385 crs and Rs.741 crs for Q2 FY 21 & H1 FY 21 regis-

tering a growth of 11% & 6% resp.

- ✓ Net profit at Rs.158 crs and Rs.312 crs for Q2 and H1 respectively
- ✓ Gross NPA and Net NPA stood at 3.44% and 1.81% for Q2 & H1 FY 21
- ✓ ROA maintained at 1.23%
- ✓ NIM stands improved to 4.12% for Q2 and 4.05% for H1
- ✓ Cost to Income ratio at 40.36% for H1

We have been getting repeated questions from multiple quarters which can be summarized as follows:

1. How is the activity level?
2. We are hearing SME sector is deeply affected. How is your experience?
3. What about repayment after end of moratorium?
4. What about “restructuring”?
5. What about “growth”?
6. What about “asset quality concerns” / slippage?
7. How are you going to handle NIM pressure?
8. What is your ROA outlook? When will it reach pre COVID levels?

As explained during Q4 and Q1 concalls, though things looked very scary during the beginning of the lock down, we could see a lot of improvements in activity levels.

The activity level reflected by transactions in our bank has crossed pre COVID levels in both numbers of transactions and value. It is also getting substantiated by other data like GST collections.

The Government guaranteed ECLGS Scheme has boosted the spirit of MSME sector and businesses have started generating surplus.

Some sectors like Hotels / retail trade / passenger transportation and all opened up late and expected to have longer gestation period. They are all mostly at sub optimal operating levels but improving steadily.

As you all know we have given moratorium to all eligible customers during the period from 01st March, 2020 to 31st August, 2020. But we saw during quarterly result of June quarter that accounts covering 88.20% CC a/cs exposure and 46.17% of term loan exposure, on total accounts covering 70.07% of total exposure received payment for four months, as if there was no moratorium.

That number even improved with accounts covering 90.65% of CC a/cs exposure & 46.01% of term loan exposure, on total a/cs covering 70.40% of total exposure received payments for six months during the moratorium period, as if there was no moratorium.

Post the end of moratorium period on 31st August, 2020, accounts covering the exposure of 94.53% of CC a/cs and 85.70% of Term loan a/cs, on total 90.52% of exposure received payments for September demand.

During June quarter call, we shared with you that a/cs covering an exposure of 1.76% of CC & 26.54% of Term loan, on total 12.45% of exposure did not receive even a single payment utilizing moratorium fully.

That number currently stands at 0.65% of CC exposure, 19.12% of Term loan exposure and 9.03% of total exposure, where not even a single payment received during moratorium period, fully utilizing the moratorium.

Out of them 0.10% of cc exposure, 10.76% term loan exposure & 4.94% of total exposure have paid the demand portion of one monthly installment in the month of September 2020, after fully utilizing the moratorium.

Of the balance 4.09% of exposure have not paid anything till now, we expect many of them would opt for restructuring since the time is available up to 31.12.2020. Most of these a/cs are viable a/cs having no issues up to 29th February, 2020 and affected by COVID. Many a/cs in this category belongs to sectors like Hotels / retail trade etc., which got opened up later, currently working at less than 50% capacity and will take a couple of more quarters to come back to normalcy.

We have restructured 175 borrowal accounts to the tune of Rs.478 Cr till September 2020 of which 131 are under MSME amounting to Rs.455 cr and the remaining 44 in Non MSME amounting to Rs.23 cr. Further, 162 borrowal accounts amounting to Rs.430 cr under MSME and 124 borrowal accounts amounting to Rs.729 cr in Non-MSME category are under process. Total restructuring will be 5-6% as shared.

As shared in the earlier conference calls, we expect slippage ratio for the current financial years at 3% to 3.50%. Most of them will be a/cs which had issues even before COVID.

Between 30 Sep’ 2019 and Sep’ 2020 bank saw a credit growth of 6%. Even during Q2 FY 20 conference call, we said we are taking our leg off the growth pedal as economy was not doing well. Our current growth is coming from disbursal of ECLGS loans and gold loans only. We will review in Q4 to take a decision how to go about the growth. Till then our focus will be on ECLGS, Gold loans or restructuring of facilities only.

The increase in disbursement of ECLGS & Gold loans during H1 FY 21 resulted in improvement of CAR to 17.36% in Q2 FY 21 from 16.29% in Mar 2020 on account of the zero percent risk weight prescription.

