Q3FY21

EARNINGS CONFERENCE CALL

Transcript

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MANAGEMENT:

MR. DINESH KUMAR KHARA
CHAIRMAN, STATE BANK OF INDIA

MR. C.S. SETTY
MANAGING DIRECTOR (RETAIL & DIGITAL BANKING)

MR. ASHWANI BHATIA
MANAGING DIRECTOR (CORPORATE BANKING AND GLOBAL MARKETS)

MR. SWAMINATHAN J
MANAGING DIRECTOR (RISK, COMPLIANCE AND STRESSED ASSET RESOLUTION GROUP)

MR. ASHWINI TEWARI
MANAGING DIRECTOR (INTERNATIONAL BANKING, TECHNOLOGY AND SUBSIDIARIES)

MR. ALOK KUMAR CHOUDHARY
DEPUTY MANAGING DIRECTOR (FINANCE)

MRS. S. UMA SHANMUKHI
CHIEF GENERAL MANAGER (FINANCIAL CONTROL)

MR. CHARANJIT ATTRA
CHIEF FINANCIAL OFFICER

MR. PAWAN KUMAR KEDIA – GENERAL MANAGER (PERFORMANCE, PLANNING & REVIEW)

MR. MISAL SINGH – VICE PRESIDENT (INVESTOR RELATIONS)

Moderator: Ladies and gentlemen, good day and welcome to State Bank of India Q3FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pawan Kedia -- General Manager, Performance Planning and Review from State Bank of India. Thank you. And over to you Mr. Kedia.

Pawan Kedia: Good evening, ladies, and gentlemen. I'm Pawan Kedia, General Manager. On behalf of top management of SBI, I extend a warm welcome to all joining us today on SBI Q3 FY'21 Earnings Conference Call.

On the call today we have with us our Chairman -- Mr. Dinesh Kumar Khara; Mr. C. S Setty -- Managing Director, Retail and Digital Banking; Mr. Ashwani Bhatia -- Managing Director, Corporate Banking and Global Markets; Mr. Swaminathan J -- Managing Director, Risk, Compliance and Stress Asset Resolution Group; Mr. Ashwini Tewari -- Managing Director, International Banking, Technology and Subsidiary and Mr. Alok Kumar Choudhary -- Deputy Managing Director, Finance.

Before I request our chairman to give a brief summary of the bank's Q3 FY'21 performance and the strategic initiative undertaken, I would like to read out the Safe Harbor statement. Certain statements in these slides are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and change in circumstances. Actual outcome may differ materially from those included in these statements due to a variety of factors. Thank you.

Now I request our "Chairman Sir to make his Opening Remarks."

Dinesh K Khara: Good evening, friends. It gives me immense pleasure to connect with all of you once again for presenting the quarterly results for the quarter ending December 2020. The disruption caused by COVID pandemic outbreak have now started reversing and the mood of the nation is quietly changing from somber to optimistic. The confidence which has been brought back by introduction of vaccination actually is expected to be a game changer for the economy going forward. Several consumption related indicators which we keep on observing shows very positive signs. And many of the consumption indicators have come back to the pre-COVID-19 levels. One of the most definitive indicators of the fight back in consumer confidence would be the record collection in GST during December 2020 and thereafter. We are quite confident that year ahead holds a lot of promise for the economy in general, and for banking system and Sbi in particular.

Coming to the "Financial Performance of the Bank," this has been another good quarter in terms of profitability as well as business growth. Our long-term strategy is to maximize pre-provision operating profit through risk mitigated growth in assets and right sizing the product mix of our liability's portfolio.

Digitization of most of the customer journeys is another key agenda on our mind.

The strategies are manifested in our financial performance, as our core operating profit continues to grow, along with the steady growth in business.

We've also been able to manage our asset quality very well.

The presentation is with all of you. And I think it may be a good idea to start this meeting with the questions-answers. And as against my describing the numbers since the presentation is there with you, I will request you to start with the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: I had a couple of questions. First is on asset quality. At Rs.2,500 crores of slippages in a quarter, which was supposed to be credit testing the book, because it has been four or five months into after the end of moratorium, the asset quality has clearly surprised us in the street as well. So just wanted to understand, like given the current trends that you're seeing in collections, very little corporate stress, how sustainable is the trend that you have seen in this quarter? This is like an exemplary quarter, so, I just wanted to understand that.

Dinesh K Khara: Sure, I think what we have also mentioned here is that the kind of restructuring applications which we have already received, that is aggregating to about Rs.18,000-odd crores and almost about Rs.4,500 crores worth of restructuring has been done…so, that has already been implemented. So, I think that is a kind of a situation. Yes, what you mentioned, we essentially face this, you would observe that out of this Rs.3865 crores, retail personal loan application, which we received for restructuring, about 60% of that would be on account of our home loan book, and rest SME is just about Rs.2,553 crores and corporate Rs.11,707 crores which is there, there is one large corporate, which is there and the remaining are not all that big corporate. We are very closely observing the behavior of our loan accounts. And I would not say that it's an it's easygoing, but yes, of course, there is a lot of effort which are required on the ground to ensure that we're in a position to maintain our asset quality book. So, that is what has been. And what we had indicated at the end of last quarter was that we will have the slippages and restructuring within Rs.60,000 crores and the kind of scenario which has got built up till now, it gives us the confidence that we should remain within the Rs.60,000 crores kind of a total slippages and restructuring. So, that's my sense. And also I would like to mention when it comes to our retail book, our retail personal we have a quality of book which is essentially to either to the salaried employees of the government or the quasi-government or public sector entities, or we have got the well-rated corporates to whom we have lent the money. So that is something which helps us in ensuring that the quality of book in the retail personal loan stays healthy.

