Q2FY21

EARNINGS CONFERENCE CALL

Transcript

04.11.2020

MANAGEMENT:

MR. DINESH KUMAR KHARA
CHAIRMAN, STATE BANK OF INDIA

MR. C.S. SETTY
MANAGING DIRECTOR (RETAIL & DIGITAL BANKING) & ADDITIONAL CHARGE (STRESSED ASSETS)

MR. ASHWANI BHATIA
MANAGING DIRECTOR (GLOBAL BANKING & SUBSIDIARIES) & ADDITIONAL CHARGE COMMERCIAL CLIENT GROUP, IT, RISK

MR. SWAMINATHAN J
DEPUTY MANAGING DIRECTOR (FINANCE)

MR. PAWAN 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 Q2FY21 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 & Review), State Bank of India. Thank you and over to you, sir.

Pawan Kedia: Good evening, ladies and gentlemen. I am Pawan Kedia – General Manager, Performance, Planning and Review. On behalf of the top management of SBI, I extend a warm welcome to all joining us today on SBI Q2FY21 Earning Conference Call. On the call today, we have with us our Chairman -- Mr. Dinesh Kumar Khara; Mr. C.S. Setty -- Managing Director (Retail & Digital Banking) with additional charge of Stressed Assets; Mr. Ashwani Bhatia -- Managing Director (Global Banking & Subsidiaries) with additional charge of Commercial Client Group, IT & Risk; and Mr. J. Swaminathan – Deputy Managing Director (Finance).

Before I request our Chairman to give a brief summary of the Bank's Q2 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 are statements based on management's current expectation and are subject to uncertainty and changes in circumstances. Actual outcome may differ materially from those included in the statement due to a variety of factors. Thank you.

Now I would request our Chairman to make his opening remarks. Thank you.

Dinesh Kumar Khara: Thank you. Very good evening to all of you friends. Thanks for joining the call today. We hope you and your family are safe and in good health. At the outset, I wish to thank all the frontline COVID warriors in the medical fraternity and essential service providers who have been working tirelessly to keep the country safe and running during these times of crisis.

I would also like to thank all my colleagues who have been working through the pandemic and upholding the Banks commitment to serve its customers. It's a privilege to lead an organisation that has been at the forefront of many a path breaking and innovative changes in Indian Banking landscape.

Coming to the quarter ended September 2020, our assessment indicates an upward momentum in economic activities. Most companies are suggesting that activity levels are touching 70-80% of pre-COVID levels. Vehicle registrations, including tractors, are increasing. GST collections for October 2020 has crossed the 1 lakh crore mark and is highest since February 2020. These are tell-tale signs that the economy is recovering.

At SBI also we are witnessing visible uptick in retail sanctions and disbursements. I believe the Analysts' Presentation is available to all of you by now. The disbursements in home loans as well as other personal segment loans during September 2020 are significantly higher than the corresponding period of last year.

Another key trend emerging during this period is that our Asset Quality is holding up well. Our total slippages for the half year ended September 2020, including the proforma slippages but for Hon'ble Supreme Court interim order, stands at Rs. 20,781 crores as against Rs. 25,017 crores of slippages in the first half of FY20. More importantly, we have been able to pull back almost half of these Q2 proforma slippages of Rs. 14,388 crores during the month of October 2020. Also, we have made adequate COVID related provisions for all slippages during this quarter and we do not envisage any pressure on our profitability should these accounts get stamped as NPA.

Another important feature is the strength of our liability franchise; a key determinant in protecting our NIM even in the falling rate scenario as we have been able to raise adequate low-cost deposits. We have added almost Rs. 1,85,000 crores of Savings Bank deposits YoY.

We could also raise Tier-II and AT-1 capital to the tune of Rs. 19,931 crores at benchmark setting rates. We can proudly say that the SBI's AT-1 offering may well have revived the AT-1 market in India.

Now before, we go into the numbers for the quarter, allow me to give some perspective into the long-term fundamentals of the Bank and how the results should be read with that perspective. This is an institution unmatched in scale, and with challenges that may not be relevant to most other players in the industry.

Even though we have been the dominant incumbent in industry, we have harnessed opportunities to evolve, transform and create value for stakeholders.

For example, let me take you through our evolution in retail lending. At our high base, we have grown the retail book at a CAGR of 20% over the last 20 years. Today, we are the largest home loan provider in the country - with very low risk weights, loans to salaried, first time homebuyers primarily. As you would recall, SBI's book under moratorium was just 9.5%. And the collection efficiency that is being witnessed is at an impressive 97% (excluding Agri). This indicates that the profile of our loan customers is very strong.

Another shining example of our adapting to changing times is evolution as a digital bank through YONO. We have a registered user base of 28.5mn, with close to 60,000 customers registering daily. We have a loan portfolio of Rs 25,000 crores and a deposit portfolio of Rs 60,000 crores, which has been mobilized through YONO. We are certain YONO will create significant value for all our stakeholders.

The past 3-4 years have been a blip on the radar as the Indian Banking Industry went through the most difficult phase of Corporate Asset Quality cycle. However, we took out strong interventions to address the issue like improving our credit underwriting standards and managing risk profile across asset classes. The returns have since started improving and we are sanguine that we will see better RoA and RoE numbers in near future.

Another major achievement for the Bank has been the evolution of its subsidiaries. Our subsidiaries are also leaders in their respective businesses. All these subsidiaries have world renowned partners and top of the board corporate governance and processes.

Coming to the quarterly performance, our Net Profit for the quarter at Rs. 4,574 crores has increased 51.88% YoY. Operating Profit for the quarter has declined slightly, but that is due to the one-time income of Rs. 3,484 crores in Q2FY20 and Rs. 1,540 crores in Q2FY21 from stake sale of SBI Life. Excluding these one-off items, our Operating Profit has improved by about 12% YoY. NIM for the quarter at 3.34% has improved by 12 bps YoY and 10 bps over previous quarter.

Retail personal advances have grown by 14.55% YoY, despite a difficult first quarter, which indicates a strong rebound in the second quarter.

While there are clear signs of a rebound, its early to conclude on the possible final impact of this once-in-a-lifetime pandemic. We are watching the evolving situation very carefully and building up adequate cushion to absorb the impact without any volatility in our P&L and Balance Sheet.

I think it would be good for me to open the forum for “Questions.” Thank you very much for joining this analyst call.

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

Mahrukh Adajania: My question is on collection efficiency. So could you break down collection efficiency of the morat and non-morat book? And also, definition of September collections upon September billing or would it include overdues of past months as well?

