"City Union Bank
3QFY2021 Post Results Analyst Conference Call"

February 03, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank 3QFY2021 Post Results Analyst Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajit Kumar from Ambit Capital Private Limited. Thank you and over to you, Sir!

Ajit Kumar: Hello everyone. I welcome you all for 3QFY2021 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 this opportunity of hosting you on this call and over to you now for your opening remarks. Over to you, Sir!

N. Kamakodi: Good afternoon to all, Dr. Kamakodi here. Hearty welcome to all of you for this conference call to discuss Q3 and Nine months period ended December 2020 financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

The highlights of performance for Q3 FY 21 / Nine months FY 21 is as given below:

Deposits recorded a growth of 9% to Rs. 43288 crs from Rs. 39812 crs. Credit improved by 8% to Rs. 36504 crs from Rs. 33828 crs. Thus, Business grew by 8% and presently stands at Rs.79792cr. Growth in Operating Profit for 9 months period was 19% and for Q3 FY 20 it was 49% and in absolute terms it stood at Rs. 1199 crs and Rs.458 crs for 9 months & Q3 respectively. Net profit is at Rs. 170crs and Rs.482crs for Q3 & 9M FY 21. ROA stands improved to 1.25% and NIM at 4.09%. Cost to income at 38.85% for 9 months FY 21.

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

- ✓ How is the activity level post festival season?
- ✓ What about "restructuring"?
- ✓ What about "growth"?
- ✓ What about "asset quality concerns" / slippage?
- ✓ How are you going to handle NIM pressure?
- ✓ What is your ROA outlook? When will it reach pre COVID levels?

As explained during earlier concalls, we could see further improvements in activity levels which are reflected by transactions in our bank and levels has crossed the pre COVID levels in both numbers of transactions and value. It is also getting substantiated by other data like GST collections.

During the earlier conference calls we shared with you all that

- ✓ The growth will be at mid to high single digit.
- ✓ The slippage ratio to closing advances would be3% to 3.5% for FY 2020-21
- ✓ The restructured portfolio would be 5-6%
- ✓ Cost to income ratio will be 42-44% level.
- ✓ We would be getting back to 1.5% of ROA during second half of FY 22-23

We believe we should be able to show performance in tune with those expectations.Our Advances growth between 31.03.20 & 31.12.20 stands at 8%. On 31.03.20, we declared NPA of 2.29%. Another Rs.125 Cr (0.36%) was not considered as NPA being accounts in SMA2where asset classification benefit is extended and if they had been considered as NPA, Net NPA on 31.03.20 would have been 2.63%.

If the standstill clause is withdrawn,proforma Net NPA for 31.12.20 would have been 3.37% compared to 31.03.2020 higher by 70 bps after considering collections & restructuring.

The Government guaranteed ECLGS Schemes (1 and 2) has boosted the spirit of MSME / non MSE sector and businesses have started generating surplus.

However, still sectors like Hotels / retail trade / passenger transportation which are opened up late are yet to reach their normalcy. Especially, service industry like hotels are not operating to their full capacity. They are all mostly at sub optimal operating levels but improving steadily.

The overall system growth was around 6% and we have grown by 8%. It is as per expectations we shared with you all.

The major growth comes from jewel loan and EGLGS.Of the ECLGS growth, as on date we have sanctioned about Rs.2079crs consisting of 9935 borrowers both under ECLGS 1 & 2 and disbursed an amount of Rs.1911crs for about 8791 borrowers. The ECLGS 2 consists only of 2 borrowers with sanction amount being 22 crs. The total amount disbursed to advances constitutes 5.17%.

We still believe that this is not the time for pushing the credit growth and we are endlessly waiting for better general economic environment like you all expecting better growth and lowering NPA.

During Q3, we have restructured 60 borrowal accounts to the tune of Rs.321 Cr. The total restructuredMSME accounts as on 31st December 2020 stands Rs.807 crs consisting of 233 borrowers. The present % of restructured accounts constitutes 2.21% of advances.

Further, 102 borrowal accounts amounting to Rs.517 cr under MSME and 1224 borrowal accounts amounting to Rs.520cr in Non-MSME category are identified for Q4. Overall the total restructuring will be around 5-6% which is well within the range we shared with you all. As the regulatory instructions prohibits deeply stressed accounts on 29.02.2020 to be restructured and some of the other standard accountsrequired restructuring only because of cash flow issues arising out of Covid, hopefully restructured accounts should get better as we move forward.

We shared with you all that cost to income ratio will be between 42-44%. As there were more profit booking opportunities, the current cost to income ratio got reduced to 38-40%. Going forward, when the treasury profit booking opportunities gets reduced because of interest rate movements coupled with increased salary costs, the Cost to income ratio will be as explained earlier. We had a new settlement with our Staff Union & Officers' Association with effect from 01.01.2021 with an increase of 15%.

Net interest margin is staying more than 4% as the yield reduction is more than getting compensated by cost.

In the last FY, we have declared our net profit - Rs.476 Cr with ROA of 1% as basis. For the last three quarters ROA is at around 1.20%+ and the last quarter profit will be declared based on the status of Supreme Court judgement, NPA slippage, recovery etc. So the expected ROA for whole year could be between 1.1% and 1.3%

Earlier, we had provided moratorium to all eligible customers during the period from 01st March, 2020 to 31st August, 2020. During quarterly result of June 2020, 88% of CC a/cs exposure and 46% of term loan exposure, on total accounts covering 70% of total exposure received payment for four months, as if there was no moratorium.

