Punjab National Bank

Q2FY11 Post Result Conference Call Transcript

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Moderator

Ladies and gentlemen, good evening and welcome to the Q2FY11 Results Conference Call of PNB hosted by Prabhudas Lilladher. As a reminder, all participant's lines will be in the 'listen-only' mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Joining us on the call today from Prabhudas Lilladher are Ms. Amesha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Umang Shah and Mr. Abhijeet Majumdar, Analysts, Prabhudas Lilladher. I would now like to hand the conference over to Mr. Abhijeet Majumdar. Thank you and over to you sir.

Mr. Abhijeet Majumdar – Prabhudas Lilladher

Thank you Moderator. Welcome friends. A very good evening to all of you. On behalf of Prabhudas Lilladher, I would like to welcome PNB's Mr. Kamath. He is present with us for this Conference Call. A very good evening sir. Congratulations on a very good set of numbers. I would request you to kindly take us through the highlights of the quarter and then we can have a Q&A session. Over to you sir.

Mr. Kamath – Chairman & Managing Director, PNB

Yeah. Good evening everybody. I have with me Mr. M.V. Tanksale, my Executive Director and Madam Sushma Bali who is my General Manager Investor Relations. I will just quickly run through the highlights of the performance. We have been talking about five important efficiency parameters for the last one year I have been in Punjab National Bank. The first strength of Punjab National Bank has been the CASA over 40%. We have maintained this level with the CASA numbers being at 40.6% as of September 2010. The second important parameter for us is net interest margin (NIM). We were at 3.99% as of March last year, which came down to 3.94% in June, and which has now increased to 4.06% in September. The NIM for the half year is 3.99%. In other words, if you take , last three quarters together, the average NIM works out to be 3.99%. The net interest income (NII) increased to Rs5,575cr backed by an impressive 27.6% advances growth. And this growth in NII is around 47.1%. Now there has been a decline in the cost of deposits to 4.99% which is a very conscious effort we have been doing because our credit deposit ratio which was around 70.6% last year got extended up to 76.5%. Thereby, our interest income increased but the cost remained low. That is why the NIMs have improved. Earnings per share is about Rs136 now.

Now if you look at the total business, it is Rs4,82,000cr. Advances have crossed the milestone of Rs2,00,000cr. Net profit has recorded a growth of Rs2,143cr, that's 21.8% for the half year. I would like to clarify that we have made provisions for the gratuity and for the incremental liability arising out of second pension option. Last quarter, we made Rs125cr each for these two heads. And this quarter again, we have made Rs125cr each both for gratuity and for the second option of pension apart from the normal provision which is required under AS 15. Now after providing for this amount, our net profit is as what is declared. Now if you look at the operating profit, it has increased to Rs2,100cr for the current quarter as against Rs1,606cr which is a YoY growth of 30.7%. If you look at the core operating profit, that means to take the treasury impact out of the operating profit, then the operating profit has

recorded a growth of 41.6%, which is Rs2,062cr as against Rs1,456cr. The operating profit for the half year has grown at 32.2% to reach Rs4,198cr as against Rs3,176cr. Similarly, net profit if you take the treasury impact out and work out the core net profit, for the quarter, it has shown a growth of 28. 5% to reach Rs1,10 4cr as against Rs859cr last year. Net profit for the half year is Rs2,143cr recording a growth of 21.8%. Total business grew by 22.3%. Deposits grew by 18.4% and advances grew by 27.6%. CASA showed an increase of 24.9% and the share as of now is 40.6% as against 38.5% in the last year. The credit deposit ratio is at 76.4%. NII has recorded a growth of 49.4% during this quarter to reach a level of Rs2,977cr.

Gross NPA has been contained within the level I have been talking about which is about 2%. And the net NPA is at 0.69% and the provision coverage ratio is 77.13%. The return on assets is at 1.36%. Cost of deposit reduced by 71 bps during this quarter to 4.96% and the half yearly is at 4.99%. Cost to income ratio has been 41.57% for the half year as against 43.25%. The book value per share is Rs582.7. Now if you look at the provisioning number, I think we have made a good amount of provision for the NPA compared to last year this period. That is why the net profit has come down compared to the operating profit. In all other areas, I think all known liabilities have been fully provided for including the pension and the gratuity liability. And so these are the highlights I talked about. Otherwise I was talking about the non interest income. The major hit we have to take is on account of two heads, one is the treasury income. Last half year, we had a trading profit of Rs509cr which was reduced to Rs159cr during this half year. The other one was dividend from mutual funds. Last year we had Rs183cr because of excess liquidity. This year it is Rs80cr. Otherwise if you look at the core non-interest income, it has shown an increase of 15.5% from Rs840 to Rs970cr, the major contributors being the commission on bank guarantees and the letters of credit and the processing fees. This is the nut shell. I thought I will make presentation on the performance of the bank. And we are putting the detailed presentation on the website and also we have mailed to all those analysts and the investors whos emails are registered with us. I would now like to take on the questions if there are any questions.

