

Punjab National Bank

Q3FY14 Conference Call Transcript

February 3, 2014

Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY14 Results Call of Punjab National Bank, hosted by Emkay Global Financial Services. We have with us on the call today, Mr. K. R. Kamath, Chairman, and Managing Director of Punjab National Bank. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Kashyap Jhaveri, Research Analysis of Emkay Global. Thank you and over to you Sir!

Kashyap Jhaveri:

Thank you. Good evening to all of you. Thank you for joining us today. We would like to welcome Mr. K. R. Kamath, Chairman, and Managing Director, of Punjab National Bank and other top management of the Bank and thank them for giving us this opportunity to host the call today. Without much ado, I would now like to hand over the call to Mr. Kamath. Over to you Sir!

K. R. Kamath:

Thank you Kashyap. I will do just a brief presentation because I hope all of you have seen our presentation and also the press meet. So, in the last conference call we said that probably we are likely to have a better performance from now. I am very happy to say that yes, we have done a better performance during this quarter. We did 2702 Crores of net profit, which is compared to last quarter 2,535 Crores is a better performance. Nine months, the profit has been 8211 Crores. The net profit at 755 Crores is much better compared to 505 Crores of net profit what we declared in September. Nine months net profit is 2536 Crores.

The second issue is that we said that last year, last quarter that we have now moving from a consolidation strategy to a growth strategy. Now in the last year, September when we presented our results, we were growing in numbers less than 5% and we are now almost at 10%. Our total business has grown by 9.3% compared to 3.5% in September. Total assets have grown by 11% compared to 4.7% in September. Deposits have grown by 9% compared to 1.2% in September and credit has grown by 9.7% compared to 6.5% in September. So in all areas of balance sheet I think we have done better than last year because we have moved on to the growth strategy.

I will not get into the breakup of the income. You have that. Provisioning, I will just briefly touch on the provisioning that this quarter we did a provisioning of 1083 Crores for NPAs for the whole nine months we have done a provisioning of 2762 Crores. Standard asset provisioning has been 278 Crores this quarter and 994 Crores for the nine months period. Now depreciation on investments we have done 219 Crores this quarter compared to 32 Crores last year, but in nine months period last year we had a write back of 87 Crores. This time we have a charge of 754 Crores.

Income tax there has been a benefit in income tax because of lower net profit. So, if you look at it basically during this quarter, there has been substantially higher provision for NPAs and depreciation on investment, which is the main reason for our reduced net profit levels. Now, I think, I need to talk about net interest margin. Yes, we have done 4221 Crores of net interest margins. I think which has been all that in tune or a little better than what the market expected us. During this quarter the net interest margin improved by 489 Crores compared to last year with a 13.1% growth. We saw 368 Crores in September. So there has been a better performance in net interest margin, interest income and then of course our core non-interest income except a change in profit, all other areas we have done well. Commission of LCs and LGs which have been a good area of growth for us consistently, has come down to 4.7%, which shows that most of the people are now preferring fund base limits compared to non-funded because of the stress and the liquidity pressure.

Moving on our ratios for the quarter, cost of deposit has come down to 6.33% for the quarter and 6.40% for nine months. Cost of fund is 5.18% for the quarter compared to 5.24% for nine months. Yield of advances for the quarter at 10.60% and nine months 10.51%, yield on investments 7.84% for the quarter and 7.84% for nine months and yield on fund 8.41% for the quarter and 8.43% for nine months. A very happy developments for us is net interest margin has improved, 3.57% though I had told that there is pressure and it may go down by 25 basis point at the maximum but we will be very happy that we could maintain it and for nine months this year it is at 3.52% which is same as last year nine months and last year full year so net interest margin performance has been good. Of course various ratios are directly proportionately our net profit I do not want to touch on that.

Now, I will move on to the balance sheet numbers. The balance sheet number, I did make a mention, how we are doing better. Our overseas business grew by 25.9% compared to 34% in September, but in dollar terms the growth is only 10.7% compared to 11.8% in September. Now our CD ratio is 77.53%.

Now coming to the deposit portfolio I should say that we have done reasonably well in changing the complexion of the deposit portfolio, current account has shown a growth of 7.1% YOY, we were normally being negative there. Savings bank has shown a growth of 14.3%. The CASA has shown a growth of 13%. Now if you look at the average growth this quarter compared to last year, December quarter, in terms of average growth current account has shown a growth of 4.24%, which is I would say a welcome change for us. Savings has grown by 13.84%, and CASA has grown by 12.53%. Our CASA ratio has at December is 40.4% for domestic deposits and the term deposits have grown at a rate of 32.2% which was 35.3% in September. Now CASA as a percentage of core deposit is 41.58%.

The differential rates of interest on deposits have come down to 21396 Crores which is 5.09% of the total deposits, which was 15.31% last year. So, almost more than 10% shedding of the differential interest rates deposits, resultantly the core deposits now form 92% of our total deposits, which was 81% last year. Now in terms of the advances, the growth rate has been global. Gross advances have grown by 10% compared to 6.9% in September. Overseas advances book has grown by 15.9%. Domestic gross advances have grown by 9.5% compared to 5.6%.