Post the end of moratorium period on 31st August, 2020, accounts covering the exposure of 95% of CC a/cs and 86% of Term loan a/cs, on total 91% of exposure received payments for September 2020 demand. Presently for Sep-20, only 2% of CC accounts and 6% of loan account have not paid their demand taking the total unpaid at 5%. The same is like that we used to have during pre-covid period of 5-6%. For the demand of Dec-20, 92% of CC exposure & 87% of Term loan exposure and 89% of total exposure had repaid their dues.

The recovery stands improved during Q3 FY 21 as compared to Q2 and Q1 FY 21 and was Rs.106 cr (Live recovery Rs.73 cr& TW recovery Rs.33 cr) and total recovery for 9 months period was at Rs.215 cr (Live recovery Rs.146cr& TW recovery Rs.69 cr). The recovery during Q1 and Q2 FY 21 were Rs.24 crs& Rs.84 crs respectively.

We are pushing lot of efforts on recovery. Though we could see some improvement but the same was not as we used to have during pre-covid period where we used to generally manage the addition through recovery. But, we are not giving up.

NPA recovery is going to be a major lever determining how we are going to maintain our profitability efficiency ratios like RoA, RoE, Cost to Income and Net NPA ratios in the absence of growth and favorable economic condition.

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

Gross & Net NPA stands at 2.94% & 1.47% respectively as against 3.44% and 1.91% last quarter (Q2 FY21). As shared 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.

NII for 9M period has improved to Rs.1401 cr as against Rs.1256 cr in 9M FY 20 recording a growth of 12%, mainly achieved by managing the CD ratio and the resultant cost.

The Operating Profit for nine months in the current year is Rs.1199 cr as compared to Rs.1006 cr last year for the corresponding period mainly on account of improvement in other income especially treasury trading by taking advantage of favorable yield movements. For Q3 FY 21 we had earned a treasury profit of Rs.103 crs against Rs.22 crs during corresponding period last year. For 9M FY 21 the domestic treasury income was Rs.233 cr as against Rs.109 cr during corresponding period.We still have appreciation over Rs.120 Cr in HTM book which could be booked in future based on the circumstances.

PAT stood at Rs. 170 crs and Rs. 482 crs for Q3 and 9M FY 2021 respectively.

We made a provision of Rs.125 Cr in Q3 also for future Covid related provision requirements, taking the total adhoc provisions to Rs.465crs (125+100+115+125) to meet any future contingency arising out of Covid pandemic. These adhoc provision was not used for Net NPA calculations. In addition, we had made an interest reversal of Rs.25 crs and Rs.30 crs in Q2 FY 21 and Q3 FY 21 on an adhoc basis. The RoA reported is after taking into these interest reversals.

Hope you all remember that the cyber attack on our ATM network during Dec 18 wherein 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 and the same has been reversed during the current quarter.

The cost to income ratio for Q3 FY 21 was at 36.22% and for 9 months FY 21 the same was at 38.85%. The main reason for drastic decline in the ratio was on account of increase in treasury profit and also maintenance of operating expenses at the same level of previous year.

For Q3 FY 21, our NIM stands at 4.16%, ie 18 bps more than FY 2020. This is after reversing Rs.25 crs of interest income in Q2 FY 21 and Rs.30 crs in Q3 FY 21. If the above reversal was not done, the NIM would be at 4.42%. The ROE for 9M 21 stands at 11.69% as against 11.54% for H1 FY 21.

We have CAR around 17.39% of which Tier I itself @ 16.31% for 9 months FY 2021. The Capital Adequacy position has improved from 16.76% in Mar-20 and 17.39% in Dec-20 mainly because of sanction of ECLGS & increase in Gold loanswhich attracts zero percent risk weight. If the profit is taken into account, the CRAR would be 18.89%.

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.

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. The SR o/s now stands reduced and remains at Rs.144 crs as against Rs.247 crs as at 31.03.2020. As informed during last concall, final settlement received for one of the 4 accounts and we had received the entire OTS commitments. We have made an additional provision of Rs.10 crs during Q3 FY 21.

We have introduced technology services like account opening through Video KYC to strengthen our digitization initiatives.

To sum up

All parameters like growth, margin, slippage and all are well within the range we shared with you all during earlier concall. Things are definitely improving day-by-day, we are able to see things getting better and better and we hope things will stabilize for the fourth quarter and going into the next year, things should be coming faster to the normalcy. The unknown currently is when the Supreme Court will be lifting the stands still clause, so I think that should also be happening before the end of the current year. Overall, as we had been discussing with you all during the earlier conference call and all compared to whatever we though during the beginning of the pandemic, things are much better, much improving and stabilizing and coming days and quarters will be definitely much better and we should be coming back to the pre-COVID level performance as quick as possible. So with these opening remarks I leave the forum to questions, so whatever the extra information whatever you want whatever I know I can give particularly like numbers our CFO and CRO will be helping me. Open to you all.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, thanks for the opportunity. Sir, first question is slightly mixed in the sense that one is the collection efficiency slide that you have given on slide 45, which shows that the 95% number in September has reduced to 89% in December, I think this has to do with the accounts who would have otherwise are 90-day past and some of them may have got restructured also, so I wanted to understand if you would have followed 90 DPD norm then how much would have otherwise been and hence adjusted for that how would much have been the collection efficiency?

N. Kamakodi: See, basically I do not want to confuse with too many numbers and that is why we have given, you keep this number as such, so as I had given during the initial part, the incremental impact compared to March 31, 2020, would have been about 70 basis point, my net NPA on March 31, 2020 plus the undeclared NPA because of the standstill clause on March 31, 2020, would have been about 2.63% and the current number of pro forma net NPA for December 31, 2020, will be about 3.37% after giving effect for the restructuring, collections and somethings like that.

Jai Mundhra: So, the net NPA number would 2.63%, right?

N. Kamakodi: No, 2.63% for March 31, 2020 and currently, it will be 3.37%, about 70 basis point incremental.

Jai Mundhra: And the same number for gross NPA, Sir?

