"Union Bank Of India Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Union Bank of India Q2 FY2018 earnings conference call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during 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. Rakesh Kumar from Elara Securities Private Limited. Thank you and over to you Rakesh!

Rakesh Kumar: Good evening everyone. Thanks to the Union Bank Management for having provided us the opportunity to host the call. We have the entire senior management team of Union Bank of India led by Mr. Rajkiran Rai G, MD & CEO; Mr. Vinod Kathuria, Executive Director; Mr. Raj Kamal Verma, Executive Director; Mr. Atul Kumar Goel, Executive Director and other senior management team. Without much ado, I would like to hand over the call to Mr. Rajkiran Rai G, to take the call forward and give a brief presentation on the results thereafter we can start the Q&A.

Nitesh Ranjan: I will just read the disclaimer statement. I would like to submit that certain statements that may be made or discussed during this investor interaction maybe forward-looking statement based on the current expectation. These statements involve number of risks, uncertainties and other factors that could cause actual results to differ from the statements. Investors are therefore requested to check the information independently before making any investment or other decisions.

I would now hand over to our Managing Director and Chief Executive Officer, who is joined by our Executive Directors and the senior management team. Over to you Sir! Thank you.

Rajkiran Rai G.: Good evening, everyone. I have the pleasure and privilege of interacting with you all on the occasion of Union Bank's financials for July-September 2017 quarter. On behalf Union Bank of India and on my personal behalf please accept my heartiest welcome to our telecon today. Friends, it has been a historic quarter. We have witnessed a momentous reform in indirect taxes regime, the goods and services tax. The GST has been long awaited reform for unleashing product potential of the economy. With this the broader promise of India story today stands unparallel in recent industry.

It is even more satisfying that government has followed up GST with equally forceful catalyst of economic growth, bank recapitalisation plan of 2.11 trillion. In one stroke it has changed the entire narrative about public sector banks health and capacity to fund India's growth aspirations. Markets have also enrolled the comprehensive package. It was also a historical quarter for us at Union Bank. It was a quarter of continuity with change.

The continuity is about our performance at the operating level while change in our approach and strengthen in the balance sheet. Loan book growth continued in focus areas of retail, agriculture, micro and small enterprises while savings deposit led growth in liabilities. Retail loan book grew 22.5% while saving deposit rose 18.8% on annual basis. MSME book and agricultural portfolio remained in sync with overall trend of scheduled commercial bank. Accordingly RAM share stood at 54.1% while CASA ratio stood at 33.6%.

Net interest margins remained steady notwithstanding lowering of rates and lagged reprising of deposits. Our operating cost remained steady while other income showed traction. The bottomline story however, is about change but the change has a backdrop. If you recall in my previous interaction with you all, I had shared about the three key priorities in near term. To reiterate number one strengthening the balance sheet by raising PCR that is provision coverage ratio as well as CET-1 ratio and strengthening credit origination and underwriting by leveraging digital and Fintech collaborations. Number three unlocking provisions blocked in existing NPA accounts by focused recovery efforts.

Friends, our financials today reflect these priorities. We have consciously decided to front load provisions for accounts being pursued under NCLT. From regulatory perspective we could have spread provisions over three quarters of financial year 2018; however, we chose to get it done and move on resolutions straightaway. Accordingly while our operating profit has grown 6.6% year-on-year to 1939 Crores for quarter ended September 2017 our net profit has turned negative.

Our provision coverage ratio; however, has risen to 56% from 50% a quarter ago and tangible PCR has risen to 49%. On capital adequacy we remain compliant to regulatory minimum. Our CET-1 ratio remains at 7% as against regulatory minimum of 6.75%. Internally, we have also plans to raise Rs.2000 Crores this year with government enhancing recap plan, growth capital will not be constraint. Our focus will remain on improving operational efficiency to optimise capital utilisation; however, importantly during Q2 financial year 2018 growth in risk-weighted assets was contained at 3% while loan book grew at 11%.