The outstanding balance in the SMA accounts saw a big reduction from Rs.628 cr as on 31.07.2020 as disclosed in Q1 results to Rs.412 cr as on 30.09.2020 and the first set of causalities to NPA from these set of accounts for December 2020 quarter after lifting standstill clause. The interest income accounted in those accounts arrived at Rs.33.57 cr for 7 months from Mar-20 top Sep-20, of which Rs.25 crs has been reversed in Q2 FY 21 from Interest on Loans as a prudent measure. The reduction by around Rs. 200 crs shows a positive indication about the improvement in activity level.

This quarter, our NIM stands at 4.12%, ie 14 bps more than Q1. This is after reversing Rs.25 crore of interest income as discussed above. If the above reversal was not done, the NIM would be at 4.33%. There is pressure on yield. No doubt. But cost reduction is more than yield reduction.

We used to have our deposit growth in tune with our growth in advances. We have not pushed for growth because of covid and to protect the margins along with optimum level of credit deposit ratio, the deposit position was kept muted in H1 FY 21. However, we will push for growth if situation warrants by way of any surge in advances in the second half of FY 21. The bulk deposits which was about 11.33% of total deposits in Q2 FY 20 was reduced by repayment and remain at 9.15% in Q2 FY 21. The ratio of CASA to total deposits has also improved to 26%. Accordingly, the deposits have been maintained at optimum level as a prudent call.

Because of stand-still clause by Supreme Court, we can’t classify any new NPAs. Hence, NPA numbers have dropped sequentially. Whatever quantum of NPA we expected for FY 2020-21, have to be classified as NPA in just two quarters, if Supreme Court permits. Anyway, overall slippage we expect to be in the range of 3 – 3.5% to closing advances as discussed earlier.

We have already started discussions with identified accounts to convince customers to repay by selling non-core assets even before the accounts become NPA and are seeing some limited success. To that extent, the slippage may reduce.

Till Q3 last year, we had an ROA of 1.50%. We closed FY 2020 with ROA of 1%. We had ROA of 1.23% for Q1 and Q2. Depending on slippage and recovery for full FY 2020-21, we may have ROA between 1% and 1.25%. call will be taken on annual account closing looking into environment.

During the last quarter we said, we will reach pre-COVID level ROA by second half of FY 2022-23. If recovery gets better, achievement of pre COVID level may get pre-poned by a few quarters or so.

The ROE for H1 FY 21 stood at 11.54%.

Of course, we assume, overall recovery will get better, there won't be second lock down because of COVID, there won't be a Chinese war or consumption led demand will stabilize now for Diwali. At least we can expect 80 – 85% Diwali celebrations this year compared to last year.

As informed earlier, we are focusing on jewel loans and ECLGS disbursements. Upto 30.09.2020, we have sanctioned Rs. 1807 crs under ECLGS.

We have CAR around 17.36% of which Tier I itself @ 16.29% for H1 FY 2021. The Capital Adequacy position has improved from 16.76% in Mar-20 to 17.36% in Sep-20 mainly because of sanction of ECLGS & increase in Gold loans during H1 FY 21 which attracts zero percent risk weight. Our current internal stress tests do not show need for immediate capital augmentation now. But we want to keep all options open because of uncertain environment. We have necessary approvals in place for raising capital, if at all we require anything for augmentation.

We had a domestic treasury profit of Rs.130 Cr in H1 FY 21 and still have appreciation over Rs.200 Cr in HTM book which could be booked in future based on the circumstances.

The cost to income ratio for Q2 and H1 FY 21 stands at 40.31% and 40.36% respectively as against 42.87% & 41.19% for previous period. The reduction was on account of elevated Treasury income. However, we still stand by our general guidance of 42- 44% level.

The Operating Profit for Q2 and H1 FY 2021 was at Rs.385 cr and Rs. 741 crs and PAT stood at Rs. 158 crs and Rs. 312 crs for Q2 and H1 FY 21.

We made a provision of Rs.115 Cr in Q2 also (for Q1 we made Rs. 100 crs) for future Covid related provision requirements, which is not used for Net NPA calculations. Totally, we have a made an adhoc covid provision of Rs.317 cr (102 + 100 + 115) to meet any future contingency arising out of Covid pandemic apart from Rs.23 cr provided in Q4 towards specific requirements.