N. Kamakodi: Because you cannot exactly predict that number and all, it depends on your technical write off and things like that.

Jai Mundhra: The additional net NPA let us say from third quarter reported is 1.47% and the adjusted number would be 3.37%?

N. Kamakodi: Yes, the current number will 3.37% vis-à-vis the exact problem of 2.63% on March 31, 2020.

Jai Mundhra: But, I think other bank what they have done is they are giving the same way given the reported number and they have given the pro forma number, which would have been the result of 90 DPD they would have followed?

N. Kamakodi: Yes, exactly that is what I am giving you now. If the number would have been 3.37% compared to 2.63% on March 31, 2020, which is the number of 2.29% we declared plus another 34bps.

Jai Mundhra: Right, I mean for gross NPA on a broadly perspective I can gross up the gross NPA by the same differential, right is that the right understanding?

N. Kamakodi: Yes, that will be the minimum that is after you consider the maximum technical rate up if you can do.

Jai Mundhra: Sure. So, if I deduct this roughly 2% is the net NPA differential, 1.9% or whichever way you take it somewhere around 1.5% to 2%, but what is other drop you have, so from 95% to 89%?

N. Kamakodi: Restructuring, 89% to 95% you will always have SMA1, SMA2. This is the general thing, which you will always have.

Jai Mundhra: So, all SMA put together is around 10% to 11%, is that the understanding?

N. Kamakodi: This is the level even in the pre-COVID period.

Jai Mundhra: Fair point, Sir. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI. Please go ahead.

Amit Premchandani: Good evening, Sir. Thanks for the opportunity. I will just ask a simple question and I just expect a simple answer without what happened in March, etc., gross NPA in March reported was 4.09%, what is the gross NPA number in December this year without the Supreme Court intervention?

N. Kamakodi: See, the incremental slippage it has not been covered as a part of thing is about 1150 Crores.

Amit Premchandani: Sir, what would that made the gross NPA number?

N. Kamakodi: That you can calculate.

Amit Premchandani: And the net NPA was 2.29% in March reported, the current number you say is 3.37% on a pro forma basis, is that the right?

N. Kamakodi: Yes, after taking this particular addition also.

Amit Premchandani: Sure, and you have given a restructuring number only basically this quarter we have restructured 321 Crores and overall outstanding is 807 Crores while you are guiding for 5% to 6% restructuring, now most the restructuring window is closed in December, so where are this additional restructuring will come from?

N. Kamakodi: See only for the non-MSME, the window is closed, for MSME window is available up to the March 31, 2021, I have already given to you that we have further identified 102 borrowal accounts amounting to 517 Crores under MSME and 1224 Crores borrowal account about 520 Crores non-MSME category, which could go for restructuring in the fourth quarter.

Amit Premchandani: Sir, this non-MSME can they actually come for restructuring given that the window is already over?

N. Kamakodi: No, they have already given the request letter and so the initiation has started whether it will go to restructuring and all, the viability test and all are underway and we have to do it before March 31, 2021. The window is closed, but the process is initiated, the final result it may happen in couple of months.

Amit Premchandani: Sure and this 95% collection efficiency moving to about 89% and the balance accounted for the restructuring and SMA, why was the SMA number so low in September then?

N. Kamakodi: Because of the standstill clause, after your February 29, from March 1, onward you cannot have any demand on the customers, if they pay the older demand the SMA comes down.

Amit Premchandani: So for September 30, 2020, there was some demand, which was made based on which you had a 95% collection efficiency?

N. Kamakodi: No, please understand, you cannot have a demand after March 1, so whatever SMA that was declared up to the September results where only the dues for February 29, the demand raised before February 29, so that number if you do not run the pro forma even today that number will look low. Based on the regulations today my total SMA0 1 plus 2 is only 311 Crores, which is not even 1% of my total loan book, which is given in the slide #44. If you had observed that number was 645 Crores in June, which reduced to 311 Crores on January because another 350 Crores collection happened in between, you understand?

Amit Premchandani: Yes. Thank you. That is from my side.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL Asset Management. Please go ahead.

Haresh Kapoor: Sir, I missed your comments around ROA for the whole year, if you can repeat that a bit?

N. Kamakodi: Which one?

Haresh Kapoor: The ROA expectation for the whole year you were making some comments?

N. Kamakodi: Whole year up to first three quarters it is about 1.25%, for the year as a whole it could be between 1.1% and 1.3%.

Haresh Kapoor: Sir, what I wanted to understand was basically now you have a better sense in terms of your slippage, restructure and stress pool, so how should we look at provision going ahead?

N. Kamakodi: See, the incremental provision requirement based on the current trend should substantially reduce from third quarter next financial year.

Haresh Kapoor: Sir, why are you talking about a couple of quarters more for normalization now, I think the other banks who we talk to indicating may be a quarter or two and their normalization for you, you have portfolio in place, so why is that?

N. Kamakodi: I am also telling the same this boss, the third quarter next financial year this is nothing, but another three quarters away.

Haresh Kapoor: Yes, but many are guiding for Q1 normalization or even Q2 not even Q1?

N. Kamakodi: Yes, as I told you the pro forma NPA is there, I have to keep providing it and keeping it well control, it all depends upon what the individual bank wants to provide and keep the net NPA at what level on an ongoing basis.

Haresh Kapoor: Sir, second question on restructure, though I think you are pretty accurate in the range of restructure that came through for you I think a lot of the other banks were also guiding in the same range, but have come out with the lower restructuring number eventually though you seem to be in the same range as such and you are guiding that eventually by Q4 it should be in the 5% to 6% or may be around 5% number, so if you can just talk through that in terms of the assessment that we are doing in terms of are we being a little bit more helping out the customer a lot more in this time than we would have normally done or how is the assessment being done in that category?