We have made significant progress in rejigging origination and underwriting standards. To share with you we are adding new capacities for sales by partnerships and internal sales force. As for underwriting we are scaling up coverage of centralised processing to almost all MSME loans and creating new structures for emerging corporates as well as agricultural investment opportunity. Retail growth has been robust; however, we have plans of making right interventions in putting collections and recovery mechanisms for retail loans. We are also focused on improving cross channel customer experience by simplifying digital interfaces and enhancing their productivity.

On the other hand we are working towards digitizing the workflow management for expeditious and accountable decision making. Coming to third priority our recovery efforts have started to crystallize. Cash recovery stood at Rs.484 Crores during Q2 as against 328 Crores in the previous quarter and

251 Crores in the quarter a year ago. We have put in place account level ownership for recovery through exclusive app for recovery which has details on borrowers account maturity and interventions needed. For large ticket exposures the specialised team namely the DART team/Difficult Access Recovery Team, has been proactively engaging with all stakeholders and legal recourse has been taking where needed. Gross NPA ratio declined to 12.3% as of September 2017 from 12.6% as at end June 2017 while net NPA ratio also declined to 6.7% from 7.5% during previous quarter.

Slippages stood at 2686 Crores, 40% below the slippage of 4453 Crores of Q1. The SMA-II advances stood at 13615 Crores, which is 4.4% of loan book as of end of September 2017. SMA-II portfolio has come down sequentially from 6.8% of loan book as of end September 2016 and 5.4% of March 2017 and 5.1% of June 2017. As I shared it is reflective of our priority of having cleaner books and resilient coverage in provisions.

Friend's economy is looking up with GST and demonetisation related disruptions having largely played out. Interest rates and inflation are at historical lows. Most of the stressed sectors have seen some sort of positive come back in the last quarter. Steel sector is looking up EBITDA level. Power sector witnessed UDAY led shifts. Telecom sector has of late witnessed industry consolidation and sensible pricing. Road sector has got a new boost with recently unveiled package of government. Corporate are seeing the writing on the wall. Latest ease of doing business ranking by World Bank also acknowledges the structural shifts of Indian story.

I believe recapitalisation of banks have come at opportune time as investment cycle looks to turn upwards. Union Bank of India stands prepared to play its part in India growth story. I have shared some of the recent initiatives. These are just early steps in our strategic shift towards becoming more efficient bank. We are committed to transparency and good governance practices.

Let me conclude by sharing the guidance for financial year 2017-2018. Credit growth to be around 8% to 10% and deposit growth to be around 7% to 8%. CASA share objective is 34% to 35%. NIM to be around 2.25 by quarter end March 2018. PCR to rise to around 60%. Delinquency to be around 4.5% and credit cost around 3.3%. It is mainly due to additional provisions required on accounts referred to NCLT as per RBI list. Cost to income ratio to be around 48% considering the imminent wage revision. To contain gross NPA at 13% by March 2018.

Thank you all for your patient hearing. I look forward to actively engaging with you in shaping the future course of this great institution. Now we can share your feedback and queries. Thank you. Thank you very much.

Moderator: Thank you very much. We will now begin with the questions and answer session. We have the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Sir my question is that have you received any divergence report from RBI or is it expected in the third quarter and do you think they would be any substantial divergence?

Rajkiran Rai G.: This question I will not able to take now because this is under process and we will wait the disclosure when it finalized.

Mahrukh Adajania: Okay perfect Sir. And of this slippage that were reported or there any major accounts that slipped? What were the top three or four accounts that slipped?

Rajkiran Rai G.: Top 5 accounts considered of Rs.1000 Crores.

Mahrukh Adajania: Top 5 of Rs.1000. Okay any buyer?

Rajkiran Rai G.: Not very big.

Mahrukh Adajania: Sector buyers Sir?

Rajkiran Rai G.: Sector was again two accounts under steel one under construction and that is in various things.

Mahrukh Adajania: So there is lot of stock on consolidation any views?

Rajkiran Rai G.: Yes actually it is positive for us.

Mahrukh Adajania: As in you are looking to consolidate?

Rajkiran Rai G.: Consolidation do you like which sector you mentioned?

Mahrukh Adajania: I am saying that there is a lot of stock on merger between banks.