Adarsh: I had another question on the employee cost and this is more like a negative drag on the P&L that we've had, that our employee provision has continuously been rising. We understand that rates have been going down and you would have provided for wage hikes. If you can quantify or tell what the most sustainable number is because over the last three years, this number would have gone up from 7,000, 8,000 crores, and now in nine months, you're at Rs.16,000 crores. So it's been a big drag in otherwise a very strong operating performance that you've had. So, if you can talk about how should one look at it, let's say 22,000 crores employee provision line, are there one-off, what's the sustainable number there?

Dinesh K Khara: Well, of course, this quarter which have just closed we had a situation where the wage settlement which happened some time back, we paid off money which was due for employees. So, I think we will be experiencing an increase of 1,000 crores on our normalized salary line. So that is a kind of a thing in one quarter.

Alok Choudhary: And on the provision side, it will be dependent upon mostly on the actuarial valuation. It was a one-off kind of thing because the wage revision was for the period November '17 and finally it got paid. So, that is over. Now, it will be e trending normally as a part of salary and it will be almost 970 to 1,000…

Dinesh K Khara: In fact, if you recall at the last meeting also, I had indicated that the wage bill will go up by about 300-odd crores per month. So, that is a similar trend which will be seen. So, as far as the wage bill is concerned it will move up by about Rs.1,000 crores in a quarter. But yes, of course, as a provision for the retirement benefits are concerned, it will be a function of the yield. So, that is how the things are going to be going forward. But yes, of course, the uncertainty part is now over. The wage settlement has been addressed appropriately and everybody has been paid. So no such amount is due towards savings.

Adarsh: Sorry, I'm just going to persist with this question a little bit more is, I understand that part of what we're providing for now will start sitting in the wage bill, right, as monthly payments to employees after the wage hike. But once that line moves, right, that you are creating a provision now, it's actually getting paid, should one expect Rs.6,000 crores employee provision to continue going forward per quarter assuming if yields remain where they are, let's say, yields are here and for the next two years, if yields remain here, would we continue to experience a Rs.6,000 crores provision on employees?

Dinesh K Khara: Employees were covered in the MPS also.

Alok Choudhary: Provision for employees this year has been at a rate of about Rs.3,000 crores per quarter. And the wage revision provision was in addition to that, so, we were in the 5,000 plus category in the last three quarters. But if you remove the additional provision that we were making for wages, only on account of retiral benefits, the provision for employees has been in the region of 3,000 per quarter. So, that is something is what we are saying will be normal and it'll continue assuming that yields are at this current level.

Dinesh K Khara: So I think 3,000 to 3,500 crores is something we will witness. So actually going forward, we hope to have significant savings on this particular account on this particular thing.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I wanted to reconcile the NPL movement for this quarter, sir. So, if you look at your slide #30, the nine months reported plus pro forma fresh slippage is about 23,000 crores which for first quarter and second quarter is 3637 and 2756 respectively, which leads us to a number of Rs.16,700 crores whereas the footnote says that the net addition in pro forma is about Rs.2,073 crores So, that's number one. Number two in the previous quarter the pro forma slippages where I think if I'm not wrong close to 16,000, 17,000 crores again and therefore, we are not able to reconcile what exactly has happened. In the last quarter presentation sir, you had mentioned 6,000 crores of loans have been upgraded in the month of October. So, is it something to do with that? And if not, can you help us reconcile these numbers?

Swaminathan J: That's right. See, you will have to read the slide #8 and 30 together. If you look at the first half year, 6,393 is what you're seeing here as Q1 and Q2. So, that is something which has slipped up to 30th of September. During this quarter, that is Q3, the reported slippage is only Rs.237 crores, that is in our international book because the Supreme Court interim stay applies only to the domestic book. So that is also provided in slide #8. And coming to your third part of the question, that is proforma slippage, it was Rs.14,388 crores as at the end of Q2, that has now gone up to Rs.16,461 crores. The Rs.2073 crores that you see in slide #30 shows the difference between these 14,388 crores and 16,461 crores. But as you rightly said, this Rs.2,073 crores are the net increase in the proforma slippage. Out of Rs.14,388 crores, certain part has got pulled back from the slippage level, because those installments have been serviced, some new slippages would have happened during this Q3, but the net increase is Rs.2,073 crores. But, these particular two quarters if you look at it, it is not comparable to other quarters because in the normal circumstances you would have stamped them as NPA as on 30th of September, then they will get pulled back. So, you will see the NPA movement very clearly, but in this circumstance since Q2 was also no stamping, Q3 also no stamping, we have just given that as a footnote difference between the proforma slippage as at the end of two dates; Rs.14,388 crores as of 30th September and Rs.16,461 crores as at the end of 31st December. So the Rs.23,000 crores what you see is combination of 6,393 crores reportedly was to first half year, 237 crores in the foreign offices book, and Rs.16,461 crores as a proforma slippage. That's how 23,091 crores come. Maybe offline also we can clarify in case you still have some doubt on this. Hope this clarifies.

Rahul Jain: Yes, I mean, happy to take it offline. The other question I had was on the restructuring book. Now corporate, the window, of course, for invoking is over on 31st, but retail and SME are still going to be there. So do you expect any more restructuring to play out in the fourth quarter Jan to March?

Dinesh K Khara: I don't expect any abnormal spike because what trend we have seen even in this one also, retail and SME, there also we have seen that retail and SME put together was somewhere around 6,000, 6,500 crores only. And going forward, we will wait and watch how things are. But we don't expect any exceptional situation.