N. Kamakodi: Absolutely it is our responsibility, first of all the regulations have clearly told that those who are in SMA2 cannot be restructured, so by and large those accounts, which are unviable and which had problem before February 29, 2020, are virtually ruled out of the restructuring window, so the restructuring facility is only allowed for those customers or those businesses, which are reliable and having proper cash flow up to February 29, 2020 pre-COVID and who may be having some sort of cash flow mismatches and all, so we are assessing the cases individually and wherever like we are also actively encouraging customers to use this window. Even they are 10% to 20% unsure of the certainty in terms of future cash flows and all we are helping them to workout restructuring, it is purely based on the long-term interest of both the customers and the bank we are utilizing the entire opportunity, which is given by the regulator.

Haresh Kapoor: Sir, what time period are we giving them?

N. Kamakodi: The maximum period you can extend is by 2 years is what that is given, but in most of the cases even 1 year, I mean depending upon the certainty, which is expressed over to the customer that makes.

Haresh Kapoor: No, the question was basically you are giving the restructuring, which year timeline will be decided, but when do we see this book running down, so is it that 12 months?

N. Kamakodi: How it goes is that in many cases and all the initial period, the EMIs are reduced some sort of incremental thing and all, at an average they will be having at least one year only they will be paying interest and term loan payment may start after one year.

Haresh Kapoor: Sir, next thing is on growth, now obviously you have guided previously that ECLGS and gold loan is the two categories largely where you will be focusing on and now obviously you have gone in that direction itself, but incrementally I think we have seen better trends in terms of growth for a lot of players even you have grown 3% plus Q-on-Q, so how should we look at this part, obviously it came be two product lines or two categories as such, but incrementally when do we see normalization on that front?

N. Kamakodi: Most likely as of now it looks it should be from the first quarter.

Haresh Kapoor: And one more thing is what is that you are tracking closely now in terms of growth accelerating because the point is you could still grow from Q1 may be at lower double digit or higher double digit or how are you may be looking at it for next year, so we have some clarity on that aspect?

N. Kamakodi: If things do not deteriorate from here and they stay that way probably we should be at lower double digits.

Haresh Kapoor: Lower double digit for FY2022?

N. Kamakodi: Yes.

Haresh Kapoor: Sir, last thing when do you see mid teen to higher teen growth coming back for you, let say may be FY2023 could be the year, but any reason that FY2022 could not be that year?

N. Kamakodi: The mid teen how it will happen in the future probably I will be in a position to tell you around the same time next year.

Haresh Kapoor: Thanks a lot. If there is anything I will come back in the question queue. Thanks for answering.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sunlife Insurance. Please go ahead.

Pranav Gupta: Sir, good evening and thank you for the opportunity. Just a few questions, firstly on the asset quality side, you said net NPA number of 3.37%, it will be netting of the reduction that happened in the last three quarters is that right?

N. Kamakodi: See, basically netting it off with the entire provision made and the current level of gross NPA.

Pranav Gupta: Understood and this entire provision made would exclude the provisions for COVID, which specifically kept aside as well as the restructuring and standard asset provision, right?

N. Kamakodi: No, let say when I declare my pro forma number it includes both the likely additions and also the COVID provision and provisions made as per IRAC norms.

Pranav Gupta: So, we include this 465 Crores provisioning that you have kept for COVID is that right?

N. Kamakodi: Yes.

Pranav Gupta: Is it fair to assume that about 1000 Crores of pipeline that you have for restructuring going forward, is it fair to assume that some of these accounts are not viable you would classifying these as NPA rather than restructuring these accounts?

N. Kamakodi: Absolutely. The accuracy with which we estimate these accounts have been by and large at least 90% confidence level that there will be viable accounts, so those accounts, which we identified as nonviable we have included that in the pro forma NPA.

Pranav Gupta: Sir, lastly just a clarification on the previous question when you said that this net NPA including the provision that we have made for COVID, if we gross up the provision as well as the slippage, so the GNPA number would look quite elevated probably upwards of 7% to 7.5%, so I do not know what I am missing here?

N. Kamakodi: I have clearly told you 3% to 3.5% is going to be my slippage for current FY.

Pranav Gupta: I understand that, but why I am asking this question is even if I add this 1100 Crores, 1200 Crores of slippage that you are talking about and I see the overall reduction that we have in the last three quarters that itself amounts about 700 Crores, 750 Crore, which is where the math does not add up?

N. Kamakodi: That is why the net NPA is more realistic number because you have also recognized and also given the provision, so how much you can go for technical write off, these type of things are the decisions will be taken only at that particular point, so I have already given that there is going to be 3% to 3.5% slippage and you do not have any slippage during the past three quarters, so this 3% to 3.5% will get added whenever the standstill clause is removed.

Pranav Gupta: Understood. Sir, then in that case the 5% to 6% restructured book that you eventually end up having again that we will only end up holding bare minimum 10% or restructuring provision that is mandated by the regulator and probably nothing in addition to that as of this quarter, is that right?

N. Kamakodi: We have already provided whatever that is needed for restructuring for those accounts, in the standard assets column.

Pranav Gupta: Right, but nothing additional, regulatory requirement?

N. Kamakodi: Nothing much compared to the already made COVID provisions.

Pranav Gupta: Sir, just lastly one clarification, I believe earlier you have commented that the earlier restructuring cycle that we had were about 10% of the book was restructured, if I remember it correctly you said that nearly 2% of that book had eventually slipped that is right or 20% of the book slipped?

N. Kamakodi: Yes, in the following 3 years only about 2% slipping.

Pranav Gupta: On the restructured book?

