Good evening everyone!

Hearty welcome to all of you for this concall to discuss the reviewed Financial results the quarter ended 30.06.2020.

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

Tomorrow we will be having our Annual General Meeting and we invite you all to participate through online and provide your support.

The highlights of financial performance for Q1 FY 21 are as follows:

- ✓ 5% growth in Deposits
- ✓ 7% Credit growth
- ✓ Thus, Business improved by 6% taking the total to Rs. 75562 crs
- ✓ Operating profit at Rs.356 crs and PAT at Rs.154 crs
- ✓ Net NPA moderated to 2.11% from 2.29% in Q4 FY 20
- ✓ ROA stood at 1.23%

The questions which are getting asked again and again are:

1) How is the activity level? How is progress in the account operations?
2) What is the moratorium percentage?
3) What is going to be the restructured book?
4) What is going to be the NPA slippage?
5) What is the growth outlook?
6) What about capital infusion?

During the Q4 FY 20 concall we shared with you on expectations on the behavior of accounts during COVID & post COVID scenario. The performance of accounts so far is by and large in line with the expectations we shared with you all.

When we shared with you all during Q4 result we talked about 5 stage progress.

Stage 1: When no activities happen and the borrower has to take care of fixed expenditure and incur cash loss with no cash flow.

This stage happened in April when total lockdown was in place.

Stage 2: When activities started partially with non migrant workers, some follow up of old receivables started getting some cash flow but ended with net negative cash flow.

This stage happened in May after relaxation started.

Stage 3: When activity level improved, production increased, logistics of goods improved, cash flow reached close to position but not sufficient to take care of bank interest or repayments.

When government announces ECLGS scheme, it played a huge role in improving the activity level and cash flow started in a huge way.

Stage 4: When activity level Improved much better with cash surplus just sufficient to pay interest.

The SME economy is currently in this stage.

Compared to February, say pre COVID days, currently total transactions in cash credit accounts for July is around 85% at an aggregate level.

About 78% of CC accounts in number and 90% in exposure have paid their cash credit monthly interest till June even though moratorium is available.

This is a significant indication that activity levels are by and large increasing. I will explain about the behavioral pattern little more later.

Stage 5: When activity level reached almost near normal and market demand also reaches near normal Pre-COVID stage with sufficient cash flow to pay bank interest & repayments.

We shared with you during our Annual results con-call that we were atleast 4 – 6 quarters away for stage 5 assuming the Covid peak would be crossed in July or so and no further deterioration.

Shift from stage 4 to 5 is happening much faster than we thought. The pace at which this shifts happen varies with the line of activities of the customers. For example, the activities like General merchandise (Retail/wholesale), Textile manufacturing, Two-wheeler sales, etc., have come out almost equal to the pre-covid days.

The activities in the sectors like retail textile trade, hotels, commercial real estate, rental discounting and all are lagging much behind. Hope Diwali sales will kick start the retail textile demand. We have to wait for total opening of travel to see hotels getting occupancy, which is some quarter away at least.

As you all know RBI had given moratorium for payment of interest and installments for all dues from 01.03.2020 to 31.08.2020 for a period of six months.

Though the bank had given moratorium option to every customer, accounts with an exposure of 70% to total performing advances book leaving JL, ODAD/LAD, Staff loan, etc. have paid in full or four months (till Jun-20) since grant of moratorium. 88% have paid partial interest / installments while only 12% have fully used moratorium and not made any payment.

Based on RBI circular dated 27th March & 23rd May 2020, interest on cash credit a/cs which are unpaid on 31.03.2020 have to be capitalized immediately at the end of moratorium period in August and have to be paid before 31.03.2021.

The CC accounts totaling to 88.20% of exposure are showing regular operations and have paid interest due to the tune of 4 months or till June 2020 as if there is no moratorium and 98.24% of exposure to CC accounts have made partial interest payments and only 1.76% have fully used moratorium.

Similarly as per RBI circular dated 27th March & 23rd May 2020, wrt moratorium upto August 2020 for term loans, the repayment schedule for such loans as also the residual tenor, will be shifted across the board for a period of 6 months. The loan accounts amounting to 73.46% have paid atleast one installment and about 46.17% have paid all 4 installments.

