

## "Dhanlaxmi Bank Limited Q1 FY-15 Earnings Conference Call"

August 18, 2014







MANAGEMENT: Mr. P. G. JAYAKUMAR – MANAGING DIRECTOR & CHIEF

EXECUTIVE OFFICER - DHANLAXMI BANK LIMITED MR. K. S. KRISHNAN – CHIEF FINANCIAL OFFICER -

**DHANLAXMI BANK LIMITED** 

MR. MANIKANDAN P – HEAD-BUSINESS DEVELOPMENT &

PLANNING DIVISION - DHANLAXMI BANK LIMITED

MODERATOR: Ms. Mona Khetan – Analyst, Banking & Strategy -

ELARA SECURITIES PRIVATE LIMITED



Moderator

Ladies and gentlemen good day and welcome to the Dhanlaxmi Bank Q1 FY15 Earnings Conference call hosted by Elara Securities Private Limited. As a reminder all participants' 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 Ms. Mona Khetan from Elara Securities. Thank you and over to you, ma'am

Mona Khetan

Good evening everyone and welcome to Dhanlaxmi Bank's quarterly con call to discuss Q1 FY15 results. We have with us Mr. P. G. Jayakumar – MD & CEO of Dhanlaxmi Bank; Mr. K. S. Krishnan – CFO of the bank and Mr. Manikandan who heads the Business Development & Planning Division. We will start with a brief on the quarterly results post which we can open the floor for Q&A session. I would hand over the call to Mr. Jayakumar. Over to you, sir.

P G Jayakumar

Good afternoon everybody. Welcome to this con call. After the Q1 results we see that there is gradual improvement in the financials of the bank barring some difficulties in some areas like NPA we are having a positive we are on a very positive note and with regard to NPA also we have a very aggressive recovery plans going forward and this time NPA increased only because of the two accounts which are likely to be recovered in the current quarter which was unexpected but by-and-large we contained our NPA compared to the financial year 2012-13 and 2013-14.

The insurance of NPA is coming down and we are confident of doing it possibly very well. And one of the reasons for the percentage increase is mainly due to the dip in advances. In the present scenario of the country the growth in advance is very slow so we are not very aggressive in mobilizing the resources also and that is the general picture what is sustaining in our bank and the industry in general.

So shall I solicit the questions to specifics?

Mona Khetan

Hi sir, would you like to discuss the quarterly results in brief before you open the floor for questions?

P G Jayakumar

No problem. If you look at actually the deposits it has been reduced by about Rs. 600 crores and advances by about Rs. 500 crores. Why we reduced the deposit is because we shed the interbank deposits which has been having a higher rate of interest than the card rate that is a conscious decision by the bank to contain the interest expenditure and advances also several of our low yielding advances got repaid and also the growth in advance is not very visible in the first quarter and that is the reason and interest income was more or less same when compared to the quarter the Q4 of the last financial year it is more or less the same but quarter-to-quarter, year-on-year it has increased to some extent 5% roughly it has increased.



The yield on advances has also increased there when compared to quarter-to-quarter to 12.29% but it was 12.34% in Q4 of the last year. Interest expenditure is also similar when compared to the last quarter of the financial year. Cost of funds came down to 8.22% and net interest income increased to exactly Rs. 76 crores from Rs. 63 crores in the last quarter. Other income there is some dip; employee cost has increased by Rs. 2 crores; operating expenditure also increased by Rs. 2 crores and we have recorded an operating profit of 10.37 with a net profit of 3.03.

Our net interest margin also increased from 2.27 and 2.10 in the last quarter to 2.41 and gross NPAs that is increased from 5.98 to 7.17 as I told you there was a slippage of about Rs. 73 crores and majority only two accounts but we are very confident that these accounts can be recovered in the current quarter all steps are taken for that and going forward we do not expect much slippage and cost-to-income ratio also came down by almost 10% point and our capital adequacy ratio is 9.06 without reckoning the nature to capital infusion of Rs. 200 crores and now it is 9.6 as per BASEL III and compared to the last quarter of 10.31 and when we are reckoned to Rs. 200 crores it will go up to 11.50 under BASEL III and 12.40 under BASEL II and core CRAR is also at above 9% when we compare the new infusion of the capital.