N. Kamakodi: No, out of 10%, 2% of the book, which is about 20% of the restructured amount.

Pranav Gupta: Understood. Sir, thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Good evening Sir and thanks for taking my question. Just on asset quality, the SMA1, 2, 3 combined, what would it be as of December 2020?

N. Kamakodi: See, the issue is one since you do not have any demand after the February 29, 2020, that SMA number is given in page #44, it is only 311 Crores, which was about 645 Crores, which means that about 340 Crores got paid in 6 months apart from that the monthly installments we have clearly given how much in CC, how much in term loan, how much pending and all in the page #45.

Gaurav Kochar: But in the slide #44 correct me if I am wrong, is only for those loans, which were outstanding as on February 29, 2020, so they were zero plus as on February 29, 2020, what is the status of those overdues as on December 31, 2020?

N. Kamakodi: Exactly.

Gaurav Kochar: Sure, then what about the incremental there might be some more customers who might be zero plus in the month December or in the month of November and who might have not paid even till December 31, 2020, what could that number be, 0 to 30 or 30 to 60?

N. Kamakodi: Please look it in the page #45, see page #44 is as per the existing regulatory norms where the overdues for February 29, 2020, which are being raised as SMA0, SMA 1, and SMA2. The page #45 clearly gives what is the payment that was received for September, what is the payment that was received for October, what is the payment for November and what is the payment received for December.

Gaurav Kochar: Right, just one question, if the customer has not paid something in October or may be something in November, will he fall due even in the month of December or will it be that now since that he is zero plus the further installment will not be due until he pays the existing installment?

N. Kamakodi: No, it includes the earlier, those who had not paid for the earlier due they will continue to be shown as those with dues in the subsequent months also.

Gaurav Kochar: Sure and this 89% is the billing efficiency, so as against what was to be collected, what is collected and it does not include any previous dues or 2 EMIs or more than one EMI?

N. Kamakodi: No, you cannot say that way because if anybody pay the dues of September in December month per say, it will be accounted only in September and not in December. He is still pending for Oct, Nov & Dec.

Gaurav Kochar: Sir, this total cash collected on Rs.100 overdue, you collected 89?

N. Kamakodi: No, with the total balance of 89% have received payment up to December without any default based on the schedule, which was given during the pre-COVID period.

Gaurav Kochar: Sure, understood and Sir, this slippage number that you mentioned between March and December of 1150 Crores odd, if I were to look at the provision on COVID, so when you mention the net of provision you include the excess provision that is sitting in the balance sheet or you only considered the NPA provisioning?

N. Kamakodi: No, when I declared the pro forma net NPA of 70 basis point incremental it includes that incremental provision made for COVID also.

Gaurav Kochar: All the excess provisioning after using of that there is an increase of around 70 bps?

N. Kamakodi: 70 bps, yes.

Gaurav Kochar: Alright, that is very helpful and Sir, lastly on the ECLGS bit, around 2000 Crores of disbursement this is the number that you gave, so this was up until December, right?

N. Kamakodi: Yes.

Gaurav Kochar: Sir, if I look at the MSME book that is roughly half of our overall book, so around 18000 Crores to 19000 Crores would be the MSME?

N. Kamakodi: The total eligible book came to be about 12000 Crores.

Gaurav Kochar: The borrowers who require ECLGS, any specific reason is it because of stress, is it because you get cheaper cost of borrowing and hence you are the customer who want to avail the speciality what was the general feedbacks on customer, how of it would you attribute this to?

N. Kamakodi: No, at that point of time, when the ECLGS scheme was introduced, there were liquidity problems everyone wanted to make use because the future was not very clear, even now everyone kept it as a term loan and gave credit to your cash credit account almost even about not less than 20% to 25% people have already generated cash flows even to cover the entire ECLGS loans though they have not closed that loan, the surplus liquidity they are using in their cash credit account and they prefer both as availability of surplus liquidity and also lower cost of funds.

Gaurav Kochar: Sure and lastly on this collection efficiency, in the opening remarks you also alluded to the economy has opened up and things have started to get back to pre-COVID level and started to normalize in a way, why the collection efficiency percentage that we have disclosed have seen a significant drop from 95% to 89%, what explains this despite gradual opening up of the economy and things starting to normalize?

N. Kamakodi: No, it has not come down, let us say for example, if you see what was declared during September number there is about 5% increase in that number itself, so the 10% SMA is something, which will be there always even during the pre-COVID days and all this will always be there, which will be the combination of all your things, in fact when we declared our June results, we said for the first four months of March, April, May and June 70% of the people paid as if there was no moratorium. Subsequently when it came during the September we said about 90% of people have paid up to September, now for the September, that number has increased to 95%, so some amount of delay, which is nothing, but your SMAs and all this is normal phenomenon, which we used to face even during the pre-COVID days, so absolutely as of now in terms of the 89% for December whatever we have declared the behavior pattern is by and large equal to whatever we had during the pre-COVID days, this 10% we will always make with some delay.

Gaurav Kochar: Thank you.

Moderator: Thank you. The next question is from the line of Milind Agrawal from SBI MF. Please go ahead.

Milind Agrawal: Thanks for taking my question. Now, I had a question on the collections data, the repayment status that you have mentioned in this quarter numbers, so if I look at the last quarters numbers, the data for September was 90% repayment status and for this quarter the same number for September is 95%, so could you just help us reconcile the two data points?

N. Kamakodi: The 5% people have paid with little delay, so the payment received when we declared the last result was 90% and it has increased to 95% currently because 5% people covered that subsequently.

Milind Agrawal: Sir then should it not be included in the subsequent month collections or then should be included in the same month?

N. Kamakodi: No, they have to cover that particular month then only the dues of subsequent month shall come into picture. They might have paid money even in December, but it will cover only that particular old one then only the outstanding delay will be depending upon their last installment paid on the current date.