Though the recoveries have shown some improvement the same was not as witnessed during pre-covid stage. The recovery during Q2 FY 21 improved to Rs. 84.39 crs (TW-31.88 crs & Live – Rs. 52.51) against Rs. 24.27 crs in Q1 FY 21 (TW-4.29 crs and Live Rs. 19.98 crs). The total recovery for H1 FY 21 improved and stands at Rs. 109 crs (TW-Rs. 36 crs and Rs. 72 crs in Live a/cs) against Rs. 191 crs for H1 FY 20.

Hope you all remember that the cyber attack on our ATM network during Dec 18 where in we lost around Rs.31 crs and in the month of October 2020 we have received an insurance claim of Rs.15 crs against the loss which will be accounted in Q3 FY 21.

You all remember that we have sold an amount of Rs.374 crs of NPA accounts to ARC on SR basis in the year from 2014 to 2015. Of which 4 a/cs constitutes more than 90% of total SRs. The resolution started in all the 4 accounts and the repayment term goes up to 2022. Up to Mar-20, we have received a repayment of Rs.127 crs in SRs as part redemption and the balance stood at Rs.247 crs as of Mar-20. Total provision made towards SRs was at Rs.119 crs as on Mar-20 towards shortfall in NAV. In H1 FY 21, partial amount of Rs.4.68 crs received and the total outstanding was Rs.242.69 crs and we have made an additional provision of Rs.20 crs during Q2 FY 21.

To sum up

The focus during the current financial year 20-21 will be to hand hold borrowers and ensure slippage is at minimum by providing proper support through Government guaranteed ECGLS loans and Restructuring.

The focus will be to strengthen the balance sheet rather than expanding P & L during the current FY 20-21. We feel we should come out of the crisis with minimum impact.

Overall environment is much stable compared to earlier quarters. We are putting our best efforts to achieve better results against the shared expectations of slippage. Of course let us pray there won't be second wave or Chinese war or better pray for better Diwali.

Let us move to Question & Answer session…..

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Harish Kapoor from IIFL AMC. Please go ahead.

Harish Kapoor: Sir just couple of questions, one is you have spoke about the restructuring, expectation that you have. Now obviously this can be done for two years and here you had initially focused on talking about handholding your customer through this time and being a little lenient, but just in terms of timeline of restructuring because the thought is that maybe these customers might really just need a six months to one year kind of handholding. So if you can talk through in terms of your initial assessment what kind of time period they would need in terms of restructuring which will kind of helps us understand what kind of normalization could come through and even the pain for some of these assets. Second, you spoke about restructuring, you spoke about slippages, but if you can just talk about credit cost guidance if you have anything for this year and how should that shape up. So though we are kind of maybe if there is any thought around Q3 even increase in the provision coverage, how we should kind of think about that and then what is the expectation as you have the assessment right now and third you kind of spoke about margins which has kind of improved Q-on-Q and you had some interest reversal too, but if you can talk through how you kind of think about the margins for this year and even quarters going ahead?

N. Kamakodi: First one is on restructuring second question is on…

Harish Kapoor: First is restructuring timelines, what time period. Second is credit cost guidance. Third is margin trajectory.

N. Kamakodi: On restructuring, the our approach normally used to be like to use the regulatory permission to the maximum extent, at the same time there will be a covenant if at all the like say cash flow improves to normalcy, the repayment tenure has to be improve, this will be the normal agreement and understanding between the customer and the bank to go ahead with that. As I told you already all the accounts now I am talking by and large they were all perfect account without any default up to 29th February, they all had viable business model and they had things absolutely normal without any issue and the problems on repayment came purely because of the COVID. So obviously the repayment schedule will get normalized only after their cash flow improves. So by and large as I already told you except 2 – 3 sectors, all other sectors have almost now come back to like say 70%, 80% are improved and all they will be coming back to the normalcy maybe in six months at the maximum. Some of them for example hotels and all to get full pre COVID level occupancy, they may take at the maximum even one year. So looking into all these things we try to give the maximum timeline permitted by the regulators at the same time through our monitoring if the cash flow improves and all, the repayment will be accelerated so that it is beneficial both for the customer and also for the bank for that matter. So the substance is that we do not want to push him say you give ECLGS scheme and try to recover our past two months due and it will finally only kill the business, so we do not want to do that and we would like to give what you call as much leniency as required at the same time not so much whenever he has extra cash flow he will be diverting to somewhere else and all. It will be managed through the proper monitoring of that account.