Dinesh Kumar Khara: Well, Mahrukh, I think when it comes to collection efficiency, the way we have looked at it is, it is the proportion of accounts where the payments are coming in and actually this payment is in the context of what demand we have raised. So which means that whatever EMIs are due and how much payment we have received, so the comparative position of the two has shown up the collection efficiency. So, when it comes to the moratorium and non-moratorium book, we are not really tracking on those lines, we are tracking for all the accounts whatever EMIs are dues and how much we have recovered, that is something which we have compared and that is what has led to this 97% kind of a collection efficiency which we have shown.

Mahrukh Adajania: And that 97 is of September, correct?

Dinesh Kumar Khara: This is for the quarter.

Mahrukh Adajania: Would you have any rough number for October?

Dinesh Kumar Khara: October is slightly better; it has improved to about 97.5.

Mahrukh Adajania: Why would the MSME and agri NPAs have risen this quarter sequentially? And within some of the MSME NPAs, would you not have been able to save them with the ECLGS?

Dinesh Kumar Khara: Mahrukh, I would also like to mention that out of this Rs.14,000-odd crores where we have reckoned as the possible slippages, we have already pulled back about 6,000 crores and in SME also we have pulled back about Rs. 6,000 crores. So as compared to 5,486 crores in the first half of ’20, in first half of ‘21 we are showing it at Rs.6,068, de facto in the month of October it has come down to about Rs.2,500 crores kind of a number. So, we have actually pulled back SME. And also on the agri book, it was at Rs.9,513 crores as on September 30th, we have actually pulled back about Rs.1,100 crores, it has come down to about Rs.8,400 crores. In agri book, the fact of the matter is that during the COVID period, there was some kind of a restriction on the mobility of our field staff and they could not visit the field and have the accounts reviewed or renewed. That is one of the reasons why we have seen this kind of a slackness, but I am sure that as the unlock is happening the ability of our field staff to reach the customers will improve and we should be in a position to improve the agri quality also going forward.

Mahrukh Adajania: Sir, my last question again is on collection efficiency. So, have you seen any segment wise difference in collection efficiency like have you experienced that the collections in maybe the personal loan segment are better than mortgages, any such differential that you could comment on?

CS Setty: Mahrukh, when you have 97.5% efficiency, the difference is very marginal, right. If you really ask me the highest collection efficiency is in our unsecured personal loans for obvious reasons, because we give only to corporate salary package holders. So in home loans slightly lower than the personal loans.

Moderator: Thank you very much. Next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: One question I had was on the operating expense, the employee provision that we look, this business has gone up in this quarter. Wanted to understand are there any one off because we are having very strong NII and post these bounce backs, but a lot of that goes away in the employee provision. So, if you can just tell if there are one-off, what is it that?

Dinesh Kumar Khara: There is actually one-off and that one-off is essentially coming from the fact that earlier we had made the provision at the rate of the salary increase of 10%, but somewhere end of August, we could have the visibility of the revised salary negotiation at 15%. So, last quarter also, we had provided the difference at 15%, about Rs.1,000 crores we had provided in the last quarter, and this quarter also we have provided another Rs.1,000 crores and also the related expenses relating to salary cost, about Rs.600-odd crores which is essentially on account of pension provision, gratuity provision, etc., has also been provided. So, about Rs.1,600 crores is the additional component which we have provided for. So, if you look at the provision for employees, it has gone up from about Rs.4,545 crores in the second quarter of financial year '22 to Rs.5,637 crores in the Q2 of '21 So, that is the reason that why we are seeing this kind of about Rs.1,600 crores is on account of this one-time.

Adarsh: Is this one time or will this continue in the third and fourth quarter, does it stop next year, how should one look at it?

Dinesh Kumar Khara: See, the point is that when it comes to this increase in salary on account of negotiation, this is only one-time and it will stop, but, yes, of course, there would be going to be an increased salary bill which will be about Rs.200 crores a month for us, so which means that about Rs.600 crores a quarter would be the additional cost.

Adarsh: But it is going to be lower than the one-off that is provided?

Dinesh Kumar Khara: Certainly, Rs.1,000 crores would be something which will be one-off.

Adarsh: Second question was when we go through the slides that you have given on the 60,000 crores of expected in slippages, these slippages are like in the second half going to be Rs.20,000 crores. So that looks relatively very low number compared to the kind of pandemic we had. I appreciate your comments on the portfolio. But it is still a very low number, less than a percent of problem in the second half when all the accounts will start paying the instalments. So, I want to say, is that a very aggressive number, a cautious number because that factor if that happens, it will be a big positive surprise, so wanted to understand from that perspective?

Dinesh Kumar Khara: I would like to draw your attention to the fact that in the last quarter when we had provided for the loan loss to Rs.9,420 crores, we had actually made a provision for one of the housing loan companies about Rs.3,420 crores. So, de facto that provision number was about Rs.6,000 crores in the last quarter also. This quarter, this number, comparable numbers are Rs. 5,619 crores on account of loan loss and other provisions actually the provision which we have created in this quarter of 4,083 crores, we could not have shown as a loan loss provision because we have not really stamped these accounts as NPA under the directions of the Hon'ble Supreme Court. So, that is why we have kept it under other provisions. And if we add these two, Rs.5,619 plus Rs.4,103, it will come to Rs.9,700 crores. And if you compare it with Rs.6,000 crores which we had made in the last quarter, this will come to about 60% more than what it was in the last quarter. Now, your question relating to this 20,000 crores, whether it is something which could be a reality. See, our provision coverage ratio in the corporate book stands as high as about 88%. As far as the legacy book is concerned, we have already taken care of to a greater extent, I do not expect that we will get to see some surprises. And in the past we have seen that our average slippages are to the extent of about Rs.10,000 crore, that is a normal run rate per quarter So, irrespective of the kind of book which we have, we are still hoping that our slippages we have reckoned is to the extent of Rs.20,000 crores, and that is one of the reasons why when it comes to slippages plus restructuring, we have identified this number at Rs.60,000 crores. And if you really look at it, we have to make a provision of 15% on the Rs.60,000 crores, the total provision will come to about Rs.9,000-odd crores and we have already provided for Rs.7,091 crores. So with the Rs.7,091 crores, de facto left out with this, requirement of less than about Rs.2,000 crores, and we have got two more quarters to go. So I think overall we have tried to assess the situation well, and as a strategy, we have decided that we should provide upfront, that has been our policy and we have stuck to that policy.

CS Setty: If I can supplement, what we are actually saying is that the 13,000 crores will be an additional restructuring book, Rs. 6,000 crores, we already have received the restructuring thing and Rs. 20,000 crores would be additional slippages. Slippage guidance including restructuring would be 2.5%. And what we have done in the corporate book is that we have done a very granular analysis, went to the relationship manager level and asked them to look at their accounts and give us feedback in terms of what is the status of that account. This is from the grounds up kind of assessment. To give you comfort, it is not that cost-driven thing, we have taken the feedback from the operating level and consolidated it at the net level.