Provisional coverage ratio is just above 43 is down by 1% compared to the last March and as a bank what we proposed to do is we have formed a very meaningful program to mobilize CASA in an aggressive manner. Going forward we would like to raise Rs. 1,000 crores of CASA in the next 8 months. That is a major program which we have chalked out and we have created a new team across the country and all of them that program is launched and I am hopeful that CASA will increase to at least 25% by the end of the year against a target of 27%. If you look at in the last two years in the real term CASA increased from about 17% to 22.90% as of now. That is one of the major achievements for the bank in the last two years and also the NPA recovery and also there was slippage of Rs. 1,100 crores there is recovery of more than Rs. 600 crores. So that is another area where the bank fared well. And in the asset side we have formed teams across the country for mobilizing advance business particularly in the retail segments the SME; the micro finance and also the mid-segment of the corporate.

We are not going for big lending but we look at proposals up to Rs. 25 crores. These are all our thrust areas going forward. So we hope that by the end of the year we will reach the targeted profits and a return on asset of about 0.25% to 0.3% and that is our intention and last year we had a provision of about Rs. 98 crores under MTM which we hope we will be able to provide substantial amount from that during the current financial year. It will be a cushion for the bank going forward.

This is broadly about the bank's plan for the current financial year.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.



Rishabh Parekh

I just wanted to check in one of the notes you have mentioned that the RBI has qualified that you need to make Rs. 111 crores worth of further provisions. If you could just shed some further light on that please?

P G Jayakumar

Sir, actually it is a case of that Parekh Aluminex. When we discussed we told you that it is a case where we have securities and all that. But unfortunately they told that we have to make a provision but we represented very strongly to Reserve Bank of India because there are two reasons. One is as per the guidelines it is perfectly a standard asset and in the last AFI 2013 March the same Reserve Bank of India team agreed that it is a standard asset and it is continued in our books. Astute statutory audit in between in 2013 and 2014 they also classified this as a standard asset. We have also provided for the restructured asset.

So this is in addition to that they find that this is a not only a substandard asset they wanted it to be treated as a loss asset and strange thing is that out of 24 banks except 3 banks all other banks have classified it as a standard asset including the leader bank. So we have presented a strong case to Reserve Bank that is need not be classified and that is why we have not taken it in to the balance sheet. We have a very strong case there. We can present this case very strongly to the auditors and also to the Reserve Bank and we have given very meaningful and valid reasons why it should not be classified.

Rishabh Parekh

This is only on account of Parekh Aluminex?

P G Jayakumar

Only on account of Parekh Aluminex because they wanted it I will complete there is another thing. It is Rs. 66 crores is on account of Parekh Aluminex and Rs. 38 crores is another thing because we have in our bank there are three systems in our bank. One is i-flex; our technology is having three divisions; i-flex, then it is FinnOne for the retail asset and Credant for the treasuries. So there was a question of reconciliation between the Credants and the i-flex in respect of the Forex versus Indian rupee valuation.

So as per the bank's reconciliation and as per the concurrent auditor's reconciliation and as per the auditor employed for this purpose all of them agreed to the valuations done by the bank and they agreed for that. But RBI considers our calculation is not correct and we should provide. But there again what we have done is we have employed accredited chartered accountant who has gone in to the treasury reconciliation again and they have certified that there is absolutely no reason for any provisions in this respect but these two papers we are presenting to the RBI.

Then there are two to three other cases like the Champion Agro there was a classification in to that we have provided already. And then these are only very small accounts Rs. 2 crores, Rs. 3 crores like that and another Rs. 2 crores is on account of reconciliation in respect of the retail asset. Once the reconciliation is complete we can add back that provision. Whatever they wanted we provided other than that.



**Rishabh Parekh** And sir, what about REI Agro any clarity on that account?

P G Jayakumar REI Agro they have gone to the CDR now which is a CDR standard asset in our books.

**Rishabh Parekh** So it is not a restructured and standard asset?

PG Jayakumar It is going to be restructured because it is now going to the CDR as of now the reference date

our account is a standard asset.