Harish Kapoor: Sir sorry just follow up on this one if I can just sorry. So sir as I understood on this one you are saying maybe six months to one year maximum cash flow requirement is there but initially you could structure it for two years but as the business is normalizing the you will see recovery in maybe six months, one year out and they will become standard that is the fact okay great Sir thanks for that one.

N. Kamakodi: Yes, on credit cost front please focus on the slippage, the credit cost is finally like say what is the actual loss on credit cost like say the NPA and when you are going to provide these are all derived matters so as we have been repeatedly saying even in the last con call it came, we typically use to recover about say 70%, 75% or like say even 80%. 70% to 80% is the normal portfolio level collection on the slippage because of the availability of security. Because of the COVID we do not expect any major disturbance in the recovery rate whatever we have seen in the past maybe 5% at the maximum and there would be delay because court procedure. We still stand by that statement whatever we made so I would not be in a position to make exact how much provision I will be making before the year end and all at this point which we will be in a position to give only during the fourth quarter. So overall you can be like say our expectation of the slippage is one number which will be helping you to make otherwise it is only the time when you are going to make your provision. So the actual number is that slippage we expect at this point of time to our best of our judgment it is going to be 3% to 3.5%. Our past track record says that we have recovered about 70% to 80% of the slippage. What is the exact thing and all it will be like probably predicting the balance sheet and P&L today itself which may not be possible and we will not be in a position to give the exact number.

Harish Kapoor: Sir we have seen a improvement in Q2 and even if considering the interest reversal that we have done in Q2, the margins would have seen a sharp uptake, but how do we should get trajectory ahead considering slippages will kind of come through even in the next few quarters and growth maybe in a high yielding product is what you are trying to go with and so on and so forth so how should we look at the margin trajectory for the year and for the coming quarter?

N. Kamakodi: See the yield pressure is definitely there, but the margin is getting maintained because of the reduction in the cost and also some improvement on the credit deposit ratio. The yield pressure will continue to be there. I would not say that it will not be there and the cost advantage you cannot extend it beyond a region, actually speaking even about two three quarters even during pre COVID times we were expecting margin to come down, but they did not come down as much it was expected like say the 3.9 to 4.25 or maybe 3.8 to 4.2 should be the range in which we should be expecting maybe for the next 4-5 quarters going forward.

Harish Kapoor: Sir and last thing if I can just squeeze in, if I got your comments right you kind of mentioned about maybe ROA target for this year maybe 1% to 1.25% and maybe if you come back to normal then the recovery that you were kind of expecting in H2 next year that could be in Q1 itself is that understanding right Sir?

N. Kamakodi: Yes, these information had been shared even during the earlier quarters. I think last quarter I had said that the pre COVID level ROA will come back only during the second half of the year, that is financial year 2022/2023 that could get preponed if the both economic recovery and NPA recovery gets better.

Harish Kapoor: Sure Sir thanks for answering my question and good luck. Thank you Sir.

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

Darpin Shah: Sir just wanted to check if we have put to recognize NPAs this quarter what could have been the slippages?

N. Kamakodi: See you will not be in a position to tell that exact number because like you have to derive that say for example if Supreme Court had not intervened and you all know that the moratorium will end on 31st August from where the clock will tick and whatever we have disclosed in the SMA2 which is about 110 Crores should have been the slippage.

Slide #42 if the Supreme Court had not intervened and the moratorium had stopped on 31st August 2020 the slippage to NPA in the second quarter would have been 109 Crores that is disclosed as SMA2 in the page #42.

Darpin Shah: And Sir we have seen our collection efficiency improving, the number of borrowers who have not paid has fallen still we are maintaining our guidance on restructuring and slippages so how should we read about it any thoughts there?

N. Kamakodi: Yes you have seen even on the SMA numbers who had issues even before February 29t,h about 200 Crores reduction has happened you are also seeing not less than like say accounts to the exposure of 90% of the exposure has received payments but do not underestimate the impact of COVID, and this is a major pandemic and these sort of facilities are needed to take care of the existing customers. As I told you the restructuring numbers I do not see any reduction by and large this number will stay the slippage ratio. We have already started discussing with the customers who are facing extreme stress and all asking them to reduce their outstanding by selling non-core assets and we are seeing limited success there also. If we see more success because we have got another five months in hand. Depending upon how many customers will go for selling of property and repayment happens to that extent it could reduce the incremental slippage.

Darpin Shah: And Sir one last question so you must have been continuously interacting with your borrowers so how things have been for them compared to June, July and now?