Adarsh: The last question is your margins did go up again this quarter, strong performance. We did have a pro forma slippage which is Rs.17,000 crores, which we understand because of the Supreme Court. Are the reversal accounted for in the NII or how, because that had agri which will have a lot of reversal, if you can just tell how should one look at the NII once you account for the…?

Dinesh Kumar Khara: That amount is about Rs.876 crores, we have identified that amount, but we have not done the reversal, and if at all, we reckon this amount also, it will have an impact of about five basis points on the NIM.

Adarsh: So, that will come in the third quarter, right?

CS Setty: It will come only when the account is stamped.

Dinesh Kumar Khara: Because unless and until account is stamped, the reversal cannot really happen. So, that is the reason.

CS Setty: Have to wait for the Supreme Court judgment for that. And then Rs.14,000 crores, it will be net of pullback only, reversal will be for the net slippage.

Dinesh Kumar Khara: Yes, as I was mentioning, that out of this Rs.14,388 crores, we have already done a pullback of about Rs.6,000 crores. So, for all purposes, there is a likelihood that this part also may not have so much of impact. It would be about 50%.

Moderator: Thank you. Next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: I have a couple of questions; one is sir on your notes-to-account-12 wherein you have mentioned Rs. 8 lakh crores number is there in the moratorium/deferment line item. So, I believe this is the number which internally system has earmarked those accounts as moratorium, right.

Swaminathan J: Just to clarify on this, State Bank adopted an ‘opt-out’ approach. So technically, all accounts who were eligible is treated is provided with moratorium. So the statutory disclosure which is appearing in the notes-to-account will be for the entire book. But as you would know, we have tracked the moratorium only on the basis of the payment track record. As per the payment, it was only 9.5% as we disclosed in the Q1 and then moratorium is also now over. So, the Rs. 8 lakh crores has to be seen from that perspective, that State Bank did not use ‘opt-in’ but used ‘opt-out.’ So, the entire retail book which was eligible is appearing there in the notes-to-accounts. So that is not the number which was actually under moratorium.

Jai Mundhra: No-no, so, the question comes now that if an account which this system has tagged as moratorium, and because there was no demand which was raised till August-end, and now in August when the demand has raised for the month of September, and the person has already paid let us say three or four installments, then in collection efficiency in the numerator does this 97% adds four, five EMI in the numerator and denominator is the only September one which is raised?

Swaminathan J: Thank you. You asked the question. Let there be no confusion. When we talk about collection efficiency, it is a demand for the month and collection for that month. So it does not take into account installments that were prepaid earlier.

CS Setty: Not only that. What he is saying that during the moratorium, there was no demand, but the demand was not raised for the moratorium installments when the moratorium got over by 31st August. When we talk about collection efficiency, we are only talking about those installments which are payable. If somebody exercises the moratorium and he is not due to pay those installments, then they are not taken.

Jai Mundhra: So, in your 97% number, there will be no segment or customer where collection efficiency is more than 100%, right, I mean, mathematically, it could be 97% at individual customer/segment level, it will not be more than 100%, right?

Swaminathan J: I can clarify this. What you are trying to say is that some customer may be paying more than the demand, whether it is reckoned in the collection efficiency, it is not. The way in which collection efficiency is determined is demand in each account and whether that has been serviced or not. If it is not serviced, then it will appear in the DPD. The DPD is over 7-days, as you know is SMA zero, and you have SMA-1 and SMA-2. So we track it from the non-payment in the individual account. If some customer has paid excess, that number is not going to offset somebody who has not paid the installment.

Jai Mundhra: Just to extend this, most of the customers then would have paid in full, right, 97% would include some of the customers which may have paid in part. If you would have that number let us say 80%, 85% of paying in full and rest are paying in part, would you have any sense of numbers?

CS Setty: Just to give some more clarity, in 97%, there is a 3% gap, right? These 3% are the ones where the DPD is seven days to 89-days. So answering your question, there could be somebody who has paid the two installments, have not paid one installment, or somebody has paid one installment, has not paid two installment, every one of them has been covered. When you are saying 97%, that means the DPD is zero in these cases. Is it clear to you or you want some more explanation?

Jai Mundhra: Yes, it is very clear, and it is a very detail disclosure that way that we are not taking the arrear and neither more than 100% for any customer.

Dinesh Kumar Khara: Really not.

Jai Mundhra: On SMA-1 and 2, as M.D. sir also mentioned that corporate and SME, probably they are out of stress zone. So maybe the SMA-1 plus two number that go to CRILC, it may not be reflective of stress because anyway higher than Rs.5 crores, customers are reasonably well placed, and some of the banks are showing the total SMA one plus two number including all ticket size. If you have that broad range also, that will be helpful.

Dinesh Kumar Khara: We will ensure that it is made available to you.

Moderator: Thank you very much. Next participant is Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to ask what are the disbursements under the ECGLS?

CS Setty: In ECGLS, our total disbursements are Rs.22,000 crores and the total sanctioned is Rs.25,000 crores.

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

Ashok Ajmera: I have a couple of observations and some questions. In case of moratorium, which was provided on the working capital interest where the borrowers were allowed to pay any time up to 31st, March 2021 up to August interest, can you throw some light on that, how much was that amount and out of that how much percentage or amount has regularly been paid from September onwards and how many of them have opted for payment up to 31st March 2021 especially on this working capital only because others are the monthly installment or quarterly installment, but the option was given to pay the entire amount up to 31st March 2021. So, whether it comes in your demand or when you talk about the efficiency or this amount was not demanded, and the option was left on the borrower?

Dinesh Kumar Khara: It was forming part of the demand and I think when it comes to collection efficiency, we have reckoned all our portfolios but for agriculture. Agriculture is the one which is not subject to demand. It is on account of the seasonal repayment. But for that, we have reckoned all other specific segments. So it will be forming part of the demand, but that specific information we perhaps are not having right now, maybe we will have it and let you know.

Ashok Ajmera: No issue, I will take it later. On these new restructured circular of August, what is your experience, I mean, how many borrowers are approaching because this restructuring plan has to be almost formalized by 31st of December and implemented by 31st of March 2021, so, what is your experience of your people coming forward to take the restructuring facility?

Dinesh Kumar Khara: As of now, when it comes to the restructuring of advances, number of customers who have approached us for restructuring, in all the number of accounts are 42,000, but when it comes to amount involved is just about Rs. 2,500 crores, that is on the retail side, and almost about Rs.4,000-odd crores is corporate accounts, and that is how it has stacked up to Rs.6,495 crores.

Ashok Ajmera: So, it is very meager as compared to your total. So, it shows that the people are not very encouraged to go for this restructuring rather they feel that some kind of stigma will be there if they go for restructuring, that is what is the general feeling among the people, and that is why they are not coming forward. If you look at the segment wise results while the revenue of retail is almost the same, Rs.19,000-odd crores, the income from the retail business is only Rs.1,030 crores as against Rs.4,900 crores in the last quarter. So, is there more provision in the retail book, what is the reason of such a big difference in the income in the segment wise reporting?