Moderator

Thank you very much sir. We will now begin the Question and Answer Session. Anyone who wishes to ask a question may press "*" and then "1" on their touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "*" and then "1". The first question is from the line of Ms. Mahrukh Adajania from Nomura. Please go ahead.

Ms. Mahrukh Adajania - Nomura

Yeah. Hi. Congratulations once again sir. Sir, I just had a few questions. Firstly, on a QoQ basis, your employee expenses have risen by around Rs120cr. So just wanted to know why since your pension and gratuity provisions have not changed QoQ. My second question really is that there have been a lot of news reports on a lot of state banks including PNB, raising a lot of CDs over the last 2 to 3 months. Why would state banks, especially the high CASA banks, raise so much CDs when credit growth is not really very strong. I mean what's the view on the rollover of these CDs. I mean do you and other banks thinking that the rates are going to stabilize or follow-up or will be repriced at lower rates. What is really the thinking behind that?

Mr. Kamath – Chairman & Managing Director, PNB

Okay. Now answering your first question on the increase of Rs120cr on the employee cost, the settlement got implemented in this quarter. So whatever have been the earlier parts, we were only making provisions on an estimate. And now that the new settlement has taken place, the salaries have been given to the employees on the basis of the new wage settlement. Plus normal increase which happens in the form of DA increase when the inflation is increasing the DA is also increasing and to that extent the wage increases for the bank. The third is that the entire promotions which have to happen in the bank which was being spread over the full year, we have tried to complete in the first half year and the costs arising out of these promotions at the movement arising out of this

movement that is also factored in this employee's cost. So these are the few reasons which have lead to the increase in the employees cost. Now coming to your other issue of the CDs, it is not correct to say that credit growth is not there. We are showing a YoY credit growth of 27.6%. Now if the deposit is not coming from retail, and if there is a good opportunity of lending, one can always look at CDs. I am talking only for PNB. I am not aware what is happening in other banks. So it is always good to look at CDs also. As you are conscious about your NIM one should not hesitate to take the CDs if there is a good credit demand. What we did is that when the credit demand was picking up we tried to see that first of all we held our SLR securities up to 28% which created a cushion with us at 3%. Now these were earning us interest at the present market rate even now which is around 8%, 8.14% and we were in a position to raise and borrow money from RBI on that at 6%. So we tried to see that our own excess SLR is used to lend money, whereas we could arbitrate and earn some 2% out of this arbitra ge. That is why the credit deposit ratio has gone up. Now once you have a credit demand , which has grown 27.6% in my books, and if there is no retail deposit flowing , I need to pick up whatever money is available in the form of CD or high cost deposit. One has to be careful about the NIMs. So we have picked up CDs, but at the same time we have improved our NIMs. So there is nothing wrong in case somebody looks at CD to fund the credit growth as long as you are conscious to maintain your NIMs.

Ms. Mahrukh Adajania - Nomura

Sir, how would the NIMs have improved despite CDs, the rates on CDs have increased over the last quarter and the incremental lending rates have also increased, but not at the same pace.

Mr. Kamath – Chairman & Managing Director, PNB

Correct. There is another impact that when you increase the rate of interest. On August 1, 2010 we increased our BPLR as also the deposit rates. The impact of increase of BPLR we get from 1st of August. The increase, the cost impact is later on. So probably we may see some cost implications during this quarter.

Ms. Mahrukh Adajania - Nomura

Sir just coming back on the employee expense issue, basically can we actually see employee expenses on a QoQ basis assuming that pension and gratuity remains stable, coming down over the next few – I mean coming down or staying flat, may be coming down.

Mr. Kamath – Chairman & Managing Director, PNB

This will stay flat. It cannot come down because you see it is an actual cost.

Ms. Mahrukh Adajania - Nomura

Okay. Got it sir. Thank you very much.

Moderator

Thank you. The next question is from Mr. Manish Karva from Kotak. Please go ahead.

Mr. Manish Karva - Kotak

Good evening sir. Congratulations on good set of numbers. I just wanted two things. One your margin outlook currently at 4% margin seems to be very high. And in the past you have been guiding that your margins or probably your guidance is close to 3.5%

and given the fact that interest rates are now rising, is it a case that margins will tend to dip from here on or are you confident enough to maintain or sustain margins here?