N. Kamakodi: See by and large people are back to normal and many say their operating level is say 85% below the pre COVID level except the sectors like hotels where the bookings are sill at sub 50% and things like that, they may take few more months. Overall I think you would have seen even few messages which are circulating in the whatsapp how people were buying the sarees in few retail shops and how corporation is locking down the shops. You are seeing crazy crowds in the Diwali purchases even in mofussil areas. People say Chennai it is slightly lower but at mofussil areas the COVID virus is getting crushed in the crowd. One more thing this is basically monsoons season for our south east monsoon till Diwali the monsoon should not work as a spice port you had a heavy rain at Chennai last week but there was no rain in many parts including Kumbakonam and other parts of TN. If our next couple of weeks all these factors favor I think the people will feel almost mentally that they have come out of depression.

Darpin Shah: Okay thanks a lot Sir and all the best.

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

Renish Bhuva: Sir just one clarification on the collection efficiency, plus the nonpaying customer pool so Sir our collection as the aggregate portfolio spends at 90% and we are saying the around 4.9% customers have not paid anything so Sir where does this balance 5% sits in.

N. Kamakodi: we are clearly given that in page #44 for example in that you also have people who have asked for restructuring, but might have paid for the few installments so overall let us say for balance 90% you can give something like this say 5% to 6% of restructuring as what you said others will be making some delayed payment that you have not factored in yet, do not think that if they have not paid for September installment for 30 days means they will immediately die and become NPA.

Renish Bhuva: Got it so essentially that 5% pool will be under 1% DPD as of now?

N. Kamakodi: Yes.

Renish Bhuva: Sir second it is sort of repeating question. So Sir on one hand we are seeing improvement across sectors and portfolio in terms of the transition we had since COVID. What is stopping us to let us say lower our guidance on slippage or maybe preponing the ROA improvement?

N. Kamakodi: See it all depends upon slippage which I have told you 3% to 3.5% for FY 2021.

Renish Bhuva: So that we are maintaining I think since you had answered.

N. Kamakodi: Yes I have already started discussions with those set of customers, a limited set of people have agreed for closing the dues by selling their non-core assets or whatever it is. To some extent I could see the reduction. Similarly the risk like you are seeing the second wave has come and lockdown has come in France and UK and all people say that schools and colleges are getting opened in TN from 16th and all so that risk ongoing opposite side which cannot be quantified at this point of time. So whatever we say now you see reasonable estimate at this point of time with available information.

Renish Bhuva: No Sir I am just trying to get a sense so let us say in last six months we have seen improvement, but in the same time we see the same stress what we have been expecting or maybe accumulating earlier so that is actually what I want to get?

N. Kamakodi: See what I can say is that I am seeing improvement to some extent and some other statements are basically from the positive view taken from the feedbacks you get, the operations you see in the account. What I can say is that we are much more positive than whatever we shared with you in the past, all the anecdotal evidences and the data points which we see point towards that, but still I should see some more repayment in the accounts happen.

Renish Bhuva: Got it so okay Sir so it is right to assume that the sort of improvement what we have seen over last six months is basically as per our expectation and not exceeding our expectation?

N. Kamakodi: It is definitely much, much exceeding our expectation say in the month of May or June I would have expected wherever we are now only in the February or so.

Renish Bhuva: Sorry Sir I did not get that.

N. Kamakodi: See the current level of activity and the current level of normalization of activity level I would have expected the current level only in the month of February 21.

Renish Bhuva: So that is what preponed you are saying?

N. Kamakodi: Yes almost not less than four, five months of preponement.

Renish Bhuva: Okay Sir I think we will check off line Sir.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL Securities. Please go ahead.

Abhishek Murarka: Sir the question is about this ECLGS scheme and I just wanted to check see anyway the last date of the scheme was 31st and you would have reached out to mostly all of your customers already and lot of them would have taken it and most of them would have declined it, but would it be fair to say that most of your customers have already been approached and therefore this extension that is provided for one month at least for you or for the system also it would not lead to significantly more disbursements?

N. Kamakodi: Assume that 25% of your customers earlier had said that they do not want. They have got one more month to revisit their decision and it is a government guaranteed scheme, 0 risk weight, the borrower is also getting benefited, banks are also getting benefited if the customer revisits and changes his decision it is always possible.

Abhishek Murarka: Sir the indication that a customer earlier thought he did not need the scheme and now he thinks he need the scheme means that liquidity for that customer has reduced…

N. Kamakodi: Yes, do not think too much Abhishek actually he may get the 25 basis points or even 50 basis points reduction because this facility has given at 9.25% it makes commercial sense for him to use this.