Management: The restructuring in home loans and personal loans are not much. The window for MSME restructuring is available up to 31st March '21 as you know. I think there could be some additions over there. But not very substantial.

Rahul Jain: Because the gap is pretty large sir, now after having seen such good numbers on asset quality, the Rs.20,000 crores gap between what you had estimated and what has happened so far, which was supposed to be the worst of the period for the economy, I was wondering this 50% gap is, would you revisit this number or you're fairly comfortable that the number would be substantially below Rs.60,000 crores, in that context, I was just trying to understand. Essentially, slippages should also remain under control, right, in the fourth quarter, because in your opening remarks, you talked about economy coming back pretty rapidly.

Dinesh K Khara: But the fact of the matter is that the ground forces have been activated to ensure that we should be in a position to pull back our SMA-2. And that is something which has helped us all this while in ensuring the quality of the book. Hopefully, our efforts in that direction will continue going forward. And we should be in a position to deliver what we are sort of indicating.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: I just had two questions. Firstly, again on the slippage front, I understand that 20 billion or 2,000 crores is the net slippage, but of the total proforma slippage of say 167 billion in the second quarter, it was 143 billion, of which around 60 billion was upgraded in the third quarter. So can we say that the gross addition was 80 plus 20 or it was 20 only?

Dinesh K Khara: Mahrukh, you are right. What happens is that as I explained, since these were not stamped, so the question of upgrade does not arise. If you recall, we had taken this as

90-days DPD. Since no NPA tracking is allowed or stamping is allowed on the Supreme Court order, these numbers are reported on the basis of whatever accounts that shows 90-days DPD. So 143 billion was showing 90-days DPD at that point in time, subsequently, as you rightly said, 60, 70 billion got pulled back, maybe another 70, 80 billion would have got added to that list during the quarter. That is how the net increase in the proforma slippage is by Rs.20 billion. This is something that will keep happening, because the accounts that are past due, you get followed up for recovery. And while a few other accounts, which are in SMA-2, may go towards 90-days DPD. This is the typical loan lifecycle. So that is how it moves.

Mahrukh Adajania: How much of your loans would be under MCLR? And how much is under repo linked? And what portion of the MCLR book will you reprice within one year?

Dinesh K Khara: MCLR book is about 75%, and repo linked, that is EBLR is actually about 15%. Repricing, MCLR, we have started six months also.

Management: Maybe the numbers we will share with you.

Dinesh K Khara: What will happen is that some of the book would be due for repricing now within six months, because this was a change which happened during the middle of last year, which was 1st of July. So only such loans which have been repriced, after that would have this interest rate clause, wherein six months repricing will come.

Mahrukh Adajania: So most of the book is still one year or six months MCLR?

Dinesh K Khara: Most would be one year, but yes, of course, as we are moving ahead in this financial year, they will come towards six months.

Mahrukh Adajania: You said that in restructuring, there's only one large corporate account and then the rest are all small corporate accounts. So, would you be able to quantify the large corporate account?

Dinesh K Khara: Large corporate is because of the rating, not because of the exposure.

Moderator: Thank you. The next question is from the line of Saurav from JP Morgan. Please go ahead.

Saurav: Sir, two questions. One is on the recovery. So, in Q4, what would be your expectation for recovery both from the housing company and the steel company? And second is on this SMA-2. You expect 2,000 crores-odd restructuring. What will be the sectoral composition of this SMA-2, I mean, this will be large corporates or this will all be small corporate?

Dinesh K Khara: These are CRYLC Rs.5 crores and above.

Saurav: Will there be large corporate in this or?

Management: Yes, all above Rs.5 crores is included.

Dinesh K Khara: Rs.5 crores and above, but predominantly it will be all corporates.

Saurav: So will it be fair to assume that good part of this less than to Q4 or?

Dinesh K Khara: Yes, we hope that we should be in a position to pull back a significant component of this SMA-2. It's also not comparable with Q1 and Q2 because Q1 there was moratorium, Q2 there was just only one installment due. So this number is not strictly comparable on a quarter-on-quarter movement and this is across the sectors exposures among the corporates, there is no very large…

Management: There is no specific industry we have witnessed in this.

Saurav: On the recovery prospects?

Dinesh K Khara: Large account recovery, well, of course, that I think we're all keeping our fingers crossed. Let's see whenever it happens.

Moderator: Thank you very much. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: On margins, I just wanted to get your outlook because you would have seen the worst of the impact on interest reversal as well as the drag on liquidity. Hopefully on both these counts, incrementally, things should get better. So how do you look at net interest margin over the next six to 12-months?

Dinesh K Khara: Domestic NIM is about 3.34. And if we reckon the impact of the stress which is there, restructuring and all that, and also, the proforma slippages, and I think it will have an impact of nine to 10 basis points. But since we have already provided for it, I don't think that will have an impact on the P&L. And the NIM, yes, of course, we don't expect impact of more than nine months to 10 basis points.

Management: Interest rates are bottomed out. So there's no pressure in that.

Dinesh K Khara: Actually, going forward, we will know what the trajectory is, though the yields in the investment side have started moving on. So, let us see how things really look like going forward.

Manish Shukla: Sorry, the interest reversal on pro forma NPA, has that been charged to the NII line or it is in the provision line?

Dinesh K Khara: It's in the provision line.

Manish Shukla: So adjusted for that, margins would have been lower one 8 to 10 basis points?

Dinesh K Khara: 8 to 9 basis points.

Manish Shukla: You talked about this year's credit cost being sub-2%. Are you willing to put a number for FY'22?

Dinesh K Khara: I think FY'22, we'll have to see how things will evolve. It's too early to give some kind of a guidance on the credit costs for FY'22.

