



“Union Bank of India Q3 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Union Bank of India Earnings Conference Call for the period ended December 31st, 2021. The Bank is represented by the Managing Director and CEO – Shri Rajkiran Rai G; Executive Directors – Shri Manas Ranjan Biswal; Shri Nitesh Ranjan; Shri Rajneesh Karnatak; Shri Nidhu Saxena and other members of the top management. As a reminder, all participants 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. Now, I hand over the call to Mrs. Ranjita Suresh – Assistant General Manager, Investor Relations. Thank you and over to you madam.

Ranjita Suresh: Good evening ladies and gentlemen, I Ranjita Suresh, Head of Investor Relations on behalf of top management of Union Bank of India welcome you all for this concall to discuss the Q3 financial year 2022 results of our Bank. The structure of the concall shall include a brief opening statement by MD & CEO and then the floor will be open for interaction.

Before getting into the concall, I’ll read out the usual disclaimer statement. I would like to submit that certain statements that may be discussed during investor interaction, maybe forward-looking statement based on the current expectation. These statements involve a number of risks, uncertainties and other factors that cause the actual results to differ from the statement. Investors are therefore requested to check the information independently before making any investment or other decisions. With this, I now request our MD & CEO for his opening remarks. Thank you, over to you sir.

Rajkiran Rai G: Good evening, everyone. It is a pleasure and privilege to meet you all for Union Bank of India financial results for the quarter and Nine months ended December 31st, 2021.

There has been good upturn in economy. As per the CSO’s advance estimates for FY22, the level of economic output is expected to surpass the pre-COVID level. Encouragingly, third wave of Covid has been milder, and less disruptive. Thus, with Union Budget pushing for higher CAPEX, there could indeed be virtual cycle underway to put economy on high growth path. Banking and financial sector is well prepared to finance India’s growth aspirations.

Coming to Union Bank’s business & financials for quarter ended December 31st, 2021.

The Bank has continued to post strong financials as net interest income grew by 8.88 % YoY; the net interest income stood at Rs. 7174 crore for Q3 of FY2022. The Global NIM stood at 3% for Q3 of FY2022. The Net Profit stood at Rs. 1085 crore during Q3 compared to the Rs. 727 crore in Q3 FY 2021, thereby registering a growth of 49.29 %.

In terms of business, the RAM sector noted 9.17% YoY growth, raising its share in domestic loan book to 56.94%. Within RAM sector, the retail advances grew 9.78% YoY and agriculture

advance grew 11.08 % YoY. On the liabilities side, total deposits grew 6.24% YoY led by low-cost CASA deposits which grew 11.06% YoY. The CASA ratio thus stood at 36.99% as at December 31st, 2021, as compared to 35.38% a year ago.

Of Asset Quality, the Gross NPA ratio stood at 11.62% as of December 31st, 2021 compared to 13.49% of last December. Net NPAs stood at 4.09%, which was 52 basis points lower sequentially. The Bank has successfully contained the overall stress. From a level of approximate 16% of March 2021, the stress book has declined to 6% levels in December 2021.

Friends, the Bank has performed well on recovery front by recovering approximately Rs 13000 crores on gross basis for 9 Months FY 2022. Basis the robust recovery, we already revised our guidance from Rs 13000 crores to Rs 16000 crores recovery for full year FY22.

Strengthening our collection capabilities further, the Regional Collection Centers are opened, wherein dedicated Call Centers & Feet on Street model combine with a skilled pool of staff deployed to reduce the stress position of the Bank on continuous basis.

The Bank raised Rs.3500 crores AT1 Bonds during the Q3 FY 2022, apart from raising Rs. 1447 crore equity capital through QIP and Rs. 2000 crore under Tier-2 bonds during the previous two quarters in this current financial year.

Coming to developmental measures as per long-term strategy, the Bank has taken several initiatives in its digitization journey under the project Samarth 2.0. It has started reflecting in better customer satisfaction and greater digital adoption. There has been marked increase in daily registrations by 2.4x, and daily transactions volume by 1.2x on U-Mobile – our digital Banking app. Taking customer connect further, the Bank has also launched Conversational Banking (UV-Conn) on WhatsApp, and e-bulletin ‘Union Pravah’ for creating awareness about our products amongst our customers.

To increase the credit availability to the MSME Sector, the Bank has revamped its focus to MSME by launching Union MSME First Branches. Union MSME First Branches have been opened at 25 locations by offering multiple benefits to MSMEs and leads worth Rs 3395 crores have already been generated. Towards sustainability, the Bank has launched new products namely, Union Green deposits, Union Green Miles, Loans for Solar Roof top in the quarter.

Let me conclude by stating that the Bank’s performance is in line with our guidance shared earlier this year. To reiterate:

- Deposit and advances growth in range of 6% to 8%.
- CASA ratio in range of 36% to 37%.
- NIM to be around 2.9% to 3.0%.
- Credit Cost to be around 2.0%.