Abhishek Murarka: So basically this current 2 lakh Crores that has been disbursed or sanctioned under the scheme there is a possibility that some people might think there is use of the scheme and incrementally may be some more amount can get sanctioned under this?

N. Kamakodi: The borrower may feel it is below his dignity to use that scheme, but as a banker we feel we are better off if he uses the scheme so it will be bankers who will be trying to convince the borrowers, we may even ask them okay you close this loan, but this loan you get a longer repayment tenure, you get the lower thing and we also feel that our coverage ratio is better.

Abhishek Murarka: Got it Sir, second question is regarding growth, now your commentary incrementally is positive and some questions have been asked on why provisioning and all that, but given the positive commentary why just base the growth on gold loans and ECLGS why not do you not see merit in starting disbursements in some of the other sectors outside of gold or ECLGS?

N. Kamakodi: See the economy has just come out of the pandemic you cannot fully assume that anybody who has come out, he has not got any hit because of the COVID. there will definitely be certain unknown risk because of this pandemic, which we suspect and we do not want to jump in. There is no point in trying to play as if there is no tomorrow let us take our own time, no problem.

Abhishek Murarka: Got it Sir, thanks, those were my questions.

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

Jay: This is Jay from B&K. Sir just to recap I mean I joined a bit late just to recap so what you said is 90% we have seen the collection efficiency for the month of September at 90 of the initial 12% people who did not pay that number has now come down to 4% and some of them may get restructured, but Sir if you can share anything on October, if you have shared I had missed that so anything have, does this change anything within the October month collection efficiency?

N. Kamakodi: See we were busy in working out the September number and probably another couple of days we will be having clarity on that, do not worry things are on improving side only it is okay.

Jay: Just to understand Sir, I mean if someone also asked so let us say 90% of them are paying, remaining have not paid and but the overdue position is only 1% right.

N. Kamakodi: See the overdue position is for 29th February so as per the regulatory guidelines and the Supreme Court guideline in place, nothing comes overdue after 1st of March, it is the regulatory position, if we say somebody overdue we are susceptible for contempt of court.

Jay: So that is only pertaining to February starting pool, but at the bank level if you were to keep counting DPB then probably that number would be 5%, 6% which is similar to your pre COVID levels right?

N. Kamakodi: Absolutely, in fact less than pre COVID levels.

Jay: Thank you Sir, thank you so much.

Moderator: Thank you. The next question is from the line of Viral Jain from SG India. Please go ahead.

Viral Jain: Sir my question was around slippages and restructuring so how do the bank and borrower decide whether to go for restructuring as an current time that everybody would opt for restructuring rather than getting them classified as NPA so you mentioned that your slippage ratio this year could be 3%, 3.5% and another 5% would be restructure book now question is very simplistic why not everybody opts the restructuring and how do you decide between the two for the borrower?

N. Kamakodi: See the first thing is that whenever I say restructuring this time the regulatory prescription is very clear that it excludes by and large those who had issues even during the pre COVID level. The non MSME borrowers who are even SMA1 are not eligible for restructuring and similarly the MSME borrowers who were SMA2 are not eligible for restructuring. So the restructuring facility is by and large given only to those customers who had a viable operating business model and whose conduct of the business was perfect up to 29th February. So be very clear about that. all the borrowers who are opting for restructuring at the current juncture are having viable business model with perfect payment track record up to say 29th February and disturbance in the repayment schedule term it is only because of the COVID and hence we have to give them repayment schedule in such a way that their business has come back to say future expected cash flow schedule should be aligned with the future expected cash flow, normalization of the future expected cash flow. So it is not like the earlier thing and even like say in our own case if you compare with what happened in 2008 we had highest restructured proportion at that point of time, of about 10% at that point of time, but only 2% or so became NPA in the subsequent three years.

Viral Jain: So Sir my question was and you expect 5% to 6% of your outstanding loan book that will get restructured and 3%, 3.5% will not meet the eligibility criteria for restructuring?

N. Kamakodi: In our power lens we may feel that they are not having viability for the future or they had problem during the pre COVID days and it is better to admit them as NPA and move forward.

Viral Jain: And the sole difference it would make is we will have to provider higher provision and then continue the recovery as such even through repayment or through closure at loan account or write off?