Rajkiran Rai G.: Okay that actually I think at this point of time we do not have anything on discussion or this things so when it evolves we will see at this point of time we are concentrating on consolidating our balance sheet and correcting ourselves. So maybe in the future we may look at these options when it evolves.

Mahrukh Adajania: As of now there is nothing that is being considered is it because papers reports one thing and bank say the other that is why I am checking?

Rajkiran Rai G.: No actually as of now there is nothing.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Anurag Mantri from Credit Suisse. Please go ahead.

Anurag Mantri: Good evening Sir. Sir three questions; firstly there is large addition to the fresh to the restructured working of fresh restructuring can just highlight what happened there? Secondly so the employee cost seems to have been lower this quarter so any comments on that and thirdly the home loan growth also seems to be quite low so anything on that?

Rajkiran Rai G.: As far as Anurag restructuring is concerned there is RBI circular if in any account if we are increasing the DCCO more than two years that will come under the restructuring asset so there is addition on account of extension of this issue beyond the amount is around Rs.2104.

Anurag Mantri: This is one account or multiple accounts?

Rajkiran Rai G.: This is multiple accounts. Okay sure. And on employee cost there is mainly the provisions what we make for terminal benefits so since we have adequate provisions it has gone down slightly so that is why otherwise it is steady, is a marginal decrease.

Anurag Mantri: So any guidance for the next couple of quarters in terms of employee costs?

Rajkiran Rai G.: Actually we said it will be about 48% because even though we are at 45% now cost to income, we have given guidance of 48% assuming that we may be making provision in view of the wage revision. On the home loan growth yes actually like our retail even through it is growing 22.5%, it is more on the mortgage loans and personal loans, home loans it is around 10% now, but then we are strengthening this so that the focus is shifting back to housing home loans and we are one of the lowest interest rate now, we have reduced the rate and like lot of other incentives you have put in. We are hoping for at least 15% growth in home loan in the next two quarters.

Anurag Mantri: Thank you Sir.

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

Jai Mundhra: Thanks for the opportunity. Sir it is heartening to see the move to strengthen the balance sheet versus or over profitability but now we have CET-1 of around 7% and considering the shareholder approval for fund raising as you mentioned in our opening comment and we also have the GoI recapped program so wanted to understand would we be waiting for let say Government of India infusion first or we would be going ahead with our market related capital infusion program?

Rajkiran Rai G.: Actually capital raising plan we are going ahead. We are going to assess the market in coming days after these results. Looking at appetite, we have all necessary approvals so we planned to raise at least Rs.2000 Crores possibly in this quarter by way of either right issue or a private placement or QIP. We are keeping all the options open. We have finalized the merchant bankers also. So looking at the market appetite, we may get into the market for rising. Here actually we are not waiting for government infusion to happen upfront, because we have sufficient cushion because the government holding is 65% so we can go down up to 52% so this we can do without government raising but then yes government has its own process of allotting the capital whenever it comes we will take it that these are not in our hands, but this actually we will be assessing the market situation next week onwards.

Jai Mundhra: Sir, also I wanted to know when you think the government would be sort of finalizing the program your view.

Rajkiran Rai G.: We have no clue on that.

Jai Mundhra: Sir secondly in our presentation in SDR, 5/25 and S4 disclosure that we gave is it the gross number or is only standard number, but is there any overlap of restructuring in this?

Rajkiran Rai G.: Yes it is there.

Atul Kumar Goel: Overlapping is also there in SDR4. There the total 390.53 amount where if you see SDR within which restructured is 1383, total number of SDR is 24 accounts, Rs.5094 out of which restructured is also there in 10 accounts amounting to Rs.1383 similarly S4 total exposure is Rs.1724 in 9 accounts out of which 2 accounts is also categorizing restructuring for an amount of 764.76.

Jai Mundhra: Sir I missed with SMA-II number you mentioned what is the absolute number Sir if you can share the absolute number?

Atul Kumar Goel: SMA-II is declining quarter-by-quarter last in September 2017, it is Rs.13614.70, and it is 14.4% of the loan book if you seen the last year on the same date it was 6.8% to the amount of Rs.18780.85.

Jai Mundhra: Sir that is very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Ravikant Bhatt from Emkay Global.