**Rishabh Parekh** And also if you can just guide us through what accounts related to gross NPAs this quarter?

P G Javakumar This quarter major two accounts. One is the Champion Agro the other is Noida Medical Centre

which is having 120% collateral security. Just for that case we actually what we done is we have given them an NOC to sell one of their MRI machine and remit Rs. 10 crores. So that proposal is being finalized but in between there was some delay in remitting this money that is why it is an NPA but we are hopeful that in the current month this amount will get remitted. This machine we have taken in to possession and we are at liberty to sell it there are buyers

also. So that account will be upgraded.

We have Rs. 20 crores exposures the Rs. 10 crores will come as a remittance and we can upgrade the rest. The other is Champion Agro we are mounting our pressure on those parties to remit and we hope that they will remit money because they are having Rs. 6 crores to Rs. 8 crores in IDBI Bank which they are not prepared to passed to other bankers like us. Axis Bank and Dhanlaxmi Bank as the other bankers and we are trying to get that money once we get it

we are hopeful that that account also can be tackled.

**Rishabh Parekh** And we have any security on this account?

PG Jayakumar This is only under a consortium not specific security from the banks. We are in a consortium

along with IDBI and Axis Bank. The current assets and other fixed asset securities are available but not a specific security to Dhanlaxmi Bank. But we are hopeful that this account can be

resolved.

**Moderator** Thank you. We have the next question from the line of Mona Khetan from Elara Securities.

Ma'am, please go ahead.

Mona Khetan Sir, could we have your movement of NPAs? You mentioned your slippages were around Rs.

73 crores and on the reduction side?

**P G Jayakumar** Reduction was about 15%.

**Mona Khetan** Out of which recoveries were?



**P G Jayakumar** Recoveries were Rs. 15 crores; Rs. 73 crores slippage and Rs. 15 crores recovery.

**Mona Khetan** Okay so there were no write off?

**P G Jayakumar** No write offs.

**Mona Khetan** And what would be the quantum of ARC sale this quarter if any?

PG Jayakumar ARC sale we have ventured for ARC sale of about Rs. 150 crores but the offers were there was

some difference of about Rs. 3 crores, Rs. 4 crores which we have to take in to our books so we refused to accept that. So we are relaunching that option again. This quarter we are trying to

sell it again involving more parties.

**Mona Khetan** So this Rs. 150 crores was on in the NPA?

**P G Jayakumar** Rs. 150 crores NPAs we tried to sell in the current quarter. Last quarter we tried but it was not

successful because we had to take a loss in to our balance sheet which we did not want to do.

**Mona Khetan** So essentially in Q1 there was no ARC sale though we tried for something?

**P G Jayakumar** Yes, this quarter there was no ARC sales.

Mona Khetan And when it comes to Tier-1 I see the total capital adequacy according to BASEL III is little

above 9%. How much of this would be Tier-1 and what quantum of the capital raising that we

did last quarter was included in this?

**P G Jayakumar** Not included 7.77 is the core capital out of this 9.06 but going forward it will be 10.5 with this

Rs. 200 crores induction it will be more than 10.5.

Mona Khetan Which is Tier-1 10.5?

**P G Jayakumar** Tier-1, yes.

Mona Khetan And sir, we have this re-agro account which was standard in our books. What would be status

of that as of now is this pre-structured?

**P G Jayakumar** Which is a restructured standard asset. It is the restructuring process which is underway.

Mona Khetan This point is remains a standard account with us?

PG Jayakumar Yes, because this the reference date it is a standard asset in our books. So it will continue to be

a standard asset even on restructuring that formality once it is completed.



Mona Khetan And sir, in your opening remarks I think you have mentioned your deposits were down by Rs.

600 crores if I am correct, right?

P G Jayakumar Yes.

Mona Khetan So this is a year-on-year thing?

**P G Jayakumar** No, quarter-to-quarter. One year it is almost --

**Mona Khetan** Can I have the amount of deposits in credit for this quarter by the end of June quarter?

**P G Jayakumar** June quarter the figure you want?

Mona Khetan Yes, the figure if I could have.

**P G Jayakumar** Rs. 11,500 crores deposit and Rs. 7,690 crores advances.

Mona Khetan And the investment book?

P G Jayakumar Rs. 4,525 crores.