- Delinquency ratio to be around 2.5 %. (On net basis excluding the one-off slippage of SREI Group)

With this guidance, I conclude my opening remarks. We are grateful to Analyst and investor fraternity for their continued support and feedback that helps us to take informed decisions in our journey towards efficiency and profitability. We are now open for the Q&A session.

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 Edelweiss. Please go ahead.

Mahrukh Adajania: Sir, my first question is on ECLGS. So, what is the incremental ECLGS disbursed during the quarter and what will be the outstanding figure now?

Rajkiran Rai G: ECLGS during the quarter, in the extension scheme, we have done around 3200 crores of sanction. And out of that around 2900 crores of disbursement and on aggregate level as of now, outstanding is around 8500 crores.

Mahrukh Adajania: Sir, my question is on recovery, so now after a lot of lumpy recoveries from NCLT what is your outlook on recovery for the next few quarters?

Rajkiran Rai G: We can't expect lumpy recovery every quarter. So, this time the recovery has come from normal accounts. So, Ashok you want to add something?

Ashok: In fact we are expecting some good recovery to happen maybe something can happen in this fourth quarter. But some good recoveries we are expecting in 20 to 23 through the NCLT process. And there are some tractions which are happening outside NCLT also, that route also we are expecting some good recovery in this quarter. NCLT is of course yes, it is not much recovery is happening through the NCLT process.

Rajkiran Rai G: So, we have recovered about 13,000 in nine months and last time we had indicated that our annual target for recovery is revised to 16,000 crores and we are confident of crossing that levels for the full year. This will be like record recovery comparatively. So, this year recovery has done well. One lumpy record but mostly it is all smaller accounts. I can just sum it; I can give you one data which indicates what is the potential that is lying. Like we have 50 accounts which is already approved by NCLT and we are waiting for the implementation to happen and through that access we are going to get around 2500 crore. So, we need to wait for how long it's going to take for the implementation, but since it is already approved, so, we are expecting some part in this quarter, 900 crore we are expecting in this quarter, but going forward 20 to 23 this entire amount will come.

Mahrukh Adajania: Got it sir. Sir, and what could be the write back on our government account and would you have made any incremental provisions on SREI or future this quarter?

- Rajkiran Rai G:** Like, you may be mentioning about Air India. So, Air India the total recovery came we had almost 500 crores of provision, which came back, which we used for some other provisioning. On SREI our provision remains at 65. We didn't make any further provision this quarter because we think at this point of time may be there is adequate provision. On the future without NPA as of 31st December, but even then on the total exposure including investment book of future we have close to 30% provision, not exact amount but like that disclosures will make at the right time, but it is close to 30% provision on the total exposure of Future Group we are holding as of now, but they will be reflected in the standard as a provision.
- Mahrukh Adajania:** Got it sir. Sir and the exposure to future would be 2500 to 2600?
- Rajkiran Rai G:** Yes, total including investment book yes.
- Mahrukh Adajania:** Got it sir. Sir, any part of the Air India recovery came through NII or it was just provisioning reversing?
- Rajkiran Rai G:** It is only provisioning reversal for us.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.
- Nitin Agarwal:** Sir, if you can provide some color on the corporate slippages this quarter as to what is driven there some, any comments on granularity?
- Rajkiran Rai G:** This is the data we always share. So, our slippage of this quarter 504 crores is from retail, 839 crores from agriculture, 874 crores from MSME and 1194 crores is from the corporate book. So, this is the information generally we share upfront so that people ask question on that. Since your question is on corporate side, we had one lumpy account which belongs to a state government account civil supplies but for that, it is not very big there is only one lumpy account.
- Nitin Agarwal:** Okay. And so we are expecting like what is the outlook on this account sir?
- Rajkiran Rai G:** This is actually the government account so we are making effort. So, most probably we may recover the money quickly because the status is different in different Banks as of now. So, because of certain rollover issues actually the account had to be classified as NPA, but then technical issues, so we are expecting that it can be upgraded or recovered we are making our efforts.
- Nitin Agarwal:** And fair bit of detail this quarter because of the tax rate has been very high this quarter as well as during the nine months. So, how do you see this tax rate going ahead?
- Rajkiran Rai G:** Please repeat your question, I missed somewhere.