N. Kamakodi: Yes, repeat the statement.

Viral Jain: From the banks perspective for the NPA account there will be higher provisioning and more recovery efforts rather than stabilization efforts for the account right?

N. Kamakodi: Exactly see these fellows who are getting restructured are serious and decent businessmen who have a viable business, who did not have what you call default up to 29th February and all their default is purely because of the lockdown because of the COVID. So these customers they need support and there is no point in killing them just because they are not making the original repayment tenure.

Viral Jain: Sir finally there is a large element of subjectivity in bankers assessment in that because there would be a lot of people which product can quantify just have your SMA position already given out as of 29th and that does not give a very large number right?

N. Kamakodi: See the original like even if they had paid subsequently if their status had been in SMA on that date they will not qualify for the restructuring, for example if there is no subjectivity then why the hell we bankers actually exist it is for the subjective calls only.

Viral Jain: No, no, only in terms of classifying and as an eligibility for restructuring or directly classify as an NPA obviously the risk assessment in the initial view obviously I will just need that point?

N. Kamakodi: Yes you have multiple data points and also the so-called respect for the bankers is for taking that subjective call only that is the purpose for which we do exist.

Viral Jain: Sure Sir thank you, very well answered Sir.

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

Gaurav Jani: Sir I have just two questions from my end one is the portfolio that has paid one EMI for September that you mentioned 5% odd is it safe to assume they would have also paid up in October?

N. Kamakodi: Yes.

Gaurav Jani: So what I was sir coming to is there is…

N. Kamakodi: I mean actually yesterday only the month end due got debited, they will have one week to pay so either they should have paid or they should be repaying in the next few days.

Gaurav Jani: No what I was only alluding to Sir is healthy trajectory in recoveries or repayment?

N. Kamakodi: Yes we also hope like you.

Gaurav Jani: Sure. Sir last question is on the tax rate for FY2021 for the first half we have already done about 23% how should I look at the entire year because we were earlier at about 18%, 19% so.

N. Kamakodi: Yes, it should be between like say, it will be 20% plus.

Gaurav Jani: Okay Sir thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Systematix Shares. Please go ahead.

Rakesh Kumar: Sir firstly question on security receipts Sir, we have around 240 Crores of outstanding here so how much recovery we are expecting in the next say in the second half or maybe three four quarters?

N. Kamakodi: Let us say one settlement is underway in that when we calculated that accounting part is still happening, so far based on the recoveries what we see our recovery rate is about 65% to 70% of the outstanding is what we have recovered so far. It is almost similar to the general NPA or maybe since they are all bigger ones maybe over 5%, 10% lower than our normal NPAs.

Rakesh Kumar: Secondly Sir the disbursement sanctioning number what was sanction number for this year we have around 2000 Crores so incrementally how much we can add to that to this number?

N. Kamakodi: No idea it is basically depends up on about 200 odd Crores people have rejected so they may ask for maybe like say if all of them ask for it would be about 200 to 300 Crores at the best.

Rakesh Kumar: Thirdly Sir this restructured standard number which we already have 1.35% so this was according to the old scheme what the RBI had given, so this total restructured forecast or the guidance we have given of around 6% does that number included or it does not included?

N. Kamakodi: It is included existing number is also included.

Rakesh Kumar: Thanks Sir. Thanks very much and all the best Sir.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Just one question, on the slide #43 where we have given repayment status of accounts there is this last column on for the month of September 2020, that does not corroborate which the commentary which is on the next slide which is that out of this residual about 10.6% over the additional term loan exposure and 4.9% of the total exposure is so this last column of this for month of September 2020 is exactly what number?

N. Kamakodi: See it is after moratorium that payment.

Kashyap Jhaveri: Sorry.

N. Kamakodi: Since it is the point and others there will be the rounding of difference apart from that it will be by and large tallying you like say the 9, 10 that is less than 1% margin because of this will be there.

Kashyap Jhaveri: So when you look at CCOD accounts where one monthly installment is 99 in the first column in terms of month of September that number actually drops to about 94 so does that mean that 5% of those people did not pay for sort of September installment yet?

N. Kamakodi: I cannot understand your question, please repeat.

Kashyap Jhaveri: What I am asking is that if you look at the first column one monthly installment during the moratorium…

N. Kamakodi: The first six months are separate the last month of September is separate.

Kashyap Jhaveri: That point I got what I am asking is Sir...

N. Kamakodi: You will be having few persons who might have not paid for the let us say six months, but might have paid for September.