Ravikant Bhatt: Thanks for the opportunity. Sir when you give the cost income ratio guidance of 48%, what would your ad hoc provision be the underlying ad hoc provisions for wage revision provisioning?

Rajkiran Rai G.: I think last time when we did it was around Rs.45 Crores per quarter so that was on the estimated basis and this year also will be doing kind of escalation of may be 10%-15% over that per quarter kind of thing.

Ravikant Bhatt: Sure and this Rs.45 Crores is there in the second quarter numbers or it would start that onwards?

Rajkiran Rai G.: Rs.45 was in the last time in 2012 that wage negotiation. This time it will be little higher and that we will start providing from Q3 because the wage revision is pending.

Ravikant Bhatt: Sir coming to the cash recoveries if you could just give us some flavor on what kind of which accounts are affecting this recoveries from or this SMA kind of accounts, mid cooperates or some flavor over there?

Rajkiran Rai G.: This is actually, I will not be able to give you the breakup, but it is spread the across so I can say more than 50% of this recovery would have come from below Rs.10 Crores accounts.

Ravikant Bhatt: More than 50%.

Rajkiran Rai G.: Large actually we were able to get one or two accounts, but then there were all around Rs.50-60 Crores recoveries not anything major in these.

Ravikant Bhatt: If I could just squeeze one more question would you off hand, I mean what would your portfolio for NPs be let say is up Rs.50 Crores-up Rs.10 Crores?

Rajkiran Rai G.: NP breakup below Rs.50 Crores?

Atul Kumar Goel: That is there Rs.50 Crores and above will be around if you asking the percentage it will be around 70%.

Ravikant Bhatt: I think this is helpful. All the best Sir.

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

Anand Laddha: If I have to look at our cost of deposit as compared to peer bank, it is quite high Sir? Can you give some color like what are all deposits reprising come to happen in next two quarter or is any reason why our cost of deposit than peer banks? Secondly Sir if can give you some more color on your recovery and upgrades when I look at our slippages are there now even our gross NPA now we are coming in line with all the peer bank, but our recovery upgrade have significantly lower?

Rajkiran Rai G.: Agreed. First of all on cost of deposit if you look at our CASA was traditionally low so Union Bank traditionally cost of deposit was 30-40 basis points higher than the peer banks so there are close to 40% CASA. This is differentiating factor. We are very consciously working on that. We have cut our savings rates also. So those benefits should flow to us now, but it is around 5.8% now and cost of deposit so because actually even the term deposit we had certain schemes of two years deposit schemes earlier, which are raised at such high rates so that is affecting us, but those deposits are slowly maturing and I think the cost of deposit should substantially come down in the coming quarters.

Anand Laddha: Sir how much we could have raised in two-year deposit and what percentage you could have raised earlier and when they will get mature?

Rajkiran Rai G.: Actually in term deposit about 30% of the term deposits were at around 9% or so. I am giving very rough figure because these are slightly long-term deposits around 8.5%to 9% range cost. So there are slightly putting pressure on my cost of deposit and they are getting reprised on maturity so that will gradually bring down because our CASA is also close to 34% and with content saving deposit by cost of deposits are slowly should become closer to the peer banks.

Anand Laddha: In next two quarters how much of deposit will get reprised?

Atul Kumar Goel: I do not think I have that figure now.

Rajkiran Rai G.: I think around 30% of term deposit are getting reprised and they have currently with average rate of around 6.4 to 6.5.

Anand Laddha: I do not think we would have any benefit on cost of deposit then significantly?

Rajkiran Rai G.: You are comparing the cost of deposit of the peer bank, what is the CASA of that particularly if you compare the cost of deposit on?

Anand Laddha: I am just comparing with your Canara bank, which has similar CASA?

Atul Kumar Goel: Okay but if you see that what is one year deposit as on that if you see one year deposit is available around 6% less than 6% then you see the percentage of CASA. CASA is percentage of 33.57% so I think 5.71 are cost of deposit is also a very good number. Because there is mix of CASA as well as benefit of term deposit because 67% is the term deposit, but which is even if you will see that all the banks what they are giving for the less than Rs.1 Crores that is also more than 6% Anand, your second question was?