Milind Agrawal: Then the data for the subsequent months of October, November and December sort of cumulative in nature?

N. Kamakodi: Yes, somebody who had not paid in September, his name will be there in October, his name will be there in November, his name will be there in December, so when I say 93% in October, 2% of the people who had paid for September had not paid for October, it comes that way, getting my point?

Milind Agrawal: And secondly does it include part payments or is it only full payment?

N. Kamakodi: No, it covers only when the full installment for the particular month is paid.

Milind Agrawal: And this would include the restructured account as well, right?

N. Kamakodi: Yes, this includes accounts, which are waiting for restructuring also, so the schedule will change only after the restructuring process is complete, their dues will change, the demand will change.

Milind Agrawal: I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Sir, sorry I joined little late, but I just wanted to clarify two things, one is on the provisioning front, if you could just give the absolute number adjusted for the pro forma NPA and what was the regulatory required for restructured loan, what is the excess provisioning that we carry as of December in absolute rupee amount that would be first and second is on the ECLGS front, you talked about 10000 Crores worth of loan just in terms of borrower internal rating wise any other cut that you can give to just give comfort on this portfolio as to what quality customers have taken and how behavior is expected in this portfolio those are two questions, thank you?

N. Kamakodi: I will answer your second question first, basically even when the dispensation is given RBI had truly excluded those accounts in SMA2 category as on February 29, 2020 for SME and those which are even in SMA1 category for non-MSME accounts are not eligible for your restructuring per se. In that particular line, it has completely excluded those stressed account who were stressed even before February 29, 2020 or during pre-COVID days, so that takes care of the strength of those accounts, which are waiting, in other way all the accounts, which are getting restructured or only those accounts, which had viable and proper cash flow up to pre-COVID period and their cash flow problem is purely because of the COVID pandemic so I think that will answer your point per se. Coming to your question total provision we made, in the net NPA calculation, the provision.

Dhaval Gada: Not the total provision, the excess that is left?

N. Kamakodi: I will explain to you, there are about totally 465 Crores of COVID related provision now, 125 plus 100 plus 115 plus 125, over and above that the interest reversal of about 55 Crores have been done on the two quarters they are kept separate and the provisions, which were made for the restructuring and all are not net of against the NPA. In fact you might have seen in Q3 it is about 25 Crores excess provision has been made on the standard assets, which is nothing for your restructuring expected and the current restructuring or whatever it is.

Dhaval Gada: Sir, what would be the absolute amount left after this pro forma adjustment, so hypothetically the Supreme Court order was not there, what would be left going into?

N. Kamakodi: It is that 70 basis points compared to March 31, 2020.

Dhaval Gada: 70 basis point net NPA, so using excess provisioning would not be there, but only 70 bps increase would be there that the only thing provision that would after December 31, 2020, correct?

N. Kamakodi: Yes, exactly.

Dhaval Gada: Understood, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Mahesh from Kotak Securities. Please go ahead.

Mahesh: Just wanted to check on the recovery environment today and on the portfolio that you have, how do you see this for this financial year or this calender year and do you think that it would have been better off having made much higher provision that what you have reported in this quarter?

N. Kamakodi: See, we do not think that way, to answer your first question, currently all recovery are basically happening though the negotiated settlements because the tribunals are not functioning, the courts are not now sympathetic towards the banks, so whatever recoveries that are happening currently on the existing NPA is purely because of the negotiated settlement with borrowers, so once the Supreme Court judgment comes then only the recovery through the strong surface action or recovery through sale and all can happen only after the Supreme Court removes the standstill clause that is the status at this particular point of time. Another important point to answer your question whether you have been better off by making extra provisioning, our experience for the entire portfolio right from the beginning, overall our recovery percentage is about 70% to 75% is what our recovery percentage for the slippage one of the highest in the industry, so we estimate that loss and we are continuing to make our provision and once again we will be taking a call on the fourth quarter in tune with the expected recovery environment and its impact on the collection and also the direction the way the court procedures and all go, we will take a call that is why when I said what is going to be my year as a whole ROA, it will be between 1.1% to 1.3% that between 1.25% to 1.1% that gap I am keeping whether if at all I may require because of the adverse environment in the collection.

Mahesh: Perfect. Thanks a lot.

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

Venish Guha: Sorry Sir, just again going back to the collection part and I am referring your slide #45, it is fair to assume that whatever collection number we have as on December, so the denominator will include a pro forma slippage as well as the recurring request?

N. Kamakodi: The pro forma slippage is not at all a slippage till today, it is based on the regulatory guideline and the Supreme Court judgment it is performing assets and running advances, so it will not be mentioned as NPA anywhere and if I do anything like that it will be a contempt of court, so basically it is a performing assets and all the calculations are considering them as performing asset only.

Venish Guha: Got it, so basically this including a pro forma slippage plus the restructuring number?

N. Kamakodi: Which one?

Venish Guha: The collection number for December?

N. Kamakodi: No, it is only for the restructuring, which is already done.

Venish Guha: Right, so what request we have you mentioned about 1000 Crores in Q4?

N. Kamakodi: Yes, I gave that number and that is why I said 5% to 6% restructuring number what I declared during the first quarter of this financial year will hold good for March 31, 2021 also based on the current trend.

Venish Guha: Got it, Sir. Just second followup on that since you provide the reconciliation between September number, so last time when we declared our numbers the September collection was some 90% and then in subsequent months we received some 5% and that is why the September pro forma as of now stands at 95%, so do you expect the current 89% what we see as on date we will have the same collection pattern over next three months till March?