- Nitin Agarwal:** So, I was referring to the tax rate, it has been running quite high this quarter?
- Rajkiran Rai G:** Actually we are not paying any taxes actually, what is reflected there is reversal of deferred tax assets. Actually, that column is there so it comes there, because we have accumulated losses carry forward losses, because of that we have a set of available. So, actually we are not paying any taxes what we are doing, we are using this quarters where since we have good profitability to like reverse the deferred tax assets. So, you have already brought our DTA book to about 12,000 crores now, because we are planning to move to the new tax regime maybe by March 23, for which actually at this point of time, we would have taken a 5000 crore one time. So, this year we took a call that we will reverse part of that DTA and next year we'll reverse other part so that by March 23 we will be capable of moving to the new tax regime without a hit. And the advantage of DTA reversal because this DTA is reduced from the net worth also so, if you see our net worth is increasing, because the DTA is coming down every quarter. So, this time we are more crucial, so we have reversed about 1500 crores of DTA. So, the net worth has increased to that level you can see that.
- Nitin Agarwal:** Okay. And lastly, how much is the outstanding security receipts for us and what sort of provisions are we carrying on them?
- Rajkiran Rai G:** Outstanding security?
- Nitin Agarwal:** Security receipts, outstanding SR?
- Rajkiran Rai G:** SRs 2037.
- Rajkiran Rai G:** Okay, Nitin we will come back to you on this.
- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from Systematix Group. Please go ahead.
- Rajkiran Rai G:** Just a minute for earlier Nitin's question we will finish that, 66% is the provision on SR book. This is for Nitin. Yes, please go ahead.
- Rakesh Kumar:** Firstly, similar questions on this security receipt. So, as for the notes of accounts, like couple of for instance are falling into RRP and below. So, the possible recovery in those SR will be like how much and what is the average tenure?
- Rajkiran Rai G:** This data we will share with you because right now, I don't have that much minute details, because what we hold as of December 21 is 2037 crores, for which we have a provision of 1481 crores about 66%. So, on the low rated cases we have a higher provision. And last one, two years we have not issued any fresh SRs, these are the old ones. So, we'll be able to give you some finer data on this offline. So right now, I may not be carrying that data. But that is not much.

- Rakesh Kumar:** Okay. Any income that we have taken into account this quarter on the PSSV sale this quarter?
- Rajkiran Rai G:** No, not this quarter.
- Moderator:** Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.
- Jay Mundra:** I have two questions sir, first is on restructuring. So, what is the non-overlapping MSME restructure which is over and above RF 1.0 and 1.2, last quarter it was some 24, 2500 crore?
- Rajkiran Rai G:** So, other than RF 1 and 2, the MSME restructuring is 1932 crore. And RF 1 you might be having the number is 2258 and RF 2 is 3130.
- Jay Mundra:** So, over and above R 1.0 and 1.2, 2.0 is 1952 crores?
- Rajkiran Rai G:** Yes.
- Jay Mundra:** Right, okay. And secondly on your ECLGS I think Nitesh sir mentioned, but just wanted to double check if I look at our slides, you have given detail on ECLGS and it looks like there is not too much of a change from GCL one to zero. So, it looks like that the number has not moved and only by maybe 100 crores or something the GCL one is 8500 crore amount sanction. So, sanction has not changed. So, because I heard that there is some 3200 crores kind of a sanction in this quarter. So, just want to double check that?
- Rajkiran Rai G:** On the slide extension sanction amount is not mentioned, as I told ECGS one scheme only mentioned on the slide.
- Jay Mundra:** Okay, understood. So, even the outstanding would be +1500, the disbursement amount 2900 is that the right way to understand?
- Rajkiran Rai G:** You are right, in some sense, but we'll come back to you with the exact number by the end of this call.
- Jay Mundra:** Sure, sir. And secondly what is the family pension outstanding number, family pension liability and is that being netted off from capital when we report CET1 and what is the amount?
- Rajkiran Rai G:** No, it is not netted off as of now. Last quarter we had made a rough estimate and made about 380 crores of provision, for which we made a disclosure also. But in March we will estimate and based on that either we will provide or otherwise it will be netted from the capital, but in March only actuary estimates will come we'll take a call then in March.

- Jay Mundra:** Understood and in this case sir on MTM. So, you have given the duration, but was there any MTM investment depreciation pertaining to GSEC in this quarter and what would be your PV01 at a certain threshold, if you have that number?
- Rajkiran Rai G:** This quarter there is no mark to market and even at the current yield we are MTN positive on the GSEC, the PV01 for the GSEC would be around three crores.
- Jay Mundra:** Okay. And this would be benchmarked to what rate, current rates or maybe slightly higher?
- Rajkiran Rai G:** PV01, is at the current rate. But the MTM that I tell you today also it is positive is obviously at the current rate. The duration of the portfolio is around 1.3. So, we are well protected even in the current environment already yields have moved up. So, even if there is a inch up of 20, 25 basis point we are covered for that risk.
- Jay Mundra:** And three crore PV01 would mean that every basis point you may have to, could be the delta?
- Rajkiran Rai G:** Yes.
- Jay Mundra:** On AFS book right, not on entire HTM and everything?
- Nitesh Ranjan:** Only AFS. That I'm telling you for the GSEC portfolio if I include this entire portfolio it could be around 11, 12 crores of the AFS.
- Jay Mundra:** Understood. And last thing sir, we used to disclose this SMA-1 plus SMA-2 for may be **(Inaudible) 22:46** or maybe the all-inclusive if you have that number for this quarter, as of December?
- Nitesh Ranjan:** Since you have done it last time you're doing it now, that we have disclosed this time also SMA-2, 5 crore and above, but overall SMA-2 if we look at, SMA-2 so September we had 2.3 it has come down substantially for the quarter ended December now it stands at 1.9. Yes, 1.9 is SMA-2 full book, only on the 5.0 crore and above which will be 0.4. So, just for clarity, SMA-2 of five crore and above for September quarter was 0.9 which has come down 0.4 this quarter. And if I look at the entire SMA-2 book it was 2.3 for September quarter, which has come down to 1.9 for December 21.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from Robocapital. Please go ahead.
- Rishikesh Oza:** Sir, my first question is, what steps are we going to take next year for the DTA reversal?
- Rajkiran Rai G:** Actually, we have about 12,000 crores as of now, we may take some more reversal in March depending on the cushion what we have. So, we expect that another 5000 crores we may reverse next year, because actually up to 10% of networth there is exemption for the DTA. So, with that

we get an exemption up to roughly about 5500 crores. So, beyond that we would like to reverse because that is reduced from the net worth.