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

Anand Laddha: On the provisioning line, can you explain how much provision we have made on the proforma slippages this quarter? And also there is other provisioning item of Rs.6,000 crores. How much is the floating provision we are carrying? Floating provision means operating provision not linked to either proforma NPA, not linked to restructured? This is floating which we are not adjusting even in the net NPA number.

Dinesh K Khara: Estimated proforma slippages which we have reconciled for Q3 financial year '21, that is aggregating to about 16,461 crores. And for that we have created a provision of Rs.5,265 crores. We have restructuring applications worth about Rs.18,000 crores, for which provision of Rs.1,464 crores we have already created, then we also have got Rs.348 crores provision lying in the standard asset for these assets. And the COVID related general provisions which we have created they are Rs.6,008 crores. These are all general contingency.

Anand Laddha: General floating related to COVID is 6,000 crores which we have made this quarter?

Dinesh K Khara: We have made Rs.3,000 crores in this quarter. In total as you could see in page number nine under three different categories 5,885 crores is the general contingency at this point in time.

Anand Laddha: When you indicated Rs.5,265 crores is the provision for proforma slippages, has been made in the current quarter itself, not in Q2 plus Q3?

Dinesh K Khara: It is both in Q2 and Q3; Rs.3,194 crores in Q2 and Rs.2,071 crores in Q3.

Anand Laddha: If you take on the presentation where you had given the breakup of the provisioning cost, wherein you had given the provision for NPA as Rs.2,300 crores, standard asset provisioning as Rs.1,500 crores. I understand standard asset provisioning would have the provisioning on restructured book.

Management: Only to the extent of Rs.348 on those accounts which have been implemented for restructuring.

Anand Laddha: We also have Rs.500 crores of investment depreciation. If I look at the last nine months, the investment depreciation provisioning is almost at 2,400 crores. Given that the yields have been falling in general, I don't know whether this provision has been made on some investment book turning NPA?

Dinesh K Khara: This is essentially a provision which we have created on the security receipts.

Management: From the Q1 Rs.600 crores.

Dinesh K Khara: We're actually providing for the security receipts which are holdings in our investment book, and we tend to take care of any future hit on that account also.

Anand Laddha: What is outstanding SR and how much we have made so far provision and do you expect Rs.600 crores to continue every quarter?

Dinesh K Khara: Rs.8,500 crores are the total book and the normal MTM provision is about 1,100 crores and the accelerated provision is 1,800 crores spread over three quarters.

Anand Laddha: So Rs.600 crores is extra provision we have made on this?

Dinesh K Khara: Every quarter we have made and we will continue till we provide a full amount.

Anand Laddha: Sir, how much has been our disbursement under ECLGS scheme?

Management: Total sanction is Rs.26,000 crores cumulative and out of which Rs.23,000 crores has been disbursed cumulatively.

Anand Laddha: Of this Rs.23,000 crores or Rs.26,000 crores, how much could be on ECLGS-1 and 2?

Management: Two is very small; it is just about Rs.488 crores, rest is in ECLGS-1.

Anand Laddha: Lastly, on the employee provisioning side, this quarter the provisioning cost was Rs.6,000-odd crores and you indicated in the first question that going forward this will decline to Rs.3,500 crores. Is that right?

Management: This Rs.3,500 crores provision that goes towards retiral benefits and about Rs.2,500 crores on the arrears paid up to December. So, going forward the increase in wage will be about Rs.1,000 crores per quarter, around 5% and Rs.3,500 crores if we assume the same run rate, the retiral provision will continue. So, it will be about Rs.4,500 we can say will be something a number that we can keep going for.

Anand Laddha: Our salary costs and provision for employees taken together is Rs.13,000 crores. What I understand is this will decline by Rs.1,000 crores next quarter. Is that correct or this will increase by Rs.1,000 crores next quarter?

Dinesh K Khara: About Rs.1,000 reduction, we can expect.

Anand Laddha: And lastly, sir on the treasury side, if I look at the peer bank and the fall in the GSec, we may not choose to book treasury gain given the size of the investment book, our treasury gain seems to be quite low. And also, the UTI stake sale, is it part of our treasury gain for Q3?

Dinesh K Khara: Yes, it is part of Q3, I think Rs.400-odd crores.

Anand Laddha: And even excluding that our treasury gain, which means is closer to Rs.500, 600 crores this quarter, seems quite low for our size of investment book sir?

Management: All that perhaps has been accounted in the first two quarters. This quarter was largely flat to tell you very frankly, the movement of the yields was between 5.84 and 6.03, of course, we've seen a spike now. And on the AFS side, our duration remains low. So, obviously the opportunity to book profits in a significant manner wasn't there.

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

Amit Premchandani: Sir, last quarter, you had given a kind of guidance of Rs.60,000 crores of total slippage and restructuring till end of FY'21. And by this quarter, the number is Rs.41,000 crores. Do you still hold that Rs.60,000 crores estimate for this year or given the context would you like to revise it downwards?

Dinesh K Khara: Our effort and endeavor would be to revise its downward. But as of now, we will retain it at Rs.60,000 crores. We believe in delivering better than the promise.

Amit Premchandani: Is there any restructuring pipeline which is not part of the Rs.18,000 crores that you expect going forward?

Dinesh K Khara: I think nothing very significant, but yes, of course. if at all something comes, we should be in a position to take.

Amit Premchandani: But just for understanding, after December there can be no fresh application except for MSME, is that the correct understanding?

Dinesh K Khara: You are right.

Amit Premchandani: And these 18,000 crores include all applications that you have received till December, not what you have actually implemented?

Management: Out of 18,000 crores what we have already received, 4,500 crores is what we have already implemented.