**Moderator** Thank you. We have the next question from the line of Nitesh Chawla from Banyan Capital.

Please go ahead.

Nitesh Chawla Could you give the number for this standard restructured asset as of Q1?

**P G Jayakumar** As of Q1 it is Rs. 157 crores.

**Nitesh Chawla** And what is the pipeline in the coming quarters?

**P G Jayakumar** In our next quarter we expect another Rs. 50 crores that is RIE Agro.

**Nitesh Chawla** And secondly, what is the breakup of the provision for this quarter?

**P G Jayakumar** Provision for this quarter is Rs. 20 crores.

Nitesh Chawla What is the breakup of that?

PG Jayakumar NPA provision is Rs. 20 crores; our old accounts about Rs. 13 crores and Rs. 7 crores for new

accounts.

Moderator Thank you. We have the next question from the line of Mangesh Kulkarni from Almondz

Global Securities. Please go ahead.



Mangesh Kulkarni Sir, what is our network in Andhra and Telangana, and what will be the impact of this loan

waiver on our books in the next quarter?

**P G Jayakumar** See fortunately we do not have any agriculture exposure in Andhra and Telangana. We have

exposure only for the SME and mid corporates. And also educational institutions and the

medical colleges like that.

Mangesh Kulkarni So we will not see any impact of this agri loan waiver?

P G Jayakumar It will not have any problem in that respect.

Mangesh Kulkarni Sir, for last couple of quarters we are seeing that in next quarter we will see some improvement

in the slippages and that it is not happening?

**P G Jayakumar** That is true.

Mangesh Kulkarni So can we expect this quarter's QoQ improvement in the NPA?

PG Jayakumar If you look at the actual quantum increases to Rs. 73 crores but you can see that there is

definitely a slowdown in the slippage. In first quarter the recovery will be a little slackened. In the current quarter onwards that recovery will catch up and we are planning to have about Rs. 385 crores of recovery this year. If you look at in the last two years we recovered about Rs. 600 crores odd and recovery happens in the last two years. Like that this year also it will happen more than because now many cases are coming to close like we have kind done in Mumbai several cases now they are maturing and we thought that this time recovery will be better in the current quarter and also going forward. We expect that about Rs. 380 crores we will be able to

recover this financial year. That is our plan and we have created a infrastructure to do that.

Mangesh Kulkarni And sir, you mentioned about this Rs. 167 crores restructured that was in Q1 or it is total

outstanding restructured?

**P G Jayakumar** The total outstanding.

Mangesh Kulkarni Okay and Rs. 60 crores is expected in coming quarter, right?

P G Jayakumar Yes.

Mangesh Kulkarni And when do you expect completion of this fresh capital raising?

P G Jayakumar As of now almost all the corporates are over in our books with REI Agro there is nothing less it

is only.

Mangesh Kulkarni And it is our capital raising Rs. 200 crores?



P G Jayakumar

Capital raising now we do not have to do in the next year. Next to next year depending on our appetite for growth we plan to grow aggressively from 2015-16 because this year also we will look at consolidating we are concentrating more on recovery but our thrust is we do not believe in growing very faster and getting in to problems so we have taken a very conscious policy to lend only in the Retail, SME, Agri, Micro Finance and Gold. We are not looking at the big corporates other than those supported by the government. Suppose the Kerala State Electricity Board wants some money or some electricity boards like that only some Government companies or where we have AAA companies we will look at that. Even in that scenario you will not lend it to in big amounts. We want to confine our exposure to Rs. 20 crores to Rs. 25 crores as a policy we have decided like that the board has decided like that.

Mangesh Kulkarni

But I just wanted to know about this fresh capital raising which you mentioned about Rs. 200 crores which is yet to be reflected in our book?

P G Jayakumar

No, actually what happened this capital has come in to the bank allotment is made now only the listing is pending and for which some general body formalities has to undergo because out of the 23 investors 2 to 3 companies did not reveal their beneficiary name there. So we decided to go again to the general body that process is going on. That is concluded on 28<sup>th</sup> and September 30<sup>th</sup> we will be doing the listing. With that the Rs. 200 crores will be in our books.