Dinesh Kumar Khara: So, actually, the fact of the matter is that our CD ratio is just about 61%.

Misal Singh: It does not include transfer pricing. So it would not be representative of the results in retail.

Moderator: Thank you. Next participant is Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Just wanted to have clarification on the employee cost side. You said Rs.1,000 crores was one-off cost, of that Rs.600 crores was in employee pension provisioning and balance was in the employee salary line.

Dinesh Kumar Khara: No, actually it was not 1,000 crores, it was Rs.1,600 crores is a one-off, Rs.1,000 crores is an account of the salary increase which has been negotiated and about 600-crores are the long-term benefits which would be available to employees post the implementation of this wage negotiation.

Anand Laddha: This salary cost will not be there from Q3 onwards or will it continue for Q3 and Q4 as well?

Dinesh Kumar Khara: One-off will not be there, but, yes, of course, consequent upon release of the increased salary, the salary bill will go up and which will be about Rs.200 crores per month, for a quarter it will come up to about Rs.600 crores.

Anand Laddha: So, from Q3 onwards, employee cost should come down by Rs.1,000 crores?

Dinesh Kumar Khara: Yes, absolutely.

Anand Laddha: if you can give some color like this quarter we have some recovery from written off assets of Rs.1,500-odd crores. How do you see this trend in the second half? Also, on provision of some of the larger accounts which are pending, one, being the steel case account, we keep on hearing that Supreme Court will be hearing the case, if you can give some update on that account, as well as on other resolution in the NCLT?

Dinesh Kumar Khara: We have seen some visibility in this quarter itself; one of the accounts has got resolved. And also when it comes to the other steel account, of course, since the matter is sub-judice, I will not been in a position to hazard any guess. And what we are also attempting is if at all we can have the compromises activated, and for that, efforts have been put in. As far as the NCLT process is concerned, I expect that maybe by end of this calendar year, perhaps this embargo will be lifted and we will have better visibility going forward in terms of the resolution through NCLT also. What we expect is as far as the recovery in the remaining half of the current financial year, in the first round, we have seen the recovery almost about Rs.4,000-odd crores. We might get to see a number which is about 6,000 crores to 7,000 crores in the remaining two quarters of this current financial year.

CS Setty: Double whatever we have achieved so far.

Dinesh Kumar Khara: Because what has happened is that we did not see much of activity in the first quarter when it comes to recovery. But yes, of course, we have seen better traction in the second quarter, the numbers are there with you. So we expect that it will further get accelerated in the remaining two quarters and we will get to see better performance on the recovery front.

Anand Laddha: Sir, on the same question, you said 6,000 to 7,000 crores of recovery from written off asset in the second half?

Dinesh Kumar Khara: Not written off, I am only thing that whatever is there in the stress assets group, we are expecting which would also involve the references to NCLT and which will also involve our efforts to resolve through compromises.

Anand Laddha: Part of that will be from NPA movement and part of that will be from written off assets?

Dinesh Kumar Khara: Yes, that is right.

Anand Laddha: And this includes the steel account as well as housing finance resolution as well?

Dinesh Kumar Khara: Yes, that is right.

Moderator: Thank you very much. Next question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: Two questions: First is on the corporate book. So if you look at slide #27, the rating profile of corporate book is A-minus and above share, has come down to 75% from 78% last year, and similar level in FY'19 as well. So just what is driving this downgrade, if you could highlight any specific sectors where we have seen major changes? So that is the first question. And related to the corporate book also, if you could comment a little bit around project pipeline and the growth potential that you see in the next four to six quarters? Then the second question that I had was on the Xpress Credit portfolio. So when we look at the bureau data, things are gradually recovering, but in our case this September growth was significantly higher than pre-COVID level with 50%-plus kind of sanction growth. Just if you could give some comfort around this unsecured portfolio in terms of share of government accounts or any other cut that you can provide to help us understand what kind of customers are we underwriting in this book? Those are the two things.

Dinesh Kumar Khara: So when it comes to the corporate book and the rating profile, AA and AAA were about 60%, and from there, it has come to about 57%. I think part of it is on account of the financial position of these corporates, and there is nothing per se which is there. And when it comes to the visibility of demand from the corporates, I would say that we expect the loan book from the public sector undertakings to really go up in the remaining two quarters at least and we are seeing some sanctions, but there is always a lag between the sanctions and the disbursements. So that is something which we will get to see going forward. And when it comes to the home loan book, and also the retail book, in the personal segment, as of now, our 94% of our personal loan book is from the government servants, and we have got about 1.5 crores kind of the salary accounts with us. And current penetration level is just about 19%. We expect that we can easily take it up to 25% which means that there is a clear cut scope for another 30,000-odd crores when it comes to the personal loan book, we would like to really tap this potential in the current financial year itself. And also, the fact of the matter is that this personal loan when we offer, it is linked to their salaries, and as and when there is an increase in their salaries, their entitlement also goes up. So that also gives us an opportunity for shoring up our personal loan book going forward.

Dhaval Gada: If I may just add one more point, overall, in our retail book, what would be the share of government employees, if you would have that approximate number?

Dinesh Kumar Khara: Total 70% would be salaried – 50% would be government and 20% would be the well-rated corporate and 30% would be essentially from self employed but with very high credit scores. Our home loan borrowers are the first time home loan borrowers and the average ticket size is not very big. So invariably, it is ensured that they are in a position to meet out their obligation towards repayment of the home loan.

Moderator: Thank you very much. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Congratulation for the appointment. Sir, again, the question on Express Credit. So, you are saying this 32% Y-o-Y growth in Express Credit is with a kind of organic nature without any reclassification. So there is an increase in demand of these kind of loans on Y-o-Y basis?

Dinesh Kumar Khara: See, as I mentioned that this is something which is linked to salary. Of course, these are unsecured loans, but we have got a check-up facility available. So to that extent, we are quite secure in this loan book, so long as people are getting their salary. That is something which gives us an assurance as for the quality of this loan book is concerned.

Amit Premchandani: Sir, just to understand, it is linked to salary hikes, so a person who is getting it, he needs to apply for that loan and then he gets a loan, right? It is not automatically a working capital facility which gets increased?

Dinesh Kumar Khara: It is not a automatic facility, only one thing which we have done is a pre-approved personal loan, which is actually we are running an algorithm and with the help of analytics we are only finding out the probable people who can be eligible for this loan. But as far as loan is concerned, it has only dispensed only on application, it is only a means for sourcing the better quality loans, and nothing more than that. People have to apply.

Amit Premchandani: And sir this moratorium is applicable till August wherein almost Rs. 14,000 crores, Rs. 15,000 crores has slipped in this quarter if we set aside the Supreme Court's stay, largely by agriculture and SME. So, can you explain what is the issue on the Agri and SME side, specifically because Agri already have very high NPL rates?