Amit Premchandani: In an earlier question, there was a guidance that there is Rs.1,000 crores increase on a normal basis on staff expense post the wage revision. And in the previous question, I think you said that, there will be Rs.1,000 crores deduction in staff expenses. So I just want to understand this Rs.13,000 crores staff expense in third quarter is likely to move on a normal basis to Rs.14,000 crores?

Dinesh K Khara: Just one second, I think to put all uncertainties on ground. So, our quarterly Rs. 6,900 crores are the new salary bill, which will be there. Add as far as the provisions are concerned, we will not be required to make a provision for any kind of a wage revision. So, that is something which will be about Rs. 1,000 crores will go away, isn't it? So, which means that Rs. 6,900 crores, which is about salary bill of about Rs. 7,000 crores, plus Rs. 1,000 crores less on account of provision for employees, which will be about Rs. 5,000-odd crores which still have the provisions, including the retirement benefit. So, that is a likely number, about Rs. 12,000 crores are something which we will have the staff expenses for a quarter.

Amit Premchandani: Sure. That was that was clear. And sir, the CET-1 number that you have reported, that includes the profit for the year, or it is excluding that, 10.27?

Dinesh K Khara: CET-1 includes that.

Amit Premchandani: So 10.27 includes the profit for the year?

Dinesh K Khara: True.

Moderator: Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global Services. Please go ahead.

Ashok Ajmera: Sir, compliment to you for yet another good quarter. Though the future optimism is there, but we have not yet come out of the total problems, and still coming out with this kind of result really deserves a compliment. And other thanks you very much for giving a very optimistic future guidance. So sir, having said that, like what are your views on the recent budget announcement on privatization of two PSU banks and one insurance company? And a major thrust on the spending on infrastructure and huge allotment, going even for the deficit financing. So, what are your views on these developments in the budget and how it affects our bank? Mainly it should be positive only. So what are your views on that, sir? My first question.

Dinesh K Khara: I think in order to repair the economy and to revive the demand, perhaps this was a necessity of the economy. And that is something which has been addressed very well by the honorable Finance Minister in the recent budget announcements. So I think going forward, I would perceive that it will definitely have a positive impact for demand generation, both from the corporate as well as from the retail, employment creation, and also which will overall bring in a whole lot of positivity in the economy. I think positivity will go a long way in terms of supporting the growth ambition and aspiration of our bank also.

Ashok Ajmera: So sir, will you in that case revise or give some guidance? Because our corporate book seems to be flat, in this quarter there is hardly anything in that. But now with these new things coming up, and I hear from some of the general managers that some of the cases could not come in the committees, because there were a lot of cases and some points have to be deferred. So, in view of this, suddenly optimism coming and the budget provisions are coming very positive, would you like to give some kind of revision or a fresh guidance for our overall advances, including the corporate book?

Dinesh K Khara: Yes, I think at the material point of time we will certainly come back with the revised guidance. And we are at the beginning and let it start showing up in the action on ground. And once we will see that action we will certainly come back with the revised guidance.

Ashok Ajmera: Sir, I have just a couple of small questions, queries on our loan book. Sir, our loan book of AAA has come down from 32% to 31%, but AA has gone up by 1 percentage point, in other there is no change. So is it because of the downgrade of those corporates or those companies? Or is it a little bit of a small reshuffling of the portfolio?

Dinesh K Khara: No, I think it is more on account of the rerating of some of the AAA companies to AA.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&P Securities. Please go ahead.

Jai Mundhra: Congratulations on good set of numbers. Sir, I have one question from RBI FSR. So, they had mentioned that at system level the SMA-2 number is 7% as of November, and then there is a 3% additional SMA-1 number. So SMA-1 plus SMA-2 put together is 10% of the system. And considering our size, we are 25% of the system already. And we have this SMA-1 plus SMA-2 number at 1%. So what is the reconciliation if you can throw some light?

Dinesh K Khara: RBI guidance is at a system level. And these numbers are at the bank level. I will not be in a position to comment on what is happening in the system, I can only say what is happening within the bank. So I think from that point of view, we have taken cognizance of whatever is asset quality at our end and it has been duly certified and validated by the statutory auditors also. So I am unable to really do the reconciliation for the system and the bank.

Jai Mundhra: Sure, sir. Thank you. And the second and last question is, I mean, for the last two years we have done very well on corporate asset quality, as well as the retail asset quality, which is one of the riskiest. The question is really on agri side and SME, and particularly more on agri, which has given some negative surprise over the last two years. So if you can comment on the asset quality in the agri segment. Thank you.

Management: Well, as far as agri is concerned, I would say that, yes, we have got some kind of a challenge there. But we are trying to grapple with the situation. And hopefully we will get over these particular phenomena which we are seeing. Last year was a good crop season. And hopefully, if at all this year also continues to be good, maybe we will get to see some kind of a further improvement also.

Jai Mundhra: So the usual agri cycle that we have is first quarter and third quarter. Do you suspect any higher agri slippages for fourth quarter?

Management: No, we don't expect any higher slippages in fourth quarter. But yes, of course, we are addressing the concerns of the agri book.

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

Kunal Shah: Congratulations for great set of numbers. On fee income side, if we look at it in terms of the way we had seen the overall activity levels picking up, currently also when we look at it, it's more kind of flattish, so across most of the line items we had seen a very good traction. So what would be our strategy on the fee income side in terms of the improvements from the current levels?

And secondly, last time we highlighted ECLGS disbursements to be Rs. 22,000-odd crores, and now we are seeing Rs. 23,000 crores. So is it like this quarter it was much lower or maybe last quarter when we highlighted, that included October disbursements as well and that number includes October? Because otherwise the SME portfolio is growing by 6% sequentially, but ECLGS is hardly Rs. 1,000 crores kind of an increase in the last disclosed numbers. So is it because of October or there was a further disbursement as well?