Mr. Kamath – Chairman & Managing Director, PNB

If we look at the numbers margin, I am very clear you can't sustain a 4.06% net interest margin. So it has to come down, but my guidance has been around 3.5% at the beginning of the year. So I leave the guess work to you what it should end. It should settle somewhere between.

Mr. Manish Karva - Kotak

Okay and are we going to see a lot of reprising of deposits in the second half or we are comfortable on that front?

Mr. Kamath – Chairman & Managing Director, PNB

No, that should be a repricing of deposits, because as one of the strategies when we looked at it because there was an indication by the RBI that the inflation may comdown after the third quarter. And it is also expected that in the fourth quarter it can happen. We did not want to lock ourselves up in a high cost deposit for a longer maturity. So we looked for even if there is a little high cost deposit, it is for a shorter maturity. So to that extent there can be some reprising happening. But I think the increase in the base rate which we have now done should help us out to a large extent to factor it out.

Mr. Manish Karva - Kotak

Right. And just on that on the base rate thing, when you change or revise your base rate, does the impact happen immediately given the new environment that we are in today or how much of your loans are linked to PLR now and to base rate?

Mr. Kamath – Chairman & Managing Director, PNB

See, the impact is immediate for the loans which have shifted to the base rate. Normally what happens is that when the customers' limits come for renewal, we shift them to the base rate if they have not already opted for the same. So what one thing we have done is that if somebody has been already given effect of an increased BPLR in their loan accounts then we don't charge more o n the base rate when he shifts. So we have seen that we have passed on either the increase of base rate or BPLR to the customer. So wherever the BPLR impact has come, there you don't get an impact on the base rate. Wherever the BPLR impact has not come, it will come on the base rate. Now if you ask me what the percentage of this is, probably I don't have an immediate answer.

Mr. Manish Karva - Kotak

The second question was on the pension front. Earlier you had guided that about Rs2,500cr is probably the expected hit on account of the second option. Given the fact that we have moved ahead and we probably would have little bit more data compared to what we had earlier, does it still hold that 2,500 or we need to change a little bit or …

Mr. Kamath – Chairman & Managing Director, PNB

I don't have any right number today. That's why I dont' want to get into another number from Rs2,500cr. Whenever I give my next number, that will be almost actual number or very close to actual I will give you. The option was available to the people till day before yesterday. We are in the process of consolidating this. The second is, there is a lot of money which has to flow into the

pension fund from these employees and the employees who have retired. So a clearer picture will emerge to us by end of this quarter. And then we will take a calculation and then try to factor it out. But I was just trying to analyze the whole situation. I have provided Rs125cr for pension and Rs125cr for gratuity. Now the Rs125cr for entire gratuity liability will be completely met by this year end. So when I move on to the next year, my need for providing is only Rs125cr for Rs2,500cr. Suppose I am just giving you an example, a number which has absolutely no base. Suppose Rs2,500cr becomes Rs5,000 cr, then also I have nothing to provide more because my gratuity provision goes out. That money I will use to cover for the pension liability. Provision on account of the increased liability on pension and gratuity can be fairly taken within Rs250cr for the coming years. So to that extent it will not have additional impact on my numbers. Giving you just very odd numbers Rs5,000cr has no relevance. I just made an example because since Rs125cr gets released to me after another two quarters. So that Rs125 cr is also available for me to cover for pension in case the number goes beyond Rs2,500cr.

Mr. Manish Karva - Kotak

Right. And sir lastly would you have the number off hand how many of your employees had opted for pension when the option was given about 15, 16 years back?

Mr. Kamath – Chairman & Managing Director, PNB

I do not have that, probably 27,000 employees had opted for pension in originally.

Mr. Manish Karva - Kotak

Okay. And currently the employee base is?

Mr. Kamath – Chairman & Managing Director, PNB

We should have about 30,000 employees opting for it.

Moderator

Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants, please limit your questions to two per participant. Next question is from Mr. Anand Vasudevan from Franklin Templeton. Please go ahead.

Mr. Anand Vasudevan - Franklin Templeton

Hi. Good evening sir. I'd just like to you to understand as to what your view is on the potential impact on asset classification as you move towards an automotive or online system of recognition of classification of NPAs.

Mr. Kamath – Chairman & Managing Director, PNB

I think you asked I told last time. This time we have completed the exercise of aligning our NPAs in the system with our legacy system for accounts above Rs10lakhs. So that is completed now. Now probably the next quarter or by February end we will try to completely run the whole NPA recognition through the CBS system. So since Rs10lakhs and above has now been completed, I think the remaining amount may not be in a position to put it in numbers, but the only thing I would say that the whole effort from our

side will be to see that the NPAs are system-enabled one. Second is that whatever impact of this is immediately taken care and then handled. So our overall guidance of this we will still try to remain within whatever we stated in the beginning.