N. Kamakodi: Absolutely, that is why as you see in slide #44, I had SMA numbers of 645 overdues, which was declared on June 15, 2020, currently about 344, 50% of that came down in the next 4 months, which are suppose to most poor quality accounts, which had problem even before the pre-COVID days that balance itself has come down by 50% range.

Venish Guha: Right, so like to like basis basically the collection is flat actually from 89% to 89%, I mean if we do not adjust the overdue amount in the September numbers?

N. Kamakodi: Basically, if somebody is overdue today for September, October, November and December, his first payment will go for adjusting September overdues.

Venish Guha: Absolutely, got it. I think that is it. Thanks.

N. Kamakodi: That is why, please understand, okay somebody has problem immediately do not declare them as dead, there are multiple stages from that point and this point and the data itself should be sufficiently clear to you is that even those accounts, which had problems during the pre-COVID days that outstanding overdue balance itself has come down by more than 50% in this period.

Venish Guha: Right. Just last clarification, December demand it will include the potential restructuring portfolio?

N. Kamakodi: Yes, already those accounts, which were restructured during the Q3 as per their repayment schedule some of them may have it.

Venish Guha: No, I am not talking about the Q3, I am talking about the potential pool, which we might restructure in Q4?

N. Kamakodi: They will be shown as overdue here, those accounts, which are identified in the pool of restructuring, but if the restructuring has not been done already they will be finding a place as overdue here.

Venish Guha: So, those accounts will not be shown over here at 89%?

N. Kamakodi: Exactly, that I have considered only in the pro forma NPA and I have not considered that in the repayment schedule, which I have given it in slide #44 and #45.

Venish Guha: Got it, Sir. That is it from me. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Anant Ladha from HDFC Mutual Fund. Please go ahead.

Anant Ladha: Sir, just wanted to understand we cumulatively have a floating provision of Rs.440 Crores with us currently and this includes the 10% provision which we require to made on the restructure asset, the structured book right now Rs.108 Crores, so this Rs.80 Crores provision on the structured book is a part of the 440 Crores of provision we are having?

N. Kamakodi: No, it is separate. It is covered as the standard assets provision.

Anant Ladha: Sir, if I had to look at this quarterly provision the 31 Crores we have made on NPA 175 Crores of routine provision we have made that includes 125 Crores of COVID related routine provision and 50 Crores is the interest reversal provision we have made, is that correct?

N. Kamakodi: See, in that 50 Crores standard assets provision, 20 Crores provision for those accounts, which are already restructured, another 30 Crores of excess provision, which is planned for the restructured accounts in Q4.

Anant Ladha: And Sir, what about the interest reversal provision, have we made that provision then?

N. Kamakodi: That will come in interest income line itself that will not be the below the operating profit level.

Anant Ladha: So, this quarter I have 489 Crores is after reversing interest of almost like Rs.30 Crores for the quarter?

N. Kamakodi: Exactly, the current net interest income whatever we have shown for the third quarter of about 489 Crores it is as per the reversal of 30 Crores, if I add that it will be about 520 Crores.

Anant Ladha: And in Q2 also we had reverse of Rs.20 Crores odd of interest?

N. Kamakodi: Exactly, if that 25 Crores is added it would have been about 500 Crores net interest income for the Q2.

Anant Ladha: Lastly again on the gross NPA, if I add up the gross NPA, had the Supreme Court stand still clause is not there, our gross NPA would have been Rs.1754 Crores and net NPA would have been Rs.1210 Crores?

N. Kamakodi: Because the gross NPA is one number, it comes after your potential write off, technical right and things like that, so you can take these two numbers, the pro forma NPA would have come, which is not added as a part of your slippage is about 1150 Crores and the total net NPA percentage after considering the COVID related provision, which had been made if they are considered against the slippage compared to March 31, 2020, my net NPA would have been 70 basis point higher.

Anant Ladha: So, fair to say by end of Q4 we would have approximately 1800 Crores of restructured assets, which is 5% on the loan book and on that we will only have excess floating provision of 10% standard asset provision on that, and we do not have any floating provision available with us?

N. Kamakodi: No if the standstill clause is removed and the entire COVID provision is made for the slippages there would not be any extra provision that is why I told when the incremental provision will reduce, I said it will be only after the third quarter considering that I may have to make some provisions in the first and second quarter.

Anant Ladha: Sir, when we had restructured this account, we could have done some stressors on this accounts so where do you see what percentage of this can fall into NPA?

N. Kamakodi: See that is what we said our earlier past track record says about 20% of the restructured accounts became NPA in the next following 2 to 3 years that has been our past practice, now also we expect thing should be under the same level.

Anant Ladha: Sir, on the ECLGS if you can repeat did not got the number, how much we had dispersed cumulatively?

N. Kamakodi: About 2079 Crores to be precise, ECLGS 1 and 2 put together.

Anant Ladha: Sir, any of the account, which are restructured as they have been given ECLGS also?

N. Kamakodi: There could be few account may be about 20% to 25% accounts.

Anant Ladha: Sir, what could be the quantum of ECLGS given to structured account?

N. Kamakodi: I do not have exact numbers with me, you can safely assume not less 15% to 20% debt, Mr. Jayaraman will share with you tomorrow.

Anant Ladha: Thank you, Sir. That is all from my side.

N. Kamakodi: You can assume, the entire eligibility of your ECLGS scheme given to all eligible borrowers by and large, so the whole number itself will say that, so anybody who is eligible is already ECLGS recipient.

Anant Ladha: No Sir, my question was someone who had taken 20% ECLGS outstanding borrowing and he still requires restructuring?

N. Kamakodi: Everybody, see the ECLGS scheme is given to everyone who is eligible.

Anant Ladha: And despite that some account, which also took restructuring also, which means?

N. Kamakodi: That is what I say, ECLGS scheme is right, you cannot just say somebody is not eligible for restructuring because he has got ECLGS scheme.