Anand Laddha: Recovery upgrades Sir?

Atul Kumar Goel: While recovery upgrades are quite lower than peer banks. We have started a very special drive actually August month onwards, because we realized that our recovery numbers almost 50% of the peer banks, which are at par with us, so in September it has really yielded results. Actually we have also put a recovery app. There is the recovery team in the field and there is a recovery app we will give on to this people with all data so that we actually like even geographic locations can be mapped through this app actually. So we have facilitated them September we have seen the results so we are assuming that this quarter we should be also hitting the 1000 Crores mark in the recovery and upgradation.

Anand Laddha: Okay and Sir any guidance on the slippages for the second half?

Rajkiran Rai G.: I think may be a similar amount. We have given delinquency target of 4.5 for full year and should give you idea that it will be similar.

Anand Laddha: Perfect Sir. That is all from my side Sir.

Moderator: Thank you. The next question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Rahul Gupta: Good evening Sir. Two questions from my side, if I see on slide #23 of the presentation are you see sequential increase in the NPA ratio in the MNC segment, any particular reason for that?

Rajkiran Rai G.: You are shooting your second question or shall I answer this now?

Rahul Gupta: Another question is what could we that average take out 5 in the segment MNC segment?

Rajkiran Rai G.: This is industry trend also, there is some stress in MSME and NPA is going up so we are also like this quarter I think it was around Rs.800 Crores slippage out of my total slippages so we are taking certain steps actually. Steps in the sense actually we need to do some handholding may be some additional funding if required from restructuring and those kind of stress we are initiating, but then the industry phenomena because see MSMEs are not standalone. They are interconnected in the system so any stress in one of the chains to gets passed on to most of these set ups so hopefully this should stabilize in the coming quarters with the capacity utilization increasing and the demand going up and quickening of receivable collections. So average ticket sizes any idea on MSME because I do not have the ticket size of these NPA slippages?

Rahul Gupta: No loan book in the MSME segment.

Rajkiran Rai G.: These actually like must be around Rs.50 lakhs for average ticket size may be Rs.50 lakhs because it is spread across actually from micro to medium. On an average it may be Rs.50 lakhs and the slippages are in below Rs.1 Crores category.

Rahul Gupta: Is there a particular reason why there is so much stress in the segment or is it the same reason across industry or you are facing something different in terms of stress?

Rajkiran Rai G.: It is what industry is there. It is a cash flow issues with most of these people because the capacity utilizations went down. Their receivable collections got bit elongated and the demand in the system also went down and if you remember during GST also some destocking and avoiding like postponing of the purchases and all that happened so as such MSME first it will take sometime for them to consolidate.

Rahul Gupta: Thanks Sir. That is it from my side. Thank.

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

Abhijeet Sakhare: Good evening Sir. Sir three questions; first one what is the breakup of power sector of loan book between private and public sector? Second one was on the SDR that you have done in the commercial real estate sector this quarter so it is kind of interesting because I think the sector itself is quite sensitive so in the sense regulator has kind of allowed you to do an SDR rather than declare it as NPA straightaway? So any specific color that you want to share as to what? Third question was on capital Sir I missed the number on the capital requirement that is budgeted for FY2018-2019 and whether this considers the requirement for next year from Ind-AS perspective?

Rajkiran Rai G.: On the private sector you had the breakup?

Atul Kumar Goel: So on the power private sector out of the total power exposure, I think majority part and 90% part is the private sector around Rs.20000 Crores as of September is to the private power. On the capital, I think initially also you made the statement that we have the board's approval for around Rs.4950 Crores of capital raising for the current year and the committee has already decided to raise Rs.2000 Crores of equity capital in the first tranche and we are working on that. We are evaluating the market condition, but yes on the next year part we have not yet taken a call so the capital that we are planning today is more about the current year perspective.

Rajkiran Rai G.: On the SDR you had position on commercial, this is one specific account where there was some TV study because this had infrastructure and real estate mixed up so we were splitting this infra and real estate part separately so we did the SDR but anyway because there are certain discussions going on in these account we will take you call during this quarter.

Abhijeet Sakhare: So the entire banking system has done recognised this account has an SDR in this particular quarter itself or how has been recognition?