Moderator

Thank you. The next question is from the line of Deepesh Dokwal from Reliance Life Insurance. Please go ahead.

**Deepesh Dokwal** 

Yes sir, what is the growth planned in for FY15 on allowances and deposits?

P G Jayakumar

You talk about the growth rate that we envisaged?

**Deepesh Dokwal** 

Yes sir.

P G Jayakumar

See actually we plan for 15% growth in liabilities and assets but in the first quarter it is not growing like that. Advanced growth is not picking up that is the biggest problem for the banks particularly Kerala based or generally in India. Some banks like Punjab National have grown 13% but we do not know what the chemistry is. But despite the best efforts the growth is not happening in credit area.

Deepesh Dokwal

And sir, on the NPAs you mentioned these two accounts should be recovered in Q2, right the fresh which has slipped in to NPAs?

P G Jayakumar

That we are fairly confident.

**Deepesh Dokwal** 

And sir, on the branch expansion what kind of?



P G Jayakumar

Branch expansion our biggest challenge of our bank is to tap the full potential in the Western and Northern branches. We have 25 branches in Mumbai and about 17, 18 branches in the National Capital Region of Delhi and these branches they have started they are building CASA and the retail deposits and retail advances. So our challenge is in trapping the opportunities in these two big cities and we are working on that we have created a retail asset team at our corporate office and we have rolled out a program with all our branches in Delhi and Mumbai to mobilize minimum Rs. 2-3 crores retail assets every month whereas in our Southern part of the country we are telling them to mobilize Rs. 5 crores.

We have also employed people so our first effort I am not deviating from the point our first effort is to tap the full potential of the existing branches because we have established these branches with a huge investment when compared to normal banks like South Indian or Federal we have given more investment in those branches. So unless we tap this to full potential there is no point in adding to or cost. So what consciously we have decided that first we will tap the full opportunities in those good branches well-positioned the branches in these cities. So all our efforts are concentrated on that and gradually there is improvement.

Deepesh Dokwal

So sir, we should assume meaningfully no material addition to the branches?

P G Jayakumar

Yes.

Moderator

Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

Rishabh Parekh

Just wanted to check what was the MTM on your investment book this quarter?

P G Jayakumar

MTM we do not have any it is only a positive thing, no MTM this time.

Moderator

Thank you. We have the next question from the line of Nitesh Chawla from Banyan Capital. Please go ahead.

Nitesh Chawla

Sir, regarding Parekh Aluminex we have been reading in the news that it is not performing and the promoters are not paying back. So how will it a standard asset for now?

P G Jayakumar

See actually the as per the CDR mechanism they have done whatever they are supposed to do. From the Parekh Aluminex side they have done all their obligations under the CDR mechanisms like bringing capital, employing the people for managing the company and the company is also functioning so as far as the company corporate side it is everything is okay.

Nitesh Chawla

But are they repaying the interest and the principal?

P G Jayakumar

The repayment of interest should happen only from the March quarter of the current year.



Nitesh Chawla And if they do not pay the interest at that time then it will be classified as an NPA?

PG Jayakumar It will classified as only a substandard asset even then it will not be treated as a lost asset as

RBI suggested in our case. This is a secured credit because even in our own properties which were offered to our banks is also pooled and it is shared among the all the consortium banks. So now it is a question of treatment. I do not think that the leader banks IOB is also treating it as a standard asset. We verified up to 30<sup>th</sup> June all these banks have treated this as a standard asset.

That is how we made a strong case before the Reserve Bank of India.

**Nitesh Chawla** So what is the recovery that you expect for FY15?

**PG Jayakumar** FY15 we look at about Rs. 380 crores recovery including the asset sales; Rs. 380 crores to Rs.

400 crores that is our target.

Nitesh Chawla And do you expect the NPAs looking for the next quarter?

**P G Jayakumar** Next quarter as per plans Rs. 20 crores to Rs. 30 crores only first quarter and second quarter we

had marked. But first quarter against the Rs. 20 crores projection it became Rs. 73 crores. But second quarter we do not expect any account like that big accounts are not there at all. Any account above Rs. 5 crores delinquency will not be there in the current quarter because there is no account like that to become bad. That is our own observation. And we have also implemented this SMA 0, SMA-1 and SMA-2 classification of all the books and so the

monitoring is also very closer now.