Dinesh Kumar Khara: Yes. I would like to mention that out of this Rs. 14,388 crores, which you are showing in the additional pro forma slippages, almost about Rs. 6,000 crores we have pulled back in the month of October. So that way it is just what Rs. 8,388 crores. And when it comes to your specific question in terms of the segment where it has seen.

See, in case of SME also, out of Rs. 5,078 crores almost about Rs. 3,000 crores we have pulled back. And agriculture, out of Rs. 9,045 crores we have pulled back about Rs. 1,100 crores in the month of October itself. So if you compare with this Rs. 5,078 crores with, if at all, Rs. 3,000 crores is pulled back, it is Rs. 2,078 crores in SME.

In case of agriculture, yes, of course, I think that there is a scope for improvement. And that is essentially on account of the fact that in this quarter the renewal and the review could not be done as it should have been done, because on the COVID the mobility of our field staff was bit restricted. So, but that has been ensured now, in the month of October we have already seen about Rs. 1,100 crores being pulled back. And when it comes to the corporate, the book has already seen the reduction. And in Per also we have seen a pull back. Almost about out of Rs. 2,028 crores which is seen, almost about Rs. 800 crores has been pulled back.

And also, let me also share with you, it so happens that because of this interim order of the honorable Supreme Court, we were not allowed to stamp these accounts as NPA. Otherwise we have got a rhythm over there in the branches, where the moment the account gets stamped as NPA, immediately or maybe if at all it is stamped as SMA1, SMA2 also, our people on the ground immediately get into the recovery efforts. So that is something which could not be done because there was no visibility of these accounts getting into stress. So that is the other thing which gives us a comfort that going forward we should be in a position to maintain this asset quality.

Amit Premchandani: Sir, you have given a very interesting chart on a ROA & ROE trajectory of the bank in 2000 to 2015 period, and what happens post that. So just to take it from there, do you think that we are likely to move in that trajectory of 2000 to 2015 from next year onwards or what is the management thought process behind it?

Dinesh Kumar Khara: We are hopeful, because we have already seen an uptick and also the strengthening of processes which have taken place when it comes to the corporate underwriting. This gives us a confidence that maybe going forward we will have the trajectory which will move towards the earlier trend which you have seen. Maybe, I mean, it would be difficult to predict that whether it would be by the end of this financial year or maybe in the next year, but it is a concerted effort on the part of the management.

Moderator: Thank you very much. Next question is from the line of Bhavik Dave from Nippon India. Please go ahead.

Bhavik Dave: Congratulations on a good quarter and on your appointment. A couple of clarifications and one question. One clarification is, to an earlier participant you mentioned that, including the one large steel account and housing finance company, still our second half recoveries will be around Rs. 6,000 crores to Rs. 7,000 crores.

Dinesh Kumar Khara: Sorry, I must add, it is not housing finance, in fact both of them are not there in this.

CS Setty: Sorry to actually exaggerate. Both those major two accounts which we were mentioning are not part of this Rs. 6,000 crores to Rs. 7,000 crores what Chairman has mentioned. This is a clarification to the earlier question also.

Bhavik Dave: Sure. So it will in addition to the two large lumpy recoveries, and Rs. 6,000 crores, Rs. 7,000 crores over and above that, right?

Dinesh Kumar Khara: Yes.

Bhavik Dave: Perfect. And secondly sir, on the Agri bit, we have seen a far higher slippage this quarter. Some of it would be like an overflow from the first quarter, which is generally high on Agri. But if you could just talk about, is this because purely the repayment are not EMI led in the Agri portfolio, which is crop cycle related. So will that pull-back be stronger in this quarter? And also for going ahead, like rural economy has done reasonably well, so can we expect that second half slippages or the Rs. 20,000-odd crores, Agri will not be a large part of that Rs. 20,000 crores, is that fair to assume?

Dinesh Kumar Khara: Actually what you said is right, because what we are likely to see is that Agri part of it is a recovery and part of it is also the renewal of the accounts also. So if at all account is not renewed, then also it is actually tagged to at least to downgrading of the asset. So that requires the review and the renewal on the ground. So that is something which we will get to see in this quarter and the going forward also. So hopefully, we are quite hoping that maybe we will get to see a much better picture in the Agri segment.

Bhavik Dave: Sure. And sir second point is on your corporate loan book, are we seeing, like, are we able to be in line with the top banks when it comes to corporate in terms of market share incrementally? Because there are a few large private banks that have gotten really very aggressive when it comes to corporate business. Obviously, on the rates we would be, but on the growth side are we able to match them? Not from a percentage perspective but on an incremental absolute perspective are we able to match the large private banks?

Dinesh Kumar Khara: See, when it comes to their growth rates, because they have got a low base maybe they will see a better growth rate. And we have got a book which is already stacked up. So as of now, if I may say so, they are probably eating into the market share of the other public sector banks. And that is generally what is the trend we have seen on the ground.

Bhavik Dave: Sure. And sir, last question is on YONO. So, we have put an interesting couple of slides on how YONO is contributing to the overall banks. So, if you could talk about how is the profitability calculated? How do you think about YONO adding value to the overall bank in terms of cross-sell or better servicing of the customers, converting customers from government to getting them on this platform and addressing the younger population or customer base that we have? So, if you could just talked about that. Thank you.

Dinesh Kumar Khara: Yes. See, when it comes to YONO, we have a scenario where we are serving a varied customer base and, I mean, considering that in mind, we have to have all our distribution channel in place and robust also. So to that extent, YONO helped us in engaging with the younger generation and it has been created as a super app. Because when it comes to younger generation, they have got very different behavior, so that is the reason why it is beyond pure banking, and we have seen very good traction in terms of the registration. We have already about 29 million odd customers are already there with us who have registered. And we are opening about 21,000 odd such accounts on a daily basis through YONO, which has helped us in terms of reducing our cost.

The pre-approved personal loan which is essentially analytics based, that also we have seen a fairly good disbursement, about Rs. 5,000 odd crores we have disbursed through YONO. And even in cross-sell also, because this is beyond banking, we are in a position to offer the credit card, insurance and mutual fund, so all kind of products are being rolled out where our subsidiaries are the manufacturers. And it's essentially the convenience which is built in. And now we are taking YONO beyond personal banking, we are there for YONO Agri, we are there for YONO Business and also YONO Global. So I think in order to have the mind share of the younger population, this has proved to be an excellent tool for us. On estimated profitability basis, we have made some broad assessments. I think going forward, we will probably get to see YONO becoming even more stronger. So we will certainly like to leverage this and also build up our connect with the younger generation.

Bhavik Dave: Sure sir. And sir last question is, 29 million customers, like what will be the average age of these customers? And obviously, this will be a subset of that 400 million customers that we have, right?