Rishikesh Oza: So, another additional 5000 crore are we planning right?

Rajkiran Rai G: Yes, so depending on what we take in March, depending on the cushion available the remaining thing will be for the next year, but we may not, actually this is a call we have to take based on the cushion available, since the credit cost has come down substantially and the operating profits are very stable. So, we are taking a call because it's as good as raising equity, it is coming back to the net worth. So, we are doing that, so maybe next one year also we may have to continue to do this.

Rishikesh Oza: Okay. got it. And sir my second question is what loan book growth and credit cost are we looking for in FY23?

Rajkiran Rai G: Okay. See, if we look at the credit growth from September to December, these three months it has been 5.5% growth, when you look at Y-o-Y, these are quarters which were very disruptive, but September to December growth is 5.5 that gives us the confidence and the sanction pipeline that we will be able to achieve 6% to 8% growth by March. Next year it will be definitely a double-digit growth. So, like 11% to 12% growth is what we are assuming at this point of time, but then again like we need to see how the things play out but 11% to 12% is assumption with which we are going at this point of time. On the credit cost this year, we had projected that will be between 1.5 to 2, we will tend to be closer to 1.5 rather than 2 because in the first nine months it is around 1.7. So, we are hopefully like tend to be closer to 1.5. Ideal credit cost for next year will be something between 1 to 1.5. So, again like since the provision coverage is quite high, unless there is some major slippages from the restructure book of MSME and all that and we are conditional watching. And then like otherwise, the traditional credit costs should be closer to 1, but then 1 to 1.5 will be the range we are likely to project for next year.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Yes, thanks for the opportunity. My questions have been answered.

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

Mahrukh Adajania: Sir, I just wanted to check what will be your EBLR linked rates loans?

Rajkiran Rai G: EBLR is around 25% of the book is EBLR linked.

Mahrukh Adajania: Okay. And then anymore, and that's the only benchmark, that's the only external benchmark link right?

- Rajkiran Rai G:** So, under EBLR we have reported linked also we have TBL linked also. Total book under EBLR is around 25%, 26% and within which around 6% to 7% is even T-bill linked
- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from Systematix Group. Please go ahead.
- Rakesh Kumar:** Sir, just a theoretical question, that basically in the previous quarter we witnessed that short term paper yields moved much faster than longer term papers. So, keeping the AFS book overall in a smaller size and with a higher duration, would it make sense to protect or it would be better still to just keep lower duration, because we have seen much higher volatility in short term papers.
- Rajkiran Rai G:** This is wisdom which Treasury carries because we are seeing these cycles earlier. So, in their wisdom, they think that this is the right way and maybe we are proved right, because in the kind of fluctuation what we have seen in the last three, four months in the earlier cycle, we already had a lot of mark to market losses, in earlier cycle if you remember. This year, we are yet to have any mark to market losses. So, there is a prudent call, so because the short-term fluctuations and all that maybe there but then it is very difficult to adjust our books to this kind of market phenomena. So, we take a very proper call looking at a very longer-term view and the price fluctuation. So, we are proved till now.
- Rakesh Kumar:** Got it. Just one more rather critical questions sir. So, which T-bill we are using it is like 81 days, 364 days which T-bill we use for?
- Rajkiran Rai G:** Three-month T-bill we are using.
- Rakesh Kumar:** And when we are using three months T-bill, so what kind of loans we are sanctioning or disbursing using that external benchmark sir?
- Rajkiran Rai G:** These are very short-term loans, basically there is a demand from AAA rated borrowers for short term loans, which are typically 30 days, 60 days kind of, and since the market rates are very low, the demand at a low price and that's why this product is developed. So, these are very short-term loans.
- Rakesh Kumar:** Got it sir. And on the liability side sir, because some old gen Bank we have seen that they have priced their savings deposits on external benchmark also. So, do we have any product or any plan that we would have some liability product or maybe a deposit based on external benchmark just to keep the ALM hold better priced?
- Rajkiran Rai G:** On the savings deposit particularly CASA, they are not that very sensitive to the pricing, because there is more for a convenience and operating part actually they keep it. So, what is seen actually we have fluctuated this price and seen it doesn't affect much. So, we are not using pricing as a tool because the CASA is growing at 11%, as per the system so we are okay with that at this point of time. So, we are not getting into any external benchmark at this point of time.