Nitesh Chawla So you are saying that from the Rs. 544 crores you expect to recover some part of the Rs. 73

crores and there would not be much additions in the quarter?

PG Jayakumar Yes, actually we have planned for our estimation in the current year is that there will be a

slippage of more than Rs. 150 crores. But we have not taken in to account this in the first two quarters. These slippages may come in the last quarter only. That is only our estimate based on our broad assessment. But it is only a very broad picture conservatively it would not be there

this time.

Nitesh Chawla And sir, this Rs. 60 crores of slippages in the restructured assets that you are talking about in

second quarter does it include REI Agro or it is excluding that?

**P G Jayakumar** It is only REI Agro no other account is included.

**Nitesh Chawla** So what is the breakup of the loan book in retail, corporate, and SME?

**PG Jayakumar** As of now including gold retail will be 33% and corporate will be about 27% and SME 26%.

And the other Agri business and all that which also come under the retail in the broad sense

which forms 14%. So retail perse we can classify as 47%.



**Nitesh Chawla** So what is the GNPA levels you are targeting at the end of FY15?

**P G Jayakumar** FY15 what we plan is gross NPA of 4% and net of 2%.

Nitesh Chawla This is assuming that you get the 15% growth in advances?

PG Jayakumar That is what we plan. I hope that from the current quarter things will improve and we have

made a special plan that is what I told you. Traditionally we did not have the marketing people for advances now we Pan India we employed people for mobilization of retail credit, SME like advances we are concentrating a lot. And also we have planned teams across the country. Our intention for the current year is to improve our net interest margin to 3% from 2.4%. Presently

it is 2.41% our intention is to make it 3% by the end of the year.

So our idea is to improve the CASA; improve the retail deposit give up the plan for any bulk deposit. We do not go for higher CAGR rate deposits. If other our peers are offering 9.25% we are offering only 9.15% for one year deposit. So on the cost side we are extra cautious and also we are planning to reduce the operating expenditure but we are not sure because the states are increasing the electricity charges and all that but still we will be able to contain it at the same

level of the previous financial year.

Nitesh Chawla So it should remain at around Rs. 80 crores per quarter that is all?

**P G Jayakumar** Yes, Rs. 80 crores to Rs. 82 crores max.

Nitesh Chawla And sir, on the NPA side what is the breakup between retail, corporate and other NPAs which

is the major chunk?

P G Jayakumar Major chunk is corporate.

Nitesh Chawla How much would that be?

PG Jayakumar Total NPA out of Rs. 150 crores is the retail and Agri will be about Rs. 10 crores to Rs. 15

crores. Mostly others some SME will be another Rs. 50 crores. There are these corporates.

Nitesh Chawla So these are big accounts or small accounts?

**P G Jayakumar** Corporates are bigger ones like this some accounts in Mumbai are there.

Nitesh Chawla So the asset side it would be around Rs. 60 crores to Rs. 70 crores per account?

PG Jayakumar Yes, roughly Rs. 50 crores between Rs. 25 crores and Rs. 50 crores most of these accounts. FU

three or four, five accounts max.



Moderator

Thank you. We have the next question from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu

I had couple of questions. My first question is you mentioned in one of your previous reply that you are targeting around Rs. 2 crores to Rs. 3 crores in cities like Mumbai and Delhi in your retail asset. I just wanted to understand what is the kind of product you are marketing in these cities and how are the yields on these products and how competitive are you compared to other banks in the retail products?

P G Jayakumar

See our instruction is very clear because as of now our treasury book is about 38%, 39% of our liabilities against the prescription of 22% by the Reserve Bank of India. So any amount that we lend beyond our card rate will contribute to the bottom line of the bank. That is our policy. So any good asset we have told all the regional managers that any good asset we get above 11.5% contract it that is the direction. So in Mumbai and Delhi we have told that you go for housing loans then LAP, LRD all these mortgages necessarily need not be free.