Mr. Anand Vasudevan - Franklin Templeton

Okay sir. As far as Rs10lakhs and above exposures are concerned, the classification is, there shouldn't be any surprise in the classification. And below 10lakhs is where there could be some variability.

Mr. Kamath – Chairman & Managing Director, PNB

You have to do that. I think I would not say. But whatever comes that will be.

Moderator

Thank you. The next question is from Mr. Ajinkya Dhavale from Bajaj Allianz. Please go ahead.

Mr. Ajinkya Dhavale - Bajaj Allianz

Good evening sir. Congrats very good set of numbers. Just looking at your recovery and deduction from NPAs in the second quarter, they look to be lower than the first quarter. I may look at cash recoveries or I may look at upgradations, the momentum is lower in second quarter as compared to first quarter. And also so has the addition to NPAs have come down. How would you look at the whole situation in terms of reduction from the NPA pool which we have? What could be your guidance on that?

Mr. Kamath – Chairman & Managing Director, PNB

See, our guidance on NPA has been that the gross NPA as long as it is around 2% we will not panic. And that guidance remains. Now I am not sure whether the cash recovery has come down. In fact we found that the cash recovery has been good both in the first quarter and the second quarter. I don't have a quarerly breakup with me now. If you look at the last year it was Rs407cr cash recovery. This year it has become Rs950cr. And last I mean sorry, this year it is Rs714cr. Now upgradation, I agree that if we compare to last year it has been a little less. But now since there have been some more NPAs that have now come, it will help us to upgrade immediately, in fact there are one or two accounts with ability to be upgraded immediately in our hands now and probably in another couple of days we should be in a position to recover it and upgrade it. So wherever there has been a borderline case also, we try to classify it so that the action on that is immediate and we do. So we stand by our original guidance at around 2% gross NPA. That is what we look for.

Moderator

Thank you. Next question is from Ms. Tabassum Inamdar from Goldman Sachs. Please go ahead.

Ms. Tabassum Inamdar - Goldman Sachs

Just one question. Basically we have seen very strong growth in credit. But some of the banks seem to be suggesting that the second half may not be as good. What's your thought on that? Are you seeing enough approvals and disbursements happening? Are you seeing a pick up in demand? And where do you think you will end the year with in terms of credit growth?

Mr. Kamath – Chairman & Managing Director, PNB

The second half of the year is called the busy season. And it has always been better than the first half. I have no reason to believe that the things will change this half year. I feel that we will be in a position to maintain the growth what we have seen. We have given a guidance in the beginning of the year that we will be growing 2% better than the system. I am sure that we will be maintaining this guidance.

Ms. Tabassum Inamdar - Goldman Sachs

And what's your estimate for the industry growth sir?

Mr. Kamath – Chairman & Managing Director, PNB

Industry growth was given at 20% by RBI at the beginning of the year. Based on that we are targeting 22-23% growth. We have done 27% as of September. So we will be in a position to somehow reach 23-25%.

Moderator

Thank you. Next question is from Mr. Amit Ganatra from Religare AMC. Please go ahead.

Mr. Amit Ganatra - Religare AMC

Just speaking about the earlier question, your additional slippages seem to have come down QoQ despite the fact that now 10lakhs and above has been recognized through system. So now I mean is there some sort of a trend that one can recognize in this that incrementally the rate of slippages can come down possibly?

Mr. Kamath – Chairman & Managing Director, PNB

See, I would not like to give guidance for a trend or anything. If you see last quarter and this quarter, it is one account which has created an issue in a big way. So there can be some exceptions which if it happens it goes. Otherwise it is very difficult to say that there is a trend in the NPA. We will see that by the end of the year we will complete the entire exercise of moving over to the system-based recognition of NPA. Thereafter there should not be any issue on this. So since we have completed system recognised NPAs if Rs.10 lakhs and above, what is to be now handled is 10 lakhs below. I don't think that there should be NPA surfacing beyond a sort of a reasonable expectation.

Mr. Amit Ganatra - Religare AMC

The reason for asking this is see your guidance about gross NPA basically also your guidance about maintaining gross NPA below 2% basically also means that in case there is gross NPAs which are higher than that, then basically you essentially provide it to your P&L and your profits are strong enough to provide so that is not an issue. But ultimately, if we see on a YoY basis, the credit cost basically for your bank has gone up siginificantly. Since last 3 quarters, you have been providing Rs600cr, Rs567cr. So I mean the provision for NPAs has been going up significantly. But at the same I mean this quarter was the first quarter, whereby, the slippages have gone down to some extent. So what I was trying to understand is that over a period of time should one expect that the credit cost can also go down, because then the underlying profitability being so strong that it will actually get reflected in your net profit growth.