Anant Ladha: No, the question was someone taking an ECLGS credit and also opting for restructuring, which ideally feel that the pain for customer is little larger?

N. Kamakodi: The final number is already on the table who has not paid up to September, who has not paid up to October, who has not paid up to November, who did not pay for September, in September, but subsequently paid, all the numbers are there on the table and you can make your own calculations.

Anant Ladha: Thank you.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Good evening, Sir, if I have to summarize the guidance on credit cost, you basically assuming that the 5% restructuring and the 3% of slippages will consume another three quarters of elevated provisions and hence the 89% to 90% collection efficiency if it remains at this level should take to you to normalized numbers like Q4 or Q3, is that the right conclusion?

N. Kamakodi: By and large, it should be over and that is why we have given the incremental provisioning will start diminishing from the third and fourth quarter of the next financial year and we should be coming back to the pre-COVID level ROA by the next year following year.

Sri Karthik: And the 90% collection efficiency will remain 90% even at the normalized level?

N. Kamakodi: It has remained that way even during the pre-COVID level all along.

Sri Karthik: Yes, I remember your SMA2 used to be like 6% odd number?

N. Kamakodi: Yes.

Sri Karthik: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Sir, good evening. You mentioned the 1150 Crores of slippages for the first 9 months in this fiscal would this also include restructuring that is in the pipeline for that?

N. Kamakodi: No, I have excluded that restructuring, you assume this particular way, had the COVID has not been there we would have had about 800 Crores for slippage, the incremental slippage because of this impact is about another 300 Crores odd more.

Mona Khetan: Got it and in your notes to account you have mentioned somewhere that your total restructured book is 807 Crores and your provisioning is 31 Crores that seems to be much less than the 10% requirement by regulatory requirement, so how is that?

N. Kamakodi: The issue here is the total quantum, which got restructured in the third quarter, we required only 20 Crores of provisioning and we have made 30 Crores extra to 50 Crores, so on one end you are taking a cumulative number and on the other side you are taking provision made only in the one quarter.

Mona Khetan: So, your total provisioning is 80 Crores essentially?

N. Kamakodi: No, the overall provision that is kept for the standard assets currently is about 165 Crores, which to greater extent take care of more than 50%, 60% it takes care of the required restructuring provision for the fourth quarter also.

Mona Khetan: That is also from my side. Thank you.

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

Amit Jain: Sir, thanks for taking my question. Just a small clarification, the 165 Crores standard asset provision is over and above the 465 Crores COVID provision, is that right?

N. Kamakodi: Yes, exactly.

Amit Jain: And that 165 Crores includes the restructured asset provision, correct?

N. Kamakodi: Yes.

Amit Jain: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal & Broacha. Please go ahead.

Avinash Tanawade: Thank you for the opportunity Sir. Most of my question has been answered, just one thing about spread, we have around 3.64% of spread in current quarter, so how do you see that going forward and do you see that the yields going forward, the pressure on the yields would be higher vis-à-vis lower cost of fund?

N. Kamakodi: So far the headwinds on the yield side is to greater extent all the way benefits we are getting on the cost of deposit side, so we have had about 4% to 4.25% net interest margin, which we hope going forward for the next few quarter they should be staying in that range.

Avinash Tanawade: And in terms of restructuring account and overall stress, can you give some colour in terms of sectors, which are the sectors any specific segments, which you saw the highest stress and if you have any discussion with the clients, what kind of answer you have received from them or the status what kind of condition they are in?

N. Kamakodi: See, the things are much better and much comfortable compared to whatever we saw during the beginning of the pandemic, the maximum stress is basically we are seeing from the sectors like hotels, the passenger transport segment and all, so particularly say for example, the schools and colleges have not yet opened and who borrowed for school buses and all are not able to pay like that, but for example, if you look into the cases like hotels and all they had perfect track record and cash flow up to the pre-COVID days and things are improving over the last couple of months, but it will take few more months to get into the 100% pre-COVID level and the progress is there and many borrowers have understood the stress in fact we had seen the exposure reduction of about not less than 300 Crores on accounts, which started showing some stress purely by the sale of non-core assets and things like that, that is one area, which we are discussing with the borrowers and the response is not all that bad, we feel this is the best way because the courts and all have started and it is not going to be easy to take legal action and all at this particular point of time, so overall we feel things are much better and almost you will be in a position to see that our arrears number and all are come back to the pre-COVID level.

Avinash Tanawade: In terms of recovery, how much time it takes to recover our NPA account, for example, if the account has slipped in the current quarter in Q3, so usually what is the average time it takes to recover?

N. Kamakodi: Normally, it used to be about 6 to 8 quarters, average will be 6 to 8 quarters.

Avinash Tanawade: That is from my side. Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

N. Kamakodi: Thank you all for attending. I think you will appreciate the fact that by and large the arrears level has come back to the pre-COVID level, things are much better and much more comfortable compared to earlier quarters and all. You might have also seen collection in the accounts, which showed arrears in the September during the earlier conference call and all getting payments and all, overall we are very confident that whatever we told earlier in terms of both restructuring and in terms of the slippages and all, we are very much under control and well within the range we expected at the beginning of the pandemic. Going forward, we should be in a position to show the results be it growth or be it slippage or be it restructuring everything or cost to income ratio well within the range whatever we shared with you all during the earlier quarters and things are much more clearer and much more brighter at this point of time and hopefully going forward things should be getting better and better. So once again thank you for all for participating in this conference call. Anybody needing any extra data point or extra questions the phone number given in the presentation you can get in touch with either CFO, Mr. Ramesh or our CRO, Mr. Vijayaraman who will be helping you to get your doubts clarified. Thank you all for participating in the conference. Thank you.

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