Rajkiran Rai G.: It is approved by JLF then only it is done.

Abhijeet Sakhare: What is the size of the account for the overall banking system?

Rajkiran Rai G.: It may be around Rs.3000 plus Crores.

Abhijeet Sakhare: Sir Can I squeeze in one more questions please? Sir just wanted some favor on the SMA-II book in terms of what would be the composition in terms of small ticket loans, large ticket loans because it is fairly large in terms of size and any sense that you can give on what is the tendency of this turning into the NPA in the next year?

Rajkiran Rai G.: I think our NPA targets actually like credit delinquency we have given actually 4.5 so that should you give you color of probable slippages remaining in the next two quarters. SMA book traditionally like because of these 30 days default and 60 days default in all that so but it is coming down steadily. Rs.13600 is the figure what we said so it has come down substantially sequential it is coming down so I do not think that the slippages will be higher from this segment. The slippages are more likely to come from MSME retail agriculture 50% of the slippages and other 50% from the medium sector and may be some SDR or other values.

Abhijeet Sakhare: Okay so you do not expect very sharp decline in SMA-II book?

Rajkiran Rai G.: SMA-II book is declining steadily and it will decline further.

Abhijeet Sakhare: Thank you so much.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Phillip Capital. Please go ahead.

Manish Agarwal: Just about clarification on this SMA-II number is there any overlap with restructured or other buckets of stress like 5/25 or SDR?

Rajkiran Rai G.: Yes it is there. It is not mutually exclusive. SMA-II is a computer generated data anything which is under 60-90 days default it comes under that so there it does not differentiate between restructured 5/25 or SDR.

Manish Agarwal: So it will be very helpful if you can quantify the overlap?

Rajkiran Rai G.: See right now we do not have overlap on SMA-II and other restricting packages. We have already shared about the SDR, S4A and 5/25, may be offline we can say that.

Manish Agarwal: Other question was on the capital so did you calculate or has there dialogue started that how much of Rs.1.35 lakh Crores of recap bond will Union Bank be eligible to get?

Rajkiran Rai G.: That discussion has not happened yet.

Manish Agarwal: Okay any internal calculations we have come across any number you can share?

Rajkiran Rai G.: Not as of now.

Manish Agarwal: Second any thought on the lines of rights issue along with this recapitalization or the government capital infusion because that will actually help the current investors and it will also open that way?

Rajkiran Rai G.: We have already disclosed that we are raising equity of 2000 Crores. Actually the options are opened for right issue, private placement and QIP depending on market appetite will decide.

Manish Agarwal: Thank you. That is all.

Moderator: Thank you. The next question is from the line of Sanket Chheda from IDFC Securities. Please go ahead.

Sanket Chheda: You also gave the restructured overlap with SDR and S4A t would, there be any overlap with 5/25 as well?

Rajkiran Rai G.: I think it is mutually exclusive, 5/25. Nothing has overlapped.

Sanket Chheda: 5/25 and standard structured you was right?

Rajkiran Rai G.: SDR, S4A and 5/25.

Sanket Chheda: No. I am asking is there any overlap between 5/25 and standard restructured?

Rajkiran Rai G.: So between 5/25 and standard structured around 10% of the loan is 5/25 or in standard structured.

Sanket Chheda: Okay and what would be the outstanding SRs as on date?

Rajkiran Rai G.: It is around Rs.1000.

Sanket Chheda: Rs.1000 Crores okay Sir and out of this medium and large slippage of 1488 what would be the pure corporate and large corporate?

Rajkiran Rai G.: Large corporates are about 5 accounts amounting to almost Rs.1000 Crores.

Sanket Chheda: That is all from me. Thanks.

Moderator: Thank you. The next question is from the line of Himanshu Taluja from Emkay Global. Please go ahead.

Himanshu Taluja: All my questions have been answered.

Moderator: Thank you. Next we have followup question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead

Abhijeet Sakhare: Sir just wanted to check the decline in steel sector NPA of about Rs.1000 Crores compared to last quarter is it like few large accounts are spread out what explained the decline?

Rajkiran Rai G.: I think few of these steel sectors gone through we have written of also, 1000 plus written of that we are showing that also include some of these accounts.