Mr. Kamath – Chairman & Managing Director, PNB

Concept of a credit cost I have got a different view from what you people are holding. Suppose I change my provision coverage ratio from 77% to my earlier 91%, which is a healthy sign for the bank, my credit cost will substantially go up. So the question is that you need to look at the operating profit and then see how much more I am putting money into provision. Suppose I have got good profits, I would never mind putting money into provision and then see that my provision coverage ratio improves. That way my credit cost is more. But then I am adding value to the balance sheet.

Mr. Amit Ganatra - Religare AMC

Right. But currently it is just being maintained. It is not that provisioning coverage is going up.

Mr. Kamath – Chairman & Managing Director, PNB

That is what I am saying no. The question is 77.1% we have maintained. There is a possibility that lot of money recovered gets again recirculated. So we are above 70. Other thing is that today if you are talking about a credit cost it should be based on a regulatory provision not on a voluntary provision. So a regulatory provision for is 10%. But today to maintain my provision coverage ratio, I am providing 77% on any asset which fits into sub-standard. So it is much higher than the regulatory provision required. To that extent my credit cost will be seen as higher. So credit cost when you calculate, it should be calculated on the basis of the regulatory provison required to be maintained.

Moderator

Thank you. Next question is from Mr. Ramnath V from Birla Sunlife Insurance. Please go ahead.

Mr. Ramnath V - Birla Sunlife Insurance

I just wanted to ask one question. Since the RBI has been tightening rates, what has been the average hike in your lending rates that has been passed on to customer sir?

Mr. Kamath – Chairman & Managing Director, PNB

We have increased our BPLR by 75bps. It is a straight transmission. We have increased our base rate by 50bps which is another transmission that has happened. And then there is always a negotiation which happens with the customer on every account

Mr. Ramnath V - Birla Sunlife Insurance

Right. So will it be fair to say that the weighted average would come to somewhere around 50-75bps?

Mr. Kamath – Chairman & Managing Director, PNB

I think 50bps should be a good guess.

Mr. Ramnath V - Birla Sunlife Insurance

Good guess. So that will be the change that has happen over the last 6 months or something.

Mr. Kamath – Chairman & Managing Director, PNB

3 months, because we ventured into this from 1st of August.

Mr. Ramnath V - Birla Sunlife Insurance

Right. You are saying from the last 6 months perspective.

Mr. Kamath – Chairman & Managing Director, PNB

6 months there is no increase. It was only on the negotiation capability. The real increase started from August 1, 2010 by 75bps and October 1, 2010 by 50bps.

Mr. Ramnath V - Birla Sunlife Insurance

The other thing is in the non interest income part. Apart from recoveries, if I look at your other income, the growth has been fairly strong except for the volatile exchange income. Do you see that maintaining that particular growth rate or do you see that actually trending downwards from here?

Mr. Kamath – Chairman & Managing Director, PNB

I think we should be in a position to maintain this growth rate. 15,% is my growth there. I should be in a position to maintain that.

Mr. Ramnath V - Birla Sunlife Insurance

Sure. Sir then if I can just ask one nit-picking question. In the presentation that you have given, is the miscellaneous dividend income from MF is that the income that you get from the interest on liquid mutual funds?

Mr. Kamath – Chairman & Managing Director, PNB

Correct. It is the return on liquid mutual funds.

Mr. Ramnath V - Birla Sunlife Insurance

Okay. So that is put as part of other income in your …

Mr. Kamath – Chairman & Managing Director, PNB

Because it is received as dividend and that is why it is put under the dividend.

Mr. Ramnath V - Birla Sunlife Insurance

You get the tax benefit also from that.

Mr. Kamath – Chairman & Managing Director, PNB

Yeah. We have got the tax benefit. Then it is not correct for me to put it under interest.

Moderator

Thank you. The next question is from Mr. Veekesh Gandhi from DSP Merill Lynch. Please go ahead.

Mr. Veekesh Gandhi - DSP Merill Lynch

This is actually Rajiv Verma. Congratulations on your results. Sir if you can give some more color on what's driving your non interest income and today you mentioned you hope to see that sustaining. I just wanted to get some details on that and also I wanted to know about your retail loans. Which are the segments that you still seeing good growth in or rather what are the segments which have really driven your 28% loan growth?