Dinesh K Khara: See, this month, of course, ECLGS is much lower in this quarter. And we have picked up SME growth in the other segments other than the ECGLS. So that is the reason why you are seeing better growth in SME as compared to the ECLGS. Now your other question relating to the fee income being flat. We have seen very erratic behavior during this current financial year, and that is something which has got its impact on the fee income. There are a couple of things we have seen good traction, but yes, overall, the behavior has not been very consistent. So, that is a reason. LC bank guarantee, exports of the country got affected for a good part of this year, so I think that is one of the reasons why we have not seen much of an increase there. Overall, it has remained at the same level. Cross selling, we are started seeing some improvement because it involves people moving out. These products are not bought, they're sold, which requires our employer force to be mobile. Commission on government business is a function of, I mean, some of the government activities are also being undertaken by Reserve Bank of India increasingly, so that is also having an impact. Loan processing charges have seen an increase, and upon maintenance it was a conscious call on the bank, we are not having any account maintenance charges now. So, we have waived all those account maintenance charges or SMS fee etc. So, that is the reason why we are seeing some kind of a lower income in this. Remittance and collection are a function of, we normally have inward remittances, so that is not something which is there, because what we have seen in the year, people moved from the urban locations to the villages. So, that is why this has come down. Then miscellaneous income, there is rather an increase of about Rs. 1,400, which was about Rs. 200 crores increase. So, that explains the fee income.

Kunal Shah: And do we see it falling in line with the balance sheet growth going forward? Or maybe this year was slightly erratic and not consistent?

Dinesh K Khara: So, I think perhaps it will evolve. And I expect that commission on LC bank guarantee, loan processing, cross selling, and remittances, they should continue to see an upward increase in the coming year with the increased economic activity.

Kunal Shah: Sure. And just a clarification. So this Rs. 16,000 crores of quarter-on-quarter increase in SME, Rs. 1,000 crores are only because of ECLGS and balance would be because of the opportunities which we have seen outside of ECLGS.

Dinesh K Khara: That's right.

Moderator: Thank you. The next question is from the line of Nilanjan from Nomura. Please go ahead.

Nilanjan Karfa: Sir, first question would be, just trying to tally the total provision that we are carrying on the books. So roughly there is about Rs. 8,800 crores of specific provision, right? That's one. Second is, at the start of the year we had about Rs. 11,500-odd crores of standard provision, on which, in three quarters we have added about Rs. 1,500-odd crores. So that's about Rs. 13,000 crores of standard provision. And in addition to that, we have Rs. 13,000 crores of COVID related provisions. So Rs. 13,000 crores, Rs. 13,000 crores and Rs. 8800 crores roughly, is the broad match right?

Dinesh K Khara: Yes.

Nilanjan Karfa: Okay, good. That's good to hear. Second on the SMA-2 book, I mean, obviously, there is a bit of an overlap with pro forma and restructured. Barring that, I mean, it's a bit higher. So what stops you from being quite optimistic on credit costs for next year? Why are you refusing to give out a guidance, let's say, credit cost of 1%? What is it that thing that bothers you?

Dinesh K Khara: I think we will have to evaluate the scenario and we will have to understand the scenario very clearly, then only we would like to give any kind of a guidance on the credit cost.

Nilanjan Karfa: Okay. Just a point, I mean, what bothers you actually? I mean, which part of that economic bothers you today?

Dinesh K Khara: See, I think nobody had visualized COVID in the month of December 2019. But all of us got hit by COVID in the month of March 2020. So, these are the uncertainties which always are there at the back of the mind. But we can be sure that we will keep the credit cost within 2%. That was our guidance, and we stick to that.

Management: And that is a broader guidance and going again into the nitty gritty is something which we are a little cautious on that front. But as far as 2%, it still stands good.

Nilanjan Karfa: Fair point. And probably a final question on the ECLGS disbursal and to whoever we have disbursed, what kind of offtake have you seen, cash credit utilization that you have seen, has it gone up or anything that you can mention on that side?

Management: Yes, cash credit utilization for the mid-corporates and some of the large corporates also, we have seen an improvement in this quarter, as compared to what we had seen till second quarter. And hopefully, I expect that with increased demand, we will get to see better utilization of the working capital limits. So, that is a kind of a scenario we are visualizing.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, my question was on SMA only. So if you are excluding overlaps, I mean, when you see the SMA book settling, SMA-1 plus SMA-2, where do you see that settling, I mean, at what level? These would be the December figures, right, so in March would it be substantially lower, how does it play out?

Dinesh K Khara: Mahrukh, it will be difficult to put a number to it at this point in time for two reasons, some of this book, as you rightly said, there is an overlap on restructuring also, but that has got to get completed. And as sectors bouncing back, we are seeing a bit of uneven recovery in certain areas. So the end of Q4 is what we will probably get as clarity on the complete impact of the COVID. So at this point in time, it's difficult to put a number, but it's our endeavor to ensure that these estimates remain in line. So we would like to keep those guidance's intact.

Management: The sum total of SMA-1 and SMA-2, which is about Rs. 18,000-odd crores, that is our endeavor that we should keep it within Rs. 18,000 crores.

Dinesh K Khara: We will try to keep that in line with the trend. And it is also strictly not comparable with the previous quarter, so making an estimation for Q4 at this point in time, I think we will rather wait for this couple of months and then we should be able to get a complete clarity by end of this year.

Mahrukh Adajania: Okay. But basically most of the corporate restructuring would be in SMA-1 or SMA-2, right?