Dinesh Kumar Khara: You are right. It is actually forming part of the 490 million customers whom we are serving. And the average age, I don't think I have got that kind of analysis with me. But I would say that we have seen the traction across the generations, not that it is only for the younger generation. Even those who have got accustomed of using YONO, irrespective of the age group, and considering the convenience, they all feel very comfortable going to YONO and doing all kinds of the banking and non-banking transactions too. E-commerce is a very important component of the YONO and we are seeing a lot of traction in the e-commerce as well.

Moderator: Thank you very much. Next question is from the line of Nitin Agrawal from Motilal Oswal. Please go ahead.

Nitin Agrawal: Yes. Hi. Thanks for the opportunity. Sir, my question is again on YONO. We have seen significant efforts being invested in building and scaling up of this app. So over the next few years do you see any probability or any thoughts of unlocking value on this digital capability that you are building?

Dinesh Kumar Khara: At some stage we will certainly consider, but at the material point of time we will certainly engage with all of you.

Nitin Agrawal: Okay. And sir, the other question that I have is on the current account. So after the RBI's changed guidelines, do you see any benefit trickling to our current account growth in the coming quarters? Any color on how much can the quantum be?

Dinesh Kumar Khara: I would not, because these results are for the September quarter, so we have not much of uptick which we are seeing, because there were some timeline for implementation of those current account guidelines also, and it is also subject to review. And it has been extended by RBI, those timelines have been extended. So I think we will wait and watch. But nevertheless, our effort is, when it comes to current account, we are actually trying to enrich our offering and we have significantly skilled up our cash management product capabilities. And that will help us in ensuring our current account base as it is.

Nitin Agrawal: Okay. And sir lastly, any thoughts on beefing up our capital base?

Dinesh Kumar Khara: See, as far as the capital is concerned, I would like to draw your attention to the slide where we have captured our capital adequacy ratio. We are at about 14.72%. And if you really look at it, we have recently raised the Tier 2 bonds and even AT1 also. And they have been raised at a pricing which is perhaps the best. And as of now, we feel that the kind of a growth which is likely to happen, and we should be in a position to take care of that growth. With our plough back of the profit where we expect that will have decent profit and we will be in a position to plough back a substantial amount of that, which will shore up our capital.

As far as the Board mandated capital requirement is concerned, it is at good 13.10%, 12.10% is the regulatory requirement, 1% over that. So we would like to keep it at about 14% when it comes to Tier 1 and Tier 2. So I think even after meeting our obligations for some of the bonds which are falling due in the last quarter, we should be having a reasonable buffer in our capital ratios. So for the time being, we are feeling that we should be in a position to take care of our growth requirements with the plough back.

Moderator: Thank you very much. Next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Sir, again, coming back on this ratings profile. So what we have seen in terms of the run down in the corporate book of about Rs. 20,000-odd crores, it's not nothing to do that this rundown has been in AA category and that is leading to a relatively lower proportion. But you are saying it's largely reflecting the health wherein we are seeing the movement in A rated corporates from 11% to 18%.

Dinesh Kumar Khara: See, when it comes to this book, the major movement we are seeing only in AAA from 34% to 32% and AA from 26% to 25%. And the remaining is in the BBB, from 9% to 12%. So these are the major factors. I would say that part of it could be on account of the general health of the corporates also.

Kunal Shah: No, sorry, I was just referring on a quarter-on-quarter number. So when we look at the June number through September, A, is going up from 11% to 18%; and AA is coming down from 30% to 25%. So, this quarter-on-quarter movement, which is there, is it because of the run down which we are seeing of this Rs. 20,000 crores and it was in AA or this is, again, like we had seen the run down from AA to A in terms of the rating profile itself?

Dinesh Kumar Khara: Quarter-on-quarter, June 2020 our AAA were 33%, from there it has come to 32%. AA, our corporate book was at 30% which has come to 25%, and A, it was 11%, from there it has gone to 18%. So there's a slippage form AA to A. And also, there is slight slippage from AAA to maybe to A or to AA. So that is what it looks like. And when it comes to BBB, it was 10% which has gone to 12%. So partly it could be on account rerating of the corporates also. So as such, when it comes to our portfolio, I don't think it has undergone a change. But our existing portfolio, if at all, they have been rerated by the rating agencies, so that will be something which will be reflected there.

CS Setty: Another factor which influences this competition is the drawing from the account. Suppose the outstandings in a particular group goes down in outstanding, because see, these are all highly rated companies.

Dinesh Kumar Khara: Yes. These are all highly rated companies and many of the AAAs don't really raise the money from the bank, they would rather go for the market borrowing. So depending upon, actually today when it comes to the large corporates, they have an option of looking at the loan book plus the investment book. And also, for the specified borrowers there is a requirement of raising a given amount of fresh funding from the market also. So actually, these are multiple factors which will have an impact on this kind of a rating movement and the portfolio color also.

Kunal Shah: Sure. And this is only corporate, doesn't include SME?

Dinesh Kumar Khara: Yes, it is only corporate.

Kunal Shah: Okay. And one more question in terms of fee income. So obviously on the loan processing side we have seen a half traction and across the overall fee income traction has been quite strong. So this is largely to do with the growth which we are seeing on the personal loan side and that's the reason. So and how sustainable would this be? And is there any kind of a one-off in the loan processing which you are seeing, or this is purely the disbursement number?

Dinesh Kumar Khara: No, actually loan processing charges is agnostic to the disbursement, processing charges are as and when the proposals are taken up for the sanction. So I would say that it cannot be linked up with the actual credit growth, actual credit growth is when the disbursement happens. If at all limits have been sanctioned, so then the loan processing charges are immediately taken from the system itself. So that is how it is. And as I was mentioning that many of loan proposals which have got sanctioned, perhaps people are waiting for disbursement. As and when they will have a visibility of the demand, perhaps we will see the disbursements also going up. And this includes both corporate and retail.

Kunal Shah: Yes. True. And just one last one on Express Credit, so what would be the proportion of salaried within that?

Dinesh Kumar Khara: Our Express Credit, 94% is are the salaried employees.

CS Setty: Actually, it is 100% salaried.

Dinesh Kumar Khara: 100%, but 94% are the government.

CS Setty: Government and defense.

Dinesh Kumar Khara: Government and defense are 94%.

Kunal Shah: So 94% is government. Okay.

Dinesh Kumar Khara: Yes. Government and defense.

Moderator: Thank you very much. Next question is from Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: I just had one question. Can you please share details with respect to collection efficiency in key segments? So retail, if you can share that for home loans, auto, personal loans, SME and corporate, it will be very helpful, sir.

Dinesh Kumar Khara: We will separately share. We don't have that kind of the stack up available with us, segment wise. But we will certainly share with you.