Now agriculture and allied activities have grown by 5.7%, industry has grown by 11.5% basically because of the MSE manufacturing growth at 21.6%, large industry growth is restricted to 7.3%. The retail loans growth has been a couple of years back in single digit for the bank now we have gone to 17.5% compared to 15.3% of September. In the retail loans, housing loans is at 16.7%, which was 15.3% in September. Car and vehicle loans 16.3% compared to 9.6% in September. Commercial real estate is showing negative 16.1%. NBFCs growth is only 1.9% and in case if you look at the sectoral deployment I think we have been in a position to focus. Food processing has shown a good growth because of the drawings by the rice sellers, 28% growth, textile growth is 15%, chemical is 36%, basic metal and metal products have grown by 18.9% basically led by iron and steel. All other areas you know it is a single digit growth. Infrastructure growth which has been predominant for the bank has now come to single digit at 8.3% of which forward is at 15.7% now, all others like road is 9.2% and others are 8% and overall growth of industry is 11.5%.

On the investment book, I think we have improved on duration, modified duration both for AFS and overall portfolio. There has been increase in the non-SLR book by about 4000 Crores basically. About 2000 Crores of SEB bonds have been accounted per year. Now on the restructured book, I think we have changed the presentation format because we found that there is some amount of duplicity that was happening, because we were reporting restructuring book we were reporting all restructured advances and when we are reporting NPA, we were reporting all NPAs and we found that at your level you are adding NPA and restructured assets and you are saying that stressed assets of the banks be so much. Now we found that the restructured NPAs or restructured accounts, which have slipped into NPA they were getting accounted for at both the places. So, in order to give a very clear picture, we have given three bifurcations of the gross advances, standard advances, restructured standard advances and NPA. Now you will find that our restructured standard accounts are 31285 Crores and during the nine months period we have restructured 6167 Crores. Now if you go back to the numbers of September we had restructured book of 3763 Crores. During the current quarter we have restructured 2150 Crores but there has been deduction, 2145 Crores of the SCB loans have been converted into bonds. So whatever is the increase of 2150 Crores that got neutralized by the similar amount getting shifted to state government bonds, SCB bonds guaranteed by state government 2145 Crores.

1812 Crores is the amount which was getting added in NPA restructured, so we have declared these restructured accounts as failed restructured and removed it from the restructured book. 2850 Coreg is the benefit we got out of the RBI telling us that wherever the DCCOE's advance you can advance the repayment schedule by similar period of time plus there is 700 Crores of reduction in the existing restructured book, put together this is while the addition is 2150 Crores, the deduction is 7500 Crores that makes us 31720 Crores of restructured book, which consists of 31720 Crores restructured and 434 Crores of NPA restructured. Standard restructured is 31285 Crores, and NPA restructured is 434.83 Crores.

Now we have given the 6285 Crores is our current year's NPA restructuring. We have given you the standard assets and NPA breakup. Out of the 31285 Crores standard restructured we have given you the breakup of CDR, SME and non-CDR. Now the major restructured book is in the industry, basically led by infrastructure, in Infrastructure, it is power and then iron and steel, all others are marginal. Now we come to the NPA. On the NPA front, the cash recovery for the nine months period has been 2107 Crores but for the current quarter the cash recovery has been 633 Crores in terms of net at 720 Crores in terms of gross. Now upgradation of the assets has been 623 Crores, net during this quarter is 56, but gross is 331 Crores. Write off has been 1256 Crores during the current quarter we have written off 384 Crores.

So, in total, our net reduction has been 1072 Crores whereas the gross deduction is 1435 Crores. In terms of delinquency during this quarter the incremental delinquency has been 1142 Crores whereas the gross delinquency has been 1505 Crores. If you look at our last three quarters numbers first quarter we had a gross delinquency of 3600 Crores, second quarter 3050 Crores and this quarter 1500 Crores. So, incremental delinquency we have been in a position to contain and that is why last time we made a statement that it appears that we have put the worse behind us. Now have said this, the NPA status or the

stress on the asset quality is mainly coming out of the status of the economy and we are keenly watching how the economy is moving around.

The gross NPA as December was 16596 Crores, net NPA is 9084 Crores now we are happy that we have brought both the numbers within some benchmark numbers, gross NPA is below 5 at 4.96% compared to 5.14% in last quarter, net NPA was 3.07% it has come below 3% to 2.80% and the NPA coverage ratio has increased substantially from 55.27% to 58.55%. Now in terms of capital adequacy, we have a capital adequacy of 11.62% Basel II 11.02% in Basel III, tier I capital adequacy 8.96% under Basel II, and 8.54% in Basel III, tier II being 2.65% and 2.48% respectively. Our deposit market share and advances market share at 5%, business per branch is 120 Crores, business per employee is 12 Crores, because of the infusion of capital of 500 Crores our government holding is 58.57%, and we have also today declared an interim dividend of 100%. I think this is what I thought I will quickly present to you on the results, and we are now open for question and answer. Over to you!

Moderator:

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Question and Answer Session

Amit Premchandani:

Adjustment of deferred tax liabilities regarding section 36(1) (8) how does it impact your capital adequacy ratio in tier I? Does it impact at all? Sir, the deferred tax liability, which has to be created against the special reserve under section 36(1) (8) how does it impact the tier I capital adequacy for the bank, does it impact it at all?

K. R. Kamath:

I think we have not handled this issue in this quarter, because from IBA we have made a representation to the RBI in the last management committee, we once again discussed this matter with the IBA in the IBA and also with RBI saying that the very incentive for creating this special reserve will be taken away from us in case it is done, but having said that it would have affected our P&L account by 37 Crores if we had made that provision for the tax during this year. I do not think that it is our capital adequacy will be affected by 0.1%.

Amit Premchandani:

Sir, recently you had also exposure to the Haryana SCB?

K. R. Kamath:

That has already been done. We have a very small exposure to Haryana SCB.