Abhijeet Sakhare: Thank you.

Moderator: Thank you. The next question is from the line of Cyrus B from Anand Rathi. Please go ahead.

Cyrus B: Thanks for taking my question. I just have one qualitative question basically on the resolution process and your sense on the resolution as in how many accounts do you think would be able to get resolved? What is happening as far as JLF are concerned some more defaulters countersued; put cases against the banks any visibility on this would be great?

Rajkiran Rai G.: Very difficult to quantify on numbers and amount. I can give you a general sense of what is happening because at very senior levels we regularly meet and discuss this account. Now actually many of these accounts we have reached the level where expression of interest is already called for and there are many good players who have shown interest in these accounts. Now the next level is on the financial bids so we are evolving those processes now so hopefully actually at least some of the assets should like may be of interest to some strategic investors, particularly from the same sector and that we are also seeing some investors from various other like private equity players coming with some technology tie-ups and also showing interest so this is very different I think may be it is too early to quantify anything, but then we are seeing a lot of interest in these process.

Cyrus B: Okay more interest in roads?

Rajkiran Rai G.: No it is more in steel.

Cyrus B: Steel or rather than power?

Rajkiran Rai G.: More in steel as of now.

Cyrus B: More in steel okay. Is it possible to not quantify but give some color on the tentative haircuts that these asset classes would potentially take?

Rajkiran Rai G.: Difficult, because actually at this point of time unless we have the financial bids coming in so any kind of disclosure from us we will give you indication to those people so I think we should not be discussing that let the bids come so may be in another one month you will have fair idea of what valuation this people are going to give.

Cyrus B: Thanks. That is it from my side all the best for the next quarter.

Moderator: Thank you. We have the next question from the line of Sweta Daptardar from Dolat Capital. Please go ahead.

Sweta Daptardar: Sir good evening. Sir two questions as far as the write off amount is concerned this particular quarter has been phenomenally high now you mentioned a while ago that there are few steel accounts, which you wrote off so any other major accounts or sectors there which contributed to higher write off also how would this number pan out ahead and is it like we are going to see improvement or meaningful improvement in asset quality because this number is showing up? Sir my question is you mentioned your remarks as far as recapitalization of PSU banks is concerned the discussions with the regulator still not in line, but have you at your end done any calculations as to say with respect to capital deficit to meet up the Basel III guidelines or for IFRS implementation so any calculation that your end as of now?

Rajkiran Rai G.: See I think it would not be fair to share the numbers to which has not actually gone to the board, but we have definitely done internally the analysis for FY2019 in the Basel transition completes, what are the capital requirement and I think Rs.4750 Crores of plan that we have and we have requested Government of India earlier for around of Rs.1500 Crores of capital infusion that added with whatever announcement in the recap plan if you get some good share in that I think that would suffice for us to meet Basel III and also keep kind of cushion by FY2019.

Atul Kumar Goel: Your other question, on write off this is balance sheet management wherever we have 100% provision in accounts as a prudent balance sheet management we technically write off. We had few accounts that we are 100% provision so that is why this quarter we took a call to write it off so may be like the way it evolves we will see in December and March if required will do it, but this is not like priority for us, but when we have 100% provision as a balance sheet management we do it.

Sweta Daptardar: So any sector or account besides steel that is contributing or that contributed to this high number this quarter that is Q2?

Rajkiran Rai G.: There is nothing specific on that.

Atul Kumar Goel: Nothing specific about the sector. As I told you we are having the 100% provision it may be steel, may be power, it may be whatever it is, if we are adding this is purely balance sheet management. Nothing else.

Rajkiran Rai G.: It is right off does not mean sector wise there is nothing. There is no sector wise call on this.

Sweta Daptardar: Sir one question if I may squeeze in Sir you just mentioned you already have certain infusion on the capital front and place and recapitalization plan further would be and added benefit also the fact that our advances are showing a run rate of annual run rate of 10%-11% odd you have target place so going forward if this recapitalization infusion happens then this particular capital with a new infusion into the bank especially for our bank would be more of growth capital or would be more of like loan loss capital?