Mr. Kamath – Chairman & Managing Director, PNB

See on the income side, I think it has come, mainly the non interest income drivers have been commission on letters of credit and commission of bank guarantees and the processing charge. So it has been our core operations and it is related to our credit growth, and there has been a good growth here. The commission on LCs and BGs have increased by 38% during this quarter and the processing fee has increased by 36.2% during this quarter. Plus the third party products, though the amount is very insignificant, there has been a substantial growth in the third party products. Charges recovered on ATM usage have improved from Rs26cr to Rs54cr. So, I think the major area of our core banking activities have contributed to this increase in the non-interest income. I am quite hopeful that we thought of a growth what we have seen here will sustain.

Coming to the credit growth I think the retail growth is mainly driven by education loans, then to some extent it is auto loans. And what we have put is in our presentation as personal loans which have grown by 43.2%. I would like to clarify that these are not the unsecured personal loans that is being talked about in the industry. Now in this classification, we also add loans like loans given against the deposits of the depositors' which are secure loans. So the 43.2% growth need not be seen with any other angle to this. So basically the education loan grown by about 38.3%. The housing loan has grown by about 11.43% and other retail loans have grown by about 66.88%. In terms of number I would say retail loans have increased by Rs5560 cr over last one year. The education loans have increased by Rs729cr education loans. Other retail loans have grown by Rs3,300cr and housing loans have grown by Rs1,000cr.

Moderator

The next question is from Mr. Suresh Ganpati from Macquarie. Please go ahead.

Mr. Suresh Ganpati - Macquarie

Sir I just quickly wanted to know this quarter obviously Rs900cr have gone bad. So any split up of this Rs900cr or any large account which has gone bad or Zoom anyways has been fully classified in the previous quarter, right as an NPA.

Mr. Kamath – Chairman & Managing Director, PNB

A major portion of the Zoom got in to this quarter. Rs216cr is the Zoom impact during this quarter.

Mr. Suresh Ganpati - Macquarie

What was in the previous quarter then?

Mr. Kamath – Chairman & Managing Director, PNB

It is totally Rs414-415cr. That means around Rs200cr last year.

Mr. Suresh Ganpati - Macquarie

But sir, you said you already had a cash margin or something like that so you were already fully provided so no further …

Mr. Kamath – Chairman & Managing Director, PNB

There was a cash margin. There was a ECGC cover. This ECGC cover and all other things are yet to come back to the bank. Other thing is that, we are trying to restructure this account. There is a CDR which is working on restructuring this account. And if that happens I am not very sure what will be the ultimate thing. It is a very thin hope there. But then there is a restructuring package which has been worked by the CDR cell. And if it comes, if it is implemented the whole accounts can also get upgraded. Worst situation the Rs415cr we have taken as NPA now fully. Now ECGC claims have invoked. Now we will have to wait and follow up these ECGC claims and whatever is the benefit that is arising out of that. To that extent, our NPA and the provision can be written back.

Mr. Suresh Ganpati - Macquarie

Okay. And the remaining Rs700cr is a rough split of any large account or SME or anything specific on that?

Mr. Kamath – Chairman & Managing Director, PNB

There may not be any account which is even Rs100cr. The accounts may be around Rs50cr in the normal course.

Mr. Suresh Ganpati - Macquarie

Okay, fine. And just question on your exposure to the MFI institutions,

Mr. Kamath – Chairman & Managing Director, PNB

I think we had Rs900cr exposure to the MFI.

Moderator

The next question is from Ms. Mani Arora from ICICI Securities. Please go ahead.

Ms. Mani Arora - ICICI Securities

Good evening sir. I just wanted some more clarifications on gratuity and pension provisions which you've made. For H1, I understand that you've made Rs250cr of gratuity and Rs250cr for pension. Is that correct?

Mr. Kamath – Chairman & Managing Director, PNB

Correct.

Ms. Mani Arora - ICICI Securities

And for H2?

Mr. Kamath – Chairman & Managing Director, PNB

I think for H2 aslso we will make the similar amounts. We have estimated our pension liability I mean gratuity liability at around Rs475cr. We have already covered it for Rs250cr. So our liability for the incremental pension is taken on a ballpark figure of Rs2,500cr and we are making provisions at the rate of Rs125cr per quarter.

Moderator

Thank you. The next question is from Ms. Lakshmi Ahuja from Marwadi Shares. Please go ahead.

Ms. Lakshmi Ahuja - Marwadi Shares

My questions have already been answered. Thank you.

Moderator

Thank you. The next question is from Mr. Alpesh Mehta from Motilal Oswal. Please go ahead.