Amit Premchandani:

Generally speaking as per the norms of the FRP plan you need to raise tariff every year, so I am leaving aside what Haryana has done. What can you do after you implement the FRP plan, get the bond, and then the FRP plan the agreement according to the FRP plan is not kept. So, what are the steps that you can take now?

K. R. Kamath:

See the FRP for SCB is not a bilateral agreement between the SCB and the banks. Banks are one of the players in the FRP and they are much larger players like the Government of India, Ministry of Power, Ministry of Finance and everybody is involved. There has been a monitoring mechanism that has been put into supervised the FRP implementation. There are processes built to ensure this. Now in case somebody is not adhering to this FRP plan, when this review happens at the highest level, we will make our points from the bank's side, very clearly saying that they are not adhering to the tariff hike and it is for the central government to take a call at that point in time. They can permit these things provided the central government steps in and supports them or takes care of the interest of the banks. So, now that one Haryana has done that. We will see that the issue is raised in the next FRP review meeting which will happen anytime now, and then we will see how the government reacts.

Amit Premchandani:

Thank you Sir. That is it from my side.

Moderator:

Thank you. The next question is from the line of Abhishek Kothari from Violet Arch Securities. Please go ahead.

Abhishek Kothari:

Barring this one off the 1656 Crores, I mean even on the 1900 Crores any large account that has slipped in or is it like distributed?

K. R. Kamath:

No, it is absolutely distributed; if we look at it the next higher account it is 200 Crores.

Abhishek Kothari:

Okay, any central.

K. R. Kamath:

No concentration I would say and there is one more accountant 157, if you take these accounts, the other accounts are less than 100 Crores.

Abhishek Kothari:

That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha:

Good set of numbers. Sir, just wanted a sense on the pension liability this quarter have we created some additional provision?

K. R. Kamath:

I think we made AS-15 presentation about 649 Crores. It was a little more than 70 Crores of last time, but overall nine months period it is almost at the same level, 1807 Crores this year compared to 1795 Crores. Now I have no hesitation in saying that. We are one of the very few banks who are better provided on this liability since I have access to the numbers of the industry.

Anand Laddha:

Just want to understand have you adopted a new line expense in your table?

K. R. Kamath:

Yes.

Anand Laddha:

The impact of that has been fully factored in or will we be providing everything?

K. R. Kamath:

We have taken the actuarial input on this and we have factored this.

Anand Laddha:

Sir, lastly on the wage provision, wage hike, how much provision we have made this quarter?

I think 15% is what we are taking.

Anand Laddha:

That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania:

Congratulations. Sir, I just had a couple of questions. Firstly on CDR pipeline, I know it is fluid, but what would be your CDR pipeline as of now, as of yesterday?

K. R. Kamath:

As of December 31, all pipelines will be closed and any pipeline which gets opened after January 31, we start by March 31, we complete that pipeline.

Mahrukh Adajania:

As of now there is no quantifiable pipeline?

K. R. Kamath:

Not quantifiable.

Mahrukh Adajania:

Sir, the other thing I wanted to check is that the RBI came out with guidelines yesterday on quick resolution of assets. Sir, I just wanted your views particularly in view of the fact that there are many large overleveraged groups, which are still standard, people worry about them, talk about them. So do you think that some of those debts also could be resolved with these guidelines or how does it pan?

K. R. Kamath:

It is too early to react on this and say. I think these guidelines are basically applicable for the new accounts which are getting into the system because it very clearly lays emphasis on earlier identification and early resolution of the problem. Wherever there is an early resolution happening, there is an incentive. If you delay that there is going to be a penalty. Now more will happen for the new accounts, which are getting into the pipeline what you referred. The earlier accounts which are already under CDR and other things, I do not think that this becomes applicable on that. So, I am yet to apply my mind fully into this because it came yesterday and now we are busy with the results, but on the first seating it appears that this will be more applicable to the new accounts which are coming.

Mahrukh Adajania:

Since you have access to wage data of other banks also, do you think that in 4Q for state owned banks there could be a huge bulk up in provisions?

K. R. Kamath:

It is not right for me to talk about other banks, Mahrukh.

Mahrukh Adajania:

Sir, just one last question that if you see your credit profile then just in terms of corporate credit there has been good growth in metals and in textiles as well and even in construction. So these would be to I mean what would these loans be, to loans that are restructured to accounts that are restructured in these sectors or fresh loans or how?

We have not gone in a big way to any new customers. That is number one. Now textile has seen some amount of a demand in the last six to nine months and basically it is to our existing customers because when the tough subsidy got extended and all these things, we see some investments happening in the sector and wherever we had good customers we have taken a call there. Similarly in the food processing because this is a season where the rice sellers' credit has picked up very well, because of the season they acquire the paddy now and store it for the future. Because of the dollar appreciation also, I think, there is a demand on this. So, basically these are all I would say that it is more for our existing customers, maybe in the area of iron and steel, I would say that, yes, some amount of it would have gone for to the existing restructured accounts, but I do not think in the other areas it is in the restructured areas. It is purely I think a good growth either by availment of existing sanction limits or by sanctioning of a couple of projects. If you look at the base, the base is very small. In all these areas the YOY credit growth is around 1500 Crores. The percentage despite it looks at 28% or 25%, so to that extent the growth that has happened is hardly about 1000 to 1500 Crores in some of these sectors.

Mahrukh Adajania:

Perfect Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal:

Congratulations. Sir, I think you were right on your guidance this particular quarter and just want to get some sense on what do you think about like going forward especially one is that you are doing 15 billion per quarter. Do you think this is sustainable and any comment on the same?