Atul Kumar Goel: Actually capital requirement is on both sides, but then see has already explained we have put in demand to the government earlier also for Rs.1500 Crores infusion and we thought of raising about Rs.2000 Crores from the market on our own so these are our requirement based on a credit growth estimate of 8%-10% so now actually since the government is planning to push this credit growth higher so whatever additional comes it will be good capital.

Rajkiran Rai G.: Also if I may add on this see our growth of 11% kind of thing that we have shown in advances is mostly into capital light areas into RAM sector and on the corporate sector it is too better rated corporates, so if you see the growth rate of RWA from September 2016 to September 2017, it is somewhere close to 3% comparison to advance a growth of 11% so already focusing on the capital light growth.

Sweta Daptardar: Sir lastly what has been then the capital consumption?

Rajkiran Rai G.: See ideally on an 8%-10% growth rate of balance sheet capital consumption is around 60-65 BPS.

Sweta Daptardar: 60-65 BPS. Thank you Sir.

Moderator: Thank you. The next question is from the line of Chandra Govindraju from Ashmore Group. Please go ahead.

Chandra Govindraju: Sir if I am not wrong, you gave a credit cost guidance of 3.3% right? So if I look into PPOP, pre-provision operating profit as a percentage of was that we have trend for 1.7% so giving a 3.3% of credit cost and it does mean that are we reporting a loss for the year?

Rajkiran Rai G.: I think we have already given guidance of business growth, delinquency and credit cost generally we do not have any kind of guidance on profit, so we will refrain from talking on that.

Chandra Govindraju: Okay I am just back calculating, so that what is the number you got?

Atul Kumar Goel: I think you can arrive at your figure but then from our side generally it seems we do not give profit guidance it is not right on our part to share that number but then, there is actually very realistic estimates.

Chandra Govindraju: So this 3.3% is calculated on advances if I am not wrong?

Rajkiran Rai G.: Right.

Chandra Govindraju: Thank you Sir. That is my question.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Hello you mentioned slippages would be around 4.9% considering the 10% growth of slippages for the second half would be around Rs.8000 Crores how do you see recoveries and upgrades? It would be around that similar trend what we are seeing in Q2 or would it be higher than that or fair assumption can we our gross NPA closing would be best case of the March 2017 number to decide on that Sir?

Atul Kumar Goel: See on the first part of the slippages of our MD has already guided that delinquency rate guidance we have moved from 4% earlier. We gave to 4.5% and that if you do the backhand calculation you know what will be second half thing in terms of recovery and upgrades I will pass it on M.D.

Rajkiran Rai G.: See recovery and upgradation the second half should be much better because September month itself we have seen substantial uptick in recovery and upgradation. We have certain mechanisms in place and we are expecting at least Rs.2000 Crores of recovery and upgradation in the second half.

Sneha Ganatra: This is considering this Rs.2000 Crores so then will be similar level of FY2017 number?

Rajkiran Rai G.: Gross NPA we have given a guidance that we will be below 13%.

Sneha Ganatra: Below 13% okay and PCR any target?

Rajkiran Rai G.: It is above 60 by March end we should be above 60.

Sneha Ganatra: Thank you.

Moderator: Thank you very much. Next we have followup question from the line of Himanshu Taluja from Emkay Global. Please go ahead.

Himanshu Taluja: Thanks for the opportunity. Just a small question we have exposure in the second list of NCLT?

Rajkiran Rai G.: We have about Rs.4700 Crores of exposure.

Himanshu Taluja: How many accounts?

Rajkiran Rai G.: It is in 18 accounts.

Himanshu Taluja: 18 accounts.

Rajkiran Rai G.: Yes.

Himanshu Taluja: Thank you Sir.

Moderator: Thank you very much. That was the last question. As there are no further questions I would like to hand the conference back to the management for any closing comments.

Rajkiran Rai G.: Thank you very much I think there is wonderful session. I think queries were very, very relevant. I thank you for the interest hopefully the steps are taken by the management for cleaning the balance sheet as early as possible and strengthen the balance sheet by the end of the year taken positively by analyst and thank you and we look forward for continued support from the analyst community. Thank you.

Moderator: Thank you very much. On behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.