Mr. Alpesh Mehta - Motilal Oswal

Good evening sir. Great set of numbers. Sir about your processing fees, if I see on a sequential basis, it has come down from 210 to 150 sort of kind of a number. Sir were there any one off in this quarter we have a fairly good credit growth. So I just wanted to get some idea on that front.

Mr. Kamath – Chairman & Managing Director, PNB

I clarified this issue in my first conference itself and probably in the last conference. For the existing accounts, we have a system that we try to recover the processing fee in the first month, April. So you will have a good amount of processing fee collected in respect of all existing accounts in the first quarter. Second quarter onwards, it will be the actual which we are collecting for the new accounts.

Mr. Alpesh Mehta - Motilal Oswal

Perfect. And the second one is on your exchange process. If I see over last 2 to 3 quarters it is roughly around Rs100cr kind of a number. In this quarter, it has come down to something like Rs30cr. So what should be the sustainable number on that front?

Mr. Kamath – Chairman & Managing Director, PNB

I think it should be a little better than what we have seen in this quarter. It should average it, if you total for 4 quarters and then average out, that number is sustainable.

Mr. Alpesh Mehta - Motilal Oswal

Okay and the last one some of the media reports suggest that state owned banks have stopped lending to the micro finance institutions is it the case with PNB as well?

Mr. Kamath – Chairman & Managing Director, PNB

No, whatever proposals we had, we have disbursed it. If anything new comes we will take a view.

Moderator

Thank you. The next question is from Mr. Rishi Arya from Canara HSBC Life Insurance. Please go ahead.

Mr. Rishi Arya - Canara HSBC Life Insurence

Good evening sir. My question is about the long term strategy of the bank. Can you throw some light on what kind of the ROA currently of around 1.3% range? What is the 2-3 year target of that and to what level something like what kind of number we should expect like how's the long term going to be?

Mr. Kamath – Chairman & Managing Director, PNB

I think some of our numbers are bench mark by itself. I would not like to venture into saying will it improve substantially. I am holding on to these numbers like NIMs at whatever level we are talking about and the ROE and ROA at the level what we are talking about. Holding on to this itself should be an excellent effort for us. And we would like to keep it at this level.

Mr. Rishi Arya - Canara HSBC Life Insurence

I understand. And sir any do you think the contribution of non-interest income to the total income from a 2 to 3 year point of view. Do you think that should remain as a percentage similar or it should increase?

Mr. Kamath – Chairman & Managing Director, PNB

What will happen on the non interest income is that we have seen that there are some items which are volatile.. And when these volatile items don't contribute, something else picks up. So normally we have seen any bank has been in a position to maintain a sustainable growth of the non interest income. So this year I would say that my treasury income has gone down on the other hand my LC & BG processing fee contributed. May be sometime if the treasury income picks up may be there is something else which will not contribute. So overall I would say that this sort of a growth what we have maintained of about 15% on the non interest income should be sustainable.

Moderator

Thank you. The next question is from Mr. Subramanyam TS from Sundaram Mutual Fund. Please go ahead.

Mr. Subramanyam TS - Sundaram Mutual Fund

Good evening sir and congrats on a very good set of numbers. I just wanted to understand from sectoral perspective. We see that your bank has been able to gain market share in deposits, CASA, and advances. Could you throw some light on who do you think are the likely losers in this and how do you see the market share gains according to different players?

Mr. Kamath – Chairman & Managing Director, PNB

Why do we look at who is losing as far as I am gaining my share. The market can be broadly classified into three categories. One is the public sector banks. The second one is the new generation private sector banks. And the third is the foreign banks. If you look at it probably all public sector banks would have come with good numbers in terms of the growth. That means the people who are not growing as much as public sector banks are growing may be new generation private sector banks and the foreign banks which are not growing. So there was one time when these banks were growing astronomically and the public sector banks were doing something like 15-16% of the growth. So the tables have turned now and we have done better. Others are not doing as much as we are doing.

Mr. Subramanyam TS - Sundaram Mutual Fund

Okay. And on the rural, you say that you are seeing a faster growth than in urban and metro areas sir.

Mr. Kamath – Chairman & Managing Director, PNB

I think it is uniform growth. I have given in my presentation what is the growth which has happened in different segments. My agriculture has grown by 29%. My industry has grown by 28%. My retail loans have grown by 32%. So it is almost something like a uniform growth from all segments.

Moderator

Thank you. The next question is from Mr. Sachin Sheth from HSBC. Please go ahead.