K. R. Kamath:

What is that 15 billion?

Vishal Goyal:

1500 Crores of fresh slippage you are now doing?

K. R. Kamath:

I am not doing. It is happening by itself. Vishal I wanted to ask you one more thing. You said I am right on my guidance this quarter. In which quarter I was wrong on my guidance? Four years, consistently I have maintained my record giving guidance and holding on. I think if you want to compliment, you should compliment me for four years, not for a quarter.

Vishal Goyal:

Sir, compliments for four years.

K. R. Kamath:

Vishal tell me what is the problem.

Vishal Goyal:

Basically now that these numbers are coming to more rational levels of 1500 Crores, do you think basically this will improve further from here or do you think this can again go back to let us say 3000 Crores?

K. R. Kamath:

I have one rider for this. It is not independent of what is happening in the economy. So, a stress on an asset quality is directly related to what is happening in an economy and what is happening in some of the sectors. Now having said that I have said last time very clearly saying that look I feel probably I put the worst behind us. I have never contributed to a statement saying that we have peaked out on this because again I say that peaking out is a relative term, but having said that I would say that we are in control of situation and we should look forward for a similar performance for the coming quarters.

Vishal Goyal:

Sir, one more data point question, basically did you sell anything to ARC?

K. R. Kamath:

Absolutely, no. I can make it. I do not remember for four years, but at least in the last three years there was something in the pipeline when I came to the bank, it would have been sold, but I have not initiated any new sale and especially during the last nine months there is not a single sale of asset from the bank and last year also.

Vishal Goyal:

Sir, again coming back to this restructuring question, which was earlier asked, about the pipelines when you say whatever you had in hand was already got reported, these are the cases which got approved basically by CDR, but there would be cases which you have referred but not approved by CDR?

K. R. Kamath:

What we do is that wherever we support a CDR pack, and we are very clear that we are doing, we immediately take it under restructuring and see that yes, we are into that so that you recognize the position and what is recognizing the problem in advance. So, we do not wait for the final CDR approval to come and all these things, so we try to take it. That is what I said. So wherever we have supported a package, so I do not think there is anything which is in the pipeline as of December 31.

Vishal Goyal:

Great. Thank you very much. All the best.

Moderator:

Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah:

Congratulations Sir. Sir, firstly on this restructuring, if I look at the industry wide breakup, I am not able to get the sense as to wherein the restructuring of 2500-odd Crores would have been concentrated on, so if you can just give some industry flavor?

K. R. Kamath:

If you go to slide #26, it shows clear picture.

Kunal Shah:

When I am comparing it with on the last quarter basis since we had some readjustments to the entire restructured pool, so most of the numbers if I look on the industry they are declining because of this readjustment. So this is not exactly giving the picture. If you look at all across iron and steel textile so, it is not giving out that history in terms of where it is?

K. R. Kamath:

Because whatever has slipped into NPA out of this, that has been removed.

Kunal Shah:

That is what? If you can just give as to where this maybe the overall on what industries would have been concentrated on?

K. R. Kamath:

Power you can very clearly see, in the power there is a huge restructuring that has happened and the iron and steel. These are the two sectors where the restructuring has happened in a big way. Other sectors are I think are normal.

Kunal Shah:

Even on an incremental basis for this quarter?

This quarter 2500 Crores I will try to give you. I think it is basically a power.

Kunal Shah:

So mainly power is there in this 2200?

K. R. Kamath:

Yes.

Kunal Shah:

Sir, if I look at the overall infrastructure restructured pool when I look at the September number it was almost 19500 and if I look at the December number it is 12300. So I think out of this 2100 is SEB bonds?

K. R. Kamath:

Yes SEB bonds.

Kunal Shah:

Then I think because of DCCO maybe as you mentioned?

K. R. Kamath:

2800 Crores.

Kunal Shah:

2800 so 5000 is coming, but how about the other 2000 odd Crores. So where is this reduction in the infra actually coming on a quarter-on-quarter basis? Is it like some transfer to the non-fund based exposure or something? Where is it coming?

K. R. Kamath:

I will have to work out. We have not gone into that detail. We will try to reconcile these numbers and put it in the website.

Kunal Shah:

Sir, last thing on this growth, now we are back to say 10% odd so what is the outlook on there now?

K. R. Kamath:

I told very clearly by March, I should catch up with the industry average. So about 14% or 15% is what is that we look at the industry that is what I think we should achieve.

Kunal Shah:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Adarsh P from Prabhudas Lilladher India. Please go ahead.

Adarsh P:

Sir, just wanted to get some sense on margins. Any guidance that you could give for the next three to four quarters versus your guidance, as things have held up pretty well?

K. R. Kamath:

I have brought it down from 3.5% to 3.25% last time. I will hold on to that. The remaining is a guess work. I will leave it to you.

Adarsh P:

Obviously I know the LM profile pretty well with the bank so anything that that you would suggest is going to drag or this is more a conservative kind of guidance that you provide?

K. R. Kamath:

I will leave it. That is what I said I will leave it to you. How do you find that we have been very conservative in giving you guidance? That is what which made me say last time that there is a pressure and we may have to sacrifice our net interest margin to a maximum of 25 basis points, but we have been in a position to hold on this quarter. I think we should try to hold on, but since I have given a guidance of a 25 BPS stress, that is what I would say.

Adarsh P:

Second thing is that in the drafts, the early recognition guidelines that RBI had got, which was earlier in December they had mentioned about refinancing being allowed. So, what are the current roles? What that guideline basically said is that you could now refinance with a longer repayment period. What is the relaxation there? You cannot do that currently or how is the industry practice now?