If there is a very good proposal with very good mortgage backed we will take it for Rs. 25 crores or Rs. 30 crores also we have good parties in Mumbai like the Mittals and all our several parties are there. So there we do not say that it should be only Rs. 2 crores and all that. So what we look at is purely mortgage backed assets. That is what we look at with a earning above 12% average. I hope that this is a competitive market where 12% is very easily marketable.

Sudhakar Prabhu

And similarly what would your yield in Kerala and Southern markets?

P G Jayakumar

See if you look Tamil Nadu our yield will about 13.5%; Kerala it will be only 12-12.5% and Andhra Pradesh also it is about 13%.

Sudhakar Prabhu

And you mentioned that you are confident of achieving around 3% NIM from that?

P G Jayakumar

That we are confident because our thrust is not on volume now; our thrust is on the quality of our books. We want to go for see all these inorganic growth residuals are being wiped out now. We grow only organically and we grow only with a systematic way we do not pay high interest rate and all that. So on the liability side we are keen that our cost will come down to 7.75% minimum. That is our target. And our yield will go up at least by 0.25% which will take care of our NIM of 3%. Because our concentration is on recovery and all recovery that is the mantra that we roll out every day; CASA recovery, retail deposit and retail advances. This will do the job that is my belief.

And recovery will bring back a lots of money to the bank because the kind of suspended income at least half of it is now we can get back the fortunes will be very, very high. And secondly, our MTM fortunately the new government is also telling that the country should have a congenial atmosphere for the industry to grow so that interest rates should come down and



all. If it happens fine, if 0.5% interest policy rate is reduced by Reserve Bank of India 50%, 60% of our MTM will be reversed.

Sudhakar Prabhu And you mentioned that the recovery this year should be roughly around Rs. 380 crores

including?

**P G Jayakumar** Yes, that is what we plan including the asset sale of Rs. 150 crores to ARC.

Sudhakar Prabhu And in one of the previous call you had mentioned that you would see provision right back on

your NPL also so do you think that is also possible this year?

PG Jayakumar This year that is what we planned. Any recovery now many of these old accounts which we

have provided 75%, 50% like that any recovery will be adding to first going to the interest

suspended then provision release. So this is going to help the bank.

**Sudhakar Prabhu** And what kind of PCR or Provision Coverage Ratio are you comfortable with?

**P G Jayakumar** Now we have just below 44%.

Sudhakar Prabhu So what I am trying to understand is what is the number which you are comfortable or are you

comfortable with this current number or would you like to take it to above 70% to 75%?

PG Jayakumar Many banks is hovering around 50%, 55% and all that but because of the sudden certain NPA

the new NPAs first year for secured assets we need to provide only 15%. So naturally the coverage will be lesser in the initial years. So this is a trend and I hope will be reversed when

the country progress.

Sudhakar Prabhu And overall in spite of lower growth you are confident about achieving ROE of 0.35% or

0.34%?

PG Jayakumar Yes, definitely because we look at the bottom line we are not increasing our staff strength and

we actually employed Ernst & Young to advice us on our road ahead and they have given us very valuable inputs many of the things which we have already started implementing which they have also endorsed and some other points also they have given. One of the major points that they have suggested is to pull out the officers from the branches and employ them in the market for selling the bank's products and services. That we have already implemented in the last two months. So I hope that the right place for the branch managers I used to tell my friends

always your right place is the market. We are trying to implement that in to practice.

**Sudhakar Prabhu** And lastly sir, in terms of wage hike provision and all that is done or yet to be done?

P G Jayakumar Already done.



**Sudhakar Prabhu** Then what is the kind of hike you have assumed while providing?

**P G Jayakumar** We have done product pardon sorry?

**Sudhakar Prabhu** I just wanted to know what is the kind of hike you have taken while giving this review?

**P G Jayakumar** It is only see for additional inventory it is only Rs. 7.3 crores.

Sudhakar Prabhu Yes, I am saying for the wage hike and all you follow the old private sector banks norm or you

are free to have your own?

**P G Jayakumar** No, we have to follow the RBI guidelines.

**Sudhakar Prabhu** No, I am saying sir for the wage hikes for the salary hikes?

**P G Jayakumar** Wage hikes we have fully provided up to June.

**Sudhakar Prabhu** And what is the percentage have you taken?

**P G Jayakumar** We have taken 10% excess in the existing salary.

Moderator Thank you. We have the next question from the line of Chintan Shah who is an individual

investor. Please go ahead.

quarter?