Mr. Sachin Sheth - HSBC

Hello sir. Congratulations. In terms of your Tier-1, it seems that you are burning about 40-60bps each quarter and currently are about 8%. What would be your comfort level, going ahead, given your growth prospects?

Mr. Kamath – Chairman & Managing Director, PNB

There is one asterix mark there on the capital adequacy because this is as per guidelnes of the RBI. Any profit earned during the current year which is an unaudited profit cannot be added back to the capital. So to that extent, we have only added the incremease in risk weighted assets but the income or the profit arising out of this transaction is not available as capital to me. We have given as asterix there if we add the profit earned during the half year, the capital adequacy would be 13.59% and our Tier 1 capital would be 9.03%. So to that extent it is not 40bps. It is something like 8 bps in for half year.

Moderator

Thank you. The next question is from Mr. Sai Kiran Pulavarthi from Indiabulls Securites. Please go ahead.

Mr. Sai Kiran Pulavarthi - Indiabulls Securites

Sir, this is regarding the earlier question where you suggested that greater than 10lakhs of accounts were already taken into consideration through system recognition of NPAs. What percentage of this as a total percent total loans will this be?

Mr. Kamath – Chairman & Managing Director, PNB

I will get back to you during the analyst meet. I am not in a position to give you off hand reply on this.

Moderator

Thank you. We have a follow up question from Ms. Mahrukh Adajania from Nomura. Please go ahead.

Ms. Mahrukh Adajania - Nomura

Thanks sir. My question has been answered.

Moderator

Thank you. The next question is from Mr. Pankaj Sarda from Edelweiss. Please go ahead.

Mr. Pankaj Sarda - Edelweiss

This is Neelesh from Edelweiss sir. Hi. Sir. We have a very high restructured book larger one at 6.5% of loans. In your assessment, the behaviour of most of these accounts passed the payment what is the behaviour of payment of this sir?

Mr. Kamath – Chairman & Managing Director, PNB

See I think I have been talking for quite some time now on this issue. If it has not stood the test of the payment behaviour, then it has been classified as an NPA.

Mr. Neelesh - Edelweiss

Okay. All of them in your assessment are kind of performing as per …

Mr. Kamath – Chairman & Managing Director, PNB

If it is performing, it is treated as standard. If it is not performing, it is classified as NPA. See the difference is that in earlier case where you have restructured a non-performing asset there was a waiting period of 1 year to observe it and upgrade it. Now if you have restructured standard assets, there is no way it is moved out of this number. So it will continue to be there as restructured asset unless there a clear dispensation which says that if it has completed 1 year, you remove it out of restructured assets. Now that differentiation is not there. So the answer to your question is that if it is not performing as per the restructuring plan, it would have been classified as NPA.

Mr. Neelesh - Edelweiss

Sir in this case during the quarter we've added some around Rs550cr of fresh restructured. There would be some some additional funding also would have been given to these accounts, existing accounts on the restructured books sir?

Mr. Kamath – Chairman & Managing Director, PNB

I am not in a position to immediately tell you what these accounts are which are restructured because restructuring is a continuous process in the banking industry. And it's a normal exercise that happens. Probably we will try to get some information on this when we come for the analyst's meet.

Moderator

We have a follow up question from Ms. Mani Arora from ICICI Securities. Please go ahead.

Ms. Mani Arora - ICICI Securities

Hi, good evening again sir. Just wanted to have some more clarity on the restructuring that you are talking about. While you classify these standard assets into restructured assets, you say that you can't upgrade them back after a year if they start performing. Is that correct?

Mr. Kamath – Chairman & Managing Director, PNB

See, there is no upgrading. It is a standard asset already. How do we upgrade it?

Ms. Mani Arora - ICICI Securities

What about the impact on interest income and everything? It is only your NPAs which hit your interest income. So as long as your slippages are on a higher end, we would also expect your interest income to be impacted to that extent.

Mr. Kamath – Chairman & Managing Director, PNB

If there is a slippage, the interest income is impacted.

Moderator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the conference to Mr. Umang Shah for closing comments.

Mr. Kamath – Chairman & Managing Director, PNB

Before that let me request all of you to join us for our Analysts Meet on November 1 at 4o'clock at Taj President since we have taken a conference call. It should not so happen that none of you turn out there.

Mr. Umang Shah – Prabhudas Lilladher

Thank you so much Mr. Kamath for sparing time and sharing the insights with us. And I am sure that the turnout at the Analysts Meet would be equally well as it was on the conference call. I thank all the participants for taking out time to attend the call. Thank you so much sir and thank you everyone.

Mr. Kamath – Chairman & Managing Director, PNB

Thank you everybody. Good day.

Moderator

Thank you. On behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

END.