K. R. Kamath:

Any asset or loan which is getting refinanced we are extending the repayment period beyond the original repayment closing this. That was taken as a restructuring. So, now I think they will permit you to give a repayment schedule beyond the originally agreed date that you can be more realistic in fixing the repayments.

Adarsh P:

Would this be in a material way bring down your existing book like the DCCO thing, brought down your book of restructured. Does this materially change, your infra book?

K. R. Kamath:

I think it should be more related to the restructuring which we have to do in future rather than what we have done, because wherever we have already fixed the repayment schedule I am not sure whether they will permit us to change. That is why I presume that it is more for the restructuring to be done.

Adarsh P:

That is helpful. Thanks.

Moderator:

Thank you. The next question is from the line of Abhishek Kothari from Networks Stock Broking. Please go ahead.

Abhishek Kothari:

Congrats on a good set of numbers. I just missed out a data point on what is the quantum of lease rentals that you had done? I mean what is your outstanding book order?

K. R. Kamath:

I will give you. I thought we are tired of that number because the entire, it was given when we wanted to say that whenever we are giving an increase in the real estate it is going to a less risky sector. Now that we have brought down the commercial real estate exposure itself, substantially we thought this time we should leave that number, but we will try to give that number.

Abhishek Kothari:

Sir what is the capital raising plan?

K. R. Kamath:

Capital raising plans we will look at the market because one is that we did not want to crowd the market while everybody is talking of QIP or follow-on for another thing, so, we said that we have a reasonable number so we may not get into capital

raising now. But we realize that at 11% we need to have capital. So we will look at how the market supports either a follow on public offer or a QIP in the next year, but apart from that what we will do is that we have been relying very heavily on the retained earnings to shore up our capital. That has been the strength of Punjab National Bank. Next year we look forward for this. Then we have two sorts of gold mines which we are sitting on. One is that the provisions what we have made to these NPAs if we are in a position to bring an improvement in the asset quality and either upgrade or recover there is a write back of the provision that has been made which will help us. The second is that in case the inflation is tamed and the interest rates start moving down we have good profit to be booked through the investment portfolio. Now these things will help us to improve our earnings and then flow back into the capital plus the government had said that we will give you additional capital for the retail lending what you have done. We had given a commitment of around 3000 Crores to the government. We have done 2800 Crores last week. I think today we will end it up with 3000 Crores. If the government goes by its promise they have told that they will give 10% of this as a capital to us that 3000 Crores also should come to us as capital. So immediately what we look forward is 300 Crores of capital coming from the government plus retained earnings for the next year and then of course the release of the provision from depreciation on investment and provision made for NPA accounts. Then time your QIP or follow on public offer when the markets improve. I wanted to give number on the lease rental discounting. It is I think 4816 Crores is the number for December 2013.

Abhishek Kothari:

Sir, another last question, this 1500 Crores gross slippages that we have had this quarter could you just sum it up in sectors? Could you bifurcate it sector wise?

K. R. Kamath:

There is only one account beyond 100 Crores. All accounts are less than 100 Crores. I would not say that it is concentrated anywhere either geographically or sectorally.

Abhishek Kothari:

That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa:

Congratulations on good set of numbers. Sir, just wanted to check a few things. First this 218 Crores of investment provision that you will have to make next quarter as well, right?

K. R. Kamath:

Yes, see there is a carried over depreciation which was done in the first quarter now this carried over depreciation is around 354 if I remember correctly, 370 Crores was the carried over depreciation per quarter for us. After factoring the movement of the interest rates we had to make this. Now as at the end of December, I think, we need to make 370 Crores. That is net. 251 Crores is the carried over impact, but then again the movement and if there is a write back of depreciation this gets evened out.

Manish Karwa:

This 251 Crores is as of December 31?

K. R. Kamath:

Yes.

Manish Karwa:

Yields have actually gone up since then so assuming that whatever the yields are if they are higher you will have to make higher provisions, if they are lower, then you will have to make lower provisions.

Correct.

Manish Karwa:

Second of the total restructuring that you have done, how much is SAB restructuring now after few of the accounts have moved out?

K. R. Kamath:

Whatever was the number, you have to deduct 2100.

Manish Karwa:

There will be some addition in terms of interest rates also, right?

K. R. Kamath:

Interest?

Manish Karwa:

Every quarter that interest that you charge?

K. R. Kamath:

That they pay. If they do not pay that interest it will become NPA.

Manish Karwa:

Thirdly, wanted to check on your dividend. Every bank and many of your PSU banks are paying out dividends as interim dividend. Would it be an interim dividend or would it be an additional dividend over and above that is the normal dividend rate?

K. R. Kamath:

Where is the money coming from?

Manish Karwa:

The money is coming from the government, but you are giving it to everyone.

K. R. Kamath:

It is interim very clearly. Why do you get confused on this issue? Last time I gave 270% interest. This time I have given 100 now and then whatever is I have to give I will give the remaining amount if there is anything to be given we will give after the results are declared. It is in no way an additional dividend.

Manish Karwa:

Lastly, on your long-term capitalization strategy now your tier I is like 8.5% still manageable but obviously you will require reasonably larger doses of capital as you move forward any thoughts on that?

K. R. Kamath:

I did give. For the next year I gave. Then we will review it after the next year.

Manish Karwa:

So, next year it is only the government 300 Crores odd which is coming plus the retained capital?

K. R. Kamath:

300 Crores can come this year also, not next year.

Manish Karwa:

It can come this year as well?