Kashyap Jhaveri: And would that be people who would have paid at least one installment during moratorium but would have still paid September installment because that number is…

N. Kamakodi: Yes, they may tell tomorrow or for like say if they could be in that 30 days bucket that is also possible, so this is separate, that is separate.

Kashyap Jhaveri: Sure got this Sir thank you very much.

Moderator: Thank you. Sir we have one question in the queue from the line of Avinash Tanawade, individual investor. Please go ahead.

Avinash Tanawade: I was trying to know what percentage of our portfolio is gold loan and how much it can go up, can this go up to 22% or something like that.

N. Kamakodi: No, I do not think for like say getting to 21%, 22% and all are I mean distance possibility even at this point of time. Exact gold loan currently available in the presentation itself, I will just share with you that slide number now. The exact number is there, your current total jewel loan outstanding is 4537.1 Crores which is in the slide #33.

Avinash Tanawade: Thank you Sir that is it from my side.

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

Amit Jain: Sir I have a question on this ECLGS scheme, Sir incrementally what has been the use of this ECLGS is it for repaying existing debt or are you seeing some improvement in demand where this facility is being utilized what is your assessment on this Sir?

N. Kamakodi: See when it was given the first instance in fact it was responsible to start the activity level per se because everyone's outstanding was there, there was no absolutely no movement or nothing was available it gave lot of headroom for kick starting the activity. once that kick starting actually happened, this quantum is getting used, surplus working capital available and people are able to use it as a surplus working capital in few cases they have used it to repay the old debt so that their overall cost will come down.

Amit Jain: And Sir secondly in terms of demand, is there a scenario that you have been receiving demand from certain sectors, but because of your cautious approach you have been declining them in future you intent to increase the disbursement is that the scenario currently?

N. Kamakodi: Yes I would not say I am seeing lot of demand for fresh what you call the capital investment cycle and all, lot of request are basically for the customers trying to move from one bank to the other and things like that, but right from the last year for the last one year we have been very cautious only particularly in growth.

Amit Jain: And Sir just last question in terms of this restructuring 3% to 5% number which you have mentioned so is it safe to assume that it will be majorly from the sector such as the hotels and all those stuffs which you have mentioned?

N. Kamakodi: Yes we have said 5% to 6% of which the sectors will be like say important accounts they will form a reasonable portion there.

Amit Jain: And Sir what would be our exposure as combined to these stress sectors Sir close to say 7%, 8% or near about that number?

N. Kamakodi: We said it will be about 8% to 10% we discussed about that even on the earlier con calls it will be about 8% to 10%.

Amit Jain: Thank you so much Sir that is it from my side.

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

Renish Bhuva: Sir just a small clarification on the loan breakup so is there any reclassification happening between LTV and personal gold loan this quarter?

N. Kamakodi: What has happened is for personal gold loan the LTV has been increased loan to value I mean what you call it is 90%, it has been increased to 90% from 75% for the consumption loans and hence people prefer to take personal gold loan than agri gold loan. hence the new gold loans most of them are getting classified as personal gold loan and hence non agri gold loan portion is increasing.

Renish Bhuva: And that is the primary reason for agri gold loan falling sharply this quarter?

N. Kamakodi: Exactly. So the repayment of the agri jewel loan is happening, but new loans, people are taking as non agri loan.

Renish Bhuva: Sir what will be the average tenure of gold loan for us?

N. Kamakodi: Typically one year.

Renish Bhuva: Okay, even in agri side right?

N. Kamakodi: Yes.

Renish Bhuva: Okay Sir, yes that is it from my side. Thank you so much Sir.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to the management for closing comments.

N. Kamakodi: Thank you all for joining this conference call. As I said things are improving, much better compared to whatever we saw in the past so it is giving the confidence which we are able to corroborate with multiple data points, at the same time the risk from the second wave of

COVID or Chinese war and all such things. Particularly the Diwali has to be good, there should not be rain up to Diwali particularly because of the monsoon in this part, but together the confidence level of the customers and businessmen and SME players. we are able to see things better, so we pray that things should improve from where we are and hopefully we should be able to see things getting better and better and we are also giving our best to achieve or even making the numbers whatever we shared with you to work out to get the better results and all. So hopefully we pray for better tomorrow. So once again thank you all, stay safe, particularly when you hear about the second round of COVID. Thank you all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes the conference. Thank you for joining us and you may now disconnect your lines.