Moderator: Thank you very much. Next question is from the line of Rakesh Kumar on Systematix Shares. Please go ahead.

Rakesh Kumar: Sir, the one question I had with respect to difference between PBO and fair value of plan assets for the terminal benefit obligations – difference was around Rs. 14,600 crores as on March 2020, where are we now on that? And this number was, like for gratuity and pension put together, this number in a couple of years it is all-time high kind of number. So what is the gap right now? And so just wanted to understand.

Dinesh Kumar Khara: See, what happens is, when it comes to the gratuity liability, we strictly go by what the actuarial assessment is. Not that we have got any backlog which we have to take care, it is essentially on account of the yield movement, whatever is the additional provision which has been made. And as I was mentioning that when it comes to our additional provisions which we have made for employees, out of Rs. 1,600 crores, Rs. 1,000 crores is only on account of the increase on account of the negotiated wage settlement which has happened, and which is likely to be signed off. So that is something which is there. And Rs. 600 crores are on account of the long-term benefits which will accrue in this wage negotiation. So that is something which has happened. So Rs. 1,600 crores is essentially on account of that.

Rakesh Kumar: So, what I am trying to understand is that sir, this difference has been rising, so either we make provision or we keep more plan asset for that. So, what is your thought on that?

CS Setty: We will just give you the data.

Management: What had happened is that this gap in March 2019 it was Rs. 95,000 crores in liability and it went to Rs. 109,830 crores. But this year, because the discount rate is at the 6.83% since March and even in September, so we understand that the gap will be less this year by March 2021, this is what actuary has told us, that the gap would be like less than what the gap was at March 2020. The discount rate is the causal element for any fluctuation in this, and we understand as per the actuary that this year will be lesser requirement in terms of provision which is required for filling up that gap.

Rakesh Kumar: Understood sir. Second, very related question. Now we have share of alternate channel to total transaction of close to around 93% odd. So why don't we free up some employees and put them into fee income and all, because we are not witnessing any kind of decrease in the OpEx either in the establishment cost or the overheads. So like, is that a possibility?

Dinesh Kumar Khara: Yes. We are actually very consciously thinking in terms of it, that we are increasing our employees in operations. So, we are ensuring that we should be in a position to really ramp up our sales capability on the ground, both in terms of liabilities as well as for our assets. And also for the other income potential which is available across the country. So, we are all geared up to tap such opportunities.

Management: I would just like to supplement that in the banking we have a ratio known as Tooth to Tail ratio where the number of people who are in the administration or control roles, and the people who are on the sales role in direct touch with the customers, this year we have been able to sort of rejig this equation. And around 17% to 20% people, depending upon the different layers of administrative officers which we have, they have been transferred to the customer facing roles. And some of the activities which we are doing, we are also centralizing and using some sort of outsourcing also. So there is a major revival plan for increasing productivity and increasing more revenues from the staff which will be going to the fields for marketing, recovery and other kinds of upselling and value enhancement kind of roles. So, we have a proper plan for increasing the productivity of employees, so that our income stream from each employee becomes better than what it is now.

Dinesh Kumar Khara: Actually, we are also intending to leverage analytics to really conserve cost of acquisition of new business. So that is something that is also what we are planning, and we will be implementing those plans very soon.

Moderator: Thank you very much. Next question is from Anand Dama from Emkay Global Financial Service. Please go ahead.

Anand Dama: Sir, the collection efficiency that we have mentioned, upwards of 97% odd, is it only for the term loans or basically this covers the corporate, SME, the working capital for all type of loans?

Dinesh Kumar Khara: It covers all kind of loans but for agriculture.

Anand Dama: And this 97% is in value terms?

Dinesh Kumar Khara: That's right.

Anand Dama: Okay. Sir, is it possible to share the SMA0 number and SMA1 number?

Dinesh Kumar Khara: We don't have breakup as it is. We count in terms of DPD.

Dinesh Kumar Khara: Actually, I think, what you are saying is SMS0 and SMA1 for this collection efficiency?

Anand Dama: So, primarily just want to understand, because if some of the customers if they have not paid, then typically they would be sitting at this point of time into either SMA0 or the SMA1. May be SMA2 may not look that inflated, but SMA0 and SMA1 should be on a higher side. So in percentage terms?

Dinesh Kumar Khara: We have not really looked at it from that point of view, we have only looked at it from the context that, if at all demand has been raised, whether it has been honored or not. So that is something which we have looked at.

Anand Dama: Because sir, again, the way we have seen the economy coming down and then there is a disconnect that we see in terms of collections. So do you think that maybe at this point of time customers are paying, but maybe next year is when possibly they will not be able to pay, because there is an impact fact on the business which they would have actually seen. And so because of that possibly slippages might come up in the next year and not this year where we are all expecting.

Dinesh Kumar Khara: See, the way I look at it is that, with the unlock situation things are improving. And going forward, I am hopeful that it will further improve. So that kind of a scenario we have not yet really factored in. Maybe you would like to add.

CS Setty: See, additionally, you must also remember what has been our customer profile. I think we take lot of pains to explain to everyone what our target clientele is, and in retail book why the collection efficiency is high. See, if you see, I think a few minutes back Chairman was mentioning, in terms of other our Express Credit, which is the unsecured loan products, 94% of the customers are from the government sector and defense. So they are basically from the corporate salary package account, and we have seen that in the last 12 months, pre-COVID as well as post COVID, none of their salary has been impacted. The level of salary which is being credited to these accounts, we just did the analysis. In fact, there is no impact on the salary which is being credited to their account. So we are of the view that in future also this is likely to continue. So there is not going to be anything different in terms of collection efficiency in the retail book.

Anand Dama: Sure. So basically I think retail is not really a worry for SBI because I think the book, though it is unsecured, but it is more or less secure because of the salaried customers that you have and mostly from government. My more concern is about SME book or the business banking customers that you would have, or the mid corporates operating into the impacted sector like be it cinema, be it hotels and tourism industries and stuff. So there how, I mean, will they be able to recover what they have lost in these past six months? Because they have still not been able to start the business.

Dinesh Kumar Khara: So, there actually I would like to draw your presentation on Slide 27. We have indicated our exposure to the most vulnerable sectors like tourism and hotel, is just about 0.47%, likewise aviation and airport also it is at 0.47%. So I think that is the other comfort which we have when we look at our portfolio. So that is the reason that possibly we are not visualizing the kind of distress which you have in mind.

Moderator: Thank you very much. Sorry for to interrupt you. Next participant is Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Sir, good evening. This is Rahul Jain. Just had a few questions. On the home loan portfolio just wanted to clarify the number. You said about 70% are from the government and the well rated corporates, and remaining 30% is self-employed. Is that correct, sir?

Dinesh Kumar Khara: That's right.