K. R. Kamath:

We are not sure. I am only saying that since the FM has promised I am saying this. If it comes it will come. Otherwise we will look for the flow back, release of provisions from depreciation if the interest rates move down and write back of the provision made for the NPAs when things improve and of course flowing back of the retained earnings and then look for a QIP or a follow on public offering if the markets improve. The tier II bonds and tier I bonds maybe this year we may raise tier II bonds to the tune of 1000 Crores we are looking for it and we may raise some tier I bonds also.

Manish Karwa:

Lastly one data point, of the total restructured book what sort of provisions you are carrying against that on balance sheet now?

K. R. Kamath:

I may not be having that number. What is the provision for restructured book, total. I think we may not have it immediately, we will look at it.

Manish Karwa:

That is it. Thank you.

Moderator:

Thank you. The next question is from the line of Sai Kiran from Espirito Santo. Please go ahead.

Sai Kiran:

Congratulations on good set of numbers. Just want your broad level thoughts in terms of NPAs and stress levels in mid corporate's and SMEs how is it behaving versus history and now?

K. R. Kamath:

I think we have been saying that we have not seen any disproportionately increased stress on any particular category, it has been a sort of a well spread out stress we have seen in the bank. There has never been of course in the restructuring we have seen concentrated in power and iron and steel sort of things, but in terms of the NPA slippages it has been by and large well spread I would say.

Sai Kiran:

If possible if you can give us the breakup of gross NPAs in terms of corporate, retail, SME and agriculture?

K. R. Kamath:

I think I am answering the previous question. The standard restructured accounts provision held by us is 2119 Crores now. The agriculture gross NPA is 2210 Crores which forms 13.32% of the NPA. MSME NPA is 3742 Crores, which forms 22.55% of the NPA. Retail is 504 Crores, which forms 3.03% of the NPA. The remaining amount gets into industry.

Sai Kiran:

Thanks a lot. Last question if you can just give us the gross movement. You mentioned slippages to be 1505 Crores, if you can also give us recoveries and upgradation and write offs for this current quarter that will be great?

K. R. Kamath:

My gross upgradation is 331 Crores and gross cash recovery is 720 Crores, write offs is 384 Crores, so my gross reduction is 1435 Crores and the net reduction is 1072 Crores consisting of 56 Crores upgradation and 633 Crores of recovery. Return of assets remaining same, 384 Crores.

Sai Kiran:

That is helpful. Thanks. That is it from my side.

Moderator:

Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha:

Sir, on your capital adequacy you mentioned your total tier I as per Basel III is 8.54. This includes the profit for the nine months?

K. R. Kamath:

No.

Anand Laddha:

Including profit what will it be?

K. R. Kamath:

We will put it up.

Anand Laddha:

Sir, one more question, a few quarters back we had large account in gems and jewelry segment, which turned NPA and just wanted to understand, is there any chances as we can recover some amount on that account?

K. R. Kamath:

We are firing from all cylinders on that account. We hope something will hit.

Anand Laddha:

Just to understand, that account was not fully secured. So, probably we will have to make and some additional provision. Are we planning to write it off fully this year?

K. R. Kamath:

We will not write it off, but we will provide for it.

Anand Laddha:

100% provision.

K. R. Kamath:

Yes.

Anand Laddha:

Sir, we could have done some provision on that account this quarter also?

K. R. Kamath:

Yes, we have already done 75% provision on that. This quarter the major provision went for that account.

Anand Laddha:

That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Jatinder Agarwal from CIMB. Please go ahead.

Jatinder Agarwal:

Good evening Sir. Just one question, on contrary to the industry we have seen our cost of funds fall over the last five to seven quarters and obviously that is because CASA has been improving. How do you think this will behave as you go forward?

K. R. Kamath:

It is not only because of CASA has been improving. It is the shedding of the bulk deposit. If you look at last March, I think I carried about 88000 Crores of bulk deposits which have now come down to something like 21000 Crores. So major cost reduction was achieved by shedding this bulk deposits and also containing the growth of balance sheet because we felt that the deposit which has no reason to be picked up, we do not pick up and create a stress on us to lend. When there are no good lending opportunities available. Now that led to the contraction of the balance sheet or stagnation of the balance sheet in the last four quarters starting from last year September to this year September. This has really helped us to reduce the cost and our net interest margin in PNB we have always managing it through the cost route rather than the yield route. So, I do not think that we will be in a position to bring further improvements in the costs, but when we do the business we will look the net interest margin almost like in every transaction we will try to see will it help us to maintain our net interest margin levels. So, it is a very conscious effort on this will help us to maintain the guidance what we have given in the net interest margin, but since the differential rate of interest, deposits have now come down to 21000 to 22000 Crores the ability to further bring down the cost given the inflation scenario is limited.

Jatinder Agarwal:

That is useful. Thank you Sir.

Moderator:

Thank you. The next question is from the line of Jaiprakash Toshniwal from India First. Please go ahead.

Jaiprakash Toshniwal:

Good afternoon Sir. Just one question, you are saying by March we will be going to 15% kind of growth but still as a core your differential interest rate deposit just is 5%. So any thought on your liability side how this will ramp up?

K. R. Kamath:

The point is that we have stopped taking CDs. We have stopped taking the differential rate of interest deposits. Now we have made that any business that has to come has to come from my branch network. So, for a moment it was something new to the bank because they suddenly felt that the growth is not keeping up with the industry but the moment people realized the performance from the branches have been very clearly ramped up now. I have got a franchise of 6000 branches and I am very confident that these branches will help me to mobilize these resources. So, I think we should be in a position to grow our deposits without much reliance on the differential rate of interest deposits.