In other words at consolidated exposure adding both Cash Credit and term loans, accounts aggregating to 70.07% of funded exposure have shown repayments up to four months, i.e up to June 2020.

We could see many cases where balance is available at accounts, but borrowers hesitating to pay installments to have extra cushion on hand.

	1 monthly installment / interest	**2 monthly installments / interest**	**3 monthly installments / interest**	**4 monthly installments / interest**
Loan A/cs	73.46%	56.74%	51.04%	46.17%
CCOD A/cs	98.24%	91.90%	89.94%	88.20%
Total	**87.55%**	**76.74%**	**73.16%**	**70.07%**

During Q4 concall we shared with you that for FY 2020-21, a sum of Rs.250 Cr – Rs.300 Cr may be restructured under MSME category based on the viability of the account and in tune with RBI guidelines. We still believe same amount of restructuring may happen. During the quarter, 17 accounts amounting to Rs.68 crs have got restructured.

The recently announced restructuring scheme for Non-MSME is making many borrowers to think about taking them. In the earlier quarters we have been hearing that even many MSME customers felt that it was not nice to take restructuring. COVID pandemic has made many, both MSME and Non MSME borrowers, who are otherwise stable also to keep maximum cushion in the repayment tenures considering uncertain times.

The non-MSME restructuring may happen in the sectors which were affected badly by COVID like hotels, retail textile showrooms, rental discounting and all, which were doing extremely well during pre-COVID days with viable businesses, either current or maximum SMA0 category as per RBI guidelines.

We will be liberal in giving restructuring based on RBI norms and our earlier experience of restructuring given with proper understanding of cash flow and worked very well for us.

The identification of a/cs and completing necessary formalities for restructuring need to be done before 31.12.2020 for non-MSMEs and before 31.03.2021 for MSME accounts.

Exact quantum of restructuring will be known during the course of the year and we would like to reiterate a proper restructuring looking into the cash flows of accounts definitely saves the account and as you all may remember, the accounts restructured in 2008 after Lehman crisis resulted in very less NPAs.

During the last con-call, we shared with you all that our Slippage Ratio may be in the range of 3% to 3.50% for FY 2021 when compared to 3.21% for FY 2020. We still believe we should be able to manage in that range.

We shared with you the SMA figures for 31.03.2020 and current status is as follows.

	Position as at 15.06.2020		Position as at 31.07.2020	
(Rs in Cr)	**No. of A/cs**	**O/s Amount**	**No. of A/cs**	**O/s Amount**
SMA 0	571	175	471	204
SMA 1	1102	348	926	341
SMA 2	327	122	171	83
Total	**2000**	**645**	**1568**	**628**

As per the above table, only Rs.83 Cr will get added to NPA in Q2 FY 21 if no further repayments received.

On our analysis from SMA-1 & SMA-0, we will be having addition to NPA in December from this set of accounts. We are looking into possibilities of adding NPAs in Q2 FY 21 if the account operations so warrant. But overall, our estimation of slippage of 3% - 3.50% for FY 21 to NPA still stands.

Across business lines, as on July 31, 2020, the Bank has sanctioned Rs.1583 cr and disbursed Rs.1218 crs under the ECLGS window for non-individuals. For the individuals and the relaxation in turnover and exposure (scheme announced on August 4, 2020) the Bank estimates that approximately eligible exposure shall be Rs.8163 cr and the disbursal could be approximately Rs.1632 cr.

We had been for two-three quarters playing safe and even told you all, we will not push for growth and focus will be on quality assets even before pre-covid days.

We are focusing on gold loans which could possibly contribute for growth along with ECLGS disbursements.

Tomorrow we have our AGM where we are asking for Shareholders approval for capital raising through QIP for Rs.600 Crore. It is purely an enabling resolution.

We already have CAR at 16.77% of which Tier I itself @ 15.69% for Q1 FY 2021. 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.

Overall in this quarter there has been

Deposit growth of 5% YOY
Advances growth of 7% YOY
Thus, Business growth of 6%

NII increased by 5% at Rs.437 cr and NIM stood at 3.98%.