**P G Jayakumar** Interest reversal in the current quarter?

Chintan Shah Yes.

**P G Jayakumar** May be Rs. 2 crores to Rs. 3 crores.

**Chintan Shah** And what is your current AFS book and modified duration?

**P G Jayakumar** AFS book will be about Rs. 1,600 crores.

**Chintan Shah** And modified duration sir?

P G Jayakumar Rs. 4.5 crores.

**Chintan Shah** And what is the current SMA-1 SMA-2 and comparing it with Q4 numbers?



**P G Jayakumar** SMA-1 will be about Rs. 100 crores.

**Chintan Shah** And SMA-2?

**P G Jayakumar** SMA-2 put together it is only Rs. 250 crores.

**Chintan Shah** How does this moved in as compared to last quarter?

PG Jayakumar See Kerala and all there in South India also in general people will connect only when two

installments are due. We gave them the SMS on due date; SME and this interest clearance in

cash credit and all that this will take some time.

**Chintan Shah** No, what was the number last quarter?

P G Jayakumar Last quarter also a little higher it was but over a period of time it is stabilizing because SMA-1

is giving see we also had a system of watchfully send special watch list equivalent to SMA-1 and SMA-2 in our bank. The system was not invokes but now since the reporting to RBI also came in to place we are also more cautious. So SMA-1 itself our monitoring mechanism has stabilized across the country right from the head office, etc., but accounts are monitored by the head office another set by the regional office and the last by the branches directly. So depending on the value of the asset respective departments will follow up the borrower directly.

That is happening.

Chintan Shah Sir, last quarter actually indicated that you do not see any significant larger accounts slipping

going ahead and we have already seen two major accounts coming during the quarter. Also we have in pipeline of Parekh Aluminex you have which is already been reported by few banks as an NPA. So how do you see this trend going ahead because earlier lot of banks have already

reported its NPA?

PG Jayakumar See Parekh Aluminex this is anyone can see the kind of explanation that we have given to

Reserve Bank of India which will show that we are on the right side because that is a two accounts we never thought that this will become NPA those two accounts. This Champion

Agro and?

Chintan Shah But sir, REI Agro last quarter J&K Bank was also saying the same thing that they do not expect

it to be turning out to be NPA but this quarter they have reported?

**P G Jayakumar** Yes, they are reported as NPA?

Chintan Shah Yes.

**P G Jayakumar** I do not know that.



**Chintan Shah** And lot of other banks like United Bank and?

PG Jayakumar Axis Bank has reported; United Bank of India reported but major banks the leader banks Uco

Bank and many other banks including State of Bank of India they have not reported.

**Chintan Shah** Is there any amount which is currently overdue for REI Agro interest or principle amount?

**P G Jayakumar** REI Agro from that I think April interest they have to pay.

**Chintan Shah** Since April they have to pay?

**P G Javakumar** After April because after that they serviced but the cutoff date for the CDR is.

Chintan Shah So if we see as on date it must be an NPA in your book currently and not on the 30<sup>th</sup> June but

currently as on today?

**PG Jayakumar** See since it is cutoff date it is on one-fourth we do not have to treat it as NPA the CDR

mechanism.

Moderator Thank you. As there are no further questions from the participants, I would now like to hand

over the conference back Ms. Mona Khetan for her closing remarks. Over to you, ma'am.

Mona Khetan I thank all the participants and the management for joining us in the call. Sir, would you like to

add any closing comments?

P G Jayakumar Thank you our esteemed investors for the patience that you show to your bank and we commit

ourselves to perform better. And going forward I am quite sure that the performance will be much better and much of our problems are behind us. So I request you to have patience more some more time by the end of the year our bank will be performing just like any other bank and I am confident about that. And I request your continued support and also the Elara Capital and all our friends are extending us very good support. Thank you all and I promise that better days

to come. Thank you for all your support. Thank you very much.

**Moderator** Thank you very much, sir. Ladies and gentlemen, on behalf of Elara Securities Private Limited

that concludes today's conference. Thank you for joining us and you may now disconnect your

lines.