Management: There will be an overlap.

Mahrukh Adajania: Yes, you have mentioned the overlap. But would that be a fresh downgrade during the quarter?

Management: If it goes through the restructuring, there is no downgrade. If it doesn't, it can slip. In case if the restructuring is not implemented or they are not eligible for a restructuring, then it would slip by the end of this quarter. The point is that the SMA book, the slippage book, the restructuring book, altogether there is only overall guidance that we can provide at this point in time, and we will remain within that line.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Just two questions. One is, what do you think how the recoveries and upgradations could play out over the next couple of quarters? This quarter we did some Rs. 5,000-odd crores, how do you think this could play out any lumpy accounts, you think could be recovered in the subsequent quarters?

Dinesh K Khara: There are at least two lumpy accounts, but the timing, it is too difficult to predict. Though our efforts are to see that it comes to fruition fast but let us wait and watch. But nevertheless, retail recovery which we have seen, we will continue that.

Rahul Jain: Correct. The other question was on YONO, so this quarter also I think you had a pretty good traction on the personal loan side from that app. Can you just tell us or help us understand what proportion of the retail loans are now coming from YONO lead originations and if you can also share the profits that you made in that app for this quarter.

Dinesh K Khara: Actually, retail loan has got multiple components, one among them is our PAPL, which is of course, I think that's a good number, all the digital loans which we have about, 40% of their personal loans are being contributed by this YONO, that is one.

Rahul Jain: Sorry, sir, can you repeat, of the total digital loans?

Management: Of the total retail loans, 41% comes through the digital mode.

Management: So just let me clarify, actually in the retail personal sales, we have unsecured personal loans, educational loans, gold loans, right? We effectively moved gold loan and unsecured personal loans, either pre-approved or with a part journey in the branch level. The journey is more digital, that is how the composition of 40% and the overall digital portfolio is coming. But if you take personal loan as such, I think it is almost 60% which happens in the digital channels.

Rahul Jain: Got it. And these would be the incremental numbers, I presume, dispersals essentially?

Management: No, this pipeline is new loans.

Management: I think the last quarter it was 5,100, as compared to that it is 5,300 in this quarter. I think going forward we'll get to see this kind of a number.

Management: It is the same story, the three quarters we have done about 16,000 PAPL, which is a digitally driven product.

Rahul Jain: And these would be your own incumbent customers?

Management: It is bank analytics based.

Management: They are all AT based existing customers.

Rahul Jain: And sir, what would be the profits made through YONO this quarter?

Management: We have not worked out those numbers, but maybe next quarter we will come out with some kind of a question benefit, I mean, income and cost also.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: So if you look at this quarter, this was the first full quarter after the moratorium ended, and we also had the restructuring book expiring. Where restructuring plus slippage for you is roughly Rs. 11,700 crores for you. Shouldn't next quarter be meaningfully lower than that because the impact of these two would kind of go away? If I look at the total stress, restructuring plus slippages.

Dinesh K Khara: Our effort will be that it should be lower, but as guidance is concerned, we are still sticking to the guidance of Rs. 60,000 crores, because we believe in delivering better than the promise.

Manish Shukla: Sure. Last question on that capital, what is your assessment of your capital requirements and any plans, either at the parent or subsidiary asset monetization?

Dinesh K Khara: See, I think we will have to wait for the close of the next quarter, then perhaps we will start reviewing the situation. Monetization of subsidiary, maybe that call also we will take at the beginning of the next financial year.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from Ahmed Capital. Please go ahead.

Rahul Maheshwari: First of all, congrats on a good set of numbers. Sir, my two questions basically, one, you have given a detail on the financial inclusion and your basic strategic agenda is to take to 20% of your business. How you would manage the risk on the financial inclusion, one from moving to the micro market? Do SBI, as a nationalized bank, has the priority to do it? But on the risk-reward basis how you manage that? First question is that.

And second thing, in the budget there was an announcement on the aggregation of the bad bank, and you have a stress resolution group which you had given some guidance of Rs. 9,250 crores are there that you have created in-house. So how this would be going forward? And if given a chance, I don't want to hear that what kind of capital and all this will you as a management would be participating in it, whether what is the direction, and can you give some color on it?

Management: So when it comes to financial inclusion, yes, of course. We are leveraging the strength of our BCs and the distribution reach of our BCs. And yes, we perceive this to be a very important channel to serve our rural customers. And going forward, we have a very elaborate structure which we have put in place on ground to take care of this particular structure. So, I think we are quite hopeful, we understand this space well. And yes, we are very mindful that this space, we need the partners and that is something which we are doing now. I am sure we will be in a position to collaborate with the partners and can leverage on the competitive advantage of each other. So that will be the fundamental on which we will actually be driving this channel.

Your other question is relating to bad bank. I think bad bank, we are awaiting the instructions from the government and once we hear from the government, that perhaps we will be in a position to decide or maybe plan out our course of action in that direction.

Rahul Maheshwari: But within SBI you had created a stress resolution group, can you give update what kind of size it has become and where you find the direction?

Dinesh K Khara: Stress assets resolution group is sitting within the bank, and when it is sitting within the bank, we are in a position to resolve these assets within the ambit of SARFAESI, IBC and then compromise one-time settlement etc., and also looking at offering such assets in the M&A opportunities. So, that is what we are really doing in the stress assets. If at all it's a bad bank, it will actually lead to aggregation of all such assets. And the kind of aberrations which are there for the asset being held by various banks and the time taken for aggregation, all that will be addressed in this bad bank. But yes, of course, it will require some kind of regulatory approval also, both in terms of pricing at which the assets will get transferred. So we are waiting for those finer guidelines. And once it comes, we will have a better handle, we will have a better understanding of what should be done for this bad bank, and how much we can move away from the bank.