Jaiprakash Toshniwal:

Will this change the CASA ratio proportion?

K. R. Kamath:

No, I do not think, because of higher rate of interest on the one year term deposits most of the people who can say they always opt for one year per deposits rate. That is why you see that our core term deposits is growing at around 33% though my overall term deposits growth is seen as minus. When we are relying more on the core deposits, the core term deposits will also grow till the interest differential between the savings and the term deposits substantially comes down, which will not happen immediately to that extent we expect that the core term deposit growth rate to also to be robust. So the CASA ratio we will strive to manage and maintain at about 40%.

Jaiprakash Toshniwal:

Fair enough. Thank you.

Moderator:

Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta:

Good evening Sir. Two to three questions from my side. First of all what are the slippages from the restructured loans in three months and in the nine months?

K. R. Kamath:

I think we change the format because it is creating so much of confusion on the restructured book. I think from the day we started discussing restructured we have added to confusion only. Now, I have no difficulty in giving these numbers, we will look at it and give, but as of today, I think it is better we understand that. We have three portfolios one is standard accounts, one is restructured standard and one is NPA.

Alpesh Mehta:

Secondly, when we disburse anything additional to the SEB which is already restructured, are we still accounting it?

K. R. Kamath:

It will not be considered as restructured. It is a new fresh disbursal.

Alpesh Mehta:

The last two questions; one is whether IBA is considering giving an amortization benefit to the banks regarding increase into life expectancy assumptions?

K. R. Kamath:

IBA cannot give because IBA does not have any power.

Alpesh Mehta:

Is IBA representing to RBI regarding this?

K. R. Kamath:

IBA is representing for the RBI whether they will listen or not I do not know. They have very clearly said that they may not do it every time when there is a way of negotiation or something new comes. So, I will keep my fingers crossed on that.

Alpesh Mehta:

Sir, lastly your tenure at PNB is ending in October 2015 and I guess...?

K. R. Kamath:

Do not demand me.

Alpesh Mehta:

But I guess, you have one more year left for the superannuation so is that a possibility that you are getting an extension of a year?

K. R. Kamath:

I hope for it. Do not make me unemployed so easily.

Alpesh Mehta:

Thanks a lot Sir.

I will just reply to the previous question, if you add the profit back I think CRAR will be around 11.7% approximately.

Moderator:

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

MB Mahesh:

Good afternoon Sir. Sir, can we have the outstanding exposure to SEBs currently?

K. R. Kamath:

Overall outstanding exposure to SEB? Go ahead with your next question, we will give you the number.

MB Mahesh:

Can we know, what are the current outstanding NPLs in the iron, steel and textile portfolio?

K. R. Kamath:

Iron and steel NPA is 1358 Crores.

MB Mahesh:

Textiles?

K. R. Kamath:

Textile NPA is 593 Crores.

MB Mahesh:

Sir, in your opex given the fact that you have this one off transition costs on the retirement expenses, is it a fair assumption to make that next year your staff expenses line could show a decline?

K. R. Kamath:

No, because with the settlement being kicking in there maybe a need for us to make additional provision for the superannuation benefits also.

MB Mahesh:

Which is currently not in the numbers?

K. R. Kamath:

We have provided for the wage increase, which has to be given to the people immediately once the settlement is signed. So arising out of the change of their basic pay what is going to be the impact on the superannuation benefits we will have to work out and then factor. So, I do not think we should assume that it is going to come down. On the SEB numbers somebody was asking, I think our limits sanctioned for the SEBs is 14058 Crores, and outstanding is around 8900 Crores. NFP, non-funded limits sanctioned is 767 Crores limit and outstanding is 326 Crores.

MB Mahesh:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Adarsh P from Prabhudas Lilladher. Please go ahead.

Adarsh P:

Sir, just one question, I wanted to ask was we have been restructuring quite a bit in the last two to three years and most of these accounts would have had a moratorium of one and a half to two years. I just wanted to understand how you are internally tracking, what the performance is of restructured account and what do you expect when their moratorium period ends.

K. R. Kamath:

One is that there is a monitoring institution wherever it is through CDR and in other cases we have set up steering committees of the bankers. Now these steering committee and the monitoring institutions very closely followup the performance of the companies vis-à-vis the projections that they have given and try to track if there are any problems both in terms of achieving the turnover, the projected levels of performance and also the monitory impact of that. That is how we keep track of it.

Adarsh P:

Sir, obviously you have information on that. What has been the experience because when accounts would have got restructured one and a half or two years back and versus now, the economic outcomes have only kind of deteriorated?

K. R. Kamath:

We have not seen any visible pressure on any of these accounts as of now, but I fully agree with your point because any restructuring is fully dependent on the assumptions what you have made coming true, so to that extent whatever is the positive assumptions that are being factored which will come through in the immediate one or two years if it has been highly optimistic there is going to be a pressure. But if it is somewhere closer to the reality, I do not think that there is going to be a problem. Having said that, I do not think we are seeing any immediate pressure on any of the restructured accounts.

Adarsh P:

Would it be possible for you all to give, I am asking for more data, but it will help us. Out of your restructured book, ex SEBs what kind of accounts are completing moratorium in the next 12 months, if you can kind of provide that kind of information?

K. R. Kamath:

Let me see. We do not work as much as you people work on the numbers.

Adarsh P:

No issues. Whatever best.

K. R. Kamath:

I will see.

Adarsh P:

Thank you.