We had a domestic treasury profit of Rs.78 Cr in Q1 FY 21 and have appreciation over Rs.300 Cr in HTM book which could be used in future based on the requirements.

Operating Profit at Rs.356 cr and PAT at Rs.154 Cr.

We made a provision of Rs.100 Cr in Q1 also for future Covid related provision requirements, which is not used for Net NPA calculations. Totally, we have now provided Rs.202 cr to meet any future contingency arising out of Covid pandemic.

We expect some delay in NPA collection because of delay in court processes due to COVID but still hopeful of 65-70% collection from slipped NPAs due to availability of collaterals.

The ROA in Q1 was 1.23% and ROE at 11.65%.

There could be aberrations in quarterly ROA due to fluctuations in NPA coupled with COVID provisions but we are doing our best to return to our established tract record of ROA, ROE as quick as possible.

On digital front, we have now made Video KYC facilities available for customers and made soft launch.

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, our Covid Crisis Credit scheme 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.

Let us move to Question & Answer session…..

Rajiv Kumar (Individual Investor)

Q - Why is there a significant drop in retail banking fee-based income?

A - We have instructions not to charge customers operational fees such as ATM charges and other minimum balance charges we used to get pre-pandemic. The impact started in March itself. Over the normal course, it tracks the growth rate of the business. It should be normalized if there are no further restrictions.

Q- Out of your total loan book, how much is your exposure to agriculture?

A- Exposure to agriculture is ~16% and the bulk of it comes from agri-gold loans.

Ajit Kumar (Ambit Capital)

Q- What are your thoughts around restructuring & is there any criteria for it?

A- Blanket restriction by RBI to not extend restructuring to SMA 1 and SMA 2 accounts because of their overdue status and problems in pre-Covid time.

Q- And how will it be implemented in the PL segment given a small-ticket size?

A- My guess is that we will extend another 6 months moratorium to this segment where they can only pay interest and then start repayment.

Q- Will you be cutting TD rates further since you have cut TD rates sharply in the past 6-7 months?

A- No plans to cut rates now. We will circulate around this rate for one more quarter and then reassess the situation.

Abhishek Murarka (IndiaInfoline)

Q- In terms of the current account circular which has come recently, what is the impact you expect?

A- This regulation affects those borrower accounts which have exposure of Rs 5cr and above. For borrower accounts having less than Rs 5cr, this circular is not that important.

Q- What is the split of borrowers having less than Rs 5cr?

A- Normally we do not encourage smaller borrowers with less than Rs 5cr to open a current account. They have cash credit accounts for their transactions.

Q- What is the difference between your average quarterly balances and outstanding?

A- Not much difference; would be around 90-95% of the terminal figure.

Q- Lastly, in terms of RoA, by when would you be able to go back to the 1.4-1.6% range?

A- We aspire to achieve this by 2H FY 23.

Prashant Kumar (Sunidhi securities)

Q- What % of advances are backed by gold?

A- Gold is ~13% of total advances both inclusive of Agri & Non-agri.

Mona Khetan (Dolat Capital)

Q- What % of loans have not paid a single installment in 1Q?

A- Its around 12% and the detailed break-up we have given in the PPT.

Rajiv Kumar (Individual Investor)

Q- What is driving the 20% increase in employee cost from 4QFY20?

A- Its mainly due to provision for leave encashment. Every quarter we used to provide the amount on an estimated basis and at the time last quarter it will be based on the actual Actuarial valuation. In Q4 FY 20, the actual figures as per workings were lesser than our estimation and provided the balance requirement in Q4 FY 20 and also another reason for the decrease was due to reduction in 10 year yield which was used as a tool to arrive the actuarial calculation.

Q- What are your thoughts around treasury income putting pressure on your bottom line?

A- This year, we will face pressure on our bottom line. Only silver lining is the treasury book which has some Rs250-300cr appreciation in the HTM book. Depending upon our needs and the opportunities available, we will encash the same. Secondly, if we sell more than 5% of the investment book in HTM, we need to disclose the appreciation/depreciation at the end of the year which will also be taken into account.

Abhishek Murarka (India Infoline)

Q-How are you looking to mobilize the LTV change by RBI to 90%? And what are your thoughts around the demand scenario?