Rahul Jain: And so then can you just tell us how has been the behavior on the bounce rates, zero DPD et cetera in this portfolio? I understand 97% collection efficiency which is pretty remarkable, but just wanted to understand on day zero when the payments are presented, what's the kind of behavior you seen from these customers sir?

CS Setty: So in terms is a product wise analysis, we will completely share with you. But we have not seen anything significantly different in this segment. So, I think the collection efficiency products wise we don't currently have. We will share with you separately.

Rahul Jain: No problems, sir. Just also wanted to check the payments that you collect from these customers, does it get routed through NPCI platform, NACH or you collect PDC or it gets centered and cleared with your bank?

Dinesh Kumar Khara: We are using all king of options.

CS Setty: But predominantly, we have standing instructions, what we call, because we have their salary account, it gets collected from the salary account.

Rahul Jain: For the self-employed, yes.

CS Setty: Self-employed, it is either in NACH or the PDC. But PDC is still very small in our portfolio.

Rahul Jain: So NACH would be a large component, sir?

CS Setty: Yes.

Rahul Jain: Got it. Sir, the other question is more in terms of understanding your outlook on two things, number one, the interest rates. There is a huge liquidity in the system and clearly, I think banks have to cut deposit rate, which is the right thing to do. Where do you see the demand of credit is going to come from if you were to take a 12-month kind of a view? Of course, appreciate that situation is not extremely crystal clear, but based on the traction you have seen so far in the last, let's say, month or two, which segments would SBI focus on in the next 12 months or so for its credit growth? And what kind of credit growth are you looking at internally?

Dinesh Kumar Khara: We hope that our retail engine will keep on performing as strongly as it has. And going forward, I would say that we might get to see some traction when it comes to the public sector undertakings, when they will undertake their capital expenditure plan. That is the other growth area which we see. Road construction is another area where we have seeing the activity and also the renewable energy, where we are seeing the traction. So I think these are few areas which I feel which would have a major role to play when it comes to the growth in the real economy. And I think apart from that, as we are seeing that revival of the demand, I am sure FMCG, pharma, they are the ones where we will have the recovery also, I mean, more availment coming. But typically when it comes to pharma, they don't have much of dependence on the bank credit. But nevertheless, I think we will get to see better economic activity which will give impetus to the growth.

Rahul Jain: So we don't need to really be a little aggressive on the rate front, right? I mean, that is what I was trying to get to?

Dinesh Kumar Khara: No, I don't think so, because the rates we have scaled down quite a lot. And let me share with you, when it comes to the investment decisions, people are not constrained by the rates, they are more looking at the demand and their ability to convert their stock into cash. So I think that is what their effort is always. And for the right kind of credit risk, we are quite aggressive when it comes to the pricing.

Rahul Jain: Even on retail side, sir?

Dinesh Kumar Khara: Retail side, we have seen that retail side our ability is essentially coming from our ability to deliver, and our pricing as it is quite competitive on the retail side.

Rahul Jain: Got it. Sir, the other question is on the provisioning side. So clearly, I think, the guidance you are providing on the stress loan formation, restructuring plus slippages put together, seems fairly manageable and then I think good job you and your team has done. Getting into the next year, would you have any sense as to what could be the loan losses that the bank might have to incur? Would you be normalizing next year itself or you might still want to build up more provisioning, et cetera, et cetera. So, any sense you would like to give us on the provisioning front, sir?

Dinesh Kumar Khara: See, as of now, our PCR stands at about 88%. And when it comes to our corporate book, we have started evaluating accounts on the granular basis. And wherever we are perceiving any threat, we are already accounting for as far as the provisioning is concerned. So I think this will continue to be our approach going forward. As and when we will see some stress for the likelihood of stress, we will be ensuring that we provide for such accounts and we ensure that the balance sheet remains strong.

Rahul Jain: Got it. Sir, just one last question. Sorry for that. But for you as the new Chairman, what are the top two priorities, let's say, over the next few months of quarters? Of course, beyond managing the pandemic related stress. That is it, sir. Thank you so much.

Dinesh Kumar Khara: When it comes to the priority, so we would like to see that we are in a position to leverage analytics to its hilt, when it comes to risk management, when it comes to sourcing business, when it comes to compliance, so to that extent I would like to cut on the cost leveraging analytics. And the other very important piece for me is to see that we are in a position to reap all the growth opportunities which come our way.

Moderator: Thank you very much. Next question from Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: I just want to understand this, the SMA0, plus SMA1 plus SMA2 should be equal to 3%, excluding the Agri book in the denominator. Is it the right understanding?

Dinesh Kumar Khara: Yes.

Swaminathan J: As of October, it is another 0.5% - so it is 2.5%.

Moderator: Thank you very much. Ladies and gentlemen, we will take the last question from the line of Manish Shukla from Citi Group. Please go ahead.

Manish Shukla: On the housing loans, are you seeing good amount of balance transfer from other entities, given the rates that you are offering? And is that our strategy that you wish to actively follow?

Dinesh Kumar Khara: Yes. See, when in the market and being most competitive when it comes to the product, naturally our effort is to book the quality business, whatever is available, maybe if it involves takeover, yes, why not.

But let me also say that, predominantly our new customers who are coming to us that is number one. The migration from other banks is a continuous process, takeover also we do regularly.

Manish Shukla: I am just trying to understand, last six months is it higher than normal run rate of takeover of loans?

Dinesh Kumar Khara: Whatever this is, we will just look into it. Actually we normally don't give specific emphasis on this. But nevertheless, if at all there are opportunities, our field staff is always on the lookout.

Manish Shukla: Moving to profitability, if you have to aspirationally go towards 80 basis points, 90 basis points kind of ROA, what do you think would be your steady state credit cost when you directionally settle there? I mean, whenever you want to aspirationally get to 80 basis points, 90 basis points on ROA from where we are right now.

Dinesh Kumar Khara: Directionally, we will like to have our credit cost, of course, less than 2. Less than 2 is something which we would like to have.

Manish Shukla: Right. And last question on provision, for the first half of this year, the total provisions combined all together and P&L is about Rs. 22,600 crores, which includes COVID and contingency provision, etc. that we have to do. The order of magnitude for the second half, would it be similar or you expect the second half to be much lower given that lot of charges are already taken upfront?

Dinesh Kumar Khara: See, if at all I look at it, our estimated slippages plus restructuring of Rs. 60,000 crores; and if at all 15% provisioning is a requirement, then it will come to about Rs. 9,000-odd crores. And we have already provided for Rs. 7,091 crores till the second quarter. So I expect that we should have a lower burden of the provisioning, but much of it will depend upon how the economy evolves.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I'll now hand the conference of the management for closing remarks.

Dinesh Kumar Khara: Thank you very much for your patience. And also, I take this opportunity to wish all of you a very Happy Dipawali and also wish that all of you stay safe, stay healthy. Thank you very much once again.

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