Moderator:

Thank you. The next question is a follow up from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania:

I just wanted to clarify for SEB loans I understood that the fresh disbursals will not be treated as restructured for all other restructured loans it would be. Is that correct?

K. R. Kamath:

Whatever is a part of the restructuring package up to the restructuring, if an additional loan is given to a restructured account I do not think it will be considered as restructured.

Mahrukh Adajania:

Whatever is pack of the package that will be?

K. R. Kamath:

Yes.

Mahrukh Adajania:

Thank you.

Moderator:

Thank you. The next question is from the line of Laxmi Ahuja from Marwadi Share & Finance. Please go ahead.

Laxmi Ahuja:

Good evening Sir. Thank you for taking my question. I just had one question that if it is a standard restructured account and if we are providing non-fund base exposure to that account then what kind of provisions will that part of lending would attract?

K. R. Kamath:

Non-funded?

Laxmi Ahuja:

Non-fund base exposure to a standard restructured account?

K. R. Kamath:

I will have to check up. The question is that if there is a restructured account, and there is a non-funded limit, what sort of provisioning you are making for the non-funded limit?

Laxmi Ahuja:

That is right.

K. R. Kamath:

I do not think that we are making any provision for a non-funded limit.

Laxmi Ahuja:

Sir, I am talking about the additional exposure when you would be taking?

K. R. Kamath:

There is no question of making provisions on a non-funded limit.

Laxmi Ahuja:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Manish Chaudhary from IDFC Securities. Please go ahead.

Manish Chaudhary:

Just wanted to clarify on this additional lending to restructured accounts. Now since you have been always in the past saying that you report your restructured accounts on a borrower basis and not on a facility wide basis, so any additional lending to the borrower should be reported under restructured, right?

How long? Whatever is the book which we are carrying where you are making the sacrifice or you are change in the repayment schedule and other things they will come under restructured. If you give a new loan to these people I do not think that comes under the restructured book. What I meant is that in case if there is a borrower who is enjoying a three or four facilities, and restructuring has been done to only one facility so there we say that the entire borrower wise will report that whatever is that borrower's limits at the time of restructuring will come under restructured.

Manish Chaudhary:

So, this is only at the time of restructuring. So subsequent to the restructuring if you have given a new facility to that borrower it will not show up as restructured?

K. R. Kamath:

Correct.

Manish Chaudhary:

Thanks.

Moderator:

Thank you. The next question is from the line of Tejas Mehta from HSBC. Please go ahead.

Tejas Mehta:

Sir, just wanted to understand what is making you feel that the worst is behind you in terms of asset quality?

K. R. Kamath:

I do not feel. I had made a very qualified statement last time saying that I feel that we would have put the worst behind because we have suffered all that one has to suffer in the past.

Tejas Mehta:

My question was basically are there incrementally anything that you have felt that in third quarter numbers that makes you feel that sort of the worst is behind you?

K. R. Kamath:

I made the statement at the end of the second quarter, and you see that there has been a control on the incremental delinquency, but I also made a statement that if you look or if you ask me for a future guidance I again made a qualified statement saying that it is directly dependent on the status of economy. So, if the economy does not deteriorate I feel that I will be in a position to maintain a similar performance like what we have done in this quarter.

Tejas Mehta:

In terms of growth what is your guidance for FY 2015, if you can share that right now?

K. R. Kamath:

FY 2015 we are yet to work, because normally the growth projections for the year we do after the Reserve Bank comes with their projections or sort of estimates for the next year, so that will happen during the first quarterly policy of the RBI.

Tejas Mehta:

For the fourth quarter you mentioned that you would like to end the year about 14% to 15% sort of a number?

K. R. Kamath:

We will come closer to the industry growth rates.

Tejas Mehta:

Sir, that would rough calculation works about 27000 to 28000 odd sort of number gross, so just wondering what drives this growth?

K. R. Kamath:

We have said very clearly that our focus - is it a 27000 or 28000 Crores growth or what?

Tejas Mehta:

That is incremental growth?

K. R. Kamath:

In total business?

Tejas Mehta:

Just loan book?

K. R. Kamath:

See our focus has been on the retail, our focus has been on MSE and of course agriculture plus there are certain sectors like food processing and others where seasonally the credit is getting drawn like sugar mills and all these things, so when the seasonal availment of the limits because we operate in the peak season now seasonal availment of the limits will also help us to improve the credit portfolio.

Tejas Mehta:

Thanks a lot.

Moderator:

Thank you. As there are no further questions I now hand the conference over to Mr. Kashyap Jhaveri for his closing comments.

Kashyap Jhaveri:

I have two questions; one is that in the call you mentioned a number about 2113 Crores. I missed out that number. That number was of some provisions during the concall?

K. R. Kamath:

Somebody asked me what is the provision what we are holding for restructured standard assets. That is the number.

Kashyap Jhaveri:

Second question is on the FCNR deposits front. How much did we raise under RBIs swap facility?

K. R. Kamath:

I think about 1 billion.

Kashyap Jhaveri:

About a billion. Did we have any loans against those FCNRs?

K. R. Kamath:

No. I do not think so.

Kashyap Jhaveri:

No. On behalf of Emkay I would once again like to thank all the participants for joining us today on the call. I thank Mr. Kamath also for giving us this opportunity to host the call. Thank you so much Sir.

K. R. Kamath:

Thank you Kashyap. Thanks to all of you joined us on this conference call. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect.

Note:

- 1. This document has been edited to improve readability.
- 2. Blanks in this transcript represent inaudible or incomprehensible words.

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