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

Ashok Ajmera: Most of the questions have been answered. But sir, I have a couple of observations and some numbers to be sought from you. You see this, our operating profit has been this quarter had come little under pressure. And the Treasury is already under pressure and because of that it is resulting in the lower profit. Even on the recovery front also in this quarter the recovery from the return of account comparative are low maybe because of a lumpy recovery in last quarter. But overall, nine months performance is of course, very good and it needs to be congratulated. My question is that in order to meet the profitability targets, or in order to make the Bank profitable, since we are not going to have much Treasury income profits now, the way we look at. What actions are you taking towards the credit side to the NBFC, or you have got a co lending space also available, you got lot of SMEs also where one can look at where you get a higher rate of interest. So, what are your plans on that?

Rajkiran Rai G: Thank you Ajmera many of the questions, you yourself have answered, because the operating profit is definitely impacted by the Treasury income. Because this quarter, we have given that breakup and Treasury income is bound to go down because, the whole ecosystem, the interest rate is going up. So, we had that impact because of that the operating profit has come down a bit actually because of the Treasury income. And going forward also, the Treasury income will be always under challenge. But then there'll be some basic income which will be making it is not that it will become zero. So, around the level what we have this quarter, maybe slightly less than that, but that kind of numbers you can see every quarter because we will always have something to sell and make money. So, that is something which you will have. One compensating thing will be the net interest income. So, whatever we lose in Treasury, we will definitely make up in the interest income because the interest rate is moving up because today, there is a lot of money parked that short term rates, either T billing or other thing at a much lower rates. So, they will all get re-priced now because the system interest rates are moving up. So, our interest income is bound to move up, added to that the credit growth from September to December you have already seen a good credit growth. And already we have a good pipeline. So, I'm very confident the net interest income will grow much faster and compensate for the Treasury. The other side which can compensate is other income, in other income actually we have write off recoveries and the other fee-based incomes. So, we are working on both the sides, because my recovery department has totally digitized the processes now, we may be one of the Banks which has a end-to-end digitization of all the NPA accounts including the recovery actions. So, this will play out and definitely the recovery from the normal NPA and also write off accounts will go up substantially, it will compensate. Fee based income we are working because there is a trade finance software which we are implementing already the trial run is on in four five branches. So, with that actually, we are expecting that our other income particularly on the import export side will go up substantially because there are very few Banks which are having these trade finance module which will give end to end solution to the customer and we are quite ahead of the curve in implementing it. So, that will help us so, like next two, three years, our plan is that as the

Treasury income goes down, we should supplement it by interest income and also by other income. So, already the strategies are there and hopefully we should be able to compensate.

Ashok Ajmera: And does the in NBFC space and co-lending space because some smaller Banks also have tied up for a huge amount and they are getting good results from that. So, have you done anything of that kind and what are the expectations for future for this NBFC and through direct lending as well as for co-lending?

Rajkiran Rai G: Co-lending we have started already. We have good, like we were a bit late actually last two months we have built about 200 crores of book now. So, hopefully like by December we can reach close to 1000 crores and next year, it will add substantially because we have four, five tie ups now, out of that two are already working, other three are in the process. So, hopefully this co-lending also will supplement on the retail and MSME side.

Ashok Ajmera: Sir my question is, Mr. Ashok Chandra has replied just now some time back, there are good recoveries are expected from the NCLT and some other outside NCLT, some OD settlements and other thing and he gave the figure of 50 accounts of 2500 crore expected amount, but this is again out of the approved account. But among the non-approved good recoveries means can we quantify; can we get some amount on that also in addition to this 2500 crore?

Rajkiran Rai G: Good afternoon Ajmera. I will just give us some breakup, like 50 account I have already mentioned that is approved by NCLT, we have 66 accounts which has been approved by COC and it is filed in NCLT for which we are waiting for the approval to come. And in that we are expecting around 2700 crore of recovery. Running ledger itself is principal outstanding is 6522 crore. So, this is one kitty is there, and in 155 accounts the CIRP process is going on. So, if you assume that 20 to 23 the entire year the timeline if you go by the NCLT. In those 150 frozen accounts also some traction should happen in the '22-23. So, these are the projections for going forward.

Ashok Ajmera: Yes, sir. My last question is around the digital space the entire Bank like you said that trade credits you are doing end-to-end recovery, you are doing end-to-end but the many Banks are at a very advanced stage of complete digitalization like even of course SBI is the lead Bank. But we have seen even Bank of Baroda yesterday, saying that they have that, Bob world they were introduced in a big way and Canara Bank has also come a long way this. So, where do we stand in the complete digitalization of the Banking operation?