Management: Just to supplement on the capital possibly required or transfer, the stress assets book is provided to the extent of 95%, and overall provision coverage is at 90%. So whatever price mechanism that is arrived at for transfer, there will not be additional pressure on us in terms of any further allocation to this.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Systematix Group. Please go ahead.

Rakesh Kumar: Sir, one question. Firstly, with respect to our tenor premium priced in the MCLR number, which has not changed in the last, say, more than a year. If we see the market tenor premium, it has gone up significantly from close to around 35 to 40 bps to 106 bps now. So what is the reason that we are not revising our tenor premium in the MCLR?

Dinesh K Khara: The part of it is a competition. And the other part is our cost of funding, we are in a position to offer loans at that kind of a rate.

Rakesh Kumar: Okay. But it is just at 30 bps since December 2019, the two-year tenor premium for us. And market rate has gone 106 bps from 30, 35 bps. So there is a big gap actually.

Management: If you are looking from any particular slide number, you can tell us, we will come back to you separately.

Rakesh Kumar: No, this is not there in your PPT, sir. I am just trying to think that the MCLR can be much higher, at least on the longer tenor for us, but that is not the case. And if the MCLR being so, there can be significant improvement in the lending rates, WLR, and overall yields. So, that is what I am trying to arrive at. So that is the whole thing.

Dinesh K Khara: Theoretically, there could be a case for increasing the tenor premium. But then given the liquidity and the absence of quality business that is available, there is really very little room for tinkering the tenor premium. And then the stance also has been status quo as far as the rates are concerned. And we would like to see a good pickup or probably a reversal trend, if it happens on the interstate scenario, then probably we can reduce these items. Otherwise, as long as the stand remains status quo, we will probably see a similar rate good forward. But in any case, we can take you offline and clarify in terms of how these are calculated and why we are holding on at this stage, we will clarify to you. Go ahead if you have any follow-on on that.

Rakesh Kumar: Yes, sir just one more question. Like if we see the credit risk premium for AAA rated bond and three-year government bonds, it has come to negative actually in January. So, how we are pricing our credit risk premium in MCLR?

Management: So, we have to be in the market, number one. Number two, we are very careful to whom we extend this facility. And given the current liquidity in the system, we do think that some kind of mispricing is also happening there. So, just suffice to say that we will be very careful over here. But if at all it is going to be extended, it's going to be at the short end of the curve, number one; and we will be very selective.

Moderator: Ladies and gentlemen, the last question will be from the line of Himanshu Upadhyay from PJM Indian Mutual Fund. Please go ahead.

Himanshu Upadhyay: I had a question on the retail portion of the business, which is this our express credit, unsecured business, which has grown by 35%. And it's today nearly 6% to 7% of our outstanding loans, overall size. Can you throw some more light what is the average tenor of these loans? And the rate at which these loans are there? And because it's such a high growth, but if we seasoned out one year back loans or loans which were given one and half year back, what would be the gross NPAs in this product?

Dinesh K Khara: Express Card, our loan life may be about 30 months?

Management: We give it for a tenor of three to five years, depending on what is eligibility. But I think most of the loans because it is a high churning product, they run about two to three years and people come. Of course, we have not seen the full cycle of the credit. But as far as the stress in our NPAs, and even ageing book, we have not seen anything beyond 0.5% on the portfolio level.

Management: Actually it is 0.36%.

Management: So it continues to be much lower even after two years of this Express Credit journey. So, we have not seen anything specifically stressful in this. And also, as we have been saying, this Express Credit or be pre-approved personal loan are given to essentially high-quality borrowers based on very stringent credit underwriting norms and aimed at our corporate salary package customers.

Himanshu Upadhyay: Okay. And do you expect the growth momentum in this product to continue? Because if that goes on in next one a year, this can be one of the very big products for us, nearly 10% of the book would show such a growth.

Dinesh K Khara: I think as of now still we have got base which has not been extended, but we are very selective, we decide the outgo beforehand and then only we go for reaching out to the customer.

Himanshu Upadhyay: How many of our customers or a percentage of book we would have already penetrated? I mean, this Express Credit would be to our own existing customers, not to outside.

Dinesh K Khara: That's right.

Management: Just as a data point, we have got 1.6 crore customers under the corporate salary package, penetration in just about 40% to 45%.

Himanshu Upadhyay: So for Express it would be even lesser than 40% to 45%, you are saying?

Management: On the overall universal customers it is much lower. But I am just talking about the high-quality corporate salary package customers would tend to be our primary target.

Himanshu Upadhyay: Okay. And the demand is high for what reason, means in this Express Credit? Because if the salaries are there, then why is the demand being so strong?

Management: No, many of them they monetize their future salaries, particularly defense personnel, government employees, they will have some immediate requirement of funds. We saw that many jawans, when they go on furlough, they just come and take a personal loan, Express Credit. Because when they go home they need some house repairs and all these things or some marriage in the family. So, this is a very, very popular product among the defense personnel. And it is much cheaper than what they can borrow from the market. While it is a very good product internally for us, we feel that it is an affordable unsecured debt which we are making available to the salaried class. So I think that is the success of this product.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that would be the last question for today. I will now hand the conference over to the Chairman for closing comments.

Dinesh K Khara: Thank you very much to all the participants of this Analyst Meet. We have tried to answer all the questions. But if at all there are certain questions which remain unreplied, I request you guys to send them over here. And we will be more than happy to respond back on those. Thank you very much once again, and good night.

Moderator: Thank you very much. On behalf of State Bank of India, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.