A- Do not expect this to change the competitive dynamics between gold loan NBFCs and Banks. It can be used by existing customers to take additional loans or new customers. We might extend LTV to 85%.

Q- How has the demand been for gold loans?

A- Gold loans saw a lot of traction in Q1 FY 21. A lot of agri-gold loan demand is in the rural and semi-urban areas where activity has picked up.

Deepak Agarwal (Axis AMC)

Q- What % of your customers' businesses are completely shut and very difficult to reopen?

A- Based on individual discussions with customers, we have identified that segment to be not more than 2-2.5% currently. All of them had issues in pre-Covid time and fall in the Rs 600cr bracket.

Q- What % of our loan book will be going for restructuring?

A- We will get clarity in 2Q. Could be ~4-5% but we will make sure these borrowers did not have issues before Covid. Do not expect slippages to be more than 3-3.5% for this year.

Abhijeet (Sundaram MF)

Q- Why has cash credit declined and term loan increased?

A- Term loan portion has increased because of 6 months moratorium period added with the total repayment period. So, the short term loan with a repayment of 1 year period now increased to 18 months and which was classified as Term Loan as per instructions.

Q- Post moratorium, do you expect higher slippages in the mid and large corporate book?

A- Do not expect higher slippages in 2Q and 3Q.

Jay Mundhra (B&K Securities)

Q- If we remove the treasury gain from core operating income, then how do we look at this figure for FY21?

A- NII is stable and we had issues in fee income due to regulatory restrictions. We expect the core operating profit to come back to normalcy once moratorium is lifted.

Q- Total eligibility of ECLGS is Rs 8,000cr and only Rs.1600cr (20%) is sanctioned?
A- That is the second lot. Plus, first lot of Rs 1,200cr**.**

Amitabh Srivastav (ShareKhan)

Q- Going forward, as and when accounts come out of moratorium, will there be a change in the margins due to yield rationalization from our end?

A- Do not expect any major impact now. Could be if we do some restructuring.

Q- Considering the current economic scenario, have your LGD calculations changed? And will that change your capital buffer requirement for the next quarter?

A- We had ~70% recovery from slipped accounts due to collateral. Do not expect any major reduction in the amount recovered from slippage accounts. There may be some delay in payments but the amount will be recovered.

Kunal Shah (ICICI Securities)

Q- Is there any specific industry/region which looks stressed?

A- Stressed sectors such as hotels, retail, textile, trade, transport etc which have cash flow problems.

Q- What type of restructuring are you expecting in these sectors (eg. extension of tenure, repayment of cash flows)?

A- These terms need to be discussed with the individual borrower. Some hotels are running Covid centres and getting some cash flow. Might have to extend another moratorium for 3/6 months to them, depending upon their position and level of activity in the economy.

Amit Jain (Axis Capital)

Q- What is the end-use of the funds disbursed under the ECLGS scheme?

A- We ensure these funds are used to make payments for raw material etc. to start the working capital cycle.

Q- Can you explain the moratorium figures of 73% and 46% once?

A- 73% figure indicates that 73% of exposure has been repaid for March and the number 46% of the exposure in term loans have paid installments upto June. We do not see regional lockdowns affecting repayment.

Q- Overall contingency provision as on date?

A- For Covid, it is Rs 225cr.

Nilanjan Kalfa (IDFC securities)

Q- Can we assume that you can be relaxed when it comes to repayments since ~90% of customers in cash credit have paid back?

A- We are fairly confident when it comes to repayments, depending on the activity level we see now. In terms of ticket size, it includes everyone (across the loan book).

Gitika Gupta (First Voyager Advisors)

Q- Are we expecting fewer people to approach us for restructuring?

A- We will be liberal when it comes to restructuring. Now Rs 600cr of exposure had problems pre-Covid and will be a part of my slippage in the current year. For those customers who did not have issues till 29th Feb, we will plan rearrangement of their repayment schedule.

MB Mahesh (Kotak Securities)

Q- In CCOD accounts, how do you collect interest?

A- We collected interest manually after getting a mandate from the customer.

Q- How comfortable are you when it comes to provisioning?

A- We think it is adequate for now. Will be able to judge only in 4Q.