Rajkiran Rai G: We are not behind actually that much I can assure you. Because actually we foot out everything in, like if you just go and use my mobile app, you will know that our mobile app also equally good like any other Bank today's date, there are so many products and it is so smooth today. So, we are continuously operating on this and see, we may be the one Bank which has already digitized the loan processes in some products, like today if you Mudra loan up to 50,000 including documentation we have digitized, it is right from applying for a loan, process, sanction, and documentation. So, somebody sitting even in a fishing boat can get the credit of Rs.50,000

of Mudra loan through our Bank. This is something we have built a capability in the last three months is working, we have not given much publicity to this because we want to expand it from 50,000 to 5 lakh gradually as we get more and more experience. Because these kind of digital products, we should not make it big **(Inaudible) 39:47** and then fail. So, we are very conservative on that, but then products are already working. Similarly on the personal loan side. If you have your mobile and if you are in the approved list, your personal loan can get credited to your account and where the documentation is also digital. So, that way, we are quite advanced in most of these products, but we can expand to other product quite quickly, but then we are not made much publicity for this because they are all in a test basis and maybe by April once we are confident that this can really work smoothly without hitches we will make the announcement. So, we are not come big on those things, but I can assure you that the digitalization process which is going on in our Bank is no less than any other Bank.

Ashok Ajmera:

Point well taken. Yes, last parting question. In the credit growth, I observed that metal and metal products growth was 7500 crore in this quarter, which is quite substantial. So, is it across the industry or one or two large account in this metal and metal products of 7500 crores which is mentioned in this and with that a power Infra you already have the infra NBFC and food processing other than that any other industry where you are finding green shoots other than this three, four industries where you're given good amount of credit?

Rajkiran Rai G:

See, what happens this categorization of RBI it will include some steel or some other things actually. So, somebody who is in the metal space will easily come in, I'll be able to give you the data, but we have done a lot of sanctions, but then 25,000 crores of sanction pipeline we already have out of that major chunk is on infra and NBFC and we have already shared the kind of rating profile we have in NBFC. So, like we have very good rating profile on NBFC. So, the expansion, particularly the sanction is more on Infra and NBFC, we have other spaces also. But then these are the two major areas we have the sanction pipeline now.

Ashok Ajmera:

That is +A, AA?

Rajkiran Rai G:

Yes, NBFC we have shared one of the slides where we have given the rating profile of NBFC AAA, AA and A. So, that will give you an idea that what kind of exposure we are taking on the NBFC. Again, we have given a breakup there, how much is government, how much is public sector, how much is backed by large corporates and that categorization of NBFC also we are given.

Moderator:

Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi:

My question is regarding what kind of GNPA, net NPA level we are targeting by FY23 end. And my second question is, how much we are going to transfer in NARCL and is it expected to be done in the current quarter?

- Rajkiran Rai G:** The gross NPA like our projections, we said that we will try to get closer to by the end of this year itself, we are +11 now. Hopefully, if everything goes as per the projections, we will be slightly below level by March 22 that is the expectation. Similarly on the net NPA side for March 22, we want to be below four and that was our target in the beginning of the year and we are likely to hit that range. So, by March 23 our aim is to reach closer to 2, 2.5 kind of net NPA. So, again like the way the book is behaving now, looking at a very, very small stress book particularly on the corporate side now, the slippages are likely to be very low next year. So, suppose if we are able to keep the delinquency below two next year we're around 1.5 to 2 and the credit cost. So, we should be able to reach at the NPA level between 2 to 2.5 by March 23.
- Dixit Doshi:** Okay. And regarding NARCL?
- Rajkiran Rai G:** NARCL, actually now there are some revision in numbers which we initially shared, because some of the accounts are at an advance stage of resolution and we have taken them out. Now it is roughly estimated to be around 50,000 in the first lot, about routine, that we have exposure in 11 accounts amounting to something like 4100 crores. So, that will go in the first slot.
- Dixit Doshi:** And it will happen this quarter?
- Rajkiran Rai G:** Yes.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Sir, why is the processing charges negative in spite of loan growth picking up?
- Rajkiran Rai G:** Could you please repeat?
- Pranav Tendulkar:** Yes, loan processing challenges growth is Y-o-Y and Q-o-Q negative in spite of loan growth picking up. So, this will be on the slide number #27.
- Rajkiran Rai G:** We had a festival Dhamaka going on where we had waved processing charges, all your housing loans and all that, this was a scheme driven so, that would have gone down because of that. So, because most of the retail loans, all the Banks did that.
- Pranav Tendulkar:** Right. Sir also on the balance sheet, what is the optimum level of split or ratio of interest-bearing liabilities to interest yielding assets. So, if I just take advances plus, investments plus, Bank balances with Bank as a percent of say borrowings and deposits what is the scope here to improve. So, around other way excess SLR when we will get rid of excess investments in low yielding investments?
- Rajkiran Rai G:** Actually this was burden for us because of the excess liquidity in the system. So, we tried to correct it by going slow on time deposits actually, you would have seen that we have corrected

our growth on time deposit to a great extent, but then the CD ratio as it goes up, this will be corrected. So, the surplus investment at this point of time the yield on that is not very bad compared to what we get on the advances also. So, you should not go with the assumption that surplus investment is low yielding at this point of time. So, maybe the scenario will change as interest rates will go up and then we will have a cushion to take these out and put it in credit. So, the basic assumption that the investment book returns are lower than advances returns may not be correct at this point of time. Nitesh you would like to supplement?

Nitesh Ranjan:

So, we don't have the exact number of interest bearing assets to liability ratio right now, but as our MD said, once the advances start picking up versus the interest rates are also moving up, therefore Bank will be in an advantageous position actually, in terms of while the ratio may remain same, but there will be some substitution of lower yielding investment towards the higher yielding comparatively advances that advantage Bank will be getting. At the same time we have also given the data on one of the slides, that while interest rates move up on the liability side good quantum of term deposits are actually non-callable term deposits, which will be price insensitive actually. So, that will again come to the advantage of the balance sheet.

Pranav Tendulkar:

So, just to put the exact number advances as a percent of interest-bearing liabilities that is deposits and borrowing is 62%. Whereas the mandated SLR and CRR is actually just around 18%, 19% or 93.5 is just 21%, 22% so, you could theoretically have 80% of advances. But it's just 62% So, I'm saying that simple measure like this could actually pull our yield or pull our NIM or ROA to different levels. So, I would just like to know your opinion about it, is there any theoretical limit to this like, can 62 become 80% advances?

Nitesh Ranjan:

62 will not become 80, 62 can become towards 70, because you'll also see that some of the possibility of 62 to rise is cap we have already raised the capital bonds, if there was a space in non-equity capital, then perhaps that was possible, but today we'll look at our Tier-2 ratio and AT 1 ratio, both of them are close to the, in fact higher than the regulatory minimum. So, 62 can move to 70 definitely in next 12 to 18 months, depending on how the business grows.

Moderator:

Thank you. The next question is from the line of Sushil Choksey from Indus Equity. Please go ahead.

Sushil Choksey:

Sir if any wish list which you have to take up in your tenure, what would that be?

Rajkiran Rai G:

Thank you Suhil, thank you for the compliment. So, the wish list is too long, actually maybe I would like to end with a double-digit credit growth when I close my top that's one thing. Second thing is like maybe announcing to the outside world, all the digital initiatives we have taken in the last two years. So, like, by the time the team confirms everything is workable, we have done a lot of work on the digital side. So, to showcase to the world, that what Union Bank has achieved on the digital side is something which I want to do before I leave. And these are the two things which are top of my mind.

Sushil Choksey: But credit growth is a function of the entire team of Union Bank. So, your wish list is positive, but the entire Bank has to function for that now.

Rajkiran Rai G: I know that, because maybe they will give me a parting gift.

Sushil Choksey: Okay. Secondly sir, as my connect with the Bank for a period since listing, I feel great leadership emerge out of the Bank. As the same I wish happens in future what are the initiatives the Bank taking, throwing talent to the industry?

Rajkiran Rai G: We have already proved that actually, the number of Executive Directors who have gone from our Bank in the last three years is better than any other Bank. So, many EDs have gone from our Bank in three years. It is because we are working closely on the HR side. See, the leadership development program which we started with McKinsey in 2017-18 has really helped people. Further to that actual work, we continue to work on our people particularly identifying the talent, working on them and it is not only on the technology like the technology side and knowledge side it is basically we're working on the personalities of the people like trying to identify the strengths and weaknesses and working on that. And it has really helped us and off late we have also tied up with ISB to train our DGM and GMs. So, this is a program which is currently going on. So, we are investing a lot to change the attitude of people, fine tune their approach towards issues and all that. So, this is paying out and maybe there is one more initiative since you raise this issue. We are one Bank which has project called HR Prerana, which we have implemented along with BCG. So, this is actually, performance appraisal tool. So, today, majority of my officer are actually having KRA. And that KRAs are linked to the MIS of the Bank. And every month they get a report card based on the actual performance based on the data, what is feed in that system, and what is available in the system gives the KRAs which they have already accepted at the beginning of the year. So, this will improve substantial improvement because the monitoring has become real time for our every officer, it is lot like a typical public sector setup that people can get away with whatever performance, here it will be very, very objectively measured, and it will be available for all reviewing authorities. And in addition to these, this tool also has transfer and posting tool, and also a talent management tool, including the training, it captures what kind of trainings, they're going through, what kind of e-learning modules they have to crack. So, they will be continuously updated on the issues because they will be forced to do certain e-learning modules and all that. So, we have implemented lot of things on the HR side. And I'm very sure it is not only the top leadership, you are at the lower level, a lot of is happening on the Human Resources side.

Sushil Choksey: Sir, you have answered the question, which I am asking now that digitization we have taken all initiatives and we are not far behind from peer Banks. But to achieve the result which you're seeing right now in the Bank with technology. Do you see whether it'll take 12 months, 24 months or beyond that whether it is cross selling, digitization for MSME, product lending or co-lending? When do you see this actually fructify where shareholder value creation will happen?

- Rajkiran Rai G:** Maximum 12 months, most of the initiatives will be rolled out. Because in addition to the trade finance module which we are implementing through Finastra. We also have on boarded Zoho for the CRM. Now cross selling what you're talking about will be a more of a customer relationship management, and Zoho is already on boarded and maybe next three to five months they will be fully equipped to roll it out. And similarly, on the digital agent side, we have created a full-fledged digitization department and board has already approved a substantial budget for this investment. We are already floated many RFPs and we are also taking on contract a lot of technology people under different vertical like AI, analytics, on the digitization side and all that. So, already that recruitment process is on, we already have received a lot of applications and in the next one month, many of them may be on boarded. It is not only we are taking the top leadership at GM level, we are also recruiting talent at the second level. So, that they will be also assisted with the right kind of people. They're all being taken on contract basis at market related salaries. So, this is how I'm strengthening my digitization department, with all these initiatives. I'm very sure in the next one year most of these initiatives will be rolled out.
- Nitesh Ranjan:** I would just like to update for the benefit of everyone. There was a first question on the ECLGS and then there was a subsequent on the clarification, if you look at slide #12 of the presentation, the number of the details given about the sanctions, the various ECGL scheme from one to four is there, which comes to total of around 10,600 crores of sanctions which is marginally above what was reported in the September quarter. However, this slide does not actually reflect the new sanctions and disbursement done under the ECLGS one extension which was announced by the government sometime in September and October. So, if we include ECLGS 1 to 4 and the one extension the total sanctions will be around 13,800 crores and the total disbursement under ECLGS 1 to 4 and extension included will be around 12,250 crores and the outstanding as on date for all the ECLGS including extension will be around 10,750 crores. I hope that clarifies for all.
- Moderator:** Thank you. The next question is from the line of Trimukh Phene from B&K Securities. Please go ahead.
- Trimukh Phene:** My question is more on the book keeping front, so I can see there are few line items like the other income and provision on a year-on-year basis as on December 2020. So, may I know the reason behind it?
- Nitesh Ranjan:** Which item are you referring to something in the presentation or the result. Slide number?
- Trimukh Phene:** In the BSC filing page two, so in the standalone numbers, other income numbers of 31st December 2020 has been depicted.
- Nitesh Ranjan:** Okay, we will come back to you on that.
- Rajkiran Rai G:** He says, it is a regulatory compliance basically some directions from RBI, so they have compliant with that, last quarter also it was there, we will verify and come back to you.

- Nitesh Ranjan:** What is the note number if you can specify, what is the serial number of the note to accounts?
- Trimukh Phene:** We had restated provisions in other income number in the BSE filing.
- Nitesh Ranjan:** Okay. So, one reason could be that as per the new account reporting given by the RBI on the investment side, whatever was the provision because of the depreciation in the investment book, earlier we were showing below the operating profit line. But as per the revised criteria, it has to be netted off from the other income Treasury profit itself. So, that could be the reason for that mention in the note.
- Moderator:** Thank you. The next question is from the line of Anil Bang from AGFR Financials. Please go ahead.
- Anil Bang:** This is Anil Bang from Marshall Wace. A quick question given everyone's worried about interest rates, you would have some offset in terms of pension liabilities because that liability would be getting re-priced every quarter because of the change in interest rate, what would be the size of that and what would be the duration of that?
- Rajkiran Rai G:** Actually, we do it by way of actuarial assessment in March. So, right now very difficult to predict the number but then, we don't think that there'll be any substantial difference because we are already anticipated and made provisions wherever required. So, in an upward interested cycles generally it doesn't go up to that extent, when the interest go down the share provisions increase. So, I am not seeing much increase in the pension provisions as of now. My CFO can.
- Anil Bang:** That's what I was thinking that you should get a benefit because the interest rates are going up right?
- Rajkiran Rai G:** No, we don't reverse that way, if there is a higher provision we generally carry on with the provision. And if there is a lower provision we bridge that gap.
- Anil Bang:** And what is going to be the size of the total liability pool which you're carrying like?
- Rajkiran Rai G:** For the full pension around 18,000 crores. It is a separate trust which manages it.
- Anil Bang:** Got it. And in terms of your total loan book, what would be the percentage of floating loans right now, all floating like MCLR or internal rate or T-bill rate, but floating in nature?
- Nitesh Ranjan:** So, MCLR plus EBLR, which are basically the floating in nature is around 85%, 86% of the loan book.
- Anil Bang:** Just one last data point, I know there have been a lot of adjustments on the tax side. But you mentioned that you would be adjusting most of it this year. When we look at next year, what should be your tax rate for the full year?

- Rajkiran Rai G:** Next year also we will have the benefit of this.
- Management:** Next year we have not yet decided whether we will be moving to the low tax regime.
- Nitesh Ranjan:** Yes, but there will be certain advantages from the accumulated losses as well as the deferred tax assets. So, one can assume around 20% of average tax rate for FY23.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Rajkiran Rai G:** Thank you. Thank you for all the questions and as a practice these questions help us to relook at our book and sometimes relook at our strategies also. Thank you for all the probing questions and analyzing the numbers. And wherever the data is not available, we will definitely try to share it, most of the data you have asked for we are able to provide. And like we are definitely looking at a much positive year ahead. The growth is back and the Bank balance sheet is continuously improving. So, I'm very confident as we go on your Bank will deliver better and better numbers. And thank you for all the cooperation.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Union Bank of India that concludes this conference call. Thank you for joining us and you may now disconnect your lines.